Banking Fundamentals - Day 2





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Banking Fundamentals – Day 2

Inventory Management

- **Interest and Taxes** 2.1 Concept of Interest
 - 2.2 Accrual, Booking and Application
 - 2.3 TDS and withholding tax
- Charges

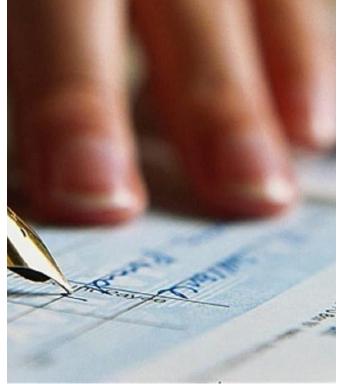
- **Limits and Collaterals**
 - 4.1 Sanction Limit
 - 4.2 Drawing Power
 - 4.3 Collateral
- **Cheque Clearing**
 - 5.1 Overview of clearing
 - 5.2 Overview of CTS
- **Summary**





Session Plan

- Inventory Overview
- Process Flow





Inventory Overview

- Inventory in banking parlance refers to items used for banking transactions. Inventory items such as DD, Cheques, deposit slips etc. require safe keeping.
- If these inventory reach wrong hands, there is a possibility of fraudulent transactions taking place.
- Inventory movement are handled by few identified bank staff. There are checks at each level of inventory management both at physical level as well as in the system level.



Inventory Overview

- Types of Inventories
 - Cheques
 - SB Account Cheques
 - 10 leaves Cheque Books
 - 25 leaves Cheque Books
 - Current Account Cheques
 - 50 leaves Cheque Books
 - 100 leaves Cheque Books
 - Demand Drafts
 - INR DD Stationary/Inventory
 - USD DD Stationary/Inventory
 - FD Receipts



Inventory Overview

- Location to store/safe keep inventories
 - Saferoom in Branches
 - Shelves for keeping the inventory
 - Employee custody
- Movement should be tracked



Process Flow

Supplier Supplies Inventory



Bank
Distributes the inventory to its Branches



Branch distributes to its employees



issue inventories to customers





Session Plan

- Concept of Interest Paid and Received
- Banks pay interest for the deposits and collect interest for the loans and advances
- The process of interest consists of accrual/booking and application
- Types of Interest
- Interest methods
- Taxes



Types of Interest

- Base Benchmark lending rate
- Normal Interest on the balance within the limit/terms and conditions
- Penal Violation of contract / Payments not in time
- Additional Utilization above the sanction limit
- QIS Quarterly Information statement not submitted
- Stock Stock statement not submitted



Interest methods

- Assume that interest is to be calculated for 10,000 for 1 month (say Feb with 28 days) @ 10 %.
- Daily method interest calculation based on number of days
 - -(10,000 * 28 * 10) / 36500 = 76.71
- Monthly method Interest calculation based on number of months
 - -(10,000 * 1 * 10) / 1200 = 83.33



Interest Concepts

- EOD balance based on end of day balance
- Monthly minimum balance based on the minimum balance between specified dated of a month (10 – 31)
- Average monthly balance based on the weighted average balance between specified dates of a month

Sr. No	Date	Amount
1	01-01-2022	100
2	05-01-2022	300
3	17-01-2022	200
4	31-01-2022	150



Tax on Interest Income

Withholding Tax - Tax the individual interest from accounts.

Account	Int. Amount	Tax Rate	Tax Amount
TD01	INR 4000	10%	400
TD02	INR 1000	20%	200

 Customer Level Tax – Recognize all interest income of the customer for taxation.

Interest Amount	Tax Rate
0-40000	0%
Above 40000	10%





Charges Overview

- Source of Income for banks other than Interest.
- Collect Charges for various services extended
- Charges can be flat/percentage/slab based
- Discount on Charges
- Waiver/Reversal
- Sharing of Charges



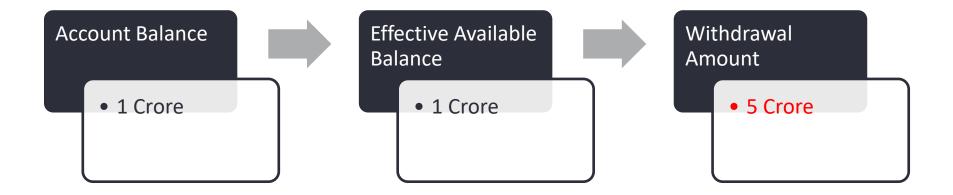


Session Plan

- Sanction Limits
- Drawing Power
- Security/Collateral
- Multiple credit facilities and monitoring
- Temporary Overdraft (TOD)



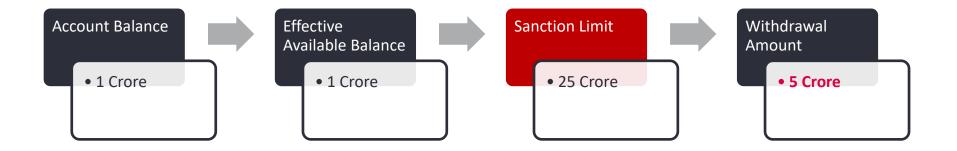
Concept of Sanction Limit





Concept of Sanction Limit(Contd.)

DP Linked to Collateral and Collateral Value is Zero





Concept of Sanction Limit(Contd.)

Collateral Value = 20 crore Margin = 80%





Temporary Overdraft

- Granted when effective limit is not available
- To take care of immediate needs
- Usually charged at a higher rate



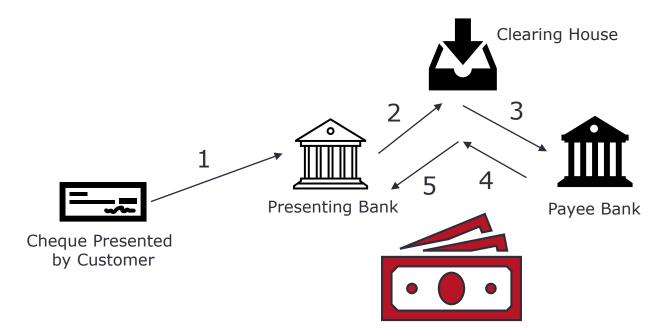


Session Plan

- Clearing
- Inward Clearing
- Outward Clearing
- Inward Reject
- Outward Reject
- Shadow Balance



Clearing Process





Clearing Terminologies

- Inward Clearing The process where instruments are received at the branch for payment/debit to their customer accounts is inward clearing.
- Outward Clearing The process where instruments are sent for collection to other Bank/Branches.
- Inward Reject Any instrument that is received as a part of inward clearing and returned to the presenter Bank/Branch because of non-payment for any reason.
- Outward Reject Any instrument that is sent for collection as a part of outward clearing and returned unpaid.



Clearing Terminologies (Contd.)

- Shadow Balance Amount is credited to customer account, but customer will not be able to utilize that money.
- CTS Cheque Truncation System



Thank you for your time...

Why we exist

To inspire better banking so that billions of people and businesses can save, pay, borrow, and invest better.

How we do it

Our solutions and people help banks to engage, innovate, operate and transform better, so that they can improve their customers' financial lives, better.

What we offer

A comprehensive suite of industry-leading digital banking solutions and SaaS services that help banks engage, innovate, operate and transform better.



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