

Banking Fundamentals



Inspiring Better Banking

100+ countries

Over a billion people

1.7 billion accounts

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Banking Fundamentals

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Overview



Session Plan

- Functions of a Bank
 - Borrowing and Lending
 - Services
 - Agency functions
- Assets, Liabilities and Profit
 - Interest Income
 - Charges
 - Commissions
 - Expenses
 - Profit and Loss (P&L)
- Central Bank



Banking Concept

- Banks are the major intermediaries between the savers (i.e., Saving/Current and Term Deposits Accounts) and users (i.e., Loans Accounts) of funds.
- Banking is accepting, for the purpose of lending and investment, of deposits of money from the public, repayable on demand, or otherwise and withdrawable by Cheque, Draft, and Pay Order or otherwise.

Functions of a bank – Borrowing and Lending

- **Borrowing money**
 - The amount borrowed from customers through Saving and Term deposit Accounts. These are also called Liabilities of the bank as the bank has the liability to pay this along with the interest back to the customers on demand.
- **Lending Money**
 - The amount lent to customers through advances and loans. These are also called Assets of the bank as these earn interest for the bank.
 - The borrowing and lending operations generate interest income for the bank.

Functions of a bank – Service Provider

- Bank provides various services to customers. Bank collects charges for the services rendered.
- Some of the services are as follows:
 - Offering Collection of Funds (across banks) on behalf of customers. For example, collection and payments of cheques
 - Payments across various agencies through banks via Demand Drafts
 - Buying and Selling Foreign Currency
 - Transfer of Funds across countries
 - Safe Deposit Locker
 - Managing Wealth of Customers
 - Cash Management
 - Acting as a Guarantor
 - Helps in Inland and Foreign Trade

Functions of a bank – Agency Functions

- Acting as agent of the Government, Local Authority.
- Acting as executor, trustee etc.
- To settle clearing cheques
- The bank collects commission for the agency functions.

Concept of Asset, Liability and Profit

- Assume a bank collects money from the public (as small savings and term deposits). The total collection is 100 Crores. Assume the rate of interest being offered is 5% per-annum.
- Money accepted from customers is **Liability**.
- It lends 90 Crores out of 100 Crores to needy customers in the form of Loans at a rate of 10% per-annum.
- Money lent to customers is **Asset** of the bank.
- After one year
 - Bank collects as interest = 90 crore @10% = 9 Crores
 - Bank pays as interest = 100 crore @5% = 5 Crores
 - Profit from interest = 4 Crores
 - Assume the charges collected for services = 0.5 Crores
- Total Profit = **4.5 Crores**
- In addition to the above, the bank also incurs some expenses towards salaries, rent on building, stationery etc. Expenses will be deducted from the total profit.

Central Bank

- This is the controller of all banks including foreign banks operating in a country. It frames rules and guidelines for the proper functioning of banks. In our country, Reserve Bank of India (RBI) is the Central bank.
- Generally, in all regions the Central Bank representation will be present. If in some region, the Central Bank is not located, then the Central Bank authorizes one of the nationalized banks to carry out its operations in that region.

Section Summary

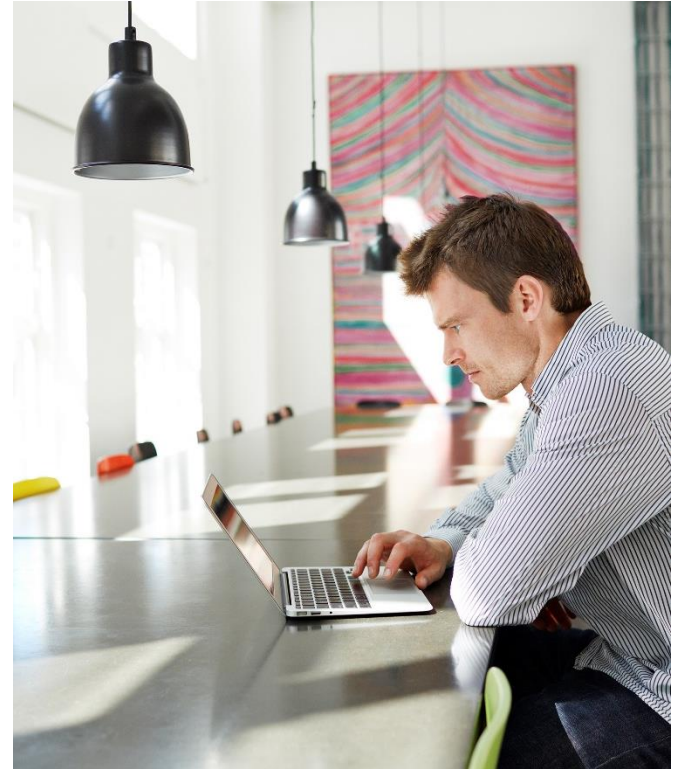
- Functions of a Bank
 - Borrowing and Lending
 - Services
 - Agency functions
- Assets, Liabilities and Profit
- Central Bank

Accounts



Session Plan

- Concept of Accounts
- Difference between Internal/Office Accounts and Customer Accounts
- Introduction to Different Types of Customer Accounts
- Demand Deposits and Associated Concepts
- Term Deposits and Associated Concepts
- Loans and Associated Concepts



Savings Account

- Demand Liability
- Purpose : to promote savings habit amongst individuals
 - Minimum balance
 - Deposits, withdrawals, funds transfer between accounts
 - Interest Applications – frequency based
 - Service Charges
 - Dormant and Inoperative/Inactive Account
 - Overdrawing – generally not allowed
 - Nomination
 - Joint Accounts
 - Closing and Transfer
 - Statement of account – Passbook and Pass-sheet

Current Account

- Purpose : Purpose of opening current account is to facilitate business. Frequent transactions happen on these accounts.
 - Deposits and withdrawals – no restrictions
 - Interest Applications – generally no interest on positive/credit balances
 - Service Charges
 - Dormant and Inoperative/Inactive Account
 - Overdrawing
 - Nomination
 - Joint Accounts
 - Closing and Transfer
 - Statement of account – Passbook and Pass-sheet

Cash Credit / Overdraft Account

- Purpose : the purpose of these accounts is to facilitate business. The purpose is to provide overdraft facility to the customer on need basis. This overdraft is usually provided on the basis of some security. However, it can also be provided without security (Clean advance).
- Cash credit account – Advances are generally given on the basis of stock / inventory.
- Overdraft account – Advances are given based on other types of securities / clean.
- Sanction Limit, Expiry Date, Rate of Interest
- No interest for credit balances
- Interest is charged on the debit balance
- Other concepts are as discussed earlier in other accounts

Term Deposit Accounts

- Deposit accounts opened for a term
- Liability
- Deposit Amount/Principal, Tenor, Maturity Date, Maturity Amount
- Banks Pay Interest
- Rate of Interest will be based on Tenor/Amount
- Interest Paid/Credited at regular frequencies
- On maturity – Renewal / Closure
- Before maturity- Premature closure- attracts penalty.

Term Deposit Accounts - Types

- Reinvestment/Cumulative Type of deposits – Interest is credited to same TD account
 - Customer gets compounding of interest benefit
- Regular Fixed Deposit where interest is paid out to customers
- Recurring Deposit – Installments are paid by the customers
- Notice Deposits
- Top Up Deposit

Term Deposit Accounts – Life Cycle Events

- Account Opening
- Funding
- Deposit Receipt Printing
- Interest Application – Frequency Based
- Tax deduction
- On Maturity – Closure/Renewal
- Before maturity – Premature Closure / Part Closure / Extension
 - Penalty for Pre-Closure
- Post Maturity – Overdue Deposits

Flows for Reinvestment Type of Deposits

Sr. No.	Date	Description	Amount	Balance
1	01-01-2022	Principal Inflow	10,000	10,000
2	01-04-2022	Interest Inflow	250	10,250
3	01-07-2022	Interest Inflow	250	10,500
4	01-10-2022	Interest Inflow	250	10,750
5	01-01-2023	Interest Inflow	250	11,000
6	01-01-2023	Total Outflow	11,000	0

Flows for Recurring Deposits

Sr. No.	Date	Description	Amount	Balance
1	01-01-2022	Installment Inflow	1,000	1,000
2	01-02-2022	Installment Inflow	1,000	2,000
3	01-03-2022	Installment Inflow	1,000	3,000
4	01-04-2022	Installment Inflow	1,000	4,000
5	01-05-2022	Installment Inflow	1,000	5,000
6	01-06-2022	Interest Inflow	125	5,125
7	01-06-2022	Total Outflow	5,125	0

Loan Accounts – Concepts

- EMI
- Non-EMI
- Repayment schedule
- Disbursement
- Holiday Period
- Demands
- Collection / Demand satisfaction
- Prepayment
- Delinquency
- Rescheduling
- Payoff
- Charge off

Section Summary

- Concept of Accounts
- Difference between Internal/Office Accounts and Customer Accounts
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- Demand Deposits and Associated Concepts
- Term Deposits and Associated Concepts
- Loans and Associated Concepts

Principles of Accounting



Session Plan

- Types of accounts and rules of accounting
- Double Entry Principle
- Credit / Debit
- Accounting examples



Account Types

- Customer Accounts
 - Opened by Customers
 - Example: Savings Accounts, Current Accounts, Term Deposit Accounts, Loan accounts etc.
- Internal Accounts
 - Used for internal accounting
 - Example: Cash Accounts, Income accounts, Expenditure accounts, Sundry accounts, Suspense accounts etc.

Rules of Accounting

- Double entry accounting system
- Debit and Credit entries
- A transaction should have minimum one debit and one credit
- Transaction should be balanced by value and currency
- Transactions can be between Customer Accounts, Between Customer accounts and Internal Accounts, Between Internal accounts
- Transaction can have multiple debits and credits

Accounting Entries

■ Cash Deposit

Account	Amount	Part Tran	Date	Particulars
SB01	INR 100	Cr.	04-07-2022	By Cash
Cash A/c	INR 100	Dr.	04-07-2022	Cash from SB01

■ Cash Withdrawal

Account	Amount	Part Tran	Date	Particulars
Cash A/c	INR 100	Cr.	04-07-2022	Cash to SB01
SB01	INR 100	Dr.	04-07-2022	To Self

Accounting Entries

- Fund transfer between two accounts

Account	Amount	Part Tran	Date	Particulars
SB01	INR 100	Cr.	04-07-2022	From SB02
SB02	INR 100	Dr.	04-07-2022	Trf. to SB01

- Payment of interest to a Term Deposit

Account	Amount	Part Tran	Date	Particulars
TD01	INR 100	Cr.	04-07-2022	By interest
P&L A/c	INR 100	Dr.	04-07-2022	Interest for TD01

Section Summary

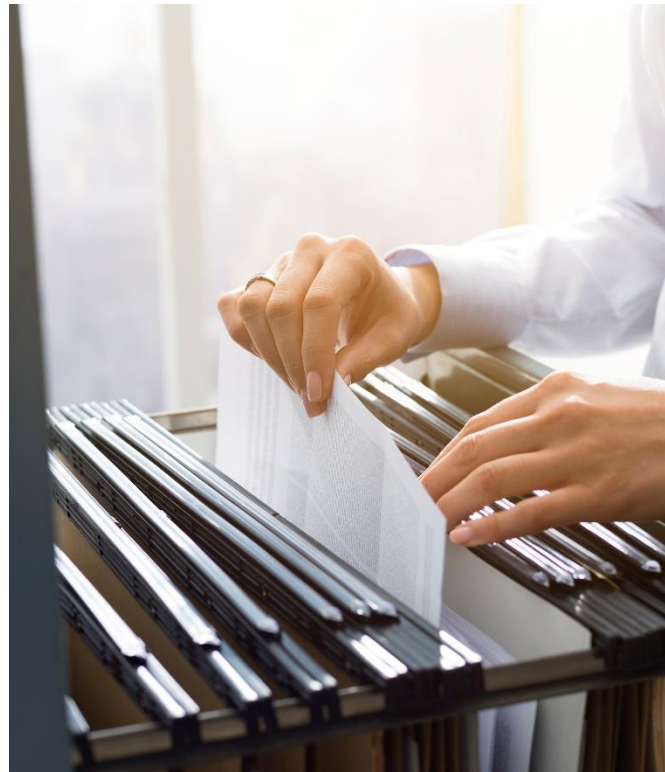
- Types of accounts and rules of accounting
- Double Entry Principle
- Credit/Debit
- Accounting examples

General Ledger



Session Plan

- Concept of General Ledger
- General Ledger and GL Subhead
- Mapping between GL, GL Sub head and Account



Concept of General Ledger

- Banks group accounts based on certain accounting criteria and aggregate balances
- For example : Grouping all Savings Accounts , Grouping All Current Accounts, Grouping TD accounts, Grouping Loan accounts etc.
- By grouping bank wants to know the consolidated balances from each group.
 - E.g.: Total Balance in Savings accounts, Total balance in Current accounts etc.
- To group the accounts, banks use GL Sub heads

Concept of General Ledger

Account Number	GL Sub Head Code	Balance
SB1	25001	1000
SB2	25001	5000
SB3	25001	10000
SB4	25001	4000
SB5	25001	1000

- All accounts are tagged with one common identifier -25001
- 25001 is GL Sub Head Code
- Account balances are aggregated to GL Sub Head level
- So, GL Sub Head Balance = 21000

Concept of General Ledger

- GL Infrastructure
 - GL Code
 - GL Sub Head Code
 - Accounts

Conceptual Overview

25
(SBGL)

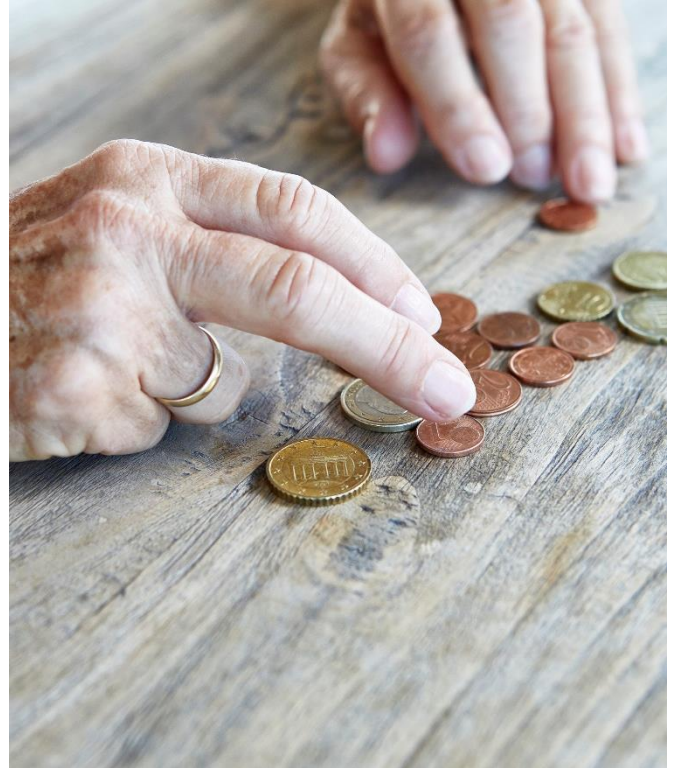
25001 (SBGEN)	INRSBGEN01	INRSBGEN02	INRSBGEN03
25002 (SBNRI)	INRSBNRI01	INRSBNRI02	INRSBNRI03
25003 (SBSTF)	INRSBSTF01	INRSBSTF02	INRSBSTF03

Transaction



Session Plan

- Single Currency General Ledger (SCGL)
- Multi Currency General Ledger (MCGL)
- Value Date
- Multi Currency Transaction-Buying/Selling/ Exchange Rates
- Translation Exposure



SCGL V/s MCGL

- In some countries the central bank mandates that the transactions be done only in home currency and the General ledger be maintained in the Home currency only. This kind of accounting is called Single Currency General Ledger (SCGL) accounting.
- In some countries, Central bank allows accounting in other currencies also. The accounts may be opened in different currencies. This practice is called Multi Currency General Ledger (MCGL) accounting. However, for the final picture, the day's debits and credits (Asset and liabilities) are converted into Home currency at the prevailing rate.

Value Date

- Value date is the date from which the value of the transaction (transaction amount) should be effective. Interest calculation will be effective from value date.
- Example:
 - Transaction date 10-01-2022
 - Value date 08-01-2022
 - Interest will be calculated from 08-01-2022

Buying, Selling and Exchange Rates

- Buying: Foreign CCY comes in
- Selling: Foreign CCY goes out
- Different types of buying and selling
 - Currency Buying/ Currency Selling
 - TT Buying / TT selling
 - Bills Buying / Bills Selling
- Buy Low / Sell High
- Banks maintain different rates for different types of transactions
- Exchange Rates are published daily / multiple times based on market fluctuations.

Translation and Translation Exposure

- Conversion of foreign currency amount to home currency is called **Translation**.
- Sometimes bank may incur loss due to translation process. That is called as **Translation Exposure**.
- For example: Assume that the bank has accepted 1,00,000 USD as deposits at INR 75. Its current liability is 75,00,000 INR. After 3 months, the rate is increased to 78. The liability of the bank on this date, is 78,00,000 INR.
- Hence the Rupee liability of the bank has increased by 3,00,000 INR in 3 months due to exchange rate fluctuation.

Session Summary

- Single Currency General Ledger (SCGL)
- Multi Currency General Ledger (MCGL)
- Value Date
- Multi Currency Transaction- Buying/Selling/ Exchange Rates
- Translation Exposure

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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.