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Banking Awareness Guide

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Current Bank Rates :-

1. **Bank Rate - 7.75** %
2. **Cash Reserve Ratio (CRR**) - 4 %
3. **Statutory Liquidity Ratio (SLR)** - 21.5 %
4. **Repo Rate (RR)** - 6.75 %
5. **Reverse Repo Rate (RRR)** - 5.75 %
6. **Marginal Standing Facility (MSF)** - 7.75 %

FINANCIAL SECTOR REGULATORS IN INDIA

RBI-Reserve Bank of India

RBI was established on 1 April 1935 with the sole aim to work as banking sector regulator .RBI was nationalized in 1949.RBI regulate the banking sector (government and private banks) by banking reglation act 1949 and RBI act 1935 which entrusted responsibility on the RBI to work foru the enhancement of banking sector in India .RBI is the sole authority to issue banking licenses to entities who want to open bank in India , and if any bank want to open new branch it has to be take prior approval from RBI.

The main aim of RBI is to provide banking services to the last mile of country .To full this initiative RBI has started financial inclusion program .In this RBI mandated all banks in India to open at least 25 percent braches in rural areas. RBI also ensure that adequate credit is provide to rural areas by priority sector lending In this RBI has mandated all banks including foreign banks working in India to provide 40 percent of their loans to priority sector like agriculture, student loans etc .If any bank found violating RBI policy ,it has power to take action against it .

RBI do supervision functions and regular checks to ensure that financial health of banks is maintained .RBI ensure that all banks follow the government guidelines for the banking sector. If any bank found indulging in activities against people interest and violating government polices RBI can fine bank including private banks.

The term of RBI governor is for three years and appointed by GOI.

Present Governor of RBI - **Raghuram Rajan**

Headquarter - **Mumbai**

1. RBI bits in detail

IRDA – Insurance Regulatory And Development Authority

IRDA was establishes in 1999 by the IRDA act ,1999 .It is the autonomous body established by act of parliament .It aim is to ensure growth of insurance sector in

India.

IRDA was established as sole authority to regulate the insurance industry in India , to ensure the growth of insurance industry and protect the interest of policy holders.

For any company want to work in insurance sector needs prior approval of IRDA .It also perform supervision functions to ensure that different insurance companies including private following rules and regulations or not .It can take action against erring companies .IRDA works to protect the interest of policy holder and to regulate, promote and ensure orderly growth of the insurance industry.

The chairman of IRDA is appointed by GOI .The term of IRDA chairman is for **five years**.

Present chairman of IRDA - **T.S.Vijayan**
Headquarter - **Hyderabad**

SEBI- Securities And Exchange Board Of India

SEBI was enacted on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992. The main aim of SEBI is to protect the interest of investor in securities .It is sole regulator for all stock exchanges in India. SEBI regulate the capital markets in India .If any company want to bring IPO it needs prior approval from SEBI .It is entrusted with responsibility to protect the interest of investor in stock exchange , ensure the growth of securities market ,regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

The chairman of SEBI is appointed by GOI .The term of SEBI chairman is for **three years**

Present Chairman of SEBI- **Upendra kumar Sinha**

Headquarter of SEBI - **Mumbai**

NABARD- National Bank For Agriculture And Rural Development

NABARD was established on 12 July 1982 by the act of parliament .NABARD is the apex institution for the development of farm sector , cottage industries and small scale industries in rural areas. The Banking Regulation Act, 1949, empowers NABARD to conduct inspection of State Cooperative Banks (SCBs), Central Cooperative Banks (CCBs) and Regional Rural Banks (RRBs) and protect interest of the present and future depositor and also provide short and medium term loan to those banks working in rural areas development .It provides his expertise in rural areas to RBI and GOI in making policies.

The chairman of NABARD is appointed by GOI .The term of NABARD chairman is for**three years**

Present Chairman of NABARD - **Dr. Harsh Kumar Bhanwala**

Headquarter - **Mumbai**

PFRDA- Pension Fund Regulatory And Development Authority

PFRDA is the regulatory body for all the pension funds in India .The Pension Fund Regulatory & Development Authority Act was passed on 19th September, 2013.PFRDA regulate the pension sector and works for its development, formulate policies for pension sector.PFRDA is regulating NPS, subscribed by employees of Govt. of India, State Governments and by employees of private institutions/organizations & unorganized sectors.

Term of PFRDA chairman is for **five years** and appointed by GOI.

Present Chairman of PFRDA- **Hemant Contractor**

Headquarter - **New Delhi**

BASEL NORMS

In the recent few days we have heard a lot that government is been infusing lot of money in the public sector banks….. To understand why??? We have to first understand that what **BASEL ACCORD or BASEL NORMS** is all about.

Basel is a city in Switzerland which is also the headquarters of Bureau of International Settlement (BIS).

BIS fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations.
The Bank for International Settlements (BIS) established on 17 May 1930, is the world's oldest international financial organization. There are two representative offices in the Hong Kong and in Mexico City. In total BIS has 60 member countries from all over the world and covers approx 95% of the world GDP.

OBJECTIVE-

The set of agreement by the BCBS(BASEL COMMITTEE ON BANKING SUPERVISION), which mainly focuses on risks to banks and the financial system are called Basel accord. The purpose of the accord is

to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking system.
Up till now BASEL ACCORD has given us three BASEL NORMS which are BASEL 1,2 and 3 but before coming to that we have to understand following terms-

- CAR/CRAR- Capital Adequacy Ratio/ Capital to Risk Weighted Asset Ratio
- RWA- Risk Weighted Assets

Formulae for CAR=Total Capital/RWA*100
Now here, Total Capital= Tier1+ Tier2 capital

Tier 1 - The Tier-I Capital is the core capital…….
For example - Paid up Capital, Statutory Reserves, Other disclosed free reserves, Capital Reserves which represent surplus arising out of the sale proceeds of the assets, other intangible assets are belongs from the category of Tier1 capital.

Tier 2 - Tier-II capital can be said to be subordinate capitals. **For example** - Undisclosed reserves, Revaluation Reserves, General Provisions and loss reserves , Hybrid debt capital instruments such as bonds, Long term unsecured loans, Debt Capital Instruments etc. are belongs from the category of Tier2 capital.

RISK WEIGHTED ASSETS -

RWA means assets with different risk profiles; it means that we all know that is much larger risk in personal loans in comparison to the housing loan, so with different types of loans the risk percentage on these loans also varies.

BASEL-1

In 1988,The Basel Committee on Banking Supervision (BCBS) introduced capital measurement system called Basel capital accord, also called as Basel 1. . It focused almost entirely on credit risk, It defined capital and structure of risk weights for banks.
The minimum capital requirement was fixed at 8% of risk weighted assets (RWA).
India adopted Basel 1 guidelines in 1999.

BASEL-2

In 2004, Basel II guidelines were published by BCBS, which were considered to be the refined and reformed versions of Basel I accord.

The guidelines were based on three parameters which are as follows-

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

Banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that is credit and increased disclosure requirements.

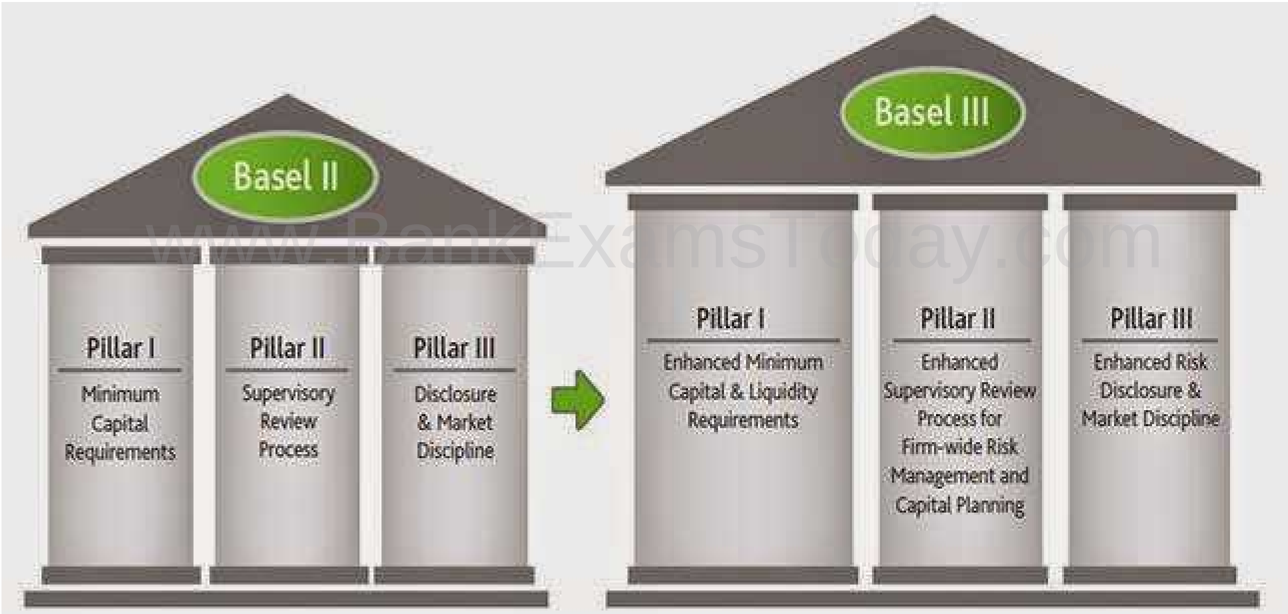
The three types of risk are- operational risk, market risk, capital risk.

Banks need to mandatory disclose their risk exposure, etc to the central bank.

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

The three pillars of BASEL-3 can be understand from the following figure---

<u>BASEL-3</u>



In 2010, Basel III guidelines were released. These guidelines were introduced in response to the financial crisis of 2008.

In 2008, Lehman Brothers collapsed in September 2008, the need for a fundamental strengthening of the Basel II framework had become apparent.

Basel III norms aim at making most banking activities such as their trading book activities more capital-intensive.

The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.

Presently Indian banking system follows basel II norms.

The Reserve Bank of India has extended the timeline for full implementation of the Basel III capital regulations by a year to March 31, 2019.

Important points regarding to the Implementation of BASEL-3

- Government of India is scaling disinvesting their holdings in PSBs to 52 per cent.
- Government will soon infuse Rs 6,990 crore in nine public sector banks including SBI, Bank of Baroda (BoB), Punjab National Bank (PNB) for enhancing their capital and meeting global risk norms.
- This is the first tranche of capital infusion for which the government had allocated Rs 11,200 crore in the Budget for 2014-15.
- The government has infused Rs 58,600 crore between 2011 to 2014 in the state-owned banks.

- Finance Minister Arun Jaitley in the Budget speech had said that "to be in line with Basel-III norms there is a requirement to infuse Rs 2,40,000 crore as equity by 2018 in our banks. To meet this huge capital requirement we need to raise additional resources to fulfill this obligation.

STOCK MARKET INDEXES IN THE WORLD

'Sensex loses 556 points, slips below 28K' screams Economic Times! But what does it mean? What is Sensex? Why has it lost 556 points? What does it mean that it has slipped below 28K?

Dear readers, today we attempt to unmystify the world share/ stock market indexes (indices) – which until now we'd come across while turning pages in the newspaper!

What are stock indexes?

Stock Market, as we all know, is a market (a real/virtual market) where stock or shares are bought and sold – companies raise money through stock markets. In stock markets the shares of those companies which are listed with the Stock Exchange are bought and sold.

Stock markets will have stocks of numerous companies – at various price levels – activity levels floating around.

Imagine your city's biggest and most popular vegetable market – where vendors from all over the city come to sell their produce – so many vendors – so many vegetables – so many buyers and so many different prices!

Stock Exchange is essentially an organization – which enables the trade in shares by providing a 'trading area', staff, infrastructure and making connections between buyers and sellers and agents possible. Every stock exchange has its rules and regulations, which any company which wishes to get listed with it have to comply with.

Now – when you come back from your veggie shopping trip – and someone at home asks you how were the prices at the market – were they cheap or not? – How would you gauge that? Will you, when at market note down the prices of every vegetable – compare it with prices in other markets – what will you do?!

You will look at the prices of potatoes and onions – because they are the most important veggies out their – the basic, regularly required veggies – and decide if they've become costlier than before!

Same principle here – some companies are taken as indicators – these companies are obviously doing well and indicate the overall performance of their industries.

Thus, ***Stock Index*** is a numeric/ statistical measurement – an index – a number – which shows the performance of an economy taking some key companies (a segment of stock market) as its indicator.

In other words – looking at it from another angle – there is an 'index' which includes some stocks of some companies – the prices of these companies are measured and put through a formula – to give us the stock market index – the overall picture!

Through these indexes, investors, company owners, economists, traders etc. – who are known as stakeholders – glean useful information depending on their needs. An investor will invest if the markets are doing well and keep his money on the company showing progress – where performance falls – the investors take their monies away from the markets and that is when the indexes fall!

So more the positive activity – index rises – and vice versa.

How are they calculated?

Indices can differ based on their method of calculation – which is based on certain specific theory of what elements will give a near perfect indicator of industry average etc.

Indices may be price-weighted (prices of the stock are considered for calculating the index), or, capitalization-weighted index which looks at market value of the stocks.

Mostly used method is **market capitalization method**, where

Market capitalization = market price of shares x number of shares outstanding (issued by the company)

Another method used is **free float market capitalization method**, where

Market capitalization = market price of shares x number of share which are available for trading in the open market

How Sensex is Calculated

Famous indices and trivia:

Some very popular stock indices followed worldwide:

1. Dow Jones Industrial Average, The Global Dow
2. Dow Jones Asia Titans 50
3. S & P – Global 1000/1200 – (S&P = Standard and Poor's)
4. S & P Asia 50
5. BBC Global 30
6. EURO STOXX 50
7. FTSE indices
8. NASDAQ indices

and, Indian stock indexes are:

1. Nifty – of NSE
2. Sensex of BSE
3. MCX-SX of MCX Stock Exchange

Famous Stock Exchanges:

(i) NYSE – New York Stock Echange – is the market leader.
(ii) NASDAQ
(iii) Tokyo Stock Exchange
(iv) LSE – London Stock Exchange
(v) Euronext
and, Indian Stock Exchanges are:
(vi) BSE – Bombay Stock Exchange
(vii) NSE – National Stock Echange
(viii) MCX Stock Exchange

Some more indexes for g.k. purpose!

1. Iran's – Tepix
2. Japan's – Nikkei 225
3. China'a – SSE, SZCE, CSI 300
4. Hong Kong's – Hang Seng Index
5. Malaysia's – Kuala Lumpur Composite Index
6. Nepal's – Nepal Stock Exchange – NEPSE
7. Pakistan's – KSE indices
8. Russia's – Moscow Inter-bank currency exchange –MISEX
9. Sri Lanka's – All share Price Index – ASPI
10. UK – has all the FTSE indices! So easy to remember
11. USA – has got plenty, am just going to list em – the names are popular enough! - Dow Jones, NASDAQ, Russell's, S & P's, Goldman Sach's, Amex indices, Wilshire's and CPMKTE (capital markets equity index)!

(The numbers after the names of the indices represent the number of companies in the index.)

and some unique indices:

12. Space Foundation Index (SFI)
13. Palidas Water Index (PWI)
14. Cleantech Index
15. Solactive Indices

Interesting to know – BSE is India's and Asia's oldest stock exchange! It happened in 1878! Yep!!

Followed by Tokyo's stock Exchange in 1878 being the second oldest in Asia.

As far the international scenario is concerned – Amsterdam Stock Exchange is the oldest, having been established in 1602 by Dutch East India Company!

Knowing the Indian ones properly!

In Indian scenario – SEBI, the Stock Exchange regulator – recognizes only three stock exchanges:

- ***SENSEX = Sensitive index***, which is the index given by BSE or Bombay Stock Exchange.
- It was founded in 1875 by Premchand Roychand and is the oldest stock exchange in India – of the three!
- It is Head Quartered at the famous Dalal Street in Mumbai.
- CEO is Ashish Chauhan.
- It uses free float market capitalization method = value of shares which are available for trading = the value taken into the index.
- It consists of 30 major companies listed with the BSE. Some of them are – SBI, ICICI Bank, Axis Bank, HDFC, Wipro, Infosys, TCS, ONGC, Airtel, HAL, BHEL, BEL, Coal India, Tata Motor etc.
- Sensex is India's foremost stock market indicator.

- ***Nifty = National Stock Enchange***'s 50 major companies
- Controlled by India Index Services and Products.
- It was founded in 1992 and is head quartered in Mumbai.
- NSE's MD and CEO is Chitra Ramkrishna
- It uses free float market capitalization weighted method = value of shares which are available for trading and calculation done using weights = the value taken into the index.
- The 50 companies include the 30 of sensex and extra 20 companies.

- ***MCX-SX-40***
- Founded in 2008 – it is the youngest exchange with its Head Quarter in Mumbai.
- CEO is Saurabh Sarkar.
- It specializes in using state of the art infrastructure and technology to provide trading services for a variety of instruments.

VARIOUS PAYMENTS SYSTEMS IN BANKS IN INDIA

In a series of providing useful material for ***Banking Awareness*** section of various banking exams. Today I am explaining various payment systems available in banks in a very simple language.

1. RTGS: Real Time Gross Settlement

- It is a centralized payment system through which inter bank payment instructions are processed and settled, on GROSS basis, in REAL TIME.
- Which simply means, that the transactions are settled as they happen.
- Minimum amount is Rs. 2 lacs and there is no limit to maximum amount.
- A 'service charge' is charged by the banks for outwards transactions (making an RTGS) and nil for inwards transactions (receiving an RTGS).

- RTGS is used by banks to settle their inter-bank account transactions as well as customer's high value transactions.
- It uses INFINET (Indian Financial Network) platform to operate.

2. NEFT: National Electronic Funds Transfer

- It is a nation-wide funds transfer system which facilitates fund transfer from any bank's branch to any other bank's branch.
- The difference between NEFT and RTGS is that NEFT settlements happen in batches, and on net settlement basis. Where as RTGS is real time and gross settlement.
- Net Settlement means, that transaction pertaining to a particular bank branches are kept on hold and accumulated and then processed together in a batch with the 'net' amount, which would either be incoming or outgoing transfer.
- There is no limit to minimum/maximum transaction value.
- NEFT cannot be used for foreign remittances.

3. AEPS: AADHAR Enabled Payment System

- It is a payment system which uses Aadhar card number and an individuals online UIDAI authentication, which are linked to a customers Bank account.
- A customer will have to register his/her Aadhar number to their existing bank account, provided their bank is AEPS enabled.
- Through AEPS, customer can withdraw or deposit cash, make balance enquiry, and transfer funds.
- The maximum amount of transaction per account per day is Rs.50,000.
- These transactions are normally conducted by Business Correspondents (BCs) service centres.

4. MTSS: Money Transfer Service Scheme

- It is a system of money transfer for transferring personal remittances from abroad to beneficiaries in India.
- Through this only inward remittances into India are permissible. No outward remittance allowed.
- A maximum of Rs.50,000 can be remitted inwards as per the money value. And a maximum of 30 transactions per calendar year.

5. Nepal Remittance Scheme:

- It is a cross-border one-way remittance facility scheme for remittance from India to Nepal.
- Maximum amount remittance is INR 50,000 and beneficiaries will receive in Nepalese Rupees.

TYPES OF ATM'S

List of various types of ATMs and their features.

White Label ATM

White Label ATMs are those ATMs which set up, owned and operated by non-bank entities, which have been incorporated under Companies Act 1956, and after obtaining RBI's approval.

Brown Label ATMs

These ATMs are owned and maintained by service provider whereas bank whose brand is used on ATM takes care of cash management and network connectivity.

Online ATM

Online ATMs: These ATMs are connected to the bank's database at all times and provide real time transactions online. The withdrawal limits and account balances are constantly monitored by the bank. Online ATMs are always watching out for you!

Offline ATM

Offline ATMs: These ATMs are not connected to bank's database- hence they have a predefined withdrawal limit fixed and you can withdraw that amount irrespective of the balance in your account.

So if you did not have balance in your account, and you went to a 'offline ATM' and withdrew money more than the balance – you'll still get the cash at that time, and later on will run afoul with your bank balance! Where banks may charge some penalty for exceeding your balance!

Stand Alone ATM

Stand Alone ATMs are not connected with any ATM network- hence their transactions are restricted to the ATM's branch and link branches only.

The opposite of Stand alone ATMs are Networked ATMs, which are connected on the ATM Network.

Onsite ATM

Onsite ATMs: are the ATMs you find next to your Bank's branch. They go side-by-side! Or in proper terms, they are the ATMs installed within a branch's premises.

Off-site ATM

Off-site ATMs are the ones which are installed anywhere, but within the branch premises. That is these are not installed next to branch. So where are they installed?

Shopping Malls, shopping markets, airports, hospitals, business areas etc.!

What is the real value of US Dollars in terms of Indian Rupee

One of the most common question that arises among people who are planning to migrate to developed countries that how much can I purchase with salary of US $ 5000 or 10,000 a month.

To explain the value of Indian Rupee in terms of US $, I will use Big Mac Index by The Economist and Purchasing Power Parity by World Bank

PPP factor of India is 0.3 in terms of $US

Monetary value of US$ 1 = INR 63.70 (30 December 2014)

In terms of PPP US$ 1 = 63.70 * 0.3 = INR 19.11

This the product you can purchase of US $ 1 in Newyork city can be purchase for Rs 19.11 in New Delhi.

So if you salary is US $ 5000 in Newyork, it is equivalent (in terms of PPP) of 5000*19.11 = Rs.95,550

1. Forex - All you need to know
2. Foreign currency accounts

Big Mac Index

The Economist, one of the leading economics magazine introduced Big Mac Index to compare purchasing power of various currencies around the world by comparing price of a standard Big Mac.

McDonald's is an international fast food chain and it has 35,000 restaurateurs 119 countries around the world.

Indian version of Big Mac is Maharaja Mac

Price of 1 Maharaja Mac in India = Rs 106

Price of 1 Big Mac = $4.8 = 4.8 * 63.7 = Rs 305

In terms of Big Mac US$ 4.8 = Rs 106

Value of US$ 1 = 106 /4.8 = Rs 22.08

So value of US$ is near about Rs 20 in terms of real purchasing power.

Many of the engineers and migrants from Punjab flaunts about their salaries in US and UK. Many of my friends are getting $3000 to $4000 a month. By converting US$ 4000 into INR 4000*60 (Approx) = Rs 2,40,000, this looks good money. But to know how much you can actually buy, simply divide it by 3, so it Rs80,000.

So a person making $4000 in USA has an equal standard of living as a person earning Rs 80,000 in India.

FOREX (MEANING AND DETAILED INTRODUCTION)

Forex stands for 'Foreign Exchange'. 'Foreign Exchange', 'Forex' or simply 'Fx' refers to the whole nine yards in respect of 'foreign currency'.

When you say forex, you could mean forex trading or the forex reserves or the forex rates. All the above deal with foreign currencies but has different meaning and implications.

Let start with the trading aspect of 'forex'.

Forex Trading

- Forex Trading takes place in '***Forex Market***'.
- Forex market operates for 24 hours a day and 5 days a week! Why 24 hours? Simply because of the time differences in different parts of the world!
- Forex market is also known as currency market, as currencies from all over the world are traded; it is the largest market in the world only because of the sheer volume of transactions!
- Forex market is not a physical market – it is a term used to denote the worldwide 'market' where currencies from all over the world are traded – it is not limited by geographical constraints.
- Any person from any country can trade in the forex market; participants can be international banks, companies and individuals engaging in hedging or speculative transactions.
- Forex markets operate on 'Over the Counter' (OTC) form – just like a medical store – over the counter – ask for the currency which you want and pay according to the existing rate of the currency.
- Then when you want to sell them – take 'em back and sell 'em over the counter!
- The currency rates or forex rates differ every day and sometimes also during a day and exchange rates for different currencies are different and depend on various factors.
- Investors, traders, hedgers, speculators trading the forex market actually want to take advantage of the fluctuations of the exchange rates or simply put the currency's rate.

- Exchange rates depend on various factors such as level of economic activity of a country, its GDP, its share market activities, political stability or instability etc., speculators look at all of these factors and make their own predictions and put their money on particular currency.

Simple example – current dollar rates (forex rate of dollar!) is 1$ = Rs. 63.79; say you have Rs. 1000 with you and you want to try your luck in the currency market – you go and buy dollars using Rs. 1000.

How many dollars will you get (remember its all OTC!)? – 1000/63.79 = $ 15.67.

So, with Rs. 1000 you are able to buy 15.67 dollars! Dollars is no use to you – its your commodity – you trade a commodity.

But when will you trade or in this case sell your dollar – you'll sell only when you see you can earn a profit obviously! So you wait for the rate to improve …and then when the rate become 1$ = Rs. 65.85 (it's increased from Rs. 63.79) you sell your 15.67 dollars and get your rupees back!

15.67 x 65.85 = Rs. 1032! Okay yeah … profit of only Rs. 32 … but we took an example with easy figure – in real world the figures are huge!

- So this is basically how trading objectives are – and when the prices fall, the traders are dealt with huge losses.
- Forex market is highly exciting, highly risky and to be dabbled in when you've become an expert in the free online trading games!

Okay here's a scenario for consideration – if you are an importer, i.e, you buy goods from foreign country to be sold in India – you've got to pay to the foreign country seller in say, dollars – today the dollar rate is 1$ = Rs.63.79, so for every dollar you need 63.79 rupees. Ok.

Suppose when at the time of payment the rate is Rs. 68.85 for every dollar – you've got a loss! Now you will end up paying Rs. 5.06 more for every dollar!

On the flip side – if you are an exporter – you are selling goods to a trader in a foreign country and you will receive payments in dollars – when the rate becomes Rs. 68.85 from Rs. 63.79 – you end up earning a profit due to exchange rate fluctuation of Rs. 5.06! As when you are paid by in dollars you will get Rs. 68.85 for every dollar!

So you can see what a dynamic world forex is! Ever changing and somewhat unpredictable!

This brings us to:

Forex Reserves

- The term 'forex reserves' is used to denote the foreign currency reserve of a central banks or governments of countries.

- So what goes into forex reserves? – Well, you could have foreign currency notes, deposits from foreign countries, foreign treasury bills other government securities etc.
- So basically forex reserves in a countries 'reserve' of money held in foreign currency or currency equivalent.
- Where does all the foreign currency come from? – from Exports, Foreign Loans, Grants, foreign investments in India – when tourists come to India!
- And the reserves are used to pay for imports, repay international loans and dues, or give international grants – when you go abroad!
- A country and its central bank has many international monetary obligations – forex reserves are used for that – when this reserve runs low the IMF or World Bank comes to rescue.
- Also a country's strong forex position can impact its exchange rate and international trade relations!
- For India – most of the forex is used to pay for oil imports as you all probably know – so having a strong forex reserve is extremely important.
- Forex reserves are managed by the RBI in India.

Latest though, **India is 9th on the list of countries with good forex position**; list headed by China.

And even latest news on the forex reserves front is that, India's forex reserves rose by $3.16 billion last week, so the current figure resides at $319.99 billion!

Which is like -$ 3,199,900,000! And the pundits are of the opinion that is it a comfortable position to be in. Well, who are we to argue!

All we can hope is that with the economic development envisioned for India in the coming years our forex reserves keep filling up!

TYPES OF BANK ACCOUNTS

This topic is important for bank exams, as generally many questions are asked in bank exams and interview on bank accounts like what are different types of accounts in bank ,what is difference between current account and saving account .So understanding this topic is very important.

Various Types of Bank Accounts

1. Saving Account
2. Current Account
3. Recurring deposit Account
4. Fixed deposit Account
5. FCNR Deposit Account
6. NRO Account
7. NRE Account

Saving Account :

Saving accounts are opened by individuals in banks to save some share of their earnings .Main aim of saving account is to promote saving habit among individuals. These saving accounts are opened on the name of individuals only.

On saving account an individual earns some rate of interest, these rate of interest varies from bank to bank ,earlier this rate of interest in fixed by RBI but now RBI has given power to banks to decide their own rate of interest on saving account .This rate of interest is usually 4% but some private banks offering 6% rate of interest too.

When a person open a saving account he is provided with a passbook , ATM card , cheque book .

In saving accounts there is restriction a person can deposit or withdrawal money within month . Minimum deposit a individual has to maintain in account (In PSU banks) is Rs1000 or less as some bank offering zero balance accounts.

Current Account :

Current account are opened for business transactions , on the name of firm or company .Banks offered no rate of interest on money held in current account but provide extra features as compared to current account like there is not limit on deposit or withdrawal in current account but no passbook is issued for current account holder. Minimum deposit needed to open current account is Rs5000 or depends on respective bank. Many facilities are provided to current account holder like overdraft facility, statement of account.

Recurring Deposit Account or R.D.

In recurring deposit account is a saving feature that bank offers to their customers, who can save only small amount of money per month. In recurring deposit account a person deposit a fixed sum of money for fixed period like a person deposit Rs 500 per month for one year bank pays interest on the deposit money every month after the completion of fixed period bank pay the deposit money along with interest to his customer.
Recurring deposit account are generally meant for salary earning people who can save a fixed sum of money every month.

Fixed Deposit Account or Term Deposit Account

In fixed deposit account , a person deposit a fixed sum of money one time only for the fixed period bank pays the rate of interest on the fixed deposit account depends on tenure of deposit account , after the completion of period bank pay the amount along with rate of interest incurred on the amount .banks also charge penalty is premature withdrawal is done if person need money before the completion of fixed period .
For NRI to invest in India and earn interest on their hard earn money , as rate of interest offered by Indian banks is higher than western counterparts so it is attraction option to deposit money in Indian banks and earn good rate of interest .

RBI allow three type of account to NRI by which they can deposit their money in India

FCNR Deposit Account

FCNR stand for **Foreign Currency Non -Resident account**
This account is opened by NRIs In this account a person invest a fixed sum of money for a period not less than one year and max five years in any foreign currency in fcnr account . After the completion of fixed period principal and interest is paid in foreign currency in which he had deposited .In this way NRI are save from foreign exchange rate risk

NRO Deposit Account

NRO stand for **Non Resident Ordinary saving account**
The Non Resident Ordinary Account (NRO Account) is a Savings / Current. Recurring Deposit / Fixed Deposit bank account held in India, in Indian Rupees. **NRO account is opened by any person resident outside India** only who want to earn attractive rate of interest in India and also have some earnings in India (such as rent income, dividend, pension, etc).This account is best suited for NRI or PIO who have some earnings in India as these earnings are deposit in NRO account .NRO account is only operated in Indian currency only .Average monthly balance in NRO saving account is Rs1,50,000. NRIs can remit up to 1 million per calendar year . Banks are free to determine their interest rates on savings deposits under Ordinary Non-Resident (NRO) Accounts. However, interest rates offered by banks on NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits

NRE Account

NRE stands for Non Resident External Account

The Non Resident External Account (NRE Account) is a Savings / Current. Recurring Deposit / Fixed Deposit bank account held in India, in Indian Rupees. Such accounts can be opened only by the NRI. Balances held in NRE account are fully repatriable. With effect from March 1, 2014, interest rates offered by banks on NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits

DEFINITION OF MICRO, SMALL & MEDIUM ENTERPRISES

In accordance with the provision of **Micro, Small & Medium Enterprises Development (MSMED) Act, 2006** the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

1 Manufacturing Enterprises

The enterprises engaged in the manufacture or production of goods pertaining to any industry or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are **defined in terms of investment in Plant & Machinery**

2. Service Enterprises

The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment**.

Manufacturing Sector

Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Service Sector

Enterprises	Investment in equipments
Micro Enterprises	Does not exceed twenty Ten lakh rupees
Small Enterprises	More than twenty Ten lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than Two crore rupees but does not exceed Five crore rupees

WHAT IS SENSEX AND HOW IT IS CALCULATED

What is Sensex ?

This is a frequently asked questions in Bank interviews. Everybody know that these are stock indexes. But interviewers expect you to speak little more about this.

What is Sensex and Nifty ?

Sensex is is an index of top 30 stocks in Bombay stock exchange (BSE) and Nifty is an index of top 50 stocks in National stock exchange (NSE)

How value of Sensex is calculated

Value of Sensex is calculated using "Free Float Market Capitalization" method.

Sensex is calculated on the basis of Free Float Market Capitalization of top 30 companies included the index.

Free float ratio is number of outstanding shares available for general public to trade

Sensex was started on 1 April 1979. At that time the base value was 100.

For example on 01-04-1979, the free float market capitalization of top 30 shares was 1000 crores. On 2 April 1979, free float market capitalization increased to 1050 crores. So the value increased by 5%. Value of Sensex will also be increased by 5% and value will become 105.

Formula to calculate Sensex

It's nothing but submission of free float market capitalization top 30 stocks.

$$X = \sum_{1}^{30} m(i)$$

30 IMPORTANT BANKING TERMS FOR INTERVIEW

Amortization – Adjusting expenses for intangible assets over a long span of time is amortization.

Balloon Payment - as a balloon looks very little before filling air and seems bigger after filling with air. same way the payment will be very little at initial stage and later it will big enough.

Bank Rate - When RBI provides loan to the bank for long term (90 to 365 days).On that amount of loan RBI takes some interest i.e. called Bank Rate.

According to modern banking definition of BR (Bank Rate): Bank Rate is used by RBI to provide discount on his securities. So, Bank Rate is known as Discount or Exchange Rate.

Base Rate - This is the minimum lending rate, below this rate bank cannot provide loan to anyone.

Call Money - When one bank borrow money from another bank.

a. Valid for only one day

b. It is used to full fill the one day need of bank

CAMEL : CAMEL is the international model of rating the banks

- C – Capital Adequacy
- A – Assets
- M – Management

- E – Earning Profit
- L – Liquidity

CRR - (Cash Reserve Ratio):Bank have to maintain or reserve some part of their deposit in RBI in form of cash.

- CRR can be minimum no limit and maximum limit is 20%.Before some time back CRR was minimum 3% and maximum 15%
- CRR is calculated on daily bases
- No interest is paid by RBI on CRR
- Bank keep their CRR in currency chest

CD- Certificate of Deposit

- CD is issued by the bank
- Minimum amount of CD is 1 lakh
- Valid for minimum – 7 days
- Valid for maximum – 365 days

CP – Commercial Paper

- CP is issued by company
- Valid for minimum – 7 days
- Valid for maximum – 365 days

Convertible Debenture :

Such type of debenture can be converted into shares, but only in equity shares.

Debenture: Debenture holder is the creditor of company, when company borrows money from public.

Equity Shares

- Equity share holder is the real owner of the company.
- Equity share holder has voting rights.

Future Market

- Commodity market
- In this market dealing is for future.
- Commodities & metals are traded in this market
- This market is regulated by Forward Market Commission under the Forward Contract Regulation Act (FCRA).

Gilt Edge market

- This is the government security market where government securities are traded.
- This is low profit market but low risk market.
- This market is not open for public but on the recommendation of government or RBI opened for public for some time.

<u>For example:</u>

Before some time, the RBI issued the Inflation Index Board (IIB) in this market. This bond had a maturity period of 3 years.

IPO (Initial Public Offer)

- When a company issues its share for the first time, it is known as IPO.
- This is a part of primary market.
- IPO can be the cheapest share of the company.
- IPO can be more beneficial than any other shares.
- IPO can be issued by unlisted company.

FPO (Follow on Public Offer)
When a company launch the share after IPO, it is known as FPO.

MSF – (Marginal Standing Facility) : The facility in which RBI provide loan to the bank only for one day

- MSF interest Rate is always equal to Bank Rate
- By using MSF facility bank can borrow:
- Maximum 2% of their total deposit in RBI and 1 crore

NFO (New Fund Offer)

- When a group of companies launch the share or when a company launch the share for a different scheme than its original one, it is known as NFO.
- For example, Closed ended funds: these are traded for a specific period of time.

P- Note (Participatory Note):

- P-note is issued by FII (Foreign Institutional Investor) on the recommendation of SEBI in India.
- Without P- Notes, any foreign cannot investor cannot invest.

PLR – (Prime Lending Rate) : On this rate bank provide loan to his prime customers

- Another name of PLR is BPLR i.e. (Benchmark Prime lending rate)
- PLR is replaced by Base Rate
- Sub PLR : On this rate bank provide loan to unsecured persons
- Most PLR : On this rate bank provide loan to his employees

Preferential Shares:
In this type of shares company gives preference in distributing their dividend i.e. part of profit.

Repo Rate - (Repurchased Option): When RBI provides loan to the bank for 1 to 90 days, RBI takes some interest i.e. called Repo Rate.

Reverse Repo Rate: When bank deposit his excess money in RBI then RBI provides some interest to that bank. This interest is known as Reverse Repo Rate.

Right issue share: Issues on discount, but only for existing share holder.

Share Market

- Long term market or above 1 year market
- Governing body of share market is SEBI (securities and exchange Board of India)
- SEBI was established in 1988 with its head office at Mumbai. Its chairman is Sh. U. K. Sinha.

SLR –(Statutory Liquidity Ratio) : Bank have to maintain some part of their deposits in itself in the form of cash/foreign exchange, mutual fund.

But in India Government security is the popular form of SLR.

- SLR maximum can be 40%
- No minimum limit of SLR

Sweat equity Share: Issued on discount, but only for employees.

T-Bill : Treasury Bill. T-Bill is issued by RBI on behalf of Govt.

RECENT BANKING AND FINANCIAL DEVELOPMENTS IN INDIA

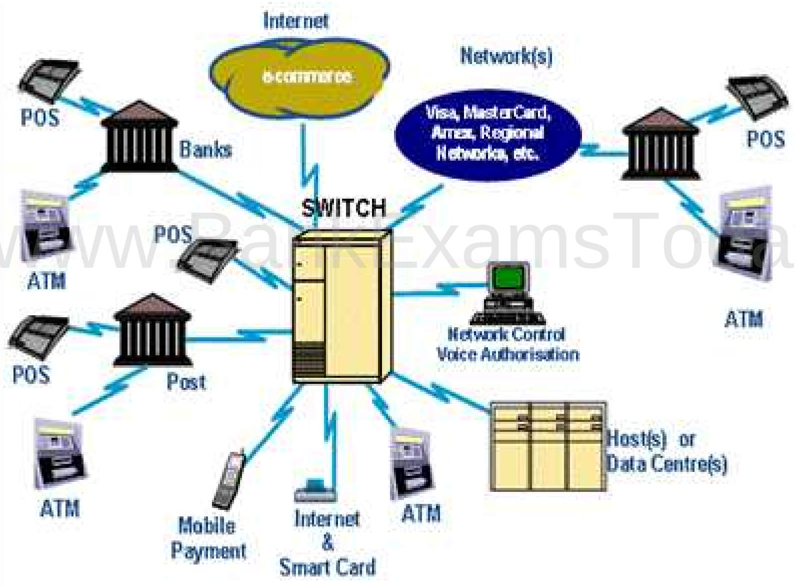
Here are some recent developments in the financial and banking realms.

- **K.V. Kamath** noted banker of India was on 11 May 2015 appointed as the first President of the $100-billion New Development Bank (NDB) of the BRICS countries, to be based in China's financial hub Shanghai.
- Lok Sabha on 13 May 2015 passed **The Negotiable Instruments (Amendment) Bill**, 2015 by a voice vote. The Bills amends the Negotiable Instruments Act, 1881 in order to make cheque-bounce filing of cases more convenient for check payees (person who receives the cheque).
- According to the data released by the Reserve Bank of India (RBI), the number of outstanding credit cards at the end of December was **20.29 million**.
- Mangaluru-headquartered Corporation Bank recently dropped plans to take over the assets and liabilities of a Maharashtra-based cooperative bank named**Rupee co-operative bank license** was cancelled by the RBI in 2013.
- Private-sector **Federal Bank** on 18 May 2015 ventured into credit card segment with the launch of a co-branded credit card with **SBI**.
- The new **Gold Monetisation Scheme** (GMS) was announced in the Union Budget 2015-16 with the aim of replacing both the present Gold Deposit and Gold Metal Loan Schemes. The new scheme will allow the depositors of gold to earn interest in their metal accounts and the jewellers to obtain loans in their metal account.
- The Union Finance Ministry announced that it was able to contain the **fiscal deficit** for 2014-15 at 4% of GDP against 4.1% set to be achieved in the Union Budget.

- The **revenue deficit** was estimated at 2.8% of the as against the revised estimate of 2.9% of GDP, marking a sharp improvement over 3.2% for 2013-14.
- The Companies (Amendment) Bill, 2014 was passed by the Rajya Sabha on 13 May. The amendments to the Companies Act, 2013, which came into effect from 1 April 2015, are designed to address some issues raised by stakeholders.
- India's largest banking entity State Bank of India (SBI) has launched **Online Customer Acquisition Solution** (OCAS), an online platform to apply for loans.
- India's largest private sector lender Industrial Credit and Investment Corporation of India (ICICI) Bank has launched **voice password facility** for users.
- India's largest public sector lender, **State Bank of India** (SBI) has signed memorandum of understanding (MoU) with e-commerce giant **Amazon**. The MoU seeks to identify and tap the potential areas of collaboration for payments and commerce solutions between both signatory parties.
- ICICI Bank's **first branch in China** was inaugurated in Shanghai, a major global financial hub. It was inaugurated by Prime Minister Narendra Modi in the presence of ICICI Bank's MD and CEO Chanda Kochhar. Earlier in 2003, ICICI Bank had opened a representative office in China.
- India's largest lender, State Bank of India (SBI) has launched contact-less credit and debit cards **sbiINTOUCH**. sbiINTOUCH is based upon latest **near-field technology** (NFC) that enables customer to transact using the card by just tapping or waving it against the reader of the POS. SBI is also proving a fraud liability cover of 1 lakh rupees on these cards.
- According to a latest report of the World Bank, 43 % of India's bank accounts were lying dormant in 2014.

CORE BANKING SOLUTION

This word is more often used by bankers and now-a-days postal officials are also using it. CBS is an acronym of Core Banking Solutions. Again one will wonder what the meaning of core is, core is also an acronym. It stands for ***"Centralized On-line Real-time Exchange"*.**



Definition:-

Core Banking Solution (CBS) is networking of branches, which enables Customers to operate their accounts, and avail banking services from any branch of the Bank on CBS network, regardless of where he maintains his account. The customer is no more the customer of a Branch. He becomes the Bank's Customer.

Another interesting fact regarding CBS is that all CBS branches are inter-connected with each other. Therefore, Customers of CBS branches can avail various banking facilities from any other CBS branch located anywhere in the world.

What it offers to a customer?

It offers invariably all information that a bank's customer would need if he/she visits a bank branch in person.

These are as herein follows:-

1. To make enquiries about the balance or debit or credit entries in the account.
2. To obtain cash payment out of his account by tendering a cheque.
3. To deposit a cheque for credit into his account.
4. To deposit cash into the account.
5. To deposit cheques / cash into account of some other person who has account in a CBS branch.
6. To get statement of account.
7. To transfer funds from his account to some other account – his own or of third party, provided both accounts are in CBS branches.
8. To obtain Demand Drafts or Banker's Cheques from any branch on CBS – amount shall be online debited to his account.
9. Customers can continue to use ATMs and other Delivery Channels, which are also interfaced with CBS platform.

Top CBS Application Software Providers

1-Infosys Technologies Ltd. **Finnacle** is the universal banking solution from Infosys.
2-**I-flex solutions Ltd**. since late 2005 it is owned by Oracle
3-**TCS FNS (Financial Network Services Limited)** is an Australian developer and supplier of banking application software, operating in world markets. Now owned and managed by TCS.
Thus, CBS is a step towards enhancing customer convenience through anywhere and anytime banking.

FUNCTIONS OF RBI

RBI (Reserve Bank of India) is an apex financial institution as we know. RBI is Central Bank of India. Lets know about its functions.

Functions of RBI can be classified into following categories:
a) Traditional functions
b) Development functions
c) Supervisory functions\

(A) Traditional Functions of RBI

1. Issue of Currency Notes

As per the provisions of the **Section 22 of the Reserve Bank of India Act 1934** the RBI has sole right or authority to issue currency notes **except** one rupee note and coins of smaller denomination. RBI can exchange these currency notes for other denominations. RBI issues these currency notes (2, 5, 10, 20, 50, 100, 500, 1000) against the security of gold bullion, foreign securities, rupee coins, exchange bills, promissory notes and government of India bonds etc.

2. Banker to other Banks

RBI also guide, help and direct other commercial banks in the country.RBI can control the volume of bank reserves. Every commercial bank has to maintain a part of their reserves with Its parent (RBI). If bank need fund they approach to RBI for fund, that is called**Lender of the Last Resort.**

3. Banter to The Government

RBI works as an agent of the central and state governments. On the behalf of government it makes payments, taxes and deposits etc. It also represent the government at international level also. It maintains government accounts and provide financial advice to the government. It also manages government public debts and maintains foreign exchange reserves on behalf of the government. RBI also provides overdraft facility to the government in case of financial shortage.

4. Exchange Rate Management

For maintenance of the external value of rupee, RBI prepares domestic policies. Also it need to prepare and implement the foreign exchange rate policy which will help in attaining the exchange rate stability. For maintenance of exchange rate stability it has to bring demand and supply of foreign currency (U.S.) dollar close to each other.

5. Credit Control Function

Commercial banks creates credit according to demand in the economy. But if this credit creation is unchecked or unregulated then it leads the economy into inflationary cycles. If credit creation is below the required limit then it harms the growth of the economy. As a central bank of India, RBI has to look for growth with price stability. Thus it creates the credit creation capacity of commercial banks by using various credit control tools.

6. Supervisory Function

RBI supervise the banking system in India. RBI has power to issue licence for setting up new banks, to open new branches, to decide minimum reserves. RBI inspects functioning of commercial banks in India and abroad. RBI also guide and direct the commercial banks in India. RBI can conduct audit any of the bank.

(B) DEVELOPMENTAL FUNCTIONS OF RBI

Developmental functions are described as under:

1. Development of the Financial System

The financial systems includes - financial institutions, financial markets and financial instruments. The sound and efficient financial system is necessary for rapid economic development of the nation.
RBI encourages the banking and non - banking institution for maintenance of sound and healthy financial system.

2. Development of Agriculture

As we know, India is an agrarian economy so RBI always give attention to agriculture sector by assessing credit needs of this sector. Regional Rural Banks (RRB), National Bank for Agriculture and Rural Development (NABARD) which are only for agriculture finance comes under the control of the RBI.

3. Industrial Finance

For economic development of country, Industrial development is necessary. As we know industries includes small industries, middle industries, large scale industries etc all these industries development is necessary for overall economic development of country. For this purpose RBI supports the industrial sector also. RBI had played the vital role for setting up of such industrial finance institutions like ICICI Limited, IDBI, SIDBI, EXIM etc.

4. Training Provision

RBI always tried to provide essential training to the staff of the banking industry. RBI has set up banker's training college at several places. The training institute namely National Institute of Bank Management (NIBM), Bankers Staff College (BSC), College of Agriculture Banking (CAB) etc.

5. Data Collection

RBI always collects important statistical data on several topics such as interest rates, inflation, savings, investment, deflation etc. This data is very much useful for policy makers and researchers.

6. Publication of the Reports

RBI has its separate publication division. This division collect and publish data on different sector of the economy. The reports and bulletins are regularly published by the RBI. It includes RBI weekly reports, RBI annual reports, Report on Trend and Progress of commercial banks. This information is made available to the public also at cheaper rates.

7. Promotion of Banking Habits

RBI always takes necessary steps to promote the banking habits among people for economic development of country. RBI has set up many institutions such as Deposit Insurance Corporation 1962, UTI 1964, IDBI 1964, NABARD 1982, NHB 1988 etc. These organizations develop and promote the banking habits among the people.

8. Export Promotion

RBI always tries to encourage the facilities for providing finance for foreign trade especially exports from India. The Export - Import Bank of India (EXIM), and the Export Credit Guarantee Corporation of India (ECGC) are supported by refinancing their lending for export purpose.

(C) SUPERVISORY FUNCTIONS

The supervisory functions of RBI are discussed as under:

1. Granting Licence to Banks

RBI grants licence to banks for carrying its business. RBI also provide licence for opening extension counters, new branches even to close down existing branches.

2. Bank Inspection
RBI has power to ask for periodical information from banks on various components of assets and liabilities.

3. Control Over NBFIs
The non - bank financial institutions are not influenced by the working of a monitory policy. RBI has a right to issue directives to the NBFIs from time to time regarding their functioning. Through periodic inspection, it can control the NBFIs.

4. Implementation of Deposit Insurance Scheme
The RBI has set up the Deposit Insurance Guarantee Corporation in order to protect the deposit of small depositors. All bank deposits below Rs. 1 Lakh are insured with this corporation. The RBI work to implement the Deposit Insurance Scheme in case of a bank failure.

BANKING OMBUDSMAN

You all are familiar from the term **BANKING OMBUDSMAN.** Lets know more about it thoroughly.

- The Banking Ombudsman Scheme was introduced under **Section 35 A of the Banking Regulation Act, 1949** by **RBI** with effect from **1995.**
- The Banking Ombudsman Scheme was **first introduced in India in 1995**and it was **revised in 2002.**
- Current Banking Ombudsman Scheme introduced in **2006.**
- **From 2002 until 2006, around 36,000 complaints** have been dealt by the Banking Ombudsmen.
- Banking Ombudsman is appointed by **Reserve Bank of India.**
- Banking Ombudsman is a senior official appointed by RBI. He handle and redress customer complaints against deficiency in certain banking services.
- The **offices** of Banking Ombudsman is mostly situated at **State Capitals.**
- **Around 15** Banking Ombudsmen have been appointed.
- **All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co - operative Banks** are covered under the Banking Ombudsman Scheme.

- GROUNDS OF COMPLAINTS

ONE CAN FILE A COMPLAINT ON THE FOLLOWING GROUNDS OF COMPLAINTS:

1. Any excessive delay or non - payment of collection of cheques, drafts, bills etc.
2. Without any sufficient cause non acceptance of small denomination notes.
3. Charging any commission for acceptance of small denominations notes
4. Any delay in payment of inward remittances or non payment of inward remittances.

5. If any banking organization refuses to accept taxes or any delaying in accepting taxes (as required by RBI or Government of India).
6. Any delay in issuing government securities
7. Refusal to issue or redemption of government securities.
8. Without any sufficient reason, forced close the deposit accounts by bankers.
9. If any banker refuse to close the accounts
10. If any banker deliberately delaying in closing the accounts.
11. Non compliance of the provisions of Banking Codes and Standard Board of India.
12. If any banker commits non - observance of Reserve Bank of India's guidelines or instructions or any violation of the directives issued by the Reserve Bank in relation to banking or other services.
13. Without any sufficient cause, non acceptance of coins tendered or charging of commission in respect thereof.
14. Delay or Failure in issue of drafts, pay orders or banker's cheques.
15. Performance of work is not as per prescribed working hours.
16. Delay or failure in providing any bank facility.
17. Complaints file by Non - resident Indians having accounts in India in relation to their remittance from abroad, deposits and other bank related matters.
18. Without any reason, refusal to open deposit accounts.
19. Without adequate prior notice to the customer, charges levied by the banker.
20. Any violation of guidelines or instructions of RBI on ATM/Debit Card/Credit Card operations.
21. Non - disbursement or delay in disbursement of pension.

Other Grounds

A customer can also file a complaint on the following grounds of deficiency in service with respect to loans and advances:

1. The Banking Ombudsman may also deal with such other matter as may be specified by the Reserve Bank from time to time.
2. Without any valid reason non - acceptance of application of loans.
3. Any violation of the provisions of the fair practices code for lenders as adopted by the bank or Code of Bank's Commitment to Customers, as the case may be.
4. Any type of violation of the instruction, guidelines, recommendations of the RBI
5. If any non - observance of Reserve Bank Directives on interest rates;
6. Any delays in sanction of loan applications

Reasons, when you can File a Complaint

1. If reply is not received from the bank within a period of one month after concerned bank has received complaint representation.
2. If bank rejects the complaint.
3. If complainant is not satisfied with bank's reply.
   - Banking Ombudsman does not charge any fee for filing and resolving customer's complaints.

- If any loss suffered by the complainant then complainant is limited to the **amount arising directly out of the act or omission of the bank or Rs.10 Lakhs whichever is lower.**

MONETARY POLICY IN INDIA

Monetary Policy is a Policy made by the central bank(RBI) to control money supply in the economy and thereby fight both inflation and deflation. It helps maintain price stability and achieve high economic growth. To Combat Inflation RBI reduces Money Supply (Tight/Dear Money Policy). To Combat Deflation RBI increases Money Supply (Easy/Cheap Money Policy).

RBI implements monetary policy using certain tools. These are Quantitative Tools and Qualitative Tools. Quantitative Tools are Reserve Ratios(CRR,SLR) , OMO(Open Market Operations) and Rates(Repo , Reverse Repo , Bank Rate , MSF).

Cash Reserve Ratio

Cash Reserve Ratio is a certain percentage of bank deposits (Net Time and Demand Liabilities) which banks are required to keep with RBI in the form of reserves or balances .

Higher the CRR with the RBI lower will be the liquidity in the system and vice-versa.

It's a dead Money as Banks don't receive any Interest from RBI for reserves kept. RBI can charge Penalty(3% above Bank Rate) for not keeping the reserves. CRR is defined under Sec 42(1) of RBI Act , 1934.

Its Minimum and Maximum value is the discretion of RBI. It is maintained on Fortnightly Average Basis. At Present The CRR is 4%. By Increasing CRR the Money Supply can be Reduced in Market thereby Controlling Inflation(Dear Money Policy) and by Decreasing it Money Supply can be Increased thereby promoting Growth(Cheap Money Policy)

Statutory Liquidity Ratio

Every financial institution has to maintain a certain quantity of liquid assets with themselves at any point of time of their total time and demand liabilities. These assets can be cash, precious metals, RBI approved securities like bonds, Shares etc. The ratio of the liquid assets to time and demand liabilities is termed as the Statutory liquidity ratio.

Some profits are earned through SLR by banks depending upon the asset. It is **defined under Sec 24 of Banking Regulation Act 1949.** It is maintained on daily basis by Banks.

Penalty for Not Maintaining SLR can be 3% above Bank Rate.

Its Minimum and Maximum value(can be 40%) is the discretion of RBI. It is maintained on Daily Basis. At Present The SLR is 22%. By Increasing SLR the Money Supply can be Reduced in Market thereby Controlling Inflation(Dear Money Policy) and by Decreasing it Money Supply can be Increased thereby promoting Growth(Cheap Money Policy)

Repo(Repurchase) rate

It is the rate at which RBI lends money to commercial banks against securities in case commercial banks fall short of funds for Short Term. But Remember The banks cannot get money by mortgaging SLR quota securities to get money from RBI. It has to have securities above the SLR quota to Buy Money. This rate i**s also known as "Policy Rate"**under LAF(Liquidity Adjustment Facility).

There is No Limit on how much the Client can Buy from RBI but Minimum has to Rs 5 crores. Banks use this Facility only when they have less Deposits from Public but have more Loan Demand. Currently the Repo Rate is 7.75%.

By Increasing Repo Rate the Money Supply can be Reduced in Market as Money becomes Costly(Dearer) thereby Controlling Inflation(Dear Money Policy) and by Decreasing it Money Supply can be Increased as Money becomes Cheap thereby promoting Growth(Cheap Money Policy). Indirectly This helps in GDP growth of India as less Repo Rates most probably leads to Less Lending Rates by Banks. So Business can buy More Loans and invest that Money in Production.

Reverse Repo(Repurchase) Rate

Rate at which RBI borrows money from commercial banks. When Banks have collected More Money from Public but Demand for Loans is Less then Banks mostly park their Money with RBI and Receives Interest(Reverse Repo Rate). Reverse Repo Rate is Dependent on Repo Rates as Reverse Repo Rate is set to Repo Rate -1%. RBI gives Government Securities as Collateral to Banks. Current rate is 6.75%

Officially Repo and Reverse Repo Rates Percentages are in Basis Points. So 1% means 100 Basis Points.

Marginal Standing Funding

By this mechanism commercial banks can get loans from RBI for their emergency needs. **Under the Marginal Standing Facility (MSF), currently banks avail funds from the RBI on overnight basis against their excess SLR holdings**.

Additionally, they can also avail funds on overnight basis below the stipulated SLR up to two per cent of their respective Net Demand and Time Liabilities (NDTL) outstanding at the end of second preceding fortnight.

With a view to enabling banks to meet the liquidity requirements of mutual funds under the RBI's Special Repo Window announced on July 17, 2013, it has been decided to raise the borrowing limit below the stipulated SLR requirement under the MSF from 2 per cent of NDTL to 2.5 per cent of NDTL. This Facility is only Available to Scheduled Commercial Banks. Under This Facility Banks can use securities from SLR quota. MSF Rate = Repo Rate +1%. Current is 8.75%

Bank rate

It is a rate at which RBI lends money to commercial banks without any security. It is used for Long Term Borrowing . Bank rate is not the main tool to control money supply. Repo Rate is the main tool to Control Money Supply. Penal rates are linked with Bank rate. At present, Penalty rate = Bank rate + 3% (or 5% in some cases)

Impact
When bank rate is increased interest rate also increases which have negative impact on demand thus prices increases.

QUALITATIVE TOOLS

1. **LTV(Loan to Value Ratio)** : Suppose I have Land Worth Rs 1 Crore and I want to get Loan from Bank by Mortgaging that Land. Then I will Not get Rs 1 Crore Loan . If LTV=60% then I can Get Maximum Loan of Rs 60 Lakh.
2. **Moral Suasion** : Moral Suasion is just as a request by the RBI to the commercial banks to take so and so action and measures in so and so trend of the economy. RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation. Rajan will try to influence those bankers through direct meetings, conference, giving media statements, giving speeches etc
3. **Credit Ceiling**: In this operation RBI issues prior information or direction that loans to the commercial banks will be given up to a certain limit. In this case commercial bank will be tight in advancing loans to the public. They will allocate loans to limited sectors. Few example of ceiling are agriculture sector advances, priority sector lending.
4. **Credit Authorization Scheme**: Under this instrument of credit regulation RBI as per the guideline authorizes the banks to advance loans to desired sectors
5. **Direct action** : Means RBI gives punishment to notorious banks for not abiding by its guidelines. Punishment can involve: penal interest, refuses to lend them money and in worst case even cancels their banking license.

CHEQUE TRUNCATION SYSTEM

I'm sure you must have come across the acronym CTS many a times during your banking studies; today we aim to go further from the acronym and actually understand what CTS is all about!

1. What is Cheque Truncation or truncation of cheques?

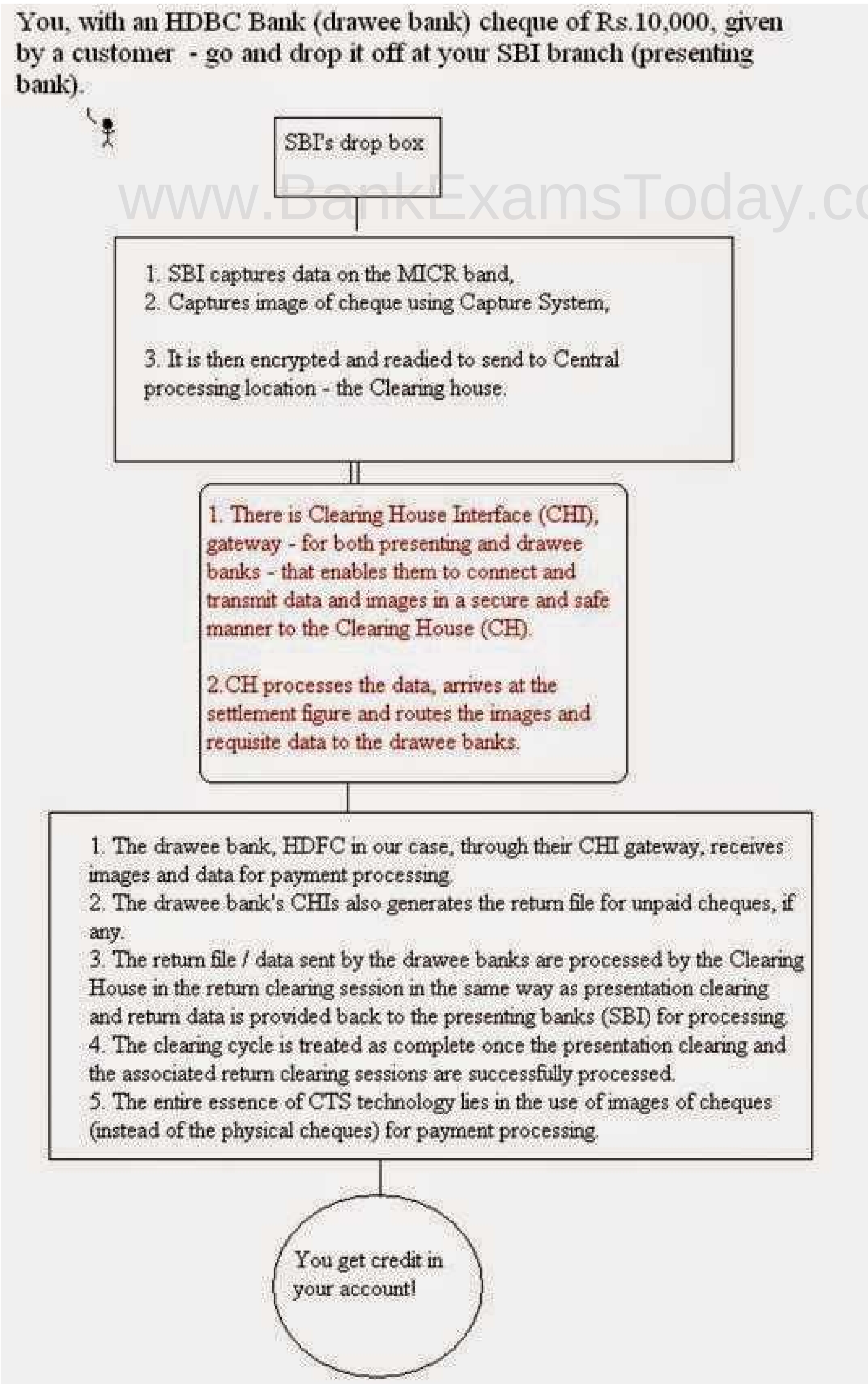
Truncation literally means stopping or cutting short. Thus, truncation of cheque means stopping the flow of the physical cheque by the presenting bank (bank where the cheque is presented/dropped off!)
en-route to the drawee bank's (bank on which the cheque is drawn on) branch.

Instead of the physical cheque, an *electronic image of the cheque* is transmitted to the drawee branch, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc.

Cheque truncation, thus, removes the need to move the actual physical cheque from branch to branch.

2. Process of CTS:

Basically there are three levels, namely, at the Presenting Bank, the Clearing House and the Drawee Bank. The following should help with understanding the process!



3. Benefits of CTS:

(i) CTS speeds up the process of collection of cheques,

(ii) Reduces the scope for clearing-related frauds or loss of instruments in transit,
(iii) Lowers the cost of collection of cheques,
(iv) Removes reconciliation-related and logistics-related problems,
(v) Reduces the time of clearing cycle – that is faster processing of cheques and payment in favour of the customer,
(vi) Reduces scope for frauds inherent in paper instruments,

Thus, as you can see CTS increases efficiency of the entire system.

4. What is CTS -2010?

CTS-2010 is a standard benchmark recommended by RBI for the standardisation of:

(i) cheque forms (leaves) in terms of size,
(ii) MICR band,
(iii) quality of paper, having protection against alteration, should be sensitive to acid/alkali/bleach etc. and should not glow under UV light – CTS -2010 paper is UV-dull!
(iv) watermark, all cheques to carry a standardized watermark, 'CTS INDIA' – should be oval and 2.6 to 3 cms in diameter,
(v) mandating colour schemes in pastels to ensure clarity of image etc.,

Thus, CTS-2010, standardizes the cheque to conform to certain features for identification and security purposes.

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

Cheques not complying with CTS-2010 standards will be cleared at less frequent intervals i.e. twice a week up to October 31, 2014 and weekly once from November 1, 2014 onwards.

Some important points relating to CTS-2010

1. The Reserve Bank has implemented CTS in the National Capital Region (NCR), New Delhi, Chennai and Mumbai with effect from February 1, 2008, September 24, 2011 and April 27, 2013 respectively.

2. The cheque images can be Black & White, Gray Scale or Coloured,

- Black & White images are light in terms of image-size, but do not reveal all the subtle features that are there in the cheques,
- Coloured images are preferable, but they increase storage and network bandwidth requirements,
- Gray Scale images are mid-way and most preferable,
- CTS in India use a combination of Gray Scale and Black & White images.
- There are three images of each cheques that need to be taken - front Gray Scale, front Black & White and back Black & White.

3. Customers should use image-friendly coloured inks while writing cheques and avoid any alterations / corrections thereon.

4. Images that do not meet the specifications are rejected.

5. The security, integrity, non-repudiation and authenticity of the data and image transmitted from the paying bank to the payee bank are ensured using the Public Key Infrastructure (PKI).

6. The PKI standards used are in accordance with the appropriate Indian acts and notifications of Controller of Certifying Authority (CCA).

7. CTS is compliant to the requirements of the Information Technology Act, 2000.

8. It has been made mandatory for the presenting bank to sign the images and data from the point of origin itself.

9. Under CTS the physical cheques are retained at the presenting bank level and do not move to the paying banks.

10. A customer can be provided with the images of cheques duly authenticated, is such a need arises.

11. Customer can also demand to see the physical cheque – for that it would need to be sourced from the presenting bank, for which a request should be made to his/her bank.

12. According to CTS-2010, the presenting banks which truncate the cheques will have to*preserve the physical cheque* for a *period of 10 years*.

That was one helluva CTS related piece!

I decided on this topic because many friends of mine, who faced interviews in the last 1 year, have been asked about it – either the basics or the detailed process!

People who were from commerce background could answer the basics, but faltered with the process and details; and the ones not from commerce were left blinking their eyes at the interviewers!

DIFFERENT TYPES OF CHEQUES

A cheque is an unconditional order addressed to a banker,signed by the person who has deposited money with a banker, requesting him to pay on demand a certain sum of money only to the order of certain person or to the bearer of the instrument.

TYPES OF CHEQUES-

1) BEARER CHEQUE-

Bearer cheque are the cheques which withdrawn to the cheque's owner.These types of cheques normally used for cash transaction.

2) ORDER CHEQUE-

Order cheque are the cheques which is withdrawn for the payee(the cheque withdrawn for whose person).Before withdrawn to that payee,banks cross check the identity of the payee.

3) CROSSED CHEQUE-

On that type of cheques two parallel line made on the upper part of the cheques,then that cheques formed to crossed cheques.This type of cheques payment does not formed in cash while the payment of that type pf cheques transferred to the payee account and the normal person's account who recommend by the holder on the cheque.

4) ACCOUNT PAYEE CHEQUE

When two parallel lines along with a crossed made on the cheque and the word 'ACCOUNT PAYEE' written between these lines,then that types of cheques are called account payee cheque.The payment of the account payee cheque taken place on the person,firm or company on which name the cheque issue.

5) COMPANY CROSSED CHEQUES-

When two parallel lines along with a crossed made on the cheque and the word 'COMPANY' written between these lines,then that types of cheques are called company crossed cheques.Then type of withdrawn does not taken in cash while the person on which the cheque issue,transferred on its account.Normally crossed cheque and company crossed cheque are same.

6) STALE CHEQUE-

If any cheque issue by a holder does not get withdrawn from the bank till three months, then that type of cheques are called stale cheque.

7) POST DATED CHEQUE-

If any cheque issue by a holder to the payee for the upcoming withdrawn date,then that type of cheques are called post dated cheque.

8) ANTI DATED CHEQUE

If any cheque issue for the upcoming withdrawn date but it withdraw before the date printed on the cheque, then that type of cheques are called anti dated cheques.

FDI IN INDIA

FDI is a hot topic, with the current government increasing the caps on many sectors; it is something that will definitely shape the economy in the months to come – also having far reaching consequences with the Make in India vision of PM Modi.

So what is FDI? How does it actually work? And some latest news!

1. What is FDI – Foreign Direct Investment?

Foreign Direct Investment is when persons/companies who/which are non-Indian, invest in Indian companies.

Thus, through FDI, the investors become the shareholders in Indian companies and usually have stake that will give them controlling power of the company.

FDI can be done in many ways – popular of which are through acquiring of shares and merger and acquisition.

Also important to know is that there are two 'routes' of FDI, namely, Automatic Route(does not require RBI or CG approval) and the Government Route (requires the approvals for those not covered under the automatic route).

2. Why would anyone invest in another country?

Well, there are plenty of reasons – why would a foreign company invest in any Indian Company?

- There could be tax incentives,
- The company believes that doing a particular business will be more profitable in India,
- There could be tax exemptions favorable to the company both in India and in the company's home country,
- Or, it might be up for some concessions in the home country as a part of the country's trade agreement with India …
- Or, the company might be aiming at starting operations in South Asia and India is the most developing economy in this part of the world!

The reason could something else too – but mostly it is related to more business opportunities, tax benefits, more profitability etc.

3. What FDI means to a company?

- Foreign Investors become shareholders of a sizeable stake – and the reason they are investing is because they want returns – good returns.
- Which means they'll be very much interested in the working of the company – so that their money earns returns.

- They'll also be active shareholders, board members – and ensure the company is utilizing its resources properly and towards the growth of the company, increasing turnover and ultimately profits.
- To ensure the company gets the best resources to produce best results – the FDI investors may also bring with them management personnel, advanced technology, new system of work and management of the company etc.

4. What does FDI mean to the home/ host country – India?

- FDI brings in more capital into the economy.
- It brings in the much needed foreign exchange – foreign currency.
- It also boosts the domestic economy and industries and generally triggers a positive economic ripple effect.
- It brings in more revenues for the Income Tax Department.
- Advanced technology touches the shores of the host country, along with technically superior human resource.
- Creation of new jobs also happens – and in India jobs can never be few!

The above mentioned points can also be considered to be the **pros** or benefits from FDI.

Which leads us to the **cons** of FDI in India:

- It can lead to the domestic companies losing their market share.
- Domestic companies may lose out to the competition altogether.
- Thus cons are always from the point of view of the host country and how FDI will effect its own economy.
- FDI in retail- which had been in the middle of the entire FDI related storm – also meant farmers, small retailers, and the mom and pop shops losing their business.

4. Sectors where FDI is ALLOWED and the latest caps.

- Railways – 100%
- Defence – 49%
- Telecom – 49% under automatic route and rest as per FIPB's approval
- Insurance – 49%
- News Media – currently 26% and increase to 49% is in the talks
- Courier Services – 100%
- Single Brand Retail – 100%
- Civil aviation – 49%
- Construction Sector – 100%
- Credit Information Companies – 74%
- Power Trading – 49%
- Commodity Exchanges – 49%
- Oil refineries – 49%
- Stock Exchanges – 49%

5. Sectors where FDI is NOT ALLOWED

FDI in the following sectors are prohibited completely – i.e., under both Automatic and Government routes it is **not allowed.**

- Atomic Energy
- Agricultural and Plantation activities
- Gambling, betting and lottery
- Nidhis and Chit Funds
- Real Estate
- Manufacture of cigarettes and tobacco

6. What are FIIs?

Foreign Institutional Investors (FIIs) are persons or companies incorporated outside India(companies can be Mutual funds, Pension funds, investment companies, foreign banks etc.), investing in shares of a company – where their investment is very less. They do not have any sizeable investment – they do not have any controlling power in the company.

It is just like you and me investing in shares of Reliance Industries – only investing is done by people who are not Indian residents; and they have to be registered with SEBI to participate in the market.

So, basically FIIs are the financial market players – and the source of liquidity in the markets. Their investing in the Indian markets project a +ve image and brings in more investors.

There is a ceiling limit of 24% FII of paid-up capital of an Indian company, and 20% in case of PSU banks.

Just like FDIs, FIIs also bring in forex – but when the share Indian sharemarket sees a down – or the markets of other countries sees an upswing – these FIIs are quick to sell their stakes in Indian companies and invest the money where the markets are progressing!

The major difference between FDIs and FIIs are that the former actually has a lot of stake in the company's well being and profitability in the long run – whereas the FIIs want short term returns on the investments.

Foreign exchange reserves always favour more FDIs rather than FIIs as FIIs are the first to abandon the sinking ship!

7. What is India's stance on FDIs and FIIs?

India is now taking a positive and progressive stance towards FDIs and FIIs with encouraging talks on about FDI cap increase in News Media and the ongoing debate on multiple brand retailing.

Recent talks with USA has seen India inviting the US to 'make, innovate and invest' in India – signaling considerable inflow of FDI in the coming months. FIIs are witnessing a surge because of the over upward trend of the economy, the markets and the recent RBI rate cut. With the economies of US and other developed and developing countries still in the 'recovery' stage – worldwide investors have turned India's way!

8. Trivia:

- FDI was introduced in India way back in 1991 by the then Finance Minister Dr. Manmohan Singh.
- USA has the maximum incoming FDI followed by UK and other counties likeHong Kong, China etc.(not necessarily in the same order)
- Singapore has made maximum FDI in India as per F.Y. 2014's stats. The previous 1st place was held by Mauritius!
- Service Sector has always received maximum FDI in India.
- Focus now shifting to Manufacturing sector – with the Make in India vision.

NITI AAYOG

History is all set to change with all over for planning commission and new institution know as NITI Aayog set to take his role.

The main aim of forming Niti Aayog is pro people development by following up bottom up approach and with active participation of all stakeholders. It has been set up as a think-tank for formulating a new policy framework in keeping with the changes and challenges of rapidly evolving socio-economic scenario in the country.

The thought behind its establishment to work as enabler or catalyst for development not as provider for development. Aayog will provide strategic and technical advice on issues of "national and international importance" to the Centre and states.

NITI Aayog known as **National institution for transforming India came into**existence on 1-January-2015 with good bye to six decades old planning commission. Planning Commission was established in 1950s to respond to development needs of Indiaafter independence .It made resources available to state government to meet their development needs and come up with five years plans for development . It was set up by the resolution of GOI on 1950.

So Why the need felt to replace Planning Commission with Niti Aayog

1. Most of the criticism regarding planning commission was that it thrust his development agenda on states without their active collaboration and not considering their social economic uniqueness. One size fit for all solution was followed by planning commission.
2. Niti Aayog will be more like think tank advising central and state governments on strategic and technical issues across the spectrum of key elements of policy where as in planning commission there was no active participation of stakeholders.
3. In Niti Aayog will have all the state chief ministers and Lt. Governors included in the governing council where as in planning commission state chief ministers were not actively involved .

4. The mantra of Niti Aayog is inclusiveness with states as partners ,equality, transparency ,pro people ,empowering which was not visible in planning commission.

So the big difference is states now have a greater say ,where as it was planning commission the formulate plans for state without their active involvement and asked the states to implement those plans .Niti Aayog will followed the bottom to top model of development to meet the specific development needs of village, states by having provision to foam regional development council. It will provide flexible approach in development to pick experts from various sectors.

Niti Aayog will have

1. Prime Minister as chairman
2. CEO
3. Vice chairman
4. Full time members
5. Two part time members
6. Four union ministers as ex-officio members
7. Governing council comprising of all state chief ministers and Lt. Governors.
8. Regional Councils which will be formed to address any state specific issues.
9. Invitees from different fields having relevant domain knowledge.

Recently appointed members to Niti Aayog

- **Arvind Panagariya appointed as Vice Chairman of Niti Aayog.**
- Bibek Debroy and VK Saraswat DRDO chief were appointed as full-time members.
- Union Ministers Rajnath Singh, Arun Jaitley, Suresh Prabhu and Radha Mohan Singh will be the Ex-Officio members .
- Nitin Gadkari, Smriti Zubin Irani and Thawar Chand Gehlot -- Special Invitees.

There are many challenges that lie ahead in front of Niti Aayog ,the biggest challenge is to take all stakeholders on board to full fill the aspirations of common man and take the development to village level by making policies that are people centric or it just prove to be old wine in new bottle .

MONEY MARKET AND CAPITAL MARKET INSTRUMENTS

Financial Market plays a very important role in development of any country because it is place where liquidity requirement who needs money like industries to meet their expansion plans and those who want to earn better rate of interest on the surplus funds are met .Individuals and financial institution having surplus money come to earn better rate of interest Financial market is a platform where buyers and sellers are involved in sale and purchase of financial products like shares, mutual funds, certificate of deposit ,bonds and so on.

Any industry like reliance ,tatas or government needs money to meet liquidity requirement come to financial market .Financial market act as intermediary between those who need money and who want to invest their money to earn better rate of interest.

Financial market are divided in two types depends on duration for which they need money.

There are two types of financial market :

1. Money Market
2. Capital Market

Money Market

It is one part of financial market where instruments like securities ,bonds having short term maturities usually less than one year are traded is know as Money market .Organization or Financial institutions having short term money requirement less than one year to meet immediate needs like buying inventories, raw material ,paying loans come to Money Market. It involves lending and borrowing of short term funds. Money market instruments like treasury bills, certificate of deposit and bills of exchange are traded their having maturity less than one year .Investment in money market is safe but it gives low rate of return.

Money Market is regulated by R.B.I in India and instrument having maturity less than one year usually traded in money markets

Major Players in Money Market:-

1. RBI
2. Central Government
3. State Governments
4. Banks
5. Financial Institutions
6. Micro Finance Institutions
7. Foreign Institutional Investors (FII)
8. Mutual Funds

Money Market Instruments

1. Treasury Bills
2. Commercial Papers
3. Certificate of Deposit
4. Bankers Acceptance
5. Repurchase Agreement

1. Treasury Bills

Treasury Bills are also know as T-Bills. This is one of safest instrument to invest .T-bills are issued by RBI backed by government security. RBI issue treasury bills on the behalf of central government to meet the short term liquidity needs of central government bills are issued at a discount to face value, on maturity face value is paid to holder.

At present, the Government of India issues three types of treasury bills through auctions, for 91-day, 182-day and 364-day. Treasury bills are available for a minimum amount of Rs.25,000 and in multiples of Rs.25,000.

Treasury bills are also issued under the Market Stabilization Scheme (MSS).In this if RBI want to absorb excess liquidity it can issue T-bills .

2. Commercial Papers (CP)

Commercial papers are issue by private organizations or financial institutions having strong credit rating to meet short term liquidity requirements. These are unsecured instruments as these are not backed by any security. The return on commercial papers is usually higher than T-bills. Different rating agencies ,rate the commercial paper before issue by any organization .If commercial paper carrying good rating means it is safe to invest and carrying lower risk of default .

All corporate are not eligible to issue CP, only who met certain defined criteria by RBI are eligible to issue CP.

CP can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue and can be issued not less than 5 lakhs and multiples thereafter.

3. Certificate Of Deposit

Certificate of Deposit (CD) is a money market instrument. CDs can be issued by scheduled commercial banks and select All-India Financial Institutions (FIs) that have been permitted by RBI to raise short-term resources. Minimum amount of a CD should be Rs.1 lakh, i.e., the minimum deposit that could be accepted from a single subscriber should not be less than Rs.1 lakh, and in multiples of Rs. 1 lakh thereafter. The maturity period of CDs issued by banks should not be less than 7 days and not more than one year, from the date of issue. CDs may be issued at a discount on face value.

In this a person invest his money in COD and after the end of maturity period he receives money along with interest.

4. Bankers Acceptance

Bankers Acceptance is also a money market instrument to meet short term liquidity requirement .In this company provides bank guarantee to seller to pay amount of good purchased at agreed future date . In case buyer failed to pay on agreed date , seller can invoke bank guarantee . It is usually used to finance export and import.

5. Repurchase Agreement

Repurchase agreement is also know as Repo .It is money market instrument .In this one party sell his asset usually government securities to other party and agreed to buy this asset on future agreed date . The seller pays an interest rate, called the repo rate, when buying back the securities. This is like a short term loan given by buyer of security to seller of security to meet immediate financial needs.

Major Players in Money Market:-

1. S.E.B.I
2. Central and State Government
3. Financial Institutions like L.I.C.
4. Financial intermediaries like stock brokers
5. Individuals
6. Corporate houses
7. Insurance companies

CAPITAL MARKET

Capital market is also very important part of Indian financial system .This segment of financial market meant to meet long term financial needs usually more than one year or more .Companies like manufacturing , infrastructure power generation and governments which need funds for longer duration period raise money from capital market. Individuals and financial institutions who have surplus fund and want to earn higher rate of interest usually invest in capital market.

S.E.B.I. regulate the capital market in India .It set the transparent mechanism rules and regulations for investors and borrowers .It task is to protect the interest of investors and promote the growth of capital market.

Capital market can be primary market and secondary market . In primary market new securities are issued where as in secondary market already issue securities are traded.
Capital market is divided into two
1.Equity
2.Bond

Capital Market Instruments

1. Shares
2. Debentures
3. Bonds

Equities

Equity market generally known as stock .In this company want to raise money issue shares in share market like B.S.E. or N.S.E.to individual or financial institutions who want to invest their surplus money

Shares can be issued in two ways:

If company issuing share for first time that it is known as I.P.O.(Initial Public Offering).IPO of any company issued in primary market and if company issuing shares for second or third time than it is known as FPO(Follow on Public Offering) and trading of already issued shares take place in secondary market.
Share gives ownership right to individuals who subscribe to it, in this way company has to dilute his ownership right Same way public sector undertakings dilute up to 49 percent of their ownership and keep remaining 51 percent with them so that they have majority control.
A person earns from shares is company make profit which is distributed among share holders know as dividend and if company make loss value of share also falls so shares are high risk instruments

Bond or Debt

Bond market is also know as Debt market. A debt instrument is used by government or organization to generate funds for longer duration. The relation between person who invest in debt instrument is of lender and borrower .This gives no ownership right .A person receives fixed rate of interest on debt instrument.

If any company or organization want to raise money for long term purpose without diluting his ownership that it is know as Debentures. These are backed by security so there is no risk involves but return on these instrument is low as compared to shares .Company pay fixed rate of interest on debentures.

If government want to generate funds to meet long term needs like infrastructure it issue bonds know as sovereign bonds which are backed by government security so there is no risk

NARASIMHAM COMMITTEE

A high level committee on Financial System (CFS) was constituted by Government of India in 1991 to examine all aspects relating to structure, organization, function and procedures of the financial system under the Chairmanship of M. Narasimhan.

The Narasimham Committee's recommendations aimed at ensuring

- A degree of operational flexibility of the banks.
- Internal autonomy for Public Sector Banks in their decision making process.
- Considerable professionalism in banking operations.

The major recommendations of the (CFS) or Narasimham Committee I were the following:

- The Banking supervision should be strengthened and its character must be drastically changed i.e., prudential regulations.

- The government accepted these recommendations and through the RBI issued guidelines for income recognition, asset classification and provisioning and adopted the Basel Capital adequacy standard.
- Establishment of a four tier hierarchy for the banking structure with 3 or 4 large Banks including State Bank of India. At the top and Rural Banks at the bottom mainly engaged in financial agriculture and related activities.
- Phased achievement of 8% capital adequacy ratio as recommended by Basel Committee.
- Abolition of branch licensing policy.
- Competition among financial institutions which will adopt a syndicating or participating approach rather a consortium approach.
- Prudential guidelines should govern the functioning of financial institutions.

NARASIMHAM COMMITTEE ON BANKING SECTOR REFORMS

The Government constituted another committee on the banking sector reforms under the chairmanship of M. Narasimhan in 1997.

The following are the major recommendation of Narasimhan Committee II on the banking sector reforms.

1. Creation of stronger banking system by merging public sector Banks and the financial institutions.
2. Stronger Banks and development financial institutions should be merged while weaker and unviable one should be moved up.
3. 10% increase of capital-to-risk weighted adequacy ratio.
4. Do away with budgetary, recapitalization of public sector banks.
5. Strengthening the legal framework for loan recovery.
6. All banks to cut down their net Non Performing Assets (NPAs) to below 5% by 2000 and to 3% by 2002.
7. Continuation of licensing to both Domestic and foreign Private Banks.

Frequently asked questions:

Define Financial Inclusion.

Financial inclusion means providing to the large inbanked population of India access to financial products and services like deposit accounts and credit facilities, financial advisory services. Steps taken so far promotion for financial inclusion have been the co-operative movement, nationalization of bank, lead bank scheme, regional rural banks, and self help groups and last but not the least no frill accounts.

What is Balanced Growth of an economy?

Growth of an economy in which all aspects of it especially factors of production, grow at the same rate.

What is Gross Domestic Product (GDP)?

Gross Domestic Product (GDP) is the total value of all final goods and services currently produced within the domestic territory of a country in a year.

Difference between economic Growth and Economical Development.

Economic growth is the process whereby the real per capita income continues to grow in the long run whereas the economic development is the process whereby the real per capita income increases in the long run along with reduction in poverty, unemployment and inequality.

Discuss Sustainable Development

Sustainable development is a development that does not deplete resources irreversibly. It is a process of development that meets the needs of the present without comprising the ability of future generations to meet their own needs.

GST (GOODS AND SERVICE TAX)

Indirect Tax = Tax the burden of which is indirectly put on us!

We buy garments – there'll be VAT. We eat at KFC – there'll be the sneaky VAT and Service Tax!

We are not paying these taxes as an Assessee - the respective tax departments don't know it is us who are paying the taxes for what specific goods/ service we took – it is collected from the mass, everyone who buys or uses a service, at the same rate, irrespective of a person's income level.

You buy a pack of biscuits or a person under BPL – both pay indirect tax – and most of the times you don't even know or pay attention as to how much you are paying in indirect taxes!

It could be very easily more than what you pay for your income tax!

What is the scenario today?

Currently India (I mean us the consumers) is reeling under a lot of different indirect taxes – excise duty, VAT, Service Tax, sales tax etc.

Some are levied by the Central Government, while others by the State Government – as India has a 'federal' system of Governments – i.e. two governments, one in the centre and the ones in the states.

Excise and Service tax are central government levied indirect taxes. VAT and Sales tax are State Government levied indirect taxes.

Excise Duty is a tax on the manufacturing of excisable goods. Thus if a manufacturer, manufactures those goods which the central government has deemed to be 'excisable' good(s) – then the manufacturer will have to pay excise duty on those goods.

Service Tax is a tax on 'services rendered' which are not in the 'negative list'. Thus – all services rendered are under the blanker of service tax – except for those which are mentioned in the negative list!

VAT – or Value Added Tax is a stage wise levy of tax on value addition – thus at every stage of 'value addition' VAT is levied and passed on to the next person in the chain of changing hands.

Sales Tax is a tax on sale of goods – interstate and intrastate.

The rules and regulations and compliance procedures of all are different – and complex and tedious – and we're only talking about the popular four indirect taxes!

To bring all these varied and sometimes overlapping taxes under one umbrella and to plug the loopholes that invariably comes with such multiple and confusing and dual taxation system – the concept of GST was formulated.

Goods and Service Tax or GST

GST is a combined or 'one' tax on both goods and services – incorporating the concept of 'value addition' – extending from manufacturing to consumption.

GST is the new 'it' word in today's economic scene – with economists and Finance Ministers to tax payers and Chartered Accountants all eyeing the 2016 roll out with either eager, optimistic, skeptical or doubtful outlooks!

But until GST is a 100% reality – we the students need to know the 101s of what on earth GST is? What is this GST? Is it a three headed tax monster out to chew and drool on out life styles and expendable incomes?

The Salient Features of GST:

- GST will combine the best of all indirect taxes to bring a compact, singular and easy system for levy, collection and assessment of indirect taxes in India.
- Empowered Committee of State Finance Ministers and their 'thinkers' are the ones nailing down the details for proper introduction and application and back-end operational requirements, infrastructural requirements, databases, consumer education, and most importantly the procedural compliances during transition stage etc.
- Most important feature - Tax Input Credit under GST – will be available for set-off at every stage.

Input Credit means, if you've paid tax on purchase of any good(s) or procurement of any service(s) and – when selling your goods or services you're required to further pay tax – you can set off your tax payment liability with the tax already paid by you when you procured your inputs.

Example: You are 'special muffin manufacturer'. You buy a whole lot of special ingredients to manufacture your muffin – say you bought multi flavoured syrups for the flavours – you had to pay tax (indirect you see!) to procure the syrups.

Now you used these syrups and made your muffins (this is value addition – without the process of baking, adding of ingredients there would be no muffin) – you sell them – but you got to pay tax on the 'manufactured' muffins!

So you paid tax when you bought the ingredients (input tax) and when you manufactured/ sold them you paid tax again (output tax) – here, you will get the credit of the input tax paid to decrease your liability of output tax.

This is the Input tax credit system simplified for understanding.

- GST will be levied at every stage of value addition.
- Value addition would mean – applying effort on the goods or services to make worth more. By undergoing a certain process, or set of activities – 'value' is being added to the goods or services.
- Under GST – the rate of tax – 'Revenue Neutral Rate' or RNR – is set to not exceed 27% combining both central and state tax rates.
- It will bring more people under the indirect taxes net thereby increasing revenue and also dealing with tax evasion and black money issues.
- Meanwhile a higher rate of Service Tax @ 14%, adding Education Cess to Excise Duty and taking off items from the exempted list are nothing but measured steps towards applying GST – which is slated for a 1st April 2016 release – after having missed numerous past deadlines!
- More specifics on GST will become available as the Government will approach the 2016 deadline so keeping abreast with the development is important.

Pros of GST -

- Easier to understand for the taxpayers and will simplify compliance
- Uniformity of rules and regulations of levy, assessment, collection and rates will mean easier administration and proper collection and voluntary compliance
- Bringing India at par with international taxation standards.
- Increase in revenue for the Governments.

Cons

- States will have revenue sharing issue
- If the dual rate and control system which is existing under the current taxation schemes in India not properly combined – then the purpose of GST is defeated. It'll be the same ol' Service Tax/ Excise Duty and VAT bur under a different name!

That is all folks on GST worth knowing – for bank and insurance exam purposes!

For the successful candidates of IBPS SO (written), SBI Clerical (final), and SSC

CGL 14 (Tier 1) – a big congratulations – and for the hopefuls of IBPS PO and Clerical ’14 (finals) – keep the prayers on full mode!

Update 9 May 2015

Constitution (122nd Amendment) Bill, better known as the GST (goods and services tax) Bill passed on Lok Sabha, now it will be presented in Rajya Sabha. As it is a constitutional amendment, at least 50% attendance is required and 2/3 of the votes are required in favour of amendment.

Update 10 October 2015

"Missing the April 1, 2016, deadline does not mean going to 1st April 2017. GST can be implemented anytime during the year" - CBEC

GST can be implemented anytime during 2016. In 2015 Parliamentary sessions, Congress didn't let the Government to pass the bill.

CURRENCY DEVALUATION

The term Devaluation was in news recently as China devalued its currency .
What is devaluation and what its impact on the China and World economy ?

Devaluation means when the one’s country reduce the value of its currency with respect to those good , services and monetary units with which currency can be exchanged. This is done to increase export as export become cheaper when one country devalued its currency and import to that country become costlier .For E.g.1$ cost 65 rupees for country XYZ but after devaluation 1$ might be cost Rs70, so after devaluation country XYZ export to different countries become cheaper because have to pay less dollar for XYZ goods become cheaper and import become costlier as to import have to shed more money for import so it can also increase import bills one one’s country.

Why China Devalued the yuan

Recently China has devalued the value of its currency Yuan upto 4% against dollar which produced ripple effects in financial markets. As China export to other countries is declining and its economy is getting slower ,So in a surprise move People Bank of China (PBoF) devalued the value of yuan against dollar as in China government uses the U.S dollar as a benchmark against which they mange their currency value.A weaker currency will help China exporter to sell their goods abroad and put American and other countries companies at disadvantage which export goods to China as their goods becomes costlier in China , so this move by PBoC will put pressure on Central Banks of different countries to help their own exporters. So it will reignite the currency war .

IMPACT ON INDIA

1. Put Pressure on Indian Exporter

As India and China compete for several export items like textiles ,gems so cheaper Chinese export will add to disadvantage of Indian exporters .

2. Dumping of Chinese goods in Indian market

Due to yuan depreciation there is fear that it will help china dump cheap goods in Indian market which will impact domestic manufacturers.

INDRADHANUSH APPROACH

Public sector banks play a vital role in development of our economy by providing finance to vital sectors of our economy like infrastructure and industries but these sectors faces various issues like delay in construction ,regulatory approvals,hurdles in land acquisition which turn the loans of these PSB’s in non performing assets which effect the profits of PSB’s and added up to NPA’s of banks.

To solve these problems faced by PSB’s, GOI has taken various steps to revitalize these PSB’s:-

1. Appointments

In appointments for post of MD and CEO’s of PSB’s private candidates are allowed to apply and in subsequent process two MD & CEO of major PSB’s was appointed from private sector and post of chairman has been separated from MD &CEO to bring transparency in the working of PSB’s.

2. Bank Board Bureau

The Bank Board Bureau(BBB) will replace the Appointment Board for the appointment of Directors and non executive chairman of PSB’s.The BBB will engange bank board of directors of various PSB,s and formulate policies for growth .

3. Capitalization

Government of India has provided adequate financial assistance to PSB’s bank to meet Basel III norms and also taken steps to built capital buffer over and above basel norms Government has decided to allocate 70,000 cr to banks in four years. In current financial year i.e 2015-16 -25,000 cr will be infused by government and in 2016-17- 25,000cr, 2017-18- 10,000cr,2018-19- 10,000cr.

4. De- stressing

To distress public sector banks as major recipient of loans from PSB's are core infrastructure companies which faces regulatory issues in clearances of different project thus leading to NPA for banks. Thus government has set up Porject Monitoring Group within concerned ministries for speedy clearances of stalled or new project and flexible restructuring of long term project loans.

5. Empowerment of PSB's

GoI has told PSB's that their will be no interference in their working so that they can take decision independently keeping the best interest of organization in mind and bringing accountability .Banks has been told to set up grievances redressal system for customers and staff.

6.Framework of Accountability

A new system has been developed to measure the performance of PSB's now as Key performance Indicator (KPI).

KPI divided in four sections totaling 100 marks, 25 marks each allotted to efficient use of capital and business diversification.15 marks each allotted to NPA's and financial inclusion plans and remaining 20 marks reserved for strategic initiatives .

The incentives and bonus to be paid to MD's and CEO linked to KPI.

7.Goverance Reforms

Process of governance reforms started from Gyan sangam enclave in which various discussions was held on different issues face by PSB's.

SOVEREIGN GOLD BOND SCHEME VS GOLD MONETIZATION SCHEME

Government of India recently launched the Sovereign gold bond scheme aimed at discouraging people to invest in physical gold and encouraging them to invest in demat gold bonds to reduce the import of gold.

Objectives of Sovereign Gold Bond scheme

1. To reduce the demand of gold as India is biggest importer of gold .
2. To encourage people to invest in demat gold bonds.

Features Of Sovereign Gold Bond Scheme

In this scheme prices of gold bond is linked to actual gold prices prevailing in market that time and interest of 2 to 3% will be given by government.When one best buys a gold bond by depositing money he is issued a certificate by RBI on the behalf of Government of India which is equivalent to 10gm of physical gold .Prices of this gold bond is linked to prices of gold in market that time. **Gold bond will be issue in**

denomination of 2gm,5gm,10gm or other denominations. There is cap on maximum value of bonds allotted to per person should be 500gm.

The tenor of gold bonds could be between 5 to 7 years, One can also take loans by pledging these gold bonds to bank. These bonds are easily traded on commodity exchanges .In first installment government has decided to issue bonds for 13,500 crore equivalent to 50 tonnes of gold .

KYC for gold bonds is same as when we buy 50,000Rs above gold .Need identification proof like PAN card or Id card.

Capital gain tax is same as for physical gold.

GOLD MONETIZATION SCHEME

In other scheme launched by government of India known as Gold Monetization scheme in which a person can deposit his or her ideal gold in any foam with authorized dealer which would be melted and stored in bullion .Minimum of 30gms of gold can be deposited.

Objective of Gold Monetization Scheme :-

1. To mobilize the ideal gold in country and put it to productive use .
2. To give customers a opportunity to earn interest on ideal gold .

In this scheme a person can deposit his or her ideal gold in any foam like jewellery to authorized dealer or bank which is melted and stored as bullion. Banks will pay interest on deposited gold. Both principal and interest will be value in gold .On maturity customer can take in foam of gold or in cash .Minimum deposit period will be 1 yr and thereafter multiples of one year.

WORLD BANK

World Bank is an international financial institution that provides loans to developing countries for development programs.

- World Bank was formed on **July 1944** at the **Bretton Woods Conference.**
- Headquarter of World Bank is located at **Washington D.C. (U.S.A.)**
- The main purpose of the world bank is **"Reduction of Poverty".**
- Current member nations of world bank are **188.**
- Now the president of the World Bank is **Jim Yong Kim.**
- World Bank is comprises of two institutions - International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).
- World Bank is member of the United Nations Development Group as well as World Bank Group.
- World Bank Group includes - International Bank for Reconstruction and Development (IBRD), International Development Association, International

Finance Corporation, Multilateral Investment Guarantee Agency, International Center for Settlement of Investment Disputes.
- The president of the world bank comes from the largest shareholder. Members are represented by a Board of Governors.
- If a country wants to be a member of world bank, it has to purchase the shares of world bank group institutions as per agreement, rules and regulations set.
- The five largest shareholders are U.S. , U.K. , France, Germany and Japan.
- The largest shareholders nations has their own Executive Directors.

Objectives and Functions of World Bank

- To help in reconstruction and development of member countries.
- Spread peace all over the world regarding financial terms.
- Helps to the economies of those countries destroyed by wars.
- Helps to developing and less developed countries by crediting the finance.
- To promote private foreign investments.
- To promote long term balanced growth of international trade.
- Maintenance of equilibrium in balance of payments of member countries and also to increase the standard of living as well as labor conditions of developing and less developed countries.
- Investment of money in productive purposes only.
- World Bank provides various technical services to member countries. **"The Economic Development Institute"** and a **"Staff College"** has established by world bank in Washington.
- World Bank can grant loans to a member country up to **20%** of that country;s share in the paid up capital.
- The interest rate, quantities of loans and all any other terms and conditions are determined by world bank itself.
- The borrower nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

Membership

- Any country can become the member of world bank if **75%** of the existing member countries approved the application.
- Any member nation can also resign from its membership voluntarily or if any country violates the rules of the world bank.

Management

- Management of world bank includes - Board of Governors, Board of Executive Directors, Loan Committee, Advisory Committee, President and other members of the staff.
- **Board of Governors** of the world bank includes one Governor (Finance Minister) and one alternate governor (governor of central bank) appointed by each member country for a term of **5 years**. Each governor has voting power in relation to its financial contribution to the capital of the bank. Board is required to meet at least once in a year.

- **Executive Directors** are **21** and out of this **6** are appointed by the six largest shareholders like USA, UK, Germany, France and Japan. The remaining 15 members are elected by the rest of member countries. It meets once a month to carry on daily routine work.
- **President** is appointed by board of executive directors.
- World Bank perform its functions with the help of **two committees** - Advisory Committee and the Loan Committee. Advisory Committee includes **7 experts**appointed by the Board of Governors. Loan Committee is constituted by the executive directors and loan is provided as per the economies of member countries.

Lending Procedures

- Loans out of its own funds
- Loans out of borrowed capital
- Loans through Bank's Guarantee

BANDHAN BANK

Recently, there is a buzz about **BANDHAN BANK,** Lets know about it:

- **Bandhan Bank** was set up in **2001** to handle dual objective of **poverty alleviation** and **women empowerment.**
- It was previously a **Non - Banking Financial Company (NBFC)** but**Bandhan Bank** received its universal banking licence from **Reserve Bank of India.**
- The bank rolled out its services on **23rd August, 2015 (Founded).**
- The bank started with **501 branches** in all most **22 states** in India which is highest branches of any private bank on the **first day.**
- The bank will provide funds to help and develop the **Small and Medium Enterprises (SME).**
- The saving interest rates have been fixed at **4.25% below Rs. 1,00,000** and**5% above Rs. 1,00,000.**
- It is interesting to know that **Bandhan** was the only micro-finance institution that applied for a banking licence.
- **Headquarters** is located at **Kolkata, West Bengal.**
- **Slogan** of bank is "**Aapka Bhala, Sabki Bhalai".**
- Incidentally, Bandhan is the **first bank** to be **set up in eastern part of India after Independence.**
- **MD and CEO of** bank is **Chandra Shekhar Ghosh.**

PAYMENT BANKS VS SMALL FINANCE BANKS

Payment banks can receive deposits and remittances, but cannot lend, focusing on migrant labour and low income households.

Small banks will lend to “unserved and under-served sections”, including small business units, s mall and marginal farmers, and micro and small industries.

Payment Banks	Small Finance Banks
Objective	
Provide small savings accounts and payments /remittance services to migrant labour workforce and low-income households	Financial inclusion and supply of credit to small business units and farmers through high-technology and low-cost operations
Eligible Promoters	
Individuals or professionals with necessary experience and eligibility, existing NBFCs, corporate banking correspondents, mobile companies, supermarket chains, real estate co-ops and corporate entities	Resident individuals or professionals with 10 years of experience in banking and finance, companies and societies owned and controlled by residents, existing NBFCs, microfinance institutions and local area banks owned and controlled by residents
Scope of Activities	
Accept deposits but customer balance should not exceed Rs.1 Lakh	Basic services of accepting deposits and lending
Cannot give loans, can issue ATM/Debit card but no credit cards	No restriction on the area of operations
Can distribute non-risk simple financial products such as mutual funds and insurance products	At least 50% of its loan portfolio should constitute loans and advances of upto Rs.25 Lakh
NRIs will not be allowed to open accounts	
Capital Requirement and Promoter's contribution	
Minimum paid-up equity capital of Rs.100 Crore/initially 40%, to be gradually brought down to 26% within 12 years from date of commencement	

Update

On 19 August 2015, RBI approved "in-prinicple" licenses to 11 entities to start payment banks, these are 11 entities are :-

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services
- Department of Posts
- FINO PayTech
- National Securities Depository
- Reliance Industries

- Dilip Shanghvi, founder of Sun Pharmaceuticals
- Vijay Shekhar Sharma, CEO of Paytm
- Tech Mahindra
- Vodafone M-Pesa

CONTACT LESS MULTICURRENCY FOREX CARD SCHEME

- Axis Bank is India's **Third largest private sector lender.**
- It launched the first Contact less Debit, Credit and Multi Currency Forex Card in association with **VISA** the payments gateway company in the country.
- Axis Bank's Contact less cards contain chip and an antenna (based on Radio Frequency) that is designed to make payments quicker, seamless and hassle free.
- The bank will offer a contact less debit/credit cards to its **1.7 Million Premium customers, which also enables withdrawal of 15 currencies via Multi - Currency Forex Facility.**
- Once the merchant enters the purchase amount in the contact less POS terminal, then customer simply has to tap the card on the terminal and the payment is processed wirelessly in a secure manner. The customer will alert through SMS and E-mail.
- The use of this card is very easy.
- The **symbol**))) on your card and on such machine will be same. It means you can get benefit of contact less card on that machine.
- This card has a facility that you have to not to enter your password (up to Rs. 2000) at billing counter where contact less terminal is kept.
- This card benefits you because you have no need to carry more cash.
- **Example -** If your billing or purchasing amount is **more than Rs. 2,000** then you will have to use it like **simple credit or debit card** and to **enter your PIN** while swiping your card near machine.
- There is no limit on value of goods that you can purchase. **Below Rs. 2,000** on every transaction **no PIN is required. PIN is required only if amount is more than Rs. 2,000.**
- If you want any thing **ONLINE** then this card works as your **normal credit or debit card** because contact less features works at that place where such machine is installed.
- This Contact less card benefits in **INDIA** only because each country has different rules regarding contact less card. **For example - In India,** no need to enter your PIN on this cards is Rs. 2000 but in another country, it may be different.

PRIVATIZATION OF NATIONALIZED BANKS

After burying the vital sectors in the name PPP mode of our country viz. coal, mines, lands, ports, forest and many more, now this government is making a headway in privatizing the consolidating economic pillars of our country Banking and Insurance sectors.

Country's corporate tycoons and international lords of different companies are now showing immense interest in buying stakes in nationalized banks and insurance companies. Modi's government is inviting private entities to come and capture the entire Indian market belittling the exact meaning of swadesi. This government is of the view that if private set ups will come up then our country will flourish and will be able to showcase India's position on global platform in a better way. Government has forgotten the reason behind the nationalization of banks way back in the year 1969 and 1982.

Total number of branches of nationalized banks is now at 75000. And in these branches the amount of hard earned money deposited by our people is 80 lakh crore. Out of these deposited amount 61 lakh crore rupees have been used as advances and loans by the banks. In the fiscal year 2013-2014, the banking institutions had registered a profit of 1, 28,000 crore rupees. But the net profit was pegged at 37000 crore rupees only because those corporates who had taken the loans from banks and not made any repayment towards the advances. In order to write off these loans huge provisions had been made that is the reason of reduced net profits in the banks.

Instead of blacklisting and probing the wrong doings of these finger countable corporate and private firm owners, the government is interested in promoting these entities to have pie in the BFSI sector. The pace at which this government wants to privatize the nationalized outfits is more as compared to that of the erstwhile UPA government.

Recently, Prime Minister Modi with his entourage has visited Australia and recommended SBI to allow a credit of $1 Billion to Adani Group for buying a debt-ridden company of Australia in Queensland. No other banks were willing to make advances for the Adani's project. Adani group has a colossal liability of around INR 28000 crore rupees from Indian banks. Whose ulterior motive is behind this? Well, all of you have to think about it. This government is trying to dilute the nationalization act by bringing down the government stakes to 37% which is imminent.

Before nationalization all the banks in India were private and were owned by individual business houses. All the hard earned money of depositors in these banks was utilized by the business houses to carry out their own businesses. After waiting for an auspicious occasion on someday these banks declare themselves as bankrupt and the innocent gullible depositors would have to lose their hard earned money. This was the main cause to bring most banks under the nationalization act to preserve the public interest. In 1975, the inception RRBs were also made because of the fact that the interest of the village people could be protected from the clutch of so called Sahukars (usurpers) and Mahajans.

Now this is the high time to raise the voice against privatization of nationalized banks. We have to sensitize this issue on a massive scale so that public interest shouldn't be hampered.

SOCIAL SECURITY SCHEMES

On his first visit to West Bengal after becoming Prime Minister of India, Narendra Modi surprised financial analysts by declaring three social security schemes for 1.25 billion people. Now accidental insurance is available at mere Rs.12 for a coverage of Rs.200,000. Read summary of schemes :-

Pradhan Mantri Suraksha Bima Yojna

Eligibility

- 18 to 70 years of age
- Having a savings account with a public sector bank
- Insurer allows auto withdrawal for the payment of annual premium

Policy cost and coverage

- Rs.12 per subscriber for a coverage of Rs.2,00,000

Maturity

- Death due to accident or total physical disability due to accident

Pradhan Mantri Jeevan Jyoti Yojana

Eligibility

- 18 to 50 years of age
- Having a savings account with a public sector bank
- Insurer allows auto withdrawal for the payment of annual premium

Policy cost and coverage

- Rs.330 per subscriber for a coverage of Rs.2,00,000

Maturity

- Death due to any reason

Atal Pension Yojana

- Subscriber should have saving account
- Eligible age for entering into scheme - 18 to 40 years
- Provides subscribers a fixed minimum pension of Rs 1,000, Rs 2,000, Rs 3,000, Rs 4,000 or Rs 5,000 per month starting at the age of 60 years
- Period of contribution by subscriber should be equal to or more than 20 years

- Central government will contribute 50% of the contribution by subscriber or Rs.1000 per annum, whichever is lower for 5 years.

MUDRA BANK

What is Mudra Bank?

- MUDRA means Micro Units Development and Refinance Agency(known as the MUDRA bank)
- Mudra bank is being set up through a statutory enactment and will be responsible for developing and refinancing through a Pradhan Mantri Mudra Yojna.
- It is first set up as a subsidiary of the **Small Industries Develpoment Bank of India(SIDBI)**. It will later be converted into full-fledged bank through an act of the parliament.
- **MUDRA** Bank is a public sector financial institution in India, It provides loan at low rates to small entrepreneurs.

OBJECTIVE -

- It was launched in 8th April 2015 with the objective of regulating micro and small enterprise financing business, and supporting them particularly those members who belongs from scheduled castes and scheduled tribes.
- MUDRA Bank will also register **MFIs(Micro Finance Institutions)** and will be responsible for accreditation and rating of MFI.
- It will also make proper last mile practices to be followed by MFI to provide proper client protection and to prevent from indebtedness.

AIM -

- The finance ministry said measures to be taken up by the MUDRA are targeted mainly on young, educated or skilled workers and entrepreneurs including women entrepreneurs.
- Basically small entrepreneurs and small businessman are often cut from banking system because of limited branch presence, so MUDRA bank will partner with local coordinators and provide finance to small and micro businesses.

IMPORTANT FIGURES ABOUT MUDRA BANK

- The bank will be set up with the initial corpus of Rs 20000 cr and a credit guarantee corpus of Rs 3000cr.
- The bank have categorized the amount of loan to be given in three different categories-
- **SHISHU**- This is the first stage and in it the loan will be given for upto 50000 Rs.
- **KISHOR**- In the second stage a loan amount will be ranging from 50,000 to Rs 5 lakh.
- **TARUN**- This is last category which will provide upto Rs 10 lakh.

- The bank will cater to 5.77 crore small business units that spread all across India who currently find it difficult to access credit from the regular banking system.
- According to Mr NARENDRA MODI the bank would help over 6 cr families out of which 65% of them belongs to scheduled caste and scheduled tribes.

SERVICE TAX

Service Tax is an indirect tax levied on taxable services; where the obligation/ liability is of the service provider to collect and deposit service tax.

History

In 1994, Service Tax was introduced in India by the then Finance Minister Dr. Manmohan Singh – who envisioned services as being a whole new sector from which tax can be collected to increase Government revenue.

At the time India needed revenue and new sources for revenue generation were being sought. Thus, finally on the recommendations of Dr. Raja Chelliah Committee on tax reforms -Service tax was been first levied at a rate of five per cent flat on 15 July 1994.

Previously until July 2012, we had the selected service approach for taxing services – i.e., only those services shall be taxed which were mentioned specifically in the list.

From July 2012 onwards, India has adopted the 'Negative List' system – whereby all services are taxable, except those mentioned in the Negative List. The Negative List concept was introduced during Finance Minister Pranab Ray's regime.

How to calculate Serviec Tax

Okay just to simply a whole lot of pages worth theories, here's a numerical example:

If say, you provide the service of preparing food and selling them in containers to office goers – if such a tiffin service is taxable – then you as the **service provider** are **liable to pay service tax**.

How will you pay the service tax? – you will collect the service tax amount, at the prescribed rate, from the service receivers by adding it to the bill amount and then pay the service tax amount so collected into the credit of the government.

Your bill amount will be:

Tiffin Charges for March '15 = Rs. 10,000.00

Add: S. Tax and E.Cess @ 12.36% = Rs. 1,236.00

Total bill amount = Rs. 11,236.00

So, you the service provider collects Rs. 11,236 from your customer – you keep your

Rs. 10,000 for yourself (your income) and deposit Rs. 1,236 into the Government's account as service tax collected.

Service providers collect service tax from every customer, per bill, and deposit them monthly/ quaterly.

Thus, you can see the incidence of the service tax is actually on us – the service receivers.

So, now you know when you go to a restaurant you end up paying a lot more than what you had ordered!!

Which services are taxable?

Now, important to know – not all services are taxable. Only those which are 'taxable services' are taxable under service tax!

'Taxable services' – means those services which are taxable under the service tax net. In other words,

Taxable Services = All services + Declared Services – Negative List – Any exemptions

Examples:

i. giving the right to use intellectual property right (declared service)
ii. Services by Chartered Accountants
iii. Services by beauty salons!
iv. Services by advertising agencies
v. Courier services
vi. Event management services etc.

Now you must be wondering if you maternal aunt, who runs a ladies beauty parlour at her home in South Delhi is liable to collect and deposit service tax – take heart!

Service tax liability arises if the total value of services provided in a financial year exceeds Rs, 10,00,000!

Negative List?

The current service tax laws provide that all services as such are taxable – except for those mentioned in the negative list.

So if you are a service provider – go check if the service you are providing is in the negative list – if so – breathe easy – if not – you've got service tax liability and you'll need to adhere to the very strict service tax formalities, rule and regulations!

i. Services provided by government or local authority
ii. Services provided by RBI

iii. Transmission or distribution of electricity
iv. Services relating to transportation of passengers etc.

What is the rate of service tax?

The rate of service tax is 14%

Swachh Bharat cess of 2% was proposed in Union Budget 2015 but it's not yet implemented. In case it is implemented then effective rate of Service tax will be 14% + 2% of 14% = 14.28%

Trivia:

1. Service Tax is levied in 'taxable territory', which includes the Indian mainland – territorial waters and the airspace above it.
2. Service Tax is NOT levied if services are provided, by anyone, in Jammu and Kashmir. So J&K and rest of the world are – not taxable territories!
3. Sometime even the service receiver has to pay the service tax – this is known as reverse charge!

Latest news on service tax:

- In budget 2015 a higher rate of 14% (inclusive of Education Cesses) was proposed which will come to effect after the approval of the finance bill; which is proposed to be pushed for approval in the second budget session starting after 20th April 2015.
- Service Tax exemption has been granted, w.e.f. 1 April 2015 to the services given byzoos, national parks, wildlife sanctuaries, tiger reserves and museums = they don't have the obligation to deduct service tax from the public via the tickets.
- Exemption from service tax liability is also forwarded to:

  i. Services by life insurance scheme – Varishtha Pension Bima Yojna,
  ii. Retail packing of fruits and vegetables,
  iii. Ambulance services
  iv. Construction services, when given to Government, in respect of historical monuments, irrigation work, water supply and sewage treatment plants,
  v. services provided by folk and classical artists is exempt if the amount charged by them as fee is less than Rs. 1,00,000
  vi. Transportation of food grains, including rice and pulses, milk and salt only, via road, rail or vessel is exempt

- Increase in service tax on air travel services. Earlier service tax was levied on 40% of the ticket value – if your ticket costs Rs. 1000, then service tax will be levied on Rs. 400 – this 40% has now been **increased to 60%.**

- Service tax will be levied on the services provided in the following cases:
  i. by Mutual Fund agents

ii. marketing of lottery tickets
iii. Departmentally run public telephones
iv. Free telephone calls from airports and hospitals
v. by chit fund foremen
vi. Exemption given earlier stands withdrawn for construction, erection, commissioning or installation of original works with regards to airports or ports.

FOREIGN EXCHANGE MANAGEMENT ACT

Popularly known as FEMA – the Act is the Bible of all Forex transactions that happen in the country – it is the Holy Rule Book of foreign exchange transactions and of the administration part too.

It is important here to know a little **history of FEMA**:

FEMA actually has a predecessor – a stricter, meaner and a draconian predecessor, popularly called the FERA.

Foreign Exchange Regulation Act, 1974 or FERA – was introduced in the year 1974 with the prime objective of 'conserving/ preserving' the foreign exchange; which means the forex transactions were severely controlled to avoid misuse – as it was considered a scarce resource.

Also – the mean part – if an offence was committed under FERA it was considered a 'criminal offence'!

With time, economic liberalization, globalization, better forex transaction infrastructure and opening of the world market, need was felt to do away with FERA as its provision resulted in constricting the growth of forex and ultimately the economy at large.

Thus at the turn of the millennium and India's coming of age FEMA was introduced in 2000, on 1st June, with the Foreign Exchange Management Act, 1999.

FEMA stands for:

- Facilitating foreign exchange transaction – exports, imports, and payments thereof;
- Promoting development of forex;
- Maintenance of a healthy forex market in the country.

Salient Features of FEMA:

1. FEMA is applicable to Individuals (you and me!), HUFs, companies, firms and AOPs and BOIs.

2. FEMA is applicable to a person **'Resident'** in India – as opposed to FERA's citizenship criteria – which means if the status of any person, who is a citizen of India or not, is 'Resident' he or she shall be covered under the FEMA for any forex transaction as per the given provisions.
3. Under FEMA – a person, who has been residing in India for **more than 182 days**, will be considered a 'Resident'!
4. 'Currency' under FEMA includes **debit cards, ATM cards and credit cards** too!
5. FEMA treats offences committed under the Act as **civil offences**.
6. Only '**Authorized Persons**' can deal in foreign exchange – all our transactions will be routed through them.

   Authorized Persons are nothing but authorized dealers – authorized by the RBI; and they have to follow RBI guidelines very strictly to keep their licenses.
7. We are permitted by RBI to buy **forex from Post Offices** in the form of postal/ money orders! Easy availability in the time of emergency requirements!
8. Any monetary transaction with **Nepal or Bhutan** – in rupees – these two countires recognize and accept 'Rupees' – **will not fall under FEMA**!
9. 'Capital Account' transactions are those transactions which alter the assets and liabilities of a person – buying/ selling of foreign securities, borrowing/ lending of loans, purchase/ sale of immovable properties etc – and all these being across national boundaries!

   NO restrictions on forex transaction for repayment of loans – important to know!
10. 'Current Account' transactions are those other than capital and are mostly personal in nature like remittances for living expenses for studies/ medical treatment abroad, foreign travel, foreign business etc.

    Current Account transactions are categorized into three explicitly drawn out categories which spell out the transactions allowed and not allowed - (i) those which are prohibited by FEMA, (ii) those which require Central Government's permission, (iii) and those which require RBI's permission.

Prohibited Current Account transactions (V.Imp!!!!) – you can't draw foreign exchange for:-

1. Forex can't be drawn for making payment to any person in Nepal or Bhutan! Use Rupees!
2. Remitting lottery winnings outside India. Remitting any income from winning in any races/ horse races/ hobbies etc.
3. You can't remit any money outside India for the purchase of lottery tickets, or banned magazines, sweepstakes, betting etc.
4. You can't draw forex for making payments on any 'Call Back Services' on telephone calls – call back is when you call and then immediately get a call back being routed through the telephone services of a company where charges are lower.

Approval of Central Government needed for:

1. Drawal of forex for taking cultural tours outside India.

2. If state government or its undertakings advertise in foreign print media (for any purpose other than promotion of tourism, investments – exceeding USD 10,000) – then CG approval needed!
3. Remittance of prize money, sponsorship of sporting activities abroad by persons other than sporting bodies – if the amount being remitted exceeds USD 1,00,000.
4. Remittance for hiring of transponders by ISPs and TV channels.

Approval of RBI needed for:-

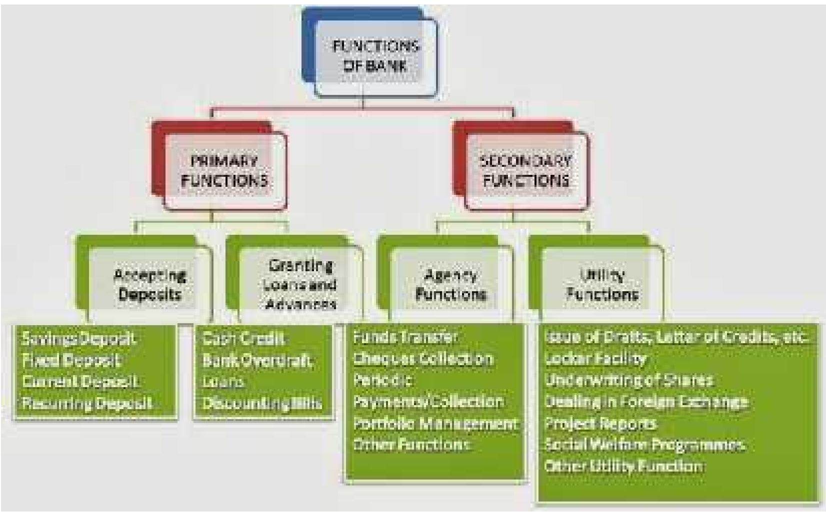
1. For infrastructure projects – if the consultancy is taken from outside India and the remittance for such exceeds USD 1,00,00,000 per project.
2. For any other projects – if the consultancy is taken from outside India and the remittance for such exceeds USD 10,00,000.
3. Approval of RBI needed to release forex in excess of USD 10,000 in one financial year.
4. Approval of RBI needed for gift/ donation remittances in excess of USD 5,000 in one financial year, per remitter or donor (the receiver of the gift remittance)
5. Exceeding USD 1,00,000 for persons going abroad for employment/ emigration.
6. Exceeding USD 25,000 for business travel, attending conference etc.
7. Medical treatment abroad – based on doctor's estimate of expenses – if doctor's estimate exceeds USD 1,00,000 – then no approval is required.

11. The limit under **Liberalised Remittance Scheme**, has be increase to USD 2,50,000 per financial year for permissible current or capital account transaction or a combination of both, whereby all resident individuals, including minors, are allowed to freely remit to that extent – the increase came in 2015.

This 11th point has been asked in a couple of interviews irrespective of candidate's educational background - so keep this new limit in mind for upcoming exams and/ or interviews!!

Banking Basics

Functions of Banks



Primary Functions

Accepting deposits
Most important function of a bank is to mobilize public funds. Bank provides safe custody as well as interest to the depositors.

Saving deposit
Saving deposit account meant for those people who wants to save for future needs and uncertainties. There is no restriction on number and amount of withdrawals. Bank provides cheque book, ATM cum debit card and Internet banking facility. Depositors need to maintain minimum balance which varies across different banks.

Fixed deposit or Term deposit
In fixed deposit account, money is deposited for a fixed tenure. Banks issues a deposit certificate which contains name, address, deposit amount, withdrawal date, depositor signatures and other important information.
Depositor can't withdraw money during this period. In case depositor want to withdraw before maturity, banks levy pre-mature withdrawal penalty.

Current account
Current accounts are normally opened by businesses. Banks provide overdraft facility for these accounts by which account holder can withdraw more money than available bank balance. This act as a short term loan to meet urgent needs. Bank charges high rate on interest and charges for overdraft facility because bank need to maintain a reserve for unknown demands for overdraft.
Recurring deposit
In this type of account depositors deposits certain sum of money at regular period of time. Benefit of recurring account is that it provides benefit of compounded rate of interest and enables depositors to collect big sum of money.

Granting Loans and advances

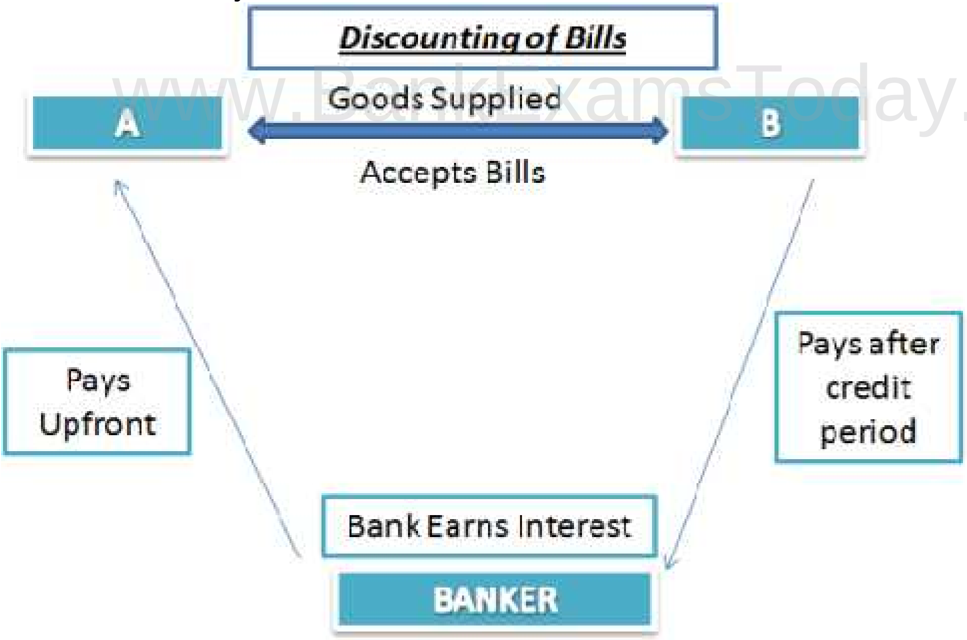
Cash credit
It is a short term loan facility under which banks allows its customers to take loan up to a certain limit, normally bank grants this loan against mortgage of certain property.

Bank overdraft
Bank provides this facility to current account holders. Account holder can withdraw money anytime up to the provided limit. He need to pay interest only on borrowed amount for the period for which he took loan.

Loans
Banks providing loans for various kinds of short term as well as long term needs. Borrower pay back the loan in installments.

Discounting bills
In normal day to day business, sellers sends bills to buyer whenever they sell their products and it is mentioned in bill to make payment in stipulated time. Lets take it 30

days. In such conditions seller may discount the bill from bank for some fees. In such situation bill discounting acts as short term loan. In case the buyer or the drawer defaults, bank send the bill back to seller to drawer so that he may take legal action against drawee or buyer.



Secondary functions

Agency functions

- Funds transfer
- Cheques collection
- Periodic payments/collection
- Portfolio management

Utility functions

- **Issue of draft, letter of credit etc** :-Letter of credit acts as an assurance that in case the borrower defaults in making the payment, bank will make the payment up to the amount mentioned in letter of credit
- Locker facility
- Underwriting of shares
- Dealing in foreign exchanges
- Project reports
- Social welfare programs

RBI: The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the RBI Act, 1934. RBI was nationalized in 1949 and it is fully owned by the Government of India. RBI was established on the recommendation of the Hilton Young Commission.

RBI's FUNCTIONS:

1. Issue of currency notes
2. Controlling the monetary policy
3. Regulator and supervisor of the financial system
4. Banker to other banks
5. Banker to the government
6. Granting licenses to banks
7. Control over NBFIs (Non Banking Financial Institutions)
8. Manager of Foreign Exchange of India (also known as FOREX)

RBI & Monetary Policy:

Monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit. The main objectives of monetary policy in India are:

Maintaining price stability

Ensuring adequate flow of credit to the productive sectors of the economy to support economic growth

Financial stability

There are several direct and indirect instruments that are used in the formulation and implementation of monetary policy.

Direct instruments:

Cash Reserve Ratio (CRR): The share of net demand and time liabilities that banks must maintain as cash balance with the Reserve Bank.

Statutory Liquidity Ratio (SLR): The share of net demand and time liabilities that banks must maintain in safe and liquid assets, such as government securities, cash and gold.

Refinance facilities: Sector-specific refinance facilities (e.g., against lending to export sector) provided to banks.

Indirect instruments

Liquidity Adjustment Facility (LAF): Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

Open Market Operations (OMO): Outright sales/purchases of government securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.

Market Stabilisation Scheme (MSS): This instrument for monetary management was introduced in 2004. Liquidity of a more enduring nature arising from large capital flows is absorbed through sale of short-dated government securities and treasury bills. The mobilised cash is held in a separate government account with the Reserve Bank.

Repo/reverse repo rate: These rates under the Liquidity Adjustment Facility (LAF) determine the corridor for short-term money market interest rates. In turn, this is expected to trigger movement in other segments of the financial market and the real economy.
Bank rate: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. It also signals the medium-term stance of monetary policy.

Key financial terms

APR: It stands for Annual Percentage Rate. APR is a percentage that is calculated on the basis of the amount financed, the finance charges, and the term of the loan.

ABS: Asset-Backed Securities. It means a type of security that is backed by a pool of bank loans, leases, and other assets.

EPS: Earnings Per Share means the amount of annual earnings available to common stockholders as stated on a per share basis.

CHAPS: Clearing House Automated Payment System. It's a type of electronic bank-to-bank payment system that guarantees same-day payment.

IPO: Initial Public Offerings is defined as the event where the company sells its shares to the public for the first time. (or the first sale of stock by a private company to the public.)

FPO: Follow on Public Offerings: An issuing of shares to investors by a public company that is already listed on an exchange. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.

Difference: IPO is for the companies which have not been listed on an exchange and FPO is for the companies which have already been listed on an exchange but want to raise funds by issuing some more equity shares.

RTGS: Real Time Gross Settlement systems is a funds transfer system where transfer of money or securities takes place from one bank to another on a "real time". ('Real time' means within a fraction of seconds.) The minimum amount to be transferred through RTGS is Rs 2 lakh. Processing charges/Service charges for RTGS transactions vary from bank to bank.

NEFT: National Electronic Fund Transfer. This is a method used for transferring funds across banks in a secure manner. It usually takes 1-2 working days for the transfer to happen. NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. (Note: RTGS is much faster than NEFT.)

CAR: Capital Adequacy Ratio. It's a measure of a bank's capital. Also known as "Capital to Risk Weighted Assets Ratio (CRAR)", this ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. It is decided by the RBI.

NPA: Non-Performing Asset. It means once the borrower has failed to make interest or principal payments for 90 days, the loan is considered to be a non-performing asset. Presently it is 2.39%.

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

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

RSI: Relative Strength Index.

IFSC code: Indian Financial System Code. The code consists of 11 characters for identifying the bank and branch where the account in actually held. The IFSC code is used both by the RTGS and NEFT transfer systems.

MSME and SME: Micro Small and Medium Enterprises (MSME), and SME stands for Small and Medium Enterprises. This is an initiative of the government to drive and encourage small manufacturers to enjoy facilities from banks at concessional rates.

LIBOR: London InterBank Offered Rate. An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

LIBID: London Interbank Bid Rate. The average interest rate at which major London banks borrow Eurocurrency deposits from other banks.

ECGC: Export Credit Guarantee Corporation of India. This organisation provides risk as well as insurance cover to the Indian exporters.

SWIFT: Society for Worldwide Interbank Financial Telecommunication. It operates a worldwide financial messaging network which exchanges messages between banks and other financial institutions.

STRIPS: Separate Trading for Registered Interest & Principal Securities.

CIBIL: Credit Information Bureau of India Limited. CIBIL is India's first credit information bureau. Whenever a person applies for new loans or credit card(s) to a financial institution, they generate the CIBIL report of the said person or concern to judge the credit worthiness of the person and also to verify their existing track record. CIBIL actually maintains the borrower's history.

CRISIL: Credit Rating Information Services of India Limited. Crisil is a global analytical company providing ratings, research, and risk and policy advisory services.

AMFI: Association of Mutual Funds of India. AMFI is an apex body of all Asset Management Companies (AMCs) which have been registered with SEBI. (Note: AMFI is not a mutual funds regulator)

FCCB: Foreign Currency Convertible Bond. A type of convertible bond issued in a currency different from the issuer's domestic currency.

CAC: Capital Account Convertibility. It is the freedom to convert local financial assets into foreign financial assets and vice versa. This means that capital account convertibility allows anyone to freely move from local currency into foreign currency and back, or in other words, transfer of money from current account to capital account.

BANCASSURANCE: Is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products.
Balloon payment: Is a specific type of mortgage payment, and is named "balloon payment" because of the structure of the payment schedule. For balloon payments, the first several years of payments are smaller and are used to reduce the total debt remaining in the loan. Once the small payment term has passed (which can vary, but is commonly 5 years), the remainder of the debt is due - this final payment is the one known as the "balloon" payment, because it is larger than all of the previous payments.

CPSS: Committee on Payment and Settlement Systems

FCNR Accounts: Foreign Currency Non-Resident accounts are the ones that are maintained by NRIs in foreign currencies like USD, DM, and GBP.

M3 in banking: It's a measure of money supply. It is the total amount of money available in an economy at a particular point in time.

OMO: Open Market Operations. The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Open market operations are the principal tools of monetary policy. RBI uses this tool in order to regulate the liquidity in economy.

Umbrella Fund: A type of collective investment scheme. A collective fund containing several sub-funds, each of which invests in a different market or country.

ECS: Electronic Clearing Facility is a type of direct debit.
Tobin tax: Suggested by Nobel Laureate economist James Tobin, was originally defined as a tax on all spot conversions of one currency into another.
Z score is a term widely used in the banking field.

POS: Point Of Sale, also known as Point Of Purchase, a place where sales are made and also sales and payment information are collected electronically, including the amount of the sale, the date and place of the transaction, and the consumer's account number.

LGD: Loss Given Default. Institutions such as banks will determine their credit losses through an analysis of the actual loan defaults.

Junk Bonds: Junk bonds are issued generally by smaller or relatively less well-known firms to finance their operations, or by large and well-known firms to fund leveraged buyouts. These bonds are frequently unsecured or partially secured, and they pay higher interest rates: 3 to 4 percentage points higher than the interest rate on blue chip corporate bonds of comparable maturity period.

ARM: Adjustable Rate Mortgage is basically a type of loan where the rate of index is calculated on the basis of the previously selected index rate.

ABO: Accumulated Benefit Obligation, ABO is a measure of liability of pension plan of an organisation and is calculated when the pension plan is terminated.

Absorption: A term related to real estate, it is a process of renting a real estate property which is newly built or recently approved.

AAA: A type of grade that is used to rate a particular bond. It is the highest rated bond that gives maximum returns at the time of maturity.

DSCR: Debt Service Coverage Ratio, DSCR is a financial ratio that measures the company's ability to pay their debts.

FSDC: Financial Stability and Development Council, India's apex body of the financial sector.

ITPO: India Trade Promotion Organisation is the nodal agency of the Government of India for promoting the country's external trade.

FLCC: Financial Literacy and Counseling Centres.

ANBC: Adjusted Net Bank Credit is Net Bank Credit added to investments made by banks in non-SLR bonds.

Priority sector lending: Some areas or fields in a country depending on its economic condition or government interest are prioritised and are called priority sectors i.e. industry, agriculture.

M0, M1, M2 AND M3: These terms are nothing but money supply in banking field. BIFR: Bureau of Industrial and Financial Reconstruction.

FRBM Act 2003: Fiscal Responsibility and Budget Management act was enacted by the Parliament of India to institutionalise financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget.

The main objectives of FRBM Act are:-

1. To reduce fiscal deficit.
2. To adopt prudent debt management.
3. To generate revenue surplus.

Gold Standard: A monetary system in which a country's government allows its currency unit to be freely converted into fixed amounts of gold and vice versa.

Fiat Money: Fiat money is a legal tender for settling debts. It is a paper money that is not convertible and is declared by government to be legal tender for the settlement of all debts.

BCSBI: The Banking Codes and Standards Board of India is a society registered under the Societies Registration Act, 1860 and functions as an autonomous body, to monitor and assess the compliance with codes and minimum standards of service to individual customers to which the banks agree to.

OLTAS: On-Line Tax Accounting System.

EASIEST: Electronic Accounting System in Excise and Service Tax.

SOFA: Status of Forces Agreement, SOFA is an agreement between a host country and a foreign nation stationing forces in that country.

CALL MONEY: Money loaned by a bank that must be repaid on demand. Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule. Brokerages use call money as a short-term source of funding to cover margin accounts or the purchase of securities. The funds can be obtained quickly.

Scheduled bank: Scheduled Banks in India constitute those banks which have been included in the Second Schedule of RBI Act, 1934 as well as their market capitalisation is more than Rs 5 lakh. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.

FEDAI: Foreign Exchange Dealers Association of India. An association of banks specialising in the foreign exchange activities in India.

PPF: Public Provident Fund. The Public Provident Fund Scheme is a statutory scheme of the Central Government of India. The scheme is for 15 years. The minimum deposit is Rs 500 and maximum is Rs 70,000 in a financial year.

SEPA: Single Euro Payment Area.

GAAP: Generally Accepted Accounting Principles. The common set of accounting principles, standards and procedures that companies use to compile their financial statements.

Indian Depository Receipt: Foreign companies issue their shares and in return they get the depository receipt from the National Security Depository in return of investing in India.

Hot Money: Money that is moved by its owner quickly from one form of investment to another, as to take advantage of changing international exchange rates or gain high short-term returns on investments.

NMCEX: National Multi-Commodity Exchange.

PE RATIO: Price to Earnings Ratio, a measure of how much investors are willing to pay for each dollar of a company's reported profits.

CASA: Current Account, Savings Account.

CAMELS: CAMELS is a type of Bank Rating System. (C) stands for Capital Adequacy, (A) for Asset Quality, (M) for Management ,(E) for Earnings, (L) for Liquidity and (S) for Sensitivity to Market Risk.

OSMOS: Off-site Monitoring and Surveillance System.
Free market: A market economy based on supply and demand with little or no government control.

Retail banking: It is mass-market banking in which individual customers use local branches of larger commercial banks.

Eurobond: A bond issued in a currency other than the currency of the country or market in which it is issued.

PPP: Purchasing Power Parity is an economic technique used when attempting to determine the relative values of two currencies.

FEMA Act: Foreign Exchange Management Act, it is useful in controlling HAWALA.

Hawala transaction: It's a process in which large amount of black money is converted into white.

Teaser Loans: It's a type of home loans in which the interest rate is initially low and then grows higher. Teaser loans are also called terraced loans.

ECB: External Commercial Borrowings, taking a loan from another country. Limit of ECB is $500 million, and this is the maximum limit a company can get.

CBS: Core Banking Solution. All the banks are connected through internet, meaning we can have transactions from any bank and anywhere. (e.g. deposit cash in PNB, Delhi branch and withdraw cash from PNB, Gujarat)

CRAR: For RRB's it is more than 9% (funds allotted 500 cr) and for commercial banks it is greater than 8% (6000 cr relief package).

NBFCs: NBFC is a company which is registered under Companies Act, 1956 and whose main function is to provide loans. NBFC cannot accept deposit or issue demand draft like other commercial banks. NBFCs registered with RBI have been classified as AssetFinance Company (AFC), Investment Company (IC) and Loan Company (LC).

IIFCL: India Infrastructure Finance Company Limited. It gives guarantee to infra bonds.

IFPRI: International Food Policy Research Institute. It identifies and analyses policies for meeting the food needs of the developing world.

Currency swap: It is a foreign-exchange agreement between two parties to exchange aspects (namely the principal and/or interest payments) of a loan in one currency for equivalent aspects of an equal in net present value loan in another currency. Currency swap is an instrument to manage cash flows in different currency.

WPI: Wholesale Price Index is an index of the prices paid by retail stores for the products they ultimately resell to consumers. New series is 2004 2005. (The new series has been prepared by shifting the base year from 1993-94 to 2004-05). Inflation in India is measured on WPI index.

MAT: Minimum Alternate Tax is the minimum tax to be paid by a company even though the company is not making any profit.

Future trading: It's a future contract/agreement between the buyers and sellers to buy and sell the underlying assets in the future at a predetermined price.

Reverse mortgage: It's a scheme for senior citizens.

Basel 2nd norms: BCBS has kept some restrictions on bank for the maintenance of minimum capital with them to ensure level playing field. Basel II has got three pillars: Pillar 1- Minimum capital requirement based on the risk profile of bank. Pillar 2- Supervisory review of banks by RBI if they go for internal ranking. Pillar 3- Market discipline.

Microfinance institutions: Those institutions that provide financial services to low-income clients. Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients.

NPCI: National Payments Corporation of India.

DWBIS: Data Warehousing and Business Intelligence System, a type of system which is launched by SEBI. The primary objective of DWBIS is to enhance the capability of the investigation and surveillance functions of SEBI.

TRIPS: Trade Related Intellectual Property Rights is an international agreement administered by the World Trade Organisation (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation as applied to nationals of other WTO Members.

TRIMs: Trade Related Investment Measures. A type of agreement in WTO.

SDR: Special Drawing Rights, SDR is a type of monetary reserve currency, created by the International Monetary Fund. SDR can be defined as a “basket of national currencies”. These national currencies are Euro, US dollar, British pound and Japanese yen. Special Drawing Rights can be used to settle trade balances between countries and to repay the IMF. American dollar gets highest weightage.

LTD: Loan-To-Deposit Ratio. A ratio used for assessing a bank’s liquidity by dividing the bank’s total loans by its total deposits. If the ratio is too high, it means that banks might not have enough liquidity to cover any fund requirements, and if the ratio is too low, banks may not be earning as much as they could be.

CAD: Current Account Deficit. It means when a country’s total imports of goods, services and transfers is greater than the country’s total export of goods, services and transfers.

LERMS: Liberalized Exchange Rate Management System.

FRP: Fair and Remunerative Price, a term related to sugarcane. FRP is the minimum price that a sugarcane farmer is legally guaranteed. However sugar Mills Company gives more than FRP price.

STCI: Securities Trading Corporation of India Limited was promoted by the Reserve Bank of India (RBI) in 1994 along with Public Sector Banks and All India Financial Institutions with the objective of developing an active, deep and vibrant secondary debt market.

IRR: Internal Rate of Return. It is a rate of return used in capital budgeting to measure and compare the profitability of investments.

CMIE: Centre for Monitoring Indian Economy. It is India’s premier economic research organisation. It provides information solutions in the form of databases and research reports. CMIE has built the largest database on the Indian economy and companies.

TIEA: Tax Information Exchange Agreement. TIEA allows countries to check tax evasion and money laundering. Recently India has signed TIEA with Cayman Islands.
Contingency Fund: It’s a fund for emergencies or unexpected outflows, mainly economic crises. A type of reserve fund which is used to handle unexpected debts that are outside the range of the usual operating budget.

FII: Foreign Institutional Investment. The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market.

P-NOTES: "P" means participatory notes.

MSF: Marginal Standing Facility. Under this scheme, banks will be able to borrow upto 1% of their respective net demand and time liabilities. The rate of interest on the amount accessed from this facility will be 100 basis points (i.e. 1%) above the repo rate. This scheme is likely to reduce volatility in the overnight rates and improve monetary transmission.

FIU: Financial Intelligence Unit set by the Government of India on 18 November 2004 as the central national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions.

SEBI: Securities and Exchange Board of India. SEBI is the primary governing/regulatory body for the securities market in India. All transactions in the securities market in India are governed and regulated by SEBI. Its main functions are:

1. New issues (Initial Public Offering or IPO)
2. Listing agreement of companies with stock exchanges
3. Trading mechanisms 4. Investor protection
5. Corporate disclosure by listed companies etc.

Note: SEBI is also known as capital regulator or mutual funds regulator or market regulator. SEBI also created investors protection fund and SEBI is the only organization which regulates the credit rating agencies in India. (CRISIL and CIBIL).

FINANCIAL REGULATORS IN INDIA: RBI, SEBI, FMCI (Forward Market Commission of India), IRDA etc.

ASBA: Application Supported by Blocked Amount. It is a process developed by the SEBI for applying to IPO. In ASBA, an IPO applicant's account doesn't get debited until shares are allotted to him.

DEPB Scheme: Duty Entitlement Pass Book. It is a scheme which is offered by the Indian government to encourage exports from the country. DEPB means Duty Entitlement Pass Book to neutralise the incidence of basic and special customs duty on import content of export product.

LLP: Limited Liability Partnership, is a partnership in which some or all partners (depending on the jurisdiction) have limited liability.
Balance sheet: A financial statement that summarises a company's assets, liabilities and shareholders' equity at a specific point in time.

TAN: Tax Account Number, is a unique 10-digit alphanumeric code allotted by the Income Tax Department to all those persons who are required to deduct tax at the source of income.

PAN: Permanent Account Number, as per section 139A of the Act obtaining PAN is a must for the following persons:-

1. Any person whose total income or the total income of any other person in respect of which he is assessable under the Act exceeds the maximum amount which is not chargeable to tax.
2. Any person who is carrying on any business or profession whose total sales, turnover or gross receipts are or are likely to exceed Rs. 5 lakh in any previous year.
3. Any person who is required to furnish a return of income under section 139(4) of the Act.

JLG: Joint Liability Group, when two or more persons are both responsible for a debt, claim or judgment.

REER: Real Effective Exchange Rate.

NEER: Nominal Effective Exchange Rate.
Contingent Liability: A liability that a company may have to pay, but only if a certain future event occurs.

IRR: Internal Rate of Return, is a rate of return used in capital budgeting to measure and compare the profitability of investments.

MICR: Magnetic Ink Character Recognition. A 9-digit code which actually shows whether the cheque is real or fake.

UTR Number: Unique Transaction Reference number. A unique number which is generated for every transaction in RTGS system. UTR is a 16-digit alphanumeric code. The first 4 digits are a bank code in alphabets, the 5th one is the message code, the 6th and 7th mention the year, the 8th to 10th mentions the date and the last 6 digits mention the day's serial number of the message.

RRBs: Regional Rural Banks. As its name signifies, RRBs are specially meant for rural areas, capital share being 50% by the central government, 15% by the state government and 35% by the scheduled bank.

MFI: Micro Finance Institutions. Micro Finance means providing credit/loan (micro credit) to the weaker sections of the society. A microfinance institution (MFI) is an organisation that provides financial services to the poor.

PRIME LENDING RATE: PLR is the rate at which commercial banks give loans to its prime customers (most creditworthy customers).

BASE RATE: A minimum rate that a bank is allowed to charge from the customer. Base rate differs from bank to bank. It is actually a minimum rate below which the bank cannot give loan to any customer. Earlier base rate was known as BPLR (Base Prime Lending Rate).

EMI: Equated Monthly Installment. It is nothing but a repayment of the loan taken. A loan could be a home loan, car loan or personal loan. The monthly payment is in the form of post dated cheques drawn in favour of the lender. EMI is directly proportional to the loan taken and inversely proportional to time period. That is, if the loan amount increases the EMI amount also increases and if the time period increases the EMI amount decreases.

Basis points (bps): A basis point is a unit equal to 1/100th of a percentage point. i.e. 1 bps = 0.01%. Basis points are often used to measure changes in or differences between yields on fixed income securities, since these often change by very small amounts.

Liquidity: It refers to how quickly and cheaply an asset can be converted into cash. Money (in the form of cash) is the most liquid asset.

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

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. It was introduced in India in 1990. Corporates and the All-India Financial Institutions are eligible to issue CP.

Indian Banking Structure

Types of banks in India

Central Bank (RBI)
Specialised banks
Commercial banks
Development banks
Co-operative banks

Central Bank:

As its name signifies, a bank which manages and regulates the banking system of a particular country. It provides guidance to other banks whenever they face any problem (that is why the Central Bank is also known as a banker's bank) and maintains the deposit accounts of all other banks. Central Banks of different countries: Reserve Bank of India (INDIA), Federal Reserve System (USA), Swiss National Bank (SWITZERLAND), Reserve Bank of Australia (AUSTRALIA), State Bank of Pakistan (PAKISTAN).

Specialised Banks:

Those banks which are meant for special purposes. For examples: NABARD, EXIM bank, SIDBI, IDBI.

NABARD: National Bank for Agriculture and Rural Development. This bank is meant for financing the agriculture as well as rural sector. It actually promotes research in agriculture and rural development.

EXIM bank: Export Import Bank of India. This bank gives loans to exporters and importers and also provides valuable information about the international market. If you want to set up a business for exporting products abroad or importing products from foreign countries for sale in our country, EXIM bank can provide you the required support and assistance.

SIDBI: Small Industries Development Bank of India. This bank provides loans to set up the small-scale business unit / industry. SIDBI also finances, promotes and develops small-scale industries. Whereas IDBI (Industrial Development Bank of India) gives loans to big industries.

Commercial banks:

Normal banks are known as commercial banks, their main function is to accept deposits from the customer and on the basis of that they grant loans. (Loans could be short-term, medium-term and long-term loans.) Commercial banks are further classified into three types.

(a) Public sector banks
(b) Private sector banks
(c) Foreign banks

(a) Public Sector Banks (PSB): Government banks are known as PSB. Since the majority of their stakes are held by the Government of India. (For example: Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharastra, Canara Bank, Central Bank of India etc).
(b) Private Sector Banks: In these banks, the majority of stakes are held by the individual or group of persons. (For example: Bank of Punjab, Bank of Rajasthan, Catholic Syrian Bank, Centurion Bank etc).
(c) Foreign Banks: These banks have their headquarters in a foreign country but they operate their branches in India. For e.g. HSBC, Standard Chartered Bank, ABN Amro Bank.

Development banks:

Such banks are specially meant for giving loans to the business sector for the purchase of latest machinery and equipments. Examples: SFCs (State Financial Corporation of India) and IFCI (Indian Finance Corporation of India).

Co-operative banks:

These banks are nothing but an association of members who group together for self-help and mutual-help. Their way of working is the same as commercial banks. But they are quite different. Co operative banks in India are registered under the Co-operative Societies Act, 1965. The cooperative bank is regulated by the RBI. Note: Co-operative banks cannot open their branches in foreign countries while commercial banks can do this.

Types of bank accounts

Savings bank account
Current account
Fixed Deposit account

Basic Financial Terms A-Z

A

AGM - Annual General Meeting, it is the year meeting held by every registered company. Agenda is to explain the performance during the year, presentation of annual financial statements, voting on important financial decisions. Any shareholder can participate in AGM.

Asset turnover ratio - This ratio can be explained as Net assets / Total turnover or sales. This ratio measures the operational efficiency of business assets. In simple terms this measures how many time total assets turned in a year and how efficiently the assets are used in a business.

Acid test ratio - This is one of the important ratio to measure business liquidity. Business liquidity is defined as ability of a business to pay it;s short term debts. Acid test ratio = Highly liquid assets / current liabilities

American Depository Receipts - This is the way non-US companies raises money from US investors. These shares can be traded in US stock exchanges and denominated in US $.

Amortization - It is an accounting technique by which intangible assets are written off over a period of time. For example provision for doubtful debts or preliminary expenses are written off over a certain period of time.

Annuity - It is an investment scheme under which investor makes recurring investments and lump sum payment is made to him at the end. Common example is Recurring deposit account at a post office where people makes small monthly deposits and gets their money back at the end of period. Benefit of Annuity is investor gets compound interest over a period of time.

Asset Management Company - AMC is a company that pools and invests investor money in pre-determined goals. Pool of funds is known as Mutual fund.

Audit - Financial statement and physical stock is checked annually by professional auditor (Chartered Accountant affiliated by ICAI in India)

B

Book-keeping - Recording of financial transactions in books of account.

Bear market - A market situation in which most of the investors thinks that markets will fall.

Balance of Payment - BOP is the difference between a country's exports and imports.

C

Capital - Wealth invested by an entrepreneur on his business. Capital = Assets - Liabilities

Capital gain - Gain by selling a capital asset in which a person is not doing business. Income by selling a house by a bank employee is a capital gain whereas when a builder do the same thing it is Income from business and professional.

Current asset - An asset that can be converted into cash with 12 months. For example - debtors, stock etc.

Credit rating - A ranking applied to an individual, business or a nation based upon its credit history and current financial position. There are various credit rating companies in India such as Crisil.

CPI - Consumer price index is measure to find price of a bundle of commodities. CPI is used to measure the inflation in a country.

D

Debt consolidation - Debt consolidation is a process by which various loans and converted into a single loan to reduce interest rate and instalment value.

Depreciation - Depreciation is reduction in value of an asset due wear and tear over a period of time. For example a company purchased a machine in 2005 and planned to charge 20% depreciation. In 2010 the machine will be written off from the books of account.

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

Dividend payout ratio - It is the ratio of dividend paid per share and EPS (Earning per share)

Double entry bookkeeping - It is a method of bookkeeping in which every transaction is recorded two accounts. Once in debit side and once in credit side.

E

Earning per share - Earnings made by a company in a financial year divided by number of issued shares.

Equity - Value of a business. Equity = Total assets - Total liabilities

Ex-divided - Ex-dividend means without dividend. When a seller makes a ex-dividend sales contract then he is entitled to get dividend or interest payment.

EBIT - Earning before interest and taxes

EBT - Earning before tax

EAT - Earning after tax

F

Face value - The amount mentioned on face of a bond certificate.

Fixed assets - Assets which can be seen such as machinery

Financial year - A period of 12 months from 1st April to 31st march

Fundamental analysis - Analysis of a company based upon financial and operational performance.

Fiscal policy - Income and expenses management by Government.

Flat rate - Rate of interest in a contract which remains same irrespective of market rate in future.

Floating rate - Rate of interest which changes with change in market rate.

Fund manager - A person who manages a mutual fund and tries to maximize fund's returns while sticking to fund's objectives.

G

Gearing - It is the ratio of debt to equity

Goodwill - Intangible assets that defines firm's reputation in monetary terms.

Gross profit = Net sales - Net purchases - Direct expenses

GDP - Gross domestic product is the aggregate value of goods and services produced by every person of a nation.

GST - Goods and services tax is the same tax system for everything. It is proposed that GST will replace the multi tax system in India by 2015.

H

Hedging - Hedging is a technique used by investors to protect themselves from adverse price movements. Derivatives are used for hedging in which hedgers takes the risk of price fluctuations.

Hedge funds - Mutual funds which invests in derivatives

I

Index - It is statistical measure used to find price variations in market. In stock markets most dominating stocks are grouped to make an index. For example - Sensex.

Income statement

A statement that represents both income and expenditure of a business during a specific period of time.

IPO - Initial public offer is issue of stocks for the first time in the market.

Intangible assets – Assets which can't be seen but have value for business. For example – Goodwill.

Indemnity – A legal contract under which one party promises to pay another for any loses incurred to them by their acts.

Interest rate risk – Risk that value of financial assets will deteriorate because of fall in interest rate. For example value of bonds decreases with decrease in interest rate.

Irredeemable stocks – Stocks which can't be exchanged for cash in future.

Indirect Costs - Indirect cost is a cost incurred on product that is not directly related to its production.

J

Junk fund – A fund which invests investor's money in junk investments means high risk investments which high returns.

K

KYC – Know Your Customer policy is mandatory in India and every investor irrespective of his investment volume needs to furnish his identity and residence details.

L

Libor – London

Liquidity – Ability of a business to pay off its short term debts with current assets. Currently NISL is facing liquidity crunch.

Liquid assets – Assets which can be readily converted into cash

Liquid ratio – Liquid assets/Current liabilities

Limited liability – Liability of an individual or a business up to the value of investment made in a business

M

Monopoly - A situation in market where there are many buyers but a single seller exist.

Money market - Market dealing in short term lending and borrowing of funds. Also know as Cash market.

Monetary policy - Set of actions by Central bank of a country (RBI in case of India) to control the supply of money. These actions included increase in interest rate, open market purchases, changing commercial bank's reserve funds ratio (SLR) etc.

Marginal cost - Additional cost to produce an extra unit of product.

Margin - Amount of profit added to cost price of each unit of a product

Margin call - Margin call term is used in two situations. **First -** Whenever a lender gives a secured loan and loan value is a fixed percentage of loan then whenever the value of security decrease below the decided ratio then lender given a margin call to borrower to bring loan to security ratio to decided level. **Secondly** in stock exchanges traders trades in various securities by paying 20-30% of the value of securities. Whenever the value of security goes below that margin, broker gives margin call to trader to bring the margin to desired level.

Mark-to-market - As explained above while defining margin call, value of assets in case of securities is measured on daily basis. If the trader's asset value increased, increased value is transferred to his account. In case the value of assets decreased margin call is made to adjust the margin.

N

NPV - Net Present Value is aggregate of future cash flows from a project minus total costs. NPV is a capital budgeting technique used to check feasibility of projects.

Net profit - Net profit is Gross profit minus indirect cost. See indirect costs

Net worth - Net assets - Total liabilities

Nationalization - When Government takes control of a business, this is known as nationalization.

NAV - Net Assets Value is mutual fund's per unit exchange traded price

O

Opportunity cost - Additional cost in production of an addition unit of product.

Options - Option is right to buy at pre-determined price at a future date. Option is used for hedging. Options safeguards option-holder from future price fluctuations.

Overdraft - Facility given by a bank which allows its customers to withdraw more money than account balance. Overdraft generally have high rate of interest as borrower can demand and return the loan anytime.

P

Preference shares - A type of shares having no voting rights and have higher rate of dividend.

Ponzi **schemes -** It is a kind of fraud scheme which use Network marketing as a tool. Investors are paid out of new investments. These schemes end when new investments stop coming and large number of investors wants to withdraw their money. Latest Ponzi scheme in India was "Speak Asia".

PLR - Prime lending rate is the minimum rate of interest that is to be charged by a bank. Each bank decides its own PLR.

R

ROI - Rate on investment is return divided by value of investment

Redemption - Maturity date of a security or a bond

Recession - An economic situation of negative growth

Repo rate - Rate at which Central bank (RBI in case of India) lends money to commercial banks

Reverse repo rate - Rate at which commercial banks lends to central bank

Right issue - Issue of shares in which existing shareholders gets right to buy shares in proportion of their existing holding

Risk free return - Rate of return, normally it is 90 days bills issued by a national government

S

Stagnation - An economic situation of slow economic growth, high rate unemployment and inflation.

Shorting - Selling securities which an investors don't have in expectation of price drop

U

Underwriters - In case of an IPO, new companies makes contracts with underwriter where underwriters promises to purchase unsubscribe shares.

W

Working capital - Money required by a business to run its day to day business. Working capital = Current assets / Current liabilities

Warrants - A document which gives right to holder to get shares at stated price

Y

Yield - Yield is the return on investment which may in form dividend or interest