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Interview Digest for IBPS PO and Clerk

Ramandeep Singh

RD

1/10/2015

Principles of Core Banking

The Banking systems and ultimately the banking industry operates on various factors and elements. However there are five certain and very basic 'principles' – if you will – which are the five pillars on which the system of banking is built and which is instrumental in keep it going and viable.

The importance of these five pillars or principles can be understood from the view that, if any one of the pillars falls – the system crumbles.

PRINCIPLE 1: INTERMEDIATION

The essence of banking – to intermediate between the people who have funds and the people who need funds.

People who have excess or extra money which they are not spending immediately need someplace safe to keep that money. They have no immediate use of that money, and hence would like to 'deposit' it somewhere; somewhere they know their money will be safe and they can easily get it back when required.

People who need extra money than what they have in hand, say for business purpose, of for sending their child to college, or for sudden medical purpose, or for building an extra room in their house – where will they get the extra money?

Will they go and ask everybody in the neighbourhood as to who is willing to give them some cash?!

Thus, Banks play the role of 'financial intermediaries' – they mobilize funds from the people who have idle funds (depositors) and give them to the people who are in the need of funds (loan takers).

Everyone saves…well almost everyone…and after PM NaMo's Jan Dhan Yojana…everyone will save eventually in a bank!

And everyone takes a loan – at least once in a lifetime!

Imagine a scenario where there were no Banks – where would you keep the money? – Where would you go for a loan?

Hence, the role of the Banks as financial intermediaries is a very basic and a very important role.

PRINCIPLE 2: PROFITABILITY

Banks are not NPOs – Not for Profit Organisations. Banks are very much a commercial organization – with aim to earn profit.

Even though banks have been established to do 'good' for the people, it needs to make profits and the more – the better! Here's why!

Customers need bank statements/locker services/AC Banks/ATMs/Branches in every nook and crony of the city and in every city of the country – then there are employees, their salaries and retirement benefits and pensions! How to meet these vast expenses?

A Bank will not survive if it didn't earn any income for paying off the above mentioned expenses.

By charging interests on loans/charges for banking services banks earn their income – this is their primary source of income which is used to meet its expenses and plan expansions.

Thus earning profits is very essential for a bank to be able to continue its operations.

PRINCIPLE 3: TRUST

Why would you deposit your hard earned money in a bank?

Because you know:

a. it'll be kept safe.
b. you'll be given some return on it by the Bank.
c. you can get it **all** back whenever you want it.

Even though you have kept your money in the bank, you know it is still yours and you have full right to demand it back when you want – this is the trust you have on your bank that it is taking care of your money.

If institutions like Banks did not invoke such feeling of trust from the people would they even exist? No! NO organization can ever survive if there is trust deficit!

All those scams we hear of – financial scams that is – always end up exposed and their head scammer in jail. Why? Because one fine day their façade falls – people lose their trust on such 'investment routes' and other businesses operating on the same line bear the brunt too.

Thus building and up keeping of the trust factor is very essential in banking business – it a very important pillar – if this pillar develops even a very thin crack – the whole structure is definitely collapsing!

PRINCIPLE 4: LIQUIDITY

This, my friends is my personal favorite pillar – liquidity.

You ask what in the world is 'liquidity'?

I say, it is the ability of the bank to give loans, to be able to give you the money when you go for cash withdrawals in ATMs and to make you happy with the big amount on maturity of FDs!

What is the one common thing in all the intelligent non-sense I just spewed? – CASH.

Immediate availability of cash – to pay off short term obligations – is liquidity.

Imagine going to your local trusty bank to withdraw some money for Diwali shopping and the person at the counter saying they don't have cash to give you your money! Oh no – now that's a dud cracker!

Thus a bank always needs to have cash with them and cash is the most liquid item – it is cash after all! – followed by T-bills of short periods/accounts of a bank with RBI or other banks/debtors/Bills Receivable etc.

Please note land and building or even machineries, cars etc., are not liquid assets, because they cannot be easily converted to cash.

Thus the items which can be easily converted into cash are known as cash equivalents; thus cash and cash equivalents are the backbone of a company's 'liquidity' status.

A Bank always compulsorily needs to have enough liquid assets to meet any demand liability that may arise at any moment. A bank's business, its trust factor, and its survival will get very badly affected if it weren't able to meet customer's demand liabilities.

To ensure Banks always remain in comfortably 'liquid', RBI has prescribed compulsory CRR and SLR and LAF (Liquidity Adjustment Facility – for day to day mismatches of liquidity)! \

So, now you know why the CRR and SLR! To safeguard the customers interest!

PRINCIPLE 5: SOLVENCY

Where liquidity was the ability to meet short term obligations, **'Solvency' is the ability to meet long term obligations.**

What is long term in any business? I would say staying alive from business point of view is the most important long term object of any business entity!

And to remain functioning and viable in the future, solvency is essential. Long term debts can be many kinds – such as repayment on debentures/bonds/shares issued, employees' pensions and retirement funds, any legal suit which may/may not result in the bank paying etc.

Long term funds also mean huge outlay or expenditure – sometimes it may even lead to bankruptcy. Imagine – a bank going bankrupt! The horror!

Thus when an entity goes insolvent it enters bankruptcy; however, an entity that lacks liquidity can also be forced to enter bankruptcy even if it is solvent – no money – means bankruptcy.

Thus liquidity and solvency are two very important financial parameters which are important for the functioning of a bank.

The Reserve Bank of India

The Reserve Bank of India or, RBI, as we so often call it is India's 'central bank'; it represents India's financial/industrial identity in the world.

I however like to call it the 'Godfather' of the Banks and the Economy – pulling the strings whenever required!

RBI is the formidable institution that holds our country's banking/economy/industry sectors all together and geared towards growth and development – let me correct myself – 'sustainable' growth and development, as our current Guv'nor so aptly puts it!

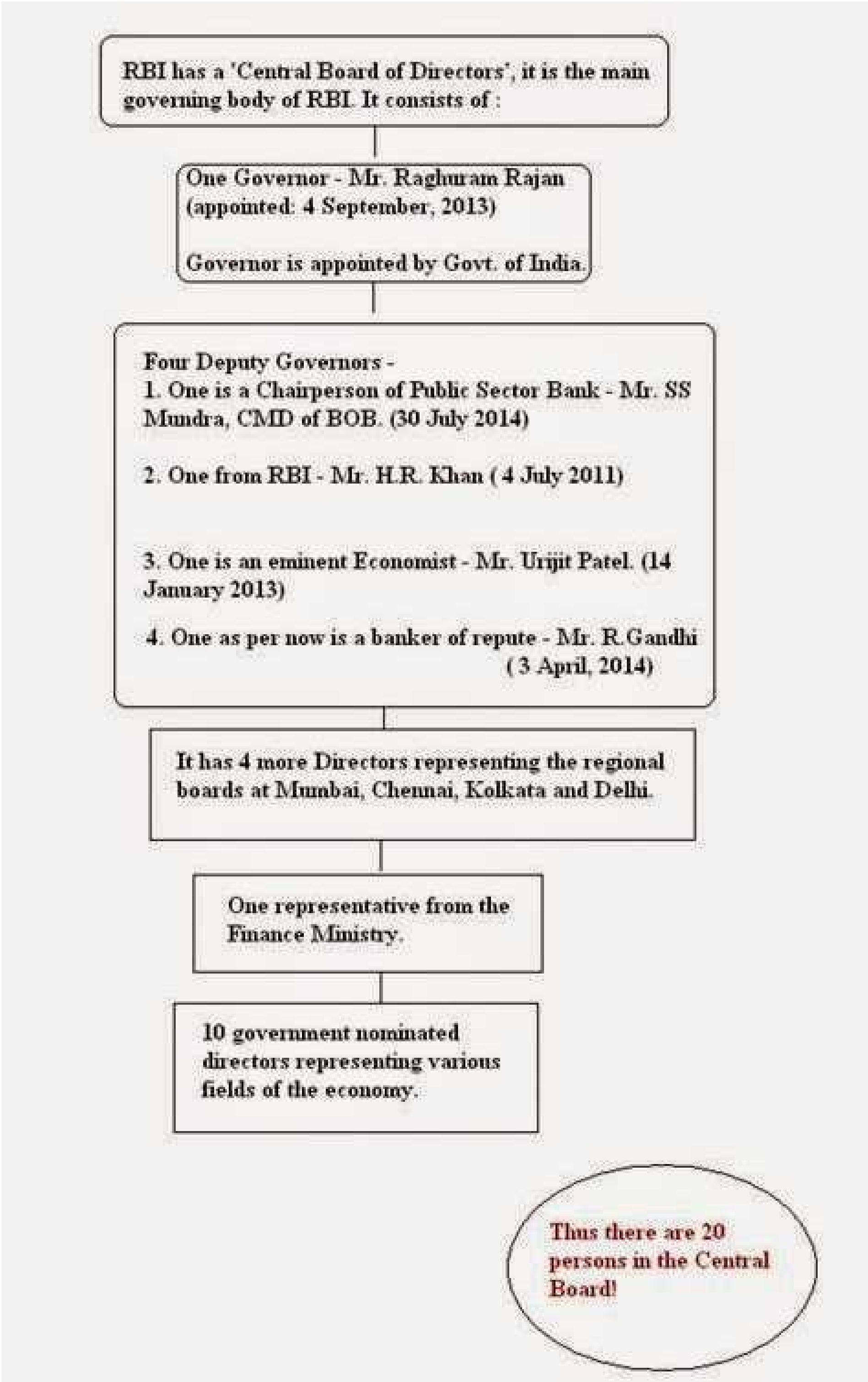
1. Brief Introduction and History:

- RBI as India's central bank was conceptualized and **put forward by the Hilton Young Committee in 1926 -27**.
- In 1933, based on Hilton Young Committee's Reports and further improvinh upon it, the 'Central Banking Investigation Committee's' report was presented and passed in the assembly.
- 1934, saw the **Reserve Bank Of India Act, 1934 being passed**.
- **1935, April 1st, RBI started its operations**, with its head quarter in**Calcutta**.
- 2 years later, in 1937, the Headquarter was permanently shifted to Bombay, (now Mumbai), where it still exists. (all of this happened during the British Rule!)
- **RBI was nationalized in 1949**, 2 years after Independence; the **Governor at the time was C. D. Deshmukh**.
- In 1985 RBI celebrated 50 years of its existence; 75 years in 2010 and 100 years in 2035!

2. Role as Central Bank – What does RBI do?

- RBI is the **Government's banker** and performs banking functions for the central and the state governments.
- RBI is also the **Banker of the Banks -** it maintains operational banking accounts of all scheduled banks.
- It is the **regulator and supervisor** of the country's financial system;
- and sets benchmarks and regulations for the proper operation of the country's banking and financial sector.
- RBI is the **Issuer of Currency** – it issues bank notes and exchanges or destroys currency notes and coins not fit for circulation.
- RBI is instrumental in formulating, implementing and monitoring the country's monetary policies; 'monetary policies' are set of policies formulated by the central bank to attempt to control the economy, the money supply and ultimately inflation.
- Through the provisions of the Foreign Exchange Management Act, 1999, RBI**regulates and facilitates external trade** and promotes development and maintenance of foreign exchange market in India – through which India maintains its forex reserves.
- RBI's monetary policies are **instrumental in maintaining price stability** in the economy – RBI has battled inflationary trends in the Indian Economy. (We'll cover it in another discussion!)
- It also acts as an **advisor to the Government of India** from economic point of view.
- It is the like the **'Godfather' of the public's money**, (albeit the sinister intentions! – RBI is all good!) of the entire banking system and hence the protector of common public's deposits, the influence behind loan rates, the policy maker for financial inclusion, the inflation checker etc.

3. THE GOVERNOR, THE DEPUTIES AND THE BOARD:



4. Trivia:

- The first Governor of RBI was Sir Osborne Smith (under the British Government); first Indian Governor is Sir C. D. Deshmukh. Raghuram Rajan is the 23rd Governor (current Guv'nor) and ex- PM Manmohan Singh was the 15th Governor!
- The Banking Ombudsman Scheme 2006, has been formulated by RBI for the effective addressal of customer complaints; the Banking Ombudsman Act, 2005.
- RBI prints notes through, the **Bharatita Reserve Bank Note Mudran Private Limited and Security Printing and Minting Corporation of India Limited** – a wholly owned company of the Government of India.
- RBI decides the design of currency notes and coins.
- RBI's logo/emblem/seal is of a **palm tree and a tiger**.
- RBI has started publishing bi-monthly policy updates since April 2014; it's latest was in September 2014 being the 4th bi-monthly update.
- RBI is a member of the **Asian Clearing Union.**
- It is also a member of the **Alliance For Financial Inclusion**.
- RBI was conceptualized as per the vision envisaged by **Dr. B. R. Ambedkar** in his book – "The Problem of the Rupee – Its origin and its solution".
- RBI has served as the **central banks of Burma and Pakistan** for brief period of time.
- RBI has a site named 'paisaboltahai'! – launched in 2012 to make the masses aware of the features of currency notes to make them vigilant and an aid in the fight against counterfeit notes.
- RBI is currently withdrawing all the pre-2005 notes from the system as a measure to combat the twin maladies of counterfeit notes and black money.

7 Tools by which RBI controls Inflation and Liquidity

One of the major functions of RBI (Reserve bank of India) is to control inflation and liquidity in the economy. Today I am going to discuss various tools with RBI that directly impacts the money supply in the economy.

Cash Reserve Ratio

CRR is the minimum percentage of deposits with commercial banks that they need to deposit with central bank of RBI.

Impact of increased CRR

Positive impact - It is a quick fix to control inflation. By increasing CRR, commercial banks need to deposit more money with RBI. Thus commercial banks left with less money. Now loans become dearer, so people have less money. As

Less money with Commercial banks → Less money with people → Lower demand for goods and services → Lower prices

Higher CRR simply sucks money from the economy.

Impact of decreased CRR

More money with Commercial banks → More money with people → Higher demand for good sand services → Higher prices

CRR should be aligned with supply and production levels. If people are producing more then they deserve to spend more. Decreased CRR provides a short term fix as it increases demand for short term.

Statutory liquidity ratio

This is the percentage of liabilities and time deposits that commercial banks need to keep with them in form of cash, gold or government approved securities.

Impact of increase in SLR

Commercial banks need to keep more liquid funds → Provides less loans to people → Lower demand for good sand services → Lower prices

Impact on decrease in SLR

Commercial banks need to keep less liquid funds → Provides more loans to people → Higher demand for good sand services → Higher prices

Repo and Reverse Repo rates

Repo rate

It is the rate at which RBI lends money to commercial banks against securities in case commercial banks fall short of funds.

Reverse Repo Rate

Rate at which RBI borrows money from commercial banks.

Impact

If commercial banks get more money they will lend more money to people which will lead more demand in economy. Thus prices will increase.

Bank rate

It is a rate at which RBI lends money to commercial banks **without any security**.

Impact

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

Marginal Standing Funding

By this mechanism commercial banks can get loans from RBI for their emergency needs. Commercial banks can take loan only upto 1% of their liabilities and time deposits.

Open market operations

Buying and selling government securities and bonds in order to manage liquidity in the economy.

Impact of purchasing securities

More money in economy → More demand → Higher growth rate

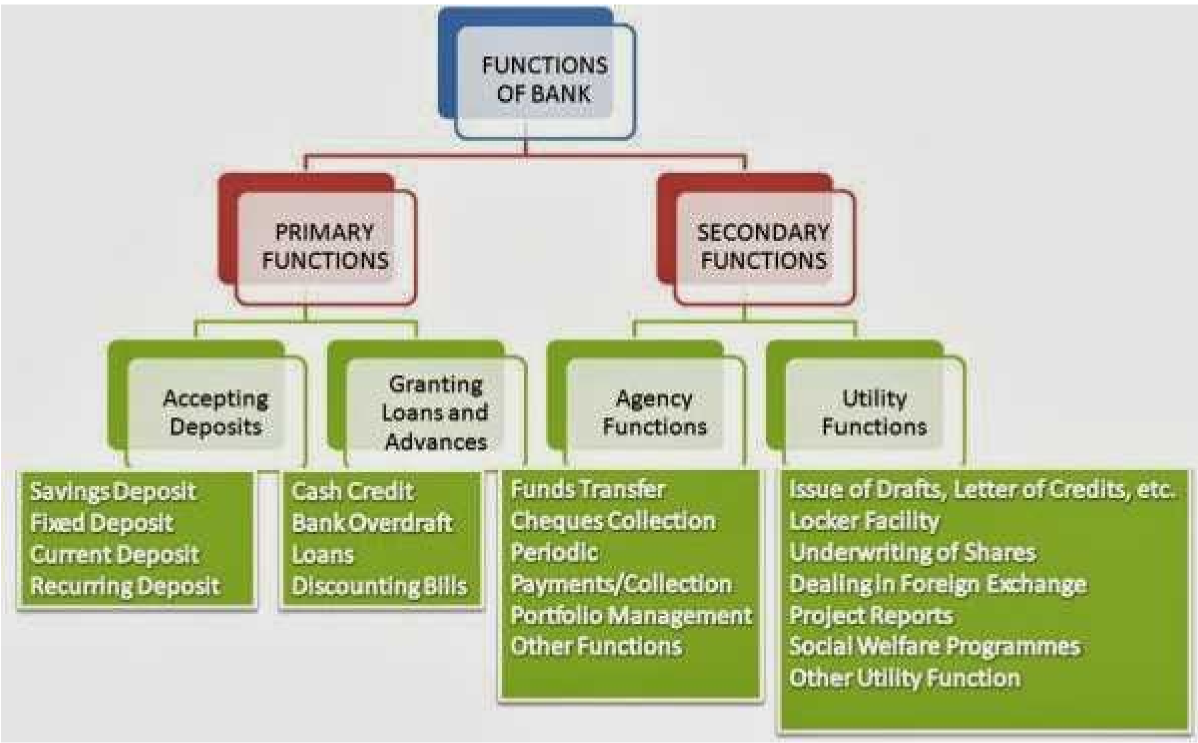
Impact of selling

Less money in economy → Less demand → Lower prices
Conclusion

Many economist says effect of "More demand" is higher growth rate while some says higher prices. While it is actually state of economy. Money supply should be aligned with production rate.

Functions of Banks

In bank jobs interviews normally questions are asked about what are the various functions of banks. Candidates gives lame answers and it results in bad impression on interviewer. So today I am listing down all the important functions of a bank. In case you find any problem, please comment below.



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

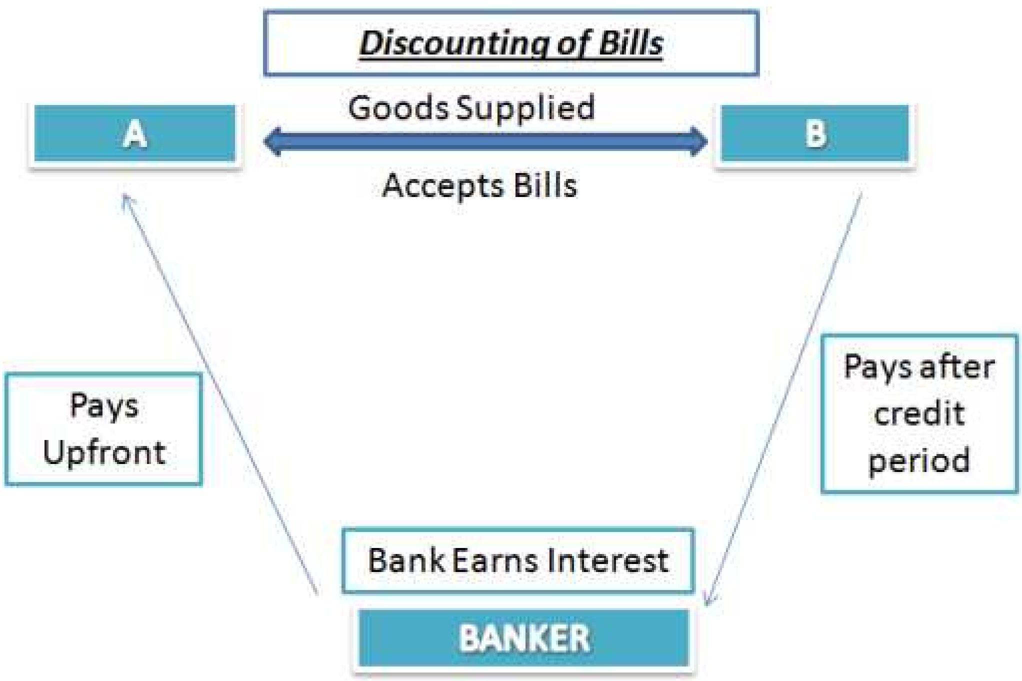
Bank provides this facility to current account holders.Account holder can withdraw money anytime up to the provided limit. He need to pay interest only on borrowed amount for the period for which he took loan.

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

Cheque and Types of Cheque

Cheque is, signed unconditional order addressing the bank to credit the amount to the holder of instrument .Cheque is widely used mode of payment. It is used as safe mode for making payments and loss can be minimized if lost It is an order to a bank by the drawer to pay the amount mentioned in the cheques to the presenter of the instrument.

PARTIES INVOLVED IN A CHEQUE

Drawer:
A person that issue the cheque for making payment and person who deposit money to make payment is know as Drawer.

Drawee:
Drawee is the bank to whom a drawer gives order to make payment.

Payee:
Payee is the person who presents the cheque for payment .A person who deposited cheque to receive payment from bank is know as Payee.

For E.g A person Rohit want to give payment of Rs 5 lakh to another person name Nitin .He can issue the cheque on the name Nitin and give that cheque to Nitin .In this case Rohit is the drawer and Nitin is payee and where Rohit has account ,a bank which has issues the cheque book is know as drawee.

A cheques is said to be **honored** if Rohit has sufficient balance in his account in this case 5 lakh or more and if he does not have sufficient balance in his account that cheque is known as **bounce cheque**.

TYPES OF CHEQUE:

1) **Open cheque**: Open cheque is payable in cash across the counter of bank who presented the cheque. In this cheque is not crossed with parallel lines on left hand side of cheque.

2) **Crossed Cheque** :In this a person who issue the cheque write account payee or put two parallel lines at the left corner of cheque .So it can not be cash over the counter .A person whose name is written on check has to deposit in his account and only credited to the bank account of the payee.

A person can write "Account Payee" between too parallel lines or not .

3) **Order Cheque**:In order cheque word Bearer strike off which make the cheque Order cheque . An order cheque can be paid to the named payee across the bank's account if so presented. A person has to present identification proof before enchasing the cheque over the counter .

4) **Bearer Cheque** : Bearer cheque is one that does not has the word "Bearer" on the cheque cancelled. This bearer cheque is payable to person who presented the cheque . This cheque is payable by the drawee bank over the counter to the Bearer or presenter of the cheque. A Bearer cheque can be negotiated or pass to another person by mere delivery.

5) **Post Dated Cheque** :Date field is very important while issuing cheque .The date we enter in date field is not current date but any future date this is know as Post Dated Cheque. A person can present the cheque only at future date written on cheque.

6) **Stale Cheque** :Validity of cheque is for three months from the date on which person issue the

cheque .If person not presented the cheque within three months to the issue branch the cheque is know as Stale Cheque. Earlier validity of cheque is for six months now it is reduced to three months

7) **Travelers Cheque**: Travelers cheque is used if person is going abroad . A best way of carrying foreign exchange overseas. Traveler's cheques are widely accepted globally as a mode of payment in many parts of the world. It is always worthwhile taking some of your foreign exchange in travelers' cheques as it is a great backup to cash and cards.

What is Bank Audit and its Process in India

'Audit' or 'Auditing' is an activity which is undertaken by any business organization on its own or by the requirement under any law – to go through its accounts, transactions, and documents – to ensure correctness, legality of it.

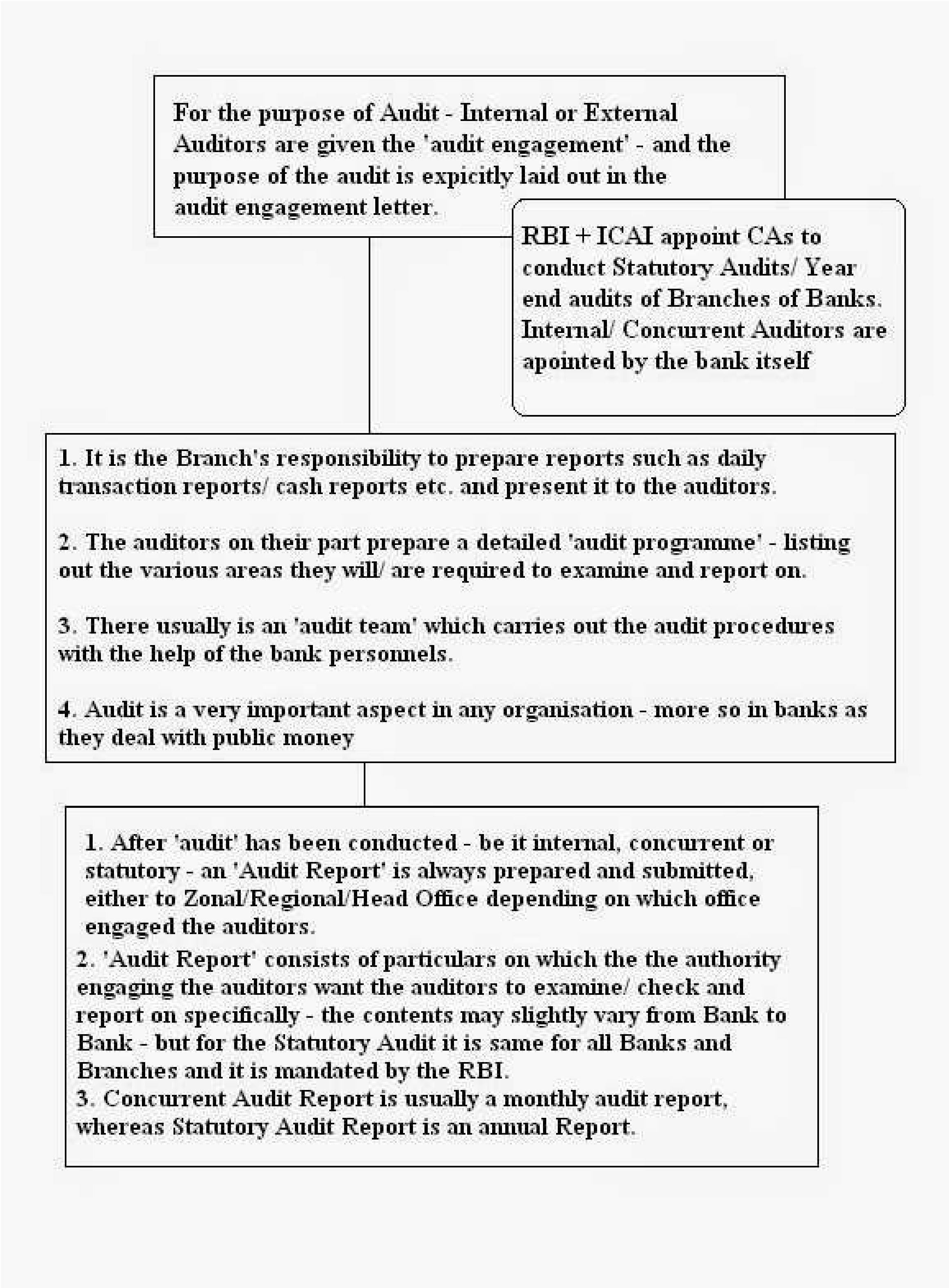
It is an examination of the accounts and can be conducted by internal or external agencies – known as the auditors.

Bank Audit can be classified into 3 broad categories :-

1. Concurrent Audit
2. Internal Audit/ Information Systems Audit
3. Statutory Audit

Concurrent Audit

- Concurrent Audit means – the audit or examination of transactions happening as and when a transaction actually happens.
- It is a continuous audit, which goes on all the year around, usually conducted by external auditors (Chartered Accountants) on monthly basis.
- In concurrent audits daily basis transactions are examined and checked – this ensures any irregularities are nipped at the bud.
- Banks have a huge number of daily transactions – they also have many documentations and other formalities that they have to conform too – through concurrent audit any irregularities or nonconformities are easily found out as and when it happens and rectified immediately; this avoids piling up of irregularities which may become a huge problem for any branch when the year end audit comes around!
- Concurrent Auditors check for daily maximum cash balance adherence compliance, KYC norm compliance, proper documentation of new loan disbursement, checking if new loans have been made as per rules and regulations, income leakage etc. among other things like putting any new RBI instruction to work!; these are reported on in the 'concurrent audit report'.
- Concurrent Audit is a measure to help a Branch to work smoothly and rectify any mistakes to avoid cascading effect of the irregularities.



INTERNAL AUDIT/ INFORMATION SYSTEMS AUDIT

- Many banks instead of having concurrent audit or even in addition to having concurrent audits may use 'internal auditing'.
- Internal Auditing is when any organization, including a bank, constitutes an audit team within its own organization to cater to its auditing requirements.

- These internal auditors will visit branches one by one where and when required and carry out auditing.
- Internal Audit may focus on any specified area or cover every aspect of the branch, depending on its audit programme and requirement; main thing is it is conducted by the bank itself.
- However one important thing in internal audit is – information systems audit; information systems audit is a new area gaining prominence in the last few years.
- With rapid computerization in banking sector – core banking, ATMs, mobile banking, internet banking, completely computerized banking functions – it becomes necessary to have a periodical review of how these systems are working.
- Internal Control audit looks are the information flow, the channels, the security (of information) etc.
- It also checks for the workability of new banking softwares and how it rates on security and access.

Statutory Audit

- 'Statutory Audit' is conducted by a 'Statutory Auditor' – the word 'statute' means – mandated or compulsorily required by any law or Act; in Bank's case it is the RBI's mandate.
- Every year around the very last days of March (end of financial year) and the beginning of April (first two weeks of April) – in every branch of every bank a very rigorous activity is held – know as the year end audit or the statutory audit!
- This audit is the most important event for a bank as this decides among other things – the NPA!
- Which by now, I think most of you would know and appreciate how important it is for any bank – NPA and its provisioning affect the profits of a bank and hence the Balance Sheet and Profit and Loss Account and finally the shareholder's dividends.
- Thus Statutory Audit is very important.
- Statutory Auditors are appointed by RBI in association with the ICAI, to empanel Chartered Accountants for the job.
- Statutory Audit does not look at the nitty-gritties of the banking transactions (these are looked at by concurrent and internal audits); instead they rely on the concurrent audit reports and test checking to form their opinion.
- Statutory Audit mainly looks at the loans and advances, compliance with PSL requirements, CRR, SLR etc. and other statutory norms compliance as per the latest RBI circulars.

Forex - Everything you need to Know

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!

Financial Sector Regulators In India

Today I am going to explain about various regulators that regulates financial sector 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 regulation act 1949 and RBI act 1935 which entrusted responsibility on the RBI to work for 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**

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**

Maharatna, Navratna and Miniratna PSUs in India

Public sector enterprises or public sector undertakings have been back bone of Indian economy since the time of independence. These public sector undertakings contribution in Indian economy indescribable. These industries are related to power sector ,steel manufacturing ,iron ore and petroleum. Government is also able to earn considerable revenue from these PSUs, to honor their contribution and vest some special power that help and provide greater autonomy to these public sector enterprises in decision making ,government confer to some to these industrial organization.

The PSUs in India have been divided in three categories on the basis of autonomy (and thus status) they enjoy. The three categories are...

- Maharatna
- Navratna
- Miniratna I & II categories

The policy aims to support them by providing greater autonomy to compete in the global market. In India Vedic verses 'Ratna' is denominated as precious gems and precious stones. Symbolically, the terms Maharatnas , Navratnas and Miniratnas are supposed to stand for such contribution of gems and precious stones in the hierarchical order.

1) MAHARATNA SCHEME

Maharatna Scheme was introduced for Central Public Sector Enterprises (CPSEs), with effect from 19th May, 2010, in order to empower mega CPSEs to expand their operations and emerge as global giants. The objective of the scheme is to delegate enhanced powers to the Boards of identified large-sized Navratna CPSEs so as to facilitate expansion of their operations, both in domestic as well as global markets.

ELIGIBILITY CRITERIA FOR GRANT OF MAHARATNA STATUS

CPSEs fulfilling the following criteria are eligible to be considered for grant of Maharatna status:

1. Having Navratna status
2. Listed on the Indian stock exchange, with a minimum prescribed public shareholding under SEBI regulation
3. An average annual turnover of more than Rs.20,000 crore during the last three years.
4. An average annual net worth of more than Rs.10,000 crore during the last three years.
5. An average annual net profit of more than Rs.2500 crore during the last 3 years.
6. Significant global presence or international operations.

List of Maharatna Companies (as per available information as on 26 October, 2014)
There are seven public sector companies which were granted Maharatna status.

MAHARATNA CPSEs

1. Bharat Heavy Electricals Limited
2. Coal India Limited
3. GAIL (India) Limited

4. Indian Oil Corporation Limited
5. NTPC Limited
6. Oil & Natural Gas Corporation Limited
7. Steel Authority of India Limited

MAHARATNA STATUS HELPED IN ENCHANCED POWERS:

As compared to other CPSEs, the Boards of Maharatna CPSEs have been delegated enhanced powers in the areas of:-

1.A Mahratna company can invest 15% of its networth in a single project for establishing a new venture or undertaking an acquisition activity with a cap of Rs 5,000 crore without any permission from GOI.

2.Make equity investment to establish financial joint ventures and wholly owned subsidiaries in India or abroad.

MAJOR IMPACT

The main objective of the Maharatna Scheme is to empower mega CPSEs to expand their operations and emerge as global giants.

2) NAVRATNA SCHEME

The Central Public Sector Enterprises (CPSEs) fulfilling the following criteria are eligible to be considered for grant of Navratna status:

A score of 60 (out of 100), based on six parameters which include

1. Net Profit to Net Worth
2. Manpower cost to cost of production or services
3. Gross margin as capital employed
4. Gross profit as Turnover
5. Earnings per Share
6. Inter-Sectoral comparison based on Net profit to net worth.

The number of PSUs with Navratna status in the country now stands at 16. National Buildings Construction Corporation Limited' (NBCC) and 'Engineers India Limited' (EIL) are the most recent addition to this coveted status granted by the Department of Public Enterprises.

THERE ARE SEVENTEEN CPSES GRANTED NAVRATNA STATUS LIST INCLUDE:

1. Bharat Electronics Limited
2. Bharat Petroleum Corporation Limited
3. Engineers India Limited
4. Hindustan Aeronautics Limited
5. Hindustan Petroleum Corporation Limited
6. Mahanagar Telephone Nigam Limited
7. National Aluminium Company Limited
8. National Buildings Construction Corporation Limited
9. NMDC Limited
10. Neyveli Lignite Corporation Limited
11. Oil India Limited
12. Power Finance Corporation Limited
13. Power Grid Corporation of India Limited

14. Rashtriya Ispat Nigam Limited
15. Rural Electrification Corporation Limited
16. Shipping Corporation of India Limited
17. Container Corporation of India Limited
18. Enhancement of delegated powers of Navratna PSUs

1.The ceiling on investment to establish financial joint ventures and wholly owned subsidiaries in India or abroad shall be 15% of the networth of the PSU in one project limited to Rs. 1000 crore.

2.The Board of Directors of these PSUs shall have the powers for mergers and acquisitions, subject to the conditions.

3) MINIRATNA SCHEME

In October 1997, the Government had also decided to grant enhanced autonomy and delegation of financial powers to some other profit making companies subject to certain eligibility conditions and guidelines to make them efficient and competitive. These companies called Miniratna', are in two Category-I,II.

THE ELIGIBILITY CONDITIONS AND CRITERIA ARE:

1.Category –I CPSEs should have made profit in the last three years continuously, the pre-tax profit should have been Rs. 30 crore or more in at least one of the three years and should have a positive net worth.
2. Category-II CPSEs should have made profit for the last three years continuously and should have a positive net worth.
3. These CPSEs shall be eligible for the enhanced delegated powers provided they have not defaulted in the repayment of loans/interest payment on any loans due to the Government.

Presently, there are 68 'Miniratna' CPSEs (54 Category –I and 18 Category-II).

MINIRATNA CATEGORY - I CPSES

1. Airports Authority of India
2. Antrix Corporation Limited
3. Balmer Lawrie & Co. Limited
4. Bharat Coking Coal Limited
5. Bharat Dynamics Limited
6. BEML Limited
7. Bharat Sanchar Nigam Limited
8. Bridge & Roof Company (India) Limited
9. Central Warehousing Corporation
10. Central Coalfields Limited
11. Chennai Petroleum Corporation Limited
12. Cochin Shipyard Limited
13. Dredging Corporation of India Limited
14. Kamarajar Port Limited
15. Garden Reach Shipbuilders & Engineers Limited
16. Goa Shipyard Limited
17. Hindustan Copper Limited
18. HLL Life care Limited
19. Hindustan Newsprint Limited
20. Hindustan Paper Corporation Limited

21. Housing & Urban Development Corporation Limited
22. India Tourism Development Corporation Limited
23. Indian Rare Earths Limited
24. Indian Railway Catering & Tourism Corporation Limited
25. IRCON International Limited
26. KIOCL Limited
27. Mazagaon Dock Limited
28. Mahanadi Coalfields Limited
29. Manganese Ore (India) Limited
30. Mangalore Refinery & Petrochemical Limited
31. Mishra Dhatu Nigam Limited
32. MMTC Limited
33. MSTC Limited
34. National Fertilizers Limited
35. National Seeds Corporation Limited
36. NHPC Limited
37. Northern Coalfields Limited
38. North Eastern Electric Power Corporation Limited
39. Numaligarh Refinery Limited
40. ONGC Videsh Limited
41. Pawan Hans Helicopters Limited
42. Projects & Development India Limited
43. Railtel Corporation of India Limited
44. Rail Vikas Nigam Limited
45. Rashtriya Chemicals & Fertilizers Limited
46. RITES Limited
47. SJVN Limited
48. Security Printing and Minting Corporation of India Limited
49. South Eastern Coalfields Limited
50. State Trading Corporation of India Limited
51. Telecommunications Consultants India Limited
52. THDC India Limited
53. Western Coalfields Limited
54. WAPCOS Limited

MINIRATNA CATEGORY-II CPSEs

55. Bharat Pumps & Compressors Limited
56. Broadcast Engineering Consultants (I) Limited
57. Central Mine Planning & Design Institute Limited
58. Central Railside Warehouse Company Limited
59. EdCIL (India) Limited
60. Engineering Projects (India) Limited
61. FCI Aravali Gypsum & Minerals India Limited
62. Ferro Scrap Nigam Limited
63. HMT (International) Limited
64. HSCC (India) Limited
65. India Trade Promotion Organization
66. Indian Medicines & Pharmaceuticals Corporation Limited
67. M E C O N Limited
68. Mineral Exploration Corporation Limited
69. National Film Development Corporation Limited
70. National Small Industries Corporation Limited
71. P E C Limited

72. Rajasthan Electronics & Instruments Limited

ENHANCEMENT OF DELEGATED POWERS OF MINIRATNA PSUS.

Miniratna-I**: up to Rs. 500 crore or equal to their net worth, whichever is lower.**

Miniratna-II**: up to Rs. 300 crore or up to 50% of their net worth, whichever is lower.**

Basel II and Basel III Norms - All that you Need to Know

Today I am providing a useful write up on BASEL Accords, complying with the many requests from readers.

1. BRIEF HISTORY:

The Basel Committee on Banking Supervision – ***is an international banking regulatory committee formed to develop banking supervisory regulations***. It was established by the Governors of the Central Banks of a group of 10 countries (initially) in 1974.

The objective of the BCBS is to gain a better understanding of the challenges faced by modern banking system in terms of risk and it risk management and to frame supervisory and regulatory standards and guidelines to help the banking system diminish these risks and function properly.

- India is a member of the BCBS along with Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, HongKong, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, U.K. and USA.
- The present ***Chairman of the BCBS is Stefan Ingves***, who is the Governor of the central bank of Sweden.

2. WHY NEEDED IN TODAY'S BANKING SECTOR?

The Global Economic Crisis (2007-08) showed us all how banking sector in the 21st C, though highly developed was still prone to the financial shocks. Also the spillover into the banking system from other sectors was also seen, and thus it was felt globally that, as far as banking system was concerned, unified and stricter norms should be welcomed.

3. BASEL II:

The predecessor of BASEL III and successor of BASEL I, was in place during the global economic meltdown, and showed the shortcomings in the existing regulatory and supervisory framework.

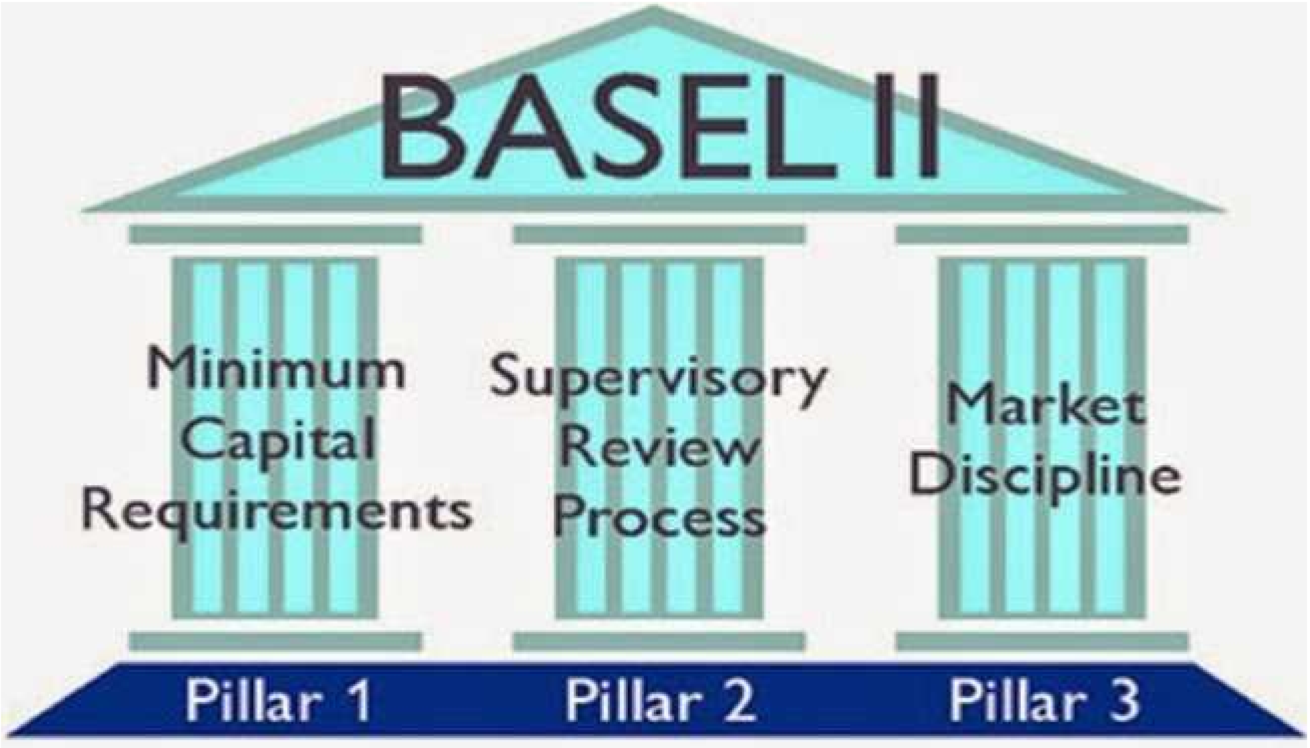
The pillars of BASEL II are further down in the article.

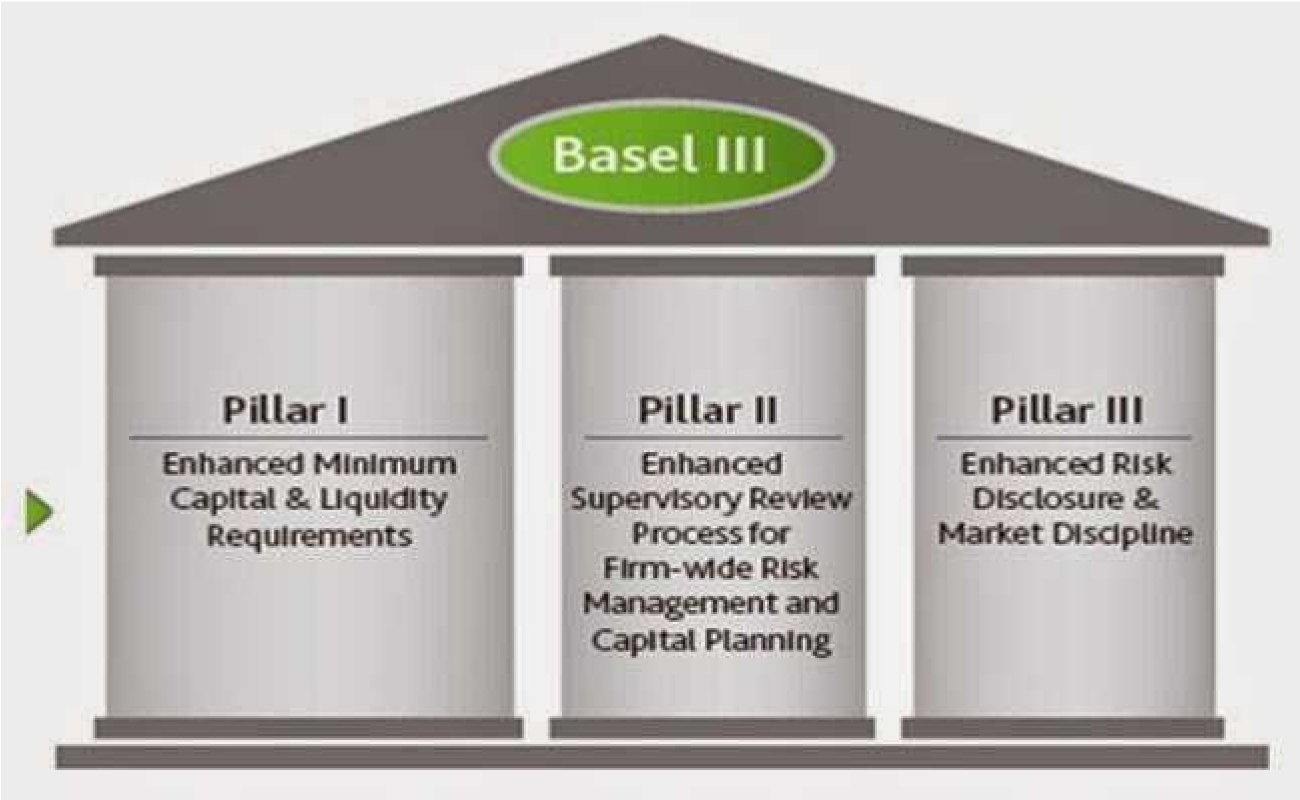
4. BASEL III AND WHY IT HAD TO COME:

BASEL III which is formally known as the '3rd BASEL Accord' – was released in December, 2010 after being ratified in November 2010 by G20 summit in Seoul – with a view to upgrade the existing norms, i.e., that of Basel II.

- BASEL III is the result of the financial crisis of 2007-2008, which made the BCBS feel that a more stringent supervisory guidelines were required to prevent such mishaps from happening in the future;
- Its aim, among other things, is to strengthen the banking sector to be able to withstand such severe financial crisis without crumbling.
- According to BCBS "Basel III is *a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector*".

5. THE PILLARS OF BASEL 2 AND 3 FOR YOUR COMPARISON BENEFIT!





5. Difference between BASELs II and III?

As you can see from the two images, the difference in the wordings in the three pillars…the word 'enhanced' has been added to the three pillars of BASEL III.

This simply means that supervisory/regulatory controls are now improved and better in BASEL III, than the previous Basel II.

The important Key elements of BASEL III and it's difference from BASEL II can be understood as follows:

(i) ***Capital and it's stricter standards***: BASEL III requires overall capital to be ***10.5 % of the Risk Weighted Assets*** (RWAs and important from exam/interview point of view!)

Where the BCBS recommends 10.5%, ***India has plans to achieve 11.5%*** of RWAs as the overall capital, including Tier I, Tier II and Common Tier Equity and ***Capital Conservation Buffer (CCB) at 2.5%***

(ii) ***Capital conservation buffer*** (at 2.5%) has been introduced with the aim of ensuring that banks maintain a *buffer* (like a cushion or a shock absorber) of capital – that can be utilized to withstand losses and financial and economic crises.

(iii) ***Counter-cyclical buffer*** (CCCB), ***ranging within 0 -2.5%*** - has been introduced in BASEL III, to achieve a broader and blanket goal of protecting the banking sector of excess credit growth – which directly means increase in risk in bank sector at such times.

6. Indian Scenario:

(i) As recently as October 2014, the RBI has revised Basel III liquidity guidelines to meet the liquidity coverage ratio ***(LCR) threshold of 60 % by January 2015***.

(ii) Wholly implementation of ***BASEL III in India is marked for 31 March, 2019*** (revised from 31.3.2018); while ***internationally it is 1 January, 2019***.

Types of Risks faced by a Bank

One of the most popular question in bank interviews is - What are the various kinds of risks faced by a bank ?

If you try to answer this in general terms, then this would make a negative impact in interviewers mind. So here are various types of risks faced by a bank.

Market risk

Risk arises due to fluctuations in market price of marketable securities. Bank generally invests in equity shares, loss arises to bank due to fluctuations in equity market is known as market risk.

Interest rate risk

IRR arises due to fluctuation in interest rate. If a bank had large amount of fixed deposits, fall in interest rate will cause loss to bank. Similarly if a bank had large amount of fixed interest rate loans, increase in interest rate will cause losses.

Foreign exchange risk

Banks may have large foreign exchange assets due to mismatch of maturity date. Fluctuations in exchange rate causes loss to bank.

Operational risk

Risks arises due to failure of day to day activities, system or people. It includes both internal and external frauds like failures related to policies, laws, regulations, documentation or any technological risks.

Liquidity risk

Risks arises due to inability of bank to meet its obligations and it refers to a situation when any asset may not be realized into cash. Also, we can say that, it is a mismatch of assets and liabilities. It is a more important than any other risk because it has to be kept within limits , otherwise banks dependence on money market would increase.

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.

Guidelines for Payment and 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	

Financial Ratio Analysis with Explanation

Today list all the Financial ratios with explanation. These ratios are important for general awareness section as well as for interviews.

1. Profitability Ratios,

2. Leverage Ratios,
3. Turnover Ratios and
4. Liquidity Ratios

PROFITABILITY RATIOS

There are 5 basic Profitability Ratios/ Margins:

GROSS PROFIT RATIO/ MARGIN:

- ***The formula is = (Gross Profit/ Net Sales) x 100***
- Gross profit means the Sales – Expenses directly related to the business.
- Net Sales is Total Sales – any sales returns.
- It is a very basic ratio to show how a business is performing – it is the most basic profit showing ratio.

NET PROFIT RATIO/ MARGIN:

- ***The formula is = (Net income/ Net Sales) x 100***
- Net Income means – pure business income leaving out 'other income' like income from savings bank/ FDs/ Investment etc. This is the income from carrying out the business.

RETURN ON ASSET :

- ***The formula is = Net income/ Average Assets***
- It shows how effectively a company is utilizing its assets to earn profits.

RETURN ON INVESTMENT:

- ***The formula is = Net income/ Long Term Capital***
- Long term capital includes long term liabilities – like Debentures/ Loan and Capital,
- It shows how much the firm is able to earn in respect of its long term liabilities. Liabilities are obligations of a company.

RETURN ON EQUITY:

- ***The formula is = Net income/ Equity***
- Equity is Shareholder's Funds = Equity Share Capital and Reserves and Surplus. It is the company's owner's funds.

LEVERAGE RATIOS

There are 4 basic Leverage Ratios:

TOTAL ASSETS TO DEBT RATIO:

- ***The formula is = Total Liabilities/Total Assets***
- .Shows that is times become hard and liabilities need to paid off – then the company has enough assets to cover the liabilities.

DEBT TO EQUITY RATIO:

- ***The formula is = Total Liabilities/Equity***
- It shows the coverage of liabilities of a company with regards to company's equity.

INTEREST COVERAGE RATIO:

- ***The formula is = EBIT/Interest Obligations***
- EBIT = Earnings before Interest and Taxes.
- Interest Obligations are the interest you need to pay on loans/ debentures etc.
- It measures a firm's ability to pay its interest obligations.

LONG TERM DEBT TO NET WORKING CAPITAL RATIO:

- ***The formula is = Total long term debt/Net WC***
- Net WC = Net Working Capital = Current Assets – Current Liabilities.
- It measure the capacity of firm to meet long term debt obligations after meeting current liability obligations from the current assets.

TUNROVER RATIOS

There are 6 basic Turnover Ratios:

CASH TURNOVER RATIO:

- ***The formula is = Net Sales/ Cash***
- Shows how effectively cash is being utilized.

FIXED ASSETS TURNOVER RATIO:

- ***The formula is = Net sales/ Net fixed assets***
- Shows the utilization of fixed assets to generate sales.

ASSETS TURNOVER RATIO:

- ***The formula is = Net Sales/Average Total Assets***
- This is another asset ratio which measures net sales against the total assets.

RECEIVABLES TURNOVER RATIO:

- ***The formula is = Net Sales/Average Receivables***
- Receivables are the Accounts Receivables, which include debtors/bills receivables etc.
- This shows how much of sales is made in credit and hence the liquidity position of the firm as funds are held up in the form of 'receivables'.

PAYABLES TURNOVER RATIO:

- ***The formula is = Net Purchases/Average Payables***
- Average payables are the accounts payables or the firm's current liabilities to creditors.

- It shows how much of purchases is made on credit and the ratio payment liquidity.

Inventory Turnover Ratio:

- ***The formula is = Cost of the Goods Sold/ Average Inventory***
- Average Inventory is the Stock-in-Trade.
- This ratio shows the liquidity of inventory.

Liquidity Ratios

Current ratio

- The formula is = Current Assets/ Current Liabilities

Acid test ratios

- Formula is = Quick Assets/ Current Liabilities

Working Capital Ratio:

- Working capital = Current Assets – Current Liabilities
- Working Capital Ratio = Current Assets/Current Liabilities

Cash Ratio:

- Formula = Cash + Marketable Securities/ Current Liabilities

Options Basics - You Should Learn

Today I am going to discuss basics of Options that you must know. This topic is really important for Bank interview

What is an Option

An Option give right to Option Holder to buy or sell a commodity during a certain period of time or on a specific date.

For example - I own a Garment mill. I need 100 tonnes of cotton in the last quarter of every year. In June this year, price per bale of cotton is Rs 2000. Prices may rise or fall. I don't want to take this risk, as this is not my business. So I will find a person whose business is to take risks. In exchange of contract money I will buy the right to buy 100 tonnes of cotton at Rs 2000. I may or may not use this option.

American-Style Options

Options that can be exercised at anytime

European style option

Options that can be exercised only at the time of maturity

Call option

An option which gives right to the Option Holder to ***buy*** a certain stock at specified time and specified date

PUT OPTION

An option which gives right to the Option Holder to ***sell*** a certain stock at specified time and specified date

SETTLEMENT PRICE

Value of an option is calculated daily. That rice is known as settlement price

PLAIN VANILLA CALL

Basic type of option with a fixed maturity and purchase price

Types of trade

1) Purchase a call
Option holder gets right (no obligation) to purchase specified securities at a specified time.

2) Purchase a put
Optionholder gets right (no obligation) to sell specified securities at a specified time.

3) Sell a call
Seller of option has obligation to sell specified securities at a specified time.

4) Sell a put
Seller of option has obligation to purchase specified securities at a specified time.

Cheque Truncation System (CTS) - Explained

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?

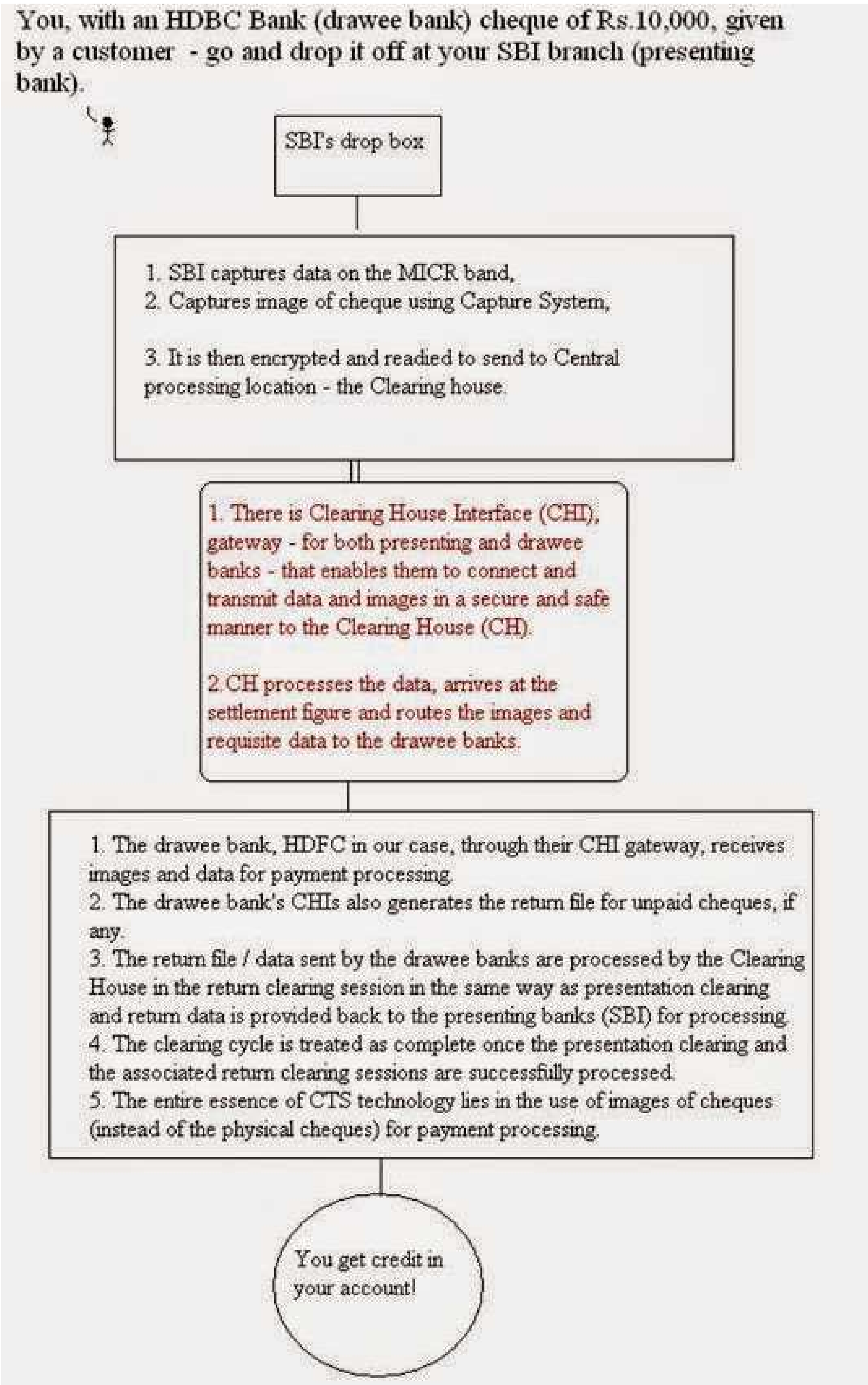
Truncation literally means stopping or cutting short. Thus, truncation of cheque means stopping the flow of the physical cheque by the presenting bank (bank where the cheque is presented/dropped off!) en-route to the drawee bank's (bank on which the cheque is drawn on) branch.

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!


You, with an HDBC Bank (drawee bank) cheque of Rs.10,000, given by a customer - go and drop it off at your SBI branch (presenting bank).
SBI's drop box
1. SBI captures data on the MICR band,
2. Captures image of cheque using Capture System,
3. It is then encrypted and readied to send to Central processing location - the Clearing house.
1. There is Clearing House Interface (CHI), gateway - for both presenting and drawee banks - that enables them to connect and transmit data and images in a secure and safe manner to the Clearing House (CH).
2.CH processes the data, arrives at the settlement figure and routes the images and requisite data to the drawee banks.
1. The drawee bank, HDFC in our case, through their CHI gateway, receives images and data for payment processing.
2. The drawee bank's CHIs also generates the return file for unpaid cheques, if any.
3. The return file / data sent by the drawee banks are processed by the Clearing House in the return clearing session in the same way as presentation clearing and return data is provided back to the presenting banks (SBI) for processing.
4. The clearing cycle is treated as complete once the presentation clearing and the associated return clearing sessions are successfully processed.
5. The entire essence of CTS technology lies in the use of images of cheques (instead of the physical cheques) for payment processing.
You get credit in your account!

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.

Okay, so, now that we know about the basics of CTS, lets learn some trivial points relating to CTS-2010 specifically:

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*.

Priority Sector Lending in India - Explained

If you know anyone who's been working in Banks as Officer and specially in the Loans and Advances section – you would know that a Bank/Branch has to adhere to something called PSL/PSA targets. Banks under RBI's strict directives has to adhere to giving loans to 'priority sector' compulsorily. These loans are knows as priority sector loans or priority sector advances and constitutes an important aspect of banking functions.

Banks other than being an institution which provides depositing and lending facilities is also the pulse of an economy. It encourages saving and mobilizes businesses – thus, in other words it aids nation building and economic growth and development.

No growth or development is complete if not wholesome – and wholesome would include the poor, back ward and needy sections of the society too.

Thus, priority sector lending focuses of those loan projects which get ignored in the normal 'financial services' plans – this is doing something good and progressive!

As far as you and I are concerned – this is a very important topic for interviews from experiences of friends who are now in the Banking industry!

So…

1. What is meant by Priority Sector?

Priority sector refers to those sectors of the economy which may not get timely and adequate credit, and may be ignored because they are low income generating sectors. But for the overall and holistic development of an economy and the country – the progress of these sectors are important too, and they have been given a special status as 'priority sector', for their benefit and for banks to follow RBI rules and regulations with respect to priority sector lending.

2. What are the different categories under priority sector?

Priority Sector includes the following categories:

- Agriculture (Direct and Indirect finance)
- Micro and Small Enterprises
- Education
- Housing
- Export Credit
- Others

3. How did the concept of 'Priority Sector' come about?

The concept was properly introduced as per recommendations of Work Group of Krishnaswami Committee in 1980; thereafter Banks have been regularly issued directives on priority sector loans. Revision on rules/regulations has been made latest by M.V. Nair Committee in 2012.

It is the obligation of the bank to meet targets of priority sector loans, and the non-achievement of which is taken into account to gauge a Bank/its Branch's performance and has an impact on regulatory clearances/approvals from RBI.

3. What are the Targets and Sub-targets for banks under priority sector?

(*Imp for interviews!*)

Categories	Domestic commercial banks / Foreign banks with 20 and above branches
Total Priority Sector (Target)	40%
Total agriculture(Sub-target)	18%
Advances to Weaker Sections	10%

The % is a 'percentage of Ajdusted Net Bank Credit (ANBC)/ Credit Equivalent of Off Balance sheet exposure (CEOBE), whichever is higher, of the preceding 31st March!

So, for example – the target will be 40% of the ANBC/CEOBE (whichever is higher amount) of last31st March (last year's).

And then we'll see, on current year's 31st March - how much, of the 40% amount, is being achieved in the current year – if there's a shortfall – in that case Banks give as loans the shortfall amounts to RIDF/NABARD – as they are financing agriculture.

4. WHAT IS 'DIRECT' AND 'INDIRECT' FINANCE' IN AGRICULTURE – AS MENTIONED IN POINT 2 -?

(having a basic knowledge about that entails under direct and indirect is desirable!)
Direct Finance includes any loan given to:

(i) individual farmers engaged in Agriculture and Allied Activities, *viz.*, dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.

(ii) corporates including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, up to an aggregate limit of Rs.2 crore per borrower. (–*where the aggregate loan exceeds Rs. 2 cr per borrower, then it becomes indirect finance.*)

(iii) small and marginal farmers for purchase of land for agricultural purposes.

(iv) distressed farmers indebted to non-institutional lenders/ sahukars.

And,

Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) are indirect loans.

5. WHAT ARE THE LIMITS FOR OTHER SECTOR?

Sr. No.:	***Sector***	***Targets/Sub targets***
1.	**Education**	
	- education + vocational courses studies in India	Upto Rs.10 lakhs
	- education + vocational courses studies outside India	Upto Rs.20 lakhs
2.	**Housing Loans**	
	- metro cities/population above 10lacs	Upto Rs.25 lakhs

	- other cities	Upto Rs.15 lakhs

These targets and rates are periodically revised by RBI keeping with the trends in the economy and need of the hour.

Some more related – important terms:

(i) Micro Finance: is the provision of thrift (very small) credit of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards.

(ii) Micro Credit: (*yes it is different!*)

Micro Credit is the 'supply of credit' to the poor, through small loans not exceeding Rs.50,000 per borrower – either directly to the borrower, or indirectly through Self Help Groups/ Joint Liability Groups.

Even though these two terms are interchangeably used, they are different.

Micro finance is a broader concept – and includes loans, savings, insurance, money transfers, and other 'financial products' targeted at poor and low-income people.

Micro credit refers more specifically to making small loans available to poor people, especially to those poor people who are normally excluded from financial services - through programmes designed specifically to meet their particular needs and circumstances.

Credit Rating – Scale, Scores and Agencies

'Credit Rating' is a very important topic from Bank interview's point. Of course it is quite possible that questions may be asked in the written examination – but when it is interview, knowledge about this particular area is a must in your arsenal!

1. Credit Rating

'Credit rating' the assessment of the credit worthiness of a borrower or a loan taker; credit worthiness refers to the ability of a borrower to 'service the loan', i.e., pay back the loan along with the interest

2. How is it done?

Assessment of credit worthiness and subsequently the rating of a borrower can be made in general terms on his business as a whole to project a favourable image to the industry at large.

Or it can be undertaken on the request of the borrower specifically with respect to a particular debt or financial obligation, or for the purpose of applying for a fresh loan.

The entity which wants the credit rating done – it can be the Bank too, which before it approves a loan wants to know the credit worthiness of the prospective borrower, or the borrower itself – pays to the rating agencies for their services.

3. How are the ratings done?

- The rating agencies conduct their procedures to gauge the credit worthiness of the entity with due diligence based on latest industry standards, requirement, economic and financial climate and the entity's own past and present performances and expected/viable future plans, etc.
- The borrower/entity will always want to have the highest possible credit rating; the lender/bank will expect an average rating!

It is the job of the credit rating agency to strictly adhere to objectivity in attaching a particular rating to an entity.

4. Implications of 'rating'.

1. Ratings have impact on the interest rates charged by the lenders/Banks.
2. Higher credit rating means – the borrower is highly credit worthy – that he/it is in a comfortable position with regards to his/its business operations and will generate enough turnover/adequate cash flow/income/profit from the regular business, in the foreseeable future to be able to service the loan/debt without any default. -Since a higher credit rating means lower chances of 'default', banks charge lower rate of interest on such accounts.
3. The opposite is true as well. Where the credit rating is lower – the risk of the borrower defaulting is higher – which is why the banks charge higher rate of interest!
4. Thus from a borrower's point of view higher rating and lower interest is preferable! Whereas banks go for a break even on risk and return!
5. Thus if you are asked in an interview – how is credit rating and interest rate related – your answer should be – they are 'inversely related'! (Like a boss! And you can also explain it in brief – higher credit rating = lower interest rate!)

5. Which are the credit rating agencies?

In India the most popular credit rating agencies are:

i. **CRISIL** – Credit Rating Information Services of India Ltd.
HQ in Mumbai/ Subsidiary of Standard and Poor's.

ii. **CARE** – Credit Analysis and Research Limited
HQ in Mumbai.

iii. **ICRA Ltd.** – Indian Credit Rating Agency Ltd.
HQ in Gurgaon/ An Associate of Moody's.

iv. **India Ratings** – India Ratings and Research Pvt. Ltd.
HQ in Mumbai.

v. **Brickwork Ratings India Pvt. Ltd.**
HQ in Bengaluru.

vi. **SMERA – SME Ratings Ltd.** – set up for Micro, Small and Medium Enterprises.
HQ in Mumbai.

RBI allows the usage of ratings by these rating agencies for assigning Risk Weights in calculating 'Risk Weighted Assets'.

Important to also know – that in India the Credit rating agencies (CRA) are regulated by SEBI.

Internationally there are:

- Standard and Poor's (New York, USA)
- Moody's (New York, USA)
- Fitch Group (dual HQ – London and New York)

6. What are the ratings? How are they denoted?

Credit rating agencies typically assign letter grades to indicate ratings.

For Long term loans the rating symbols are as follows:

- AAA – highest degree of safety – lowest credit risk
- AA – high degree of safety – low credit risk
- A – adequate degree of safety – low credit risk
- BBB – moderate degree of safety – moderate credit risk (the above four are 'Loan Worthy Ratings')
- BB – Moderate risk
- B – High risk
- C – Very High risk
- D – Default – they are already defaulting!

For short term loans the rating symbols are as follows:

- A1 – strong degree of safety – lowest credit risk
- A2 – strong degree of safety – low credit risk
- A3 – moderate degree of safety – credit risk higher than A1 and A2
- A4 – minimal degree of safety – high credit risk
- D – Defaulting already and expected to default

Various Payment 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 Charges over Securities in a Bank Loan

When you hear the word ‘loan’, what come to mind? It’s difficult to get one, it is messy, it’s confusing – all those paper works, you need to keep your house as a security, then there’s paying of installments – and if you don’t pay they’ll take away the house!

Oh, yes – Loans are messy and complicated and more so when you need to study about them – and specially the types of charges.

I have always found it so confusing – which one is ‘hypothecation’? When do we ‘mortgage’? ‘What is a lien?!’

Today, Dear Readers, we are going to clear up the fog in these concepts and hopefully attempt to remember it for life … after all …everyone takes a loan these days!

When we are planning to avail a bank loan, our second thought, right after we’ve thought of taking a loan, will be – which asset should I provide as a security?

SECURITY

Security in banking terms and specifically in relation to a bank loan refers to any asset on which a charge is created by a bank in its favour; where any default occurs, i.e., the borrower (loan taker) is not able to pay the loan amount back, then this asset is the Bank’s refuge!

The Bank will utilize this asset on which it has a charge, in the manner(s) allowed by various laws, and recover its dues. Thus Bank's interests (the loan amount and interest on the loan) are secured by creation of a charge on some assets which belong to the borrower – hence known as a security.

KINDS OF CHARGES:

Type of Charge	Is created on	Such as	And the possession of the asset is with
I. Mortgage	Immovable Properties (properties that do not move!)	Land and Building	Borrower…i.e., the one who has taken the loan.
II. Pledge	Movable goods or property	Share Certificates/NSC Certificates/Gold jewelley	Lender, i.e., the Bank = Pledgee
III. Hypothecation	Movable goods or property	Plant and Machinery/ Automobiles	Borrower. Usually for car/vehicle loans…has anyone noticed that some autos have 'Hypothecate to/with XYZ Bank, abc Branch..as on xx/xx/xxxx' painted in small letters on the back.
IV. Lien	Paper security	Shares/Debentures/Mutual Funds/ Bonds	
V. Personal Liability	Is nothing but personal guarantee	By 3rd parties	Like a guarantee

ALSO IMPORTANT TO KNOW:

(i) Fixed Charge is the kind of charge created on properties/assets the identity/nature/ownership of which does not change. For example, a fixed charge would be created on Land & Building, Plant & Machinery.

(ii) Floating Charge is created on assets which undergo change of ownership – like stocks of goods of a shop. A trading concern, like a saree shop, may take a loan, pledging its stock (all the sarees) as security.

Such a stock which is its trading stock maybe used for business, i.e., it can be sold in the ordinary course of its business. Thus the charge is on the stock, which keeps changing, because it is capable of being traded.

Types of ATM and their features

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.!

Mutual Fund - Concept and Structure

Mutual Fund is an investment plan wherein MF pools investors money to invest in pre-determined goals for capital appreciation.

Benefits of Mutual Funds

- It's safe
- No need to stay updated with market movements
- Experts manages the investments
- Tax saving under section 80(c)
- Investors can invest in any investment option (For example it's not possible to invest 1 lac in a real estate project, mutual funds makes it possible)

Structure of a Mutual Fund

- Sponsor (Promoter)
- Trustees
- Asset Management Company
- Custodian
- R & T Agent
- Distributors

Sponsor

Sponsor is the promoter of mutual fund and get MF registered with SEBI. Sponsor forms a trust and appoints board of trustees.

Pre-requisites of a Sponsor

- Minimum 40% shareholding in AMC (Asset Management Company)
- Must have positive net worth in last 5 years
- Should be in financial services sector during past years from the date of registration

TRUST

Trust is the owner of mutual fund. It protects the investors money. Trust acts as a watchdog and keeps an eye on investors money. There should be at least 4 trustees and 2/3 of the trustees should be independent.
Trust signs trust deed with Sponsor

ASSET MANAGEMENT COMPANY

ASM pools and invests investor money in pre-stated objective for capital appreciation.

- In India AMC should be a private limited company
- Net worth should be at least 10 cr at all times
- At least 50% directors should be independent

CUSTODIAN

- Custodian is appointed by Trust and it has the custody of assets of Mutual Fund.
- Sponsor and custodian can never be same
- Custodian should be registered with SEBI

REGISTRAR AND TRANSFER AGENTS (RTA)

Maintains investors records and handles investors documents. It's not compulsory to appoint an RTA.