Banking Awareness

for Bank PO/ SO/ Clerk/ RRB/ RBI Exams

INCLUDES

Financial Awareness
Economy & Budget
Current Banking News
Past Questions of IBPS/ SBI, RBI & other exams

CONTENTS

CHAPTER 1

History of Banking—its Evolution and Development

ROLE OF BANKS IN INDIAN ECONOMY - SALIENT FEATURES

Banks play a crucial role in the economic development of any country. Many developed countries such as Japan, Germany etc. owe their growth and development to strong financial system including banking system. In most of the growing economies including India strong healthy banks are pivotal to development. In countries with growing economies like India, banks are important from four angles. These are:

One, banks help in developing other financial intermediaries and markets as per the need of the country.

Two, help the corporate sector to meet its money needs because of less developed equity and bond markets.

Third, banks help mobilize the savings of large number of savers, which look for assured income and liquidity and safety of funds, and

Lastly, Banks also provide financial stability in the economy.

HOW BANKS HAVE CHANGED OVER YEARS?

Banking has changed with the needs of the economy over the years and evolved as a strong instrument of development. The various phases of changes that have made banks an instrument of development are given below:

1. Countries world over have been divided into two major groups viz. "underdeveloped" (backward) and "developed" (advanced) countries.

   FYP defined **"underdeveloped**" economy as one where the economy has not been able to unutilize the given/available resources or have underutilized the resources like natural resources, manpower resources etc. **"Developed**" economy on the other hand means where full or large utilization of such resources have taken place for the growth and development of the economy. Underdeveloped or growing economies like India, are also characterized by nature of occupational pattern which in India is mainly agriculture, and the population is largely "agrarian population".

Reason for non-utilization of resources could be:

- non-availability of technology;
- prevailing socio-economic factors that may hinder the use of available resources etc.

  Under-developed economies are normally characterized by "poverty".

2. Agriculture largely remains labour intensive in India. Most farmers as well as labourers live at subsistence level or even below subsistence level. In order to increase agricultural production, investment in agriculture is necessary which will generate surplus to form capital base of the farmers.

At present majority of farmers and farm labourers are unable to save anything because of poor to low surplus. Poor Capital level results in low to even no reinvestment in the business which may lead to poor standard of living. **Addition in population** is also one of the many major causes of poor savings and poor standard of living.

3. Common basis for comparing underdeveloped economies and developed economies has been **per capita income.** India's per capita income as compared to many developed and even underdeveloped countries has been low.
4. Capital–Output ratio is also a determinant of economic development. *It means number of units of capital required to produce one unit of output. In other words, this term refers to the productivity of capital in various economic sectors at a point of time.*
5. In order to reduce the economic disparity, it is necessary to increase capital–out ratio and improve public savings. For this, investment level is required to increase. For investments to increase there is need for generating surpluses and savings. To avoid diversification of savings there is need to mobilize public or community savings. Purpose of mobilization of savings are:
   (*i*) to help improve production through reinvestment thus improving capital output ratio and,
   (ii) to channelise the idle funds from the public into the productive channels.

STEPS TAKEN TO MOBILIZE RESOURCES

6. In order to mobilize public savings, Government initiated many steps through Five Year Plans.
   (i) Taxation is first measure.
   (ii) Other measures to mobilize monies from the people by spreading of banking facilities in the needed areas.
   (iii) Other steps included encouraging surplus of public sector enterprises, and
   (iv) mobilization of internal and external loans/deposits.
7. Public sector and other organizations like Banks and private organizations became major source of mobilizing small savings of the people from all sectors of the economy as well as from every corner of the country.
8. There may not always be dearth of savings in the rural areas but it may be failure of deposit mobilization efforts which allow the savings being put into unproductive channels. Government found enough scope of deposit mobilization, both in the rural and non-rural areas and took decisions to create infrastructure for collecting savings.
9. As a step towards such mopping up of savings, banking industry took the initiative to open up new banks and branches all over the country.

HISTORY AND EVOLUTION STAGES OF BANKING - HIGHLIGHTS

For reaching the modern day banking business, banking industry has to pass through various stages of evolution and development. The stages are briefly discussed below:

Stage-1 Indigenous Banks

- Business of banking has been reported origin in Vedic period. Records show giving and receiving of credits during that period.

- Indigenous money lenders were known as Seths or Shahs existed during that period and ran lucrative business in money lending.
- Discounting of bills was common in those times.
- Hundi (traditional bills) system was in vogue during that time.
- During 17th century, a foreign traveller quoted the existence of money changer in India known as Shroffs.
- Moghul period also refers to Jagat Seth called Manak Chand. Lord Clive also mentioned about him around 1859.

Defects of Indigenous Banking

Certain shortcomings were observed in the indigenous banking in India vis-à-vis the requirement of trade and commerce. Some important shortcomings that existed at that time are listed below:

(i) Indigenous banking is unorganized and does not sensitize the need and working of the different sectors of the economy, including banking sector.

(ii) They only do business for trade and commerce and work on commission basis resulting into trade risk in their financial business.

(iii) They did not distinguish between short term and long term finance purposes.

(iv) Methods of accounting was based on local practices and hence could not match with modern methods of financial accounting.

(v) Many of the indigenous bankers charged very high rate of interest.

Stage-2 Opening of Presidency Banks

(a) Bank of Hindustan established in 1770 was founded by M/s Alexander & Co., an English agency in Calcutta.

(b) First Presidency Bank namely Bank of Calcutta came up in 1806 in Calcutta in collaboration with Government of Bengal and East India Company. Total capital was Rs.50 lakh of which Rs.10 lakh was share of East India Company.

(c) However, in 1809, Bank of Calcutta was renamed as Bank of Bengal.

(d) Bank of Bombay, as second Presidency Bank was established in 1840 in the then Bombay (now Mumbai).

(e) Third Presidency bank came up in Madras (now Chennai) in the year 1843.

In 1860, concept of limited liability was introduced in India leading to the establishment of Joint Stock Banks.

All banks in India are registered under the Indian Companies Act as Joint Stock Company.

MODERN BANKING - ADVENT AND DEVELOPMENT

The commercial banking industry in India started in 1786 with the establishment of the Bank of Bengal in Calcutta.

It was only with the establishment of Reserve Bank of India (RBI) as the central bank of the country in 1935 under the Reserve Bank of India Act (1934) that the quasi-central banking role of the Imperial Bank of India came to an end.

In 1865, the Allahabad Bank was established with Indian shareholders.

Punjab National Bank came into being in 1895 by purely Indian nationalist people like Lala Lajpat Rai, Babu Purshotam Lal Tandon, S.Dayal Singh and others.

Between 1906 and 1913, other banks like Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, Bank of Mysore etc. were set up.

- The brand ambassador of bank of Baroda is Rahul Dravid.
- The branding line of Bank of Baroda is 'India's International Bank'.
- The logo of Bank of Baroda is known as 'Baroda Sun'.

In 1921, the three Presidency banks were amalgamated to form the **Imperial Bank of India,** which took up following roles:

(i) role of a commercial bank,
(ii) a bankers' bank, and
(iii) a banker to the Government. (quasi central banking role)

The Imperial Bank of India was established with mainly European shareholders.

Reserve Bank of India was established in 1935 under RBI Act (1934)

After independence, the Government of India started taking steps to encourage the spread of banking in India that led to the stage -3 of banking development in India.

Stage-3 Banking in Post Independence Period

After independence, in order to serve the economy better, the All India Rural Credit Survey Committee was set up by RBI. This Committee recommended that Imperial Bank of India be taken over and with it are merged / integrated former state-owned and state-associate banks. Accordingly, State Bank of India (SBI) was constituted in 1955 **under the State Bank of India Act (1955).** Subsequently **in 1959, the State Bank of India (subsidiary bank) Act** was passed, enabling the SBI to take over five major former state-associate banks as its subsidiaries. These were State Bank of Patiala; State Bank of Hyderabad; State Bank of Travancore; State Bank of Bikaner & Jaipur and State Bank of Mysore.

After creating a subsidiary of SBI, arrangement made was that 55 per cent of the capital will be owned by the SBI and rest 45 per cent remains with old shareholders.

However, this arrangement also saw some weaknesses like reduced bank profitability, weak capital base, and banks getting / burdened with large amounts of bad loans (un-recovered loans).

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture but long term financial needs were left for other agencies or government to meet. There was no coordination between commercial banks and long term lending organizations. Hence when one was available the other was not available.

- As such with the growing need for long term funds for financing industrial projects **Government established Industrial Development Bank of India (IDBI**) in 1964 to help industrial sector with long term financial resources to boost industrial growth.

ADVENT OF MODERN BANKING - STAGES OF DEVELOPMENT

- Present day banking is the result of continuous research and development in the field of financial and economic aspects of Indian banking system.
- After independence of the country, today's banking has passed through various stages of development. Banking was held to be a strong institution to respond to the growing financial needs of various sectors of the economy. Many policy decisions, amendments in laws, new enactments etc. were initiated to make banking industry respond to growing financial requirements of different sectors of the economy.

Broadly, **four stages** could be identified that Indian banking has passed through or is passing through after independence. These are as follows:

Stage-1 Period covering 1948 onwards till late sixties (say 1969), identifies with the **foundation stage**. During this period government ensured the enactment of necessary legal / legislative framework for consolidating and reorganization of the banking system. Banking during this period was cautious, selective and securitized. Loans were advanced against tangible securities only i.e. to persons who were able to offer good securities and deposits to the bank. Banks overlooked the importance of project (purpose), person (borrower) and repayment capacity.

- In order to overcome above difficulties and others, social control on banks was initiated in 1968 on the recommendations of the National Credit Council in 1967. (Gadgil Study Group, established by RBI).

SOCIAL CONTROL AND NATIONALIZATION OF BANKS - NEED AND OBJECTIVE

Factors that led to the decision to nationalize commercial banks were:

1. Ownership and control in few hands.
2. Concentration of wealth and power by few big industrial houses who used the bank funds to build their own empires.
3. Failure of banks to mobilize resources from small towns and villages by not opening branches in small towns and villages
4. Misutilization of resources and powers by some vested interests. In other words money mobilized by banks was not being used for the economic benefit or development.
5. Discrimination against small business units.
6. Needs of the agriculture sector of the economy was neglected by banks by ignoring small farmers taking the plea that it is risky sector.
7. Misuse of funds by banks. Some banks were financing anti-social elements who in order to get large profits created shortages of essential commodities, thus affecting the general public at large.
8. Banks failed to follow the objectives of the five year plan policies and framework wherein priority sectors of the economy were given priority. Private control of the banks led to various development obstacles to the achievement of the plan objectives.

NATIONALIZATION OF BANKS

- **To make banking system align itself to the needs of economy and policies of the Government, on July 19, 1969 fourteen (14) of the major private sector banks were nationalized as a part of social control over banks.** This was an important milestone in the history of Indian banking. This was followed by the nationalization of another six private banks in 1980.
- The 14 banks were nationalized under the ***Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970***. Criterion for selection of these banks was that those which had deposit of Rupees 50 crores and above as on the date of Ordinance issued on 19th July, 1969. These banks were:

1. Allahabad Bank	2. Bank of Baroda
3. Bank of India	4. Central Bank of India
5. Dena bank	6. Canara Bank

7. Indian Overseas Bank 8. Bank of Maharashtra
9. Punjab National Bank 10. United Bank of India
11. Union Bank of India 12. Syndicate Bank
13. Indian Bank 14. United Commercial Bank

This process was followed again in 1980 when another lot of six banks were nationalized under ***Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980***. Banks nationalized in second stage were:

1. Punjab & Sind Bank
2. Oriental Bank of Commerce
3. New bank of India (now merged with Punjab National Bank)
4. Vijay Bank
5. Andhra Bank
6. Corporation Bank

With the nationalization of these banks, the major segment of the banking sector came under the control of the Government. The nationalization of banks imparted major impetus to branch expansion in un-banked, rural and semi-urban areas, which in turn resulted in huge deposit mobilization, thereby giving boost to the overall savings rate of the economy. It also resulted in scaling up of lending to agriculture and its allied sectors.

In 1975 five Regional Rural banks were established on 2.10.1975 through an Ordinance. The ordinance was replaced by Regional Rural Banks Act, 1976, with the main objective to extend banking facilities to the un-banked rural areas along with commercial banks and cooperative banks.

Stage-2 Expansion Stage

This stages / phase covers the period from late sixties (1969 to mid eighties). There was rapid **expansion**, both vertical and horizontal i.e. geographical spread as well as administrative spread. There was effort to fulfill nationalization objectives of expansion.

There was re-orientation of credit flow policy during this period so as to benefit the neglected sectors of the economy, like agriculture, small scale industries and small borrowers.

Stage-3 Consolidation Phase

This phase started from early eighties to start nineties when rapid expansion of banks faced with certain serious problems of control and economic viability of certain branches, more particularly rural branches. This phase also saw the problem of manpower, their training and positioning of branches. Branch expansion was slowed down during this period and banks started addressing the gaps that occurred during period. Staff productivity, recovery of advances, profitability etc. were some major problems.

Stage-4 Banking Reform Phase

To create a strong and competitive banking system, a number of reform measures were initiated in 1991. The thrust of the reforms was on increasing operational efficiency, strengthening supervision over banks, creating competitive conditions and developing technological and institutional infrastructure. These measures led to the improvement in the financial health, soundness and efficiency of the banking system.

One important feature of the reforms of the 1990s was the permission to open new private sector banks. Following this decision, new banks such as ICICI Bank, HDFC Bank, IDBI Bank, Development Credit Bank (DCB), Kotak Mahindra Bank, InduSind Bank, Yes Bank and UTI Bank (now Axis bank) were set up.

From 1991 onwards till today, banking industry has seen the reforms in terms of their management and business policies. The main aim of reforms is to create a vibrant financial sector that is efficient, competitive and responsive to the needs of the economy and the people at large.

(a) Main focus of the reforms was:

(b) Strengthening of financial institutions, and integration of domestic financial system with global system of banking and economic system.

Policies were made in such a way that it could provide banks with:-

(a) greater flexibility in banking operations

(b) greater accountability to shareholders, and

(c) greater control over bank functions, and

(d) safety through prudential norms and supervision.

Based on the happenings in the domestic and international market, Indian banking system is gearing up for meeting new challenges like:

(i) Banks entering into greater specialized business like retail, housing, personal sector, corporate sector etc.

(ii) Banks have to look for more non-fund based business (NFB), like advisory services. merchant banking advisory services, guarantee business, consultancy business services etc.

(iii) Creating a strong image of the organization (brand image); customer delight and excellence etc.

(iv) The concept of Universal Banking is catching up fast. (Universal bank means where a bank takes up both the functions of long term lending development financial institutions as well as that of commercial banks. In other words a universal bank lends both short term (working capital) as well as term loan (long tern finance).

- Export-Import Bank (Exim Bank) was established in 1982 (1.1.1982) to help entrepreneurs financially, in terms of long term and short term funds, to increase exports and to act as a controller of the business of the export and import.
- Then came the National Bank for Agriculture & Rural Development (NABARD) in 1984 on the recommendation of Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD). NABARD was set up under the Parliament Act 61 of 1981.

FINANCE COMMISSION AND ITS ROLE

The Finance Commission was established in 1951 to look into the following aspects:

- To suggest as to how the revenues earned by the government through taxes etc. at centre could be shared between the States and the Centre.
- Finance Commission is set up under Articles 280 of the Constitution of India.
- Since 1951, 13 Finance Commissions have been set up. The Fourteenth Finance Commission has been set up under the Chairmanship of ex-Governor of Reserve Bank of India, Y V Reddy. Thirteenth Finance Commission was headed by Finance Secretary Vijay Kelkar. The first Finance Commission was constituted in 1951 and was headed by K C Neogy.
- Period of Commission is five years.

- Finance Commission has four other members. Finance Commission is appointed by the President of India.
- Main focus of the Finance Commission is to reduce the imbalances between taxation fixation and expenditure controls of the Centre and the States respectively.
- Presently the 13th Finance Commission has recommended that States share from the Central Revenue should be 32 per cent.

PAST EXERCISE

1. Which of the following is considered an informal method of getting credit/finance? **[Vijaya Bank 2008]**
   (a) Internet banking
   (b) Branch visits
   (c) Going to moneylenders
   (d) Telebanking
   (e) All of these
2. Which of the following is NOT a Public Sector Unit/Undertaking/Agency? **[Vijaya Bank 2008]**
   (a) ECGC (b) SEBI
   (c) SIDBI (d) Axis Bank
   (e) BHEL
3. Which of the following is NOT a foreign bank working in India? **[Vijaya Bank 2008]**
   (a) HSBC
   (b) Barclays
   (c) Standard Chartered
   (d) Yes Bank
   (e) All are foreign banks
4. Who amongst the following is the Chairman of the 13th Finance Commission? **[Vijaya Bank 2008]**
   (a) Bimal Jalan
   (b) Y V Reddy
   (c) C Rangarajan
   (d) Vijay Kelkar
   (e) None of these
5. Who is Brand Endorsing Personality of Bank of Baroda? **[BOB 2008]**
   (a) Juhi Chawla
   (b) Kiran Bedi
   (c) Amitabh Bachchan
   (d) Kapil Dev
   (e) None of these
6. The branding line of Bank of Baroda is **[BOB 2008]**
   (a) International Bank of India
   (b) India's International Bank
   (c) India's Multinational Bank
   (d) World's local Bank
   (e) None of these
7. Which of the following is/are the major concepts visible in today's banking industry in India? **[IOB 2008]**
   (1) Risk Based management
   (2) Growing competition
   (3) IT initiatives
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Both (2) & (3)
   (e) All (1), (2) & (3)
8. Which of the following commissions set-up by the President of India decides the distribution of tax incomes between the Central and State Governments? **[United Bank of India 2009]**
   (a) Central Law Commission
   (b) Pay Commission for Government Employees
   (c) Administrative Reforms Commission
   (d) Planning Commission
   (e) Finance Commission
9. Nationalization of banks aimed at all of the following except __________ . **[IBPS 2012]**
   (a) Provision of adequate credit for agriculture, SME and exports
   (b) Removal of control by a few capitalists
   (c) Provision of credit to big industries only
   (d) Access of banking to masses
   (e) Encouragement of a new class of entrepreneurs

ANSWER KEY

1.	(c)	**2.**	(d)	**3.**	(d)	**4.**	(d)	**5.**	(e)	**6.**	(b)
7.	(e)	**8.**	(e)	**9.**	(b)						

PRACTICE EXERCISE

1. In India, the first bank of limited liabilities managed by Indians and founded in 1881 was
   (a) Hindustan Commercial Bank
   (b) Oudh Commercial Bank
   (c) Punjab National Bank
   (d) Punjab and Sind Bank
   (e) National Bank
2. How many banks were first nationalised?
   (a) 10 (b) 12
   (c) 14 (d) 16
   (e) 24
3. When was the second phase of nationalisation done?
   (a) 9th July, 1969
   (b) 10th July, 1968
   (c) 16th August, 1985
   (d) 15th April, 1980
   (e) None of the above
4. How many banks were in second phase of nationalisation?
   (a) 4 (b) 5
   (c) 6 (d) 7
   (e) 9
5. Match the following:

List I	List II
A. Allahabad Bank	1. 1894
B. Oriental Bank of Commerce	2. 1943
C. Punjab National Bank	3. 1943
D. UCO Bank	4. 1865

Codes:

	A	B	C	D		A	B	C	D
(a)	2	4	3	1	(b)	2	3	4	1
(c)	4	3	2	1	(d)	4	1	3	2
(e)	3	1	4	2					

6. Which of the following Indian Banks is not a Nationalised Bank?
   (a) Corporation Bank
   (b) Dena Bank
   (c) Federal Bank
   (d) Vijaya Bank
   (e) Oriental Bank of Commerce
7. Consider the following statements:
   1. Allahabad Bank was the first bank to be established exclusively by Indians.
   2. Seven banks forming subsidiary of State Bank of India was nationalised in 1960.

   Which of the statements given above is/are correct?
   (a) Only 1 (b) Only 2
   (c) Both 1 and 2 (d) Neither 1 nor 2
   (e) Can't say
8. Which was the first Bank corporated by the Indians?
   (a) Imperial Bank of India
   (b) State Bank of India
   (c) Avadh Commercial Bank
   (d) Reserve Bank of India
   (e) National Bank
9. When was the Avadh Commercial Bank established?
   (a) 1881 (b) 1894
   (c) 1898 (d) 1899
   (e) 1864
10. Imperial Banks were amalgamated and changed as ....
    (a) Reserve Bank of India
    (b) State Bank of India
    (c) Subsidiary Banks
    (d) Union Bank of India
    (e) Corporation Bank
11. When was Imperial Bank was changed as State Bank of India?
    (a) 1st January, 1935
    (b) 26th February, 1947
    (c) 1st July, 1955
    (d) 1st July, 1959
    (e) 26th February, 1955
12. In the second nationalisation of commercial banks, ... where nationalised.
    (a) 4 (b) 5
    (c) 6 (d) 8
    (e) 9
13. The first wholy Indian Bank was set-up in
    (a) 1794 (b) 1894
    (c) 1896 (d) 1902
    (e) 1918

14. When was SBI established?
    (a) 1st April, 1935
    (b) 31st July, 1969
    (c) 5th May, 1955
    (d) 1st July, 1955
    (e) 5th May, 1960
15. The origin of the State Bank of India goes back to the first decade of the 19th century with the establishment of
    (a) Bank of Calcutta
    (b) Bank of Bengal
    (c) Bank of Bombay
    (d) Bank of Madras
    (e) None of these
16. Which bank came into existence in 1921 when three banks namely, Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were reorganised and amalgamated to form a single banking entity?
    (a) Imperial Bank of India
    (b) State Bank of India
    (c) Reserve Bank of India
    (d) Punjab National Bank
    (e) None of the above
17. Which bank became the State Bank of India in 1955?
    (a) General Bank of India
    (b) Bank of Hindustan
    (c) Imperial Bank of India
    (d) Federal Bank of India
    (e) None of the above
18. Which of the following banks has acquired the 'Centurion Bank of Punjab'?
    (a) ICICI Bank (b) IDBI Bank
    (c) HDFC Bank (d) AXIS Bank
    (e) None of these
19. What was the deposits criteria of 14 banks nationalised on 19th July, 1969?
    (a) ₹ 1000 crore (b) ₹ 500 crore
    (c) ₹ 100 crore (d) ₹ 50 crore
    (e) None of these
20. Name the premier institution that is taking care of the financial needs of importers and exporters of our country which was established in the year 1981.
    (a) EXPO Bank
    (b) Export Import Bank (EXIM)
    (c) Merchant Bank
    (d) ECGC
    (e) None of the above
21. The first nationalisation of banks exercise was done on
    (a) 19th June, 1969
    (b) 19th June, 1970
    (c) 19th June, 1967
    (d) 15th July, 1967
    (e) None of the above
22. How many banks were nationalised in the second phase in 1980?
    (a) 5 (b) 6
    (c) 7 (d) 4
    (e) 1
23. Axis Bank is the changed name of
    (a) IDBI (b) ICICI
    (c) UTI (d) UTO
    (e) RBI
24. Which one of the public sector bank has completed 100 years of its establishment on 21st December, 2011?
    (a) Central Bank of India
    (b) State Bank of India
    (c) Punjab National Bank
    (d) Bank of Baroda
    (e) Allahabad Bank
25. Which institution provides long run finance to industries?
    (a) UTI (b) LIC
    (c) GIC (d) IDBI
    (e) All of these
26. Open Added Money Market Scheme was firstly introduced by
    (a) UTI (b) IDBI
    (c) ICICI (d) LIC
    (e) None of these
27. The Export Import Bank of India was set-up in
    (a) July, 1969 (b) April, 1970
    (c) January, 1982 (d) April, 1982
    (e) None of the above
28. Exim Bank also provides
    (a) refinance facilities
    (b) consultancy and technology services
    (c) services of finding foreign markets for exporters
    (d) All of the above
    (e) None of the above

29. Exim Bank concentrates on
    (a) medium-term financing
    (b) short-term financing
    (c) short and medium-term financing
    (d) short and long-term financing
    (e) None of the above
30. Exim Bank extends facility of
    (a) rediscounting of foreign bills of commercial banks
    (b) advisory services to the exporters
    (c) research and market surveys
    (d) All of the above
    (e) None of the above
31. The branding line of Bank of Baroda is
    (a) International Bank of India
    (b) India's International Bank
    (c) India's Multinational Bank
    (d) World's Local Bank
    (e) None of the above
32. Nationalisation of banks aimed at all of the following, except
    (a) provision of adequate credit for agriculture, SME and exports
    (b) removal of control by a few capitalists
    (c) provision of credit to big industries only
    (d) access of banking to masses
    (e) encouragement of a new class of entrepreneurs
33. Which of the following banks has been included in the second Schedule to the RBI Act, 1934 with effect from 21st August, 2004 and thus, is the latest entrant in Indian banking as a new generation private sector bank?
    (a) ICICI Bank Limited
    (b) HDFC Bank Limited
    (c) Kotak Mahindra Bank Limited
    (d) Yes Bank Limited
    (e) None of the above
34. The word 'Bank' is derived from
    (a) German word 'back' which means a joint stock fund'
    (b) Italian word 'banco'
    (c) words 'bancus' or banque' which means 'a bench'
    (d) All of the above
    (e) None of the above
35. Which is the largest associates bank of State Bank of India?
    (a) State Bank of Patiala
    (b) State Bank of Hyderabad
    (c) State Bank of Bikaner and Jaipur
    (d) State Bank of Saurashtra
    (e) State Bank of Assam
36. The formation of the 14th Finance Commission in India has been finalized. Who has been appointed to head the commission?
    (a) D. Subba Rao
    (b) Y. V. Reddy
    (c) Montek Singh Ahluwalia
    (d) Raghuram Rajan
    (e) Rakesh Mohan

ANSWER KEY

1.	(b)	**2.**	(c)	**3.**	(d)	**4.**	(e)	**5.**	(c)
6.	(c)	**7.**	(c)	**8.**	(c)	**9.**	(a)	**10.**	(b)
11.	(c)	**12.**	(c)	**13.**	(c)	**14.**	(d)	**15.**	(a)
16.	(a)	**17.**	(c)	**18.**	(c)	**19.**	(d)	**20.**	(b)
21.	(a)	**22.**	(b)	**23.**	(c)	**24.**	(a)	**25.**	(d)
26.	(b)	**27.**	(c)	**28.**	(d)	**29.**	(a)	**30.**	(d)
31.	(b)	**32.**	(c)	**33.**	(d)	**34.**	(d)	**35.**	(b)
36.	(b)								

CHAPTER 2

Banking and Banking Structure-Legal Aspects

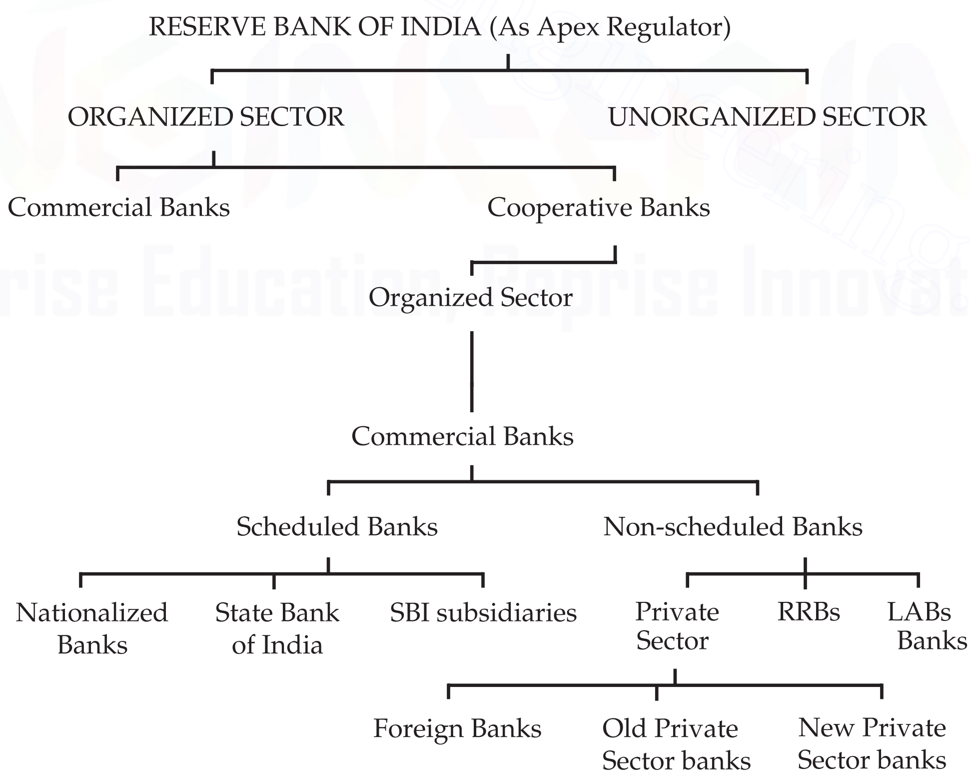
DEFINITION OF BANK AND BANKING

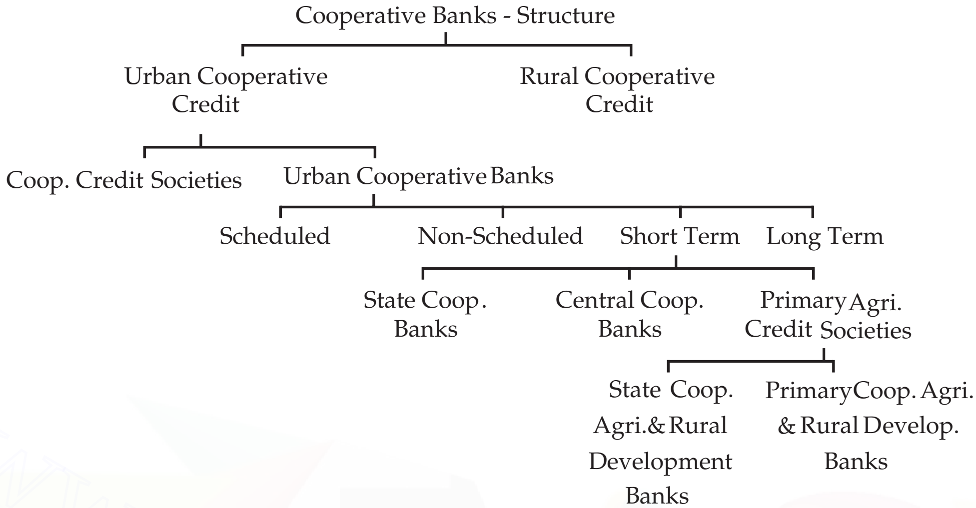
After independence, steps were taken in order to regulate the banking and banking business in India. Government brought in a law in this regard, wherein banking and banking business in India has been defined. This law became an Act and called the Banking Regulation Act, (BR Act), 1949.

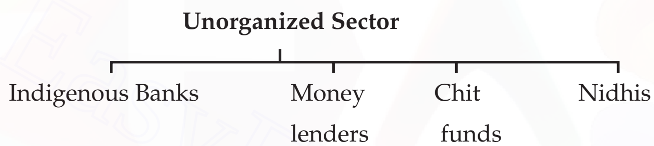
As per the Act, Section 5(c) provides that 'a banking company is a company which transacts the business of banking in India.'

Further, Section 5(b) of the BR Act defines banking business as, 'accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.'

BANKING STRUCTURE



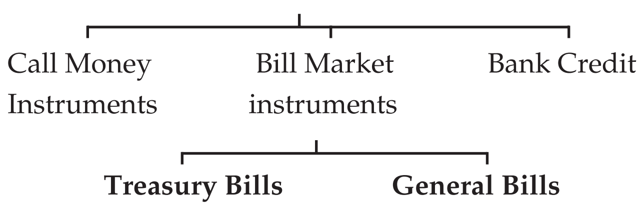




- Scheduled Banks have been defined in the Reserve Bank of India Act as those which are included in the second schedule of the **RBI Act, 1934.**
- In order to be included in the second schedule of the RBI Act, a bank must fulfill the following three criteria:
  (i) the paid up capital and reserves together should not be less than **Rupees 5 lakhs.**
  (ii) working of the bank should not be detrimental to the interests of the depositors.
  (iii) the banks to be included in the second schedule should either be a company as per the Companies Act, 1956 or a State Cooperative Bank or a corporation or any institution notified by the Government of India in this behalf.
- On the other hand a non-scheduled bank is one whose paid up capital is less than Rupees 5 lakhs.

A Unit Banking System comprises of a main corporate office having single branch doing banking business in a given area of operation.

MONEY MARKET FINANCIAL INSTRUMENTS - types and structure



The governance of banks in India is largely controlled by some important laws / Acts. Illustratively, these are:

1. The Reserve Bank of India Act (1934)

2. The Banking Regulation Act (1949) that applies to all activities of all banking companies including sections applicable to Cooperative Banks in India.
3. Negotiable Instruments Act (1881).
4. Bankers' Books Evidence Act (1891),
5. SBI Act (1955),
6. Regional Rural Bank Act (1976),

The Reserve Bank of India is responsible for the regulation and supervision of banks as empowered under the Banking Regulation Act.

FIMMDA:

What is FIMMDA?

FIMMDA stands for The Fixed Income Money Market and Derivatives Association of India (FIMMDA). It is an Association of Commercial Banks, Financial Institutions and Primary Dealers. FIMMDA is a voluntary market body for the bond, Money and Derivatives Markets.

INVESTOR PROTECTION FUND(IPF) :

ISE has set up an Investor Protection Fund (IPF) to meet the claims of investors against defaulter Members, in accordance with the Guidelines issued by the Ministry of finance, Government of India.

ISE has established an Inter-connected Stock Exchange Investor Protection Fund Trust (ISE-IPF Trust) with the objective of compensating investors in the event of defaulters' assets not being sufficient to meet the admitted claims of investors, promoting investor education, awareness and research. The Investor Protection Fund (IPF) is administered by way of registered Trust created for the purpose. The Inter-connected Stock Exchange Investor Protection Fund Trust is managed by Trustees.

The Inter-connected Stock Exchange Investor Protection Fund Trust, based on the recommendations of the Defaulters' Committee, compensates the investors to the extent of funds found insufficient in Defaulters' account to meet the admitted value of claim, subject to a maximum limit as per decided by Trust per investor per defaulter/expelled member.

LEGAL REQUIREMENTS FOR SETTING UP NEW BANKS AND BRANCH AUTHORIZATION POLICY

- The minimum statutory requirements for setting up new banks in India are stipulated in the BR Act, 1949.
- The RBI explicates the eligibility criteria for the entry of new banks. At present, the capital requirement for any new bank entry is Rupees 500 crores.
- Reserve Bank of India also releases some guidelines / directive on various issues relating to banking operations including expansion, control etc. Some areas on which guidelines / directives are issued are:
- Guidelines / directives to update its branch authorization policy, which governs the opening of new branches by all Scheduled Commercial Banks in the country.
- Under the banking structure, private money lenders do not form the part of scheduled banking structure.

- Legally, banks are not permitted to create a charge upon any unpaid capital of the company as per Banking Regulation Act, 1949 (section-14).
- Under the Banking Companies (Acquisition & Transfer of Undertaking) Acts of 1970 and 1980, as amended in 1994, public sector banks are permitted to offer their equity shares to public up to 49 per cent of the capital of the bank.
- For the uniform and fair conduct of the banking business by banks in India, a Banking Codes and Standard Board of India (BCSBI) has been created.
- At present there are 19 public sector banks (nationalized banks); State Bank of India (1) and SBI Associates (5).
- Government introduced the Banking Companies (Acquisition and Transfer of Undertaking) and Financial Institution Laws (Amendment) Bill, 2000 which allowed Government to dilute its sharing holding to 33 per cent, mainly for the purpose of raising fresh equity.
- This bill empowers the Government to supersede the Board of Directors of public sector banks.

TYPES OF BANK ACCOUNTS AND THEIR FEATURES

1. Savings Bank Account

Meaning

Savings Bank accounts as the name implies, are intended for savings for future. The very purpose of this type of account is to promote savings habit of the general public. As such, there is no restriction on the number and amount of deposits that can be made. The credit balance outstanding in this account will earn interest as per the current directives of the Bank. When needed, the amount can be withdrawn, subject to certain conditions.

Introduction of the Savings account

All savings bank accounts are required to be introduced by someone known to the bank or customer having an account in that bank.

For whom to open Savings Bank Accounts

Savings Bank Accounts may be opened in the names of:-

(i) Individual - Single Accounts
(ii) Two or more individuals - Joint Accounts
(iii) Illiterate persons
(iv) Blind persons
(v) Minors
(vi) Associations, Clubs, Societies.
(vii) Trusts
(viii) Institutions/Agencies specially permitted by the RBI.

- Savings bank accounts of military units may be opened for funds of Regimental Units which mainly consists of contributions from individual members of the unit, income from Regimental properties, collections made on Army day, etc.

- Interest is paid on daily basis calculated between 10th and 30th of each month.
- At present banks pay an interest of 4% on the savings bank account.
- Minimum balance to open a normal savings bank account is Rupees 1000=00. However, poor people defined by the Government of India, can open a savings bank account with zero balance called No-Frill Savings Bank Account.

2. Current Account

Meaning & Purpose

Current Accounts are active accounts opened by such section of the public like Traders, Businessmen, Corporate Bodies, etc. who like to operate their accounts continuously due to many receipts and payments of money in connection with their business. In these accounts, there is no restriction on the number of withdrawals and deposits.

Opening of Current Accounts - Introduction

All current accounts should be introduced by persons well known to the bank. Introduction by an existing current account holder should generally be insisted upon.

For whom to open Current Accounts

Current Accounts may be opened in the names of following:-

(i) Accounts in the name of a single person.

(ii) Joint Accounts of two or more individuals.

(iii) Sole-Proprietory Concern.

(iv) Partnership Firms.

(v) Joint Hindu Family or Hindu Undivided Family.

(vi) Associations, Clubs, Societies.

(vii) Trusts/Other Trust Accounts like Provident Fund A/cs.

(viii) Private and Public Limited Companies and other undertakings registered under Companies Act, 1956.

(ix) Executors and Administrators.

(x) Other Banks.

(xi) State Financial Corporations.

(xii) Government/Quasi Government Departments /Boards/Bodies etc.

No interest is paid in current accounts. However banks may charge a reasonable amount from the customer / clients if the balance falls below the stipulated amount.

3. Fixed Deposits / Term Deposits

Meaning & Scope of Fixed / Term Deposits

- The term fixed deposit will include both deposits made for a fixed period and deposits made subject to notice of withdrawal.
- Fixed deposits are term deposits repayable after an agreed period fixed at the time of deposit.

- On the other hand, call deposits (accounts) can be treated as demand or term liabilities subject to terms of repayment and notice of withdrawal agreed at the time of accepting these deposits.

Who can open Fixed Deposit Accounts

Fixed Deposits can be opened in the name of:

- Individuals,
- Joint names of two or more individuals,
- Clubs, Association, Societies, Trusts, etc.
- Limited Companies,
- Minor under the guardianship of the natural guardians or guardians appointed by the Court of Law,
- Partnership or Proprietory concerns.

Other Features

- Money is deposited in the account and period is decided by the customer.
- Premature withdrawal is allowed in such accounts. In case of premature withdrawal customer is paid rate of interest charged is the one that is applicable for the period the deposit remained in the bank. The interest is calculated for the duration it remained with the bank.
- The customer / client has to pay some reasonable penalty fixed by each bank for premature withdrawal.
- Fixed deposits are not transferable instruments.
- Fixed deposits / term deposits attract higher rate of interest than other deposit schemes.
- Normally longer the period of deposit higher the interest rate. In some banks it is called time liability deposit accounts. However this principle does not always hold good due to the banks deposit needs and market conditions.

4. DEMAT Accounts

DEMAT means Dematerialized Account. This account is opened to buy and sell shares in the market. It is opened like any other bank account with the difference that in such accounts only shares are transacted and not money as is the case with other bank accounts.

Indian Depository Receipit:

An IDR is a receipt, declaring ownership of shares of a foreign company. These receipts can be listed in India and traded in rupees. Just like overseas investors in the US-listed American Depository Receipts (ADRs) of Infosys and Wipro get receipts against ownership of shares held by an Indian custodian, an IDR is proof of ownership of foreign company’s shares. The IDRs are denominated in Indian currency and are issued by a domestic depository and the underlying equity shares are secured with a custodian. An Indian investor pays in Indian rupees for the IDR whereas a shareholder in the issuer’s home country pays in home currency.

5. Public Provident Fund Accounts (PPF)

- Public Provident Fund (PPF) is the scheme floated under the PPF Act 1968 by central government. It is a safe and government backed investment scheme which provides besides higher interest rate a tax benefit under section 80C of IT Act.

Features of the PPF Scheme

- The period for which money could be invested in PPF is 15 years.
- Minimum investment is Rs.500 and Maximum investment is Rs.1,00,000 per year.
- Amount invested more than Rs.1,00,000 will not be eligible for interest and for tax benefit under Sec 80C.
- One is eligible to open only one PPF account in one's name. But if found that second account is opened it will be deactivated. You will receive only principal of what you paid.
- PPF can't be opened in joint names. However, PPF accounts can be opened in the names of spouse or children.
- PPF account can be opened in your minor child name also.
- You can't invest more than 12 installments in a year. It means if you planned for contribution of Rs.1,000 per month, then maximum contribution you can make is 12,000 in a year.
- This account cannot be attached for your debt or liability. So this is totally safest form of investment.
- PPF account can be opened at all nationalized banks, post offices or other banks so permitted.
- If you forget to contribute the minimum amount in any year then the account will be deactivated. To activate you need to pay Rs.50 as penalty for each inactive year and also you need to pay Rs.500 for each inactive year's contribution. Such provision can be modified from time to time by appropriate authority.
- NRIs cannot open PPF account. But they can continue their existing account till its maturity only. Scheme does not provide any extension of period.
- In case death of account holder then the balance amount will be paid to his nominee or legal heir even before 15 years. Nominees or legal heirs are not eligible to continue the deceased account.
- PPF can be transferred from one place to another place. But can't be transferred from one name to another.
- A person having an Employee's Provident Fund Account can open a Public Provident Fund Account since both are different.
- Once your account completes 15 years then following options are available to subscriber:
  (a) You can withdraw your whole amount.
  (b) You can extend for a 5 years block as many times as you wish.

6. Senior Citizen's Account

- As per the Government guidelines, people above the age of 60 years are treated as senior citizen.

- Senior Citizen accounts are normal savings accounts with the difference that an interest benefit of between 0.25% and 0.50% per annum or as decided by respective banks from time to time is given to the beneficiary account holder.
- This scheme became effective from April 19, 2001.
- In such accounts where a senior citizen opens a joint account, the first name in the account should be that of senior citizen only then the benefit of the scheme goes to senior citizen.
- The accounts under senior citizen scheme are applicable to those senior citizens who are residents of India.

NON-RESIDENT INDIAN (NRI) ACCOUNTS

Who is Non-Resident Indian?

Definition of NRI

Foreign Exchange Management Act (FEMA) 1999, defines a Non-Resident Indian as:

(a) A person resident outside India who is a citizen of India, i.e.

(i) Indian citizens who go abroad for employment or for carrying on any business or vacation etc. indicating indefinite period of stay outside India.

(ii) Indian citizens working abroad on assignments with Foreign Governments, Government Agencies or International/Multinational Monetary Fund (IMF), and World Bank etc.

(iii) Officials of Central and State Governments and Public Sector Undertaking deputed abroad on assignments with Foreign Govt. Agencies/Organization or posted to their own offices including Indian Diplomatic Missions abroad.

(b) A person of Indian origin who is a citizen of any country other than Bangladesh or Pakistan, if

(i) He, at any time, held an Indian passport.

(ii) He or either of this parents or any of its grand parents were a citizen of India by virtue of Constitution of India or Citizenship Act 1955 (57 of 1955)

(iii) The person is a spouse of an Indian Citizen or a person referred in sub clause b (i) or (ii) above.

The above definition of NRI in simple words means:

- A person of Indian nationality or origin, who resides abroad for business or vocation or employment, or having an intention of employment or vocation, when the period of stay abroad is indefinite.
- A person is of Indian origin is an NRI if he has held an Indian passport, or he/she or any of his/heir parents or grandparents were/are a citizen of India.
- While a spouse, who is a foreign citizen, of an Indian citizen or a person of Indian origin, is also treated as a person of Indian origin, for the purpose of opening of bank accounts and other facilities granted for investments into India, provided such accounts or investments are in the joint names of spouse.
- For instance, students going abroad for higher studies, are not NRIs, while, government officials going abroad on posting to Indian missions or World Bank, IMF, etc., are NRIs.
- Tourists on brief visit to foreign countries are not categorized as NRIs.

Types of NRI accounts and their features

Different types of non-resident accounts can be opened by banks in India. Their types, important features, requirements and operational aspects are briefly given below:

NRI Accounts-Rupee and Foreign Currency Accounts

A Non-resident Indian can open following types of accounts:

1. Non-resident (External) Rupee Account (NRE)
2. Non-resident Ordinary Rupee account (NRO)
3. Foreign Currency (Non-resident) Account (Banks) [FCNR(B)]

Features of Accounts

1. Non-resident (External) Rupee Account (NRE Accounts)

- NRE accounts can be opened and maintained by Non Resident Indians through any of the following modes:
  (i) remittances from abroad by way of TT, checks, drafts, or even transfer from another Non-Resident account.
  (ii) by tendering of foreign currency travellers cheques or notes by the NRI during his temporary visit to India, provided the bank is satisfied about his non-resident status.
- NRE account can be opened as Saving Bank account or Current Account, or Recurring Deposit Account or Term Deposit for a minimum period of one year.
- An NRI can open NRE accounts as Joint Accounts, in the name of two or more non-resident individuals. Such individuals could be of Indian nationality or Indian origin.
- Opening of NRE account, jointly with a person resident in India is not permitted.
- No lien is permitted to be marked on the balances held in NRE savings account.

Permitted Credits

The RBI has permitted the following important credits that can be put into the NRE accounts:

(a) Remittance to India in any permitted currency.
(b) Personal cheques drawn on foreign currency account of the account holder.
(c) Travellers cheques and bank drafts drawn in any permitted currency
(d) Foreign currency/bank notes tendered during his temporary visit.
(e) Transfer from any other NRE/FCNR (B) Accounts.
(f) Any other credit if covered under general permission or specific permission granted by Reserve Bank of India.

Permitted *debits*

The following debits are freely permitted in the NRE accounts:

(a) Local disbursements/payments
(b) Remittance outside India
(c) Transfer to any NRE/FCNR(B) Account
(d) Investments in shares/securities, etc.

Other facilities

NRE accounts also, offer following other facilities to NRI depositor:

(a) A cheque book facility in saving or Current account is allowed.

(b) Full repatriation of deposit amount including interest permitted.

(c) Maturity proceeds can be transferred to another bank, as desired by the depositor.

(d) Nomination facility is permitted. Nominee can be either resident or non-resident.

(e) Income by way of interest on balances held in NRE account is exempted from income tax as on date.

(f) Residents Indian can operate the account on the basis of power of attorney granted by account holder. However the power of attorney holder cannot repatriate funds outside India.

(g) Banks may allow temporary overdrawing up to Rs.50,000/- (at present) in NRE saving account, to be adjusted within 2 weeks of availment.

Interest on NRE Deposits

Interest varies from time to time at the discretion of the respective banks.

2. Non-resident Ordinary Rupee Account (NRO)

- NRO accounts are Rupee accounts.
- NRO accounts can be opened and maintained by any person resident outside India and also by Foreign Tourist, who are on a short visit to India on tourist visa.
- The new accounts can be opened by sending fresh remittances from abroad or by transfer of funds from NRO/NRE/FCNR accounts.
- When a resident becomes a non-Resident, his domestic Rupee account, is re-designated as an NRO account.
- NRO account of an NRI is just like any other domestic account, opened and maintained to facilitate credits which accrue in India from investments that were made prior to his leaving the country.
- NRO accounts can be opened in Indian rupees only as saving bank account, current account, recurring deposit account and term deposit account.
- Most of the regulations for interest rates, amount or tenor, etc., applicable to NRO accounts are similar to those for domestic deposit accounts.
- The interest on NRO accounts is subject to deduction of Income Tax at source, as prescribed from time to time by the appropriate authority.
- NRO accounts can be opened as Joint Accounts, with resident Indians.

Permissible Credits

The following credits are freely permitted to be credited to NRO accounts:

(a) Any remittance from abroad in permitted currency.

(b) Currency tendered during visit to India of the account holder.

(c) Any legitimate dues in India of the account holder can be credited to such account. For instance, rent, interest, dividend, and maturity proceeds of Units of UTI, LIC policy maturities, etc. can be credited.

Permissible Debits

- All local payments in Indian rupees.
- Remittance outside India of the account holder, net of applicable taxes. For example, interest, dividend, rent, etc. can be debited to such account.
- Any other transactions if covered under general or specific permission granted by RBI.

3. FOREIGN CURRENCY (NON-RESIDENT) ACCOUNT (BANKS), [FCNR (B) ACCOUNTS]

FCNR accounts are foreign currency accounts which can be opened and maintained by Non-Resident Indians, in *Designated Currencies* only, viz., US dollar, EURO, Great Britain Pounds, Japanese Yen,. Canadian dollar and Australian dollar as of now.

NRIs can open these accounts only in the form to Term Deposits, for a minimum period of ONE year and maximum period of FIVE years.

Joint accounts can be opened in the name of two or more non-resident individuals, who are persons of Indian nationality or Indian origin.

SEPA:

The Single Euro Payments Area (SEPA) is where more than 500 million citizens, over 20 million businesses and European public authorities can make and receive payments in euro under the same basic conditions, rights and obligations, regardless of their location.

The introduction of the euro has helped to make cash payments anywhere in the euro area just as easy as at home. But until recently it was not so easy to pay for goods or services electronically in another euro area country.

Permitted Credits and Debits

Credits permissible in FCNR (B) accounts are the same as that in NRE Rupee account. Other Facilities

(a) There is no exchange risk for the account holder as the account is maintained in foreign currency.

(b) Repatriation of principal amount along with interest is permitted.

(c) The interest on the deposit shall be paid on the basis of 360 days to a year, cumulative on half-yearly intervals of 180 days.

(d) Nomination facility is available.

(e) Income earned by way of Interest is exempted from income tax.

(f) No operation by way of power of attorney to the resident is permitted, since there are no local withdrawals.

(g) Forward Cover can be booked to hedge the balance held in FCNR account.

Interest on FCNR (B) accounts: Interest rate can vary from time to time as per the policy of the RBI and respective banks.

POST OFFICE SCHEMES

Post Office Savings Accounts - types and features

- Period / duration of the savings account is normal as in other cases.

- Rate of interest is 4% per annum.
- Interest is tax free up to Rs.10,000/=.
- Earlier maximum amount that could be accumulated in savings bank was Rs.2,00,000/= but now there is no limit.
- Cheque book facility is available.

Term Deposit Accounts

- These term deposits are for different periods, i.e. 1, 2, 3, and 5 years.
- Rate of interest per annum varies with duration or period of deposit. As on 31.3.2014 it is 8.2% for 1-2 year; 8.3% for 3 years and 8.4% for 5 years duration term deposits.
- Income tax benefit is available under section 80 C in case of term deposit for 5 years duration.
- Interest is chargeable quarterly.

Monthly Income Scheme (MIS)

- Duration of deposits under monthly income scheme is 5 years.
- Rate of interest as on 31.3.2014 is 8.4% p.a.
- No tax benefit is available in MIS of post office.

Senior Citizen Scheme (SCS)

- The senior citizen scheme is having deposit duration of 5 years.
- Rate of interest per annum is 9.2% as on 31.3.2014.
- Tax is deducted at source in SCS.
- There is no tax benefit in SCS. All existing income tax rules will apply in such accounts.
- A depositor may operate more than one account in individual capacity or jointly with spouse.
- Minimum age for opening such account is 60 years.
- Interest is chargeable on quarterly basis.
- Maximum amount that can be deposited in SCS is Rupees 15,00,000/=.
- Interest is paid on 31st March / 30th June / 30th September and 31st December every year.

Public Provident Fund Scheme

- The scheme is the same with the same features as discussed in earlier paragraph on PPF scheme

National Savings Scheme (VIII issue)

- The period is 5 years from the date of deposit.
- Minimum amount is Rs.100/=. No maximum limit prescribed.
- Denominations of certificates available are for Rs.100/-, 500/- 1000/-, 5000/- and Rs.10,000/=.
- Rate of interest is 8.5% p.a. as on 31.3.2014.

- Income Tax rebate is available under section 80C.
- Interest is chargeable half yearly and paid annually and is deemed to be reinvested.
- Any individual person can buy these certificates as an adult himself or on behalf of a minor; or a Trust can buy such certificates

National Savings Scheme (IX issue)

- Duration of such deposits is 10 years.
- Rate of interest is 8.8% p.a.
- Income Tax rebates is available under section 80 C of the Income Tax Act.
- Interest is chargeable half yearly and is deemed reinvested.

Opening of Post Office Accounts (Requirement of documents)

- One recent photograph (passport size) for individual cases and in case of joint accounts, photographs of all joint holders.
- **Any one of the following documents for identification of account holder:**
  - Election photo Identity card
  - Ration card with photograph
  - Passport
  - Driving License
  - Job card issued under MG-NREGA duly signed by an officer of State Government
  - Post office identity card
  - Identity card issued by Central/State government or PSU
  - Photo identity card issued by recognized university/education board/college/school
  - Aadhaar card with number and address (UIDAI).

For Address Proof any of the following one document

- Bank or post office passbook / Statement with current address.
- Passport with current address
- Ration card with current address
- Electricity bill not more than 3 month old.
- Telephone bill not more than 3 months old.
- Salary slip of reputed employer with current address
- Certificate from Public Authority/Postman or Gram Dak Sewak or Branch Postmaster
- UIDAI letter containing address and name of the prospective account opener.

Attestation of Documents

- Documents could be self-attested.
- In case of illiterate depositors should be attested by Gazetted Officer / Sarpanch / Branch Sub-head / Chief Post Master or Postman/ Gram Dak Sewak.
- In case money is invested / deposited through an agent, the agent can attest the same.
- In case savings go beyond Rs.50,000/=, a copy of PAN Card be obtained or Declaration form 60 be submitted.

PAST EXERCISE

1. As per the newspaper reports, some economically developed states only hold about 60% of the total 'Demat Accounts' in India. A demant Account is **[BOI 2008]**
   (a) an account which is opened by the people of the lower income groups of society.
   (b) an account in which trading of the shares is done.
   (c) an account which can be opened only by minors.
   (d) an account which can be operated by big corporate houses and are mainly business accounts like current acounts.
   (e) None of these
2. What is an Indian Depository Receipt? **[BOB 2008]**
   (a) A deposit account with a public Sector Bank
   (b) A depository account with any of the Depositories India
   (c) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company
   (d) An instrument in the form of deposit receipt issued by Indian depositories
   (e) None of these
3. What is Call Money? **[BOB 2008]**
   (a) Money borrowed or lent for a day or overnight
   (b) Money borrowed for more than one day but up to 3 days
   (c) Money borrowed for more than one day but up to 7 days
   (d) Money borrowed for more than one day but up to 14 days
   (e) None of these
4. Many a time we read a term 'SEPA' in financial newspapers. What is the full form of the term? **[UBI 2009]**
   (a) Single Exchange Processing Agency
   (b) Single Euro Payments Area
   (c) Single Electronic Processing Agency
   (d) Super Electronic Purchase Agency
   (e) None of these
5. What is Forex ? **[Punjab & Sindh 2011]**
   (a) It is buying of foreign currency.
   (b) It is selling of foreign currency.
   (c) It is buying of one currency and selling of another currency.
   (d) It is simultaneous buying of one currency and selling of another currency.
   (e) None of these
6. Which of the following is not a part of the scheduled banking structure in India ? **[Corporation Bank 2011]**
   (a) Money Lenders
   (b) Public Sector Banks
   (c) Private Sector Banks
   (d) Regional Rural Banks
   (e) State Co-operative Banks
7. Which of the following is not a part of the scheduled banking structure in India? **[Indian Overseas Bank 2011]**
   (a) State Co-operative Banks
   (b) Public Sector Banks
   (c) Private Sector Banks
   (d) Regional Rural Banks
   (e) Moneylenders
8. Which of the following is the most active segment of the money market in India? **[Indian Overseas Bank 2011]**
   (a) Call Money/Notice Money Market
   (b) Repo/Reverse Repo
   (c) Commercial Paper (CP)
   (d) Certificate of Deposit (CD)
   (e) None of these
9. Govt of India has created a special fund called India Micro Finance Equity Fund of ₹ 100 crores. The fund is maintained by **[Corporation Bank 2011]**
   (a) IDBI Bank (b) RBI
   (c) ECGC (d) SIDBI
   (e) NABARD
10. Accounts are allowed to be operated by cheques in respect of **[IBPS 2011]**
   (a) Both savings bank accounts and fixed deposit accounts
   (b) Savings bank accounts and current accounts
   (c) Both savings bank accounts and loan accounts

(d) Both savings bank accounts and cash accounts only
(e) Both current accounts and fixed deposit accounts

11 Which of the following is a correct statement? **[IBPS 2011]**
(a) Normally no interest is paid on current deposit accounts.
(b) Interest is paid on current accounts at the same rate as term deposit accounts.
(c) The rate of interest on current account and savings account are the same.
(d) No interest is paid on any deposit by the bank.
(e) Savings deposits are the same as current deposits.

12. The usual deposit accounts of banks are **[IBPS 2011]**
(a) Current accounts, electricity accounts and insurance premium accounts
(b) Current accounts, post office savings bank accounts and term deposit accounts
(c) Loan accounts, savings bank accounts and term deposit accounts
(d) Current accounts, savings bank accounts and term deposit accounts
(e) Current bill accounts and term deposit accounts

13. Fixed deposits and recurring deposits are **[IBPS 2011]**
(a) repayable after an agreed period.
(b) repayable on demand.
(c) not repayable.
(d) repayable after death of depositors.
(e) repayable on demand or after an agreed period as per bank,s choice.

14. Interest on savings bank account is now calculated by banks on **[IBPS 2011]**
(a) minimum balance during the month
(b) minimum balance from 7th to last day of the month
(c) minimum balance from 10th to last day of the month
(d) maximum balance during the month
(e) daily product basis

15. With a view to facilitating payment of balance in the deposit account to the person named by the depositor without any hassles in the event of death of the account holder, the following facility was introduced for bank accounts in our country: **[IBPS 2011]**
(a) Will (b) Registration
(c) Nomination (d) Indemnity
(e) Guarantee

16. Banks in our country normally publicise that additional interest rate is allowed on retail domestic term deposits of **[IBPS 2011]**
(a) Minors (b) Married women
(c) Senior citizens (d)Govt employees
(e) Rural residents

17. Drawing, accepting, making or issuing of any promissory note, hundi or bill of exchange expressed to be payable to bearer on demand by a person other than the Reserve Bank of India or the Central Government is prohibited under **[IBPS 2011]**
(a) Banking Regulation Act, 1949
(b) Section 31 (1) of the Reserve Bank of India Act, 1934
(c) Negotiable Instruments Act, 1881
(d) Indian Contract Act, 1872
(e) None of the above

18. A bank without any branch network that offers its services remotely through online banking, telephone/mobile banking and interbank ATM network alliances is known as **[IBPS 2013]**
(a) Universal Banking
(b) Indirect Bank
(c) Door Step Bank
(d) A Direct Bank
(e) Unit Banking

19. Which of the following is an investment advisory discipline? **[IBPS 2013]**
(a) Corporate Industrial Finance
(b) Offshare Banking
(c) Wholesale Banking
(d) Wealth Management
(e) Trade Finance

ANSWER KEY

1.	(b)	**2.**	(c)	**3.**	(a)	**4.**	(b)	**5.**	(d)	**6.**	(a)	**7.**	(e)
8.	(a)	**9.**	(d)	**10.**	(b)	**11.**	(a)	**12.**	(d)	**13.**	(a)	**14.**	(c)
15.	(c)	**16.**	(c)	**17.**	(b)	**18.**	(d)	**19.**	(d)				

PRACTICE EXERCISE

1. Consider the following statements:
   1. In Indian Commercial Banking System, the number of the Non-scheduled Bank is more than the Scheduled Banks.
   2. The Non-scheduled Banks in Indian Commercial Banking Systems are even less than a dozen in number.

   Which of the statements given above is/are correct?
   (a) Only 1 (b) Only 2
   (c) Both 1 and 2 (d) Neither 1 nor 2
   (e) Can't say
2. Which one of the following banks can be included in the Scheduled Commercial Banking System of India?
   (a) Regional Rural Banks
   (b) Private Sector Banks
   (c) Foreign Banks in India
   (d) All of the above
   (e) None of the above
3. Match the following:

List I	List II
A. Allahabad Bank	1. Delhi
B. Central Bank of India	2. Kolkata
C. Indian Overseas Bank	3. Mumbai
D. Punjab National Bank	4. Chennai

Codes:

	A	B	C	D
(a)	2	4	3	1
(b)	2	3	4	1
(c)	4	3	2	1
(d)	4	1	3	2
(e)	1	2	3	4

4. Consider the following statements:
   1. Scheduled Commercial Banks are those which have been included in the First Scheduled of RBI Act, 1934.
   2. Non-scheduled Commercial Banks are those which have been included in the Second Scheduled of RBI act, 1934.

   Which of the statements given above is/are correct?
   (a) Only 1 (b) Only 2
   (c) Both 1 and 2 (d) Neither 1 nor 2
   (e) Can't say
5. A scheduled bank is the one which is included in the
   (a) II Schedule of Banking Regulation Act
   (b) II Schedule of Constitution
   (c) II Schedule of RBI Act
   (d) All of these
   (e) None of these
6. Presently, the number of the public sector banks in India is
   (a) 8 (b) 20
   (c) 28 (d) 14
   (e) None of these
7. Which of the following is popular 'saving bank' among the poor children?
   (a) Core banking
   (b) Credit banking
   (c) Debit banking
   (d) Merchant banking
   (e) Piggy banking
8. Who is a very senior citizen?
   (a) A person who is 65 years and above
   (b) A person who is 75 years and above
   (c) A person who is 80 years and above
   (d) A person who is 90 years and above
   (e) A person who completed 100 years of age
9. When banks accept fixed sum of money from an individual for a definite term and pay on maturity with interest, the deposit is known?
   (a) Term deposit
   (b) Demand deposit
   (c) Bond
   (d) Mortagage
   (e) Advance
10. Which one of the following whose activities are not systematically coordinated by the monetary authority?
    I. Organised sector
    II. Unorganised sector
    III. Co-operative sector

Select the correct answer using the codes given below
(a) Only II (b) I and III
(c) Only I (d) II and III
(e) Only III

11. Which one of the following dominate the organised sector?
(a) RBI
(b) Commercial Bank
(c) Co-operative Bank
(d) RRBs
(e) SBI

12. National Saving Scheme (NSS-922) has been closed by the government since
(a) 1st November, 1999
(b) 1st November, 2000
(c) 1st November, 2001
(d) 1st November, 2002
(e) 1st November, 2003

13. Match the following:

	List I		**List II**
A.	Agricultural Sector	1.	Unit Fund
B.	Industrial Sector	2.	Enacted by Parliament in 1976
C.	Unorganised Sector	3.	NABARD
D.	RRB	4.	Public Issue

Codes:

	A	B	C	D		A	B	C	D
(a)	3	4	1	2	(b)	4	3	2	1
(c)	1	2	3	4	(d)	3	2	4	1
(e)	2	3	1	4					

14. A scheduled bank is one
(a) which conforms to the requirements of Schedule III of the Banking Regulation Act, 1949
(b) which has been declared as a scheduled bank by the Government of India
(c) which has deposits exceeding ` 10 crore
(d) which has its name added to the second schedule of the Reserve Bank of India Act, 1934
(e) None of the above

15. Which of the following can be identified as a demat account?
(a) Accounts which can have zero balance
(b) Accounts opened to facilitate repayment of loan
(c) Accounts in which shares of companies are traded in electronic form
(d) Accounts maintained by mutual fund companies for investors
(e) None of the above

16. Which of the following is not a money market instrument?
(a) Treasury Bills
(b) Commercial Paper
(c) Certificate of Deposit
(d) Equity Share
(e) None of these

17. Treasury Bills means
(a) salary bills drawn by Government officials on the treasury
(b) bills drawee by the Government contractors and other suppliers on the treasury for the dues owed to them by the Government
(c) obligation of the Government of India issued by the Reserve Bank of India and payable normally 91 days after issue
(d) a mode of drawings by the Treasury Office on the Reserve Bank of India
(e) None of the above

18. Which one of the following countries is the first borrower of fund from the International Monetary Fund?
(a) United States (b) France
(c) Spain (d) India
(e) Sri Lanka

19. Which one of the following statements is true regarding IMF?
(a) It is not an agency of UNO
(b) It can grant loan to any country of the world
(c) It can grant loan to State Government of a country
(d) It grants loan only to member nations
(e) All of the above

20. Voting rights in the IMF are distributed on the basis of
(a) one country, one vote
(b) proportion to the share of the income of the country in the world income

(c) proportion to contributions given by each country
(d) proportion to quota allotted to countries from time to time
(e) None of the above

21. The headquarters of IMF and World Bank are located at
(a) Geneva and Montreal
(b) Geneva and Vienna
(c) New York and Geneva
(d) Washington DC
(e) Nigeria

22. Which one of the following institutions publish the report of 'World Economic Outlook'?
(a) IMF (b) World Bank
(c) RBI (d) UNCTAD
(e) Citi Bank

23. The capital of IMF is made up by contribution of the
(a) credit
(b) deficit financing
(c) member nations
(d) borrowing
(e) All of these

24. Special drawing right is an international practice of drawing funds. Which of the following institutions control this special finding facility?
(a) World Bank
(b) Asian Development Bank
(c) Federal Reserve
(d) European Common Market
(e) All of the above

25. Nationalised banks have been permitted to offer their equity shares to the public to the extent of 49% of their capital as per amendments made in 1994, in
(a) Banking Regulation Act, 1949
(b) Banking Companies (Acquisition and Transfer of Undertakings) Acts 1970/1980
(c) RBI Act, 1935
(d) Nationalisation of Banks Act, 1980
(e) None of the above

26. How many banks are presently associates of State Bank of India?
(a) 8 (b) 7
(c) 6 (d) 5
(e) 4

27. The paid-up capital of non-scheduled bank is less than
(a) ₹ 5 lakh (b) ₹ 10 lakh
(c) ₹ 12 lakh (d) ₹ 15 lakh
(e) None of these

28. A foreign bank is one
(a) whose most of the branches are situated outside India
(b) in which atleast 40% equity shares are held by non-resident Indians
(c) which is incorporated outside India
(d) All of the above
(e) None of the above

29. How many banks are presently nationalised banks in India?
(a) 14 (b) 15
(c) 19 (d) 20
(e) 6

30. Which of the following are the scheduled banks?
(a) State Bank of Mauritius Limited
(b) HDFC Bank Limited
(c) ICICI Bank
(d) None of the above
(e) All of the above

31. Which of the following is not the part of the scheduled banking structure in India?
(a) Money lenders
(b) Public sector banks
(c) Private sector banks
(d) Regional rural banks
(e) State co-operative banks

32. BCSBI stands for
(a) Banking Codes and Standards Board of India
(b) Banking Credit and Standards Board of India
(c) Banking Codes and Service Board of India
(d) Banking Credit and Service Board of India
(e) None of the above

33. Scheduled bank means a bank
(a) incorporated under the Companies Act, 1956
(b) authorised to transact government business
(c) governed by the Banking Regulation Act, 1949

(d) included in the Second Schedule to the Reserve Bank of India Act, 1934
(e) All of the above

34. 'Unit Banking System' is that system where an individual bank undertakes the banking business
(a) through a single office
(b) through a few branches operating within a limited area
(c) Both (b) and (c)
(d) All of the above
(e) None of the above

35. Savings account with zero balance can be opened for
(a) persons of high net worth
(b) employees of IT companies
(c) weaker sections of society
(d) women customers
(e) None of the above

36. Which of the following is not a public sector bank?
(a) State of Hyderabad
(b) Central Bank of India
(c) Regional Rural Bank
(d) HDFC Bank
(e) None of the above

37. In economics, it is generally believed that the main objective of a public sector financial company like bank is to
(a) employ more and more people
(b) maximise total profits
(c) maximise total production
(d) sell the goods at subsidised cost
(e) All of these

38. Which of the following is not required for opening a bank account?
(a) Identity proof
(b) Address proof
(c) Recent photographs
(d) Domicile certificate
(e) None of the above

39. Consider the following statements:
I. If the beneficiary of a cheque has lost the cheque, he can instruct the paying bank to stop payment of the cheque without waiting for the account holder's instruments.
II. While outsourcing, the only consideration should be cost savings.

Which of the statements given above is/are correct?
(a) Only I (b) Only II
(c) Both I and II (d) Neither I nor II
(e) Either I or II

40. Which of the following statements is incorrect regarding a minor?
(a) A minor is a person who has not attained the gas of 18
(b) Minor does not have legal capacity to enter into a contract
(c) A current account in the name of minor can be opened when guardian of the minor operates this account
(d) A minor's account should never be allowed to be overdrawn
(e) In the event of death of a minor, the money will be payable to the guardian

41. RBI has deregulated interest rate for savings accounts. What does it suggest?
(a) Customers will get the benefit of higher interest rates
(b) Banks will have the right to fix their interest rates independently
(c) Each bank will have their respective interest rates without the need to adhere to fixed interest rate common to all banks
(d) Banks will decide interest rates for individual customers according to their savings.
(e) None of these

42. A money deposited in a bank that cannot be withdrawn for a present fixed period of time is known as a
(a) term deposit
(b) checking account
(c) savings bank deposit
(d) no frills account
(e) current deposit

43. Mahesh and Suresh are friends aged 14 and 15 respectively. They want to open a joint account in your bank. You will
(a) allow them to open a joint account to be operated jointly
(b) allow them to open a joint account with operating instructions either or survivor
(c) allow them to open a joint account with operating instructions former or survivor

(d) allow them to open a joint account with operating instructions any one or survivor
(e) None of these

44. Mangalam village became the first village in India where all households were provided banking facilities. Mangalam village is situated in which of the following Union Territories?
(a) Delhi
(b) Chandigarh
(c) Puducherry
(d) Daman and Diu
(e) Andaman Nicobar

45. How does a bank establish the identity of a customer?
(a) By getting introduction of an existing customer
(b) By following KYC norms
(c) By taking AADHAR card copy
(d) All of the above
(e) None of the above

46. While discussing investments, there is mention of short-term government security. What is this type of investment known as?
(a) Debenture (b) Mutual fund
(c) Treasury bill (d) Share
(e) All of these

47. The commercial banking system in India consists of
(a) nationalised banks and private sector banks
(b) scheduled and non-scheduled banks
(c) regional rural banks, Co-operative banks land development banks
(d) All of the above
(e) None of the above

48. An institution which accepts deposits, makes business loans and offers related services is called
(a) Saving bank
(b) Commercial bank
(c) Investment bank
(d) Development bank
(e) Central bank

49. Money deposited with the bank becomes a debt due
(a) from the banker
(b) from the customer
(c) to the customer
(d) Either (a) and (b)
(e) None of these

50. Savings account with zero balance can be opened for
(a) persons of high net worth
(b) employees of IT companies
(c) weaker sections of society
(d) women customers
(e) None of the above

51. Who amongst the following cannot open an account in any bank in India?
(a) One who is not earning regularly
(b) A housewife
(c) A student of 10th standard
(d) A farmer who owns a small piece of land
(e) An individual who is well to do and his source of income in not known

52. In case a depositor is a sole proprietor and holds deposits in the name of the proprietory concern as well as in the individual capacity, the maximum insurance cover is available up to
(a) ₹ 100000 (b) ₹ 200000
(c) ₹ 500000 (d) All of these
(e) None of these

53. In case of FCNR (2) Scheme, the period for fixed deposits is
(a) as applicable to resident accounts
(b) for terms not less than 1 year and not more than 5 years
(c) for terms not less than 2 years and not more than 6 years
(d) at the discretion of the bank
(e) None of the above

54. Which of the following are the scheduled banks?
(a) The Fuji Bank Limited
(b) IDBI Bank Limited
(c) Centurian Bank of Punjab Limited
(d) All of the above
(e) None of the above

55. Small savings Scheme like National Savings Certificates, Public Provident Fund, Monthly Income Schemes are popular among the salaried people. Which financial institutions manage these schemes?
(a) Public sector banks
(b) Commercial banks
(c) Post offices
(d) Co-operative banks
(e) Private sector bank

56. Which of the following statements about UCBs undertaking insurance business is/ are correct?
    (a) No UCB should undertake insurance agency business without obtaining its prior permission
    (b) The Reserve Bank has allowed all primary (Urban) co-operative banks to undertake insurance business on a referral basis, without any risk participation through their network of branches
    (c) The banks need not obtain prior approval of the Reserve Bank to undertake referral business
    (d) All of the above
    (e) None of the above
57. In July 1969, how many commercial banks were nationalised?
    (a) 13 (b) 14
    (c) 15 (d) 16
    (e) 20
58. The maximum period for which a fixed deposit can be accepted by a commercial bank is
    (a) 10 years (b) 15 years
    (c) No limit (d) 8 years
    (e) None of these
59. The rate of interest payable on a bank deposits is determined by
    (a) Indian Bank's Association
    (b) the bank concerned
    (c) RBI
    (d) Finance Ministry
    (e) None of the above
60. Zero balance account is generally allowed to be opened for
    (a) salaried class
    (b) businessmen
    (c) foreign customers
    (d) children
    (e) senior citizens
61. In our country, now a cheque remains valid for payment for .... from the date of issue.
    (a) 3 months (b) 6 months
    (c) 9 months (d) 12 months
    (e) 18 months
62. 'Nomination' for a Deposit account in the bank means
    (a) mandate given by the close relative(s) of the depositor, to settle the death claim in case of death of the depositor
    (b) mandate decided by the bank to settle the death claim of its depositor
    (c) mandate of the depositor in favour of one or more persons, to claim the amount on death of the depositor
    (d) mandate of the depositor in favour of a close relative who can claim the amount on death of the depositor
    (e) court order instructing the banks to settle the death claim of its depositor
63. New private banks are being given licences since
    (a) 1991 (b) 1992
    (c) 1993 (d) 1995
    (d) 2001
64. Crossing of cheques makes them
    (a) invalid document
    (b) ineligible to endorse to person other than the payee
    (c) remain the same in all respect, it is only a practice
    (d) eligible for payment irrespective of sufficient balance in the account
    (e) ineligible to get cash across the bank counter
65. When a bank dishonors a cheque.
    (a) it is called settlement of the cheque
    (b) it is called withdrawing of the cheque
    (c) it is called nullifying of the cheque
    (d) it is called truncating of the cheque
    (e) it is called return of the cheque unpaid
66. In a bank which of the following are the usual types of Deposits accounts?
    (a) Savings accounts, Electricity accounts and Insurance Premium accounts
    (b) Fixed deposits, Post office Savings Bank accounts and Current Deposit accounts
    (c) Current Accounts, Saving Bank accounts and Term Deposit accounts
    (d) Loan accounts, Savings Bank accounts and Term Deposit accounts
    (e) Current Bill accounts and Term Deposits accounts

67. Which of the following cannot be called as a value added service offered by a bank?
    (a) Special accounts for poor sections of society
    (b) Accident insurance cover
    (c) Instant credit of outstation cheques
    (d) Free cheque books
    (e) All of these
68. An account in which trading of shares in their electronic form is done, is known as
    (a) D-mat account
    (b) NRI account
    (c) NRIO account
    (d) Current account
    (e) None of these
69. A Savings Bank Account opened with a commercial bank with zero balance or very minimal balance is known as
    (a) Savings Bank Ordinary account
    (b) Student Savings Bank account
    (c) No-Frill account
    (d) Current account
    (e) Call deposit
70. Travellers cheque is
    (a) a supplementary credit card
    (b) a cheque issued by a bank or finance institution which functions as capital
    (c) a certificate issued by a bank or finance institution in lieu of cash
    (d) a cheque issued by a bank or finance institution which functions as a bond
    (e) a prepaid instrument issued by a bank or finance institution which can be substitute of cash
71. For availment of refinance from National Housing Bank, scheduled commercial bank has to satisfy which of the following conditions?
    (a) The capital adequacy ratio of the banks should be as per the norms prescribed by the Reserve Bank of India
    (b) The net non-performing assets to the net advances of the bank should not exceed 10%
    (c) The scheduled commercial bank has earned profit for the last 2 years
    (d) All of the above
    (e) None of the above
72. A current account in a bank means
    (a) in which balances are kept high
    (b) interest is not paid on the balance in the account
    (c) in which transactions should take place daily
    (d) availing credit facilities
    (e) None of these
73. Which of the following methods is being adopted by Banks for calculating and applying interest on Savings Bank accounts?
    (a) On monthly products based on minimum balance between 10th and last working day.
    (b) Daily balance is counted and interest is paid accordingly
    (c) On average quarterly balance.
    (d) On average half yearly balance.
    (e) None of the above.
74. The main function of IMF is to
    (a) give financial investment loans to devoloping countries
    (b) act as a private sector lending arm of the World Bank
    (c) help of solve balance of payment problems of member countries
    (d) arrange international deposits from banks
    (e) None of the above
75. How many banks are there in public sector at present ?
    (a) 28 (b) 27
    (c) 19 (d) 20
    (e) None of these

ANSWER KEY

1.	(b)	**2.**	(d)	**3.**	(b)	**4.**	(b)	**5.**	(c)	**6.**	(c)
7.	(e)	**8.**	(a)	**9.**	(a)	**10.**	(a)	**11.**	(b)	**12.**	(d)
13.	(a)	**14.**	(d)	**15.**	(c)	**16.**	(d)	**17.**	(c)	**18.**	(b)
19.	(d)	**20.**	(d)	**21.**	(d)	**22.**	(a)	**23.**	(c)	**24.**	(a)
25.	(b)	**26.**	(d	**27.**	(a)	**28.**	(c)	**29.**	(d)	**30.**	(e)
31.	(a)	**32.**	(a)	**33.**	(d)	**34.**	(d)	**35.**	(c)	**36.**	(d)
37.	(d)	**38.**	(d)	**39.**	(d)	**40.**	(c)	**41.**	(c)	**42.**	(a)
43.	(a)	**44.**	(c)	**45.**	(d)	**46.**	(c)	**47.**	(b)	**48.**	(b)
49.	(b)	**50.**	(c)	**51.**	(c)	**52.**	(a)	**53.**	(b)	**54.**	(b)
55.	(c)	**56.**	(e)	**57.**	(b)	**58.**	(a)	**59.**	(b)	**60.**	(a)
61.	(a)	**62.**	(d)	**63.**	(c)	**64.**	(b)	**65.**	(e)	**66.**	(c)
67.	(b)	**68.**	(a)	**69.**	(c)	**70.**	(e)	**71.**	(d)	**72.**	(b)
73.	(b)	**74.**	(c)	**75.**	(b)						

CHAPTER

3

Reserve Bank of India—Structure and Functions

IMPORTANT POINTS TO REMEMBER

Every country has its own central bank which controls and handles the monetary affairs of the country. For instance central bank of USA is called the Federal Reserve Bank, the central bank of UK is Bank of England and the central bank in China is known as the People's Bank of China and so on.

The Reserve Bank of India (RBI) is the central bank of the country. It was established on April 1, 1935 under the Reserve Bank of India Act, 1934.

The basis of the establishment of RBI was the recommendations given by a Committee called 'Hilton Young Commission' established by the then British Government in India.

It started as a private bank with private shareholding as was in vogue in most foreign central banks of the world operating at that point of time.

When RBI was established, its capital was fixed at Rupees 5 crore i.e. Rupees 50 million).

When the RBI was established, it took over the functions of currency issue from the Government of India and the power of credit control from the then Imperial Bank of India.

Initially RBI had its headquarter in Calcutta (now Kolkata) but soon shifted its headquarter to Bombay (now Mumbai) in 1937.

However from January 1, 1949, RBI was nationalized by the Government through an Act called Transfer of Public Ownership Act, 1948.

The RBI Act covers whole of India in terms of supervision, control and guidance/ directions to financial institutions in India.

STRUCTURE, MANAGEMENT AND FUNCTIONS

Reserve Bank of India is operating as a corporate body. It has its common seal and is an on-going concern with perpetual succession.

The organizational structure of RBI is through the Central Board of Directors (CBD). The Transfer of Public Ownership Act provides for the constitution of CBD and Local Board by the Central Government. The CBD has of 20 members (as on date). Besides these members, RBI has one Governor, four Deputy Governors appointed by the Central Government. Their tenure in office is 5 years for Governor and 4 years for Deputy Governors. Also in the organizational structure are Executive Directors.

Presently Mr. Raghuraj Ranjan is the 23rd Governor of Reserve Bank of India, who took over the charge from Dr. Y.V. Reddy. To start with the first person appointed as the Governor of RBI was Sir Osborne Smith.

The RBI Act provides that CBD conducts one meeting every quarter and at least 6 meetings in a year.

RBI at present has 22 Regional Offices located mostly in the State Capitals / UTs. The jurisdiction of RBI as per the RBI Act of 1934 extends to all the States and Union Territories.

The Local Boards have been formed in four major centers of the country, viz. Mumbai, Kolkata, New Delhi and Chennai.

The general control, superintendence and directions regarding the working of banks in India remain with the Central Board of Director through its Governor and Deputy Governors and other executives.

One Director each from Local Boards is nominated to the CBD by the Central Government. Nearly 10 Directors are nominated by GOI besides one Central Government official.

Reserve Bank of India besides being named as 'bank' does not fall in the category of commercial banks because it does not do the business of banking as defined in the Banking Regulation Act i.e. accepting deposits and lend money to people as done by commercial banks.

RBI controls the changes in the stock of market because firstly, such changes exert a powerful influence on prices, secondly, greatly influence output and distribution of income and wealth, which in turn influence employment and lastly it helps in balancing income and wealth distribution.

MONETARY POLICY OBJECTIVES OF RBI

RBI normally declares the monetary policy twice a year. These policies are called busy season policy (declared in October every year) and slack season policy (declared in April every year).

The objective behind such monetary policy is to:

- ensure price stability of commodities in the country
- ensure balanced credit expansion
- ensure growth of long term investments in the economy
- ensure proper balance of exports and imports.
- Encourage food procurement operations
- Ensure proper distribution of credit to all sectors of the economy.

In order to achieve these objectives RBI resorts to various methods / techniques, like:-

- Open Market Operations
- Interest Rates management on loans and advances by banks
- Bank Rate Mechanism
- Maintaining proper SLR (Statutory Liquidity Ratio) and CRR (Cash Reserve Ratio)
- Credit Rationing through Selective Credit Control (now withdrawn)
- Moral Suasion
- Exchange Control Mechanism

FUNCTIONS OF RBI

- Reserve Bank of India as a central monetary authority of India, like in any other Central Bank of any country, is empowered to guide, monitor, regulate, control and promote the past, present and future of the financial system of the country.
- RBI is performing such functions since 1935 after its inception as empowered by the Reserve Bank of India Act, 1934 and Banking Regulation Act, 1949.
- As a Central Bank of the country, the RBI performs a wide range of functions. Among various functions important are:

- Acts as the currency authority
- Controls money supply and credit
- Manages foreign exchange
- Serves as a banker to the government
- Builds up and strengthens the country's financial infrastructure
- Acts as the banker of commercial banks
- Supervises banks.

Reserve Bank of India performs various functions to manage the monetary system of the country. These functions include:

1. Reserve Bank of India under the RBI Act, Section 22 is solely responsible for the issuance of currency notes excluding rupee one note which issued by Finance Secretary of the Government of India. RBI regulates the issuance of the notes in India mainly to bring confidence among people of genuineness, quality and credibility of money issued besides bringing in uniformity in issuance of notes. Due to single authority there is effective control on flow of credit in and out of the market.
2. RBI acts as banker to commercial banks.
3. RBI conducts banking and financial operations of the Government of India and advises on various financial and economic issues.

   While handling the Government business, RBI maintains government accounts, advises on monetary matters including financial aspects, besides carrying out Government business as and when required.
4. It provides financial accommodation to cooperative banking sector for financing special sectors of the economy like agriculture etc.
5. Bank performs the function of controller of exchange value of rupee vs. US dollar.
6. As a guide and controller of banking and financial sector, RBI appoints CEOs of Banks and put its members of the Boards of the Bank to ensure proper Governance and sound banking practices.
7. As a developmental function, RBI promotes various specialized institutions. It has promoted IDBI (Industrial Development Bank of India), NABARD (National Bank for Agriculture & Rural Development), Small Industrial Development Bank of India (SIDBI), Deposit Insurance & Credit Guarantee Trust for Small and Medium Enterprises (DI & CGTSME) / Export Credit Guarantee Corporation of India (ECGC) etc.
8. RBI issues monetary policy twice a year to provide guidance to flow of credit and safety measures to the banking and financial sector. It issues busy season policy in October every year and slack season policy in May-June. This sets the tone for the money market as well as financial activities.
9. For good governance, RBI resorts to moral suasion on banking and financial sector.
10. It disseminates financial data on banking, economy and other aspects of monetary aspects.
11. RBI is sole authority to handle overall monetary and credit policy in the country.
12. To regulate the flow of credit in the economy RBI also resorts to selling and purchasing of short term or even long term securities.
13. RBI provides 'ways and means' credit facility to the Government of India and State Governments in order to overcome tight money position between payment and receipt of the client. The period of such 'ways and means' credit is maximum 90 days (3 months).

Such power to lend money to governments is given under section 17 (5) of Reserve Bank of India Act, 1934.

14. RBI also acts as a lender of the last resort, which means meeting the genuine financial requirements of commercial banks.
15. Management of raising of finance by the Government and issuance of new loans/advances on behalf of the Government of India / State Government is handled by the Public Debt Office of the Reserve Bank of India.
16. It regulates the credit flow in the market by using credit control instruments like bank rate, open market operations and power to vary reserve ratios like cash reserve ratio (CRR) and statutory liquidity ratio (SLR). These two ratios are most important tools for maintaining liquidity in the financial system, particularly banking system.
17. Bank Rate, CRR and SLR are some of the quantitative steps that RBI can take from time to time to control flow of money and to control inflation.

1. Statutory Liquidity Ratio (SLR)

- Reserve Bank of India exercises direct control over the liquidity of the banking system. RBI is the only authority to effect changes in the liquidity position of banks based on demand and time liabilities.
- As per Section 5 (f) of the Banking Regulation Act, 1949 'demand liabilities' means those liabilities that are to be met on demand.
- Banks are also required to maintain a portion of their deposit liabilities in the form of **liquid assets** i.e. bonds etc. This is called Statutory Liquidity Ratio. As on 15.6.2014 the SLR fixed by RBI is 22.5 per cent reduced by 0.5 per cent from 23 per cent.
- Liquid assets to be maintained are in the form of cash, gold and unencumbered approved securities as per section 24 of the Banking Regulation Act, 1949.
- As and when RBI **increases** the SLR, reduces the funds supply in the market, thus reducing the lendable resources with commercial banks. Vice versa when SLR is **reduced** it will increase the funds with banks for onward lending.

2. Cash Reserve Ratio (CRR)

- Banks are required to deposit with reserve bank of India an amount equal to the percentage of deposits with respective bank in the ratio prescribed by RBI from time to time. This is called Cash Reserve Ratio (CRR).
- This is mainly done to provide stability to the economy. In simple words CRR is the proportion of funds banks have to deposit with the Reserve Bank of India. It change from time to time is part of economic policy to control inflation etc. Any change in CRR percentage means either increased availability of funds with the banks or reduced funds available in the market.
- Unchanged CRR means no additional funds available for banks to lend.

3. Bank Rate

It means the rate of interest at which RBI buys or rediscounts the bills of exchange including commercial papers etc. as permissible under RBI Act, 1934. As per the need of the hour, RBI raises the Bank Rate in order to squeeze the credit expansion whereas it reduces the Bank Rate when it needs to allow more flow of credit in the economy.

4. Repo Rate

Repo Rate is the rate **at which** banks borrow from the Reserve Bank of India (RBI). A lower repo rate means bank's borrowing cost will go down which could prompt banks to cut lending rates.

5. Reverse Repo Rate

Reverse repo rate means the rate of interest at Which RBI borrows from the banks.

Objectives of Monetary Policy

(a) Ensures price stability
(b) Controls expansion of bank credit
(c) Promotion and development of fixed investments
(d) Controls inventory build up by some individuals
(e) Export promotion
(f) Ensures proper food procurement operations.
(g) Uniform credit distribution among various sectors of the economy and society.

Techniques Used by RBI to Manage and Control Monetary System

1. Open market Operations
2. Bank Rate Mechanism
3. Discretionary control of refinance and rediscounting
4. Interest Rate (Repo rate and reverse repo rate) control
5. CRR and SLR mechanism
6. Credit rationing
7. Credit reporting
8. Selective Credit Control when need arises
9. Credit reporting system to RBI
10. Inventory and credit norms
11. Moral suasion

LICENSING OF BANKS

- Any person, group of persons or company who/which wishes to start a banking company in India is required to take prior permission / licence from the Reserve Bank of India vide section 22 of the Banking Regulation Act, 1949.
- Before granting licence, RBI gets itself satisfied on various terms like:
  - Location of bank
  - Availability of sufficient capital. As of now minimum capital for opening a new bank is Rupees 500 crore. This may vary from time to time. Initially, minimum capital required for opening a new bank was only Rupees 5 lakhs. The minimum capital to be decided by RBI is as per the Banking Regulation Act, section11.
  - Ensure that bank will serve the cause of people (depositors).
  - Ensure that bank will not work detrimental to the interest of the country.

- Banks are required to transfer from their annual profits, minimum 20 per cent to the reserves.
- A bank opened as public sector undertaking is not required to any permission or licence from RBI.

Bank Holiday

A bank holiday in India is a public holiday which is declared specially for the Banks and other Financial Institutions. Not all public holidays are classified as Bank Holidays. Bank Holidays are declared by Central/State Governments/ Union Territory under the Negotiable Instruments (NI) Act, 1881.

BRANCH LICENCING (OPENING OF NEW BRANCHES)

- As a part of their function to control the business of banking in India and ensure the availability and access of banking facilities to all citizens of the country, RBI exercises the power to control opening/expansion of new branches in the country. Banking Regulation Act, section 23 makes it obligatory for the bank to take prior permission from RBI to open any new branch.
- RBI before granting the permission to open new branch in an area in India gets itself satisfied on some of the following important aspects:
  - availability of banking infrastructure already existing in the area.
  - ensures that bank has strong and sound financials (capital, profits etc.) to support opening of new office/branch.
  - ensure that business development is possible in the area.
  - does general good to the public (depositors and borrowers) at large.

CAPITAL ACCOUNT CONVERTIBILITY (CAC)

- Capital Account Convertibility (CAC) is basically associated with change of ownership in foreign / domestic financial assets and liabilities at market determined rate of exchange.

Interest on Savings Accounts

A committee formed to review the government's savings scheme under the leadership of Shyamala Gopinath, former deputy governor of the Reserve Bank of India who retired on 20 June 2011, has recommended that the interest paid on savings instruments under the scheme, except post office savings accounts, be reviewed annually and benchmarked to government securities of similar maturity periods.

To protect investors from large volatility, the rates will not be changed by more than 1 percentage point.

Rate for senior citizens' savings scheme will be 1 percentage point higher than comparable government securities. National Savings Certificates (NSCs) will give 0.5 percentage point higher than benchmark securities and other schemes, including PPF, will offer 0.25 percentage point above the benchmark.

Benefits of CAC to Indian Economy

- There is availability of larger capital stock to supplement domestic resources that will help growth.
- Reduction in cost of capital and improved access to international financial markets.

- CAC enhances the effectiveness of fiscal policy by reducing real interest rates applicable to public sector borrowings.
- Can bring about an optimal combination of taxes through reduction of the inflation and in the rates of other taxes to international levels that has beneficial effect on tax revenues.

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

- Securities and Exchange Board of India is a regulatory body controlling investments in the market.
- Many countries of the world have similar type of controllers for making the investment market more efficient, stable, transparent and of high quality.
- SEBI was established under the Securities Exchange Board of India Act of 1992 and came into operation on April, 12.1992.
- Main function of the SEBI as provided in the preamble of the Act is *"to protect the interest of the investors in securities and promote the development of, and regulate the securities market and for matters connected therewith or incidental thereto"*.
- SEBI is headed by a Chairman in Mr. U.K. Sinha and assisted by three Whole Time Members (WTM). They are Mr. Prashant Saran, Mr. Rajeev Kumar Agarwal and Mr. S. Raman. These members in turn are assisted by Executive Directors who control different departments and various functions.
- First member looks after the corporate finance, special enforcement cell, investigation department, economic & analysis, HRD while Mr. Rajeev Kumar looks market regulations, integrated surveillance, legal affairs, general services, affairs of the SEBI's Regional Offices. Mr S Raman on the other hand looks after the investment management, enforcement, adjudication, RTI and Appellate Authority, IT department, etc.
- SEBI hears the complaints of investors and has constituted a Appellate Tribunal to hear the complaints against the decisions of the first level authorities. The Securities Appellate Tribunal (SAT) has a Presiding Officer in Hon'bl Justice J.P. Devadhar(as of now) with two members in Mr. Jog Singh and Mr. A.S. Lamba.

Perticipatory notes

Financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India to invest in Indian securities. Indian-based brokerages buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors. In many ways, this is similar to an informal ADR process, where brokerages hold on to stocks for foreign investors.

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

- Government of India appointed a Committee called by the name Malhotra Committee to look into various aspects of the life and non-life insurance in India.
- Malhotra Committee Report was submitted in 1994, January 7. Based on the recommendations of Malhotra Committee, IRDA was established and incorporated as a statutory body by an act of Parliament of India.
- IRDA was incorporated under the Insurance Regulatory and Development Authority Act, 1999. This Act was cleared by the Central Government.
- IRDA has its headquarter at Hyderabad (Andhra Pradesh). Till 2001 it operated from Delhi.

- As far as organizational structure of the IRDA is concerned, it has 10 members appointed by the Central Government. The 10 member team is headed by the Chairman. At present its Chairman is T.S. Vijayan. Of the other members, four members (at present R.K.Nair, M. Ram Prasad, S. Roy Chowdhary and DD Singh) are whole time members whereas Mr. Anup Wadhawan, S.B. Mathur, Prof. V.K. Gupta as CA and Subodh Krumar Agarwal are four part time members.
- Main purpose and function of IRDA is to protect the insurance policy holders' interest. It also regulates the opening of new insurance companies in the country for which it provides registration certification to the interested insurance companies which want to start insurance business in India. It also has a role in allowing balanced and orderly growth of insurance industry.
- In cases where it finds irregularities in the functioning of the insurance business where policy holders' interest is at stake, it may not renew or modify the registration certificate or even cancel or suspend the operations.
- **Insurance Repository Facility**: Central Government recently announced a setting up of a system called Insurance Repository. It is a type of facility whereby the policy holder (s) can buy and keep policy of insurance in electronic format. In this way paper document could be avoided and so the cost. Such policies kept in electronic format are called "electronic policies" or "e Policies
- Various Functions of IRDA: Among the many functions that IRDA performs, some important ones are:
  - In order to watch the interest of policy holders', IRDA makes out rules and regulations.
  - IRDA sets standard of code of conduct for surveyors and assessors of losses.
  - Takes up inspections, audit and conduct of insurers, insurance intermediaries and others having any connection with insurance business.
  - Helps regulate the investment of insurance company funds.
  - Recommends margin for maintaining of solvency / liquidity of insurance company.
  - Adjudicates disputes among various parties to insurance business like insurers, non-insurance intermediaries and insurance intermediaries.
  - IRDA sets business targets in terms of percentage of total insurance business for rural, other social sectors etc.
  - Sets premium income of the insurer.

Unit Linked Insurance Plan (ULIP):

A Unit Linked Insurance Plan (ULIP) is a product offered by insurance companies that unlike a pure insurance policy gives investors the benefits of both insurance and investment under a single integrated plan.The first ULIP was launched in India in 1971 by Unit Trust of India (UTI). With the Government of India opening up the insurance sector to foreign investors in 2001 and the subsequent issue of major guidelines for ULIPs by the Insurance Regulatory and Development Authority (IRDA) in 2005, several insurance companies forayed into the ULIP business leading to an over abundance of ULIP schemes being launched to serve the investment needs of those looking to invest in an investment cum insurance product.

OPEN MARKET OPERATIONS

- Among the many tools that RBI uses to control the flow of credit / money in the economy, "open money market operations" is one of them.

- As the name indicates open market operation, it means sale and purchase of financial instruments is done by the RBI in the open market.
- RBI in order to expand or contract the money in the economy, sells or purchases the eligible short term or long term government securities or bills of exchange or foreign exchange etc.
- In the Open Market Operations, RBI while selling the securities tries to withdraw the money from the economy (market) whereas when it purchases the securities in the open market it expands the money in the economy or market.
- Open Market Operations are used to control and reduce market money fluctuations.
- The concept behind open market operation is that any sale or purchase of approved securities by the Reserve Bank of India as the Central Bank of the country tends to either squeeze the money in the market or increases the supply of money.
- This method is effective in controlling money supply. Increase in money supply by purchasing the securities will help banks to lend more money in various sectors of the economy.

Hot Money:
Money that flows regularly between financial markets as investors attempt to ensure they get the highest short-term interest rates possible. Hot money will flow from low interest rate yielding countries into higher interest rates countries by investors looking to make the highest return. These financial transfers could affect the exchange rate if the sum is high enough and can therefore impact the balance of payments.

Banks usually attract "hot money" by offering relatively short-term certificates of deposit that have above-average interest rates. As soon as the institution reduces interest rates or another institution offers higher rates, investors with "hot money" withdraw their funds and move them to another institution with higher rates.

MUTUAL FUNDS

- Mutual Fund is a fund created by pooling customers' funds held for trading for higher income with low risk. In other words Mutual Fund is a link between investors who save money and capital market. As an investor, he brings liquidity into the financial system besides promoting good corporate governance with investor protection.
- Mutual Fund is constituted as a 'Trust'. Its functions include mobilizing public funds, identifying capital markets for investment such funds on behalf of investor.
- For holding and managing the public funds, Mutual Fund is required to act efficiently and professionally for the benefit of the investor, besides, holding the portfolio as Trustee of investor.
- Based on the period of the units and the amount raised, Fund can be classified as 'open ended fund', 'close ended fund' , income oriented fund', and Trust oriented fund'.
- In the open ended fund there is no ceiling on the amount to be raised. Here unit holders are assured of certain return in the form of dividends, appreciation in capital and safety of funds.
- Close ended Fund is characterized by maximum amount to be raised or pooled, fixed period and stocks are listed in stock markets in order to have quick liquidity. Here the unit price is normally less than the Net Asset Value (NAV).
- Net Asset Value (NAV) is the value of each unit or share. In other words it is the total value of asset (Fund) divided by the total number of units/share outstanding. It also means value of asset (Fund) minus liabilities.

- Suppose a Mutual Fund Scheme has investment at Market Value to the tune of Rupees 700 crore. The liabilities are Rupees 50 lakh whereas outstanding units are 28 crore. The Net Asset Value (NAV) will be 24.98.
- India's first Mutual Fund came up as Unit Trust of India on February,1. 1964. It is first statutory Mutual Fund organization in India. The first commercial bank to start the business of Mutual Fund in India was State Bank of India.
- With the amendments in the Banking Regulation Act, 1949, banks can do the business of Mutual Fund.
- Where the investor wants regular income from his /her investment, the Fund invests money so pooled in fixed income bearing securities. Such Funds are called "Income Oriented Fund".
- SEBI controls, supervises and guides the functioning of the Mutual Funds for better governance.
- Normally the lock-in-period of repurchase of the units by Mutual Fund is 3 years.
- Mutual Funds sometimes charge a fee from unit holder only at the time of redemption of the units. Such transactions and mode of collection of fee is called Back-ended-load Redemption Scheme.
- Mutual Funds are required to be operated by a separate organization called Asset Management Company (AMC) formed under the Indian Companies Act of 1956 which requires the approval of SEBI.
- Mutual Fund is useful to investors in various ways. For instance, small investors can be party to Fund, there is diversification of risk and are largely safe since it is managed by experienced professionals. Professionally managed Mutual Fund investment means having investment management skills and doing continuous research in available investment options.
- The first diversified equity investment scheme in India was 'Master Shares'.
- While investing money in Mutual Fund, as an investor he/she has the right:
  - to inspect his documents of investment,
  - to have access to information, and
  - in the beneficial ownership of the asset of the scheme.
- A high portfolio turnover means that the fund is active in the market, transaction cost is high and there might be some risk involved.
- In Mutual Fund, "Load" means expenses charged to the fund.

Sovereign Wealth Funds: A sovereign wealth fund (SWF) is a state-owned investment fund investing in real and financial assets such as stocks, bonds, real estate, precious metals, or in alternative investments such as private equity fund or hedge funds. Sovereign wealth funds invest globally. Most SWFs are funded by revenues from commodity exports or from foreign-exchange reserves held by the central bank. Some sovereign wealth funds may be held by a central bank, which accumulates the funds in the course of its management of a nation's banking system; this type of fund is usually of major economic and fiscal importance. Other sovereign wealth funds are simply the state savings that are invested by various entities for the purposes of investment return, and that may not have a significant role in fiscal management.

PAST EXERCISE

1. As reported in the newspapers, China has asked its banks to put 12.5% money instead of earlier 12% as CRR. This correction in CRR has been made for the seventh time in past one year. Why did China have to take this step again and again and so frequently? **[OBC 2008]**
   (1) It will put a curb on lending of money by the banks.
   (2) It will help Govt of China to tame the rate of inflation.
   (3) It will help the poor to get easy loans at cheaper rates from the banks as higher CRR brings more money for activities of the social sector.
   (a) Only (1) is correct
   (b) Only (2) is correct
   (c) All (1), (2) & (3) are correct
   (d) Only (3) is correct
   (e) Both (1) & (2) are correct
2. Which of the following organisations/ agencies has asked all the banks in India to form customer service panels at branch levels? **[OBC 2008]**
   (a) Indian Banks' Association
   (b) Reserve Bank of India (RBI)
   (c) Supreme Court of India
   (d) Securities & Exchange Board of India (SEBI)
   (e) None of these
3. As we all know Securities & Exchange Board of India (SEBI) has taken some corrective steps to restrict functioning of Participatory Notes (P-Notes) in Indian Stock Markets. Why are P-Notes considered dangerous for the financial markets of a country? **[OBC 2008]**
   (1) This allows a foreign investor to invest funds without knowing the history/ financial health of a company. If the company fails fforeign investors lose their money. Govt of India does not want this as this will bring a bad name to the country.
   (2) P-Notes allow foreign investors to buy shares of blue chip companies without following Konw Your Customer (KYC) norms. Hence money invested here may not be from a valid and legal source.
   (3) P-Notes are launched to arrange funds only for social schemes. Due to huge funds available with NRIs for investment they are sending it in bulk. Hence the cost of such investments is very high and it is not commercially viable for banks to accept such investments.
   (a) Only (1) is correct
   (b) Only (2) is correct
   (c) Only (3) is correct
   (d) Both (1) & (2) are correct
   (e) None of these
4. In the recent times the RBI and the Securities & Exchange Board of India (SEBI) have taken various steps to control the flow of capital in India economy. Which of the following is/are NOT included in this/ these step(s)? **[BOM 2008]**
   (1) Guidelines have been issued to restrict unregulated overseas investors through "P-notes".
   (2) ₹ 60,000 crore out of this fund is being provided to waive the loans on farmers.
   (3) Borrowers raising external commercial borrowings of over $20 million would have to park the proceeds overseas for use as foreign currency expenditure.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Both (1) & (3)
   (e) All (1), (2) & (3)
5. The Reserve Bank of India issues coins and notes of various denominations. At present RBI does not issue coins of which of the following denominations? **[Vijaya Bank 2008]**
   (a) 10 paise (b) 20 paise
   (c) 25 paise (d) 50 paise
   (e) 1.00 Rupee
6. As we read every now and then, the Monetary and Credit Policy is reviewed and changes/corrections are made frequently.

Who amongst the following exactly takes this decision in India? **[Vijaya Bank 2008]**
(a) Deputy Chairman, Planning Commission
(b) Prime Minister
(c) Finance Minster
(d) Chairman, Finance Commission
(e) None of these

7. We often see the names of two personalities in newspapers/magazines/electronic media. These names are Dr. C Rangarajan and Dr Bimal Jalan. In their lives, one thing in common. That is **[Vijaya Bank 2008]**
(a) Both are the chief economic advisors to Prime Minister of India.
(b) Both are Members of Parliament.
(c) Both are former Governors of RBI.
(d) Both were Finance Ministers of India.
(e) There is nothing common in both.

8. Which of the following organisations is known as the market regulator in India? **[BOI 2008]**
(a) IBA (b) SEBI
(c) AMFI (d) NSDL
(e) None of these

9. The Reserve Bank of India keeps on changing various ratios/rates frequently. Why is this done? **[BOI 2008]**
(1) To keep inflation under control
(2) To ensure that Indian Rupee does not lose its market value
(3) To ensure that banks do not earn huge profits at the cost of public money.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) All (1), (2) & (3)
(e) None of these

10. As reported in various newspapers many banks have revised their interest rates on home loans, car loans and other such loans. Which of the following phenomenon prompted these banks to make such an upward revision in their interest rates? **[UBOI 2008]**
(1) RBI has revised the CRR and other such rates upward, which has created a liquidity crunch in the market.
(2) Stock markets in the country are showing very high fluctuations as visible through their indexes. As a result banks have lost a huge amount of money in trading. Banks now want to recover that money by increasing their interest rates.
(3) Banks are in need of a huge amount of money, as they have to give revised pay to all its employees.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) All (1), (2) & (3)
(e) None of these

11. Very often we read in the newspapers about various measures taken up to control the flow of the capital in the Indian markets. Who amongst the following is/are the regulators who can control the flow of the same in India? **[UBOI 2008]**
(1) Indian Bank's Association
(2) RBI
(3) SEBI
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Both (2) & (3)
(e) Both (1) & (2)

12. Many times we read a term "Hot Money" in newspapers. What is/are the characteristics of Hot money? **[UBOI 2008]**
(1) The term is used for fresh currency notes issued by the RBI.
(2) It is the fund which flows in the market to take advantage of high interest rates.
(3) It is the fund which is thrown in the market to create imbalance in the stock markets.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) All (1), (2) & (3)
(e) None of these

13. RBI's open market operation transactions are carried out with a veiw to regulate **[BOB 2008]**
(a) Liquidity in the economy
(b) Prices of essential commodities
(c) Inflation
(d) Borrowing power of the banks
(e) All the above

14. Open market operations, one of the measures taken by RBI in order to control credit expansion in the economy, means **[BOB 2008]**
(a) Sale or purchase of Govt. securities
(b) Issuance of different types of bonds
(c) Auction of gold
(d) To make available direct finance to borrowers
(e) None of these

15. The bank rate means **[BOB 2008]**
(a) Rate of interest charged by commercial banks from borrowers
(b) Rate of interest at which commercial banks discounted bills of their borrowers
(c) Rate of interest allowed by commercial banks on their deposits
(d) Rate at which RBI purchases or rediscounts bills of exchange of commercial banks
(e) None of these

16. The stance of RBI monetary policy is **[BOB 2008]**
(a) inflation control with adequate liquidity for growth
(b) improving credit quality of the Banks
(c) strengthening credit delivery mechanism
(d) supporting investment demand in the economy
(e) Any of the above

17. Capital Market Regulator is **[BOB 2008]**
(a) RBI (b) IRDA
(c) NSE (d) BSE
(e) SEBI

18. Which of the following is the regulator of the credit rating agencies in India? **[BOB 2008]**
(a) RBI (b) SBI
(c) SIDBI (d) SEBI
(e) None of these

19. The recent decisionZ of the RBI to cut Cash Resereve Ratio (CRR) by 150 basis points (October 2008) will be able to infuse how much liquidity into the market? **[OBC 2008]**
(a) ₹ 10,000 crores
(b) ₹ 30,000 crores
(c) ₹ 40,000 crores
(d) ₹ 50,000 crores
(e) None of these

20. Whenever RBI does some Open Market Operation Transactions, actually it wishes to regulate which of the following ? **[IOB 2008]**
(a) Inflation only
(b) Liquidity in economy
(c) Borrowing powers of the banks
(d) Flow of Foreign Direct Investments
(e) None of these

21. Which of the following financial product are NOT much popular in India as they have been launched only recently? **[IOB 2008]**
(a) Development Bonds
(b) Insurance Policies
(c) Mutual funds
(d) Sovereign Wealth Funds
(e) All are very popular products in India.

22. Which of the following policies of the financial sectors is basically designed to transfer local financial assets into foreign financial assets freely and at market determined exchange rates? Policy of **[IOB 2008]**
(a) Capital Account Convertibility
(b) Financial Deficit Management
(c) Minimum Support Price
(d) Restrictive Trade practices
(e) None of these

23. A customer wishes to purchase some US dollars in India. He/she should go to **[IOB 2008]**
(a) Public Debt Division of the RBI only
(b) American Express Bank Only
(c) RBI or any branch of a bank which is authorized for such business
(d) Ministry of Foreign Affairs
(e) None of these

24. What is the Statutory Liquidity Ratio (SLR) at present? **[IOB 2008]**
(a) 14% (b) 18%
(c) 20% (d) 24%
(e) None of these

25. An agreement, which in fact is a contract, between the RBI and Banks for the sale and repurchase of Govt securities and short-term treasury bills at a future date and for which the RBI indicates "the interest rate", is generally known as **[RBI 2009]**
(a) Repo Rate
(b) Bank Rate
(c) Reverse Repo Rate
(d) Prime Lending Rate
(e) None of these

26. As per the reports in various newspapers many private companies are trying to obtain the licences to launch a banking company in India. Which of the following organisations/agencies issue the licence for the same? **[Corporation Bank 2009]**

(a) Securities & Exchange Board of India (SEBI)
(b) Indian Institute of Banking & Finance (IIBF)
(c) Reserve Bank of India (RBI)
(d) Registrar of Companies
(e) None of these

27. As per the Reserve Bank of India (RBI), the economic conditions in India are not yet suitable for full convertibility of Rupee. At present Rupee is convertible at which of the following accounts? **[Indian Bank 2010]**
(1) Fully at Capital Account
(2) Fully at Current Account
(3) Partially at Trade Account
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Only (1) & (3)
(e) None of these

28. As per the news published in major newspapers, the Reserve Bank of India (RBI) raised Statutory Liquidity Ratio (SLR) by 100 basis points to 25%. What was/were the reason(s) owing to which RBI raised the SLR? **[Indian Bank 2010]**
(1) It will help in reducing liquidity in the market.
(2) Inflation will come down substantially.
(3) It will facilitate companies to launch their IPOs as the financial climate will become conducive for the same.
(a) Only (1)
(b) Only (2)
(c) Only (1) & (2)
(d) Only (2) & (3)
(e) All (1), (2) & (3)

29. The Reserve Bank of India has directed all the banks to ensure that the names of their customers, individuals or corporates, do not appear in any list published by the Security Council Committee. This act/directive of the RBI is to ensure which of the following? **[Indian Bank 2010]**
(a) To ensure that the bank loans/advances taken by the individuals/organizations are used only in those activities for which they are taken.
(b) To ensure that money deposited in the bank has not come from unknown and unauthorized sources
(c) To ensure that no one visits a foreign nation for any illegal activity by purchasing foreign currency from a bank
(d) To ensure that Indians do not go to a nation where they are being targeted for racial discrimination
(e) None of these

30. As per the news published in various financial newspapers, the RBI is reworking the roadmap on Capital Account Convertibiliy. If this is done, who amongst the following would be able to invest in foreign projects or acquire assets outside India without any restrictions? **[SBI 2010]**
(1) Public Sector Banks
(2) Companies which are registered in India
(3) Govt. of India
(4) Any Individual
(a) Only (1)
(b) Only (2)
(c) Only (3)
(d) All (1), (2), (3) & (4)
(e) None of these

31. As decided by the Reserve Bank of India, all the villages with a population of 2000 will have access to financial services by the end of **[SBI 2010]**
(a) 2009-10 (b) 2010-11
(c) 2011-12 (d) 2012-13
(e) None of these

32. As reported in various newspapers, the Reserve Bank of India is planning to allow more and more banks to function as "Local Area Banks". This will help RBI in the implementation of which of the following of its plans/drives? **[SBI 2010]**
(1) Financial Inclusion
(2) Rural Banking
(3) Mobile and e-Banking
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Only (1) & (2)
(e) None of these

33. The Reserve Bank of India has asked all the banks to install "Note Sorting Machines" in the branches. How will this help banks and the general public ? **[Allahabad Bank 2010]**
(1) The machines will check for counterfeit notes and drop these from circulation.
(2) This will help banks to count the notes quickly and accurately.

(2) This will help in sorting out soiled notes so that they are not reissued by the banks.
(a) Only (2) (b) Only (1)
(c) Only (3) (d) Only (1) & (2)
(e) None of these

34. As per the guidelines issued by the RBI, banks are preparing for a service which will allow customers to withdraw upto ` 1,000 using their debit cards from notified shops/ stores all over the country. All such shops/ stores will have 'POS' terminals for the same. What is full form of the 'POS' ? **[Allahabad Bank 2010]**
(a) Payment on Sale
(b) Power of Sale
(c) Point of Sale
(d) Payment Order Service
(e) None of these

35. Many a time we read in newspapers that some big banks have revised their lending rates to make them dearer or cheaper. Though the decision to raise the lending rates is always in the hands of the banks, normally they announce this decision of theirs **[Corporation Bank 2010]**
(1) immediately after the Union Budget is presented in the Lok Sabha every year.
(2) when the RBI makes changes in its policy rates.
(3) when the Monetary and Credit Policy of the RBI is reviewed periodically.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Only (2) & (3)
(e) All (1), (2) & (3)

36. The Reserve Bank of India (RBI) recently announced a hike in some policy rates and also indicated that there may be another change in near future. Which of the following is/are considered a policy rate(s) in the hands of the RBI? **[Corporation Bank 2010]**
(1) Repo Rate
(2) SLR
(3) Inflation
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Only (1) & (2)
(e) All (1), (2) & (3)

37. As per the reports published in various newspapers, RBI has asked banks to make a plan to provide banking services to all villages having a population of 2000. This directive issued by the RBI will fall in which of the following categories? **[Corporation Bank 2010]**
(a) Plan for Financial Inclusion
(b) Efforts to meet the targets of Priority Sector Lending
(c) Extension of Relief Packages to the Farmers
(d) Extension of Internet and Branchless Banking
(e) None of these

38. The rate on which banks borrow from the RBI is called .... **[Punjab & Sindh 2010]**
(a) SLR (b) CRR
(c) Interest Rate (d) Bank Rate
(e) Repo Rate

39. As we know, the RBI is the apex bank of India. Similarly, the apex Bank of the USA is called .... **[Punjab & Sindh 2010]**
(a) Federal Reserve
(b) The Central Bank of USA
(c) Bank of America
(d) Central National Bank of USA
(e) None of these

40. What is the full form of 'ULIP', the term which was in the news recently? **[Syndicate 2010]**
(a) Universal Life & Investment Plan
(b) Unit Loan & Insurance Plan
(c) Universal Loan & Investment Plan
(d) Uniformly Loaded Investment Plan
(e) Unit Linked Insurance Plan

41. Which of the following Rates/Ratio is not covered under the Monetary and Credit policy of the RBI? **[Syndicate 2010]**
(a) Bank Rate
(b) Repo Rate
(c) Cash Reserve Ratio
(d) Reverse repo Rate
(e) Exchange Rate of Foreign Currencies

42. RBI has asked banks to make a plan to provide banking services to all villages having a population up to 2000. This directive issued by the RBI will fall in which of the following categories ? **[Corporation Bank 2011]**
(a) Plan for Financial Inclusion
(b) Efforts to meet the targets of Priority Sector Lending

(c) Extension of Relief Packages to the Farmers
(d) Plan for opening more rural branches
(e) None of these

43. The rate of interest on Savings Bank Account is stipulated by **[Corporation Bank 2011]**
(a) The concerned bank
(b) RBI
(c) Indian Banks Association
(d) Government of India
(e) Banking Codes and Standards Board of India

44. Banks borrow money from the RBI on which of the following rates? **[Allahabad Bank 2011]**
(a) Reverse Repo Rate
(b) Repo Rate
(c) SLR
(d) CRR
(e) Saving Rate

45. Banking and financial services all over the world are regulated usually by the Monetary Authority of the land. Who controls this function in India? **[Allahabad Bank 2011]**
(a) Ministry of Finance
(b) SEBI
(c) RBI
(d) IRDA
(e) FEDAI

46. Which of the following is/are the objective(s) of our monetary policy? **[Allahabad Bank 2011]**
(1) To anchor inflation expectations
(2) To actively manage liquidity
(3) To maintain interest rate regime consistent with price output and financial stability
(a) Only (1)
(b) All (1), (2) & (3)
(c) Both (1) & (3)
(d) Only (2)
(e) None of these

47. Which of the following is/are key policy rates used by RBI to influence interest rates? **[Allahabad Bank 2011]**
(1) Bank Rate and Repo Rate
(2) Reverse Repo Rate
(3) CRR and SLR
(a) Only (1)
(b) Only (2)
(c) All (1), (2) & (3)
(d) Only (3)
(e) Both (1) & (3)

48. Which of the following rates signals the RBI's long-term outlook on interest rates? **[Allahabad Bank 2011]**
(a) Repo Rate
(b) Reverse Repo Rate
(c) Bank Rate
(d) SLR
(e) CRR

49. For which of the following reasons RBI has decided to undertake mid-quarter policy reviews? **[Allahabad Bank 2011]**
(1) To re-align its policies
(2) To take steps and ensure smooth flow of credit
(3) To provide guidance to the economy
(a) Only (1) (b) Only (2)
(c) Only (3) (d) All (1), (2) & (3)
(e) None of these

50. Which of the following is the Central Bank of USA? **[Allahabad Bank 2011]**
(a) Federation of Banks, USA
(b) Citigroup, USA
(c) Bank of America
(d) Central Bank of USA
(e) Federal Reserve

51. Who amongst the following was the Head of the committee which gave its recommendations on the modalities for Capital Account Convertibility? **[Andhra Bank 2011]**
(a) Dr. Rakesh Mohan
(b) Dr. C Rangarajan
(c) S.S. Tarapore
(d) K.J. Udeshi
(e) None of these

52. Which of the following organisations/agencies has established a fund known as Investor Protection Fund? **[Indian Overseas Bank 2011]**
(a) RBI
(b) SIDBI
(c) Bombay Stock Exchange
(d) Ministry of Finance
(e) Ministry of Commerce and Industry

53. Reverse Repo is a tool used by RBI to **[Indian Overseas Bank 2011]**
    (a) Inject liquidity
    (b) Absorb liquidity
    (c) Increase the liquidity with banking system
    (d) To keep the liquidity at one level
    (e) None of these
54. The European Union has adopted which of the following as a common currency? **[Indian Overseas Bank 2011]**
    (a) Dollar (b) Dinar
    (c) Yen (d) Peso
    (e) Euro
55. SEBI is a/n **[Indian Overseas Bank 2011]**
    (a) Advisory body
    (b) Statutory body
    (c) Constitutional body
    (d) Non-statutory body
    (e) Registered as a society
56. Which of the following bodies promoted Securities Trading Corporation of India Limited (STCI) jointly with the Public Sector Banks? **[Indian Overseas Bank 2011]**
    (a) Securities Exchange Board of India
    (b) ICICI Ltd (c) IDBI Ltd
    (d) Reserve Bank of India
    (e) IRDA
57. Consider the following. **[Indian Overseas Bank 2011]**
    (1) Deposit rates
    (2) Base Rate
    (3) Prime Lending Rate
    Which of the above are decided by the Reserve Bank of India?
    (a) Only (1) (b) Only (1)
    (c) Only (3) (d) Both (2) and (3)
    (e) None of these
58. Mutual funds are regulated by **[Corporation Bank 2011]**
    (a) Association of Mutual Funds of India (AMFI)
    (b) Securities and Exchange Board of India (SEBI)
    (c) Reserve Bank of India
    (d) IRDA
    (e) None of these
59. Which of the following is not a function of the RBI? **[Corporation Bank 2011]**
    (a) Maintaining Forex
    (b) Deciding Bank Rate, CRR and SLR from time to time
    (c) Opening Savings Accounts for general public
    (d) Prescribing the Capital Adequacy Ratio
    (e) Currency Management
60. The monetary authority in India, viz Reserve Bank of India, is bound to maintain a reserve against the notes issued, whatever may be the amount. This system is called as **[Corporation Bank 2011]**
    (a) Minimum Reserve System
    (b) Proportional Reserve System
    (c) Maximum Fiduciary Issue System
    (d) Simple Deposit System
    (e) None of these
61. Interest rates on which of the following deposit schemes is fixed by the Reserve Bank of India? **[Corporation Bank 2011]**
    (a) Fixed deposits above five years' maturity
    (b) Recurring deposits
    (c) Savings bank
    (d) Flexi Deposit scheme
    (e) None of these
62. Which of the following policies is known as Annual Policy Statement? **[Corporation Bank 2011]**
    (a) Annual budget of GOI
    (b) Credit and monetary policy of RBI
    (c) Foreign trade policy of DGFT
    (d) Regulations issued by SEBI
    (e) None of these
63. Which of the following Acts was framed specially to deal more effectively with the problem of Non-Performing Assets in banking system? **[Corporation Bank 2011]**
    (a) Companies Act
    (b) Banking Regulation Act
    (c) Foreign Exchange Management Act
    (d) Industrial Dispute Act
    (e) SARFAESI Act
64. Very often we read in newspapers/ magazines about 'Sovereign Wealth Funds'. Which of the following is/ are the correct description of the same? **[Corporation Bank 2011]**
    (1) These are the funds or the reserves of a government or cenetral bank of a

country which are invested further to earn profitable returns.
(2) These are the funds which were accumulated by some people over the years but were not put in active circulation as they retain them as black money for several years.
(3) The funds which are created to be used as relief funds or bailout packages.
(a) Both (2) and (3) only
(b) Only (2)
(c) Only (3)
(d) Only (1)
(e) None of these

65. The names of which of the following rates/ratios cannot be seen in financial newspapers? **[Corporation Bank 2011]**
(a) Bank Rate
(b) Repo Rate
(c) Statutory Liquidity Ratio
(d) Cash Reserve Ratio
(e) Pulse Rate

66. Ten-rupee notes contain the signature of **[Corporation Bank 2011]**
(a) Finance Secretary, GOI
(b) Chairman, State Bank of India
(c) Governor, Reserve Bank of India
(d) Finance Minister, GOI
(e) Prime Minister

67. Interest payable on savings bank accounts is **[IBPS 2011]**
(a) not regulated by RBI.
(b) regulated by State Governments.
(c) regulated by Central Government
(d) regulated by RBI.
(e) regulates by Finance Minister.

68. Which of the following is a correct statement? **[IBPS 2011]**
(a) SBI is the sole authority to issue and manage currency in India
(b) A nationalised bank is the sole authority to issue and manage currency in India.
(c) A cooperative bank is the sole authority to issue and manage currency in India.
(d) RBI is the sole authority to issue and manage currency India.
(e) None of these

69. Which of the following states became the first state in the country to launch RBI,s e-payment system for commercial tax payers? **[IBPS 2011]**
(a) Andhra Pradesh
(b) Kerala
(c) Gujrat
(d) Maharashtra
(e) Karnataka

70. Bank rate policy, open market operations, variable reserve requirements and statutory liquidity requirements employed by Reserve Bank as measures of credit control are classified as **(IBPS 2011)**
(a) quantitative methods
(b) qualitative methods
(c) Both of the above
(d) All of the above
(e) None of the above

71. Reverse Repo is a tool used by RBI to
(a) inject liquidity
(b) absorb liquidity
(c) increase the liquidity with banking system
(d) to keep the liquidity at one level
(e) None of the above

72. What is Repo Rate? **(IBPS 2011)**
(a) It is a rate at which RBI sell government securities to banks
(b) It is a rate at which RBI buys government securities from banks
(c) It is a rate at which RBI allows small loans in the market
(d) It is a rate which is offered by Banks to their most valued customers or prime customers
(e) None of the above

73. Which of the following is not a function of the RBI? **(Bank PO 2010)**
(a) Maintaining Forex
(b) Deciding Bank Rate, CRR and SLR from time to time
(c) Opening Savings Accounts for general public
(d) Prescribing the Capital Adequancy Ratio
(e) Currency Management

74. Capital market regulator is **[BOB 2008]**
(a) RBI (b) IRDA
(c) NSE (d) BSE
(e) SEBI

75. Which of the following is the regulator of the credit rating agencies in India? **[BOB 2008]**
(a) RBI (b) SBI
(c) SIDBI (d) SEBI
(e) None of these

76. Which of the following organisations is known as the market regulator in India? **[Syndicate Bank 2009]**
(a) IBA (b) SEBI
(c) AMFI (d) NSDL
(e) None of these

77. In one of his speeches, Pranab Mukherjee said that the government has no plans to dilute the roles of market regulators. This means, the role of which of the following will not be diluted? **[Syndicate Bank 2010]**
(a) Life Insurance Corporation of India (LIC)
(b) Confederation of Indian Industry (CII)
(c) Federation of Chambers of Commerce and Industry (FICCI)
(d) Bureau of India Standards
(e) Securities and Exchange Board of India (SEBI)

78. Equity schemes managed strong NAV gains which boost their assets' was a new in some financial newspapers. What is the full form of NAV used as in above headlines? **[Central Bank of India 2010]**
(a) Nill Accounting Variation
(b) Net Accounting Venture
(c) Net Asset Value
(d) New Asset Venture
(e) None of the above

79. SEBI is a/an **[Indian Overseas Bank 2011]**
(a) advisory body
(b) statutory body
(c) constitutional body
(d) non-statutory body
(e) registered as a society

80. Mutual funds are regulated by **[Corporation Bank 2011]**
(a) Association of Mutual Funds of India (AMFI)
(b) Securities and Exchange Board of India (SEBI)
(c) Reserve Bank of India
(d) IRDA
(e) None of the above

81. Which of the following best describes the Securities and Exchange Board of India?
(a) SEBI is the regulator for the capital markets
(b) SEBI protects the interest of investors
(c) SEBI is for ethical practices
(d) All of the above
(e) None of the above

82. Which of the following policies is known as Annual Policy Statement? **[Corporation Bank 2011]**
(a) Annual budget of Central Government
(b) Credit and monetary policy of RBI
(c) Foreign trade policy of DGFT
(d) Regulations issued by SEBI
(e) None of the above

83. By increasing repo rate, the economy may observe the following effects __________. **[IBPS 2012]**
(a) Rate of interest on loans and advances will be costlier
(b) Industrial output would be affected to an extent
(c) Banks will increase rate of interest on deposits
(d) Industry houses may borrow money from foreign countries
(e) All of these

84. Increased interest rates, as is existing in the economy at present will __________. **[IBPS 2012]**
(a) Lead to higher GDP growth
(b) Lead to lower GDP growth
(c) Mean higher cost of raw materials
(d) Mean lower cost of raw materials
(e) Mean higher wage bill

85. The European Union has adopted which of the following as a common currency? **[SBI Bank 2013]**
(a) Dollar (b) Dinar
(c) Yen (d) Euro
(e) Peso

86. The Holidays for the Banks are declared as per _________. **[SBI Bank 2013]**
(a) Reserve Bank Act
(b) Banking Regulation Act
(c) Negotiable Instruments Act
(d) Securities and Exchange Board of India Act
(e) Companies Act

87. Interest on Savings deposit nowadays is _____________. **[SBI Bank 2013]**
(a) Fixed by RBI
(b) Fixed by the respective Banks
(c) Fixed by the Depositors
(d) Fixed as per the contract between Bank and the Consumer Court
(e) Not paid by the Bank

ANSWER KEY

1.	(e)	**2.**	(b)	**3.**	(b)	**4.**	(b)	**5.**	(e)
6.	(e)	**7.**	(c)	**8.**	(b)	**9.**	(a)	**10.**	(a)
11.	(b)	**12.**	(b)	**13.**	(e)	**14.**	(a)	**15.**	(d)
16.	(e)	**17.**	(e)	**18.**	(d)	**19.**	(c)	**20.**	(b)
21.	(d)	**22.**	(a)	**23.**	(c)	**24.**	(d)	**25.**	(a)
26.	(c)	**27.**	(b)	**28.**	(c)	**29.**	(c)	**30.**	(b)
31.	(c)	**32.**	(a)	**33.**	(a)	**34.**	(c)	**35.**	(d)
36.	(d)	**37.**	(a)	**38.**	(e)	**39.**	(a)	**40.**	(e)
41.	(e)	**42.**	(a)	**43.**	(b)	**44.**	(b)	**45.**	(c)
46.	(b)	**47.**	(c)	**48.**	(c)	**49.**	(a)	**50.**	(e)
51.	(c)	**52.**	(a)	**53.**	(b)	**54.**	(e)	**55.**	(b)
56.	(d)	**57.**	(a)	**58.**	(b)	**59.**	(c)	**60.**	(b)
61.	(c)	**62.**	(b)	**63.**	(e)	**64.**	(d)	**65.**	(e)
66.	(c)	**67.**	(d)	**68.**	(d)	**69.**	(e)	**70.**	(a)
71.	(b)	**72.**	(b)	**73.**	(c)	**74.**	(e)	**75.**	(d)
76.	(b)	**77.**	(e)	**78.**	(c)	**79.**	(b)	**80.**	(b)
81.	(d)	**82.**	(b)	**83.**	(c)	**84.**	(a)	**85.**	(d)
86.	(c)	**87.**	(b)						

PRACTICE EXERCISE

1. Which of the following is not an apex institution?
   (a) SBI
   (b) SIDBI
   (c) NABARD
   (d) State Cooperative bank
   (e) None of these
2. Sub-section 12AB of Section 17 of the Reserve Bank of India Act, 1934 defines the term as an instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed?
   (a) Bank rate (b) LAP
   (c) Repo (d) Reverse repo
   (e) None of these
3. Which of the following fall under the qualitative methods of credit control adopted by Reserve Bank of India?
   (a) Selective Credit Control
   (b) Credit Authorisation Scheme
   (c) Moral Suasion
   (d) All of the above
   (e) None of the above
4. Bank rate means
   (a) the rate of interest charged by commercial banks on advances
   (b) the rate at which commercial banks discount bills of exchange for their clients
   (c) the rate of interest allowed by banks on the deposits
   (d) the standard rate at which the Reserve Bank of India is prepared to buy or rediscount bills of exchange other commercial paper eligible for purchase under the Reserve Bank of India Act, 1934
   (e) None of the above
5. Banks and other financial institutions in India are required to maintain a certain amount of liquid assets like cash, precious metals and other short-term securities as a reserve all the time in banking world, this is known as
   (a) CRR (b) Fixed asset
   (c) SLR (d) PLR
   (e) None of these
6. The ratio of the Cash Reserves that the banks are required to keep with the RBI is known as
   (a) Liquidity Ratio
   (b) SLR
   (c) CRR
   (d) Net Demand and Time Liability
   (e) None of the above
7. The term 'Ways and Means' advances refers to
   (a) the advances allowed under DRI Scheme by commercial bank
   (b) the advances allowed by commercial banks under Twenty Point Economic Programme
   (c) the temporary advances made to the government by its bankers to bridge the interval between expenditure and the flow of recepts of revenues
   (d) All of the above
   (e) None of the above
8. Which of the following training establishment is not run by Reserve Bank of India?
   (a) Bankers Training College, Bombay
   (b) College of Agricultural Banking, Pune
   (c) NIBM
   (d) All of the above
   (e) None of the above
9. In period of depression when the Reserve Bank desires to encourage the banking system to create more credit it
   (a) reduces the bank rate
   (b) raises the bank rate
   (c) permits the bank rate to be decided by market forces
   (d) All of these
   (e) None of these

10. For the performance of its duties as the regulator of credit, the Reserve Bank of India possesses the usual instruments of general credit control, viz.
    (a) bank rate
    (b) open market operation
    (c) the power to vary the reserve requirement of banks
    (d) All of these
    (e) None of these
11. The currency notes issued by RBI have a cent percent cover in
    (a) approved assets
    (b) gold
    (c) foreign exchange
    (d) trustee securities
    (e) None of these
12. Which of the following do not fall within the functions of the Reserve Bank of India?
    (a) Regulation of currency
    (b) Control of credit
    (c) Banker of the government, banker's bank and lender of the last resort
    (d) Accepting deposits and making loans and advances to public
    (e) None of the above
13. Which of the following are the main functions of the Reserve Bank of India?
    (a) Granding licences to commercial banks for opening branches in rural areas
    (b) Accepting deposits from the public
    (c) Regulating foreign exchange business
    (d) Acting as note issuing authority, bankers' bank and banker to the government
    (e) None of the above
14. The Public Debt Office of the Reserve Bank of India
    (a) is a central depository for all types of Government securities except Treasury Bills
    (b) attends to the function of note issue the Reserve Bank of India
    (c) is responsible for maintaining external value of rupee
    (d) controls balance of payment position of the Government of India
    (e) None of the above
15. Which of the following are the instruments of Credit Control in the hands of the RBI?
    I. Lowering or raising the discount and interest rates.
    II. Raising the minimum support price of the major agro products.
    III. Lowering or raising the minimum cash reserves maintained by the commercial banks.

    Select the correct answer using the codes given below
    (a) Only I (b) Only II
    (c) Only III (d) Both I and III
    (e) Both II and III
16. RBI's open market operation transactions are carried out with a view to regulate.
    (a) liquidity in the economy
    (b) prices of essential commodities conflation
    (c) borrowing power of the banks
    (d) All of the above
    (e) None of the above
17. What does the letter 'L' denote in the term 'LAF' as referred every now and then in relation to monetary policy of the RBI?
    (a) Liquidity (b) Liability
    (c) Leveraged (d) Longitudinal
    (e) Linear
18. Which of the following is not a measure adopted by the Government or RBI to control inflation?
    (a) Monetary policy
    (b) Fiscal policy
    (c) Public distribution system
    (d) Price control
    (e) Financial inclusion
19. Whenever RBI does some Open Market Operation transactions, actually it wishes to regulate which of the following?
    (a) Inflation only
    (b) Liquidity in economy
    (c) Borrowing powers of the banks
    (d) Flow of foreign direct investments
    (e) None of the above
20. Which of the following are decided by the Reserve Bank of India?
    I. Deposit rates
    II. Base Rate
    III. Prime Lending Rate

Select the correct answer using the codes given below:
(a) Only I (b) Only II
(c) Only III (d) II and III
(e) None of these

21. RBI has recently deregulated the rates of interest to be provided by various banks to their depositors/customers with effect from 25th October, on their accounts.
(a) Time deposit (b) Saving bank
(c) Loan (d) Fixed deposit
(e) Current

22. Which of the following functions are not being performed by the Reserve Bank of India?
(a) Regulation of banks in India
(b) Regulation of foreign direct investment in India
(c) Foreign currency management in India
(d) Control and supervision of money supply
(e) Currency management in India

23. Which of the following is not a function of the Reserve Bank of India?
(a) Fiscal policy functions
(b) Exchange control functions
(c) Insurance, exchange and destruction of currency notes
(d) Monetary authority functions
(e) Supervisory and control function

24. The Reserve Bank of India has directed all the banks to ensure that the names of their customers, individuals or corporate, do not appear in any list published by the Security Council Committee. This act/directive of the RBI is to ensure which of the following?
(a) To ensure that the bank loans/advances taken by the individuals/organisations are used only in those activities for which they are taken
(b) To ensure that money deposited in the bank has not come from unknown and unauthorised sources
(c) To ensure that no one visits a foreign nation for any illegal activity by purchasing foreign currency from a bank
(d) To ensure that Indians do not go to a nation where they are being targeted for racial discrimination
(e) None of the above

25. As we all know, banks in India are required to maintain a portion of their demand and time liabilities with the Reserve Bank of India. This portion is called
(a) statutory liquidity ratio
(b) cash reserve ratio
(c) bank deposit
(d) reverse repo
(e) government securities

26. Reserve Bank of India is the lender of the last resort to scheduled commercial banks because
(a) the parties can approach RBI when their limits are exhausted
(b) they are not able to get loans from other banks
(c) RBI meets directly or indirectly all their reasonable demands for financial accommodation subject to certain terms and conditions which constitute its discount rate policy.
(d) All of these
(e) None of these

27. Banks without the prior approval of the RBI, can not
(a) one a new place of business in India of abroad
(b) shift other wise that within the same centers (city/town/village) of the existing place of business
(c) shift their sole rural branch outside the centre/village is not permitted, as such shifting would render the centre unbanded
(d) All of the above
(e) None of the above

28. The interest rate at which the RBI lends to commercial banks in the short term to maintain liquidity is known as
(a) interest rate
(b) repo rate
(c) reverse repo rate
(d) bank rate
(e) None of the above

29. The bank rate is
(a) free to fluctuate according to the forces of demand and supply
(b) set by the RBI
(c) set by the RBI is directed by the Union Ministry of Finance

(d) set by the RBI as adviced by the Indian Banks Association
(e) set by the Government of India on the recommendation of the Planning Commission

30. A customer wishes to purchase some US dollars in India. He/she should go to
(a) Public Debt Division of the RBI only
(b) American Express Bank Only
(c) RBI or any branch of a Bank which is authorised for such business
(d) Ministry of Foreign Affairs
(e) None of the above

31. Consider the following
I. Bank Rate Policy
II. Open Market Operations
III. Devaluation of Rupee
Which of the above are called fiscal measures?
(a) Only II
(b) Both I and II
(c) Both I and III
(d) Only III
(e) None of these

32. The names of which of the following rates/ratios cannot be seen in financial newspapers?
(a) Bank Rate
(b) Repo Rate
(c) Statutory Liquidity Ratio
(d) Cash Reserve Ratio
(e) Pulse Rate

33. Prior approval (as also a licence) of RBI is required for opening
(a) personal banking branches
(b) merchant banking branches
(c) asset recovery branches
(d) All of the above
(e) None of the above

34. Who will act as the banker to the Government of India?
(a) State Bank of India
(b) Reserve Bank of India
(c) NABARD
(d) Nationalised Banks
(e) Central Bank of India

35. Where is the headquarter of Reserve Bank of India?
(a) Mumbai (b) Delhi
(c) Kolkata (d) Ahmedabad
(e) Noida

36. What is the animal of the insignia of the RBI?
(a) Lion (b) Tiger
(c) Panther (d) Elephant
(e) Horse

37. Who regulates the money circulation in India?
(a) State Bank of India
(b) Reserve Bank of India
(c) NABARD
(d) Commercial Banks
(e) SBI

38. When was Reserve Bank of India established?
(a) 1920 (b) 1925
(c) 1935 (d) 1948
(e) 1968

39. When was Reserve Bank of India Nationalised?
(a) 1947 (b) 1948
(c) 1949 (d) 195
(e) 1960

40. Generally, the minimum rate below which the banks do not lend is known as
(a) floor rate (b) repo rate
(c) highest rate (d) base rate
(e) All of the above

41. SEBI, a regulator of securities market in India was established in the year 1988, but was empowered with statutory Powers in the form of Act in the year
(a) 1990 (b) 1991
(c) 1992 (d) 1993
(e) None of these

42. CGTMSE stands for
(a) Central Government Fund Trust for Medium and Small Enterprises
(b) Credit Guarantee Fund for Medium Size Enterprises
(c) Central Government Transfer Fund for Multispecialty Micro Enterprises
(d) Credit Guarantee Fund Trust for Micro and Small Enterprises
(e) None of the above

43. What is the full form of 'CRR' as used in banking sector?
(a) Crucial Reserve Rate
(b) Cash Reserve Ratio
(c) Compulsory Return Rate
(d) Credit and Reserve Ratio
(e) None of the above

44. Many Regional Rural Banks are given licence to open branches in small cities and towns. These licences are given by
(a) Cabinet Committee on Economic Affairs
(b) Reserve Bank of India
(c) NABARD
(d) Indian Banks' Association
(e) None of the above

45. Which of the following organization/agencies is not associated with the world of banking and finance?
(a) SEBI (b) AMFI
(c) RBI (d) ECGC
(e) SPCA

46. As per the new guidelines issued by SEBI, companies are required to list shares within how many days of the closure of the Initial Public Offers (IPOs)?
(a) 12 days (b) 15 days
(c) 21 days (d) 30 days
(e) 25 days

47. Which of the following key rate has not been altered by RBI since 2003?
(a) Bank rate
(b) Statutory liquidity ratio
(c) Cash reserve ratio
(d) Repo rate
(e) All of the above

48. Commercial bills market is a part of
(a) organised money market
(b) unorganised money market
(c) stock market
(d) capital market
(e) None of the above

49. Interest is usually paid on money market instruments
(a) at maturity (b) on request
(c) twice a year (d) annually
(e) All of these

50. Government securities with terms of more than 1 year are called
(a) government bonds
(b) treasury bills
(c) bills of exchange
(d) capital bills
(e) None of the above

51. Which of the following policies of the financial sectors is basically designed to transfer local financial assets into foreign financial assets, freely and at market determined exchange rates? Policy of
(a) Capital Account Convertibility
(b) Financial Deficit Management
(c) Minimum Support Price
(d) Restrictive Trade practices
(e) None of the above

52. On 1st March, 1992, Reserve Bank of India announced a new system of exchange rates known as
(a) partial convertibility
(b) liberalised exchange rate system
(c) Either (a) or (b)
(d) Both (a) and (b)
(e) Neither (a) nor (b)

53. The number of regional offices of RBI is
(a) 20 (b) 21
(c) 22 (d) 23
(e) None of these

54. The RBI has adopted .... model, in which mobile banking is promoted through business correspondents of banks.
(a) Bank Led (b) Bank Mobile
(d) Mobile (d) All of these
(e) None of these

55. Which of the following is/are known as banker's bank?
(a) SBI (b) NABARD
(c) RBI (d) All of these
(e) None of these

56. Which of the following agencies/organisations has recently decided that all the stock exchanges should introduce physical settlement of equity derivatives?
(a) Reserve Bank of India
(b) Bombay Stock Exchange
(c) Registrar of Companies
(d) Securities and Exchange Board of India
(e) All of the above

57. CRR refers to the share of .... that banks have to maintain with RBI of their net demand and time liabilities.
(a) soft cash (b) forex reserves
(c) gold (d) liquid cash
(e) None of these

58. In India, RBI prescribes the minimum SLR level for scheduled commercial banks in India, in specified assets as a percentage of bank's
    (a) net demand and time liabilities
    (b) demand liability
    (c) time liability
    (d) All of the above
    (e) None of the above
59. Section 14 of Banking Regulation Act, 1949
    (a) prohibits a banking company from creating a charge upon any unpaid capital of the company
    (b) contains a system of licensing of banks by the RBI
    (c) provides that the subscribed capital of a banking company should not be less than one-half of its authorised capital
    (d) All of the above
    (e) None of the above
60. Objective of Monetary Policy of RBI is to
    (a) control inflation
    (b) discourage loading of commodities
    (c) encourage flow of credit into neglected sector
    (d) All of the above
    (e) None of the above
61. Which of the following statements is/are correct?
    (a) SEBI was established in 1988
    (b) It was made a fully autonomous body in 1992
    (c) It regulates the securities market and protect the interests of investors in securities
    (d) All of the above
    (e) None of the above
62. A company which pools money from investors and invests in stocks, bonds and shares is called
    (a) a bank
    (b) an insurance company
    (c) bank assurance
    (d) mutual fund
    (e) None of the above
63. Which of the following rates is not decided by RBI?
    (a) Bank rate
    (b) Repo rate
    (c) Reverse Repo rate
    (d) Base rate
    (e) Cash Reserve Ratio
64. Which of the following is the Central Bank of the country?
    (a) RBI (b) SBI
    (c) RRB (d) NABARD
    (e) None of these
65. Bank rate as fixed by RBI, means
    (a) rate of interest charged by banks from borrowers
    (b) rate of interest on bank deposits
    (c) rate of interest charged by RBI on its loans to banks
    (d) rate of interest on inter-bank loans
    (e) None of the above
66. The Reserve Bank of India keeps on changing various ratios/rates frequently. Why is this done?
    I. To keep inflation under control.
    II. To ensure that Indian rupee does not lose its market value.
    III. To ensure that banks do not earn huge profits at the cost of public money.
    Select the correct answer using the codes given below:
    (a) Only I (b) Only II
    (c) Only III (d) All of these
    (e) None of these
67. Open market operations, one of the measures taken by RBI in order to control credit expansion in the economy, means
    (a) sale or purchase of government securities
    (b) issuance of different types of bonds
    (c) auction of gold
    (d) to make available direct finance to borrowers
    (e) None of the above
68. Which of the following statements about the money market is/are true?
    (a) Not all commercial banks deal for their customers in the secondary market
    (b) Money markets are used extensively by businesses both to warehouse, surplus funds and to raise short-term funds
    (c) The single most influential participant in the US money market is the US Treasury Department
    (d) Both (a) and (b)
    (e) All of the above

69. Under which section of the Reserve Bank of India Act, the Reserve Bank has the sole right of note issue?
    (a) Section 20 (b) Section 22
    (c) Section 25 (d) Section 28
    (e) Section 30
70. From the given options, bring out the one which is not a function/power of Reserve Bank of India?
    (a) To assume the responsibility meeting directly or indirectly all reasonable demands for accommodation
    (b) To hold cash reserves of the commercial banks and make available financial accommodation to them
    (c) To enjoy monopoly of the note issue
    (d) To assume responsibility of all banking operations of the government
    (e) The assume the responsibility of statistical analysis of data related to macro economy of India
71. Which of following institutions regulate non-banking financial companies?
    (a) RBI
    (b) SEBI
    (c) IRDA
    (d) Finance Ministry
    (e) None of these
72. All venture Capital Funds must be registered with
    (a) RBI
    (b) SEBI
    (c) Registrar of Companies
    (d) Either (a) or (b)
    (e) None of these
73. The Monetary and Credit Policy of India is the responsibility of which of the following?
    (a) Planning Commission
    (b) Finance Ministry
    (c) RBI
    (d) National Advisory Council
    (e) None of these
74. Which of the following statements is correct?
    (a) RBI is just like any ordinary commercial bank
    (b) RBI is responsible for the overall Monetary Policy
    (c) The Fiscal Policy of India is approved by RBI
    (d) RBI has Deputy Chairman Planning Commission on its board
    (e) None of these
75. The RBI is not expected to perform the function of
    (a) the banker to the government
    (b) accepting deposit from commercial banks
    (c) accepting deposit from commercial public
    (d) issue of currency
    (e) None of these
76. RBI stipulates a healthy mix of CASA in the business figures of banks. What does it denote?
    (a) Customer Analysis and Savings Pattern
    (b) Cost Appreciation and Selling Analysis
    (c) Current Account and Savings Account
    (d) Credit and Savings Aggregate
    (e) None of the above
77. Which of the following is/are functions of the RBI?
    I. Acts as the currency authority.
    II. Controls money supply and credit.
    III. Manages foreign exchange.
    IV. Serves as a banker to the government.
    Select the correct answer using the codes given below:
    (a) I and II (b) II and III
    (c) I, II and III (d) All of these
    (e) None of these
78. Quantitative instrument of RBI can be
    (a) Bank Rate Policy (BRP)
    (b) Cash Reserve Ratio (CRR)
    (c) Statutory Liquidity Ratio (SLR)
    (d) All of these
    (e) None of these
79. Which of the following acts govern the RBI functions?
    (a) RBI Act, 1934
    (b) Banking Regulation Act, 1949
    (c) Companies Act, 1956
    (d) Foreign Exchange Regulation Act, 1973
    (e) Foreign Exchange Management Act, 1999

80. The bank rate means
(a) rate of interest charged by commercial banks from borrowers
(b) rate of interest at which commercial banks discounted bills of their borrowers
(c) rate of interest allowed by commercial banks on their deposits
(d) rate at which RBI purchases or rediscounts bills of exchange of commercial banks
(e) None of the above

81. Banks borrow money from the RBI on which of the following rates?
(a) Reverse repo rate
(b) Repo rate
(c) SLR
(d) CRR
(e) Savings rate

82. The first Governor of the Reserve Bank of India from 1st April, 1935 to 30th June, 1937 was
(a) Sir Osborne Smith
(b) Sir James Taylor
(c) CD Deshmukh
(d) Sir Benegal Rama Rao
(e) KG Ambegaonkar

83. Headquarters of Reserve Bank of India is in
(a) New Delhi (b) Mumbai
(c) Kolkata (d) Chennai
(e) Hyderabad

84. SEBI was established in
(a) 1993 (b) 1992
(c) 1988 (d) 1990
(e) 1994

85. In 1991, the SLR was as high as
(a) 25% (b) 30%
(c) 38.5% (d) 39.5%
(e) 40%

86. Shares of companies notified by SEBI can be traded only when these are in .... form
(a) physical
(b) dematerialised
(c) Either (a) and (b)
(d) centralised
(e) None of these

87. At which rate the RBI lends short-term money to the bank?
(a) PLR
(b) CRR
(c) Repo rate
(d) Reverse repo rate
(e) None of these

88. When RBI acts as a baker to the government, what does it do?
(a) RBI keeps bank accounts of the government
(b) RBI carries out government transactions
(c) RBI advises the government on all financial and monetary matters
(d) All of the above
(e) None of the above

89. A bank which acts as a banker of other banks is called
(a) saving bank
(b) commercial bank
(c) investment bank
(d) development bank
(e) central bank

90. The Reserve Bank of India was set-up on the recommendations of the
(a) Narasimham Committee
(b) Hilton-Young Commission
(c) Mahalanobis Committee
(d) Fazal Ali Commission
(e) None of the above

91. IRDA with its headquarters at .... is the Regulatory Authority for all insurance companies in India including the Life Insurance Corporation of India.
(a) Hyderabad (b) Bengaluru
(c) Mumbai (d) Delhi
(e) Chandigarh

92. Which of the following is/are key policy rates used by RBI to influence interest rates?
I. Bank rate and repo rate
II. Reverse repo rate
III. CRR and SLR
Select the correct answer using the codes given below
(a) Only I (b) Only II
(c) Only III (d) All of these
(e) None of these

93. Which of the following rates signals the RBI's long-term outlook on interest rates?
    (a) Repo rate
    (b) Reverse repo rate
    (c) Bank rate
    (d) SLR
    (e) CRR
94. Proposals for setting up of new banks are under active consideration. Which organisation gives the permission?
    (a) RBI
    (b) Indian Banks Association
    (c) Finance Ministry
    (d) Cabinet Committee on Economic Affairs
    (e) None of the above
95. As we all know, Cash Reserve Ratio (CRR) is the percentage of the deposits keep in reserve with them. This ratio is also known as
    (a) Repo rate
    (b) Reverse repo rate
    (c) SLR
    (d) Liquidity ratio
    (e) None of the above
96. At which of the following rates does the Central Bank lend to banks against government securities?
    (a) Repo Rate
    (b) Reverse Repo Rate
    (c) Bank Rate
    (d) SLR
    (e) CRR
97. The Interest rate at which the RBI lends to commercial banks in the short-term to maintain liquidity is known as
    (a) interest rate
    (b) repo rate
    (c) reverse repo rate
    (d) bank rate
    (e) All of the above
98. Reverse repo means
    (a) injecting liquidity by the Central Bank of a country through purchase of government securities
    (b) absorption of liquidity from the market by sale of government securities
    (c) balancing liquidity with a view to enhance economic growth rate
    (d) improving the position of availability of the securities in the market
    (e) All of the above
99. An agreement, which in fact is a contract, between the RBI and banks for the sale and repurchase of government securities and short-term treasury bills at a future date and for which the RBI indicates 'the interest rate', is generally known as
    (a) repo rate
    (b) bank rate
    (c) reverse repo rate
    (d) prime lending rate
    (e) none of these
100. RBI generally reviews the Monetary Policy after every
    (a) 3 months (b) 6 months
    (c) 9 months (d) 10 months
    (e) None of the above
101. Which of the following rates is decided by the market conditions and not by RBI?
    (a) Bank rate (b) SLR
    (c) CRR (d) Inflation rate
    (e) None of these
102. An average citizen cannot open a Savings account in which of the following?
    (a) Commercial bank
    (b) Post office
    (c) Co-operative bank
    (d) RBI
    (e) None of the above
103. As per the existing policy, the Cash Reserve Ratio (CRR) of scheduled banks is fixed at a certain percentage of their NDTL. What is full form of NDTL?
    (a) New Demand and Tenure Liabilities
    (b) Net Demand and Time Liabilities
    (c) National Deposits and Total Liquidity
    (d) Net Duration and Total Liquidity
    (e) New Deposits and Term Liquidity
104. As per the new guidelines issued by SEBI, companies are required to list shares within how many days of the closure of the Initial Public Offers (IPOs)?
    (a) 60 days (b) 12 days
    (c) 30 days (d) 45 days
    (e) None of these

105. On which one of the following issues can SEBI penalise any company in India?
   I. Violation of Banking Regulation Act.
   II. Violation of foreign portfolio investment guidelines.
   III. For violation of Negotiable Instrument Act.

   Select the correct answer using the codes given below:
   (a) Only I (b) I, II, and III
   (c) I and II (d) II and III
   (e) All of these

106. Assume that Reserve Bank of India reduces the bank rate by 1%, what will be its impact?
   (a) Less liquidity in the market
   (b) More liquidity in the market
   (c) No change in the liquidity in the market
   (d) Mobilisation of more deposits by commercial banks
   (e) None of the above

107. Which of the following agencies/organisations has decided to make major changes for ULIPs?
   (a) IRDA (b) RBI
   (c) AMFI (d) FRBI
   (e) None of these

108. Which of the following is/are objective(s) of our Monetary Policy?
   I. To anchor inflation expectations.
   II. To actively manage liquidity.
   II. To maintain interest rate regime consistent with price output and financial stability.

   Select the correct answer using the codes given below
   (a) Only I (b) Only II
   (c) I and III
   (d) All of the above
   (e) None of the above

109. The Reserve Bank of India had diverted its stake in State Bank of India to
   (a) IDBI Bank (b) LIC
   (c) ICICI Bank
   (d) Government of India
   (e) None of these

110. As per the reports in the leading newspapers. Securities and Exchange Board of India (SEBI) has asked the mutual fund industry to stop 'Misselling' their schemes to investors. What is 'Misselling' of products?
   I. Misselling takes place when mutual funds are sold without telling the likely returns.
   II. When agents sell the products without telling investors what are the risks involved in investing in mutual funds.
   III. When agents invest somebody's money in mutual funds without their knowledge, it is called misselling.

   Select the correct answer using the codes given below:
   (a) Only I (b) Only II
   (c) Only III (d) All of these
   (e) None of these

111. A customer wishes to purchase some US dollars in India. He/She should go to
   (a) Public Debt Division of the RBI
   (b) American Express Bank
   (c) RBI or any branch of a bank which is authorised for such business
   (d) Ministry of Foreign Affairs
   (e) None of the above

112. In January, 1998, the Reserve Bank of India introduced new regulatory framework for safeguarding the interest of depositors. The guidelines comprises
   (a) NBFCs falling short of the stipulated minimum Net Owned Funds (NOF) were precluded from accepting public deposits
   (b) An NBFC not having minimum credit rating as prescribed by RBI is not eligible to accept fresh deposits
   (c) Ceiling on the quantum public deposits was related to the level of credit rating given by the approved credit rating agencies
   (d) All of the above
   (e) None of the above

113. RBI prescribes the cash reserve ration to be maintained by banks as part of prudential norms. In what way is this cash reserve maintained by the banks?
   (a) It is kept as reserves of gold with RBI
   (b) It is maintained as cash with RBI

(c) Each bank keeps the reserve in their respective head offices
(d) It is maintained as investments in government bonds
(e) None of these

114. RBI has reduce by one percentage point the Statutory Liquidity Ratio required to be maintained by banks to 23%. In what form is this stipulation reacquired to be fulfilled?
(a) Banks are required to keep the amount in approved government securities of the appropriate value
(b) The amount to be maintained in cash and securities with RBI
(c) The required amount is to be maintained in gold with RBI
(d) All of the above
(e) None of the above

115. The chief economic advisor to the Government of India has recently changed. Who is the present incumbent?
(a) Raghurm Rajan
(b) Bimal Jalan
(c) Rakesh Mohan
(d) Kaushik Basu
(e) Y.V. Reddy

116. The financial year for banks is April-March, but what is the financial year for RBI?
(a) January - December
(b) April - March
(c) July - June
(d) October - September
(e) June-May

117. Which of the following rates/ratios is not covered under the RBI monetary and credit policy ?
(a) Bank rate
(b) Exchange rate of foreign currencies
(c) Repo rate
(d) Reverse repo rate
(e) Cash reserve ratio

118. Under provisions of which one of the following Acts does the RBI issue directives to the Banks in India ?
(a) RBI Act
(b) Banking Regulation Act
(c) Essential Commodities Act
(d) RBI and Banking Regulation Act
(e) None of the above

119. Which one of the following tools is used by RBI for selective credit control ?
(a) It advises banks to lend against certain commodities
(b) It advises banks to recall the loans for advances against certain commodities
(c) It advises banks to charge higher rate of interest for advance against certain commodities.
(d) It discourages certain kinds of lending by assigning higher risk weights to loans it deems undesirable.
(e) None of the above

120. Under provisions of which one of the following Acts has the Reserve Bank of India has the power to regulate, supervise and control the banking sector?
(a) RBI Act
(b) Banking Regulation Act
(c) Negotiable Instruments Act
(d) RBI and Banking Regulation Act
(e) None of the above

121. As we all know, the Bank Rate at present is fixed at 6%. What does it mean in context to the banking operations ?
(a) No bank will be able to give loan to any patron at a rate lower than the Bank Rate.
(b) Bank should give loan to their priority sector customers/borrowers at the rate of 6% only. They cannot charge less or more than this from their priority sector clients.
(c) Banks are required to invest 6% of their total capital on financial inclusion and inclusive banking operations.
(d) Banks will be required to give 6% of their total deposits to the Govt. of India for meeting its Balance of Trade requirements.
(e) None of the above

122. As we all know, the RBI has raised the Cash Reserve Ratio (CRR) by 25 bps, in April 2010. What action will banks have to take to implement the same ?
(1) They will have to deposit some more money with the RBI as reserve money.
(2) Banks will be required to give some more loan to projects of the priority sector.

(3) Banks will be required to give a loan equivalent to the CRR to the Govt. of India for its day to day expenditure as and when required.
(a) Only 1 (b) Only 2
(c) Only 3 (d) Only 1 and 2
(e) All 1, 2 and 3

123. The rate on which banks borrow from the RBI is called ....
(a) SLR (b) CRR
(c) Interest Rate (d) Bank Rate
(e) Repo Rate

124. Which of the following is the full form of the term SLR as used in the banking sector?
(a) Social Lending Ratio
(b) Statutory Liquidity Ratio
(c) Scheduled Liquidity Rate
(d) Separate Lending Rate
(e) None of these

125. The Reserve Bank of India keeps on changing various ratio/rates frequently. Why is this done?
(1) To keep inflation under control.
(2) To ensure that Indian Rupee does not lose its market value.
(3) To ensure that Banks do not earn huge profits at the cost of public money.
(a) Only 1 (b) Only 2
(c) Only 3 (d) All 1, 2 & 3
(e) None of these

126. The central banking functions in India are performed by the
1. Central Bank of India
2. Reserve Bank of India
3. State Bank of India
4. Punjab National Bank
(a) 1, 2 and 3
(b) 2
(c) 1
(d) 2 and 4
(e) None of these

127. If the cash reserve ratio is lowered by the RBI, its impact on credit creation will be to
(a) increase it (b) decrease it
(c) no impact (d) constant
(e) None of these

ANSWER KEY

1.	(a)	**2.**	(c)	**3.**	(d)	**4.**	(d)	**5.**	(c)	**6.**	(c)	**7.**	(d)	**8.**	(c)
9.	(a)	**10.**	(d)	**11.**	(a)	**12.**	(d)	**13.**	(d)	**14.**	(a)	**15.**	(d)	**16.**	(e)
17.	(a)	**18.**	(e)	**19.**	(b)	**20.**	(a)	**21.**	(b)	**22.**	(b)	**23.**	(a)	**24.**	(c)
25.	(b)	**26.**	(c)	**27.**	(d	**28.**	(b)	**29.**	(b)	**30.**	(c)	**31.**	(d)	**32.**	(e)
33.	(d)	**34.**	(b)	**35.**	(a)	**36.**	(b)	**37.**	(b)	**38.**	(c)	**39.**	(c)	**40.**	(d
41.	(c)	**42.**	(d)	**43.**	(b)	**44.**	(b)	**45.**	(e)	**46.**	(a)	**47.**	(a)	**48.**	(a)
49.	**(a)**	**50.**	**(a)**	**51.**	**(a)**	**52.**	**(d)**	**53.**	**(c)**	**54.**	**(d)**	**55.**	(c)	**56.**	(d)
57.	(d)	**58.**	(a)	**59.**	(a)	**60.**	(d)	**61.**	(d)	**62.**	(d)	**63.**	(d)	**64.**	(a)
65.	(c)	**66.**	(a)	**67.**	(a)	**68.**	(d)	**69.**	(b)	**70.**	(a)	**71.**	(a)	**72.**	(b)
73.	(c)	**74.**	(b)	**75.**	(c)	**76.**	(c)	**77.**	(d)	**78.**	(d)	**79.**	(a)	**80.**	(d)
81.	(b)	**82.**	(a)	**83.**	(b)	**84.**	(c)	**85.**	(c)	**86.**	(b)	**87.**	(c)	**88.**	(d)
89.	(e)	**90.**	(b)	**91.**	(a)	**92.**	(c)	**93.**	(c)	**94.**	(a)	**95.**	(d)	**96.**	(e)
97.	(e)	**98.**	(b)	**99.**	(c)	**100.**	(a)	**101.**	(d)	**102.**	(d)	**103.**	(b)	**104.**	(b)
105.	(e)	**106.**	(b)	**107.**	(a)	**108.**	(b)	**109.**	(d)	**110.**	(d)	**111.**	(c)	**112.**	(d)
113.	(b)	**114.**	(a)	**115.**	(a)	**116.**	(c)	**117.**	(b)	**118.**	(d)	**119.**	(b)	**120.**	(b)
121.	(a)	**122.**	(a)	**123.**	(d)	**124.**	(b)	**125.**	(d)	**126.**	(b)	**127.**	(a)		

CHAPTER

4

Money Supply

MONEY – ITS QUALITY AND FUNCTIONS

What is money?

Money is something that passes freely from one person to another and could be used to settle debt.

In the old age banking, many types of metals were used as money to settle debts. Such metals were like gold, silver, cowrie shells, etc.

Development of modern money though in stages started because barter system of settlement of debt made fixing of pricing of a product difficult.

The problem of fixing prices of products led to the development of modern money that enables a man to receive payment for the goods or services provided, and to purchase, at a time he chooses, the goods and services he requires.

Quality of Money

First important aspect of money is to know its quality aspects.

Money must possess certain qualities to qualify to be used as acceptable (acceptability factor) mode of debt settlement. Acceptability thus becomes prime factor. To be acceptable, experts have suggested several qualities of money, of which important are:

(a) Portability: Commodity used as money should be easy to carry, since transactions taking place at different places could be settled there and then.

(b) Durability: Money used should be durable in use. The commodity used as money should withstand frequent handlings. It should also not wear out quickly or deteriorate in quality with passage of time.

(c) Divisibility: Money used must be capable of being divided into convenient number of smaller units. This will help in carrying out business transactions of smaller values.

(d) Homogeneity: Each unit should be exactly the same as every other unit.

FUNCTIONS OF MONEY

Second part of knowledge of money is to know what are its functions. These functions are as follows:

1. It contains a value
2. It is a unit of account.
3. It is used as a medium of exchange.
4. It functions as a standard of deferred payment.

Present day money we use consists of coins, banknotes, etc.

Quasi Money: There is another form of money defined in developed economies called as "quasi money" or "near money". Bank deposits, transferable by cheque or other instruments of transfer are generally acceptable as a means of payment.

MONEY SUPPLY MEASURES

The RBI controls the money supply in the economy by various means.

Various measures of money supply are:

M 1= It purely reflects the non-interest bearing monetary liabilities of the banking sector. It contains money with public + demand deposits with banking system + 'other' deposits with RBI.

M 2= It includes, besides currency and current deposits, savings and short term deposits reflecting the transactions balances of entities. In other words it is measured as M 1 + Time liabilities portion of savings deposits with the banking system + certificate of deposits issued by banks + term deposit of residents with a contractual maturity of up to 1 year with banking system.

M 3= It includes M 2 + term deposits of residents with a contractual maturity of over 1 year with banking system + call borrowings from non-depository financial corporations by the banking system. In other words it is measured as M 2 + net time deposits of banks.

M 4= M 4 money supply is measured as M 3 + total deposits with Post Office savings bank (excluding NSC) but including various other deposits with PO like time deposits, recurring deposits and CTD of PO.

OTHER IMPORTANT POINTS ON MONEY SUPPLY

- 'High powered money' as used by RBI means money produced by RBI and Government of India and held by public and banks.
- Ingredients of high powered money include post office deposits + public sector bank deposits + deposit held by RBI including cash reserves of banks partly held in the form of currency as 'cash in hand' and partly as deposit with RBI and other deposits of RBI.
- Difference between high-powered money and ordinary money supply is that ordinary money supply includes demand deposits with banks *plus* currency with public *plus* other deposits with RBI whereas high powered money includes currency with public besides cash reserves of banks and other deposits of RBI.
- Reserve Bank of India takes certain extreme steps of termination of license of existing or new banks or recommends moratorium on bank or file winding up petition in Court when it considers bank is doing business not in the interest of its clients or considers that bank functioning and affairs are beyond redemption.
- Narrow Money concept used by RBI means those assets which represent immediate purchasing power and act as a 'medium of exchange' function of money.
- Blocked Currency means when one money currency of a country is not permitted to be exchanged with another country's money currency, then it is called blocked currency.
- Rationale behind defining money as 'money held by the public' is to separate the producers of money from those who demand it.
- RBI measures money supply in order of descending order of liquidity.

CURRENCY CHEST AND MINTS/PRESSES

- Reserve Bank of India has the sole responsibility to manage the currency in India with power it derives from the RBI Act, 1934.
- Currency Chest is the storehouse for storing money (notes and coins) not in use or surplus with commercial banks.
- Currency Chest along with the money held therein remains the property of RBI. At present there are nearly 18 centers identified by RBI to run currency operations. Such operations are done through dedicated / designated branches of the commercial banks.
- The money stored in the currency chest is the property of the Reserve Bank of India and is held by the bank on its behalf.
- When a commercial bank deposits the money in the currency chest, such money becomes the credit in the bank's account with RBI and vice versa.
- The currency chest facilities maintained by commercial banks are made available to all banks, government and general public.
- When the money is moved from one currency chest to another, the cost of transportation is normally borne by the RBI along with the charges of police escort.
- Issuable notes, soiled notes, new notes, mutilated notes or other damaged notes (torn notes) are all called notes.

COINAGE- DENOMINATION AND MINTING

- Owner of the Small coins is the Government of India and has the sole right under the Coinage Act of 1906 as amended from time to time.
- Government of India also exercises right to design coins of various denominations. The denominations that are designed and minted by Government are Rupee five, two, one, paisa 50, paisa 25 and paisa 10 coins.
- At present coins are minted at four major centers of the country, viz. Mumbai, Alipore (Kolkata), Saifabad and Cherlapally (Hyderabad) and NOIDA (UP),
- Coins are distributed by RBI through its issue offices. These issue offices are at Chandigarh, Chennai, Guwahati, Hyderabad, Jammu, Jaipur, Kolkata, Lucknow, Mumbai, Nagpur, New Delhi, Patna and Thiruvanantheapuram.

Decimals coinare system

Decimalisation is the process of converting a currency from its previous non-decimal denominations to a decimal system, i.e. a system based on one basic unit of currency and one or more sub-units, such that the number of sub-units in one basic unit is a power of 10, most commonly 100.

In India, Pakistan, and other places where a system of 1 rupee = 16 annas = 64 paise = 192 pies was used, the decimalisation process defines 1 new paisa = 1⁄100 rupee. The following table shows the conversion of common denominations of coins issued in modern India and Pakistan. Bold denotes the actual denomination written on the coins.

BENEFITS OF CURRENCY CHEST

- Beneficiaries of the currency chest are banks, government and public.

- Currency chest helps to withdraw surplus cash from the banks' branches that pass on the credit to the depositing bank.
- Un-issuable notes can be removed from the market.
- Mutilated notes can be exchanged with fresh notes.
- Shortfall in cash receipts and payments on any day can be quickly withdrawn from the currency chest.

PRINTING OF MONEY (NOTES)

- Notes are printed by Reserve bank of India whereas coins are minted by Government of India.
- The basis of printing notes by RBI is/are:
  - Additional need of money
  - Need for reserves required under law.
  - Need for replacing the old, mutilated, torn etc. notes in the market.
  - Based on the futuristic needs (forecasting needs)
- Coins and Rupee one note is signed by the Secretary (Finance), Government of India whereas all other denominations of notes like rupee 5,10,20,50,100,500 and 1000 are signed by the Governor of Reserve Bank of India.
- RBI has directed Banks not to staple any currency notes instead the bundle (s) should be tied or secured by paper band or rubber band.
- While maintaining cash, branches use "clip system". Clip system is the mode of verification of cash.
- For printing of the Indian currency specially produced paper from 100 per cent cotton. Cotton is used because it gives natural whiteness, provides lengthy fibers that provide strength, currency notes are crisp and cotton can withstand many folding.
- Normal strength of cotton used in paper currency is around 6000 to 7000 folds whereas international standard / parameter is around 6000 folds.
- Security thread in paper currency is:
  - Metallic or plastic thread that can't be photocopied,
  - Thread is woven inside the note, and
  - Thirdly thread gives a blue look under the ultra violet lamp (UV lamp)
- All currency distributed in the economy is a liability.
- Normally mutilated note means the one which has a missing piece and /or note composed of pieces.
- Notes issued by the Controller of currency before 1935 (before the establishment of RBI) are called currency notes.
- Bank Note is a promissory note payable to the bearer and issued by RBI on demand
- The form of approved assets that RBI ensures before currency notes are issued include Government Rupee and foreign security of any maturity, bullion and gold coins and rupee coin and eligible promissory notes and bills of exchange that are payable in India and purchasable by RBI.

Cash factory in Lucknow

India's largest lender State Bank of India (SBI) launched its first Currency Administration Branch (CAB), an exclusive branch to handle currency notes in Lucknow. Also known as cash factory, CAB is part of the bank's plan to open one currency chest in every city that will distribute notes and rupee coins to the local banks and ATMs, apart from identifying counterfeit currencies.

The cash factory will be the nodal point for issuing currency notes to all local SBI branches as well as ATMs. About half a dozen sophisticated note sorting machines will sort out currency notes in four varieties in the branch office.

ISSUING OF NOTES

- Reserve Bank of India issues notes based on certain methods. In first method called Deposit System, RBI issues paper money which is backed fully by gold or silver reserves.
- Sometimes fixed amount of money is permitted to be issued against securities, without necessary gold or silver reserves. This method is called Fixed Fiduciary method.
- In another method called Maximum Limit System or Maximum Fiduciary System, limit of issue of paper notes is fixed.
- In yet another method called Minimum Reserve System, minimum reserve in the form of gold and silver is fixed. This is the method which is beig presently used in India to issue note.
- The currency coins of Rupee 1 that is issued by the Central Government through the Public Debt Office of RBI, is made of metal like bronze whereas paisa 25 and 50 are normally manufactured with nickel. However the new coins of 2, 5 and 10 naya paisa are made of an alloy made of copper and nickel.
- Rupees 500 note was reintroduced in Indian economy in 1987 after withdrawing it for some period whereas Rupees 1000 note was reintroduced in the year 2000.
- India has declared its par value of rupee in terms of 'gold' under Bretton Woods System and as a member of IMF.
- India delinked its rupee from pound sterling and linked it with 'basket of currencies'. With the advent of reforms, RBI in 1992announced a system of partial convertibility and liberalized exchange rate system.
- For holding reserves for issuing of notes, RBI is required to hold minimum Rupees 200 crore of which not less than rupees 115 crore shall be gold.
- RBI as on date issues note in the denominations of rupees 2,5, 10, 20, 50, 100, 500 and 1000.

PAST EXERCISE

1. Which of the following banks has opened the country's first "Cash Factory" in Lucknow which will issue currency notes to all its branches and ATM in the area? **(Andhara Bank 2009)**
   (a) Bank of India
   (b) Bank of Baroda
   (c) State Bank of India
   (d) Union Bank of India
   (e) None of these
2. Coins which were minted in with the 'Hand Picture' are available since **(IOB 2010)**
   (a) independence
   (b) 1965 (c) 2000
   (d) 2005 (e) 2010
3. The Reserve Bank of India began production of notes in 1938, issuing ₹ 25101000 notes. ₹ 1000 note was re-introduced again in **(IBPS 2012)**
   (a) 1987 (b) 2000
   (c) 2003 (d) 2006
   (e) 2010
4. Who decides on the value and volume of bank notes to be printed and on what basis? **(SBI 2011)**
   (a) Finance Ministry
   (b) Planning Commission
   (c) RBI
   (d) Stock exchange
   (e) None of these
5. What is the maximum denomination for which coins can be produced in India? **(IBPS 2011)**
   (a) ₹ 1000
   (b) ₹ 10
   (c) ₹ 100
   (d) ₹ 50
   (e) ₹ 5
6. When did RBI demonetise 25 paise coins in the country? **(Vijaya Bank 2008)**
   (a) 2010
   (b) 2008
   (c) 2011
   (d) 2009
   (e) 2005

ANSWER KEY

1.	(c)	**2.**	(d)	**3.**	(c)	**4.**	(c)	**5.**	(a)	**6.**	(c)

PRACTICE EXERCISE

1. Rupee coins are the legal tender in India under the provisions of
   (a) Reserve Bank of India Act, 1934
   (b) Negotiable Instruments Act, 1881
   (c) Banking Regulation Act, 1949
   (d) Indian Coinage Act, 1906
   (e) None of the above
2. In India, the system of decimal coinage was introduced on
   (a) 15th August, 1947
   (b) 26th January, 1950
   (c) 1st April, 1957
   (d) All of the above
   (e) None of the above
3. Which of the following is the sale authority for issue of currency in India?
   (a) Government of India
   (b) Reserve Bank of India
   (c) Controller of Currency
   (d) All of the above
   (e) None of the above
4. In terms of Section 24 of the Reserve Bank of India Act, 1934, the Reserve Bank of India may issue bank notes for the maximum denomination of
   (a) ₹ 500 (b) ₹ 5000
   (c) ₹ 10000 (d) ₹ 1000
   (e) None of these
5. The minting of rupee coin is governed by
   (a) Coinage Act, 1906
   (b) Reserve Bank of India Act, 1934
   (c) Banking Regulation Act, 1949
   (d) Currency Act, 1902
   (e) None of the above
6. One rupee notes and coins are issued by
   (a) Reserve Bank of India
   (b) State Bank of India on behalf of Government of India
   (c) Government of India
   (d) Finance Minister of Central Government
   (e) None of the above
7. The monetary authority in India,viz Reserve Bank of India, is bound to maintain a reserve against the notes issued, whatever may be the amount. This system is called is
   (a) minimum reserve system
   (b) proportional reserve system
   (c) maximum fiduciary issue system
   (d) simple deposit system
   (e) None of the above
8. One rupee notes bear the signature of
   (a) Governor of Reserve Bank of India
   (b) Prime Minister of India
   (c) President of India
   (d) Secretary, Ministry of Finance (Government of India)
   (e) None of the above
9. The note-issue system in India is based on
   (a) Gold Deposit System
   (b) Minimum Reserve System
   (c) Proportional Reserve System
   (d) Simple Deposit System
   (e) None of the above
10. The Indian rupee is a
    (a) taken coin
    (b) standard-token coin
    (c) standard coin
    (d) gold coin
    (e) None of the above
11. The currency notes are issued by the Reserve Bank of India under the signature of
    (a) Executive Director
    (b) Deputy Governor
    (c) Governor
    (d) Secretary
    (e) None of the above
12. The approved assets against which currency notes are issued by RBI comprise of
    (a) gold coin and billion and rupee coin
    (b) foreign securities and Government of India rupee securities of any maturity
    (c) bills of exchange and promissory notes payable in India which are eligible for purchase by RBI
    (d) All of the above
    (e) None of the above
13. Who is the final authority for deciding the design, form and material of bank notes?
    (a) Central Government
    (b) Reserve Bank of India
    (c) Indian Banks Association

(d) Note Issuing Authority of India
(e) None of the above

14. Whenever somebody needs foreign currency against Indian Rupee, banks give equivalent amount of desired currency based on prevalent?
(a) Bank rate (b) Currency rate
(c) Policy rate (d) Exchange rate
(e) Base rate

15. Which one of the following is the major component of the money supply in the Indian Economy?
(a) Currency component
(b) Deposit component
(c) Treasury bill with public
(d) Both (a) and (b)
(e) Both (b) and (c)

16. The first decimal issues of coins in 1950 in India consisted of
(a) 1, 2 and 5 paise
(b) 1, 2, 5 and 10 paise
(c) 1, 2, 5, 10 and 25 paise
(d) 1, 2, 5, 10, 25 and 50 paise
(e) 1, 2, 5, 10, 25 and 50 paise along with ₹ 1

17. In India, Fixed Fiduciary System of note issue was in force from
(a) 1816 to 1920 (b) 1920 to 1945
(c) 1945 to 1950 (d) 1947 to 1952
(e) 1965 to 1972

18. Which one of the following methods is currently used in India to issue note?
(a) Fixed Fiduciary System
(b) Maximum Fiduciary System
(c) Proportional Reserve System
(d) Percentage Reserve System
(e) Minimum Reserve System

19. On 25th September, 1975, rupee was delinked from pound sterling and was linked to
(a) US dollar
(b) gold
(c) basket of currencies
(d) All of these
(e) None of these

20. The Reserve Bank of India began production of notes in 1938, issuing ₹ 2,51,01,000 notes. ₹ 500 note was re-introduced again in
(a) 1987 (b) 2000
(c) 2003 (d) 2006
(e) 2010

21. Who decides on the quantity of coins to be minted?
(a) The Government of India
(b) RBI
(c) SBI
(d) All of the above
(e) None of the above

22. Under Bretton Woods System, as a member of IMF, India declared its par value of rupee in terms of
(a) British pound
(b) US dollar
(c) a basket of currency
(d) gold
(e) None of the above

23. The merit of issuing notes with RBI can be seen is
(a) uniformity
(b) stability in currency
(c) control of credit
(d) All of these
(e) None of these

24. The association of the rupee with pound sterling as the intervention currency was broken in
(a) 1990 (b) 1991
(c) 1992 (d) 1993
(e) None of these

ANSWER KEY

1.	(d)	**2.**	(c)	**3.**	(b)	**4.**	(c)	**5.**	(a)
6.	(c)	**7.**	(b)	**8.**	(d)	**9.**	(b)	**10.**	(b)
11.	(c)	**12.**	(d)	**13.**	(a)	**14.**	(d)	**15.**	(d)
16.	(e)	**17.**	(a)	**18.**	(e)	**19.**	(c)	**20.**	(a)
21.	(a)	**22.**	(d)	**23.**	(d)	**24.**	(c)		

CHAPTER

5

Banking and Commercial Laws

BANKING REGULATION ACT, 1949 - IMPORTANT PROVISIONS

- The Banking Regulation Act of 1949 came into operations with effect from March, 16. 1949. The purpose of this Act was to supplement the Companies Act and help consolidate the prevailing laws at that time relating to banking companies.
- Banking Regulation Act defines bank, banking and banking business as per section 5 of the ACT.
- **Banking Regulation Act, 1949 says** "banking company" means any company which transacts the business of banking.
- **"Banking"** means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.
- In simple words, Banking can be defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit.
- With the passage of time, the activities covered by banking business have widened and now various other services are also offered by banks.
- The banking services these days include issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services and online transfer of funds across the country / world.
- Banking Regulation Act, 1949 is not applicable to Primary Agricultural Credit Societies. However, Banking Regulation Act does apply to cooperative banks as per section 65 (AACS).
- Mode of nomination to be taken in case of deposits have been described in section 45 ZA of the Banking Regulation Act.
- Banking Companies in India are supposed to transfer at least 20 per cent funds to reserve fund category every year. (Section 17, Banking Regulation Act, 1949).
- Reserve Bank of India is empowered through Section 21 of the Banking Regulation Act, 1949 to keep control over advances of banking companies.
- Any banking company in India cannot create floating charge on the undertaking or any property of the company. (section 14 A).
- Section 7 of the banking Regulation Act, 1949 provides that every company carrying the business of banking must use one word of the following: bank, banker, banking or banking company.
- Section 6 provides list of businesses that banking company can undertake which have been increased from time to time.

- Businesses that banking companies in India are prohibited to undertake are given in section 8 of the Act.
- Banking Companies can open its subsidiaries as section 19(1) of the Act. Main purposes for which banking company can open subsidiary are:
  - Undertaking administration estates as executors, trustees etc.
  - Undertaking and executing trusts.
  - Providing safe deposit vaults services
  - Carrying banking business outside India.
  - Any other business that Government may permit from time to time.
- Section 30(1) requires banks to be audited every year.
- Banking Regulation Act as amended in 1968, inserted under Section 10, some new sub-sections like A, B, C and D regarding management of banking companies.
- Section 10A provides that of all the Board of Directors at least 51 per cent must possess special qualities/experiences etc. like:
  - Accountancy, economics, agriculture, law, banking, cooperation, etc.
  - Do not have substantial interest in companies which carry business with banking company in which he is Board of Director.
  - Appointment of a person as Director who is already a Director of other banking company is prohibited.

NEGOTIABLE INSTRUMENTS ACT (NIA), 1881: SALIENT FEATURES

- Commercial banking in India is governed by the Negotiable Instruments Act, 1881.
- The enactment of this Act was not only to define and amend the then laws relating to promissory notes, bills of exchange and cheques but also to provide a legal framework for payment and collection of cheques and other negotiable instruments besides fixing duties and responsibilities of paying and collecting bankers and their protection thereof.
- Negotiable Instruments Act also defines and describes the crossing and endorsement of negotiable instruments and their implications.
- With the amendments made in the Negotiable Instruments Act, 1881, new chapter and sections added in it from sections 138 to 142, describes the forging and dishonouring of cheques and their implications. This section was added in the Negotiable Instruments Act, 1881 by way of amendment through Banking, Public Financial Institution and Negotiable Instrument Laws (Amendment) Act, 1988 (Act 66 of 1988).
- Initial three chapters define the terms used in trade and commerce the meaning of various negotiable instruments and other aspects of banking operations like drawer, drawee, holder, holder for value, holder in due course etc.
- Other chapter like chapters-4 onwards talk about different banking operations, legal framework and guidelines etc. on how to handle various including negotiation, presentment, payments, crossing, dishonouring and penalty etc.

NEGOTIABLE INSTRUMENTS: IMPORTANT FEATURES

- Negotiable Instruments by statute under Negotiable Instruments Act, 1881 means and include **Cheque, Bills of Exchange and Promissory Note**. These negotiable instruments being dealt along with other important aspects of negotiable instruments are given in different sections given below:

- Section 4 of Negotiable Instruments Act, 1881 deals with **promissory note.**
- Section 5 of NIA, 1881 deals with **bills of exchange**
- Section 6 of the Act deals with **cheques.**
- Section 123 describes the types of **Crossing and its definition**.
- Section 8 describes the term **"holder"** of instrument.
- Section 10 describes "**holder in due course**".
- Section 9 of NI Act, 1881 describes about **"holder for value".**

- Under **section 137 of the Transfer of Property Act, 1882,** certain instruments like **Government Promissory Notes, Shah Jog Hundis, Delivery Orders and Railway Receipt** (under certain conditions) have been recognized as negotiable instruments by customs, usages and law to be having negotiable characters.
- All negotiable instruments can be negotiated or transferred from one person to another, i.e. ownership is transferable. Negotiable Instrument is explained as negotiable means **"transferable**" or "change hands along with ownership" whereas **"instrument**" means a "document" or "property in document" used for banking purposes.
- Drawing, accepting, making or issuing any promissory note, hundi or bill of exchange expressed to be payable to bearer on demand by a person other than the RBI or the control govt is prohibited under sec. 31 (1) of RBI act 1934.
- Essential Features of Negotiable Instruments Acts are:
  - It is an unconditional written document.
  - Negotiable instruments are conveniently transferable from one hand to another along with the property in the instrument.
  - Holder of the negotiable instrument has the right to sue in his own name on the instrument.
  - Negotiable instrument provided complete and good transfer of title in the instrument to the transferee. It has complete **negotiability** as well as **transferability** property.

Difference between Transferability and Negotiability

Transferability means transfer of any product from one person to another with the condition that the transferor cannot transfer better title in the product to transferee than what he (transferor) himself has. If he has no title in the product which is, say, stolen one, then he (transferor) cannot give transferee any better right on property than he himself has. If transferor is caught, then the product has to be returned back to its original owner. However, in case of Negotiable instrument transferee if takes a cheque from the transferor without knowledge of latter's (transferor's) defective title (say stolen cheque), then the transferee will have complete title in the property (money) in the cheque and shall not be responsible to the true owner of the cheque from whom stolen. But in transferability this is not true.

DEFINITION OF VARIOUS NEGOTIABLE INSTRUMENTS

Cheques: An instrument to be called a cheque, must possess the following important features as required in section 6 of Negotiable Instrument Act. These are:

- Instrument should be drawn on a specified banker for specified amount with a date on it.

- Instrument that is payable on demand is cheque and only in money terms.
- There are three parties to cheque, namely, **Drawer** (*i.e.account holder who signs the cheque)*; **Drawee** (*bank on whom cheque is drawn and is to pay the money to payee*); and **Payee** *(whom to pay money)*
- In a cheque order to pay money is unconditional.

Promissory Note: It has following characteristics as contained in section 4 of NIA, 1881:

- It is unconditional promise to pay.
- It should be in writing and signed by the maker.
- Promise to pay must be of a certain sum of money.
- Promise to pay must be to or to the order of certain person or the bearer of the instrument

Bills of Exchange: Characteristics of bill of exchange as given in section 5 of NI Act, 1881 provides following important parameters to call an instrument as bill of exchange.

- An instrument in writing;
- It contains an unconditional order,
- Bill of exchange is signed by maker,
- There is direction to pay to a certain sum of money only to or to the order of certain person or the bearer of instrument.

- As per the banking practice some other instruments are also being used as negotiable instruments like dividend warrants, share warrants, bank draft, bank notes etc.
- Instruments like deposit receipts, share certificates, postal and money orders of post offices etc. are non-negotiable instruments.

POINTS OF SIMILARITIES/ DIFFERENCE BETWEEN ABOVE THREE NEGOTIABLE INSTRUMENTS

- All the three have unconditional order as common factor.
- In case of cheque and bill of exchange there are three parties whereas in case of promissory note there are only two parties.
- In case of cheques, the maker is the drawer, whereas in case of bills of exchange and promissory note, the maker is creditor and debtor respectively.
- In case of cheques and promissory notes, acceptance of instrument is not required but in case of bill of exchange acceptance is necessary.
- Cheque can be crossed to stop further negotiability but in case of promissory note and bill of exchange crossing is not required.
- In case of bill of exchange the liability of the drawee or maker is secondary, i.e. upon non-fulfilment of a promise to pay by drawee but in case of promissory note the liability is primary.
- In case of cheques the liability of the drawee is to pay on demand.

MORE ABOUT CHEQUES

Cheques can be classified into various types. Normally cheques are of four types. These are:

Bearer Cheque: A cheque payable to a person mentioned in the instrument or any person who presents the cheque on the bank's counter is called bearer cheque. In case of bearer cheque, it can be transferred to another person by mere delivery.

Open Cheque: Holder of an open cheque can get cash across the counter of the bank or holder can transfer to another person by signing at the back of the cheque or even can deposit in his own account.

Order Cheque: Such cheques contain an order to pay money to a particular person mentioned in the instrument. Such cheques are transferable by endorsement.

Crossed Cheque: When two transverse parallel lines on the face of the cheque are put then the cheque is called crossed cheque. Crossing is a direction / instructions to the bank.

HOLDER

- A holder of negotiable instrument means a person who has possession of the instrument in his own name and has the right to recover money mentioned therein.
- Holder is not a person who is in possession of the instrument through theft, possesses lost cheque belonging to another person, if court passes an order not allowing possessor of the instrument to get amount. (section 8 of NIA, 1881)
- Holder has the right to endorse, obtain duplicate instrument in case of loss of original and can sue other in his own name as per the instrument.

Rights of Holder:

1. An endorsement in blank may be converted by him into an endorsement in full
2. He is entitled to cross cheque
3. Can negotiate a cheque with third person, if negotiation is not prohibited by any crossing etc.
4. Can claim payment of the instrument and sue in his own name on the instrument
5. Can get duplicate copy of the cheque otherwise lost.

HOLDER IN DUE COURSE

- Holder in due course (section 10 of NIA, 1881) means a person who has obtained the instrument for lawful and valuable consideration; must have obtained instrument before maturity; is not aware of defect in the title of his immediate transferor and has nothing apparently wrong in the instrument.
- For instance, if a borrower of the bank, deposits a cheque with his bank in discharge of his debt, then the position of the bank is "holder in due course".

Conditions to be Holder in Due Course

- Possession of instrument in the hands of holder in due course- if order, name must exist as payee or endorsee
- Negotiable Instruments must be regular in all aspects
- Instruments must have been obtained for valuable consideration
- Instrument must have been obtained before the amount mentioned therein becomes payable.
- Holder in due course must obtain instrument without having any doubt in its title. He receives the instrument free from any defective title.

HOLDER FOR VALUE

- When a banker obliges a customer by crediting his account with the amount of the cheque of other bank, and allows him to draw money against it, the banker's position is of "holder for value". For instance, 'X' a debtor induces 'Y' , a third person to draw on him (X), which accepts in favour of his creditor 'Z', then the latter (Z) is holder for value with power to sue the drawer 'Y' even though he has not received any value.

Payment in Due Course

- Payment in due course means when cheques are passed in "accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned". Section 10 of Negotiable Instrument Act, 1881)
- The above section makes it clear that payment is considered made in due course only when made as per:
  - Apparent tenor (see date, name of payee),
  - Whether cheque is stale or not,
  - Bearer or otherwise,
  - Amount in figures and words match, and
  - There is not apparent visibility to the naked eye about material alteration etc.
  - Amount is paid in good faith and without negligence, and
  - Payment is made to person in possession of the instrument.
- The legal position of holder in due course does not withstand test of law in case instruments are **overdue instrument** or a **not negotiable instrument** or **inchoate instrument.**

CHEQUE PAYMENT AND COLLECTION SYSTEM

Collection of Cheques

Role of Collecting Banker

- One of the functions of the banker is to collect cheques of his customers only to realize payments from drawee bank (paying bank).
- Many a time it is difficult to ensure the legality of ownership of cheque deposited by customer for realization from another bank. In order to ensure safety of the collecting banker, section 131 of the Negotiable Instruments Act, 1881 provides certain parameters that if followed can give legal protection to the collecting bank. These parameters are:
  - Act in good faith and without negligence
  - Receive payment for his customer only. No third party cheques to be collected.
  - Collect cheques crossed generally of specially to himself.

What is Negligence?

- Negligence depends upon the circumstances of each case.
- Generally it indicates lack of care which is necessary to be taken in a case.

- "Test of negligence under section 131 is whether the payment considered in the light of circumstances, antecedents and present, was so much out of ordinary course that it ought to have aroused doubt in banker's mind and caused him to make enquiries."
- Some specific examples of negligence in practice could be:
- Opening of accounts without proper introduction.
- Irregularity of endorsements
- No enquiry being made in doubtful cases.
- Failure to take note of Not Negotiable Crossing.
- Collection of "Account Payee Cheque" for any other person.

WHAT IS COERCION?

As per Section 15 of Indian Contract Act:

- Coercion means threatening to commit or committing any act which is an offence under Indian Penal Code or unlawful detaining or threatening to detain unlawfully any property belonging to other party, with a view to obtaining his or her consent.

What is Conversion?

- "Conversion" means wrongful or unlawful interference (i.e. using, selling, occupying or holding) with another person's property which is not consistent with the owner's right of possession.
- Negotiable Instruments are included under law in the term "property" and hence banker is liable for conversion.
- The basic principle under conversion is that a rightful owner of the goods can recover the same from anyone who takes it without his authority.

However, right of true owner is restricted to the fact that when goods have reached in the hands of a person in good faith, for value and without knowledge that the other party had no authority on goods.

Except the above, true owner can file suit for conversion.

CROSSING AND ENDORSEMENT OF CHEQUES

Crossing of Cheque

What is Crossing? – Two parallel transverse lines on the face of the cheque

Different types of Crossing

General Crossing (section 123 of NI Act, 1881)

- Parallel lines with or without any abbreviation like "& Company" or " Not Negotiable", or "Account Payee" are all general crossings.

Special Crossing (section 124 of NI Act, 1881)

- Parallel lines with the name of some Banker is written across the cheque.
- Cheque shall be deemed to be crossed specially to that Banker.

"Crossing of Cheque: some features

- Where a cheque is uncrossed, the holder may cross it generally or specially.
- It restricts the payment of the cheque by way of cash.
- In case of special crossing, the banker on whom it is drawn shall not pay otherwise than to the Banker mentioned therein and to none else.

Truncated Cheques

- Truncated cheque means a cheque whose image is scanned and the electronic image is sent for collection and payment, instead of physical cheque.

CTS-2010 (Cheque Truncated System-2010)

- This facility started initially in NCR (National Capital Region) and Chennai. Later this scheme was extended to whole of the country in phases.
- New cheque books are now issued with mark " CTS _2010 Standard" by Banks.
- Reserve Bank of India and Indian Banks Association have developed such cheques by standardizing paper quality, water marks, logo of bank in invisible ink etc.
- CTS has been legalized through the amendment of Negotiable Instruments Act 1881. The amendments came through the Negotiable Instrument Act, 1881 {NI (Amendment and Miscellaneous Provisions) Act, 2002 },

Advantages of CTS

- There is better reconciliation of funds.
- Since only cheque image is sent during collection, instead of physical movement of cheques, lot of time is saved.
- Collection of cheques is faster since time taken for collection is reduced.
- Earlier physical movements of cheques used to take place from branches to the nodal branch for collection/clearing. There was lot of risk in physical movement as any cheque lost might lead to risks. Now with CTS system the operation risk is largely finished.
- Movement of cheques can be anywhere in the country with no geographical constraints.
- It reduces the cost of handling and other operational costs.

As per the amendments in the Negotiable Instruments Act, 2002, presentation of a truncated cheque to paying banker is not compulsory.

Where an electronic image of a truncated cheque is presented for payment, drawee bank is entitled to:

1. Demand any further information regarding the truncated cheque in case of any suspicion about genuineness of the apparent tenor of the instrument.
2. Demand the presentment of the truncated cheque for verification if it has suspicion of any fraud, forgery, tampering or destruction of the instrument.
3. Retain the truncated cheque, if the payment is made accordingly.

Collection of cheques: Time Limits

- Normally proceeds sent by the Paying Branch are credited in the Drawee's A/c within 10 days of lodgment in case the instrument drawn on State Head Quarters except the State Capital of N.E. Region & Sikkim, and 14 days in all other cases. For delayed credit beyond 10/14 days, branch should pay penal interest at the rate of FD as applicable for the delayed period.
- For abnormal delay in credit i.e. beyond 90 days, branch should pay penal interest at the rate of 2% above. F.D. rate applicable for the delayed period.

PAYMENT OF CHEQUES

Role of Paying Banker

- Duties of the paying banker are laid down in **section 31** of the Negotiable Instrument Act, 1881. This section provides that *" the drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to his payment of such cheque must pay the cheque when duly required so to do, and in default of such payment, must compensate the drawer for any loss or damage caused by such default".*
- Paying banker is required to ensure availability of sufficient funds, properly applicable funds (there is no restrictions by court etc.), make payment only when duly required to do so, and in case of default in payment compensate the party.
- Some examples of payments could be:
  - Cheque presented for payment is marked 'pay to bearer', is payable to bearer or possessor or order.
  - Cheque presented marked' pay Ramesh or order' is payable to Ramesh or to his order.

Bouncing of Cheques

- Bouncing of cheques or dishonouring of cheques was a civil liability till 1989.
- However to make bouncing of cheques a criminal liability that can lead to imprisionment and/or fine, amendments were made in the Negotiable Instruments Act through banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 from April 1. 1989.
- Five new sections from sections 138 to 142 were inserted in the existing Act mainly to protect genuine public.
- However, where bank returns the cheques with the remarks "payment stopped" always does not mean dishonouring of cheque and as such section 138 (b) is not attracted.
- Cheque dishonoured on the ground of "account closed" does not mean dishonoured due to insufficient funds or exceeding arrangement.
- In banking customs and practice and as per legal decisions "refer to drawer" is considered that cheque has been returned for want of funds in the drawer's account.
- A valid cheque does not become invalid due to it being either post dated and ante dated.

ENDORSEMENTS OF CHEQUES—IMPORTANT ASPECTS

- Negotiable Instruments Act, 1881, section 15 defines endorsement as one "where the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument, he is said to have endorsed the same and is called "endorser".

- In simple words, endorsement means when holder signs the negotiable instrument otherwise than as maker (drawer), on the:
  - Back of the instrument
  - On the face of the instrument
  - On a slip of paper annexed to the instrument as its part, or
  - Signs a stamped paper intended to be completed as negotiable instrument.
- Endorsement can be full endorsement or blank endorsement.
  - When in addition to the signatures the holder writes the name of the endorsee, it is called endorsement in full. Section 16 of NI Act)
  - Where merely signature of the holder is put without anybody's name, then it is called Blank Endorsement.
  - A cheque endorsed blank becomes a bearer cheque may be originally it was issued as an order cheque. But the same cheque can become an order cheque if endorsed in full.
- Sometimes in practice, endorsement is done by fixing a rubber stamp, such endorsement is valid legally.
- In case any 'order cheque' is endorsed in blank, then it can be paid to the bearer and like a bearer cheque can be transferred by delivery. This is true in case any cheque etc.is endorsed in blank, it becomes payable to bearer.

BILLS OF EXCHANGE- IMPORTANT FEATURES

- Section 5 of the Negotiable Instruments defines a bill of exchange as an instrument in writing containing an unconditional order, signed by the maker and directing certain person to pay a sum of money only to or to the order of a person or to the bearer of the instrument.
- Bill of Exchange has following characteristics that make it a bill of exchange:
  - Should be in writing
  - Should be signed by drawer
  - It is necessary that there is no ambiguity in naming drawer, drawee and amount payable. In other words all these should be certain.
  - Name of the payee must be certain.
- Drawee and acceptor are the same in case of bill of exchange.
- There are two types of bill of exchange, viz.
  - Demand bill of exchange
  - Usance bill of exchange
- It is necessary that all types of bills of exchange are presented for payment or acceptance to the drawee.
- When bill of exchange is drawn on partnership firm, then any partner can accept it.
- **Demand bill** of exchange is one which is payable on presentment, or at sight or on demand. In such bills no time limit arises.
- In case of demand bills presentment time and acceptance time are the same.

Dishonour of Bill

- Bill is considered dishonored when drawees who are not partners any one fails to accept bill or drawee given conditional acceptance, it is deemed dishonoured.
- Notice of dishonour is not necessary for maker.

Payment of Bill on Public Holiday

- When on the date of payment or maturity is a public holiday, then it is done on the immediate preceding working day..
- Days of grace on bill of exchange and promissory note are allowed after sight or after date. Normal grace period is 3 days after sight or after date. Days of grace are not permissible in case of cheques.
- Days of grace on bill of exchange and promissory note on the happening of some situation or event, or after that situation or specific day.

PROMISSORY NOTE

- It is defined as an unconditional undertaking to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.
- A document can be called a promissory note if it satisfies the legal requirements mentioned in negotiable instruments act and is an unconditional promise to pay.
- Law provides that a promissory note should possess following features:
  - A written, unconditional promise to pay.
  - Must have been signed by maker
  - Parties to promissory note are certain i.e. specified in particular.
  - Method of payment is specified along with money payable.
- Promissory note like bill of exchange can be drawn for any duration. Law does not specify any period.

INDIAN PARTNERSHIP ACT AND BANKING OPERATIONS

Important Features

- Concept of partnership is contained in Indian Partnership Act, 1932.
- Section 4 of the Partnership Act defines partnership as relation between persons who have agreed to share profits of the business carried on by all or any of them acting for all. It also means abstract relations of agency between two or more persons.
- Partnership firm can be registered or unregistered. Partnership agreement can be written or oral.
- Typical characteristics of partnership is:
  - Joining together or association of minimum two persons or more than two persons.
  - Agreement for engaging themselves in gainful business
  - Persons coming together for a legal business must agree to share profits from the business in a proportion.
  - Between themselves partners act as an agency in their relationships.
- Section 8 of the Partnership Act, 1932 defines "Particular Partnership" which means a person becoming a partner with another person in a particular venture or undertaking.

- As between the partners it may be agreed if so desired by them (a) that one or more of them shall not be liable for losses, (b) that any partner is not to share the losses but share only the profit, (c) that to share loss which is a negative profit.
- For instance, a sum due to one of the partners in a firm from a company can be set off against the debt to such a company due from the firm.
- Legal relationship between the partners is that of 'Agency'.
- A partner as an agent of the firm has some implied powers under section 18 of the Partnership Act, 1932. Implied Powers means that any partner can make the firm liable by his acts done in the name of the firm in ordinary course of business.
- For instance, under implied powers some specific acts, for example, that a partner can do are:
  - He may sell or purchase any goods on account of the firm necessary to carry firm's business.
  - He may receive payment of debts due to the firm and issue receipts thereof.
  - He may borrow money on credit of the firm against security of firm's assets.
  - He may accept, make and issue bills and other negotiable instruments.
- However, under implied powers partner cannot acquire or transfer any immovable property.
- Implied powers do not apply to the following under section 19(2) of the Partnership Act:
  - Partner cannot take firm's dispute to arbitration.
  - Cannot compromise or waive firm's claims against outsiders (third party).
  - Cannot open a banking account on behalf of the firm in the name of the partner.
  - Cannot withdraw suit or admit any liability in a suit filed on behalf of firm or proceedings against the firm respectively.
- PARTNERSHIP at WILL: It means partnership not for a fixed period. Also partnership can be dissolved by any partner giving a notice to that effect to other person. (section 43 of the Partnership Act).
- Some other typical features of partnership are:
  - Partnership does not exist between members of charitable society or religious associations etc.
  - Persons who enter into partnership with one another are individually called 'partners'.
  - All partners jointly or collectively are called 'firm'.
  - Joint Hindu Family is not a partnership.
- Minor can be admitted as partner of the firm with the consent of all partners (Section 30 (1) of Partnership Act, 1932). Minor when admitted as partner derives certain rights as per section 30 of the said Act. These rights are:
  - Personally minor is not liable to any act of the firm.
  - Can elect to become a partner on attaining majority.
  - Entitled to all benefits of the firm but not liable for any losses or other liabilities.
  - If decides not to become partner then his share is not liable for any acts of the firm done after the date of notice of his intention of not becoming partner.
  - Right to all information and inspection of accounts etc.

- **Reconstitution of Partnership**: Partnership firm can be reconstituted on the retirement, death, or expulsion etc. of partner. Reconstitution of partnership firm means:
  - Share transfer of partner's share from one person to another.
  - Insolvency or death of partner
  - Expulsion or retirement of partner ,or
  - Introduction of new partner.
- When inducing a new partner to the firm, section31 of the Partnership Act, 1932 provides certain pre-requisites. These are:
  - Consent of all the existing partners is required.
  - New partner shall not be liable of the deeds of the firm prior to his date of joining.
  - New partner agrees to the existing business line and is ready to work along with existing partners.
- A partner can retire from the partnership (section 32 of the Partnership Act) on the grounds:
  - He retires with the consent of other partner(s).
  - He retires with express agreement by partners.
  - In case of partnership at Will, partner can retire any time of his own by giving notice in writing to all other partners.
- When partner retires, remaining partners can continue business without break. On retirement of the partners normally there is no dissolution of partnership firm.
- In case a partner is to be expelled, it has to be done in good faith. Test of good faith are:
  - Has expelled partner given reasonable notice?
  - Is expulsion in the interest of the partnership firm?
  - Has principles of natural justice adhered to ,i.e. had the partner being heard before expulsion?
- When partner dies, firstly, partnership seizes to exist, i.e. it comes to an end, unless there is contract to the contrary. Secondly estate of the deceased is not liable for the acts of the firm done after his death. Thirdly, no public notice is necessary of the death of the partner.
- **Dissolution of Partnership**: Dissolution of partnership firms means when partners fail to run the show and agree to close or stop partnership, then such action is called dissolution. It is, in fact, complete breakdown of relationship between partners. (section 39 of Partnership Act, 1932).
- Partnership can be dissolved by (i) the consent of all partners, (ii) in accordance with the contract between partners, (iii) by operation of law particularly where unlawful business is being carried on, and (iv) by the intervention of court's order.
- Section 42 of the Act further states that partnership can be dissolved by any one or all of the following contingencies, subject to the contract to the contrary. Such contingencies stated are:
  - When partnership is constituted for a fixed period or term and on the expiry of the term, partnership is dissolved.
  - When partnership is constituted to carry out one or more ventures and those have been completed.

- When partner dies
- When any partner is adjudicated as an insolvent.

- Business of partnership is considered illegal and void, if (a) it is forbidden by law, (b) the nature of the business carried out by partnership is such that it is against any law of land, or against public interest at large, (c) business is fraudulent, and (d) business may cause harm to person or property.

Registered and Non-registered Partnership—its impact

- In the partnership is unregistered then the partner cannot do the following:
  - A partner cannot institute a suit against the firm or any partner of the firm to enforce his right. Only registered firms or persons of registered firm can sue
  - An unregistered firm cannot sue a third to enforce a right arising from a contract whereas registered firm can.
  - An unregistered firm or any partner of the unregistered firm cannot claim a set off in a proceeding instituted against the firm by third party to enforce right arising out of contract.
  - Right of set off is affected if claim is above Rupees 100. This value may vary by government after amendments in the Act.

THE INDIAN COMPANIES ACT, 1956 – Important Features

- Company is a legal person or a separate legal entity and company member is not an agent of the other member.
- Company is a perpetual existence and death or insolvency of any members of the company does not dissolve the company unlike partnership.
- Liability of members is limited unlike partnership where liability is unlimited.
- Company shareholder can transfer his share to another person making the transferee a member of the company.
- Company conducts its business on the basis of:
  - Memorandum and Article of Association
  - The Companies Act, 1956, and
  - Use of common seal of the company.
- The Company Act, 1956 applies to the whole of India.
- Incorporated Company means following:
  - A company is an artificial person with perpetual succession and common seal, formed and registered under the provisions of the Indian Companies Act, 1956.
  - A company that uses a word at the last of its name as name ‘limited’ or ‘private limited’.
  - A company of few individuals forming a group of workers.
- **Memorandum of Association**: It contains the following information:
  - Constitution of the company i.e. the charter of the company.
  - Name of the company, name of the State where company is registered and situated and objects of the company.

  - Authorized capital, and
  - Liability of the members.
- When bank lends money to the company, it sees all the points mentioned in the memorandum of association. Normally bank sees (i) objective of company is incorporated, (ii) what is the constitution of the company i.e. how it has been formed and who are its promoters, (iii) what is present capital and how much is required, and (iv) liabilities of its members, any special clause etc.
- **Article of Association** provides information related to share capital, underwriting commissions, alterations of capital, powers of Directors, their qualifications, remunerations, rules and regulations, objects of company, power of company, etc.
- Joint Stock Companies are mainly statutory companies and they are established under the Indian Companies Act.
- Statutory companies are those which are established by a special Act of the Parliament. For example such companies are RBI, SBI, NABARD or other Government enterprises.
- There are three types of companies that are registered under the Companies Act, 1956. These are:
  - Public Limited Company
  - Private Limited Company
  - Company Limited by Guarantee.
- **Public Limited Company** is limited by share, liability is per shareholdings, require 7 or more persons to start a company and is incorporated under Companies Act, 1956.
- **Private Limited Company** is characterized by liability limited by shares, minimum 2 members to form a private limited company with maximum of 50 members excluding employees, such company restricts the right of the transfer of shares and lastly such company does issue prospectus.
- **A company limited by guarantee** is one where members contribute fixed amount in the event of its winding up, profit not being motive since these are charitable companies.
- **Ultra-Vires means** that company doing something beyond its scope, power of authority, contracts made are beyond members/company's power as laid down in memorandum of association. Ultra-vires are ab initio void and not ratifiable.
- **Doctrine of Relation back:** It means when dealing of the insolvent from the date of act of insolvency will not be valid in law. All such properties sold or transferred shall rest in the Official Receiver.
- **Doctrine of Indoor Management:** It means while persons dealing with a company are presumed to have read the public document and understood their contents and ascertained that the transaction is not inconsistent with the memorandum and articles of the company. Moreover, outsider has no right and duty to see the inside working of the company's internal proceedings.
- **Doctrine of Constructive Notice** means that every person dealing with the company is deemed to have notice of the contents of its memorandum and article and have understood them properly.
- **Minor cannot** become a member of a company and is wholly incompetent to contract. Minor taking shares is void.

- Rights of Members include (a) right of getting dividend, (b) right of return of capital on winding up of company or reduction, (c) right to attend meetings and exercise vote, (d) right to inspect statutory books and registers free of charge as provided under Companies Act.
- **Prospectus:** Prospectus under section 2 (36) of the Companies Act defines prospectus as any document described or issued as a prospectus and includes notice, circular, advertisement or other document inviting deposits etc. It also means invitation issued to the public to take shares etc. of the company. It acts as an advertisement offering to public. In other words it is general notice to public.
- **Issue is not public** when directed to a specified person.
- **Deemed Prospectus** means where a company allots or agrees to allot any share or debentures with a view to their being offered for sale to public by any document by which it is deemed that offer of sale is to public is called deemed prospectus**.**
- **Section 20 of the Banking Regulation Act, 1949** provides a restriction to banks to grant loans and advances to its Director who happen to be Director or partners or guarantor of any company or firm.

LAW OF CONTRACT—THE INDIAN CONTRACT ACT, 1881

Meaning of Contract

- Meaning of contract has been defined in section 2 (b) of the Contract Act as "agreement enforceable by law is called a contract".
- Section 2(e) of the Act also provides that "every promise and every set of promises, forming the consideration for each other, is an Agreement".

  However, Agreements cannot be enforced by Court of Law, and as such they are not contracts.

Essential Elements of Contract

- Section 10 of the Contract Act, 1881 provides certain essential features that are required to be looked into before any valid contract is made. These essential features are:
  - Lawful offer accepted unconditionally.
  - Legal Relationship
  - Contract is for Lawful object.
  - Capacity to enter into a valid contract.
  - Free consent of the parties to the agreement.
  - Free consent of the parties to the agreement
  - Freedom from vagueness
  - Presence of consideration
  - Performance possibility
  - Compliance with legal formalities

Person of Unsound Mind

"A person is said to be of sound mind for the purpose of making a contract if, at the time when he makes it, he is capable of understanding it and of forming rational judgement as to its effect on his interest" Section 12 of The Indian Contract Act.

Two major test of **Soundness of Mind** are:

- Capacity to understand the concerned business
- Ability to form a rational judgement as to its effects on a person's interests.

LUNACY AND IDIOCY

- Lunatic means a person whose mental powers are deranged so that he cannot form a rational judgement on any matter.
- Normally an agreement entered by lunatic is void in law, with exception where it is necessary for his/her life.
- Banks do not normally open accounts of lunatic since they are unable to understand the do's and don'ts of the banking operations.

IDIOCY

- The term idiocy is related to the term idiot, which means a person whose mental powers are completely absent. Any or all contract with such person (s) is void in law.
- This defect is related to poor brain development.
- Lunacy can sometimes be cured but idiocy is incurable.

Competence

- Section 11 of Indian Contract Act divides competence into three distinct branches. These are:
  - Disqualification due to infancy, i.e. person being minor.
  - Disqualification due to Insanity, described earlier in foregoing paragraphs.
  - Other disqualifications by personal law (s)

Section - 3 of Indian Majority Act, 1875 describes /defines minor.

Who is Minor?

- Every person domiciled in India and has attained the age of majority when he / she shall have completed the age of 18 years and not before. However in case of appointment of Guardian by the competent court, the age of majority is 21 years and not 18 years.
- In India, minor cannot enter into a contract, **subject to certain exceptions.** Banks do not enter into contract with contract except for deposits under guardianship or where no liability is created in the contract. An agreement by minor is absolutely void since minor has no capacity to contract.

Exception in case of Minor

- Minor's property is liable for payment of a reasonable price for necessaries supplied to the minor or to anyone whom minor is bound to support.
- Section 68 of the Indian Contract Act provides that if a person incapable of entering into a contract, or anyone whom he is legally bound to support , is supplied by another person with the necessaries suited to his conditions of life, the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person"). This in simple words means that minor may enter into a contract to support a third person who provides services and goods for minor's benefit.

- Another important feature in the Contract regarding minor is that since any contract minor enters into is absolutely void in law, he/she cannot ratify his/her actions done during minority period after attaining majority. There can be no ratification of a contract which is void *ab initio.*
- A minor cannot be compelled to refund any benefit that he might have received under a Void Contract.
- A minor cannot be a promise under section 26 of Negotiable Instrument Act.
- Contract Act provides that minor can be an agent so as to bind his acts but not so as to bind himself.
- A minor cannot be declared insolvent because even for necessaries of life he is not personally liable.

TRANSFER OF PROPERTY ACT, 1882

Important Features of the Act

- Transfer of Property Act was enacted in 1882. Transfer of Property means an act by which a living person conveys property, in present or in future, to one or more of the living persons or to himself or to himself and one or more other living persons. (Section 5 of Transfer of Property Act, 1882)
- Word “Property” has also been explained in General Principles of Law. Property as per this law means physical or concrete thing like land and building and also owner’s rights or interest in it. It also means right on action claims like book debt, bills of exchange and other negotiable instrument act and documents of the title to goods.
- Transfer of Property Act does not fully applicable to the States of Punjab and Haryana.
- Possession of property can be any of the following: (i) actual possession, (ii) physical possession, (iii) constructive possession, and / or (iv) adverse possession.
- There are six types of mortgages that have been recognized in India. These are equitable mortgage, simple (registered) mortgage, anomalous mortgage, English mortgage, unsufructuary mortgage and conditional mortgage.
- “Mortgagor” means the person who gives his property as security or for sale. “Mortgagee” means a person to whom the property is given as security or buyer of property.
- Common forms of mortgages practiced in India are simple mortgage and equitable mortgage.
- Major benefits of equitable mortgage (mortgage by deposit of title deeds) are:
  - Registration is not required
  - Transaction remains confidential between banker and mortgagor.
  - On completion of contract (repayment of debt), the title deeds are returned to the mortgagor.
  - Mortgagee (in case loans, it is bank) gets the same rights under equitable mortgage as in case of simple (registered) mortgage.
- Essential features of a simple mortgage are:
  - Property remains in the possession of the mortgagor.
  - Mortgagor binds himself personally to pay the mortgage money.

  - Mortgagor expressly or impliedly agrees that in the event of default to pay, the mortgagee has the right to sell the property and apply the sale proceeds to cover the mortgaged money.
- Rights of the mortgagee as per Transfer of Property Act, 1882 are:
  - Right to foreclosure (section 67) or sale
  - Right to sue for mortgage money
  - Right to realize the security
  - Right to sale without court's intervention, and
  - Right to the accession to mortgaged property, i.e. hold mortgaged property for the purpose of security, unless there is contract to the contrary.
- Under Transfer of Property Act, section 7, only owner of the property and / or duly authorized agent of the owner can transfer the property.
- Right of the Mortgagor to redeem the property mortgaged has been specified in section 60 of TOPA, 1882. These are:
  - Possession of property
  - Delivery of the mortgage deed, title deeds and other relevant documents.
  - Retransfer of mortgaged property to him or any third person as per his direction.
- Mortgage by deposit by title deeds does not require registration under the Indian Registration Act.

BANKERS' BOOK EVIDENCE ACT, 1891—IMPORTANT FEATURES

- Bankers' Book Evidence Act, 1891 mainly relates to providing evidence in the court of law of the banking transactions in cases under suit since it (bank) keeps and maintains accounts of all its customers
- Bankers' Books as per section 2(3) of the Bankers' Book Evidence Act as amended from time to time include the following:
  - Ledgers, day books, cash books, account books etc. used in the business whether kept in the written form or as printouts of data or stored in a floppy, disc, tape or any other form of electromagnetic data storage device.
  - 'Certified Copy' which means a copy of written form of details in such books together with a certificate written at foot of such copy that it is true copy of such entry. In simple words this means that such entry is contained in the books of the bank.
  - Certified statement that consists of printout of data stored in a floppy, disc, tape etc. subject to the provision of section 2 A of the Bankers' Book Evidence Act, 1891 (This section provides conditions in making printouts as evidence).
- Certified copies produced by banks become prime facie evidence of the original entries. Certified copies are admitted as evidence of matters, transactions etc. subject to the extent of original entries. Though, certified copies of entries in the bankers' books are admissible as evidence but not as conclusive evidence. To prove the case additional and corroborative evidence is required to be produced by the bank to prove its case. (Section 34 of Bankers' Book Evidence Act. 1891).
- Printout copy of the transactions has to be certified by the Manager and in case of electronic data, the Officer-in-charge of the computer system has to give the certificate as to the fact that all needed precautions / safeguards of the data in the computer system etc. has been taken care of.

PAST EXERCISE

1. Mortgage is a **[IBPS 2011]**
   (a) security on movable property for a loan given by a bank.
   (b) security on immovable property for a loan given by a bank.
   (c) concession on immovable property for a loan given by a bank.
   (d) facility on immovable property for a loan given by a bank.
   (e) security on immovable property for a deposit received by a bank.
2. With reference to a cheque which of the following is the "drawee bank" ? **[IBPS 2012]**
   (a) The bank that collects the cheque
   (b) The payee's bank
   (c) The endorsee's bank
   (d) The endorser's bank
   (e) The bank upon which the cheque is drawn
3. Which of the following is not a negotiable instrument? **[Indian Overseas Bank 2011]**
   (a) Cheque
   (b) Pay order
   (c) Bill of Exchange
   (d) Warehouse receipt
   (e) All are negotiable instruments
4. Which of the following is not a prerequisite for a promissory note? **(Vijaya Bank 2008)**
   (a) Drawn on a specified banker
   (b) It should be unconditional
   (c) It should be in writing
   (d) It should be made and signed by the debtor
   (e) It should be payable in the currency of the country
5. Which of the following is not a party of Bill of Exchange? **(IOB 2009)**
   (a) The drawer
   (b) The drawee
   (c) The payee
   (d) The endorser
   (e) None of these
6. In terms of Section 5(1) (5) of the Banking Regulation Act, 1949, a 'banking company' means any company which **(IBPS 2012)**
   (a) accepts deposits from the public
   (b) undertakes lending of money
   (c) transacts the business of banking in
   (d) All of the above
   (e) None of the above

ANSWER KEY

1.	(b)	**2.**	(e)	**3.**	(e)	**4.**	(a)	**5.**	(d)	**6.**	(c)

PRACTICE EXERCISE

1. A working group on cheque transactions and E-cheques was constituted by the Reserve Bank of India under the chairmanship of Dr R B Barman and major recommendations of group include
   (a) the physical cheque will be truncated within the presenting bank
   (b) settlement will be generated on the basis of current MICR code line data
   (c) electronic images will be used for payment processing
   (d) All of these
   (e) None of these
2. Which of the following is a primary function of banks?
   (a) Collection and payment of cheques, rent, interest etc on behalf of their customers
   (b) Buying, selling and keeping in safe custody, the securities on behalf of their customers
   (c) Acting as trustee and executors of the property of their customers on their advice
   (d) Remitting money from one place to the other through bank drafts or mail or telegraphic transfers
   (e) Accepting deposits
3. Section 131 of Negotiable Instrument Act, 1881 extends protection to the
   (a) paying banker
   (b) collecting banker
   (c) advising banker
   (d) issuing banker
   (e) All of these
4. Which of the following statements is incorrect about negotiable instruments?
   (a) Pay A or Order
   (b) Pay to Order to A
   (c) Pay A and B
   (d) Pay A only
   (e) Pay Bearer
5. Which of the following is not a negotiable instrument?
   (a) Promissory note
   (b) Bill of exchange
   (c) Cheque
   (d) Bank draft
   (e) Share certificate
6. Which of the following is not the essential requirement for the endorsement as per Negotiable Instrument Act, 1881?
   (a) It should be on the instrument
   (b) It should be made by the holder or the maker
   (c) Signatures should be in ink and not by pencil or rubber stamp
   (d) It should contain unconditional order
   (e) The endorser should sign the endorsement in the same style and with the same spellings as written in the instrument
7. Under the Negotiable Instrument Act, 1881, an instrument which is incomplete in some respects, is called a/an
   (a) foreign instrument
   (b) inland instrument
   (c) inchoate instrument
   (d) ambiguous instrument
   (e) fictitious instrument
8. Which of the following acts helps a bank in its day-to-day activities?
   (a) Competition Act
   (b) Negotiable Instruments Act
   (c) Hindu Marriage Act
   (d) Hindu Succession Act
   (e) NRI Act
9. All of the following are examples of Quasi negotiable instruments, under the Negotiable Instrument Act, 1881, except
   (a) dividend warrants
   (b) share warrants
   (c) bearer debentures
   (d) promissory note
   (e) None of these

10. Transfer of any instrument to another person by signing on its back or face or on a slip of paper attached to it is known as
    (a) promissory note
    (b) bill of lading
    (c) bill of exchange
    (d) endorsement
    (e) None of these
11. Which of the following statements is correct about promissory note?
    (a) It need not be in writing
    (b) An implied promise is enough to constitute a valid promissory note
    (c) The promise to pay must be definite and unconditional
    (d) The name of the payee need not be mentioned
    (e) The payment can be in kind
12. The banker is under an obligation to take utmost care in keeping secrecy of the details of the customer. However, the obligation of secrecy is not considered essential when
    (a) a banker is required to give evidence in the court
    (b) there is national emergency and disclosure is essential in the public interest
    (c) there are clear proofs of reason to the state and when consent is given by the customer to provide information for the preparation of balance sheet
    (d) All of the above
    (e) None of the above

ANSWER KEY

1.	(d)	**2.**	(e)	**3.**	(b)	**4.**	(d)	**5.**	(d)	**6.**	(d)
7.	(c)	**8.**	(b)	**9.**	(d)	**10.**	(d)	**11.**	(c)	**12.**	(d)

CHAPTER 6

Banker—Customer Relationship

- Banker and customer have a legal binding once they enter into an agreement. This binding arises from vast varieties of services provided by banks to depositors as well as borrowers. Each service provided calls for a contractual relationship. There are certain terms and conditions which are applicable to both parties- customer and banker.
- Such relationship is contractual in nature and based on the customs and usages of bankers. Courts in India have recognized some of these customs and usages. This makes the relationship as implied terms of contract.
- The very nature of contract between customer and banker revolves around three important aspects,
  (i) There is both implied and express terms in the agreement
  (ii) Duties owed by the bank towards the customer, and
  (iii) Duties owed by customer towards bank.
- Besides the above, bank may have certain common law duty of care. As such these duties may vary with the type of relationship between banker and customer and the nature of activities/services availed from bank or provided by bank from time to time.
- In practice besides legal relationship (financial relationship), bank enters into an emotional and social relationship with its customers.
- Such a relationship is normally long lasting but at the same time risk borne. Therefore, we should go into the details of the customer before engaging in this banker and customer relationship.
- Today's business also demands that business of banking is to attract, acquire and retain right customers which makes it important that we should understand customer better and through Know Your Customer (KYC) guidelines find right and suitable customer for longer relationship.
- In order to understand the relationship, we have to understand the definition of customer and banker.

WHY TO KNOW BANKER-CUSTOMER RELATIONSHIP

- Knowing banker customer relationship is necessary because this relates to society, emotional attachment and legal angles.
- Both serve the society to grow and the economy to expand.

Before we discuss the relationship between the banker and the customer, it is necessary that we understand who is bank, banker and customer.

- According to section 5(b) of the Banking Regulation Act, 1949 **'Banking'** means **"accepting for the purpose of lending or investment of deposits of money received from the public, repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise".** The person who is performing this function is called the **'Banker'.**

- **The term Customer** has not been defined in law in India. In practice and common usage, customer is one who has business dealings with bank and has an account with the bank. However, when a customer undertakes a "casual service" with bank like cashing a third party cheque, or deposits third party cheque or makes a draft for somebody etc. does not make him customer and the relationship between banker and customer is not established.

FUNCTIONS OF BANKS

Banks perform many functions some of which are legally required while some arose out of business necessity. Important functions are:

- Acceptance of deposit of money for the purpose of lending or investments.
- Discounting of Bills
- Collection of Cheque and Bills
- Safe Custody of articles
- Conducting foreign exchange transactions
- Conducting foreign exchange transactions
- Conducting foreign exchange transactions
- Remittances
- Hiring of Safe Deposit Lockers
- Conducting Government Transactions.
- Issuing Letters of Credit and Guarantees, etc.
- But now, as the competition increases, many newly opened banks/ institutions have diversified their businesses and entered into areas of business, like Selling of Gold Coins, Credit Card business, third party products (TPP) selling, etc.

DUTY OF SECRECY

- Bank is under obligation under law and moral grounds to maintain the secrecy about customers' bank dealings. Bank has to observe secrecy of customers account or any of his transactions or any other information related to the customers' account. For any breach in secrecy aspects, bank is liable legally and morally.
- Banker's duty of secrecy to its customer is an implied term of contract.
- Banker is justified in disclosing customers' bank dealings and accounts under section-6 of bankers' Book Evidence Act, 1891 on order of court, Section 26 of banking Regulation Act, 1949 and section 45 B of the Reserve bank of India Act, 1934.
- This obligation continues even after the closure of the account except under following circumstances.

Exception of Secrecy Disclosure

Under the following circumstances Bank is not undertaking any liability when information about the customers' account/transactions is disclosed.

(a) **Under compulsion of law:** Bank is required to disclose the information when lawful orders received. For instance, if court order is received under Bankers Book Evidence Act, 1879 bank is duty bound to disclose information of the account.

(b) **In the interest of Public (national interest):** When bank has the knowledge that customers' transactions are damaging to the public interest or national interest, then it can disclose the information on the account.

(c) **In the interest of the Bank:** When bank wants to sue a customer for non-payment of the dues on loans and advances etc. then bank can disclose the information.

(d) **With the implied consent of the customer:** When disclosure is made at the behest of the customer in writing.

(e) **As per banking practices:** Sometimes banking practices require that customers' account or his dealings with the bank are shared confidentially with other counterparts. For example, if a borrower who deals with 'X' bank wants another loan from 'Y' bank, then 'Y' may ask for confidential report from 'X' bank. As such, 'X' bank as per banking practices can share this information confidentially with 'Y' bank.

(f) **Guarantor seeking information:** When in a loan account, any guarantor has guaranteed the account, he has right to seek information on the account of the borrower for whom he stood as guarantor.

DUTIES OF BANKER

- Bank's foremost duty is to honour customer's cheque provided it is drawn properly. As a paying banker, it is duty of the bank to ensure that cheque is in proper order, not forged and is being paid on the basis of the authority. Bank is duty bound to see that before paying money, the account of customer has sufficient funds in the account, there is no legal impediments in payment of money, etc.
- Money deposited with bank is the absolute property of the bank and bank can use it the way it deems fit subject to the condition that as a debtor it pays back the money when demanded.
- Bank's duty to pay money through cheque or otherwise may end when:
  - Cheque is countermanded (stop payment instructions received)
  - Notice to the bank that customer has expired, except in case of impersonal accounts, e.g. XYZ co. Ltd., ABC Corporation etc. drawn as representative of the company or firm.
  - Notice of customer's insanity.
  - Receipt of court order.
  - When corporate customer starts winding up proceedings as per court's orders.
  - Cheque is forged and bank has reasonable idea that presenter of cheque etc. is not entitled to it.
- Bank is supposed to issue, update pass book of the customer. In case bank opts for sending account statements by post or by internet, then bank is required to send such information on regular intervals.
- Duty to collect the cheques, Bills etc.

Rights of the banker: Banker has certain rights that can be exercised by him in case of need.

- Right to charge costs allowed legally.
- Right of General Lien
- Right of set-off

- Right of appropriation
- Right to act as per the mandate given by the customers.

Charge Costs: Bank has the right to charge 'bank charges' on certain transactions, either at the request of the customer or on the basis of banking customers and usages. For instance, when bank sends SMS about account status of his customer, then bank charges some amount. Similarly some banks charge some money on use of fresh leaflet in cash credit accounts etc. Bank also has the right to charge (debit) bank charges on return of cheque unpaid to the account of the customer.

GENERAL LIEN

- It is a right of the creditor to retain the possession of the goods and securities owned by the debtor until the debt due by the customer is paid.
- The banker's lien is an implied pledge.
- A banker acquires the right to sell the goods, which came into his possession in the ordinary course of banking business. This means that any specific transactions other than as defined under Banking are not subject to general lien. e.g, safe custody transactions, Locker transactions, money deposited for some specific purpose etc.
- Section 171 of the Indian Contract Act, 1872 gives a right of general lien to the banker.

RIGHT OF SET-OFF

- Right of set-off is the right of a banker to adjust a debit balance in a customer's account, with any balance outstanding to his credit in the books of the banks.
- In other words, the banker has a right to mutually adjust the two accounts of the same customer with certain amount, one in debit and another in credit, which is called right of set-off.
- The set-off is applicable to debts due and payable on the date of set-off. The account must be in the same name and the same capacity**.**
- In case a customer has a fixed deposit in the bank and customer has also taken an overdraft facility from the bank, then bank can exercise right of set-off only after the maturity of the fixed deposit**.**
- For exercising right of set-off, bank does not normally need any separate document since it is implied contract.

  For example, M/s Daulat Ram Tota Ram, a partnership firm has an overdraft facility from the bank to the tune of Rupees 9,500=00. As on 12.6.2014 the balance outstanding in the account is 12,575=50p. However, the partners have a savings bank account in their name with the same branch. Despite repeated notices, nothing has been paid. Since the bank has a savings account in the same names and the balance is 15,565/=, the bank can exercise right of set-off by debiting savings bank account and crediting the overdraft amount by Rupees 12,575.50.

Points of Difference between Lien and Set-off

1. Lien is in relation to goods and security whereas set-off is in relation to money claims.
2. Lien is right to retain goods and security and set-off is right to combine and consolidate the accounts.

3. Lien is special relationship between customer and banker whereas set-off can be avoided by an agreement.
4. Lien precedes set-off whereas set-off comes after lien.

RIGHT OF APPROPRIATION

- Section 59 of Indian Contract Act, 1872 provides that if a customer owes many debts to the bank and makes payment that is not sufficient to satisfy all debts then he can ask bank to adjust particular accounts to discharge its debt.
- In simple words, right of appropriation means adjustment of monies of customers paid by him for liquidation of his debt.
- The customer, who deposits the amount, has a right to clarify the purpose and account against which the credit is to be given by the banker. It means it is the duty of the customer to specify the nature of the transactions. If he fails to mention the purpose, then banker has a right to adjust the credit against the any debit/ dues. This is called the right of appropriation.
- Section 60 of the Contract Act provides that where customer has omitted to intimate the bank to inform to which debt money deposited is to be appropriated, and there is no other ways or circumstances to show or indicate to which debt payment is to be applied, then bank as creditor has liberty to apply at his discretion to any lawful debt due and payable to bank.
- In case the customer or the banker fails to appropriate the amount paid to satisfy certain debt, then the payment so made can be appropriated towards the amount to debts 'in order of time'. (section 61 of Contract Act)
- The right of set-off can be exercised by a banker as a statutory right that helps banker to adjust his debt by serving a reasonable notice to the customer. However, bank should ensure before set-off that there is no contract to the contrary to this effect.
- The right of set-off is exercisable only when the relationship is that of debtor and creditor.
- Debts due and determined can only be set-off by bank.

RELATIONSHIP BETWEEN BANKER & CUSTOMER

As mentioned earlier customer is one who has some financial dealings with the bank and has some account with the bank. However, "casual dealings" like cashing someone's cheque or exchanging soiled notes etc. does not make a person a bank's customer.

Among the various relationships arising out of business dealings between banker and customers, important ones are given below. The relationship may vary with the nature of the transaction / dealings with bank from time to time during the period of dealing.

For instance, a customer having a saving or current account with the bank and balance in the account remains in credit, the relationship remains that of creditor and debtor between customer and banker. But moment either the amount is overdrawn the relations turns to be that of debtor and creditors between customer and banker instead of creditor and debtor earlier. This relationship may change from time to time.

Under this relationship, bank undertakes to receive money from his customer and collect cheques etc. for his customer only. Bank agrees under this relationship to pay the money back to the customer only when demanded. Also bank will not cease to do business with customer except upon serving reasonable notice to his customer. However, customer undertakes to take reasonable care in drawing money from bank in writing. This relationship makes the bank under duty to pay customer's money on demand if everything otherwise is normal.

RELATIONSHIP CREDITOR AND DEBTOR

In simple words when the customer deposits money into his account in the bank, the relationship between the customer and banker takes the shape of bank as debtor and depositor as creditor. Such relationship is established when depositor asks the bank to open an account and bank in turn handover the application form to be filled by the depositor and submit to the bank along with necessary documents. Moment the branch agrees to open an account a relationship between the depositor (customer) and banker is established that of creditor and debtor.

RELATIONSHIP DEBTOR-CREDITOR

When the customer avails a loan or an advance, then his relationship with the banker undergoes a change. Since the funds are lent to the customer, he becomes the borrower and the banker becomes the lender. The relation becomes that of debtor- creditor since the customer becomes a debtor and the banker a creditor.

PRINCIPAL & AGENT

- Banks provide ancillary services such as collection of cheques, bills etc. They also undertake to pay regularly the electricity bills, phone bills etc. for and on behalf of the customer.
- The relationship arising out of these ancillary services is of principal-agent between the customer and the bank. The proceeds of the cheques sent for collection , and which are in transit, are not credited to the customer account till such time as they are collected (received) from the paying banker and credited into the customer account.
- Here the instruction of the customer to the banker is that of a Principal and Bank carries out the same as Agent.
- As a special facility to its customers, banks do not charge any commission for collecting local cheques/drafts but do charge for collection of outstation instruments (cheques, DD, Bills etc.). For instance, a customer in Delhi receives a cheque from his friend in Shimla. Since cheque is drawn on a bank and branch in Shimla, therefore customer in Delhi hand over the cheque to his bank in Delhi and requests to collect the proceeds (money) from Shimla. Delhi Bank sends the cheque through clearing to Shimla and gets the proceeds (money) for the customer. In turn banks charges it commission.

LESSEE AND LESSOR

- An important ancillary service provided by the banks is that of safe deposit lockers or also called Vault facility, to the customers who hire them on lease basis.
- The relationship therefore, is that of lessee and lessor. Customer is lessee and bank is lessor.
- In certain banks, this relationship is termed as licensee and licensor. The bank leases out the space for the use of clients. The bank is not responsible for any loss that arises to the lessee in this form of transaction except due to negligence of that bank.
- Locker holder can keep any personal but safe goods in the locker without the knowledge of the banker.
- Lockers can be operated by double keys – one the master key held by banker and other locker key held by customer.
- Nomination facility is available in such accounts. Customer normally opens a savings bank account in the bank and keeps sufficient money to pay yearly rent for hiring a locker box.

INDEMNIFIER AND INDEMNIFIED

The customer is indemnifier and the bank is indemnified. A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or the conduct of any other person is called a contract of indemnity – section 124 (Indian Contract Act, 1872).

In the case of banking, this relationship happens in transactions of issue of duplicate demand draft, fixed deposit receipt etc. The underlying point in these cases is that either party will compensate the other of any loss arising from the wrong/excess payment.

BAILOR AND BAILEE

- A bailment is the delivery of goods in trust. A bank may accept the valuables of his customer such as jewellary, documents, securities for safe custody. In such a case the customer is the Bailer and the bank is bailee besides becoming a trustee. This situation is provided in section 148 of Indian Contract Act 1872, where it is made clear that the delivery of goods from one person to the other for some purpose upon the contract that the goods will be returned when the purpose is accomplished makes the relationship that of bailor and bailee.
- The money or the securities so kept are not at the disposal of the bank.
- The banker cannot utilize those moneys or securities as he desires since the money does not belong to him. He is holding the property in trust. Any violation of this contract is breach of trust.

PLEDGER & PLEDGEE

- When a customer pledges goods and documents as security for an advance or any credit facility, then he becomes Pledgor and the bank becomes the Pledgee.
- The pledged goods are to be returned intact to the Pledgor after the debt is repaid by him.

MORTGAGOR & MORTGAGEE

- Mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan.
- When a customer pledges a specific immovable property with the bank as security for advance, the customer becomes mortgagor and banker is the mortgagee.

TERMINATION OF BANKER-CUSTOMER RELATIONSHIP

The relationship seizes once:

- The customer wants to close the accounts
- The customer dies,
- The customer becomes insane or
- The customer becomes insolvent.
- Banker may himself close the a/c by serving notice to a/c holder on reasonable grounds.

GARNISHEE ORDER AND INCOME TAX ATTACHMENT ORDER

WHAT IS GARNISHEE ORDER?

- A garnishee order is an attachment order issued by a competent court under section 60 of civil procedure code (Rule 46 of Order XXI of schedule) at the request of a creditor to attach his debtor's funds in the hands of a Banker.
- A garnishee order is issued in two stages, **first order Nisi and then an order Absolute**
- Banker – Garnishee; Person approached the court - judgment creditor and person whose funds are to be attached - Judgment Debtor.

GARNISHEE ORDER-GUIDELINES
ORDER NISI.

- Initial order of the court for attachment of funds requires bank to explain as to why the funds of the depositors should not be attached. Such order is called Nisi order.
- On receipt of order Nisi the bank is required to stop operation in the depositors account.
- Bank is supposed to inform the customer about the receipt of the order Nisi.

ORDER ABSOLUTE

- After receipt of the explanation from the bank the court issues 'Order Absolute'.
- On receipt of an Order Absolute, the bank is required to deposit the specified amount in the court.
- Production of pass Book/ Deposit receipt are not necessary for making such payment
- Many a times Garnishee order does not specify the amount. In case, no amount is mentioned, the entire balance is to be attached. If issued for specific amount then only that specified amount is to be deposited or attached.

TYPES OF CUSTOMERS

All banks in the country open accounts for its various types of customers. The list of customers varies from individual to corporate bodies. Important types of bank customers are: individuals including married women in her own right, minors, proprietorship concerns, partnership firms, limited partnership forms, limited companies, Hindu Undivided Families (HUF), Government Bodies etc.

Any individual who is not a minor and is competent to contract can be bank's customer. Important point is selection of right customers. Bank is required to keep in mind legal aspects of customer dealing with bank. For this Reserve Bank of India in 2002 through Anti-Money Laundering Act of 2002 and subsequent RBI guidelines on this matter provide that for selection of right customer banks should develop a customer acceptance policy and ensure that before opening an account or developing a banker customer relationship, 'Know Your Customer' guidelines of RBI are adhered to. Banks have to deal with the following types of customers while opening their accounts. Important/salient features of each category of customers and precautions to be taken in opening their accounts are given below:

TWO OR MORE INDIVIDUAL OPENING ACCOUNT TOGETHER (JOINT ACCOUNT)

- Legally speaking, two or more individuals can come together to open a joint account in the name of two persons or more.
- While opening joint account all aspects taken care of in Individual account opening are to be satisfied here also. There is no restriction of number of joint holders of an account. However, bank needs to ensure that all KYC guidelines are adhered to and customers are having a purpose to open such account.
- A joint account can be operated by any one or all the joint account holder together. In the absence of any instruction (s) to the contrary all cheques should be signed by all joint account holders.

MINOR AS CUSTOMER

- A bank does open account of children who are below the age of 18 years. There is no risk involved in such accounts provided account remains in credit balance and all other legal aspects of opening minor's account have been followed.
- Section 3 of Indian Majority Act, provides that a child who attains the age of 18 years, except in case where a guardian is appointed by a court, where the age of majority is 21 becomes major. Since a minor below 18 years (21 years under guardian) cannot enter into a contract and such contract if made by bank, is void. Since the banker customer relationship is contractual in nature, therefore care has to be taken to see that minor's account is opened within the legal framework.
- A contract entered by minor with bank to open an account is valid to the extent that such contract help minor get necessaries of life and is for his/her benefit only. That is why banks open account of minor below 18 years so that his necessities of life are met with through savings.

Illiterate as Customer

- Under Indian laws, there is no bar on dealing with bank by an illiterate person. He/she can enter into a valid contract with the bank.
- Due to difficulty in obtaining signatures from the illiterate persons or taking his/her thumb impression, banks avoid giving cheque book facility. However, following precautions are to be taken while opening and maintaining such accounts:
- Clear thumb impression from customer should be taken on application form and specimen signature card. Take LTI of female and RTI of male.
- In case two illiterates join together to open an account with the bank, then the operation allowed should be jointly or survivor and not either or survivor.
- One illiterate and one literate person can open joint account. Some banks provide cheque book facility while some do not issue any cheque book.
- Recent photograph of the account holder is to be taken along with the application form. Introduction should also be preferred in such cases.

BLIND PERSON AS CUSTOMER

- Blind person can also open bank account of all nature like SB, CA, TD etc. Normally loan accounts or current account with overdraft facility are discouraged.
- Blind persons are competent to enter into contract. Account opening form mentions the customer is "Blind Person".

- It is necessary that before opening the account, bank explains various risks factors involved in the operations of the account. It should be explained preferably in the presence of a bank customer or staff member.
- Bank also allows opening of Joint account with a relative.
- Make payments or receive cash from the customer in the presence of some witness, preferably, bank customer. Blind customer's presence should be ensured for withdrawals.

PROPRIETORSHIP CONCERN

- A sole proprietorship concern has many features that make it unique. These are:
  - It is easy to form and run.
  - Oldest form of business organization.
  - One man organization easy to control and manage.
  - No registration is essential in sole-proprietorship concerns.
- But a license specific to the line of business from the local administration is required.
- It is mostly self-financed out of savings or borrowings from relatives and friends.
- Outside interference is avoided and owner is fully on its own as far as planning, organizing, decision making, marketing etc. are concerned. Profits need not be shared with anyone.
- Owner and firm have the same standing and there is no legal existence of concern separate from its owner. As such the liability of the proprietor is unlimited. It can be more than the capital invested by the proprietor.
- Shortcomings: Major shortcoming of a proprietorship concern is its lack of continuity. Since the business is one man show, as on businessman's indisposition, death etc. business operations are affected and so is income.

PARTNERSHIP FIRM

- Partnership is a group of people coming together to jointly do a business and share profits of the business.
- Partnership is legal entity formed by the business relationship of 10 person in case of banking business and 20 in case of non-banking business. It can be formed either by a written document called 'partnership deed' or orally.
- The firm may be a trading firm doing the business of sale and purchase of goods or it may be manufacturing, processing etc. It may also be professional partnership firm like that of chartered accountants, lawyers, Doctors, etc.
- A partnership may be registered or unregistered. An unregistered firm however have disadvantage that it cannot sue other debtors who have defaulted in the performance of a function to prefer its claim on them. In case of registration of partnership deed, it is registered with Registrar of Firms.
- It is important to note that in the absence of the agreement to the contrary in the partnership deed, any partner can bind the acts of other partner for the acts done on behalf of the firm.
- The account should be opened in the name of the firm. The account opening form should be signed by all the partners. Mandate in the name of any partner to operate the account and take banking decision should be signed by all partners. Any change in such mandate should also be signed by all partners.

- Liability of partners is unlimited. In other words every partner is liable for the firm's activities fully. They are jointly and severally liable.
- A letter of partnership duly signed by all the partners should be obtained. When a minor is admitted as partner in the firm, a letter of restrictive operations should be obtained. Minor is admissible for the profits or benefits from the firm but not for any liability.
- Payment of the cheque drawn by any partner can be stooped by any other partner.
- Precaution is required to be taken that in the event of the death or insolvency or lunacy of any partner, the operations in the account are stopped and a fresh partnership deed should be taken from the remaining partners.

LIMITED LIABILITY PARTNERSHIP (LLP)

- Limited Liability Partnership is a body corporate having separate legal existence having mixed characteristics of Partnership firm and Companies. It is separate from its partners, cannot own assets in the name, sue and be sued. It has perpetual succession. Every partner is an agent of the LLP.
- It is to be registered with Registrar of Company. The incorporation document shall contain the name of LLP, proposed business, address of the registered office and name & address of each partner. Name to contain 'Limited Liability Partnership' or 'LLP' as suffix.
- Incorporation Document is not required to contain State in which incorporated. Thus, registered office can be changed to any place in India just by informing ROC subject to prescribed conditions.

LIMITED COMPANY

Joint stock Companies are governed by the Companies Act, 1956. A Company is incorporated under the Companies Act. The Company is a separate entity from its members.

There are three types of the companies:

(1) Public Limited Company
(2) Private Limited Company
(3) Government Company

Documents Required in Case of Company Accounts

- List of the present directors.
- Certified copy of Certificate of Incorporation is taken while opening account.
- Certified copy of Certificate of Commencement of Business in case of public limited Company is required.
- Copy of Memorandum of Article of Association (MOA)
- Board Resolution to open an account with the bank and operational instructions.

TRUST ACCOUNTS

A trust is an obligation arising out of a confidence reposed in and accepted by owner for the benefit of another person or owner. It is fiduciary relationship with respect to property, subjecting the trustee to equitable duties to deal with the property for the benefit of another person.

- In simple words when an individual or an Association has property in his possession but there is no ownership of property available, then arrangement by which such property is managed or run is called "Trust". The individuals or Associations holding and managing the property are called "Trustees".
- Trust may be established by two important ways:
  - By voluntary coming together of interested parties/persons.
  - By court order.
- The nature and extent of trustee's authority is determined by an agreement of trustees or by the order of the Court.
- Other special features of a Trust are:
  - Trust is an obligation annexed to the ownership of property.
  - Trust arises out of a confidence reposed in or accepted by the owner.
  - Trust property is held by trustee for the benefit of the beneficiaries.
  - Relationship of confidentiality exists in the contract of trust.
- Normally two types of trusts are common in India. One is Public Trust and second is Private Trust.
- Trust could be created for lawful purposes.
- Trust can be created by person competent to contract.
- Trustees are those persons who command the confidence.

"Trust Deed" is a document that describes the creation of a trust and the purpose etc. for which it is being established.

EXECUTORS & ADMINISTRATORS

- A person to whom the execution of a will is entrusted by the deceased (testator) is called the executor of the will.
- The executor is supposed to obtain a probate from the court.
- For a person who dies without leaving a will (intestate), the court appoints a person to look after the property is called the administrator.

HINDU UNDIVIDED FAMILY (HUF)

- Hindu Undivided Family unit is recognized in India by Hindu Law. Hindu Law is in fact, a compendium of Hindu practices and customs accepted and practised for many decades.
- HUF is governed by two schools of law: one **Dayabhag**, in which son does not acquire any right in the ancestral property so long as father is alive, and second is **Mitakshara,** which propagates the thought that in a joint family governed by Hindu Law, all members acquire right in ancestral property by birth. In most of the States in India, Mitakshara system is prevalent except in West Bengal and Assam where Dayabhag system prevails.
- Normally the affairs and property of the Joint Hindu Family is managed by the eldest male member (adult) of the family, who is called KARTA of family. The other members (male as well as female except widow) of the family are called 'Coparceners'.
- HUF cannot be admitted as a partner in the partnership firm.

COOPERATIVE SOCIETIES

- Societies maintain accounts with the banks. Following points should be kept in mind while opening accounts of societies/clubs etc.
- Society must be registered under the Society Registration Act 1960 for which certified copy of the registration Documents is to be obtained.
- Copy of bye laws, rules and regulations should be obtained and read carefully for any restrictive clause (s). A list of the members of the managing committee should be drawn.
- Copy of resolution of the Managing Committee/Governing Body etc. should be kept on record. This is necessary before opening an account since this resolution provides what the Managing Committee/Governing Body has passed for opening an account.
- Borrowing Power, if any, should be known to the bank.

LOCAL AUTHORITIES

- Local Authorities include Municipal Corporations, Zilla Boards, Local Development Authorities, etc.
- Bank must obtain copy of such statute and find out the provisions as to who would authorize opening of the account.
- Generally these authorities have managing committees, with president, vice-president and treasurer and the treasurer is given powers to open and operate the account.
- Normally loans and advances are discouraged to bodies but can be advanced with permission from competent authority.

GOVERNMENT DEPARTMENTS

- Copy of the government notification should be obtained authorizing the concerned department (person in the department) to open and operate the account.
- Certified copy of rules and regulations framed by the department for opening and operations of such accounts should be obtained and compliance must be as per rules without any deviation/s.

KNOW YOUR CUSTOMER GUIDELINES (KYC)

Reserve Bank of India (RBI) on AML/ KYC States

- "The objective of KYC/AML guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities.

  Under KYC Policy, a "**Customer"** is defined as:
- A person or entity that maintains an account and/ or has a business relationship with the Bank;
- One on whose behalf the account is maintained (i.e. the beneficial owner);
- Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors, etc. as permitted under the law, and
- Any person or entity connected with a financial transaction, which can pose significant reputation or other risks to the Bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

- KYC procedures also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently".
- The necessity of knowing your customer is to (i) check financial frauds (ii) identify money laundering and other suspicious activities, (iii) scrutiny and monitoring of large value transactions and, (iv) check opening of benami accounts.
- Before establishing any banking relationship Bank will carry out **due diligence** as required under "Know Your Customer" (KYC) guidelines issued by the Reserve Bank of India (RBI) and/or such other norms or procedures adopted by the Bank.
- **What is Due Diligence?**
- Due diligence basically means that bank takes reasonable efforts to verify the customer's antecedents and understand his purpose of opening account with the bank.
- The due diligence process that the Bank follows, includes obtaining **recent photographs, verifying identity, verifying address**, and **other information on occupation or business and source of fund for the person opening the account.**
- As part of the due diligence process the **Bank may also require an introduction from a person acceptable to the Bank if they so deem necessary.**
- Objective of KYC framework is to ensure appropriate customer identification and monitor transactions of suspicious nature.
- Different means to identify customer's antecedents could be from documents like passport, driving license and verification from exiting account holders including the introduction of accounts by bank customer.
- Valid introduction can be obtained from documents like PAN card, Income Tax Authority, Election ID, Adharar Card etc.
- Proof of residence and verification could be done through personal visits, ration cards, utility bills etc.
- Reserve Bank of India has stipulated that issuance of Demand Draft, Traveller's Cheques, Mail Transfers or Telegraphic Transfers (last two are no more in use due to technology improvement in banks), beyond Rupees 50,000 and above it should be done only through the debit to the account or through cheque deposit and not against cash.
- Information collected from the customer under KYC requirements while opening account is to be kept confidential, cannot divulge information with any outsider, cannot use for cross-selling or any other purpose and should be used for bank's internal purposes.
- KYC information normally cannot be part of the account opening form. It could be collected on voluntary basis only from customers.

ANTI-MONEY LAUNDERING

- Money Laundering refers to the conversion or "Laundering" of money which is illegally obtained, so as to make it appear to originate from a legitimate source.
- Money Laundering is being employed by launderers to conceal criminal activity or against the law enforced in India.

WAYS OF DOING MONEY LAUNDERING

- **Hawala** : Hawala is an alternative or parallel remittance system.

- **Structuring Deposits** : This method entails breaking up large amounts of money into smaller parts.
- **Third-Party Cheques** : Utilizing cheques or banker's drafts drawn on different institutions and clearing them via various third-party accounts.

The Prevention of Money Laundering Act, 2002

The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework put in place by India to combat money laundering. PMLA and the Rules notified there under came into force with effect from July 1, 2005. Director, FIU-IND and Director (Enforcement) have been conferred with exclusive and concurrent powers under relevant sections of the Act to implement the provisions of the Act.

The PMLA and rules notified thereunder impose obligation on banking companies, financial institutions and intermediaries to verify, identity of clients, maintain records and furnish information to FIU-IND. PMLA defines money laundering offence and provides for the freezing, seizure and confiscation of the proceeds of crime.

BANKING OMBUDSMAN

- Banking Ombudsman Scheme was announced by Reserve Bank of India in 2006. However, it was revised, amended in 2007 and 2009 to provide this office a wider role in the field of customer complaints and to adjudicate. It came into force on January, 1. 2006.
- Banking Ombudsman Scheme, 2006 is applicable to all commercial banks, all regional rural banks, and all scheduled primary cooperative banks in the country. This scheme extends to the whole of India.
- Any executive of the rank of General Manager or Chief General Manager or other person suitable for the job can be appointed as Banking Ombudsman.
- The period of office of Ombudsman is 3 years.

PRE-CONDITIONS FOR FILING COMPLAINT

- The complainant should have made written representation to the Bank and that complaint has been rejected or complainant has not received any reply within a period of one month after the bank has received his representation or he is not satisfied with the reply given.
- The complaint is not made later than one year after the complainant has received the reply of the bank on his complaint.
- The complaint does not pertain to the same subject matter for which suit proceedings are pending before any Court, Tribunal or Arbitrator etc. or decree or award or order has already been passed by such authorities.
- Compensation is limited to Rs.10.00 lakhs.
- The complaint should not be frivolous and filled with bad intentions.

GROUNDS FOR COMPLAINTS

Common grounds of service deficiency in banking that can be entertained under the banking Ombudsman scheme are:

- Non-payment or inordinate delay in payment and collection of cheques, bills etc.

- Non-acceptance of small denomination notes and coins without sufficient cause.
- Refusal to open deposit account or close the account or delay in closing accounts without reason for refusal or delay.
- Failure to follow the Banking Codes & Standard Board of India's guidelines and non-adherence to the fair practices code as adopted by the bank.
- Failure to issue or delay in issue of drafts, pay orders or banker's cheques etc.
- Non-adherence to follow prescribed working hours.
- Failure to honour guarantee or letter of credit commitments.
- Delay or failure to credit the proceeds to the parties account or non-observance of RBI guidelines.
- Any other matter relating to the violation of the directives issued by the RBI in relation to banking or other services.
- Complaints from NRIs having accounts in India in relation to their remittances from abroad, deposits or other bank related matters.
- Forced closure of accounts without due notice or sufficient reasons.
- In case of loans and advances, failure to follow RBI directives on interest rates etc. and also delay in sanction of credit facility without reason can be ground for filing complaint.
- Non-acceptance of application for credit facility is sufficient ground for filing complaint.

FILING OF COMPLAINT

- Complaint should be filed in writing and signed by the complainant or his/her authorized representative stating clearly, name and address of the complainant, name and address of the bank's branch or office against which the complaint is being filed, facts of the case, documentary proof, if any, along with the nature and extent of loss to the complainant be given and the relief sought.

OTHER MATTERS - prescribed by RBI from time to time

- Levying of charges without adequate prior notice to the customer.
- Non-adherence by the bank or its subsidiaries to the instructions of RBI on ATM/Debit card operations or credit card operations.
- Non-disbursement / delay in disbursement of pension [to the extent the grievance can be attributed to the action on the part of the bank concerned, but not with regard to its employees].
- Refusal to accept or delay in accepting payment towards taxes, as required by RBI / Govt.
- Refusal to issue or delay in issuing or failure to service or delay in servicing or redemption of govt. securities.
- The bank shall within one month – comply and intimate the compliance to ombudsman.
- Appeal before appellate authority: Within 45 days of date of receipt of award, any person aggrieved may prefer an appeal against the award. Appellate authority may grant further period of 30 days.
- Banks to display salient features of scheme for common knowledge of public.

POWERS OF BANKING OMBUDSMAN

Banking Ombudsman has following powers:

- Call any additional information from the Bank against which complaint is filed or any other bank concerned with the complaint.
- Call for certified copies of any document relating to the complaint.
- Maintaining confidentiality of any information or document that may come to his knowledge or possession.
- Nature of the proceedings before Banking Ombudsman is "summary in nature".
- Appellate Authority in the Scheme of Banking Ombudsman is Deputy Governor –in-charge of the Department of RBI which is implementing the scheme.

Rejection of Complaints

Banking Ombudsman can reject the complaint in case where ;

- The complaint is frivolous, malafide etc;
- The complaint is without sufficient cause or beyond pecuniary jurisdiction (Clause 12 (5))
- Complaint is not pursued by complainant with reasonable diligence,
- In the opinion of the banking Ombudsman there is no loss or damage or inconvenience caused to the complainant.

BANKING OMBUDSMAN ACTS AS ARBITRATOR

- Any dispute between the customer of the bank and the bank or may be amongst banks is received by the Banking Ombudsman for arbitration. It means Banking Ombudsman acts as a arbitrator.
- Banking Ombudsman assume the role of arbitrator once the dispute is referred to him by the parties and gets the consent of the parties to do so by way of an affidavit of understanding, duly stamped and notarized.
- At any stage after assuming the charge of arbitrator, if Banking Ombudsman feels that he is unable to perform his given role independently, then he can refuse to continue to be an arbitrator.
- Generally speaking, Banking Ombudsman follows the rules and procedures laid down in the Arbitration & Conciliation Act, 1996.
- If the dispute is for an amount less than Rupees 10 lakh and parties to dispute agree for arbitration in writing, then Banking Ombudsman can himself act as arbitrator.

CONSUMER PROTECTION ACT

- Consumer Protection Act (COPRA) was enacted in 1986 Act 68 of 1986) and implemented w.e.f April 15, 1987
- This Act was amended comprehensively in 2002 (specifically on 17.12.2002) and amended Act was implemented from 15.03.2003.
- Consumer Protection Act applies to services and goods and among services fall the banking services.

OBJECTIVES

Consumer Protection Act was enacted to promote and protect the important rights of consumers. Some important objectives are:

- Right to be protected against marketing of goods which are hazarduous to life and property.
- Right to be informed about quality, quantity, potency, purity, standard price of goods and services to protect the consumer against unfair trade practices or unscrupulous exploitation of consumers and provide consumer education.
- Right to be assured wherever possible, access to an authority of goods at competitive price.
- Right to be heard and assured that consumer interest will receive due consideration.

Central Councils

- Government of India has established Central Consumer Protection Council (CCPC), for hearing the complaints of consumers or complainants. In short form, CCPC is also called 'Central Council'.
- The Chairman of the Central Council is normally Minister of Consumer Affairs in Central Government.
- Consumer interest under Consumer Protection Act will be protected by Consumer Protection Councils.
- At the State level also Consumer Protection Councils are in existence and State's Minister of Consumer Affairs is the Chairman.

Objectives of Councils

- Protect right of consumer against marketing of goods and services which dangerous to the life and property of consumer.
- Right to be informed about quality, purity, quantity, price etc of the product and services.
- Right to have access to various goods and services at competitive price.
- Assure consumer that his interest is being watched by council.
- Consumer's right to be heard is what the council is meant for.
- State or Central Government can establish various redressal agencies to hear and solve consumer complaints.
- Central Consumer Protection Council consists of around 150 members drawn from government, non-official members, other officials as members etc.
- Under the consumer protection act, the redressal of dispute is done through following three Forum/Commissions:
    - District Consumer Disputes Redressal Forum (also called District Forum) to hear disputes district level. Jurisdiction of handling disputes up to Rupees 20 lakh falls within District Forum.
    - State Consumer Dispute Redressal Commission (also called State Commission). It can handle disputes with claims between Rupees 20 lakh and 100 lakh.
    - National Consumer Redressal Commission (also called national Commission). It can handle disputes above Rupees 100 lakh.

BANKING CODE AND STANDARD BOARD OF INDIA

- Competitive forces alone do not ensure expected fair treatment, quality, justifiable price and transparency of banks services to customers. Statutory regulatory measures set out in letter but not carried out in spirit.
- For addressing these issues along with other issues related to customer service, RBI setup a committee under the chairmanship of S S Tarapore, which suggested setting up of BCSBI as an independent watchdog for ensuring promised level of service by the bankers.

ORGANIZATIONAL SET UP

- Set up in 2006 as a Trust
- Collaborative effort of RBI, IBA and banks
- Managed by Governing Council
- Membership Voluntary
- On becoming member, bank bound by Codes

CONSTITUTION

- Registered as a separate society under the Societies Registration Act, 1860.
- An independent banking industry watchdog to ensure that the consumer of banking services get what they are promised by the banks.
- Reserve Bank to lend financial support for a limited period of five years.
- To ensure that the Board really functions as an autonomous and independent watchdog of the industry, the Reserve Bank extends financial support to the Board by way of meeting its full expenses for the first five years.

ROLE OF BCSBI

- Combine the best of both self-regulation and statutory regulation.
- Evolve comprehensive codes and standards for fair treatment of customers.
- Act as a watchdog to ensure that banks deliver services in accordance with promises made in the codes.
- Promote self regulation among banks.
- Collaborative approach.

COMPLAINTS AND BCSBI

- The BCSBI does not deal with individual cases of complaints. However, in case complaints point to any serious failing in complying with the code, the BCSBI may investigate and initiate appropriate action. The BCSBI is interested in cases where member banks appear to have breached the Code.

CODE OF BANKS COMMITMENT TO CUSTOMERS

- The Code covers the products and services offered by banks to individual customers. It mainly relates to
  - Deposit accounts
  - Safe deposit lockers
  - Settlement of accounts of deceased account holders
  - Foreign exchange services
  - Remittances within India
  - Loans and advances and guarantees
  - Credit cards
  - Internet Banking

PAST EXERCISE

1. Which of the following is the abbreviated name of the new Act which deals with money laundering? **[OBC 2009]**
   (a) AILTA (b) PERDA
   (c) TERLS (d) SALT
   (e) PMLA
2. A bank normally does not have to deal with an issue related to **[Indian Bank 2010]**
   (a) payments and settlement systems
   (b) contractual rights of creditors
   (c) intellectual property rights
   (d) cases of insolvency
   (e) coordination between regulators active in banking / financial sectors
3. As we all know, banks publish their quarterly performance to bring transparency in the system and also to give a clear picture of their performance to the public. How were results of Quarter 2 different from the results of Quarter 1 of the listed banks including giants like SBI & ICICI banks ? **[Allahabad Bank 2010]**
   (1) Performance was subdued in Quarter 2.
   (2) Yields on advances of almost all listed banks have come down.
   (3) Advances grew at a slower pace when compared to deposits.
   (a) Only (1) is true
   (b) Only (2) is true
   (c) Only (3) is true
   (d) All (1), (2) & (3) are true
   (e) None of these
4. Whenever some people wish to enter into the business world, it is a must for them to approach a bank. What services do banks provide them in this regard? **[Syndicate 2010]**
   (1) Banks act as payment agents by operating current accounts, paying cheques and receiving payments for them.
   (2) Maintaining account books for them for their day-to-day activities so that they are not required to appoint account/ finance personnel on a regular basis.
   (3) Lending money by way of overdraft, instalment loan, credit or advance for business activities
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Only (1) & (3)
   (e) All of these
5. Which of the following is NOT a function of a bank? **[Syndicate 2010]**
   (a) Providing project finance
   (b) Selling Mutual Funds
   (c) Deciding policy rates like CRR, Repo Rate/SLR etc
   (d) Settlement of payments of behalf of the customers
   (e) All of these are functions of a bank
6. One of the major challenges banking industry is facing these days is deliberate efforts of some people to bring money earned through illegal activities in circulation. Which of the following acts has been passed to prevent this activity? **[Allahabad Bank 2011]**
   (a) Payment & Settlements Act
   (b) Banking Regulation Act
   (c) Negotiable Instruments Act
   (d) Narcotics and Psychotropic Substance Act
   (e) Prevention of Money Laundering Act
7. Banks need liquidity to meet which of the following objectives of banking? **[Allahabad Bank 2011]**
   (1) To meet deposit withdrawal
   (2) To fund loan demands
   (3) To maintain public confidence
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Only (1) & (2)
   (e) None of these
8. Which of the following terms is NOT used in the Banking world? **[Allahabad Bank 2011]**
   (a) Holding Company
   (b) Postdated cheque
   (c) Credit
   (d) Time deposit
   (e) Centripetal force

9. KYC guidelines followed by the banks have been framed on the recommendations of the **[Indian Overseas Bank 2011]**
   (a) Ministry of Home Affairs
   (b) Ministry of Rural Development
   (c) Indian Banks Association
   (d) Financial Intelligence Unit
   (e) Reserve Bank of India
10. Which of the following is the popular name of the norms by which a bank satisfies itself about the customer's identity and activities? **[Corporation Bank 2011]**
   (a) Basel norms
   (b) KYC norms
   (c) Service norms
   (d) Lending norms
   (e) None of these
11. Banks, today, in addition to normal banking services, offer which of the following services? **[Corporation Bank 2011]**
   (a) Internet Banking
   (b) Depository Services
   (c) Financial Counselling Services
   (d) Only (a) and (b) above
   (e) All (a), (b) and (c) above
12. Which of the following statements is true? **[IBPS 2011]**
   (a) Banks cannot accept demand and time deposits from public.
   (b) Banks can accept only demand deposits from public.
   (c) Banks can accept only time deposits from public.
   (d) Banks can accept both demand and time deposits from public.
   (e) Banks can accept demand and time deposits only from government.
13. When a bank returns a cheque unpaid, it is called **[IBPS 2011]**
   (a) payment of the cheque
   (b) drawing of the cheque
   (c) cancelling of the cheque
   (d) dishonor of the cheque
   (e) taking of the cheque
14. In order to attract more foreign exchange the Govt of India decided to allow foreign investment in LLP firms.What is full form of "LLP" as used in this reference? **[IBPS 2011]**
   (a) Local Labour Promotion
   (b) Low Labour Projects
   (c) Limited Loan Partnership
   (d) Longer Liability Partnership
   (e) Limited Liability Partnership
15. The process by which a life insurance policyholder can transfer all rights, title and interest- under a policy contract to a third person is known as **[IBPS 2013]**
   (a) Assignment of the policy
   (b) Hypothecation of the policy
   (c) Reinvestment of the policy
   (d) Negotiation of the policy
   (e) Nomination of the policy
16. Banking Ombudsman Scheme is applicable to the business of __________ . **[IBPS 2012]**
   (a) All scheduled commercial banks excluding RRBs
   (b) All scheduled commercial banks including RRBs
   (c) Only Public Sector Banks
   (d) All Banking Companies
   (e) All scheduled banks except private banks
17. Banking Ombudsman is appointed by _____________. **[SBI Bank 2013]**
   (a) Government of India
   (b) State Governments
   (c) RBI
   (d) E C G C
   (e) Exim Bank
18. A bank's 'fixed deposit' is also referred to as a **[IBPS 2013]**
   (a) term deposit
   (b) savings bank deposit
   (c) current deposit
   (d) demand deposit
   (e) home savings deposit

ANSWER KEY

1.	(e)	**2.**	(c)	**3.**	(a)	**4.**	(d)	**5.**	(c)	**6.**	(e)
7.	(c)	**8.**	(e)	**9.**	(e)	**10.**	(b)	**11.**	(e)	**12.**	(d)
13.	(d)	**14.**	(e)	**15.**	(a)	**16.**	(b)	**17.**	(c)	**18.**	(a)

PRACTICE EXERCISE

1. Who will settle the grievances of customers of banks?
   (a) Reserve Bank of India
   (b) State Bank of India
   (c) Local Courts
   (d) Ombuds Men
   (e) Governor of RBI
2. Who introduced the Banking Ombudsmen Scheme?
   (a) ARBI
   (b) SBI
   (c) Ministry of Finance
   (d) NABARD
   (e) None of these
3. When was Ombuds Men Scheme first introduced?
   (a) November 2006 (b) October 1981
   (c) June 1995 (d) January 1998
   (e) July 1996
4. Traveller's cheques are valid for ....
   (a) Three months
   (b) Six months
   (c) One year
   (d) No limit are valid till encashed
   (e) None of the above
5. One of the major challenges banking industry is facing these days is money laundering. Which of the following acts/ norms are launched by the banks to prevent money laundering in general?
   (a) Know Your Customer Norms
   (b) Banking Regulation Act
   (c) Negotiable Instrument Act
   (d) Narcotics and Psychotropic Substance Act
   (e) None of the above
6. Money laundering normally involved
   (a) placement of funds
   (b) layering of funds
   (c) integrating of fund
   (d) All of these
   (e) None of these
7. Banker-Customer relationship is often considered a fiduciary one. What is this relation based on?
   (a) Contract
   (b) Faith
   (c) Commercial
   (d) Agent and principal
   (e) None of these
8. A bank is under a statutory obligations to honour its customer's cheques vide
   (a) Section 10 of the Banking Regulation Act, 1949
   (b) Section 3 of the RBI Act, 1934
   (c) Section 31 of the Negotiable Instruments Act, 1881
   (d) All of the above
   (e) None of the above
9. Whenever some people wish to enter into the business world, it is a must for them to approach a bank. What services do banks provide them in this regard?
   I. Banks act as payment agents by operating current accounts, paying cheques and receiving payments for them.
   II. Maintaining account books for them for their day-to-day activities, so that they are not required to appoint account/ finance personnel on a regular basis.
   III. Lending money by way of overdraft, instalment loan, credit or advance for business activities.

   Select the correct answer using the codes given below:
   (a) Only I (b) Only II
   (c) Only III (d) I and III
   (e) All of these
10. The main function of commercial bank can be segregated into
    I. payment system.
    II. financial intermediation.
    III. financial services.

    Select the correct answer using the codes given below
    (a) I, II and III (b) I and III
    (c) I and II (d) II and III
    (e) None of these
11. Which of the following types of institutions operate in the call money market only as lender?
    (a) Commercial banks
    (b) Primary dealers

(c) Insurance companies
(d) SBI
(e) None of the above

12. Which of the following is the Central Bank of the country?
(a) RBI (b) SBI
(c) RRB (d) NABARD
(e) None of these

13. A banker is expected to honour the cheques within the specified banking hours as per section of Negotiable Instrument Act, 1881.
(a) 22 (b) 25
(c) 30 (d) 45
(e) 65

14. The legal relationship between a bank and its customer is a kind of
I. debtor and creditor.
II. principal and agent.
III. pledgor and pledgee.
IV. mortgagor and mortgage.
Select the correct answer using the codes given below:
(a) I and III (b) I, III and IV
(c) I, II, III and IV (d) I and II
(e) I, II and III

15. Many times, we hear about the 'Banking Ombudsman'. What is/are the major roles of same?
I. Banking Ombudsman is a quasi-judicial authority having powers to summon, the banks and the customers both in case of dispute.
II. The Banking Ombudsman are appointed by the President of India and are retired judges of the High or Supreme Courts.
III. The decisions/judgements given by the Banking Ombudsman cannot be taken to any court of justice as their decisions are last in case of bank related problems disputes.
Select the correct answer using the codes given below
(a) Only I (b) Only II
(c) Only III (d) All of these
(e) None of these

16. Banking Ombudsman Scheme is applicable to the business of
(a) all scheduled commercial banks excluding RRBs
(b) all scheduled commercial banks including RRBs
(c) only public sector banks
(d) all banking companies
(e) all scheduled banks except private banks

17. Which of the following is not a part of the scheduled banking structure in India?
(a) State co-operative banks
(b) Public sector banks
(c) Private sector banks
(d) Regional rural banks
(e) Moneylenders

18. Which of the following statements is correct about soiled/mutilated note?
(a) All banks are authorised to accept soiled notes across their counters and pay the exchange value
(b) Banks are expected to offer this service even to non-customers
(c) All public sector bank branches and currency chest branches of private sector banks are authorised to adjudicate and pay value in respect of mutilated notes
(d) The RBI has also authorised all commercial bank branches to treat certain notes in 'two pieces' as soiled notes and pay exchange value
(e) All of the above

19. Your bank's customer XYZ enjoys a CC limit of ` 100000. The CC account shows a credit balance of ` 10205. The relationship between your bank and XYZ limited is
(a) debtor/creditor
(b) creditor/debtor
(c) bailor/bailee (d) bailee/bailor
(e) None of these

20. In case, a depositor wishes to withdraw his fixed deposits prematurely, banks
(a) do not allow the same till maturity of the deposits
(b) charge a penalty for the same
(c) do not charge any penalty and allow the same
(d) All of the above
(e) None of the above

21. For filing and resolving customer complaints, the Banking Ombudsman
(a) charges a fee of ₹ 500
(b) does not charge any fee
(c) charges a fee of ₹ 1500
(d) charges a fee of ₹ 1000
(e) None of the above

22. Which of the following is/are the rights of customer towards his banker?
    (a) To receive a statement of his account from a banker
    (b) To sue the bank for any lose and damages
    (c) To sue the banker for not maintaining the secrecy of his account
    (d) All of these
    (e) None of these
23. Which one is true in respect of bank marketing?
    (a) Bank marketing deal with providing services to satisfy customer's financial needs and wants.
    (b) Bank marketing has to discover/ascertain/anticipate the financial needs of the corporates.
    (c) Bank marketing may be required to satisfy the corporates and institutions, other related needs and wants.
    (d) Bank marketing means competitive element, efficiency and effectiveness in the process.
    (e) None of the above
24. Under what circumstances, can the bank close a partnership account?
    (a) Death of partner
    (b) Retirement of a partner
    (c) Insolvency of a partner
    (d) All of the above
    (e) None of the above
25. SWIFT is a network for banks to exchange information. What is the expanded form?
    (a) Safe window for international transactions
    (b) Secured worldwide international transactions
    (c) Society for worldwide interbank financial telecommunications
    (d) All of the above
    (e) None of the above
26. Who is the appointing authority for the banking ombudsman?
    (a) RBI
    (b) Finance Ministry
    (c) PMO
    (d) Team of PM, Finance Minister and RBI Governor
    (e) (a) and (c)
27. Which of the following is the drawee bank in respect of a cheque?
    (a) The payee's bank
    (b) The bank which collects the cheque
    (c) The bank on which the cheque is drawn
    (d) The endorsee's bank
    (e) None of these
28. Who is a banking ombudsman?
    (a) The chief vigilance officer of a bank
    (b) The chairman of a bank
    (c) An official in the Finance Ministry, Government of India
    (d) An independent authority appointed by RBI to address customer complaints
    (e) None of these
29. Know Your Customer (KYC) norms are required to be strictly followed by banks. It means
    (a) providing improved customer services
    (b) determining the identify and residence proof of account holders through approved documents
    (c) ensuring that staff members know the customers
    (d) organising regular customer service meetings
    (e) None of these
30. The co-operative credit societies have a
    (a) two-tier structure
    (b) three-tier structure
    (c) four-tier structure
    (d) five-tier structure
    (e) None of these

ANSWER KEY

1.	(d)	**2.**	(a)	**3.**	(c)	**4.**	(d)	**5.**	(a)
6.	(d)	**7.**	(b)	**8.**	(c)	**9.**	(d)	**10.**	(a)
11.	(c)	**12.**	(a)	**13.**	(e)	14.	(c)	**15.**	(a)
16.	(b)	**17.**	(e)	**18.**	(e)	**19.**	(a)	**20.**	(b)
21.	(b)	**22.**	(d)	**23.**	(a)	**24.**	(d)	**25.**	(c)
26.	(a)	**27.**	(c)	**28.**	(d)	**29.**	(b)	**30.**	(b)

CHAPTER

7

Regional Rural Banks

ESTABLISHMENT AND STRUCTURE – SALIENT FEATURES

- Regional Rural Banks (RRBs) are third layer of commercial banking organization after commercial banks and cooperative banks. RRBs were established on the recommendations of the Narsimhan Committee to meet rural credit needs of the farming and other rural community.
- RRBs are new category of commercial banks sponsored by a strong commercial bank to serve limited area and within limited local limits. However, since its commencement, the area of operation has been widening.
- Regional Rural Banks were established under Regional Rural Bank Act, 1976 and first bank established was **Prathama Grameen Bank** on October, 2. 1975. The first Commercial Bank to sponsor an RRB was Syndicate Bank.
- Regional Rural banks were established as joint banks of Central Government, State Government and Sponsored banks.
- Initial capital to start with in 1975 was Rupees 1 crore but subsequently it was increased and at present the capital requirement is Rupees 5 crore.
- This capital is shared by Central Government, State Government and Sponsored Bank in the ratio of 50%, 35%, and 15% respectively till recently. But now this ratio has changed to 60%, 20% and 20% among Central Government, State Government and Sponsored Bank respectively. Central Government acts through NABARD and its share of subscription is also routed through NABARD.
- **Organizational Structure:** RRBs are governed and managed by Board of Directors. Total members of the Board are 9 but can change at the behest of the Government for better superintendence. Of the 9 members of the Board of Directors, at least 3 are nominated by Government of India, 2 by State Government and 3 by sponsored bank. Chairman of the RRB is normally from sponsored bank and appointed after the approval of the NABARD. The professional banking directions are received from Reserve Bank of India/NABARD.
- Regional Rural Banks are treated as scheduled commercial banks as per Reserve Bank of India Act, 1934 and are included in the second schedule to RBI.
- RRBs are managed and controlled by its Board of Director.
- Expansion in terms of opening new branches, RRBs have to prior approval of Reserve Bank of India.
- RRBs public deposits are assured by Deposit Insurance & Credit Guarantee Corporation. In the larger interest of the depositors, RRBs are also permitted to give additional interest on deposits of 1% if required.
- RRBs are required to maintain SLR in government securities or as directed by RBI from time to time.

- **Capital Structure**: There are four layers of capital structuring of RRBs. RRBs have **first level** from share holders (Central Government, State Government and Sponsor Bank) followed by **second level** of deposits from public. In case of need RRB can **borrow funds** from sponsor bank also. **Lastly,** RRBs draw refinance from NABARD. Just like in case of cooperative banks, Reserve bank of India also provides refinance facilities to RRBs that too at concessional rate of 2% less than the bank rate.
- In relation to Income Tax Act and taxation purposes all RRBs are treated at par with Co-operative Banks.

OBJECTIVE OF SETTING UP RRBS

- Main objective of setting up RRBs was to provide credit and other banking facilities to small, marginal farmers and agricultural labourers, small artisans etc. in rural areas for developing rural economy.
- Another objective was to create a separate organization with rural base and local touch since commercial banks were largely urban based.
- Yet another objective was to reduce regional imbalances and encourage local self employment generation.

GROWTH AND PERFORMANCE OF RRBS

- From 1975 onwards there has been phenomenal growth of RRBs in terms of numbers. From 5 banks in 1975, it grew to over 196.
- RRBs cover around 619 districts of the country mobilizing over 145035 crore rupees.
- As on 2013 there were near 16000 branches.
- Performance wise as on 2013, there were 82 RRBs left after amalgamation, of which 2 banks were in loss and rest 80 in profit.
- One of the biggest problems faced by RRBs was recovery of loans and advances. On the part of the Government, RRBs were in 2007 included as beneficiary of SARFAESI Act, 2002. (Securitization and Restructuring of Financial Assets and Enforcement of Security Interest Act, 2002.

ROLE OF SPONSOR BANKS

- The role of sponsor banks is broadly specified below:
  - Subscription to Bank's share capital
  - Managerial assistance in the initial stages.
  - Financial assistance on mutually agreed terms
  - Help RRB in recruitment and training of manpower.

RRBS AND COMMERCIAL BANKS

- RRBs have limited area of operation like 2-25 districts whereas commercial banks can operate anywhere in the country and have no geographical restrictions. However of late, NABARD has also, in order to make RRBs become viable entities, removed geographical restrictions to very large extent. RRBs are also permitted to open extension counters at suitable places. They are also permitted now to re-locate their loss-making branches at more business lucrative places.

- Beneficiaries of RRBs loans and advances are pre-determined like lending only to weaker sections, labourers, marginal farmers, small farmers, village artisans etc. But in case of commercial banks such predetermination is not there.
- RRBs can also do non-fund business in order to overcome financial burden and improve their profitability.
- Manpower recruitment and compensation in RRBs is determined by Central Government which largely relates to State Government pattern of equivalent rank.
- Rates of interest are restrictive for lending purposes.

ACTIVITIES THAT RRBS UNDERTAKE

- Granting loan and advances to specified section of society like small and marginal farmers, agricultural labourers and other poor persons, whether individually or in group.
- Granting loans and advances to cooperative societies including marketing societies, agricultural processing societies.
- Granting loans and advances to small entrepreneurs and other small traders etc. in their area of operation.
- Helping people below poverty line (BPL) to become part of main stream of economy.
- NABARD has permitted RRBs to increase their lending to non-target people up to 60% from present 40%. This will help RRBs to diversify their business activities in area of lending.
- RRBs are permitted to undertake sale of third party products (TPP) like insurance products- both human and animal related, health products but without risk participation subject to the condition that RRBs complies with IRDA (Insurance Regulatory and Development Authority) regulations, bank should not recommend any particular product or service to any person ensuring that any tie-up should not bind the bank for risk coverage.
- RRBs can also issue Travellers Cheques of sponsor banks'. If agreed between RRB and sponsor bank, the former can do remittance business for customers.
- Permission of lockers can be obtained if RRBs performance is good and can afford cost.
- In case the bank (RRB) has positive net worth and is a non-defaulter of SLR/CRR besides having lower NPA levels (say 5% and below) then such banks can open NRI accounts.
- To make themselves more profitable, RRBs can do the business of credit cards, open currency chests and are authorized to government business also.

IMPROVING FUNCTIONING OF RRBS- PRESENT SHORTCOMING

- RRBs lack uniformity in their functioning. There are different controllers of an RRBs and each tries to pull its ideas in the system. This results in poor monitoring and controlling over RRBs.
- Due to area restriction RRBs are unable to mobilize good business. RRBs may be allowed to operate in a larger area.
- Manpower development is on the back-foot in most RRBs.
- Poor recoveries are major issues in such banks. Use of SAFAESI Act, 2002 can be of great help.
- Management system is poor. Chairman and Board Members must develop proper vision of the bank. Each subsequent Chairman, who is for short period in the bank, must work for that vision, particularly making it competitive organization.

PAST EXERCISE

1. The sponsor bank helps and aids the RRB sponsored by it, by **[Vijaya Bank 2009]**
   I. subscribing to its share capital.
   II. training its personnel.
   III. providing managerial and financial assistance during the first 5 years or extended period.

   Select the correct answer using the codes given below
   (a) I and II (b) II and III
   (c) I and III (d) All of these
   (e) None of these
2. Regional Rural Banks (RRBs) are classified as **[NABARD 2009]**
   (a) scheduled commercial banks
   (b) subsidiaries of the sponsor banks
   (c) subsidiaries of NABARD
   (d) All of the above
   (e) None of the above
3. Which of the following agencies/ organisations in India maintains the Micro Finance Development and Equity Fund which was in news recently? **[IBPS 2012]**
   (a) Confederation of Industries in India (CII)
   (b) Indian Bank's Association (IBA)
   (c) Small Industries Development Bank of India (SIDBI)
   (d) Reserve Bank of India (RBI)
   (e) National Bank for Agriculture and Rural Development (NABARD)
4. Each of the RRBs covers districts ranging from **[IBPS 2012]**
   (a) 1 to 15 (b) 2 to 25
   (c) 3 to 25 (d) 2 to 15
   (e) 1 to 5
5. Regional rural banks are working in all the states of India except **[SBI 2011]**
   (a) Sikkim
   (b) Jammu and Kashmir
   (c) Goa
   (d) Sikkim and Goa
   (e) Assam
6. Which of the following is an example of NBFCs? **[IBPS 2013]**
   (a) Unit Trust of India
   (b) Life Insurance Corporation
   (c) General Insurance Corporation
   (d) All of the above
   (e) None of the above

ANSWER KEY

1.	(d)	**2.**	(a)	**3.**	(e)	**4.**	(b)	**5.**	(d)	**6.**	(d)

PRACTICE EXERCISE

1. By virtue of the amendment carried out by the Regional Rural Bank (Amendment) Act, 1987, the Chairman of a Regional Rural Bank (RRB) is to be appointed by
   (a) Central Government
   (b) State Government
   (c) Sponsor bank in consultation with NABARD
   (d) Reserve of Bank of India
   (e) None of the above
2. Which of the following conditions are required to be fulfilled by a Regional Rural Bank (RRB) to be eligible for opening of new branches?
   (a) It should not have defaulted in maintenance of SLR and CRR during the last 2 years
   (b) It should be making operational profits
   (c) Its net worth should show improvement and its net NPA ratio should not exceed 8%
   (d) Both (a) and (b)
   (e) All of the above
3. Which of the following is not a recommendation of the Narasimham Committee, 1991?
   (a) Reduction of CRR and SLR
   (b) Phasing out directed Credit Programme
   (c) Reduction of capital adequacy ratio
   (d) Establishment of ARF fund
   (e) Autonomy to public sector bank
4. With a view to enlarge resources available to RRBs for a variety of purposes, especially in the context of programme of financial inclusion, general credit card etc, Reserve Bank advised that
   (a) sponsor banks should provide them lines of credit at a reasonable rate of interest
   (b) RRBs may borrow from/or place funds with other RRBs, including those sponsored by other banks, subject to counter party Credit Risk Policy and limits
   (c) RRBs may enter into ready forward transactions in government securities with Subsidiary General Ledger (SGL), Constituent Subsidiary General Ledger (CSGL) account holders
   (d) Both (b) and (c)
   (e) All of the above
5. Which of the following measures have been taken to enlarge resources available to RRBs?
   (a) Lines of credit at a reasonable rate of interest from sponsor banks
   (b) Access to inter-RRB term money/ borrowings
   (c) Access to repo/CBLO markets
   (d) All of the above
   (e) None of the above
6. Which of the following statements about Regional Rural Banks (RRBs) are correct?
   (a) Sponsor banks travellers cheques can be issued by RRBs
   (b) RRBs can enter into arrangements with the sponsor banks for providing remittance facilities to its customers
   (c) Where RRBs can afford the investment, they can install lockers also
   (d) Both (a) and (b)
   (e) All of the above
7. Reserve Bank has permitted RRBs for opening/maintaining non-residents (ordinary/external) accounts in rupees and for acceptance of FCNR (2) deposits subjects to the condition that
   (a) the bank should have a positive net worth and earned net profit during the preceding year
   (b) the bank should not have defaulted in maintenance of CRR/SLR requirements on more than three occasions during the preceding 2 years.
   (c) net NPA level of the bank should not exceed 5% of the outstanding advances as on 31st March of the preceding year
   (d) Both (b) and (c)
   (e) All of these

8. Out of total priority sector advances of RRBs, atleast ...... should be advanced to weaker sections.
   (a) 25% (b) 50%
   (c) 60% (d) 75%
   (e) 90%
9. The Regulatory Authority for Regional Rural Banks is
   (a) Sponsor Bank
   (b) Central Government
   (c) State Government
   (d) RBI and NABARD
   (e) All of these
10. The main resources of RRBs are
   (a) share capital
   (b) deposit from the public
   (c) borrowing from sponsor banks
   (d) refinance from NABARD
   (e) All of the above
11. The common feature of all the agricultural credit societies in the country is that
   (a) the persons living in cities and town are their members
   (b) the agriculturists are their members
   (c) only small and marginal farmers are their members
   (d) only the farmers having land holding of 8 acre and above are their members
   (e) All of the above
12. RRBs were set-up on
   (a) 1975 (b) 1985
   (c) 1991 (d) 2001
   (e) 1965
13. On the recommendations of which of the following committees Regional Rural Banks (RRB) were established?
   (a) Tarpore Committee
   (b) Narasimham Committee
   (c) Karmakar Committee
   (d) Kelker Committee
   (e) Jha Committee
14. At present, the formula for subscription to RRBs capital has been fixed at
   (a) Central Government 50%, State Government 35% and Sponsor Bank 15%
   (b) Central Government 60%, State Government 20% and Sponsor Bank 20%
   (c) Central Government 30%, State Government 30% and Sponsor Bank 40%
   (d) Central Government 35%, State Government 35% and Sponsor Bank 30%
   (e) Central Government 50%, State Government 25% and Sponsor Bank 25%
15. RRBs are permitted to undertake corporate agency business, without risk participation, for distribution of all types of insurance products including health and animal insurance subject to the condition that
   (a) the bank should comply with the Insurance Regulatory and Development. Authority (IRDA) regulations for acting as 'composite corporate agent'
   (b) the bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank
   (c) the risks, if any, involved in insurance agency should, not get transferred to the business of the bank
   (d) Both (a) and (c)
   (e) All of the above
16. Under which category, will you classify Regional Rural Banks (RRBs)?
   (a) Scheduled commercial banks
   (b) Co-operative banks
   (c) Private sector banks
   (d) Development banks
   (e) None of the above
17. Regional Rural Banks (RRBs) are managed by
   (a) Reserve Bank of India
   (b) a Board of Directors
   (c) the sponsor bank
   (d) the State Government
   (e) All of the above
18. Regional Rural Banks (RRBs) are empowered to transact the business of banking as defined under
   (a) Banking Regulation Act, 1949
   (b) Negotiable Instruments Act, 1881
   (c) Regional Rural Banks Act, 1976
   (d) the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
   (e) None of the above

19. Which of the following is incorrect about the recommendations of Narasimham Committee Report, 1998?
    (a) Reduced CRR and SLR
    (b) Deregulation of Interest Rate
    (c) Establishment of the ARF Tribunal
    (d) Fixing Prudential Norms
    (e) Capital Adequacy Norms
20. RRBs are refinanced at
    (a) 2% below the bank rate
    (b) 1% below the bank rate
    (c) 2% below the repo rate
    (d) 1% below the repo rate
    (e) repo rate
21. With a view to improving the performance of RRBs and giving more powers and flexibility to their boards in decision-making, the Reserve Bank had constituted task force on empowering the RRB Boards for Operational Efficiency. The task force was headed by
    (a) KG Karmakar
    (b) SS Tarpore
    (c) Rangarajan
    (d) M Narasimham
    (e) None of the above
22. On the current account, balances maintained by the Regional Rural Banks (RRBs) with them, the commercial banks may
    (a) pay interest up to 9%
    (b) waive incident charges
    (c) pay interest as applicable to savings accounts
    (d) pay interest as such rates as may be mutually agreed to
    (e) All of the above
23. Paid-up share capital of Regional Rural Bank (RRB) is contributed by
    (a) Central Government
    (b) State Government
    (c) Central Government, State Government and the Sponsor Commercial Bank in the ratio of 50 : 15 : 35 respectively
    (d) NABARD, the concerned State Government and the Sponsor Commercial Bank in the ratio of 60 : 20 : 20 respectively
    (e) All of the above
24. For the purpose of Income Tax Act, 1961, the Regional rural banks (RRBs) are treated as
    (a) scheduled commercial banks
    (b) non-scheduled banks
    (c) nationalised banks
    (d) co-operative banks
    (e) None of the above
25. With a view to increase their resource base, RRBs have been permitted to
    (a) issue of credit/debit cards and setting-up of ATMs
    (b) open currency chests
    (c) handle pension and other government business as sub-agents of those banks which are authorised to conduct government business
    (d) Both (a) and (b)
    (e) All of the above
26. The total authorised capital of RRBs was originally fixed at ₹ 1 crore which has since been raised to
    (a) ₹ 2 crore (b) ₹ 3 crore
    (c) ₹ 5 crore (d) ₹ 7 crore
    (e) ₹ 10 crore
27. Deposits with Regional Rural Banks (RRBs) are insured by
    (a) Life Insurance Corporation of India
    (b) General Insurance Corporation
    (c) Deposit Insurance and Credit Gurantee Corporation
    (d) None of the above
    (e) All of the above
28. Which nationalised bank was the first to sponsor a Regional Rural Bank (RRB) in India?
    (a) Syndicate Bank
    (b) Bank of India
    (c) Union Bank of India
    (d) Central Bank of India'
    (e) None of the above
29. Regional Rural Banks fall within supervisory purview of
    (a) SBI (b) RBI
    (c) SEBI (d) IRDA
    (e) None of these
30. RRBs are owned by
    (a) Central Government
    (b) State Government

(c) Sponsor Bank
(d) All of the above
(e) None of the above

31. The number of directors on the Boards of RRBs has been raised to
(a) 14 (b) 15
(c) 16 (d) 17
(e) 18

32. The issued/paid-up capital of a Regional Rural Bank (RRB) should be
(a) ₹ 60 lakh
(b) minimum ₹ 25 lakh and maximum ₹ 100 lakh
(c) ₹ 80 lakh
(d) ₹ 90 lakh
(e) None of the above

ANSWER KEY

1.	(c)	**2.**	(e)	**3.**	(c)	**4.**	(e)	**5.**	(d)
6.	(e)	**7.**	(e)	**8.**	(a)	**9.**	(d)	**10.**	(e)
11.	(b)	**12.**	(a)	**13.**	(b)	**14.**	(b)	**15.**	(e)
16.	(a)	**17.**	(b)	**18.**	(a)	**19.**	(c)	**20.**	(a)
21.	(e)	**22.**	(a)	**23.**	(b)	**24.**	(c)	**25.**	(d)
26.	(b)	**27.**	(a)	**28.**	(a)	**29.**	(a)	**30.**	(b)
31.	(d)	**32.**	(b)						

CHAPTER

8

Co-operative Banks in India

COOPERATIVE BANKING IN INDIA – EVOLUTION, STRUCTURE & OPERATIONS

Co-operative Credit Sector

- Co-operatives as important form of doing business through mutual understanding and is said to have found mention in Indian history of third century B. C.
- The modern day co-operative movement in India is about 125 years old.
- Indian Co-operative Movement is perhaps the largest in the world in terms of membership with over 220 million members, representing one fifth of the Indian population and covering over 1,00,000 villages.
- Co-operatives have all along been playing very significant role in the rural economy.
- The rural co-operative credit sector that accounted for over 50% of the credit disbursed a few years back, now has less than 20% share.
- Co-operative Credit consists of Co-operative Credit Societies and Co-operative banks.

Objectives of Co-operative

- Not for profit
- Common good of the members and the society at large.
- No single ownership but ownership is spread over members.
- Non-political
- Cooperative Terms Defined

Normally there are three words commonly encountered by any reader regarding cooperative system in India. One should understand the meaning of:

(i) What is the meaning of co-operative?

(ii) What is a cooperative society? And

(iii) What is cooperative movement?

Following paragraphs explain the meaning of these words.

Working together for common goal through cooperation is called **cooperative**. While working together all goods and bad of the results are shared by a group. Cooperative or cooperation is based on principle of oneness, selflessness, democratic values, self help, understanding ones responsibility, equality among members and democratic way of working. Every member understands his/her responsibilities towards members and society.

Cooperative Society is a **body or an association**, formed by group of likeminded people, having common cause, and common purpose. All the members formulate the policies and rules that they themselves follow.

Cooperative Movement means a movement that is based on the socio-economic aspect of the society. Such movement touches the lives of large number of people.

Principles of Cooperative Working

- Cooperatives are voluntary organizations having membership open to all. There is a common purpose behind their actions.
- Second principle is democratic way of working and control system. All members work as a team and those elected in the executive body in various capacities are responsible and answering to the members.
- There is equality among all members irrespective of status, richness, caste and creed. Money or capital does not come in the way of working for common goal.
- Cooperatives work on the principle of one person one vote.
- Managing Committee is responsible and accountable to members of the society.
- Cooperative principle is also based on value of self help and autonomy.

Salient Features of Cooperative Banking in India

- The **first Co-operative Societies Act** was enacted as a Federal Act in 1904. However, later 'co-operation' subject was transferred to provincial Governments. After the enactment of this Act, many Cooperative Credit Societies were established in India.
- In India *'Co-operation'* or 'cooperatives' is now a provincial subject and the Constitution provides that every state to have its own Cooperative Act.
- Co-operatives operating in more than one state - governed by a Federal Act.
- States known to enact highly restrictive cooperative laws to retain control, resulting in politicization and bureaucratization of cooperatives.
- Anyonya Cooperative Bank is considered as the first cooperative bank in India.
- Except for Uttar Pradesh and Bihar, cooperative societies have unlimited liabilities in all other parts of the country.
- There are 31 State Cooperative Banks in our country as on 31.03.2012.
- Cooperative Banks in India run on three tier level system

Co-operatives – significant players are in following sectors

- Fertilizer production,
- Sugar production,
- Dairy sector,
- Agriculture Marketing, & Handlooms
- Banking & Finance

Rural Cooperative Banks for Short Term Loans

As shown in the chart above, three main cooperative organizations provide short term credit to rural sector. These are:

1. State Cooperative Banks (SCB)
2. District Central Cooperative Banks (DCCB)
3. Primary Agriculture Credit Societies (PACS)

Main features of these cooperative banks are:

Long Term Credit by Cooperative Societies

- All Primary Cooperative Agriculture and Rural Development Banks (PCARDB) and State Cooperative Agriculture and Rural Development Banks (SCARDB) provide long term credit to members of the cooperative bank. These banks are also named as Land Development Banks in many States.
- These banks provide short term, medium term and long term financial support to needed members.
- Mostly these loans are given against the security of immovable property, mainly land.
- Common activities for which loans are given are reclamation of saline and alkaline lands, sinking of wells, other development works etc.
- The repayment period is long, varying from 5 to 10 years or more in deserving cases.
- The main purpose of such banks was to avoid farmers etc. to go to private money lenders who used to charge exorbitant rate of interest.

URBAN CO-OPERATIVE BANKS (UCBS)

Important Features of UCBs

- The only self–reliant segment of Cooperative Credit Sector.
- Evolved organically over a century as self-help institutions for people of small means without any state support.
- Brought under the control of the Reserve Bank of India in 1966 through Banking Regulation Act (AACS), section 5 (ccv), 1949.
- Urban banks contribute substantially to the growth of informal sector
  - 60% of loans to the 'priority sector' of the economy.
  - 200 urban banks out of **1850** account for 80% of the resources.
  - 85% of the banks concentrated in 5 states.
- Concentrated in Western & Southern parts of the Country - 85% of the banks being in these regions.
  - Maharashtra State leading with 30% of total banks.
- Subjected to accounting & prudential exposure norms, just as commercial banks.
- Integral part of payment system of the Country.
- Recognized as better suited institutions to operate as credit delivery system for small scale business and entrepreneurs.
- Abide by the co-operative principles like self help, equality, philanthropist, common good of members and public at large,
- Follow principles of sound business for their sustainability.

Definition of Urban Cooperative Bank

Banking Regulation Act, section 5 (ccv), 1949 defines a urban cooperative bank as one:

  - Which is not a primary agriculture cooperative society
  - Is a primary cooperative bank doing the business of banking,
  - Having paid up capital at that point of time Rupees 1 lakh, amended from time to time.
  - Lending is done to members only who are shareholders.
- All Urban Cooperative Banks are dual controlled organizations. Reserve bank of India controls UCBs from the point of view of licensing, opening of branches, area of operations, all banking business norms like SLR, CRR, exposure norms, interest rate norms, business development norms etc. Another control is of State Registrar of Cooperatives which looks into the audit aspect, management aspect, dispute settlement, liquidation etc.
- All Urban Cooperative Banks are also called Primary Urban Cooperative Banks (PUCB).
- UCBs do all business as done by commercial banks except the ones that are restricted by RBI from time to time and to the extent directed.
- Urban Cooperative Banks are classified as scheduled cooperative urban banks and non-scheduled urban cooperative banks. Non- scheduled cooperative banks are normally weak banks unable to meet capital requirements of the RBI and are not included in the schedule of RBI.
- Non-scheduled Cooperative Banks (NSCB) are permitted to deposit money in scheduled cooperative banks (SCB) subject to the conditions that such SCB fulfill CRAR requirements as well as net NPAs are less than 5 per cent. Also the SLR and CRR limits have been achieved.
- ACB (Audit Committee at Board level) provide direction to the business operations of the bank and handle total audit related functions of the bank.

Multi-state Cooperative Act, 2002

- Multi State Cooperative Act is a Central Act passed in 2002. It covers whole of India as related to cooperative societies. This Act was enacted after amending the Act of 1984 in 2002
- As defined in the section 2 (p) of the Multi State Cooperative Act, 2002, a society means the one registered as per the provisions of the Act.
- In the Multi State Cooperative Act, it is laid down that disputes arising in the society shall be heard, arbitrated and decided by the Dispute Settlement Authority and NOT by the Registrar of Societies. RBI has the powers to decide for winding up of a multi state cooperative society and the Central Registrar has to follow the orders to wind up the society.

PAST EXERCISE

1. Money Laundering normally involves **[BOB 2008]**
   (a) placement of funds
   (b) layering of funds
   (c) integration of funds
   (d) All of (a), (b) and (c)
   (e) None of (a), (b) and (c)
2. One of the major challenges banking industry is facing these days is money laundering. Which of the following acts/ norms are launched by the banks to prevent money laundering in general? **[BOB 2008]**
   (a) Know Your Customer Norms
   (b) Banking Regulation Act
   (c) Negotiable Instrument Act
   (d) Narcotics and Psychotropic Substance Act
   (e) None of these
3. Which of the following schemes was launched a few years back to provide wage employment to the rural people in India (The programme is being run successfully in addition to NREGA)? **[BOM 2009]**
   (a) Indira Awas Yojana
   (b) Accelerated Rural Water Supply Programme
   (c) Total Sanitation Campaign
   (d) Sampoorna Grameen Rozgar Yojana
   (e) Pradhan Mantri Gram Sadak Yojana
4. As we all know, the cooperative banks in India are passing through a difficult phase and their performance is NOT as glamorous as that of the commercial banks today. What went wrong with cooperative banks? **[RBI 2009]**
   (1) The cooperative banks disbursed credit on the loans on demand mostly without proper guarantees and documents. Hence repayments were always at the mercy of the borrowers and up to some extent on good crops.
   (2) The cooperative banks are mostly under the supervisory control of the Panchayats, which are not professionally qualified to control such institutions.
   (3) Cooperative Banks do not get any relief package from the Govt. Hence they have to manage their affairs on their own resources only.
   (a) Only (2) (b) Only (1)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
5. The working group set up by the RBI has suggested the launch of an Emergency Fund Facility Scheme for banks. This scheme will help which of the following types of banks ? **[Allahabad Bank 2010]**
   (a) Public Sector Banks
   (b) Small Banks
   (c) Urban Cooperative Banks
   (d) Private Banks
   (e) Foreign Banks
6. As per the reports published in various journals and newspapers, the “small borrowers” in rural areas still prefer to take informal route for their credit needs. Which of the following is the “informal route” of credit in the financial sector ? **[Punjab & Sindh 2011]**
   (a) Credit cards
   (b) Loan against gold from financial institute
   (c) Debit cards
   (d) Money lender
   (e) None of these
7. Micro credit or micro finance is a novel approach to banking with the poor. In this approach, bank credit is extended to the pooor through **[Corporation Bank 2011]**
   (a) Self Help Groups

(b) Anganwadi
(c) Cooperative Credit Societies
(d) RBI
(e) None of these

8. Which of the following is the purpose of introducing 'Know Your Customer' norms by the banks?
(a) To bring more and more people under the banking net
(b) Identifying people who do not pay income tax
(c) To ensure that the money deposited in banks has come from genuine sources
(d) To ensure whether the money deposited in the bank is of an India or a foreign national
(e) None of the above

ANSWER KEY

1.	(d)	**2.**	(a)	**3.**	(d)	**4.**	(b)	**5.**	(c)
6.	(d)	**7.**	(c)	**8.**	(c)				

PRACTICE EXERCISE

1. Which of the following is not an organised sector in India?
   (a) Nationalised Banks
   (b) Regional Rural Banks
   (c) Cooperative Banks
   (d) Chits and Money Lenders
   (e) Industrial Bank
2. Banks recover term loan from the parties in EMIs. What the letter 'E' represents in the term?
   (a) Easy (b) Effective
   (c) Equated (d) Essential
   (e) Economical
3. Banks are required to provide loans to the priority sector upto a specified limit. What is the limit for public sector bank?
   (a) 40% (b) 32%
   (c) 45% (d) 35%
   (e) 60%
4. The central co-operative banks are in direct touch with
   (a) farmers
   (b) state co-operative banks
   (c) land development banks
   (d) Central Government
   (e) None of the above
5. The general approach to the loaning policies and procedures of co-operative banks has been to
   (a) implement the crop loan system in all its aspects
   (b) allow only long-term loans to the farmers extending beyond 20 years for development on land
   (c) finance for research and upgradation of agricultural inputs like seeds, manure, implements etc.
   (d) provide a window for marketing of agricultural produce
   (e) All of the above
6. Co-operative banks in India are registered under
   I. Banking Laws (Co-operative Societies) Act, 1965.
   II. Banking Regulation Act, 1949.
   III. Companies Act, 1956.

   Select the correct answer using the codes given below
   (a) Only I (b) I and II
   (c) II and III (d) I and III
   (e) All of these
7. Under the scheme of Co-operative Agricultural Credit developed in India, the state Co-operative Bank has been considered such a vital link that
   (a) it has been given a status comparable to that of a scheduled bank
   (b) for certain purposes, the central financing agencies have been treated as its branches
   (c) Both (a) and (b)
   (d) All of these
   (e) None of these
8. Central Co-operative Banks
   (a) occupy a crucial importance in the co-operative credit structure
   (b) form an important link between the State co-operative bank at the apex and the primary agricultural credit societies at the base
   (c) are closer to the primary societies than an Apex Bank could be one
   (d) None of the above
   (e) All of the above
9. The State Co-operative Bank, being the Apex Bank at the state level
   (a) operates as a balancing centre for the movement of the resources in the entire state
   (b) acts as the custodian of the surplus resources and the reserves of the central co-operative banks and supplements them by attracting sizeable deposits and by obtaining loans from RBI.
   (c) provides the link between the RBI and the money market on one hand and the entire co-operative credit structure, on the other
   (d) All of the above
   (e) None of the above

10. Which of the following year marked the beginning of the history of agricultural co-operative banks in India?
    (a) 1904 (b) 1905
    (c) 1906 (d) 1907
    (e) 1908
11. Which of the following Co-operative Banks is considered as the first Co-operative Bank in India?
    (a) Greater Bombay Co-operative Bank Limited
    (b) Abhyudaya Co-operative Bank Limited
    (c) Ahmedabad Mercantile Co-operative Bank Limited
    (d) Amanath Co-operative Bank Limited
    (e) Anyonya Co-operative Bank
12. According to the guidelines, the Reserve Bank of India will consider proposals for merger and amalgamation of urban co-operative banks when
    (a) the net worth of the acquired bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank
    (b) the net worth of acquired bank is negative, but the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank
    (c) the net worth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended up front as part of the process of merger
    (d) All of the above
    (e) None of these
13. The earliest efforts in the direction of setting up special land mortgage banks were made in
    (a) West Bengal when the first Co-operative Land Mortgage Bank was organised in 24 Parganas in 1884
    (b) In Punjab when the first Co-operative Land Mortgage Bank was organised in Jhang in 1920
    (c) Orissa when the first Co-operative Land Mortgage Bank was organised in Jhang in 1834
    (d) All of these
    (e) None of these
14. What are the co-operative banks at the village level known as
    (a) Central co-operative banks
    (b) Primary agricultural co-operative societies
    (c) Village co-operative banks
    (d) State co-operative banks
    (e) None of the above
15. What was the objective of starting co-operative banking in India?
    (a) To act as competitors to commercial banks
    (b) To be solely for the agriculture sector
    (c) To start self help groups
    (d) To replace moneylenders and indigenous bankers
    (e) None of the above
16. Many Co-operative Banks has their licenses cancelled by RBI. Why?
    (a) Because of financial indiscipline
    (b) Because of staff and management rift
    (c) As a result of labour unrest
    (d) Owing to voluntary surrender by the co-operative
    (e) All of the above
17. Which of the following is true about Co-operative Banks?
    (a) They are established under the Co-operative Societies Act
    (b) They have profit as their main motive
    (c) All are scheduled banks
    (d) All of the above
    (e) None of the above
18. National Federation of Sate Co-operative Banks
    (a) provides a common forum to the member banks
    (b) promotes and protects the interests of the member banks
    (c) co-ordinate and liaison with Government of India and RBI
    (d) provide research and consultancy inputs to the member banks
    (e) All of the above
19. The RBI has prescribed that all SGBs should maintain their SLRs in
    (a) dated securities notified by RBI
    (b) T-bills of Government of India
    (c) state development loans
    (d) All of the above
    (e) None of the above

20. Which of the following does not come under the category of development banks?
    (a) Industrial Development Bank of India
    (b) Small Industries Development Bank of India
    (c) Industrial Investment Bank of India
    (d) State Finance Corporation
    (e) Export–Import Bank
21. Primary (Urban) Co-operative Banks (UCBs) have been permitted to close unremunerative branches/extension counters without the Reserve Bank's prior permission provided
    (a) the bank has not been placed under any directions under Section 35A of the Banking Regulation Act, 1949.
    (b) the bank's board should take the decision of closing down the extension counter/branch and the decision should be properly minuted in the official record of proceedings of the Board Meeting.
    (c) the bank should give proper notice to all existing depositors/clients of the branch through a press release in local leading newspapers as also through a circular to each constituent of the branch, well in advance of the closure of the branch.
    (d) All of the above
    (e) None of the above
22. A Central Co-operative Bank is generally headquartered at
    (a) an important town of the district
    (b) state capital
    (c) same place which is the headquarter of the district
    (d) the place where from the Central Government is run
    (e) All of the above
23. The weakest link in the co-operative credit system is
    (a) non-availability of published data on their functioning
    (b) the non-viability of a large number of primary agricultural credit societies
    (c) presence of multiple structure and diverse nature of various types of primary societies
    (d) Both (a) and (b)
    (e) All of the above
24. The central co-operative banks are in direct touch with
    (a) farmers
    (b) state co-operative banks
    (c) land development banks
    (d) central government
    (e) None of these

ANSWER KEY

1.	(d)	**2.**	(c)	**3.**	(a)	**4.**	(b)	**5.**	(a)
6.	(a)	**7.**	(c)	**8.**	(e)	**9.**	(d)	**10.**	(a)
11.	(e)	**12.**	(d)	**13.**	(b)	**14.**	(b)	**15.**	(d)
16.	(a)	**17.**	(a)	**18.**	(e)	**19.**	(d)	**20.**	(b)
21.	(d)	**22.**	(c)	**23.**	(b)	**24.**	(b)		

CHAPTER

9

Priority Sector Advances : Origin

- Organized financial sector had very little share in the total rural credit despite government's repeated emphasis on lending to needy sectors of the economy.
- During the meeting of National Credit Council (established by RBI) held in July 1968 emphasis was laid on role of commercial banks in increasing their involvement in the financing of priority sectors, viz., agriculture and small scale industries (till then not clearly defined).
- Priority sector was later formalized in 1972 (based on the report of the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971.
- Based on the report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector.
- No specific target was fixed in respect of priority sector lending till 1974.
- First time in November 1974, the banks were advised a target of 33.33 per cent to be achieved by March 1979.
- In order to boost the rural economy whose share in the economy was over 70 per cent at that point of time, government introduced certain scheme (s) to improve flow of credit to these sectors. One of them was Lead Bank Scheme.

LEAD BANK SCHEME (LBS)

- Lead Bank Scheme is an intensive approach to rural development.
- LBS was introduced in 1969 (12th December) with a concept of area approach.
- In 1967, a Study Group (Gadgil Study Group) established by National Credit Council, formed by the RBI suggested that commercial banks should be made responsible for development of particular district.
- RBI appointed Committee of Bankers (FKF Nariman) in 1969 to study the feasibility of bankers being asked to take responsibility of area development, recommended that all financial institutions be made responsible for developing an area, i.e. district by involving all other banks etc. in the area.
- Such banks which lead other banks in the area development were called **Lead Banks.**

OBJECTIVES OF LEAD BANK

Important objectives of LBS are:

- To pinpoint places which may be suitable for opening of branches and prepare a phased programme for opening of branches.
- Increase credit facilities in the neglected area and sectors of economy.

- Finding out constraints coming in the way of development and propose remedial actions.
- Take up schemes, which can help mobilization of deposits and promote investment by local people.
- Prepare projects / schemes to be financed by banks in the area (district).
- Help in implementation of schemes by coordinating with concerned agencies (government or private).
- Monitor progress and evaluate impact of schemes.

CRITERIA FOR ALLOTMENT OF AREA

- Bank's Resources and track record
- Regional Orientation of banks
- Contiguity or cluster approach
- Number of districts in the State and eligible Banks.

ROLE & FUNCTIONS OF LEAD BANKS

- Conduct impressionistic survey of the area.
- Locate Growth Potential Areas.
- Ascertain sectors or pockets that are poorly banked and poorly developed.
- Ascertain credit gaps in the area of operation.
- Liaison with different organizations.
- Formulate feasible, bankable and profitable schemes.
- Prepare District Credit Plan (DCP).
- Ensure that DCP is developed to remove unemployment as well as underemployment in the area of operation and also improve standard of living of people. Element of consumption credit need is also required to be made.

BROAD TARGET FIXATION

- In March, 1980, it was agreed between Union Finance Minister and the Chief Executive Officers of public sector banks to increase limit of priority sector advances to 40% by March, 1985.
- Subsequently, on the basis of the recommendations of the Working Group on implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Krishnaswamy Committee Report: Chairman: Dr. K. S. Krishnaswamy), all commercial banks were advised to achieve the target of priority sector lending at 40 percent of **aggregate bank advances** by 1985.
- Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector.
- Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.
- During all these years many changes have been made in the priority sector advances scheme. Further Reserve Bank of India in August 2011 set up a Committee to re-examine the existing classification and suggested revised guidelines with regard to Priority Sector lending, its classification and related issues (Nair Committee Report) (Chairman: M V Nair).

CLASSIFICATION OF PRIORITY SECTORS

- The revised guidelines are operational with effect from July 20, 2012.
  Various categories included under priority sector are:
  (i) Agriculture - Direct Agriculture and Indirect Agriculture
  (ii) Micro and Small Enterprises: manufacturing and service sector
  (iii) Education
  (iv) Housing
  (v) Export Credit
  (vi) Others

AGRICULTURE ADVANCES

Direct Agriculture Advances: Production Credit and Investment Credit

Loans to individual farmers, including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such loans], directly engaged in Agriculture and Allied Activities, *viz.,* dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage) are advances covered under direct agriculture. In simple words loans given directly to farmers for productive and investment purposes are called direct agriculture finance.

INDIRECT AGRICULTURE FINANCE

- Loans given to corporate, farmers' cooperative societies or firms or State Corporations like State Electricity Board/Corporations, State Rural Development Corporations etc. for onward lending to individual farmers come under the category of indirect finance to agriculture.
- Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) for onward lending to member farmers come under this category.

MICRO AND SMALL INDUSTRIAL/SERVICE ENTERPRISES

In case of micro and small enterprises, the categorization has been done on the basis of: (i) **manufacturing sector, and (ii) service sector.** These sectors of the economy have also been divided further into two categories, i.e.

(i) Direct Financing
(ii) Indirect Financing

DIRECT FINANCE TO MICRO/SMALL ENTERPRISES

Manufacturing Enterprises

- The Micro and Small enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951 and as notified by the Government from time to time. The manufacturing enterprises are defined in terms of investment in plant and machinery.

Loans for food and agro processing

- Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investments criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

SERVICE ENTERPRISES

- Bank loans up to 5 crore per unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

Indirect Finance

- (i) Suppliers of inputs and marketing of outputs of artisans, village and cottage industries.
- (ii) Loans to cooperatives of producers in the decentralized sector viz. village artisans and cottage industries.
- (iii) Loans sanctioned by banks to MFIs for on-lending to MSE sector .
- The limits for investment in plant and machinery/equipment for manufacturing / service enterprise is the basis of classification and inclusion of such advances under priority sector category. The investment limit is given below as per Government of India notification.

  (as notified by Ministry of Micro Small and Medium Enterprises, vide, S.O.1642(E) dated September 9, 2006)
- Manufacturing Sector:

Investment in Plant & machinery

Micro Enterprises	Rupees < 25 lakh
Small Enterprises	Rupees 25 lakh to 5 crore

- Service Sector

Investment in Equipment

Micro Enterprises	Rupees <10 lakh
Small Enterprises	Rupees 10 lakh to 2 crore

EDUCATION

- Loans to individuals for educational purposes including vocational courses up to Rupees 10 lakh for studies in India and Rupees 20 lakh for studies abroad are included in priority sector advances.

Housing

(i) Loans to individuals up to 25 lakh in metropolitan centres with population above ten lakh and 15 lakh in other centres for purchase/construction of a dwelling unit per family.

(ii) Loans for repairs to the damaged dwelling units of families up to 2 lakh in rural and semi- urban areas and up to 5 lakh in urban and metropolitan areas.

(iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of 10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which does not exceed 10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of 1,20,000 per annum, irrespective of the location, is prescribed.

- Bank loans to Housing Finance Companies (HFCs), approved by NHB (National Housing Bank) for their refinance, for on-lending for the purposes of purchase/construction/reconstruction of individual dwelling units, subject to an aggregate loan limit of 10 lakh per borrower.
- The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis.

EXPORT CREDIT

- Export Credit extended by foreign banks with less than 20 branches will be reckoned for priority sector target achievement.
- As regards the domestic banks and foreign banks with 20 and above branches, export credit is not a separate category under priority sector.

CERTAIN DEFINITIONS

Definitions

1. **On-lending**: Loans sanctioned by banks to eligible intermediaries for onward lending only for creation of priority sector assets. The average maturity of priority sector assets thus created should be coterminous with maturity of the bank loan.
2. **Small and Marginal Farmers**: Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare but less than 2 hectares are considered as Small Farmers. For the purpose of priority sector loans 'small and marginal farmers' include landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within above limits prescribed for "Small and Marginal Farmer".

CALCULATION OF ANBC

Bank Credit in India (As prescribed in item No. VI of Form 'A' (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934.	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)*	III (I – II)

* For the purpose of priority sector only. Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC.

Bonds/debentures in Non-SLR categories under HTM category + other investments eligible to be treated as priority sector.	IV
ANBC (Adjusted Net Bank Credit)	**III+IV**

Non-convertible Debentures (or NCDs):

The debentures which can't be converted into shares or equities are called non-convertible debentures (or NCDs). Debentures are long-term financial instruments which acknowledge a debt obligation towards the issuer. Some debentures have a feature of convertibility into shares after a certain point of time at the discretion of the owner. The debentures which can't be converted into shares or equities are called non-convertible debentures (or NCDs).

COMMON GUIDELINES ON PRIORITY SECTORS

Banks are required to comply with the following common guidelines for all categories of advances under the priority sector.

1. **Rate of interest**

   The rates of interest on various categories of priority sector loans will be as per RBI directives issued from time to time.

2. **Service charges**

   No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to 25,000.

3. **Receipt, Sanction/Rejection/Disbursement Register**

   A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.

4. **Issue of Acknowledgement of Loan Applications**

   Banks should provide acknowledgement for loan applications received under priority sector loans.

FINANCIAL INCLUSION

Financial Inclusion

The concept of Financial Inclusion has come up in 2008 when a Committee set up by Reserve Bank of India on Financial Inclusion (Dr.C Rangarajan Committee, 2008) put forth the need to include in the ambit of banking facilities/services those people who did not have or could not afford to have access to the financial services. The Committee defined Financial Inclusion as “The process of ensuring access to financial services and timely and adequate credit when needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”.

Causes of Poor Financial Inclusion

There are many factors / causes that hindered the inclusion of poor into the ambit of financial services. Among many two very important are:

1. General mindset of the people that poor are non-bankable and are loss making business activity.
2. In general the systems and procedures of the financial sector were not people friendly. Banks were considered out of reach for poor people and considered an organization of rich, by rich and for rich.

Financial Exclusion

Financial exclusion has been defined as the inability to access necessary financial services in an appropriate form by a section of the population. This includes lack of access to Bank accounts like Credit, Savings, Protection against risk (insurance, pension), Debt assistance, Access to advice or financial literacy, etc.

- Financially excluded persons are landless workers, marginal farmers, oral lessees, slum dwellers mostly in urban areas, migrants, etc.

Reasons for Financial Exclusion

- Lack of Regular or substantial income, which makes many people not qualifying for bank loan.
- Financially excluded people are mostly daily wagers. Going to bank means losing a day's wage, in case loan is not given or asked to come again.
- Hassel - free financial assistance from local money lenders is simpler and easier.
- Most banks needed collateral which discourages poor people to take bank loan.

Innovative Steps taken for Financial Inclusion

- Public Private Partnership initiative for providing access of banking services to people Below Poverty Line (BPL) in India.
- Encouraging and allowing poor people to open at least savings bank account with any balance, called as no frill account.
- In reality it includes loans, insurance services and much more
- Formation of Joint Liability Groups
- Involving NGOs, MFI, Civil Society Organizations etc. as intermediaries for onward banking services.
- These intermediaries are being used as Business Facilitators (BF) or Business Correspondents (BC) by Commercial Banks.

Financial Inclusion – Business Correspondents (BC)

Eligible individuals/entities

The banks may engage the following individuals/entities as BC.

(i) Individuals like:

- retired bank employees, teachers, government employees & ex-servicemen
- individual owners of kirana / medical /Fair Price shops, individual Public Call Office (PCO) operators,
- agents of Small Savings schemes of Government of India/Insurance Companies,
- individuals who own Petrol Pumps,
- authorized functionaries of well run Self Help Groups (SHGs) which are linked to banks, any other individual including those operating Common Service Centres (CSCs);

(ii) NGOs/ MFIs set up under Societies/ Trust Acts and Section 25 Companies

(iii) Cooperative Societies registered under Mutually Aided Cooperative Societies Acts/ Cooperative Societies Acts of States/Multi State Cooperative Societies Act;

(iv) Post Offices; and

(v) Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, excluding Non Banking Financial Companies (NBFCs).

What Business Correspondents can do?

The BC can help the bank in any one more of the following ways. Scope of activities may include:

(i) identification of borrowers;

(ii) collection and preliminary processing of loan applications including verification of primary information/data;

(iii) creating awareness about savings and other products and education and advice on managing money and debt counselling;

(iv) processing and submission of applications to banks;

(v) promoting, nurturing and monitoring of Self Help Groups/ Joint Liability Groups/ Credit Groups etc;

(vi) post-sanction monitoring;

(vii) follow-up for recovery,

(viii) disbursal of small value credit,

(ix) recovery of principal / collection of interest

(x) collection of small value deposits

(xi) sale of micro insurance/ mutual fund products/ pension products/ other third party products and

(xii) receipt and delivery of small value remittances/ other payment instruments.

- The activities to be undertaken by the BCs would be within the normal course of the bank's banking business, but conducted through the BCs at places other than the bank premises/ATMs.

Business Facilitators

- Banks may use intermediaries, such as:

(i) Non-Government Organizations

(ii) Micro Finance Institutions set up under Societies/Trust Acts

(iii) Farmers' Club

(iv) Cooperative Societies other than Credit Cooperatives

(v) Community based organizations

(vi) IT enabled rural outlets of Corporate entities (Information & Communication Technology (ICT) Solutions)

(vii) Post Office

(viii) Insurance Agents

(ix) Well established and functioned Panchayats

(x) Village Knowledge Centers

(xi) Agri-Clinics /Agri-business centers

(xii) Krishi Vigyan Kendras

(xiii) KVIC (Khadi Village Industries Commission)

(xiv) Individuals

Where individuals are engaged as Business Facilitators, adequate precautions need to be taken and proper due diligence conducted.

What Business Facilitator can do?

- The facilitation services may include:
  (i) I dentification of borrowers and fitment of activities;
  (ii) collection and preliminary processing of loan applications including verification of primary information/data
  (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling
  (iv) processing and submission of applications to UCBs
  (v) promotion and nurturing Self Help Groups / Joint Liability Groups;
  (vi) post-sanction monitoring
  (vii) monitoring and handholding of Self Help Groups / Joint Liability Groups / Credit Groups / others; and
  (viii) follow-up for recovery.
- DIFFERENCE BETWEEN BC AND BF IS THAT LATTER (BF) DOES NOT HANDLE CASH.

KISAN CREDIT CARDS (KCC)

- The Kisan Credit Card has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner.
- The KCC scheme was started in 1998 and during the last over 13 years of implementation, many impediments were encountered by policy makers, implementing banks and the farmers in the implementation of the scheme.

RBI has issued the following guidelines

- From July 2012, KCC Scheme is being implemented by Commercial Banks, RRBs (Regional Rural Banks), and Cooperatives.
- Implementing banks will have the discretion to adopt the same to suit institution/location specific requirements.

Objectives of KCC

- Kisan Credit Card Scheme aims at providing adequate and timely credit support from the banking system under a single window to the farmers.
- Purposes covered under the scheme are for cultivation and other investment needs as indicated below:

(a) To meet the short term credit requirements for cultivation of crops

(b) Post-harvest expenses
(c) Produce Marketing loan
(d) Consumption requirements of farmer household
(e) Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc.
(f) Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals etc.

Note: *The aggregate of components a. to e. above will form the short term credit limit portion and the aggregate of components under f will form the medium / long term credit limit portion.*

Who are Eligible Persons ?

(i) All Farmers – Individuals / Joint borrowers who are owner cultivators
(ii) Tenant Farmers, Oral Lessees & Share Croppers
(iii) SHGs or Joint Liability Groups of Farmers including tenant farmers, share croppers etc.

TERMS AND CONDITIONS OF LENDING

Rate of Interest (ROI)

- Rate of Interest will be linked to Base Rate and is left to the discretion of the banks.

Repayment Period

- Each withdrawal under the KCC is 12 months without the need to bring the debit balance in the account to zero at any point of time. No withdrawal in the account should remain outstanding for more than 12 months.
- The term loan component is normally repayable within a period of 5 years depending on the type of activity / investment as per the existing guidelines applicable for investment credit.
- Financing banks at their discretion may provide longer repayment period for term loan depending on the type of investment.

Margin: To be decided by banks.

Security: Security will be applicable as per RBI guidelines prescribed from time to time.

Loan waiver Scheme:

Under the scheme, small and marginal farmers with landholdings of less than two hectares can have their entire outstanding loans, till March 2007, waived. Farmers with holdings of over two hectares will be eligible for a one-time settlement rebate of 25% of their outstanding loans, subject to the condition that the remaining 75% will be paid in three instalments by June 30, 2009. No interest will be charged on the outstanding amount.

India's ambitious loan waiver scheme for small farmers has been extended by nearly 20%, to more than Rs 71,000 crore from the Rs 60,000 crore. Over 40 million indebted Indian farmers have begun to get some financial relief since the massive loan waiver scheme for small and marginal farmers officially came into effect.

POVERTY ALLEVIATION PROGRAMMES

What is Poverty?

Many people have defined poverty differently. Some say poverty is hunger, Poverty is lack of shelter, poverty is poor health due to unhealthy conditions clinic facilities and lack of health clinics etc. Some people are of the view that having not enough money to meet his/her minimum living needs etc.

Causes of Poverty

Among the many causes forwarded by many experts, most common causes are:

1. Unemployment & underemployment
2. Population pressure
3. Unequal distribution of National Income
4. Selfish motives of some individuals

Various Programmes/Schemes to eradicate Poverty

- National Rural Livelihood Mission (NRLM)
- Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
- Self Employment Scheme For Rehabilitation of Manual Scavengers (SRMS)
- Sampoorna Gram Rozgar Yojana (SGRY)
- Prime Minister's Rozgar Yojana (PMRY)
- Pradhan Mantri Gramodaya Yojana (PMGY)
- National Rural Employment Guarantee Act (NREGA)
- Swarna Jayanti Gram Swarozgar Yojana (SGSY)

Village Grain Bank Scheme

Village Grain Bank scheme is being implemented since November 2004 by the Department of Food & Public Distribution. The scheme aims to help marginalised food insecure households who do not have sufficient resources to purchase rations during lean season or natural calamities. Such households in need of foodgrains can borrow them from the village grain banks set up within their villages to be subsequently returned to the bank. Such banks can be set up in food scarce areas like drought prone areas, hot and cold desert areas, tribal areas and the inaccessible hilly areas which remain cut off because of natural calamities like flood etc. About 30—40 below Poverty Line/Antyodaya Anna Yojna families may form a grain bank. These villages are to be identified/notified by the concerned State Government/Union Territories. Food grains are loaned to BPL families at the rate of one quintal per family under village grain bank scheme. So far (January 2013), the government has sanctioned 21,751 village grain banks in 20 states to provide safeguard against starvation during the period of lean season or natural calamities.

MICRO CREDIT AND MICRO FINANCE

Two words are normally used are micro credit and micro finance. Micro Credit is distribution of small amounts of credit (loans and advances) to poor people for their self and family development. Micro Finance, on the other hand means allowing poor to the basic financial services like opening savings account, access to insurance products, credit etc. where amount deposited or credit taken are for very small amounts.

Micro credit, in simple words, can be described as providing small dose of credit along with other financial services and developing thrift among poor people located in different place like rural, semi-urban, and urban centers for raising their income levels and standard of living.

Grameen Bank of Bangladesh:

Dr. Muhammad Yunus is known throughout the world as a pioneer of the microcredit concept that uses small loans made at affordable interest rates to transform the lives of impoverished people, mostly women. The founder of the Grameen Bank in Bangladesh, Yunus and Grameen were jointly awarded the Nobel Peace Prize in 2006.

The YH Malegam Committee:

Since Reserve Bank of India (RBI) does not regulate the interest rates charged by Micro Finance Institutions, the central bank has issued instructions on a Fair Practice Code to be adhered to by all Non-Banking Financial Companies (NBFCs) in terms of which the NBFCs should not charge exorbitant rates of interest and resort to undue harassment viz., persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc. In this context, the RBI had constituted a Sub-Committee Shri Y.H. Malegam which is currently working on various issued of the Microfinance sector in the country. It will submit its report in 3 months. Apart from this, the Department of Financial Services is also mulling over to introduce the Micro Finance (Development & Regulation) Bill, 2010 after taking into account the views of RBI and the Malegam Committee recommendations.

Pre-requisites of Micro Credit/Financed

1. Hassel-free system of delivery of financial services, like loans , insurance products etc. along with least documentation and security (ies).
2. Expeditious sanctions of loans and quick disbursement of sanctioned funds should be most important prerequisite of micro credit/finance activity.

Why Micro Credit /Finance

- Micro credit is supposed to help people seeking it in many ways. For instance, it helps poor to get financial services at his doorstep, get rid of money lenders, develop habit of banking and thrift among members of Self Help Groups etc.

Self Help Groups (SHG)

Simple definition of a Self Help Group is a Group of small to very small poor likeminded people who come together to help themselves together in achieving their dreams of subsistence living with proper living conditions. Breaking this definition into small unit points we find:

- Self Help Groups (SHGs) are small groups of poor people.
- The members of an SHG face similar problems.
- They help each other to solve their problems.
- SHGs promote small saving among their members. The savings are kept with the bank. This is the common fund in the name of the SHG.
- The SHG gives small loans to its members from its common fund.
- After six months, if the SHG satisfies the bank as per the checklist for quality, bank can give loans to the SHG.

Self Help Group and Joint Liability Group (JLG)- Differences

SHG	JLG
Minimum15-20 members	- Minimum 3-5 members
Meetings compulsory	- Not necessary
Banks Loans available	- Get loans from only MFI
Gets the benefits of govt. scheme	- There is no such benefit
Individual responsibility	- Share responsibility and stand as guarantor for each other.

Relevance to Bankers

- Very poor people can save small amounts. But slowly this amount may swell and can be a big amount.
- Looking to the need and importance of banking with SHGs, even RBI and NABARD have approved banks' dealing with such groups.
- RBI has classified loans to SHGs as priority sector lending.
- NABARD gives cent percent refinance to banks for loans to SHGs.
- All commercial banks, RRBs and cooperative banks have realised that SHGs are good business.
- Lending to SHGs fulfil social commitment of banks also.

FUNCTIONS OF SHG

Size of the SHG

- The ideal size of an SHG is 10 to 20 members.
- The group need not be registered.

Membership

- From one family, only one person can become a member of a SHG. (More families can join SHGs this way.)
- The group normally consists of either only men or of only women. Mixed groups are generally not preferred.
- Women's groups are generally found to perform better. (They are better in savings and they usually ensure proper use of loans.)
- Members should have the same social and financial background.

Common Living Conditions

Members chosen for SHGs should have following living/working conditions

- Living in Kucha houses
- Having no access to safe drinking water
- Having no sanitary latrine
- Those who have only one or no one employed in the family
- Presence of illiterate adults in the family
- Presence of an alcoholic or drug addict in the family or a member suffering permanently from prolonged illness
- Presence of children below five years in the family
- Family eating with difficulty two meals or less a day
- Scheduled Caste or Scheduled Tribe families
- If a family has at least four of the above 9 common living conditions, it can be considered poor, and one member of that family can be encouraged to become a member of an SHG
- Also use locally important conditions to decide whether a family is poor.

- Women / men from very poor households.
- Those who depend on moneylenders even for daily necessities.
- Those with a per capita income not exceeding Rs.250 per month.
- Those having dry land holding not exceeding 2.5 acres.

Classification of Advances to SHG

- Advances made to SHGs are classified under **different categories** (Direct Agriculture/ MSE) of Priority Sector Credit **on the basis of main/predominant activity** undertaken by the group members out of the Bank loan.
- In all other cases, loans not exceeding Rs.50000/- **per borrower** provided through SHG will be classified under **Micro Credit** within Priority Sector.

PAST EXERCISE

1. The Govt of India in general and the Banks in particular are very much after 'Financial Inclusion'. a goal which both of them wish to achieve as early as possible. What is the actual meaning of "Financial Inclusion"? **[OBC 2008]**
   (1) Each and every individual above the age of 21 years should have an employment and/or independent source of income enough for him/her to sustain.
   (2) It is a concept which envisages that maximum people in India should have access to banking services.
   (3) Banking services should be provided only to those who have a valid and legal source of income as Govt of India wants each and every person in the income tax net irrespective of the level of their income.
   (a) Only (1) is true
   (b) Only (2) is true
   (c) Only (3) is true
   (d) All (1), (2) & (3) are true
   (e) None of these
2. Which of the following organisations/ banks has done a commendable work in the field of micro-finance and was awarded Nobel Prize also in the past? **[Vijaya Bank 2008]**
   (a) Gramin Bank of Bangladesh
   (b) CRY
   (c) ASHA
   (d) NABARD
   (e) None of these
3. Many a time we read in newspapers about 'Financial Inclusion'. What does it really mean? [(Pick up the **correct** statement(s))] **[Vijaya Bank 2008]**
   (1) Allow the merger and acquisition of banks so that only few big banks exist and continue to cater to the need of corporrate sector.
   (2) Expanding the network of banks in such a way that people from lower strata of society also get the benefit of services provided by banks.
   (3) Providing insurance cover to each and every citizen so that he/she can live a healthy and long life.
   (a) Only (1)
   (b) Only (2)
   (c) Only (3)
   (d) Both (1) & (2)
   (e) All (1), (2) & (3)
4. The World Bank sanctioned ₹ 18,000 crores to which of the following states for its Poverty Alleviation Programme? **[Vijaya Bank 2008]**
   (a) Karnataka
   (b) Gujarat
   (c) Maharashtra
   (d) Uttar Pradesh
   (e) None of these
5. Which of the following is true about the National Rural Employment Guarantee Act? **[BOI 2008]**
   (1) It is applicable only in 100 rural districts.
   (2) It gives a guaranteed employment of 100 days to all those who are eligible for the same and are also willing to take it.
   (3) This act is applicable only for men between the age of 21-65. Women do not get the benefit of the same.
   (a) Only (1)
   (b) Only (2)
   (c) Only (3)
   (d) All (1), (2) & (3)
   (e) None of these
6. Which of the following will be considered as an advance to Priority Sector by the banks? **[BOB 2008]**
   (a) Credit to farmers for agricultural purposes
   (b) Loan to a group of doctors to establish a hospital in a city
   (c) Loan to a sick mill owner
   (d) Loans given to purchase houses in posh colonies
   (e) None of these

7. In economics it is generally believed that the main objective of a Public sector financial company like Bank is to .... **[IOB 2008]**
   (a) Employ more and more people.
   (b) Maximize total profits.
   (c) Maximize total production.
   (d) Provide financial service to the people of the nation of its origin across the country.
   (e) Sell the goods at subsidized cost.
8. Which of the following committees has given its recommendations on "Financial Inclusion"? **[IOB 2008]**
   (a) Rakesh Mohan Committee
   (b) Rangarajan Committee
   (c) Sinha Committee
   (d) Kelkar Committee
   (e) None of these
9. Which of the following products launched by most of the banks helps farmers in getting instant credit for various agricultural purposes? **[IOB 2008]**
   (a) Kissan Credit Card
   (b) Personal Loan
   (c) Business loan
   (d) ATM Card
   (e) None of these
10. Which of the following products of a bank is specifically designed to provide financial help to children in their higher studies in India or in a foreign nation? **[IOB 2008]**
    (a) Personal Loan
    (b) Corporate Loan
    (c) Educational Loan
    (d) Mortgage Loan
    (e) None of these
11. Many times we see in newspapers that some projects are launched by the Govt authorities on 'PPP' basis. What is the full form of 'PPP'? **[IOB 2008]**
    (a) Preferential Payment Plan
    (b) Public Private Partnership
    (c) Partial Payment Project
    (d) Popular Private Project
    (e) Public Private Plan
12. Which amongst the following organizations make major credit policies for the Regional Rural Banks (RRBs)? **[Nabard Bank 2009]**
    (a) NABARD
    (b) Asian Development Bank
    (c) World Bank
    (d) State Bank of India
    (e) None of these
13. Which of the following is not true about the National Rural Employment Guarantee Act (NREGA)? **[Nabard Bank 2009]**
    (1) NREGA was enacted first to provide job to rural people only but now people in urban areas can also avail the jobs under it.
    (2) NREGA is applicable in all districts of the country now.
    (3) NREGA initially provided 100 days job but now the number of days has been increased to 150.
    (a) Only (1)
    (b) Only (2)
    (c) Only (3)
    (d) All (1), (2) & (3)
    (e) None of these
14. Which of the following schemes is/are now the part of the National Rural Employment Guarantee Act (NREGA)? **[Nabard Bank 2009]**
    (1) Pradhan Mantri Gram Sadak Yojana
    (2) National Food For Work Programme
    (3) Sampoorna Grameen Rozgar Yojana
    (a) Only (1)
    (b) Only (2)
    (c) Both (2) & (3)
    (d) All (1), (2) & (3)
    (e) None of these
15. Micro credit or micro finance is a novel approach to banking with the poor. In this approach bank credit is extended to the poor through **[Nabard Bank 2009]**
    (a) Self Help Groups
    (b) Anganwadis
    (c) Cooperative Credit Societies
    (d) Reserve Bank of India
    (e) Small Industries Development Bank
16. The concept of micro finance was launched in which of the following countries initially? **(Nabard Bank 2009)**
    (a) Bangladesh (b) India
    (c) Egypt (d) Israel
    (e) Sri Lanka

17. The National Bank for Agriculture and Rural Development (NABARD) gets some amount of its funds from which of the following organizations for its various schemes?
[Nabard Bank 2009]
(1) World Bank
(2) Bank of America
(3) IDA
(a) Only (1)
(b) Only (2)
(c) Only (3)
(d) All (1), (2) & (3)
(e) Only (1) & (3) both

18. The National Bank for Agriculture and Rural Development (NABARD) was established in the year
[Nabard Bank 2009]
(a) 1970 (b) 1982
(c) 1977 (d) 1980
(e) 1975

19. Which of the following statements is/are TRUE about the activities of the NABARD?
[Nabard Bank 2009]
(1) NABARD has the responsibility to inspect RRBs and Cooperative Banks.
(2) NABARD maintains Research and Development Fund to promote research in agriculture and rural development.
(3) NABARD is a wing of the Planning Commission of India.
(a) Only (1) (b) Only (2)
(c) Both (1) & (2)(d) Only (3)
(e) All (1), (2) & (3)

20. The Union Budget for 1995-96 proposed the creation of RIDF in NABARD, with a corpus of ₹ 2,000 cr. What is the full form of RIDF ? **[Nabard Bank 2009]**
(a) Rural India Decoration Forum
(b) Research and Industrial Development Forum
(c) Rural Infrastructure Development Fund
(d) Research and Industrial Development Fund
(e) None of these

21. Which of the following statements about the NABARD is/are TRUE?
[Nabard Bank 2009]
(1) NABARD has a dual role to play as it is an apex body and a refinance institution.
(2) NABARD services as a refinance institution for all kinds of production and investment credit to agriculture and cottage and village industries.
(3) NABARD accepts short-term deposits from the public like any other bank to improve its capital base.
(a) Only (1)
(b) Only (2)
(c) Only (3)
(d) Only (1) & (2)
(e) All (1), (2) & (3)

22. The Head Office of the National Bank for Agriculture & Rural Development (NABARD) is located in
[Nabard Bank 2009]
(a) New Delhi (b) Hyderabad
(c) Mumbai (d) Lucknow
(e) None of these

23. Which of the following is an easy way of providing credit to the farmer community?
[Nabard Bank 2009]
(a) Kisan Credit Card
(b) Indira Vikas Patra
(c) National Saving Certificates
(d) Loan against gold
(e) None of these

24. Which of the following is true about the "Village Grain Bank Scheme"?
[Andhara Bank 2009]
(1) The Scheme was launched to provide safeguards against starvation during the period of natural calamities or lean season.
(2) The grain banks are set up in food-scarce areas like drought-prone areas, hot and cold desert areas, tribal areas and inaccessible hilly areas.
(3) Village Panchayats, who were running village grain banks earlier, are now not authorised to run the same. Instead, the authority is now given to NGOs and SHGs in the village.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Only (1) & (2)
(e) All (1), (2) & (3)

25. Which of the following is/are the reasons owing to which about 105 million new people are added to the list of hungry people and the total number of the same has reached about 1 billion? **[RBI 2009]**
    (1) Unprecedented increase in food prices, particularly in poor nations
    (2) Cut in the supply of foodgrains to poor nations by many European countries
    (3) Sudden increase in population of the countries like Uganda, Ethiopia, Sudan and Nabibia as many refugees have taken shelter there.
    (a) Only (1) (b) Only (2)
    (c) Only (3) (d) All (1), (2) & (3)
    (e) None of these
26. Which of the following is/are **true** about the Loan Waiver Scheme for the farmers launched by the Govt of India recently? **[RBI 2009]**
    (1) The Govt has taken over the debt of the farmers and has made reimbursement to the banks.
    (2) The Govt has identified 237 low-productivity districts where farmers would be eligible for a minimum loan relief of ₹ 20,000 even if their land holdings were above two hectares.
    (3) Andhra Pradesh has the highest number of beneficiaries of the scheme.
    (a) Only (1) (b) Only (2)
    (c) Only (3) (d) All (1), (2) & (3)
    (e) None of these
27. The National Rural Employment Guarantee Act is now known by which of the following names? **[SBI 2010]**
    (a) Indira Gandhi Rural Employment Guarantee Act
    (b) Rajiv Gandhi Rural Employment Guarantee Act
    (c) Jawaharlal Nehru Rural Employment Guarantee Act
    (d) Mahatma Gandhi Rural Employment Guarantee Act
    (e) None of these
28. Which of the following is/are true about the National Rural Employment Guarantee Act? **[Punjab & Sindh 2010]**
    (1) The Act is now known as Indira Gandhi National Rural Employment Guarantee Act.
    (2) The Act is now applicable to all the districts of the country.
    (3) Minimum wage fixed under this Act is now ₹ 250 per day.
    (a) Only (1) (b) Only (2)
    (c) Only (3) (d) All (1), (2) & (3)
    (e) None of 'these
29. The Workers under the National Rural Employment Guarantee Act are encouraged to take their wages through bank and post office accounts. This step of the Govt. is to obtain which of the following goal(s)? **[Syndicate 2010]**
    (1) Promote Banks business.
    (2) To minimise corrupt practices.
    (3) To encourage more and more people to join NREGA.
    (a) Only (1) (b) Only (2) & (3)
    (c) Only (2) (d) All (1), (2) & (3)
    (e) Only (2) & (1)
30. Amongst the currency quotes USD/JPY, USD/Euro and USD/CAD, which one of the following is referred as the base currency for quotes ? **[Punjab & Sindh 2011]**
    (a) USD (b) JPY
    (c) Euro (d) CAD
    (e) None of these
31. The approach of 'Micro-Credit' or 'Banking with the poor' is comparatively a new concept in the field of rural credit. This approach has been tried very successfully in which of the following countries ? **[Punjab & Sindh 2011]**
    (a) Bangladesh (b) India
    (c) China (d) Japan
    (e) None of these
32. Many a time we read about the priority sector in newspapers. Which of the following is/are considered segment(s) of Priority Sector in India? **[Punjab & Sindh 2011]**
    (1) Agriculture
    (2) Small Scale Industry
    (3) Textile Industry
    (a) Only (1) (b) Only (2)
    (c) Only (3) (d) All (1), (2) & (3)
    (e) None of these

33. The Government of India has launched a number of poverty alleviation programmes. This is done with the view that poverty is the root cause of social insecurity. In addition to that UNO has also launched Millennium Development Goals to be achieved by 2015. Which of the following is **NOT** one of those goals ? **[Punjab & Sindh 2011]**
(a) Improve mental health
(b) Combat HIV/AIDS, Malaria
(c) Reduce marriageable age for males to 18 years
(d) Promote gender equality and empower women
(e) Achieve universal primary education

34. As per the decision taken by the Government of India, now the National Rural Employment Guarantee Act is extended to all the districts of India. This means it will now be applicable to about **[Corporation Bank 2011]**
(a) 200 districts (b) 300 districts
(c) 400 districts (d) 500 districts
(e) 600 districts

35. Which one of the following is a Self-Employment Programme for Educated Unemployed Youth ? **[Corporation Bank 2011]**
(a) Prime Minister's Rozgar Yojana
(b) Swarn Jayanti Sahakari Rozgar Yojana
(c) National Social Assistance Programme
(d) Swarn Jayanti Gram Swarozgar Yojana
(e) None of these

36. Nobel laureate Muhammed Yunus belongs to which of the following countries? **[Allahabad Bank 2011]**
(a) Sri Lanka (b) Pakistan
(c) Maldives (d) Bangladesh
(e) None of these

37. Which of the following will set up core banking infrastructure for rural banks? **[Allahabad Bank 2011]**
(a) SIDBI (b) IBA
(c) RBI (d) SBI
(e) NABARD

38. For which of the following reasons, NABARD has set up joint liability groups (JLG) of farmers? **[Allahabad Bank 2011]**
(a) To facilitate delivery of credit to farmers
(b) To facilitate better delivery of credit to farmers through informal sources
(c) To facilitate better delivery of credit to share croppers and those who do not have their own land
(d) To facilitate better delivery of credit to farmers through Panchayats
(e) None of these

39. Loans of small or very small amounts given to low-income-group people are known as **[Allahabad Bank 2011]**
(a) Investment Loans
(b) Micro Credit
(c) Saving loans
(d) Secured loans
(e) Cash credit loans

40. Which of the following is the full form of KCC as used in the agriculture sector? **[Andhra Bank 2011]**
(a) Kisan Credit Card
(b) Kisan Credit Company
(c) Knowledge Credit Corporation
(d) Konkan Credit Corporation
(e) None of these

41. Which of the following is an employment-creating programme of the Govt of India? **[Andhra Bank 2011]**
(a) MNREGA (b) Bharat Nirman
(c) Kalpana-I (d) ASHA
(e) Swajaldhara

42. Which of the following schemes is related exclusively to Financial Inclusion? **[Indian Overseas Bank 2011]**
(a) Swawalamban
(b) Swadeshi
(c) Swabhiman
(d) SGSY
(e) None of these

43. Dr Muhammad Yunus is a resident of **[Corporation Bank 2011]**
(a) India (b) Pakistan
(c) Bangladesh (d) USA
(e) UK

44. Financial inclusion means provision of **[IBPS 2011]**
    (a) financial services, namely, payments, remittances, savings, loans and insurence at affordable cost to persons not yet given the same.
    (b) ration at affordable cost to persons not yet given the same.
    (c) house at affordable cost to persons not yet given the same.
    (d) food at affordable cost to persons not yet given the same.
    (e) education at affordable cost to persons not yet given the same.
45. The concept of'Micro Credit' essentially concentrates on **[IBPS 2013]**
    (a) consumption smoothening as and when needed
    (b) providing safe place to hold savings
    (c) accepting deposits
    (d) provision of credit to the poor
    (e) facility to transfer money
46. A worldwide financial messaging network which exchanges messages between banks and financial institutions is known as ___________ **[IBPS 2012]**
    (a) CHAPS (b) SWIFT
    (c) NEFT (d) SFMS
    (e) CHIPS
47. Prof. Muhammad Yunus, the receipient of the Nobel Peace Prize 2006 is the exponent of which of the following concepts in the field of banking? **[SBI Bank 2013]**
    (a) Core Banking
    (b) Micro Credit
    (c) Retail Banking
    (d) Real Time Gross Settlement
    (e) Internet Banking
48. RBI has released its guidelines for entry of new banks in the private sector in the month of February 2013. One of the norms is at least a prescribed percentage of branches of new bank should be set in unbanked rural centres with a population of upto 9,999 people. What is the percentage of such branches prescribed in the norms? **[SBI Bank 2013]**
    (a) 10% (b) 15%
    (c) 18% (d) 25%
    (e) Other than those given as options
49. Which of the following is/are the major reforms the Govt has introduced in the banking sector? **[BOM 2009]**
    (1) Dismantling the complex system of interest rate controls
    (2) Eliminating prior approval of the RBI for large loans
    (3) Introduction of capital adequancy norms and a few other prudential norms
    (a) Only (1) (b) Only (2)
    (c) Only (3) (d) All (1), (2) & (3)
    (e) None of these

ANSWER KEY

1.	(b)	**2.**	(a)	**3.**	(b)	**4.**	(d)	**5.**	(b)	**6.**	(a)
7.	(d)	**8.**	(b)	**9.**	(a)	**10.**	(c)	**11.**	(b)	**12.**	(a)
13.	(b)	**14.**	(c)	**15.**	(a)	**16.**	(a)	**17.**	(e)	**18.**	(b)
19.	(c)	**20.**	(c)	**21.**	(d)	**22.**	(c)	**23.**	(a)	**24.**	(d)
25.	(a)	**26.**	(d)	**27.**	(d)	**28.**	(b)	**29.**	(b)	**30.**	(a)
31.	(a)	**32.**	(e)	**33.**	(c)	**34.**	(e)	**35.**	(a)	**36.**	(d)
37.	(e)	**38.**	(c)	**39.**	(b)	**40.**	(a)	**41.**	(a)	**42.**	(d)
43.	(c)	**44.**	(a)	**45.**	(d)	**46.**	(b)	**47.**	(b)	**48.**	(d)
49.	(c)										

PRACTICE EXERCISE

1. Refinance facility is provided by NABARD. Which institutions can avail this facility?
   (a) State cooperative banks
   (b) Regional rural banks
   (c) Commercial bank
   (d) All of the above
   (e) None of the above
2. RBI has sold its entire stake except 1% in which of the following organisations?
   (a) DICGC
   (b) NABARD
   (c) SIDBI
   (d) National Housing Bank
   (e) None of the above
3. What are the cooperative banks at the village level known as?
   (a) Central Cooperative Banks
   (b) Primary Agricultural Cooperative Societies
   (c) Village Cooperative Banks
   (d) State Cooperative Banks
   (e) None of the above
4. The financial assistance of loans of ₹ 10000 by a bank to very a small borrower will be called
   (a) Business finance
   (b) Government finance
   (c) Micro finance
   (d) Small finance
   (e) KYC finance
5. The Narasimham Committee-I was set-up to suggest some recommendations for improvement in the
   (a) efficiency and productivity of the financial institution
   (b) banking reform process
   (c) export of IT sector
   (d) fiscal reform process
   (e) None of the above
6. Narsimham Committee recommended to reduce SLR and CLR to
   (a) 25% and 3.5% respectively
   (b) 24% and 3.5% respectively
   (c) 25% and 3% respectively
   (d) 20% and 5% respectively
   (e) 25% and 5% respectively
7. Which of the following is not a recommendation of the Narsimham Committee, 1991?
   (a) Reduction of CRR and SLR
   (b) Phasing out directed credit programme
   (c) Reduction of Capital Adequacy Ratio
   (d) Establishment of ARF Fund
   (e) Autonomy of Public Sector Bank
8. Which of the following banks have entered capital market in the wake of Narasimham Committee recommendations?
   (a) State Bank of India
   (b) Oriental Bank of Commerce
   (c) Bank of India
   (d) All of the above
   (e) None of the above
9. The Narsimham Committee-II was set-up to suggest some recommendations for improvement in the
   (a) efficiency and productivity of the financial institution
   (b) banking reform process
   (c) export of IT sector
   (d) fiscal reform process
   (e) None of the above
10. Which of the following organisations/ agencies works solely to monitor and arrange flow of agriculture credit in India?
    (a) NABARD (b) SIDBI
    (c) RBI (d) SEBI
    (e) None of these
11. Which of the following is not a scheduled Commercial Bank?
    (a) IDBI Bank (b) Axis Bank
    (c) HDFC Bank (d) NABARD
    (e) Kodak Mahindra Bank
12. Which programme was instituted to help the farmers across timely and adequently credit?
    (a) Kissan Credit Card Yojna
    (b) MNREGA
    (c) RSBY
    (d) Aam Admi Bima Yojna
    (e) All of the above

13. The majority stake of subsidiaries of NABARD is held by
    (a) SBI
    (b) RRB
    (c) RBI
    (d) Co-operative Bank
    (e) PNB
14. Regional Rural Banks were set-up with
    (a) Reserve Bank of India Act
    (b) Regional Rural Banks Act, 1976
    (c) NABARD Act
    (d) HDFC Bank Act
    (e) None of the above
15. Regional Rural Banks carry on normal banking business as defined in
    (a) Reserve Bank of India Act
    (b) Banking Regulation Act, 1949
    (c) Regional Rural Bank Act, 1949
    (d) Companies Act, 1956
    (e) None of the above
16. Regional Rural Banks are classified under
    (a) Land Developments Banks
    (b) Co-operative Banks
    (c) Commercial Banks
    (d) Public Sector Banks
    (e) None of the above
17. NABARD provides refinance to
    (a) Scheduled commercial banks
    (b) Co-operative banks
    (c) Regional rural banks
    (d) All of the above
    (e) None of the above
18. NABARD provides refinance assistance for
    (a) promotion of agriculture
    (b) promotion of small scale industries
    (c) cottage and village industries
    (d) All of the above
    (e) None of the above
19. The basic aim of Lead Bank Scheme is that
    (a) big banks should try to open offices in each district
    (b) there should be stiff competition among the various nationalised banks
    (c) individuals banks should adopt particular districts for intensive development
    (d) all the banks should make intensive efforts to mobilise deposits
    (e) None of the above
20. Which of the following statements is incorrect about NBFCs?
    (a) An NBFC cannot accept demand deposits.
    (b) These institutions trade in the capital market in a variety of assets and liabilities.
    (c) An NBFC can issue cheques drawn on itself.
    (d) Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors.
    (e) NBFIs act as brokers of loanable funds and in this capacity they, intermediate between the ultimate saver and the ultimate investor.
21. The working and operations of NBFCs are regulated by
    (a) SEBI
    (b) RBI
    (c) Finance Ministry, GoI
    (d) IRDA
    (e) None of the above
22. The Narasimham Committee, 1991 has given which of the following major recommendations?
    I. Reduction in the SLR and CRR.
    II. Phasing out Directed Credit Programme.
    III. The determination of the interest rate should be on the grounds of market forces such as the demand for and the supply of fund.
    IV. The actual numbers of public sector banks need to be reduced.
    V. Narrow banking concept where weak banks will be allowed to place their funds only in short-term and risk free as.

    Select the correct answer using the codes given below:
    (a) I, II and V (b) I, III, IV and V
    (c) I, II, III and V (d) II, III, IV and V
    (e) I, II, III and IV
23. An anna was equal to
    (a) 4 paise (b) 16 paise
    (c) 50 paise (d) 100 paise
    (e) None of these

24. All Regional Rural Banks (RRBs) are required to maintain their entire Statutory Liquidity Ratio (SLR) in
    (a) government and other approved securities
    (b) current accounts with sponsor banks
    (c) time deposits with sponsor banks
    (d) gold holdings only
    (e) All of the above
25. How many types of primary agricultural credit societies are there in our country?
    (a) Large-size societies which include Rural Banks, Agricultural Banks and credit unions
    (b) Service co-operative
    (c) Other small size societies
    (d) All of the above
    (e) None of the above
26. Which of the following could be considered as an initiative towards promotion of financial inclusion?
    (a) Opening of no frills accounts
    (b) Appointing business correspondents for servicing rural customers
    (c) Opening of bank branches in unbanked districts
    (d) All of the above
    (e) None of the above
27. Financial inclusion makes people to
    (a) access financial markets
    (b) access credit markets
    (c) learn financial matters
    (d) All of the above
    (e) None of the above
28. The most prominent national level micro finance apex organisation providing micro credit services for women in India is
    (a) National Credit Fund for women
    (b) Mahila Samridhi Kosh
    (c) Rural Women Self Help Group
    (d) All of these
    (e) None of these
29. What is not an innovation likely to explain the high repayment rates of Micro Credit Programmes?
    (a) Promising larger and larger loans for borrowers in good standing
    (b) Public repayments
    (c) Strong competition between numerous Micro Credit Programmes to reduce interest rates
    (d) Starting repayments before investments are likely to have borne fruit
    (e) None of the above
30. SHG Bank Linkage Programme, initially launched by
    (a) RBI (b) NABARD
    (c) SBI (d) RRBs
    (e) Finance Ministry
31. Recent initiatives for financial inclusion in India include
    I. 'no frill' account for retail purpose.
    II. simplified KYC (Know Your Customer).
    III. Credit Counselling Credit (CCC) facilities.
    IV. extension of smart cards.

    Select the correct answer using the codes given below:
    (a) I and II (b) II and III
    (c) III and IV (d) I and IV
    (e) All of these
32. Narasimham Committee recommended to reduce SLR and CRR to
    (a) 25% and 3.5% respectively
    (b) 24% and 3.5% respectively
    (c) 25% and 3% respectively
    (d) 20% and 5% respectively
    (e) 25% and 5% respectively
33. Which of the following is incorrect about Non-banking Financial Companies (NBFCs)?
    (a) NBFC cannot accept demand deposits
    (b) NBFC is not a part of the payment and settlement system
    (c) NBFC can issue cheques drawn on itself
    (d) NBFCS are fast emerging segment of Indian financial system
    (e) None of the above
34. What is the full form of 'NBFC' as used in the financial sector?
    (a) New Banking Finance Company
    (b) National Banking and Finance Corporation
    (c) New Business Finance and Credit
    (d) New-Business Fund Company
    (e) None of the above

35. Base rate is the rate below which no bank can allow their lending to anyone. Who sets-up this 'Base rate' for banks?
(a) Individual Banks' Board
(b) Ministry of Commerce
(c) Ministry of Finance
(d) RBI
(e) Interest Rate Commission of India

36. Why are interest rates charged by Micro Finance Institutions (MFIs) higher than lending rates of banks?
(a) MFIs are not allowed to source deposits from public
(b) Banks have the benefit of cheaper funds
(c) MFIs borrow bulk of their funds from banks
(d) MFIs borrow funds from banks at high cost and also their administrative expenses are more
(e) None of these

37. Which of the following is true?
(a) NBFCs can accept deposits from the public
(b) NBFCs cannot offer deposit schemes to the public
(c) Deposits of NBFCs are insured with DICGC
(d) NBFCs can accept deposits from public if they are registered and permitted by RBI
(e) None of these

38. The Narasimham Committee II was set-up to suggest some recommendations for improvement in the
(a) efficiency and productivity of the financial institution
(b) banking reform process
(c) export of IT sector
(d) fiscal reform process
(e) None of these

39. Which of the following steps is taken for financial inclusion in India?
(a) The expansion of network of co-operative banks to provide credit to agriculture and saving facilities in rural areas
(b) Nationalisation of banks in 1969 and expansion of branches
(c) Creation of an elaborate framework of priority sector lending with mandated targets as part of a strategy to meet the savings and credit needs of large sections of the Indian population, who had no access to institutional finance
(d) All of the above
(e) None of these

40. The financial assistance of loans of ₹ 10000 by bank to a small borrower will be called
(a) business finance
(b) government finance
(c) micro finance(d) small finance
(e) KYC finance

41. Co-operative development bank was set-up by
(a) NABARD
(b) RBI
(c) SBI
(d) Central Government
(e) None of these

42. Kisan Credit Cards are an effective way of reaching out to the farmers by the banks. What assistance does the farmer receive in this way?
(a) Credit facility for crops etc against an approved limit
(b) Short-term credit facility against value of his crops
(c) Long-term credit is provided against his land holdings
(d) Loan is permissible against crops sold, but payment yet to be received by the farmer
(e) None of these

43. Which of the following will set-up core bank infrastructure for rural banks?
(a) SIDBI (b) IBA
(c) RBI (d) SBI
(e) NABARD

44. The Securitisation And Reconstruc-tion of Financial Assets and Enforce-ment of Security Interests Act (SARFAESI Act) at present is not applicable to
(a) public sector banks
(b) financial institutes of the government
(c) private banks
(d) non-banking financial companies
(e) small and co-operative banks

45. Which of the following is an effort in the direction of financial inclusion?
    (a) Internet banking
    (b) Anywhere banking
    (c) Foreign currency accounts
    (d) All of these
    (e) None of these
46. Which of the following is incorrect about the acceptance of deposits by the NBFCs?
    (a) They are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months
    (b) They cannot accept deposits repayable on demand
    (c) They should have minimum investment grade credit rating
    (d) Their deposits are not insured
    (e) The repayment of deposits by NBFCs is guaranteed by RBI
47. Which of the following is/are the functions of foreign banks?
    I. Remitting money from one country to another country.
    II. Discounting of foreign bills.
    III. Buying and selling gold and silver.
    IV. Helping import and export trade.
    Select the correct answer using the codes given below:
    (a) I and II (b) II and III
    (c) III and IV (d) I, II and III
    (d) All of these
48. Which of the following is introduced by banks to increase financial inclusion?
    (a) Stimulus package
    (b) Internet banking
    (c) Business correspondent
    (d) Corporate banking
    (e) None of the above
49. What is not a mechanisms that contributes to the success of micro credits?
    (a) Dynamic incentives
    (b) Peer monitoring
    (c) Regular repayment schedules
    (d) Collaterals
    (e) All of these
50. The index of financial inclusion has been launched for the first time in 2008 by
    (a) CII (b) FICCI
    (c) NCAER (d) ICRIER
    (e) IIFI
51. The lead bank scheme for public sector banks does not cover
    (a) metropolitan cities
    (b) all states and union territories
    (c) backward distance
    (d) rural areas only
    (e) None of these
52. Financial inclusion is a programme of the government to cover the maximum population with bank accounts. What is the current coverage?
    (a) 25% (b) 15%
    (c) 40% (d) 65%
    (e) 70%
53. Till what amount are deposits of public in NBFCs insured?
    (a) ₹ 1 lakh
    (b) ₹ 50000
    (c) Not insured
    (d) None of these
    (e) All of these
54. Which one of the following will set up core banking infrastructure for rural banks?
    (a) RBI (b) NABARD
    (c) SIDBI (d) IBA
    (e) None of these
55. On July 12, 1982, the ARDC was merged into
    (a) RBI
    (b) NABARD
    (c) EXIM Bank
    (d) HDFC Bank
    (e) None of these
56. In pursuance of the recommendations of Narsimhan Committee, the RBI has framed new guidelines

(a) to govern entry of new private sector banks to make the banking sector more competitive
(b) to reduce the freedom given to banks to rationalize their existing branch network
(c) to set up more foreign exchange banks
(d) to lend more easily for industrial development
(e) None of these

57. Regional rural banks
I. have limited area of operation
II. have free access to liberal refinance facilities from NABARD
III. are required to lend only to weaker sections
(a) I, III
(b) II, III
(c) I, II, III
(d) I, II
(e) None of these

ANSWER KEY

1.	(d)	**2.**	(b)	**3.**	(b)	**4.**	(c)	**5.**	(a)	**6.**	(a)
7.	(a)	**8.**	(d)	**9.**	(b)	**10.**	(a)	**11.**	(d)	**12.**	(a)
13.	(c)	**14.**	(e)	**15.**	(b)	**16.**	(d)	**17.**	(d)	**18.**	(d)
19.	(c)	**20.**	(c)	**21.**	(b)	**22.**	(e)	**23.**	(a)	**24.**	(a)
25.	(e)	**26.**	(d)	**27.**	(d)	**28.**	(a)	**29.**	(c)	**30.**	(b)
31.	(e)	**32.**	(a)	**33.**	(c)	**34.**	(e)	**35.**	(a)	**36.**	(d)
37.	(d)	**38.**	(b)	**39.**	(d)	**40.**	(c)	**41.**	(a)	**42.**	(a)
43.	(e)	**44.**	(d)	**45.**	(c)	**46.**	(e)	**47.**	(e)	**48.**	(c)
49.	(d)	**50.**	(d)	**51.**	(a)	**52.**	(c)	**53.**	(c)	**54.**	(b)
55.	(b)	**56.**	(a)	**57.**	(d)						

CHAPTER 10

Non-performing Assets : Important Points

Commercial banks and other Financial Institutions in India lend money to entrepreneurs and others for generating interest income for itself as well as return of the principal amount lent. However, such lending is for future income generation which depends of uncertainties in performance, market demand and supply, and sometimes adverse economic conditions. This leads, sometimes, to a serious risk for lending institutions.

Since 1992 when reforms started, Banks have been classifying these loan assets into various categories as per Reserve Bank of India's guidelines from time to time. The definition of performing and non-performing assets have been going around in the banking circles in different ways, till RBI standardized its definition as follows.

DEFINITION

A performing asset is one which yields regular income in terms of repayment of principal and interest. However, non-performing asset is one which has stopped yielding principal and/or interest and is not paid by the borrower for a period of 90 days.

In simple words NPA is one in which following features occur.

- Installment of principal has remained "past due" for a specified period of time.
- On balance sheet date, account which shows following additional features is an NPA.
  - Interest on a term loan account is past due.
  - Cash credit/overdraft account remains "out of order".
  - Bill purchased/discounted is unpaid or overdue.
  - Any amount to be received in respect of any other account remains 'past due' for a period of more than 90 days.

Related Definition of Terms

(a) Out of Order Accounts

Account is treated as "out of order" if outstanding balance remains continuously in excess of the sanctioned limit or drawing power.

Also where outstanding balance in principal operating account is less than the sanctioned limit/drawing power, and the credits in the account continuously for 90 days are not enough to cover interest debited during the same period, such accounts are also treated as "Out of Order Accounts".

(b) Overdue Amount

Any amount due to the bank on any credit facility is "overdue" if it is not paid on due date fixed by the bank.

NARASIMHAM COMMITTEE RECOMMENDATIONS ON NPAS

- **Purpose:** The Committee recommended that banks should have greater consistency and transparency in their published accounts (balance sheet, profit & loss account). Norms have to be fixed for such transparency. RBI thus, initially fixed over 1 year (four quarters in case of Cooperative banks) as period of NPA to be defined. However, this period has been reduced in stages and at present it is 90 days.
- In the early stages of reforms and early guidelines of RBI, an asset was considered as NPA on the basis **of "past due" concept.** Asset becomes past due if it remains outstanding for 1 month (30 days) from the date it has become due. But in 31.3.2001 this concept was discarded and new concept was introduced based on period.
- **Policy of income recognition**: The Committee recommended that there should be objective and record based recovery classification. Simple accrual of interest posted as income in the books of accounts does not give transparency to the bank's performance. There, RBI directed banks from time to time to ensure that recovery should be considered on actual receipt basis and not on accrual basis.
- RBI, based on the recommendations of the Committee, directed banks to classify assets in different forms and for risks providing provisions. The basis for the provisioning are as follows:
  - On the basis of the classification of assets.
  - Based on the period for which the asset has remained NPA.
  - Availability of security and the realizable value thereof.
- From 31.3.2004, RBI introduced a concept of **"out of order**" where an asset will be called an NPA, if principal and interest remain overdue or outstanding for a period of 90 days or more from the sanctioned limit or calculated drawing power in case of cash credit / overdraft accounts.

Reasons of Slippages

- Most important slippage is poor / ineffective monitoring especially in big accounts having large amounts sanctioned, say over Rupees 10 lakh.
- Non-adherence to terms & conditions laid down in sanction letter, etc.
- Providing unjustified and continuous excesses / adhoc sanctions without proper appraisal of needs etc.
- Securities have become obsolete and have never or rarely been inspected.
- Bank fails to identify early warning signals at the right time and take remedial measures.
- Failure in due diligence (especially new / taken over accounts).
- Sometimes external factors lead to account becoming NPA like poor economic growth, demand and supply factors of the market, business failures, etc.

Asset Classification

As per Reserve Bank of India's guidelines banks classify their loan assets in FOUR groups. It has dispensed with the earlier classification based on **eight "Health Codes".** The new classification is:

1. Standard Asset: Standard asset is one which does not show or indicate any sign of distress or problem with regard to recovery/repayment of dues. Normal banking risk (s) is/are acceptable. Such assets are called **Standard Assets.**

2. Substandard Assets: With effect from March 31, 2001, a substandard asset was one, which has remained NPA for a period not exceeding 18 months. However this was reduced further in 31.3.2005 to 12 months by RBI. Now this period is 90 days from the due date.

Characteristic critical features of such accounts are:

- Sub-standard asset has general credit weaknesses.
- It jeoparise the liquidation of debt.
- Bank may incur some
- In such cases, current net-worth of the borrower/guarantor or the current market value of the security charged to bank is not enough to ensure recovery.

3. Doubtful Assets: Starting from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

Other important features of such assets are:

- Asset becomes NPA for more than 12 months (which was 18 months before 31.05.2005).
- Liquidation of dues is highly doubtful or improbable or highly questionable.
- Security erosion at 50% or more over the previous year's value.

4. Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. Though there may be some salvage. Other main features are:

- Loss identified by bank or by the internal auditor/ RBI or statutory auditors
- Amount not fully written off since there might be some salvage / recovery value, may be very small / negligible (less than even 10 % of outstanding)

Some special aspects of NPA

- Security does not include net worth of the borrower or guarantor.
- If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, account may be classified as 'standard' accounts.

Gross and Net Non-performing Assets

Simply speaking, Gross NPAs are the ones that show total figures of amount unrecovered without any adjustment of provisions etc.

- Net NPA = Gross NPA – Provisions

Provisioning Norms

As per RBI guidelines, banks are required to provide provisions in their NPA accounts.

Loss making Asset

- In case of loss making accounts, the provisioning shall be 100 per cent of the balance outstanding.

Doubtful Asset

- In case of doubtful assets, banks are required to provide with 100 per cent for the portion of loan asset which is unsecured. However for secured portion of loan asset under doubtful category, if an asset remains in doubtful category up to 1 year, then provision shall be 20% of the balance outstanding and for 1 to 3 years, the provision shall be 30%. Slowly the amount of provision in doubtful category is increased to 100 per cent, increasing every year.

Sub-Standard

- In case of sub-standard category of assets, a general provision of 10 per cent on the principal outstanding amount in the books is required. However, this 10% does not include guarantee receivable from Deposit Insurance & Credit Guarantee Corporation and Export Credit Guarantee Corporation.

Provision for Standard Assets

- A general standard provision of 0.25% or as revised by RBI from time to time is applicable on all standard assets.

LEGAL MEASURES OF LOAN RECOVERY

Lok Adalats

- Lok adalat –deals cases up to Rs.20.00 lacs
- Civil suits – It is like a civil suit where attachment before Judgment takes place.
- It is suitable for cases as Summary suits where there is no security other than Demand Promissory Note
- Recovery through Revenue Recovery Acts as arrears of land revenue.
- Debt recovery Tribunal (DRT) – Loans where outstanding of for more than Rs.10.00 lacs, DRT can be approached.
- Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI) through attachment and sale of assets by Banks without intervention of court. This chapter has been discussed elsewhere in details.

DEBT RECOVERY TRIBUNALS- IMPORTANT FEATURES OF THE ACT

(Recovery of Debts due to banks and Financial Institutions Act- RDDB&FI Act)

- The establishment of Debt Recovery Tribunals for recovery of bank and financial institution dues was recommended by initially by Narasimham Committee followed by Tiwari Committee.
- The Act got the approval (assent) of the President of India on 27.8.1993.
- This Act was amended many times over the past 15 years. The period of amendments are given below:
  - (i) The Recovery of Debts Due to banks and Financial Institutions (Amendment) Act, 1995 (28 of 1995).
  - (ii) The Recovery of Debts Due to banks and Financial Institutions (Amendment) Act, 2000 (1 of 2000)

- DRTs have been established mainly for providing a simple and summary procedure to banks for recovery of their dues in accordance with the principle of natural justice. It acts as a court of appeal for recovering of shortfall in dues which remain unpaid after exercising banks right under other laws like SARFAESI, 2002. Third advantage of establishing DRTs is to help banks seek recourse in it to recover unsecured dues of Rupees 10 lakh and above.
- Government of India has the powers to establish DRTs. It has the powers to establish one or more Debt Recovery Appellate Tribunals (DRAT) by notification.
- **Composition of DRT:** DRTs are having a small organizational structure with one Presiding Officer (PO), and one or more Recovery Officers beside by lean secretarial staff.
- **Tenure of PO:** The period for which Presiding Officer is appointed in DRT is for 5 years from the date on which he starts his office.
- Normally the Presiding Officer should be a person who qualifies to be District Judge. In case of DRAT, the Chairperson should qualify to be member of Indian Legal Service (experience minimum1-3 years),or Judge of High Court or Presiding Officer of DRT for 3 years.
- The Proceeding of DRT and DRAT are governed by (i) principle of natural justice, (ii) rules of civil procedure code (section 22 (2) of CPC, 1908).
- The jurisdiction of DRTs is not dependent on the location of charged property – movable or immoveable, of defendant. Section 19(1) of RDDB & FI Act, 1993 provide that bank may file an application to the Tribunal where defendant resides at the time of making application or carry on business or where the cause of action, wholly or partly arise.
- **Fees:** Rule 7(1) and 7(2) of the RDDB & FI Act, 1993 lays down the procedure of filing application and fees to be deposited. The fee can be sent through crossed DD on a nationalized bank or through Indian Postal Order favouring Registrar.
- The fee structure is:
  - If debt due is Rupees 10 lakh, fee is Rs.12,000/=.
  - If debt is above Rs.10 lakh, fee is Rs.12,000/= plus Rs.1000/= for every Rs.1 lakh of debt or part thereof subject to maximum of Rs.1,50,000/=
  - For review application, fee is 50% of fee paid.

PAST EXERCISE

1. The Banking Industry a few years back was badly in the grip of Non-Performing Assets (bad loans) for which the RBI and banks took special measures. As per the latest financial reports of the industry, what is the status of NPAs at present? **[OBC 2008]**
   (1) There are no NPAs now as not a single loan of ₹5 lakhs and above is given by the bank without proper paperwork.
   (2) As reported in the first half of 2007 the NPAs have again risen.
   (3) As the interest rates are very high banks are not providing loans to middle class and poor general borrowers. Hence NPAs in private and personal banking area are 'zero' where as in industrial credit sector NPAs are still at the level of 22 percent.
   (a) Only (1) is correct
   (b) Only (2) is correct
   (c) Both (1) & (2) are correct
   (d) Only (3) is correct
   (e) None of these
2. As per the decision taken by the Govt of India, all the Public Sector Banks (PSBs) will be recapitalised over the next two years so that they can maintain a capital Adequacy Ratio (CAR) of .... **[UBI 2009]**
   (a) 9% (b) 12%
   (c) 11% (d) 22%
   (e) None of these
3. What is the full form of the term 'NPA' as used in banking environment? **[SBI 2010]**
   (a) Not Profitable Assets
   (b) New Potential Accounts
   (c) Non Performing Assets
   (d) Net Performing Assets
   (e) None of these
4. As a practice, all banks now deduct some amount from their pre-tax income and set aside in a separate account to create a cushion for the loans which may go bad. This is called .... **[Punjab & Sindh 2010]**
   (a) CRR (b) SLR
   (c) Provisioning (d) PLR
   (e) None of these
5. Which of the following is NOT a Public Sector Unit? **[Indian Overseas Bank 2011]**
   (a) HPCL (b) Yes Bank
   (c) HAL (d) SAIL
   (e) IDBI Bank
6. As per the rarget for the 11th Five Year Plan, educated unemployment is to be reduced to which of the following levels? **[Corporation Bank 2011]**
   (a) 9% (b) 6%
   (c) 7% (d) 8%
   (e) 5%
7. In Banking terminology, NPA means **[Corporation Bank 2011]**
   (a) No-Promise Account
   (b) Non-Personal Account
   (c) Non-Performing Asset
   (d) Net Performing Asset
   (e) New Promising Ambience
8. When there is a difference between all receipts and expenditure of the Govt. of India, both capital and revenue, it is called __________ . **[IBPS 2012]**
   (a) Revenue Deficit
   (b) Budgetary Deficit
   (c) Zero Budgeting
   (d) Trade Gap
   (e) Balance of payment problem
9. A non-performing asset is _____________. **[SBI Bank 2013]**
   (a) Money at call and short notice.
   (b) An asset that ceases to generate income
   (c) Cash balance in till
   (d) Cash balance with RBI
   (e) Balance with other banks

10. Banks and other financial institutions in India are required to maintain a certain amount of liquid assets like cash, precious metals and other short-term securities as a reserve all the time. In Banking World this is known as **[SBI Bank 2011]**

(a) CRR
(b) Fixed Asset
(c) SLR
(d) PLR
(e) None of these

11. In a Poverty Pyramid index, which of the following segments of population faces the highest poverty risk ? **[Corporation Bank 2011]**

(a) Formal Wage Employment
(b) Informal Self-Employment : Employers
(c) Regular Informal Wage Employment
(d) Informal Self Emloyment : Own Account
(e) Casual Informal Wage Employment and Domestic Work

ANSWER KEY

1.	(d)	**2.**	(a)	**3.**	(c)	**4.**	(c)	**5.**	(b)
6.	(e)	**7.**	(c)	**8.**	(a)	**9.**	(b)	**10.**	(c)
11.	(e)								

PRACTICE EXERCISE

1. Which of the following acts is specially launched to facilitate banks in recovery of bad loans?
   (a) RBI Act
   (b) Banking Regulation Act
   (c) Companies Act
   (d) Income Tax Act
   (e) SARF AESI Act
2. Non-performing assets are cause for serious concerns for banks. Why are these loans known as non-performing?
   (a) Recovery of bank's funds are difficult
   (b) Interest on these accounts are not charged
   (c) Banks have to make provision for these loans in their balance sheet
   (d) All of the above
   (e) None of the above
3. The objectives of forming SHG is/are
   I. to build mutual trust and confidence between the bankers and the rural poor people.
   II. to encourage banking activities, both on the thrift as well as credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.
   III. to meet the needs of the poor by combining the flexibility, sensitivity and responsiveness of the Informal Credit System with the strength of technical and administrative capabilities and financial resources of the formal credit institutions.

   Select the correct answer using the codes given below:
   (a) Only I (b) I and II
   (c) I and III (d) II and III
   (e) All of the above
4. Which among the following is related to bank risks?
   (a) Deposits (b) Bank funds
   (c) NPA (d) All of these
   (e) None of these
5. Which of the following acts was framed specially to deal more effectively with the problem of non-performing assets in banking system?
   (a) Companies Act
   (b) Banking Regulation Act
   (c) Foreign Exchange Management act
   (d) Industrial Dispute Act
   (e) SARFASESI Act
6. Where is the headquarter of SIDBI?
   (a) Varanasi (b) Lucknow
   (c) New Delhi (d) Kolkata
   (e) Mumbai
7. Banking and financial services all over the world are regulated usually by the Monetary Authority of the land. Who controls this function in India?
   (a) Ministry of Finance
   (b) SEBI
   (c) RBI
   (d) IRDA
   (e) FEDAI
8. Which bank in India has introduced vertical credit cards?
   (a) Kotak Bank (b) Yes Bank
   (c) HDFC Bank (d) ICICI Bank
   (e) SBI
9. BEF is the statement which banks submit to RBI relating to :
   (a) Transactions in US Dollars
   (b) Importers who have not submitted documentary evidence for import within stipulated time period
   (c) Over due export bills
   (d) Non performing assets
   (e) Excess overnight limit position of the bank
10 Which of the following is true about RBI's decision regarding sick micro and small enterprises?
   (a) These guide lines made on recommendations of the working group chaired by Deputy Governor K. C. Chakrabarty
   (b) RBI has suggested that an MSE is considered 'sick' when: any of the borrowed amount of the enterprise

remains a non-performing asset (NPA) for three months or more
(c) RBI also suggested if there is erosion in the net worth due to accumulated losses to the extent of 50 percent of its net worth during the previous accounting year
(d) The stipulation that the unit should have been in commercial production for at least two years has been removed.
(e) All the above true

11. Which among the following is called as non performing assets?
(a) Assets that can exchange income;
(b) Assets that eases to earn interest income
(c) assets that have not been commented upon by the auditors
(d) all the above
(e) none of the above

12. Which of the following does not pertain to non performance assets?
(a) Sub standard assets
(b) doubtful assets
(c) loss assets
(d) all the above
(e) standard assets

13. Which among the following defines a non performing asset?
(a) In a loan account, the principal due has not been paid for more than ninety days
(b) In a loan account, the interest due has not been paid for more than ninety days
(c) Both (a) and (b) as mentioned above
(d) Assets that have not been commented upon by the bank auditors
(e) None of the above

14. Which among the following committees had recommended Income Recognition and assets classification norms?
(a) Rangarajan committee
(b) Goiporia committee
(c) Narasimhan committee;
(d) Jankiraman committee
(e) none of the above

ANSWER KEY

1.	(e)	**2.**	(d)	**3.**	(e)	**4.**	(c)	**5.**	(e)
6.	(b)	**7.**	(d)	**8.**	(a)	**9.**	(b)	**10.**	(b)
11.	(b)	**12.**	(e)	**13.**	(c)	**14.**	(c)		

CHAPTER 11

Modern Aspects of Banking

IT BASED BANKING SERVICES

REAL TIME GROSS SETTLEMENT (RTGS)

The system of Real Time Gross Settlement started on 26 March 2004. The advantages of RTGS are:

- It is faster, real time on line settlement system of fund transfer.
- Helps all scheduled banks to settle inter-bank on-line fund transfer transactions of any amount.
- Banks can provide additional product / service to its customers for faster fund transfer.
- It is safe and secure electronic fund transfer.
- Money transfer takes place from one Bank to another on a real time and on gross basis
- Real time payment transaction is not subjected to any waiting period
- There is no bunching with any other transaction.
- Minimum value of transaction should be Rs. 2,00,000/=
- Customer can access the RTGS facility between 9am to 4:00 pm on week days and 9am to 12 noon on Saturday.
- Charges may vary with banks. However, commonly charged fee is:
  - Inward (Local/Outstation) Remittance Charges : NIL
  - Local Outward : NIL
  - Outstation Outward Remittance Charges
  - 2 lakh to 5 lakh: = 25/- per transaction
  - Above 5 lakh : ₹ = 50/- per transaction
- RTGS system requires participating banks to hold a specific 'settlement' with RBI. All transaction movements have to be done electronically using fund in special account with RBI. Settlement of transaction is final and irrevocable.
- Banks which participate in RTGS guarantee the same day settlement, positions in clearing system will increase viability of payment movement and funds ownership.

NATIONAL ELECTRONIC FUND TRANSFER (NEFT): IMPORTANT FEATURES

This scheme was launched in 2005, October. NEFT is the nationwide electronic fund transfer system.

- NEFT is a system of funds transfer to enable account to account funds transfer without involving physical movement of paper instruments, like cheques etc.
- This system was first recommended by Shere Committee set-up by RBI.

- National Electronic Funds Transfer (NEFT) is electronic funds transfer system, which facilitates transfer of funds to other bank accounts in over 63000 bank branches across the country. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances.
- The objective of RBI's NEFT system are (i) to facilitate an efficient, secure and economical system of fund transfer, (ii) to make system reliable and expeditious for funds transfer in banking sector, and (iii) to relieve the stress on existing paper based fund transfer and cheque clearing system.
- NEFT is useful to banks in following ways:
  - Funds are transferred on the same day across presently 4 metro cities and latest transferred on next day in other cities.
  - Helps transfer funds rather than only information.
  - In all metros, settlement is thrice in a day.
  - Banks can help customers to get inter-bank TT services.

PROCESSING INFORMATION BY RBI: SOME STEPS

- RBI centers process the files received from all centers and upload to respective branches of destination banks.
- Service branches process the file and print branch level report containing beneficiary details.
- Destination branches credit the amounts to the beneficiary's account.

NEFT FEE CHARGED BY BANKS

Normally banks vary in their charges. Following charges are a sample charges which some banks charge.

(a) Inter Bank Fund Transfer on deferred net settlement which settles transactions in batches.
(b) Inward Remittance Charges : NIL
(c) Outward Remittance Charges

(i) Up to 1 Lac :	NIL
(ii) Above 1 Lac to 2 Lac :	15/- per Transaction
(iii) Above 2 Lac :	25/- per Transaction

E- BANKING

Common services available to customers in e-banking are:

1. Automated Teller Machine (ATM)
2. Debit Cards
3. Net Banking
4. Mobile Banking
5. Phone Banking
6. Interbank Mobile Payment Service (IMPS)
7. Bill Payment
8. ECS Service
9. NEFT / RTGS
10. Indo Nepal Remittance System
11. e Payment of Taxes
12. Merchant Acquiring Business (POS)
13. Cash Management Service

AUTOMATED TELLER MACHINES (ATMS)

- ATMs are virtual banking system without human interaction.
- ATM machines can be installed at any suitable location for deposited and withdrawing money.
- ATMs operate by a system of checking account holder authenticity and run on menu. ATMs use Iris or other advanced scan system. PIN numbers (confidential) given to customers are fed in ATMs. Advanced ATMs have finger print analysis system also.
- ATM use is customer-friendly and is very simple. Customer inserts the ATM card in the ATM machine. ATM asks for customers PIN which he feeds, then he feeds the amount needed and then presses the button for either deposit or withdrawal.
- Customers can get their balance in the account through ATM also any time of the day, all 7 days, 24 hours. Besides customer can get a brief account statement from the ATM system. For customers, this is convenient, anywhere any time banking facility, without additional cost.

- ATM card holders of say 'A' bank can also withdraw cash up to a certain limit from other banks' ATMs provided 'A' bank has that arrangement with other banks including the specific amount that can be withdrawn.
- Further advancements have been seen for banking usability for disabilities like the low vision, illiterate and aged people. Such system came up for use in some banks from 2012 (June).

Limitations of ATMs

1. Security: Unlike bank tellers, ATMs do not require the person performing the transaction to present their picture identification. Rather, the person must only insert a bank card and enter a personal identification number. If the bank card is stolen and the number ascertained, an unauthorized person can easily access the account.
2. Inability to Perform Complex Transactions: ATMs can only perform relatively basic transactions. This means that people who need to complete these longer transactions will be forced to use the teller.
3. Fees: Not only do banks of which you are not a member charge fees for the use of their ATMs, but users are often charged surreptitious fees by their own banks for using other banks' ATMs.
4. Privacy: Unlike banks, in which security guards and tellers are present to ensure the person performing a transaction receives privacy, there is no such guarantee when using an ATM.
5. There is also limited withdrawal of cash.

Biometric ATMs

The Biometric ATM has been introduced to safeguard customers from all the frauds and unauthorized access to bank account.The introduction of Biometric ATMs is latest entrant in the banking services. We all have seen and used traditional ATMs which accept our debit or credit cards and we enter our PIN code and use banking services to deposit money, withdraw cash, check balance, request for check books etc.

As the technology evolves, it also brings some sort of risk with it. You might have read or know about ATM frauds, duplication of ATM cards, ATM skimming, unauthorized withdrawal of money. You also might have seen people and groups of thieves involved in such crimes. Banks and Bank regulator always try to bring and adopt technology which brings safety and security to the customers.

How a Biometric ATM works

It works similar to traditional banks ATMs but it does not ask for a numeric password. Biometrics ATMs have attached scanner or sensor where you put your finger or palm. Your finger print acts like a password. Your finger print is then matched with the finger print stored in the bank centralized database. If it matches you are authorized to get access to ATM and your account.

ALTERNATIVE CHANNELS OF BANKING

Internet Banking

- Customers can carry out banking activities from the comfort of their home /office with only click of a mouse.
- Using Internet Banking ID and password, customers can access their Bank accounts / do transactions on-line 24x7 without any hassle.
- Access your Bank Account from anywhere i.e. home, office or on the move through PC/ Laptop/I Pad with Internet connection.
- For Individual Savings & Current Account holders. For Corporate Cash Credit /Over Draft /Current Account holders.
- Easy and secure way of Banking and banking can be done 24 × 7 days.

MOBILE BANKING

- A milestone in banking field- provides the customers a secure and convenient means of banking and commerce from anywhere anytime.
- Banks wishing to provide mobile banking services shall seek prior one time approval from Reserve Bank of India by furnishing full details of the proposal.
- Customer can do following banking business on mobile phones:
  - Give instructions to debit his account to issue demand draft.
  - Enquire balance in the account and transaction details (history of last few transactions).
  - Can issue stop payment instructions and enquire for bills and outward clearing.
  - Ask for on demand account statement, and
  - Request for a cheque book etc.
  - Balance Enquiry.
  - Revoke Cheque
  - Funds Transfer
  - Loan account information
  - ATM locator.

Use of mobile phone is simple: customer applies for mobile phone banking facility. After approval data is fed in the system; customer is given a PIN; customer connects to telephone number, system will play a voice menu and the list of number of services offered are voiced; customer to only follow voice menu to avail the required services.

SMS BANKING

- Provides instant notification about the transactions as and when it happens. It helps to keep a watch on account round the clock.
- Every debit or credit in your account over a limit desired by you is intimated by SMS.
- Helps to detect unauthorized access to the account.

CORE BANKING SOLUTIONS (CBS)

- Core banking Solution is the centralized banking platform where total bank's operations are controlled and run from a centralized hub. CBS means application of computer technology to various banking functions.
- CBS introduction has proved advantageous to banks in various ways, viz. (i) banking has become single window in nearly all banks having CBS system, (ii) it is an answer to many MIS problems of banks from audits and controls., (iii) whole operations of bank can be run from centralized hub, and (iv) new products and services can be formed quickly, etc.
- CBS system works through centralized customer database; proper business plan and customer information all over the country can be kept in one server.
- Through CBS system customers are equally benefitted in different ways. Customer is no more bound at one place where account exists. He/she can bank with CBS to access his/her account from any station/city. Customer has simple and hassel free, accurate and quick banking in place. Biggest advantage to customer is that he/she can do banking 24 hours by any e-banking services available with the bank.

CREDIT CARDS- SALIENT FEATURES

- It is a plastic card with microprocessor chip embedded on one side and magnetic stripe on the other.
- In simple words it is a plastic which contains the name of account holder along with validity and account number.
- Credit cards are normally made valid for 5 to 10 years, varying from bank to bank.
- Basic features of credit card are: credit card offers lot of information, along with many built-in security features; normal credit card is made of three distinct layers of PVC core stock (white plastic) sandwiched between two clear laminate layers; modern credit card also carries photograph of the holder; and on the front of the card is the optical character recognition line (OCR), valid date line and name of the bank. On the backside, features contain service and lost/stolen directions as well as magnetic stripe and signature panel for card holder.

DIFFERENCE BETWEEN DEBIT CARD AND CREDIT CARD

- **Debit** of personal account in debit card is instantaneous, the moment card holder enters into transaction.
- **Debit card** is introduced for Electronic Fund Transfer at Point of Sale (EFTPOS) system.
- **In credit card**, a delay between the time of purchase and the time that funds are debited to the account is large and varies.
- Credit cards are being used by people by paying the whole balance at the end of the month either through internet banking transfer, mobile banking transfer or through cheque payment.

What's Plastic money ?

Plastic money is a term that is used predominantly in reference to the hard plastic cards we use everyday in place of actual bank notes. They can come in many different forms such as cash cards, credit cards, debit cards, pre-paid cash cards and store cards.

RBINET

- RBINET helps commercial banks in following ways:
  - Commercial banks can have access to format messaging and file transfers available on BANK NET network.
  - Information sharing among banks and within different offices of banks is possible through it.
  - Communication of important instructions / directions contained in RBI circulars, policy guidelines etc. can be simultaneously made available to all banks.

BANKNET

- Banknet is a sophisticated packet (switching systems handling) where electronic authorization of national and international transactions are handled.
- Clearing and settlement between cardholders, merchants, and their respective issuers and acquirers is handled.
- Local currency settlements in India, Indonesia, Malaysia, USA etc. could be handled easily.
- Telecommunication network is carried out over BANKNET to clear and settle all international and local Master Card transactions that are not on us.
- Transfer of information at any given destination.
- BANKNET has advantage of speed, flexibility, member-to-member processing capability in electronic imaging system, and enabling members to transmit electronically images of sales slips for retrieval requests, thus avoiding exchange of papers.

Automated interactive voice ressponse system (AIVR)

Automated Interactive voice response systemis a technology that allows a computer to interact with humans through the use of voice and DTMF tones input via keypad. In telecommunications, IVR allows customers to interact with a company's host system via a telephone keypad or by speech recognition, after which they can service their own inquiries by following the IVR dialogue. IVR systems can respond with pre-recorded or dynamically generated audio to further direct users on how to proceed. IVR applications can be used to control almost any function where the interface can be broken down into a series of simple interactions. IVR systems deployed in the network are sized to handle large call volumes.

What is SWIFT' ?

SWIFT the Society for Worldwide Interbank Financial Telecommunication is a member-owned cooperative that provides safe and secure financial transactions for its members. Established in 1973, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) uses a standardized proprietary communications platform to facilitate the transmission of information about financial transactions. This information, including payment instructions, is securely exchanged between financial institutions.

PAST EXERCISE

1. Many a time we read in newspaper about the benefits of National Electronic Funds Transfer (NEFT), a dlivery service launched by the bank. Why do banks advocate for such delivery channels? **[OBC 2008]**
   (1) It is a system in which no physical transfer takes place, hence risk is very low.
   (2) In this system banks are not required to transfer any money actually to the account of the customer. Only book adjustment is done. Hence actual fund is not needed.
   (3) This facility is available to anybody at any place. Even having a bank account is not at all necessary.
   (a) Only (1) is correct
   (b) Only (2) is correct
   (c) Only (3) is correct
   (d) Both (1) & (2) are correct
   (e) All (1), (2) & (3) are correct
2. Many times we see banks advertise -" anywhere Banking: Anytime Banking". Which of the following product/facilities launched by banks make it possible for the customers to avail banking services 24 hours all seven days? **[OBC 2008]**
   (1) ATM
   (2) Internet Banking
   (3) Universal cheque book facility
   (a) Only (1) (b) Only (2)
   (c) Both (1) & (2) (d) Only (3)
   (e) All (1), (2) & (3)
3. As reported in some newspapers/ magazines, some banks have decided to install Biometric ATMs so that fraudulent withdrawals can be prevented. Biometric ATMs will be able to do so as it also checks **[OBC 2008]**
   (1) signatures of the card holders.
   (2) fingerprints of the card holders.
   (3) skin colour of the card holders.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Both (2) & (3)
   (e) All (1), (2) & (3)
4. Which of the following is known as Plastic money? **[Vijaya Bank 2008]**
   (1) Demand Draft (2) Credit Card
   (3) Debit Card
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Both (2) & (3)
   (e) All (1), (2) & (3)
5. A lot of Banks in India these days are offering M-Banking Facility to their customers. What is the full form of` 'M' in 'M-Banking'? **[BOB 2008]**
   (a) Money (b) Marginal
   (c) Message (d) Mutual Fund
   (e) Mobile Phone
6. Which of the following is the limitation of the ATMs owing to which people are required to visit branches of the bank? **[IOB 2008]**
   (1) It does not accept deposits.
   (2) It has a limited cash disbursement capacity.
   (3) Lack of human interface.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these are limitations
7. As we all know, more and more countries/ organisations are now going for Non-Cash Transactions and accordingly Banks have launched many new products in the market for the same. Which of the following products is a non-cash transaction product? **[UBI 2009]**
   (a) Only ATM Card
   (b) Only Credit Card
   (c) Only Prepaid Card
   (d) Only Debit Card
   (e) All are non-cash transaction products.
8. As per the news published in major newspapers journals hence forth the Credit Card holders will be able to access their credit card information though automated interactive voice response system over the phone instead of speaking to the staff. This decision of the banks/credit card companies will provide **[Corporation Bank 2009]**
   (1) an additional hurdle to the customers as people feel comfortable in talking to the staff instead of talking to a machine.
   (2) an additional security to the customers as this does not allow any staff to handle any transaction directly.
   (3) Some comfort to the banks as they will be able to reduce their staff strength.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) Only (1) & (3)

9. As per the notification issued by the banks, the "third party ATM usage" will now be restricted to certain withdrawals and limits only. What does it really mean?
[Indian Bank 2010]
(1) The ATM cardholders will not be able to withdraw from other banks' ATMs under any circumstances.
(2) Customers of one bank may be able to withdraw only a limited amount from other banks' ATMs.
(3) ATM card holders will have to pay a fee if they withdraw money from other banks' ATMs frequently.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Only (2) & (3)
(e) Only (1) & (3)

10. Which of the following is an innovative mechanism adopted by banks to meet the targets fixed for lending to priority sector by the Banks? **[Corporation Bank 2010]**
(a) Buying & Selling of Priority Sector Lending Certification
(b) Sale of Kisan Vikas Patra
(c) Inter Bank Participation Certificates
(d) Adoption of Core Banking Solution
(e) None of These

11. As we all have notices, banks these days are giving more emphasis on "Branchless Banking". What does this really mean?
[Syndicate 2010]
(1) Banks will not have many branches as used to be in the good old days. Instead, the number of branches will be restricted and will conduct only a specified core business.
(2) Banks will launch/operate many delivery channels like ATMs, Mobile Banking/Internet Banking etc so that people are not required to visit a branch for their usual banking needs.
(3) This means banks will issue only debit or credit cards for all types of day-to-day financial transactions. Cheques/cash payments will not be allowed.
(a) Only (1) (b) Only (2)
(c) Only (1) & (2) (d) Only (2) & (3)
(e) All (1), (2) & (3)

12. Many times we read a term CBS used in banking operation. What is the full form of the letter 'C' in the term 'CBS'?
[Corporation Bank 2011]
(a) Core (b) Credit
(c) Continuous (d) Complete
(e) None of these

13. Which of the following terms is **NOT** used in banking?
[Allahabad Bank 2011]
(a) Debit Card (b) Credit Card
(c) Kisan Card (d) ELISA Test
(e) None of these

14. Expand the term SWIFT.
[Allahabad Bank 2011]
(a) Society for Worldwide International Financial Telecommunications
(b) Society for Worldwide Interbank Financial Telecommunication
(c) Society for Worldwide International Financial Transfers
(d) Society for Worldwide Interbank Fiscal
(e) None of these

15. Which of the following is known as Plastic Money?
[Indian Overseas Bank 2011]
(1) Demand Draft
(2) Credit Card
(3) Debit Card
(a) Only (1) (b) Only (2)
(c) Only (3) (d) Both (2) and (3)
(e) All (1), (2) and (3)

16. Many times we read a term CBS used is banking operations. What is the full form of the letter C in the term 'CBS'?
[Indian Overseas Bank 2011]
(a) Complete (b) Credit
(c) Continuous (d) Core
(e) None of these

17. The full form of PIN in the parlance of an ATM card is
[Corporation Bank 2011]
(a) Permanent Information Number
(b) Personal Identification Number
(c) Professional Identification Number
(d) Permanent Identification Number
(e) Personal Index Number

18. NEFT means **[IBPS 2011]**
    (a) National Electronic Funds Transfer system
    (b) Negotiated Efficient Fund Transfer System
    (c) National Efficient Fund Transfer Solution
    (d) Non Effective Fund Transfer System
    (e) Negotiated Electronic Foreign Transfer system
19. A centralized database with online connectivity to branches, Internet as well as ATM network which has been adopted by almost all major banks of our country is known as **[IBPS 2011]**
    (a) investment banking
    (b) core banking
    (c) mobile banking
    (d) national banking
    (e) specialised banking
20. A lot of Banks in India these days are offering M-Banking Facility to their customers. What is the full form of 'M' in 'M-Banking'? **[BOB 2008]**
    (a) Money (b) Marginal
    (c) Message (d) Mutual Fund
    (e) Mobile Phone
21. A centralised database with online connectivity to branches, Internet as well as ATM network which has been adopted by almost all major banks of our country is known as? **[IBPS 2011]**
    (a) Investment banking
    (b) Core banking
    (c) Mobile banking
    (d) National banking
    (e) Specialised banking
22. In which of the following fund transfer mechanisms, can funds be moved from one bank to another and where the transaction is settled instantly without being bunched with any other transaction? **[IBPS 2012]**
    (a) RTGS (b) NEFT
    (c) TT (d) EFT
    (e) MT
23. A bank's 'fixed deposit' is also referred to as a **[IBPS 2013]**
    (a) term deposit
    (b) savings bank deposit
    (c) current deposit
    (d) demand deposit
    (e) home savings deposit

ANSWER KEY

1.	(d)	**2.**	(c)	**3.**	(b)	**4.**	(d)	**5.**	(e)
6.	(d)	**7.**	(e)	**8.**	(a)	**9.**	(d)	**10.**	(d)
11.	(e)	**12.**	(a)	**13.**	(d)	**14.**	(a)	**15.**	(d)
16.	(d)	**17.**	(b)	**18.**	(a)	**19.**	(b)	**20.**	(e)
21.	(b)	**22.**	(a)	**23.**	(a)				

PRACTICE EXERCISE

1. A 'Debit Card' is issued by a bank to
   (a) all customers of a bank
   (b) all customers having savings bank account with a bank
   (c) all customers having loan account with a bank
   (d) a bank customer who is income tax assesee
   (e) all corporate salary account holder
2. Which of the following is the limitation of the ATMs owing to which people are required to visit branches of the bank?
   I. It does not accept deposits.
   II. It has a limited cash disbursement capacity.
   III. Lack of human interface.
   Select the correct answer using the codes given below:
   (a) Only I (b) Only II
   (c) Only III (d) III, II and I
   (e) None of these
3. Real time gross settlement benefits
   (a) the customers
   (b) the banks
   (c) Reserve Bank of India
   (d) Both (a) and (b)
   (e) None of these
4. Which of the following banks has opened the country's first, 'Cash Factory' in Lucknow which will issue currency notes to all its branches and ATM in that area?
   (a) Bank of India
   (b) Bank of Baroda
   (c) State Bank of India
   (d) Union Bank of India
   (e) None of these
5. As we all know, more and more countries/organisations are now going for non-cash transactions and accordingly banks have launched many new products in the market for the same. Which of the following products is a non-cash transaction product?
   (a) Only ATM Card
   (b) Only Credit Card
   (c) Only Prepaid Card
   (d) Only Debit Card
   (e) All are non-cash transaction products
6. As we have noticed, banks these days are giving more emphasis on 'Branchless Banking'. What does this really mean?
   I. Banks will not have many branches as used to be in the good old days. Instead, the number of branches will be restricted and will conduct only a specified" core business.
   II. Banks will launch/operate many delivery channels like ATMs, Mobile Banking/Internet Banking, etc, so that people are not required to visit a branch for their usual banking needs.
   III. This means banks will issue only debit or credit cards for all types of day-to-day financial transactions. Cheques/cash payments will not be allowed.
   Select the correct answer using the codes given below:
   (a) Only I (b) Only II
   (c) I and II (d) II and III
   (e) All of these
7. A–card stores and provides indentification authentication, data storage and application processing applications
   (a) Debit Card (b) Smart Card
   (c) Credit Card (d) ATM Card
   (e) None of these
8. Which of the following is known as Plastic Money?
   I. Demand Draft
   II. Credit Card
   III. Debit Card
   Select the correct answer using the codes given below
   (a) Only I (b) Only II
   (c) Only III (d) Both II and III
   (e) All of the above
9. Many times we read a term CBS used in banking operations. What is the full form of the letter C in the term 'CBS'?
   (a) Complete (b) Credit
   (c) Continuous (d) Core
   (e) None of these

10. Which of the following is a leading electronic payment technology firm? (The logo of the firm can be seen printed on credit cards/ ATM centres etc.
(a) Visa (b) Max
(c) BSE (d) Sensex
(e) SWAP
11. To use smart cards/debit cards/credit cards for the purchase of an item or for payment of a service at a merchant's store, the card has to be swiped in a terminal known as
(a) point of sale terminal
(b) real time terminal
(c) shopping terminal
(d) All of the above
(e) None of the above
12. Lot of banks in India these days, are offering M-Banking facility to their customers. What is the full form of M in M-Banking?
(a) Money (b) Marginal
(c) Message (d) Mutual Fund
(e) Mobile
13. All Inter-Bank Funds Transfer System, where funds are transferred as and when the transactions are triggered, is called
(a) internet banking
(b) mobile banking
(c) bill payment service
(d) real time gross settlement
(e) None of the above
14. The money market in India consists of two sectors namely the organised and the unorganised sector. Which of the following do not fall under unorganised sector?
(a) RBI, commercial banks and SBI
(b) LIC and GIC
(c) Unit Trust of India
(d) Indigenous banks
(e) None of the above
15. Currently, banks claim that they have achieved 100% CBS. What are they referring to?
(a) It means all their branches are technology driven with core banking solutions
(b) It suggests complete banking services
(c) It is an indication of customised banking services
(d) All of the above
(e) None of the above
16. As per the notification issued by the banks, the 'third party ATM usage' will now be restricted to certain withdrawals and limits only. What does it really mean?
I. The ATM card holders will not be able to withdrew from other banks' ATMs under any circumstances.
II. Customers of one bank may be able to withdraw only a limited amount from other banks' ATMs.
III. ATM card holders will have to pay a fee if they withdraw money from other banks' ATMs frequently.
Select the correct answer under the codes given below:
(a) Only I (b) Only II
(c) Only III (d) II and III
(e) I and III
17. Opening of maximum number of ATMs is an example of
(a) indirect marketing
(b) direct marketing
(c) social marketing
(d) All of these
(e) None of these
18. Telebanking service is based on
(a) virtual banking
(b) online banking
(c) voice banking
(d) core banking
(e) None of these
19. The best alternative banking service to branch banking to be the part of financial inclusion?
(a) Establishment of small branches
(b) Set-up ATMs
(c) Issuing of ATM cards
(d) Giving credit cards
(e) Mobile banking
20. Which of the following is/are the major concepts visible in today's banking industry in India?
I. Risk-based management
II. Growing competition
III. IT initiatives
Select the correct answer using the codes given below:
(a) Only I (b) Only II
(c) Only III (d) I and III
(e) All of these
21. E-commerce is increasingly becoming a popular mode of doing business. What is this way of operating?
(a) Buying goods and services online from vendors
(b) Placing orders on the phones
(c) Getting 30 days credit period for payment
(d) Payment has to be made in advance before goods/ services are delivered
(e) None of the above

22. Which is the card that looks like any other plastic card or an ATM card with Integrated Circuit (IC chip)?
    (a) Member card
    (b) Charge card
    (c) Credit card
    (d) Smart card
    (e) None of the above
23. 'National Financial Switch' has been set-up to facilitate connectivity between the bank's switches and their ATMs and inter-bank payment gateway for authentication and routing the payment details of various e-commerce transactions. Which organisation has set-up this switch?
    (a) IBRD (b) IDRBT
    (c) SBI (d) SIDBI
    (e) None of these
24. Banks and other institutions have issued debt and credit cards, the purpose of both are
    (a) the same, to make paperless payments
    (b) different, since in credit card, the account is credited with the amount while in debit card the account is debited
    (c) the same, there is risk weight-age of 125% in both the cards.
    (d) different, since in debit cards interest for delayed period is charged while in credit cards no such interest is charged by banks
    (e) None of the above
25. When we talk of smart money what are we referring to?
    (a) Foreign currency
    (b) Internet banking
    (c) Credit cards
    (d) Treasury bills
    (e) None of the above
26. Which of following is necessary to transfer funds through the RTGS facility?
    (a) Beneficiary's bank account number
    (b) The IFSC number of the beneficiary's bank branch
    (c) There is a minimum amount specified for transfer
    (d) All of the above
    (e) None of the above
27. In E-commerce what is meant by B2B?
    (a) It means trade between business to business
    (b) The deals between business to banks
    (c) It suggests transactions between banks and capitalists
    (d) All of the above
    (e) None of the above
28. What is the name given to the online payment services that all internet banking customers can use?
    (a) E pay (b) E-commerce
    (c) ECS (d) All of these
    (e) None of these
29. 'Smart Money' is a term used for
    (a) internet banking
    (b) FDRs in banks
    (c) credit cards
    (d) demand drafts of banks
    (e) bank rate
30. RTGS stands for
    (a) Real Time Gross Settlements
    (b) Reduced Time Gross Settlements
    (c) Relative Time Gross Settlements
    (d) Real Total Gross Securities
    (e) None of the above

ANSWER KEY

1.	(b)	**2.**	(d)	**3.**	(d)	**4.**	(c)	**5.**	(e)
6.	(e)	**7.**	(a)	**8.**	(d)	**9.**	(d)	**10.**	(a)
11.	(a)	**12.**	(e)	**13.**	(d)	**14.**	(d)	**15.**	(a)
16.	(d)	**17.**	(b)	**18.**	(c)	**19.**	(e)	**20.**	(e)
21.	(a)	**22.**	(d)	**23.**	(b)	**24.**	(a)	**25.**	(c)
26.	(d)	**27.**	(a)	**28.**	(a)	**29.**	(c)	**30.**	(a)

CHAPTER 12

Foreign Trade and Banking

FOREIGN EXCHANGE REGULATION ACT (FERA), 1973

Introduction and Genesis

- Exchange control system was initially introduced in India in 1939 under the Defence of India Regulations to conserve foreign exchange. Such savings were mainly to buy defence equipment and other war materials.
- Since it was felt then that such control over reserves was necessary throughout, with only change in its intensity.
- As such first FERA was enacted in 1947, which came into force on 25th March 1947.
- With many changes brought into the system after independence, and many amendments done during Five Year Plans, it was felt to further make FERA comprehensive and as such new form of FERA encompassing the amendments made from time to time was brought in 1973.
- Government of India and Reserve bank of India were made through this Act to control and regulate foreign exchange dealings in India.
- With the enactment of FERA all transactions having direct or indirect dealings in foreign exchange required the general or special consent of Reserve Bank of India.
- The main objective at that point of time was to ensure proper control over foreign exchange transactions and secondly to avoid misuse of foreign exchange of the country.
- The FERA, 1973 contained very strict rules of forex dealing which most industrial houses found it containing draconian provisions which act retardants to the foreign exchange business growth.
- With the reforms coming up after 1991, and lot of liberalization and deregulation being promoted, the FERA became obsolete in terms of its impact on regulating foreign exchange business in India and the Act became outdated.
- During late nineties, say 1997 onwards developments that took place through reforms in the field of foreign exchange include:
  (i) Increase in foreign exchange reserves,
  (ii) Growth in foreign trade
  (iii) Rationalization of tariffs,
  (iv) Current account convertibility,
  (v) Liberalization of Indian Investment Abroad,
  (vi) Relaxation and Increase in external borrowing by Indian corporate,
  (vii) Participation of foreign institutional investors in Indian stock markets, etc.
- With all the above reasons in mind and also the feeling that there is no need to strictly hold on to the legislation to control foreign exchange business and balance of payments transactions, gave way to the foreign exchange management.

Foreign Exchange Management Act

- GENESIS
- Bill on FEMA passed in Lok Sabha on 2^{nd} December, 1999.
- Rajya passed the FEMA Bill on 8^{th} December, 1999,
- Bill got the assent of the President of India on 29^{th} December, 1999.
- Gazette Notification from the Ministry of Finance, Department of Economic Affairs came on May 1, 2000. The Act came into force from June 1, 2000. The same day the Foreign Exchange Regulation Act (FERA) was repealed, i.e. on 1.6.2000.

Objective of enacting FEMA

- Some of clauses and regulations under FERA were considered harsh and anti-business, particularly foreign trade. The industrial sector raised these concerns frequently before Central Government and desired the Government to review the FERA.
- Keeping in line with the policy of liberalization and globalization, Government modified FERA in the form of FEMA (Foreign Exchange Management Act) in 1999.
- FEMA is applicable to whole of India, and all offices abroad but controlled by resident Indian.
- Another objective is to facilitate external trade and payment system and promote systematic development of forex market in India.

Important Features of FEMA

- FEMA has in all 49 sections that deal with various aspects of foreign exchange business.
- Section 46 and 47 provide powers to Government of India and Reserve Bank of India to make rules and regulations the way forex business is to be managed in the country.
- Another important feature of the Act is that it divides Forex business into two major parts, viz.
  - Capital Account Transactions
  - Current Account Transactions

Terminology and Definition of words as given in FEMA

- **Currency**: As per section 2 (h) of FEMA, 1999, word "currency" means and includes all currency notes, postal orders, money orders, drafts, cheques, Travellers cheques, letters of credit, bills of exchange, promissory notes, credit cards including debit cards, ATM cards or any other instrument which will create a financial liability.
- **Authorized Person:** He is a person who is authorized dealer, money changer or off-shore banking unit or any other person authorized by RBI from time to time to deal in foreign exchange or in foreign securities. (section10 (1) of FEMA, 1999.
- **Person of Indian Origin (PIO):** PIO means a citizen of any country other than Bangladesh or Pakistan if:
  - He at any time held Indian Passport, OR
  - He or either of his parents or any of his grand-parents was a citizen of India by virtue of the Constitution of India or Citizenship Act of 1955 (57 of 1955, OR
  - The person is a spouse of an Indian citizen.

- **Foreign Currency**: means any currency other than Indian currency.
- **Capital Account Transactions**: Section 2 (e) of FEMA, 1999 explains the capital account transactions as "transaction that alters the assets or liabilities, including contingent liabilities, outside India of person (s) resident in India or assets or liabilities in India of person (s) resident outside India i.e. abroad would **all amount to Capital Account Transaction.** RBI has the power under the Act to impose any restrictions on drawal of foreign exchange for the purpose of capital account transaction.
- **Current Account Transaction**: Section 20 of FEMA, 1999 explains current account transaction as one which is not a capital account transaction. It includes the following:
  (a) all payments due in connection with foreign trade, other current business services, short term banking and credit services
  (b) Interest payments due on loans and net income on investment,
  (c) Expenses connected with travel, education, medical care etc.
  (d) Maintenance expenses of dependents residing abroad.

In this regard Government of India has been empowered under the FEMA, 1999 to make rules and regulation to restrict drawal of foreign exchange for the purpose of any current account transaction. As such Government of India has made certain rules called Foreign Exchange Management (current Account Transaction) Rules, 2000. These rules prohibit certain transactions involving foreign exchange and prescribe the limit upto which foreign exchange can be remitted. These limits can be revised by Central Government / RBI from time to time.

Nostro Account: It means our account with you. In this case a bank in India maintains an account with bank abroad. Say, an ICICI bank having an account in Hongkong bank in London. This account shall be in pound sterling.

Vostro Account: It means your account with us. This is reverse of Nostro account. In this case a bank in London opens an account with an ICICI bank in India. Such account shall be in rupee. Bank in India would call such accounts as "Vostro" account.

LORO Account: It means their account with you. Here a bank in India if wants to refer to any account abroad (opened by a Indian Bank), it refers to such account as Loro Account. For instance, if an ICICI Bank has an account with Hong kong Bank in London. Now if State bank of India corresponds with Hongkong Bank in London it can refer ICICI bank's account as Loro Account.

Mirror Account: Mirror account is also called a Shadow Account. For instance, an account of a foreign bank maintained in India with a bank in India, is called Mirror Account. Here all types of entries – both in foreign exchange as well as in Indian rupee are recorded.

BALANCE OF PAYMENTS AND BALANCE OF TRADE

- Between the countries there are different natures of transactions for which they have to make payments to each other. Such transactions may relate to countries imports or countries exports.
- Transaction statement showing the level of imports and exports is called Balance of Trade of that country.
- The statement of all debits and credits on account of payments to be made to different countries is called 'balance of payment'. These payments may relate to capital goods exchange, tourists, other expenditures like interest payable etc.

- Balance of Payments is classified into two parts, viz.
  - Balance of payments on current account, and
  - Balance of payment on capital account.
- Balance of payment on current account relates to imports and exports whereas balance of payment on capital account relates to countries international financial position.

Imbalance in Trade:

India's trade deficit with its top trading partner China continued to mount, touching a whopping $ 31.42 billion as the bilateral trade declined by 1.5 per cent in 2013, registering a downward trend for the second consecutive year.

India's trade deficit increased by $ 2.5 billion compared to 2012, bringing into sharp focus the failure of Indian exports to make headway into China despite repeated promises by Beijing to address India's concerns.

Currency Swap:

A currency swap is a contract which commits two counter parties to an exchange, over an agreed period, two streams of payments in different currencies, each calculated using a different interest rate, and an exchange, at the end of the period, of the corresponding principal amounts, at an exchange rate agreed at the start of the contract.

Currency swaps involve an exchange of cash flows in two different currencies. It is generally used to raise funds in a market where the corporate has a comparative advantage and to achieve a portfolio in a different currency of his choice, at a cost lower than if he accessed the market of the second currency directly.

A. LETTER OF CREDIT

Import Letter of Credit

Most of the payment systems in India like cash payment, cheque, draft payments, etc. are all those mode of payments where parties to contract to buying and selling are known or seen face to face. However there could be situation (s) wherein the parties to business deal of buying and selling are not known to each other nor have ever seen each other like one party is in India and other is in USA. Also the nature of doing business with unknown persons is risky. Merchants in international trade are domiciled in different countries having conflicting issues. Whereas seller (exporter) wants to ensure receiving payments of goods sold, on the other hand buyer wants to ensure receipt of goods ordered within the terms and conditions agreed.

As such another mode of transacting this type business has been developed and that is to deal through their respective banks. This mode of payment and executing transaction is called Commercial Letter of Credit or Documentary Credit.

- Technically speaking Letter of Credit has been defined under Article 2 of Uniform Customs & Practices as “Documentary Credit” and “Standby Letter of Credit”.
- UCP also states that any arrangement whereby a issuing bank on behalf of his customer (applicant) or on its own, make a payment to or to his order to third party (beneficiary) or accept and pay bills of exchange drawn by beneficiary against agreed documents and agreed terms and conditions is Letter of Credit. This is also called DOCUMENTARY CREDIT.
- It also means under UCP authorizing another bank to make agreed sum of money or authorizes another bank to negotiate against stipulated document (s).

- In international business, a typical situation is that merchants to transaction are residing in different place or countries. Each has his own interests which at times may be conflicting to seal the deal.
- In simple words Letter of Credit means a letter issued by importer's bank favouring exporter, wherein bank (importer's bank) undertakes to make payment against fulfilment of agreed terms and conditions, documents, specified period and specified sum of money.
- A letter of credit is normally issued at the request of bank's customer, who happens to be buyer of goods (called applicant) for payment of sum of money mentioned therein to exporter of goods.
- A letter of credit can only be amended by the issuing bank and none else.

Definition of Various Players to Letter of Credit

Applicant: He is a person who requests his bank to open a letter of credit in favour of other party (beneficiary / exporter). He is also called by the name buyer, or importer.

Issuing Bank: The buyer's bank which opens LC and creates documentary credit. It also undertakes to make payment. It is the bank which operates letter of credit. It is sometimes called as importer's bank also.

Beneficiary:
(a) He is seller or exporter of goods.
(b) He is one in whose favour letter of credit has been opened.
(c) He is entitled to receive the benefits under letter of credit or documentary credit.

Advising Bank: It is the bank which acts as a correspondent (agent) to the issuing bank and is located in exporter or sellers country. Advising Bank in turn advises the establishment of credit to the beneficiary so as to ensure genuineness of the credit. Sometimes bankers use the word 'Notifying Bank' for advising bank. Advising Bank is not liable to pay under the documentary credit or letter of credit.

Confirming Bank: Advising Bank that confirms the credit on behalf of the issuing bank. By adding confirmation, it undertakes the responsibility of payment under the letter of credit arrangement.

Paying Bank: Bank which is authorized to make payment under letter of credit established by the issuing bank is called paying bank. For making payment, issuing bank has to confirm payment.

Negotiating Bank: It is a bank in the sellers / exporters country whose name is specified or nominated to negotiate the documents / bills drawn by seller. If letter of credit mentions the name of any bank to negotiate the documents, then such bank is called "negotiating bank". Sometimes negotiating bank can be paying bank, and as such is also called "paying bank".

Reimbursing Bank: It is the bank that has been authorized by the issuing bank to honour the reimbursement claims in relation to settlement of negotiation / acceptance / or payment lodged with negotiating bank. It is normally the bank with which the issuing bank maintains account from which the payment is to be made.

FORMS OF LETTERS OF CREDIT / DOCUMENTARY CREDIT

In practice, there are two major types of letters of credit forms. These are based on four parameters:

A. Based on degrees of security
B. Based on payment methods
C. Special types of Credit
D. Credit with Advance Payment

First two types are discussed below:

According to degree of security

There are three forms of documentary credit or letter of credit.

(a) Revocable Letter of Credit
(b) Irrevocable Letter of Credit
(c) Irrevocable Confirmed Credit

Revocable Letter of Credit: This type of letter of credit provides maximum flexibility to the issuing bank or buyer for any amendment or cancellation without notice to the beneficiary up to the moment of payment by the bank at which the issuing bank has made credit available. This form of letter of credit runs the risk for beneficiary since it can be cancelled or amended without information. Hence this form is less common.

When a letter of credit does not mention the form LC then it is considered irrevocable.

Irrevocable Letter of Credit

- This type of credit is considered beneficial for the seller since the contents of the credit cannot be modified, cancelled or revoked by any one party without the consent of the other. No party to the agreement has the right to change the terms and conditions credit.
- The seller remains dependent on the undertaking of foreign Issuing Bank. The Issuing Bank irrevocably commits itself to honour the exporter's documents prescribed in the Documentary Credit and are in order.

Irrevocable Conformed Credit

- When an advising bank advises credit to the beneficiary and also confirms the credit, then it is called conformed credit provided the credit arrangement is irrevocable.
- It gives beneficiary a double assurance of payment, since it represents the undertaking of the Issuing Bank and the confirmation of the Confirming Bank. Confirmation is usually given by a bank in the exporter's country.
- In confirmed irrevocable credit, the political and transfer risks are eliminated.

Credit With or Without Recourse

- Bills drawn under the credit (Letter of Credit) by the beneficiary, he is liable to make payment if the drawee fails to do so. In other words, he is relieved of his liability only when drawee makes payment. Such LC are called "LC With Recourse". Where beneficiary excludes his name from the liability by adding the word "Without Recourse", then such letter of credit is called "LC Without Recourse".

B. ACCORDING TO PAYMENT METHODS

Based on the payment modes, the documentary credit is divided into three methods:

1. Sight Credit
2. Acceptance Credit
3. Deferred Payment Credit

Sight Credit: In this method the beneficiary receives the payment of credit when he presents the documents and those documents are properly examined.

Acceptance Credit: In this method importer gets time to make payment. Depending upon the credit terms, exporter draws a document or time draft either on Issuing Bank, or Conforming Bank or another bank. Period of payment could be 60 days or more or less as agreed upon between the parties.

Deferred Payment: The main difference between the Acceptance Credit and Deferred Credit is the lack of an accepted draft/document. Deferred payment is possible under both confirmed as well as unconfirmed credits.

C. SPECIAL TYPES OF CREDIT

(a) Revolving Credit
(b) Back to back Credits
(c) Standby Credit
(d) Transferable Credit

Revolving Credit

Revolving credit means that the sanctioned limit when gets exhausted and the bills are paid, the same credit can be reused again from the original level by the beneficiary. The same credit is revolved many times without entering into new contract and documentation. Two basic conditions must be fulfilled. One terms and conditions of LC must be abided by and secondly, amount can revolve in terms of money and time.

Back-to-Back Credit

The beneficiary in whose name the LC has been issued earlier, uses the same to obtain another LC in favour of supplier

For instance, suppose a company XYZ in Delhi gets a project in Bhutan, for which they have got a Letter of Credit opened in their favour (XYZ). However in order to complete the project, XYZ company wants some machines from China for which they ask their bank to open an LC in favour of Chinese firm based on the strength of LC opened by Bhutan firm in favour of XYZ. Such LC when opened on the strength of earlier LC of Bhutan is called Back-to-Back Letter of Credit.

D. CREDIT WITH ADVANCE PAYMENT

There are two types of credit with advance payment terms. These are:

Red Clause Credit

Green Clause Credit

Red Clause Credit: It contains a clause for providing for payment of advance (like working capital) for purchase of inputs like raw material, packaging material etc.

Green Clause Credit: In addition to the credit given in Red Clause above, here in Green Clause, credit is also given for insurance and warehousing at the port where goods are stored pending shipment.

OPENING OF LETTER OF CREDIT- OPERATIONAL ASPECTS

Important points to be considered are

- While opening the Letter of Credit, Issuing bank should ensure the creditworthiness and capacity of the importer or buyer or applicant.
- Does the applicant has experience in line of business?
- Purpose of Import should be recorded: it may be personal use, for business or for onward sale.
- Marketability of goods and landed cost.
- Payment terms
- Mode of Import
- Letter of Credit number, name of bank on Bills of lading, Airways bill or Invoice Bills of Exchange.
- It is important to note that in case goods supplied are unacceptable to oversea buyer due to inferior quality etc., the Issuing bank is bound to pay the negotiating bank.
- When a Letter of Credit clearly mentions that payment shall be made by bank at sight, or on demand or on presentation, then such LC's are called Sight Credit Lc's.
- Similarly, when LC make a reference for full value of shipment of goods but with a clause that dispatch of goods may be done in batches or in particular quantity at a time, then such Letters of Credit are called "Deferred Credit or Deferred LCs".
- When LC mentions that drafts may be drawn after a particular period or usance which require acceptance or payment as the case may be by the drawee at the close of usance period, then such LC is called Usance Credit.
- Note that LC is just like bank guarantee. Just like bank guarantee, the liability to pay money under LC on behalf of the beneficiary is primary and cannot be avoided if everything is in order.
- Under the "restricted letter of credit" negotiation of documents is limited to a specific bank mentioned in the document of LC.
- Unless mentioned specifically about the form of LC, all LCs where no form is mentioned, are irrevocable.

Benefits of Letters of Credit: Letter of credit provides many benefits to both purchaser (buyer, applicant) and seller (beneficiary, exporter). These benefits are:

To Buyer/Applicant:

- Major benefit to the buyer or purchaser is that he can avail credit from his bank till the documents reach his bank. Normally this facility is not available from seller.
- Buyer or purchaser need not pay any money to seller in advance as it is being done by the Bank. This is the time when he can use this money for productive purposes.

- Since most of the LC documents have an agreement that goods have to be of quality specified. For which he needs independent certificate from independent body in this regard. In case of default, bank does not pay the money to the seller. Thus purchaser is assured of the quality goods.
- Since most of the bills are usance in nature, the buyer/purchaser gets additional credit.

To Seller

- Seller gets assured of payment.
- Seller can get payment by negotiating the bills immediately after shipment of goods.
- Import regulations of buyer's country are no issue for the seller.

DOMESTIC LETTERS OF CREDIT

Important features of Domestic Letters of Credit are:

- Like in the case of import LCs, domestic LC can also be opened for domestic purchaser.
- In domestic LCs the bank of purchaser agrees to pay money to seller subject to submission of documents and completion of terms and conditions of LC.
- Domestic LCs are normally of two types:
  - Sight LCs, which means payment is made at sight.
  - Usance LCs, which means payment is made at maturity of bills.
- The procedure of opening domestic LC is that applicant purchaser applies for opening an LC in favour of Seller (beneficiary).
- Bank after verification of financial background of the purchaser applicant and ensuring business need, opens an LC and advises the seller (beneficiary). After dispatching the goods, the seller submits the documents through the nominated bank in the LC and seller than gets his payment through the bank.
- Bank is required to open LCs only for genuine trade transactions.

Benefits to Buyer and Seller

- Both gets confidence. Buyer for receiving the goods and seller for receiving the payment.
- Further advantage to the buyer is that he pays only when goods are received as per the terms of the LC.

Benefit to Bank

- It earns commission on opening of such LCs-whether import or domestic. LCs.

GUARANTEE / BANK GUARANTEE /INDEMNITIES

Important features of Guarantee, Bank Guarantee and Indemnity are given below.

- General meaning of guarantee is a contract to perform the promise or discharge the liabilities of third person in case of his default.
- For a contract of guarantee to be lawful, it must have certain pre-requisites like:
  - Free consent of parties to contract.
  - Legally competent person to contract
  - Contract to be backed by consideration.
  - Contract should not be void.

- Contract of Guarantee is covered by Indian Contract Act and defined in section 126.
- There are three parties to Guarantee, namely, surety, principal debtor, and creditor.
- Guarantee can be either oral or written.
- When Guarantee is taken, a contract is established between creditor (banker) and borrower (principal debtor); creditor and surety; surety and principal debtor.
- Continuing guarantee is one which extends to series of transactions; which is revoked on the reconstitution of partnership firm; and where surety is liable for the ultimate balance in the account except where limit is imposed on liability.

Indemnity

Indemnity means under section 124 of Indian Contract Act, 1972 to perform the promise or discharge the liability of a third person in case of his default.

- In case of indemnity, there are two contracts.
- In contract of Indemnity, the promise is entitled to recover from the promisor, under section 125 of Indian Contract Act, 1872, all damages in which the promise to indemnify applies besides getting all costs and sums that promise have paid under a compromise.

BANK GUARANTEES

Important features of Bank Guarantee are:

- **Definition of Bank Guarantee**: In its simplest form Bank Guarantee means an assurance by one party to the other to pay the money in case of the default by the third party. For instance, if Z wants to obtain a contract from Y but Y is not sure about Z's credentials, then Y asks Z to give a bank guarantee for ensuring the completion of the work of Y in time. When Z's bank gives such guarantee in favour of Y, then it is called Bank Guarantee. submits the documents through the nominated bank in the LC and seller then gets his payment through the bank
- In other words it means a guarantee given by a bank to a third person, to pay him certain sum on behalf of the bank's customer, in the event the customer fails to fulfil any contractual or legal obligation towards third person.
- There are three **parties to the bank Guarantee**. The person giving the guaranty is called "Surety", whereas the person in respect of whose default the guarantee is given is called "principal debtor". The third person to whom the guarantee is given is called the "creditor".
- **Need** for issuing financial guarantee arises because:
  - Government departments insist on an Earnest Money Deposit (EMD) or in lieu Bank Guarantee.
  - Customer does not have cash to that extent and hence as of Bank Guarantee.
  - It binds the customer to perform and fulfil his/her contractual obligations for the performance of a job assigned to him/her by the government department.
- Important terms of agreement of guarantee are:

  (i) Security, (ii) Maturity Date, (iii) and purpose of the guarantee.
- While issuing guarantees on behalf of the customer, bank should ensure following important safeguards:

- Bank should satisfy itself before issuing financial guarantee that customer would be able to reimburse the bank in case guarantee is invoked by third party.
- In case of performance guarantee, bank should exercise due caution and have sufficient knowledge and experience about customer, his capacity and means to perform his promise under contract.
- Avoid issuing guarantee as far as possible to customers who are not having dealings with the bank, i.e. credit facility from bank, deposits with bank etc.

- When the payment is invoked under the bank guarantee, bank has following major obligations to fulfil:
  - Payment should be made to the beneficiary without delay and demur since delay erodes the value of the bank guarantee as well as affecting negatively the image of the bank.
  - When the beneficiary invokes the bank guarantee and a letter invoking the guarantee is sent to the bank in terms of bank guarantee, bank is under obligation to make payment after verifying the facts.

Classification of Bank Guarantees

- Though there is no legal classification of bank guarantees, yet in practice three important types of bank guarantees are recognized. These are:
  - Financial Guarantee
  - Performance Guarantee
  - Deferred Payment Guarantee, and
  - Statutory Guarantee.

Financial Guarantee

- Financial guarantee is issued in lieu of cash deposit by customer as Earnest Money Deposit as security.
- Need for "Financial Guarantee" also arises:
  - In lieu of cash credit facility to a customer.
  - To make Customer under pressure to complete the agreed obligations.
  - It makes the third party assured that their work will be completed in time.

Performance Guarantee

- These are guarantee issued in respect of performance of a task contracted.
- Performance guarantee is issued by bank on behalf of its customer in favour of third party assuring him that customer will perform as per contractual obligations stipulated in the contract, failing which bank will compensate third party up to an amount specified in guarantee.

Deferred Payment Guarantee

- Deferred Payment Guarantee (DPG) means an unconditional and irrevocable bank guarantee to seller/exporter where the payment is deferred / postponed and paid in **instalments** on due date.

Statutory Guarantee

- Statutory Guarantees are those guarantees that are issued by banks in favour of courts, IT departments or other statutory authorities like customs and Central Excise, under Ports Act, Sales Tax, Provident Fund departments etc.

What is Forex?

The market in which currencies are traded is called 'forex'.There is no central marketplace for currency exchange; trade is conducted over the counter. The forex market is open 24 hours a day, five days a week and currencies are traded worldwide among the major financial centres of London, New York, Tokyo, Zürich, Frankfurt, Hong Kong, Singapore, Paris and Sydney.

The forex is the largest market in the world in terms of the total cash value traded, and any person, firm or country may participate in this market.

PAST EXERCISE

1. As per the reports in the major financial newspapers, India has urged China to redress imbalance in trade. What does it really mean ? It means **[OBC 2008]**
   (a) India exports more items to China whereas China does not export much to India.
   (b) India is not able to export much to China whereas its import from China is of higher value.
   (c) China and India are not at all trade partners. Hence there is no transaction between the two countries.
   (d) As per WTO laws, India is supposed to export food -grains to China. But China has not placed any order for the same in 2006-07. It has also refused to accept 200 lakh tonnes of wheat exported to it by India.
   (e) None of these
2. As reported in some financial newspapers, some banks in India (including major banks) these days are not accepted US dollar transactions from Iranian buyers. Which of the following is the major reason of banks not accepting such transactions from Iran? **[OBC 2008]**
   (1) USA has put a ban on major Iranian Banks, hence Indian banks are also not accepting transaction from Iran as they do not get return of the same from it.
   (2) Iran is facing a major Recession, hence all Banks have stopped major transactions with Iranian banks.
   (3) Iran has declared itself as an Islamic country and hence its banking is also Islamic Banking. This is the reason owing to which most of the countries are not able to develop financial ties with it.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) Both (1) & (2)
   (e) All (1), (2) & (3)
3. Currency Swap is an instrument to manage **[BOB 2008]**
   (a) currency risk
   (b) interest rate risk
   (c) currency and interest rate risk
   (d) cash flows in different currencies
   (e) All of the above
4. The investments done by "those financial entities which were launched or incorporated in a foreign country but are investing in an indian venture in India" are generally known as **[RBI 2009]**
   (a) Patent Money
   (b) Private Equity
   (c) Foreign Institutional Investment
   (d) Current Account Money
   (e) None of these
5. At present the trade between India and China is in a state of "Payment imbalance". What does this mean in real terms ? **[Allahabad Bank 2010]**
   (1) China does not import many items from India whereas India imports more from China.
   (2) China does not pay India in time and a lot of delay is reported by the exporters
   (3) India wants all payments to be made in US Dollars whereas China pays in its own currency.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
6. Many times we read about 'Hawala' transactions in newspapers. Hawala, in India, is prohibited under the provision of which of the following Acts? **[Corporation Bank 2011]**

(a) Fiscal Responsibility and Budget Management Act
(b) Banking Regulation Act
(c) Financial Action Task Force Act
(d) Foreign Exchange Management Act
(e) None of these

7. Many times we read about 'Hawala' transactions in newspapers. Hawala, in India, is prohibited under the provision of which of the following Acts?
[Corporation Bank 2011]
(a) Fiscal Responsibility and Budget Management Act
(b) Banking Regulation Act
(c) Financial Action Task Force Act
(d) Foreign Exchange Management Act
(e) None of the above

ANSWER KEY

1.	(b)	**2.**	(a)	**3.**	(d)	**4.**	(c)	**5.**	(a)
6.	(d)	**7.**	(d)						

PRACTICE EXERCISE

1. Which one of the following factors is taken into account to calculate the Balance of Payment (BoP) of a country?
   (a) Current account
   (b) Changes in the foreign exchange
   (c) Errors and omissions
   (d) All of these
   (e) None of these
2. BoP (Balance of Payment) refers to
   (a) transactions in the flow of capital
   (b) transactions relating to receipts and payment of invisible
   (c) transactions relating only to exports and imports
   (d) systematic record of all its economic transaction with the rest of the world
   (e) All of the above
3. Which of the following is the component of India's Foreign Exchange Reserve?
   (a) Special drawing rights
   (b) Reserve tranche position of India in IMF
   (c) Indian currency held by foreign countries
   (d) Both (a) and (b)
   (e) Neither (a) nor (b)
4. All of the following are useful options for the government to pursue to bolster foreign exchange reserves, except to
   (a) impose exchange controls
   (b) impose export controls
   (c) adjust the exchange rate
   (d) borrow foreign currencies
   (e) permit a free floating exchange rate
5. At present, the trade between India and China is in a state of 'payment imbalance', what does this mean in real terms?
   I. China does not import many items from India whereas India imports more from China.
   II. China does not pay India in time and a lot of delay is reported by the exporters.
   III. India wants all payments to be made in US dollars areas China pays in its own currency.

   Which of the statements given above is/are correct?
   (a) Only I (b) Only II
   (c) Only III (d) All of the above
   (e) None of the above
6. Balance of trade of a country is equivalent to
   (a) difference between the inward and outward remittances made in foreign exchange.
   (b) surplus generated shown in a trading account.
   (c) difference between exports and imports.
   (d) All of the above
   (e) None of the above
7. With regard to the Export Policy of the Government of India, which of the following statements is correct?
   (a) All commodities can be exported without licence
   (b) Export licenses are required for only a few items
   (c) Export licenses are required for all items
   (d) All of the above
   (e) None of the above
8. In India, which of the following agencies is responsible for announcing the Foreign Trade Policy?
   (a) RBI
   (b) EXIM Bank
   (c) Foreign Ministry
   (d) Industry and Commerce Ministry
   (e) None of the above
9. The balance of trade is given by
   (a) income receipts minus income payments on investments
   (b) the balance of unilateral transfers
   (c) merchandise exports plus service exports minus the sum of merchandise and service imports
   (d) merchandise exports minus merchandise imports
   (e) the balance on current account

10. The difference between visible exports and visible imports is defined as
    (a) Balance of trade
    (b) Balance of payments
    (c) Balanced terms of trade
    (d) Gains from trade
    (e) All of these
11. In which year was World Bank formed?
    (a) 1945 (b) 1956
    (c) 1960 (d) 1988
    (e) 1978
12. The investments done by "those financial entities which were launched or incorporated in a foreign country, but are investing in an Indian venture in India" are generally known as
    (a) patent money
    (b) private equity
    (c) foreign institutional investment
    (d) current account money
    (e) None of the above
13. Which one of the following may be the consequence of buying forex in the market by the RBI?
    (a) It leads to inflation
    (b) It leads to control over inflation
    (c) It does not affect inflation
    (d) It results into deflation
    (e) None of the above
14. In which one of the following states, India's first Islamic Bank is proposed to be set-up?
    (a) Kerala (b) Tamil Nadu
    (c) Odisha (d) Bihar
    (e) None of these
15. The foreign exchange rate is dependent on which of the following?
    (a) Government policies
    (b) Monetary policy directives
    (c) Demand and supply forces
    (d) Foreign exchange reserves
    (e) None of these
16. Which of the following is a nostro account?
    (a) Account of a foreign bank in India
    (b) Account of an Indian bank within another bank overseas
    (c) Account of a non-resident Indian
    (d) All of the above
    (e) None of the above
17. Which of the following schemes is not meant for investment purposes?
    (a) National savings certificates
    (b) Infrastructure bonds
    (c) Mutual funds
    (d) Letter of credit
    (e) None of these
18. What is Forex?
    (a) It is buying of foreign currency
    (b) It is selling of foreign currency
    (c) It is buying of one currency and selling of another currency
    (d) It is simultaneous buying of one currency and selling of another currency
    (e) None of the above
19. The term 'Currency of India' refers to
    (a) one rupee notes and coins
    (b) bank notes issued by Reserve Bank of India viz., ₹ 2, ₹ 5, ₹ 10, ₹ 20, ₹ 50, ₹ 100 and for other higher denominations
    (c) one rupee notes and coins and bank notes issued by Reserve Bank of India
    (d) one rupee notes only
    (e) None of the above

ANSWER KEY

1.	(d)	**2.**	(e)	**3.**	(d)	**4.**	(e)	**5.**	(c)
6.	(c)	**7.**	(b)	**8.**	(d)	**9.**	(e)	**10.**	(a)
11.	(a)	**12.**	(c)	**13.**	(d)	**14.**	(a)	**15.**	(c)
16.	(b)	17.	**(d)**	**18.**	**(a)**	**19.**	(a)		

CHAPTER 13

Credit Function of Banks

- There are various reasons why banks should lend money. Firstly, Bank lends money to earn income and fulfil the legal requirement of Banking Regulation Act, 1949, second, in order to meet its liabilities arising out of interest and non-interest paid expenses, and third, as a partner to economic development process, e.g. lending to trade, commerce, industry, agriculture etc.
- Bankers have liability on them as a part of Fair Practices Code set by IBA/RBI. These are:
  - Develop simplified and comprehensive loan application forms containing all important information like interest rate, manner of charging interest, etc.
  - Develop system of giving acknowledgement for receipt of all applications indicating any fee taken for processing fee, etc.
  - As a lender to ensure that there is proper assessment of credit requirement of borrowers.
  - Keep the record of duly signed sanctioned letter containing amount, interest charged and installment amount to be paid at specified intervals.
- As a part of Fair Practices Code, banks are further required to:
  - Apprise the borrower of the state of their accounts from time to time.
  - Ensure that any change in interest rate, charges, etc. should be brought to the notice of the borrower.
  - Give reasonable notice to borrowers before taking decision to recall / accelerate payment as agreed.
- Sources of funds (liability) available to lending banker for making advances are:
  - Paid-up capital
  - Reserve funds retained by bank out of profits
  - Deposits mobilized from public in various deposit accounts.
  - Borrowing from other banks / market etc.
- Uses of funds by banks (assets) is either in the form of Fund based lending and / or Non-fund based lending

What is Lending?

- Lending by banks means giving credit to borrowers for a particular purpose at a rate of interest pre-agreed rate of interest and repayable within specified period of time, as per terms and conditions agreed by both parties.

Principles of Lending

- While lending to other parties bank has to ensure that the money lent will come back in the form of principal and interest. For this bank has to follow certain principles of lending that are based on the guidelines from the RBI and also practical experience of bankers over years. These principles of lending are given below:

1. While considering application for any loan or advance, bank must look into the following aspects:
   - That the lending is going to be profitable.
   - Borrower is acceptable to the bank in terms of his honesty, integrity, skills, business acumen etc.
   - Safety and liquidity aspects of Lending.
   - Purpose for which loans and advances are being given is productive and desirable. Purpose should be legitimate and as per law of the land.
   - Borrower has good repaying capacity, etc.
2. **Profitable lending** is a function of many aspects. All loans and advances must yield profit to bank. Principles to be followed will cover the following aspects:
   - Borrower must be trustworthy and of good character.
   - Borrower should have intention and willingness to repay loan.
   - Borrower's goods and services have market demand.
   - Bank should diversify the credit portfolio and choose the most profitable venture to lend money.
3. **Business Acumen of Borrower:** Since business is promoted and managed by borrower, it is necessary that bank must as a principle look into the following aspects of management:
   - Borrower has trade knowledge
   - Borrower has business acumen like organizational capacity, labour management, environment management, market management etc.
   - Borrower shows strong financial soundness. He has ability to repay the loan.
   - The most common aspect that bank looks into is its borrower's 3'C (character, capacity and capital).
4. **Safety of loan** is another important principle. It depends upon factors like right purpose, right use, honest and sensible borrower, taking adequate security to cover risks, productive business etc. Safety of loan is critical to bank lending system. For this banks follow two level appraisal, viz.
   - Pre-sanction appraisal
   - Post-sanction appraisal
5. **Pre-sanction Appraisal:** While doing pre-sanction appraisal important aspect is preparation of credit report to ascertain risk factor(s), identification of strong and weak areas of loan proposal, credit need identification, etc. As a principle bank has to ensure that there is neither underfinancing nor overfinancing, since both are damaging to the bank and the borrower.
6. **Post-sanction Appraisal:** This aspect of banking principle covers proper documentation, post sanction supervision and follow-up, inspection of securities etc. besides upgrading the credit report and renewals and reviewals.

Distinction between Loans and Advances

- In loans no frequent debits are allowed. There is one debit entry of the principal amount in the loan account. Subsequent debits relate to bank charges, if any, interest charged, etc.

- Withdrawal of amount in loan may be in stages as per the need of the borrower.
- In case of advances, the amount sanctioned is placed at the disposal of the borrower with a condition that he cannot draw beyond the limit sanctioned.
- In case of advances, account is running account and borrower can draw money as and when required for genuine sanctioned trade / business transaction.
- However in common usage, both these words are being used as interchangeable.

TYPES OF CREDIT FACILITIES

Banks extend Credit facilities in mainly two forms. These are:

(a) Fund Based, and

(b) Non-fund based facilities.

- **Fund based:** In this form of credit delivery, funds are made available to the borrower immediately for his use for the purpose for which sanctioned. Fund based lending is further given in the form of either:
  1. Term Loan, and / or
  2. Working Capital
  - In case of Term loan, the loan amount is given to the borrower for the purchase of fixed assets like plant and machinery, construction of building, purchase of commercial vehicle etc.
  - In case of working capital funds are used for day-to-day expenses of the business like purchase of raw material, processing of raw material to get finished goods, salaries and wages of the employees etc.
- **Non-fund Based**: in this form, release of funds is deferred for period temporarily till the happening of an event. It is also classified as contingent liability by banks.
- Banks may also sanction working capital in the form of non-fund based facility. Many a time in business, sellers may sell the goods on credit basis (say 1 month credit) to the buyer (borrower). As a security, sellers insist for Bank Guarantee or ask the buyers (borrower's) bank to open a irrevocable letter of credit. In other words, instead of disbursing loan for buying goods, bank will issue a guarantee or open a Letter of Credit.

Most common and preferred fund based facilities

- Term Loans
- Overdraft
- Cash credit
- Bill finance

Similarly, following non-fund based facilities are common with banker and borrowers

- Letter of Credit
- Bank Guarantee
- Deferred Payment Guarantee

(**Note:** Discussed elsewhere in the book)

TERM LOANS

Term Loans are sanctioned mainly for two major purposes, viz.

(i) Business purposes for productive use, like Capital investments for purchase of Plant and Machinery, Vehicles, Furniture & fixtures, etc.

(ii) The term loans sanctioned for productive purposes are for Capital investments like purchase of Plant and Machinery, Vehicles, Furniture & fixtures, etc.

Special Features of Term Loans

- Bank disburses the entire sanctioned loan amount to the borrower in one go.
- As far as rate of interest is concerned, banks and borrowers have two options.
  (i) One Fixed Rate of Interest, and
  (ii) Floating Rate of Interest.
- In the **fixed interest basis,** the same rate of interest is charged throughout the period of loan. However, in case of **Floating rate of interest** which means, as and when there is change in the link rate (say Base Rate, Prime Lending Rate (PLR) of a bank), the rate of interest will change.
- **Charging of Interest:** Banks charge Interest on the balance outstanding (i.e., daily reducing balance method or balance outstanding at the beginning of the month/ quarter, as per the terms and conditions agreed upon between bank and borrower.
- **Repayment Period**: Term loans normally have a period of repayment ranging between say 3 years to 5 or even 7 years.
- **Security of Loans**: Loans are secured by some tangible assets purchased and charged to banks (Hypothecation / Mortgage, etc). Additional or Collateral securities can be obtained where necessary which can be in the form of Pledge/mortgage or by 3rd parties Guarantees.

Moratorium of Term Loan

In terms of loans, a moratorium period refers to a period of time that is agreed on between the lender and the borrower in which the loan and the interest is to be repaid.The main principle of having a moratorium is so an individual who has taken out a loan has some extra time to pay it back to the lender. However, each moratorium period is different depending on each individual circumstance. Some people may be awarded a longer period of time than others depending on the amount they have borrowed or the reasons why they are not available to pay it back straight away. This is usually the process that is agreed on before the creditor makes official demands for the repayment.

Debt Moratorium

This method is used quite a lot when it comes to debt repayment. In this case, the creditor gives the debtor a later date to begin paying back the required amount; however there is no specific date used in these circumstances either. It is simply judged depending on the situation and how much debt needs to be repaid. If the debt is not paid back within this time period then the creditor will take additional measures to claim back the debt from you.

What is reverse mortgage Loan Scheme?

In simple terms, a reverse mortgage is the "opposite" of a conventional home loan. A reverse mortgage enables a senior citizen to receive a regular stream of income from a lender (a bank or a financial institution) against the mortgage of his home. The borrower (i.e. the individual pledging the property), continues to reside in the property till the end of his life and receives a periodic payment on it.

How does a reverse mortgage work?

When the home is pledged, its monetary value is arrived at by the bank, on the basis of the demand for the property, current property prices, and the condition of the house. The bank then disburses a loan amount to the borrower in the form of periodic payments, after considering a margin for interest costs and price fluctuations. The periodic payments also known as reverse EMI are received by the borrower over fixed loan tenure. With each payment, whether monthly or quarterly, the equity or the individual's interest in the house decreases.

A reverse mortgage is an ideal option for senior citizens who require regular income, or if the property is of illiquid nature for some reason.

WORKING CAPITAL—Important Features

- Working capital is granted to borrower either as cash credit, overdraft or bill finance. Important features of working capital are given below along with features of mode of financing.
- It is finance granted for meeting borrower's day-to-day expenditure required to produce/ manufacture the goods or sale of goods (in case of traders).
- Commonly working capital finance is based on operating cycle of the business. Operating cycle is defined as the time taken for conversion of cash into cash. For instance, with sanctioned cash borrower purchases raw material and convert raw material into finished goods. While converting raw material into finished goods borrower spends many overheads etc. as expenses. The finished goods are then sold in the market on cash basis or finished goods are converted directly into cash. If sold on credit basis, the finished goods are replaced by debtors and conversion into cash is only on realization as per the terms of settlement between seller and buyer. This process is called Operating cycle. It is also called "working capital cycle". In simple words, operating cycle is:
- Cash ---Raw Material---Stock-in-Process---Finished goods---sales ---Cash (Receivables). Duration of operating cycle is equal to the sum of the holding periods of all current assets forming part of the operating process.
- Duration of operating cycle normally depends upon order period for raw material, time taken during processing, time period for packing etc. and demand, supply and technology use.
- Current assets are those that can be converted into cash within 1 year and these include finished goods, cash, claims receivables in one year, etc.
- Current liabilities include liabilities that are payable within 1 year from the date of balance sheet, liabilities representing sources of funds etc.
- **Gross Working Capital (GWC)** means funds required to finance total current assets.
- **Net Working Capital (NWC)** means difference between current assets and current liabilities.

OVERDRAFT

- The main purpose of overdraft is to meet immediate needs or shortfall of funds with the borrower.
- Overdraft is a mode of finance where a borrower is

- Sanctioned a limit in his, say, current account, to draw as many times as required in a day but up to the limit sanctioned.
- It is a fluctuating account wherein the balance sometimes may be in credit or sometimes in debit.
- Normally drawings are permitted through cheques only except under very special circumstances where cash drawing is needed and allowed by bank.
- The security in an Overdraft account may be either personal or other tangible like insurance policies, fixed deposit receipts, shares and debentures, book debts etc.
- Overdrafts allowed are normally for short periods. Banks have the discretion either to allow or refuse overdraft facility.
- Banks go by past record of the borrower and only when satisfied about the need, repayment aspects and intention where money will be used etc. banks may allow overdraft facility.

CASH CREDIT

A cash credit is a drawing account against credit guaranteed by the bank and is operated in the same as overdraft account. The bank will sanction limit based on the working capital cycle of the business and the borrower has to **operate within the limit so fixed.** The balance outstanding in the account should be within the limit or drawing power. The drawing power means the value of securities less margin stipulated by the bank. The borrower can save interest by reducing the debit balance whenever he is in a position to do so. The borrower will provide securities as stipulated from time to time. Cash credits are generally allowed against pledge or hypothecation of goods or sometimes against book debts and / or bill purchase and discounting.

Cash credit as working capital is provided by the banks either on operating cycle basis, turnover method (recommended by Nayak Committee), or cash budget method.

First (operating cycle) and second (turnover method) methods are mostly used in India.

BILL FINANCE

- An entrepreneur may finance his trade through (a) long term loans, (b) cash credit, (c) bill discounting. Bill finance involves (i) purchase of bills, and (ii) discounting of bills.
- Bill finance through bill discounting system as compared to other modes has some advantages like (i) certainty of payment on due date, (ii) liquid assets can be easily discounted with banks, (iii) better control and better resource planning is possible, and (iv) easily identifiable transactions.
- Bill discounting system comprises of (i) clean bills, (ii) Documentary bills, (iii) bills drawn under credit.
- Bills basically means ‘Bills of Exchange’ as defined and governed by negotiable Instruments Act, 1881, section 5 which provides that bill is an instrument in writing containing an unconditional order signed by maker, directing a certain person to pay certain sum of money only to or to the order of a certain person or to the bearer of the instrument.
- Bill of exchange in International Trade acts as a means of collecting payments as well as receipt of payment, demanding payment, acts as a promise of payment like bills drawn on acceptance basis. It is means of extending credit, e.g. sight bill or tenor bills.
- Bill finance comes into play when sale is done on credit basis by the seller to borrowers. Otherwise borrowers i.e., sellers of the goods, who supply the goods on credit basis will have to wait for a specified period – say 3 months. This would help the borrower

to increase his business, as his working capital cycle is reduced. As the bank directly recovers the money advanced from the buyer of goods, bill finance is also known as self-liquidating finance.

- Bills are further classified as Sight bills and usance bills. Sight bills have to be paid by the purchaser of goods immediately sight bills are purchased.
- Usance bills are payable by the purchaser of goods after a specified period of time (say 3 months, etc). Usance bills are discounted. In the case of usance bills, bank will deduct the discount amount (say 20 or 25%) and pay the balance to the borrower and pay the discount amount on realization of the bill.
  - Essential feature of a bill that a banker normally sees when bill is presented to him are:
  - Essential details like date of instrument, place of payment, principal amount payable and interest payable as well as maturity of bill.
  - Dishonour of bill if unpaid on maturity.
  - Rate of interest applicable at the material time and payment of bill.
  - Validity, authentication of material alteration, if any and stamp duty payable has been properly paid.
- In bill purchased bank negotiates bills payable on demand, whether clean or documentary; bank pays the face value of the bill to the holder; bank after purchasing acts as a holder in due course of the bill and inherits all rights of the ownership.
- Crocka Bill: It is a bill of lading covering goods carried by road issued by sea carrier. Crocka bill of lading cannot be deemed as Ocean Bill of Lading.

LETTER OF CREDIT (L/CS)

LCs are the guarantee given by a bank to the seller of goods that on the due date he will receive the sale amount (LC amount). In this case, LC opening bank (i.e., buyer's bank) will not provide any fund based facility to the buyer. LCs are issued for trade both within the country and for trade internationally. This chapter has been discussed earlier in detail.

BANK GUARANTEE

Banks issue guarantee on behalf of customers in favour of third parties undertaking to pay the guaranteed sum of money to the third parties (beneficiary) in the event of the (his) customer failing to perform the agreed obligations. Guarantees are classified as financial guarantee and performance guarantee. Performance guarantee is an undertaking by a bank that in the event of a failure by the applicant, the guarantor bank will complete the original contract. In India, however, performance guarantee (as also financial guarantee) will obligate the guaranteeing bank to pay the fixed amount only. Similar to LC, there is no fund based credit facility sanctioned.

DEFERRED PAYMENT GUARANTEE (DPG)

Deferred Payment Guarantee is a financial guarantee issued by banks that have a currency period in excess of twelve months. This type of guarantee is generally issued by banks in favour of importers who import raw materials and other store inventories, or plant and machinery from a foreign country. The payments to be made by the importers are made in installments. If any installment is defaulted or any terms of guarantee is violated, the guarantee is invoked.

BANK ADVANCES WHICH ARE SELF LIQUIDATING

Banks lend money against certain documents / securities in which case the loans are liquidated easily by the primary security at the time of maturity of the document or security or just after repayment period is over. These loans are provided against liquid securities or maturity period of the primary security whichever is earlier.

Some of the common self-liquidating loan schemes of banks are:

- Loan against Bank's own Deposits- FDR.
- Loan against KVP/ NSC.
- Loan against LIC Policy.

Loans against Bank's own FDR

- Bank can provide loan up to 90% of present value of its own deposits like FDR etc. for the period not exceeding the maturity date of the deposit. The facility can be provided in the form of Term Loan and Overdraft limit.
- Bank's lien marked on the FDR.
- Interest rate charged by banks varies from bank to bank but normally it is 1-2% above the FDR rate. In some banks, lending against/ for third party deposit, ROI is 3% over the deposit rate.

Loans against NSC/KVP

- Banks provide loans against NSC and KVP as personal loans against deposit certificates. Bank can provide loan varying from 75% to 90% of face value of NSC/ KVP depending upon the age and maturity period of the security. The facility can be provided in the form of Term Loan and Overdraft limit.
- For security banks ask borrower to pledge the certificate in favour of the Bank.
- Rate of interest normally varies from bank to bank but usually is at bank's PLR.

Personal Loans

A personal loan is a kind of unsecured loan which can be used for any purpose that the borrower deems necessary. An unsecured loan is an umbrella term used for loans which do not require collateral. Banks, credit unions, and other financial institutions offer personal loans on an ongoing basis.

There are two kinds of personal loans:

1. A secured loan sometimes called personal bad credit loans, which are typically offered to a person that has a lower credit score or a credit history that has a record of delinquent or missed payments. A secured personal loan needs some collateral, (like house or car), to recover some of the money lent in case of default in payments.
2. An unsecured loan is generally offered to people that the lender considers a low credit risk, meaning that they have a higher credit score, a long record of on time payments in their credit history, and make enough money to be able to pay the loan off easily.

IMPORTANT TERMINOLOGIES

Loan Proposal: It means a written request made by the prospective borrower to the bank for a credit facility. It is done on the bank's application form. This request application is also called **loan proposal or loan application.**

Limit: The dictionary meaning of the word 'limit' is boundary or last line or point, which a person is required not to cross. In banking the word limit is used in case of Cash Credit / overdraft accounts and means the amount sanctioned by the bank. Limit before sanction can be of different types. These can be:

- Proposed limit
- Recommended limit
- Authorized limit or sanctioned limit or overall limit
- Sub-limit
- Drawing Limit
- All these words are used mainly in case of working capital advances (cc a/c or OD a/c)
  - **Proposed limit:** This is the amount which the borrower has requested the bank to sanction.
  - **Recommended limit:** This is the amount which the manager or bank recommends to the sanctioning authority for sanctioning.
  - **Authorized limit:** This is the amount that the sanctioning authority sanctions after going through the complete proposal. This amount is also called sanctioned limit.
  - **Sub-limit:** Sometimes borrower wants credit facility sanctioned as per his specific needs against bills, hypothecation, pledge etc. The overall (authorized limit) is then sub-divided into need based requirements of the borrower.

For example, a borrower requests for a credit facility for Rupees 3 lakh (proposed limit). The branch manager after calculating the needs recommends to the sanctioning authority an amount of Rupees 2.50 lakh (recommended limit). The sanctioning of the bank after critical appraisal sanctions 2.00 lakh rupees. (sanctioned or authorized limit). After sanctioning the overall limit (authorized limit), it is sub-divided into sub-limit based on borrower's requirement. He may be allowed, say

Against pledge	Rupees 60,000
Against hypothecation	Rupees 75,000
Against bills	Rupees 40,000, and
Against book debts	Rupees 25,000

This shows that despite sub-limits being sanctioned against various activities, overall amount drawn does not exceed Rupees 2 lakh. The interpretation of this is that borrower can draw money against pledge only up to Rs.60,000 and against hypothecation up to Rs.75,000 only. Drawings against bills and book debts is only up to 40,000 and 25,000 rupees respectively. Total debit balance should not exceed Rupees 2 lakh.

Drawing Power (DP): It means residual value of current assets minus margin. In other words it is value of security minus amount of margin.

Margin: It is the amount contributed by the borrower to run his business. It represents borrower's risk involvement in the business.

Loan Syndication: Loan syndication means multiple banking, i.e. banking with more than one bank for meeting his business financial requirements. Here each bank makes its own independent evaluation of the borrower, project and offer credit. It is flexible and convenient approach for banks and borrower.

J.V. Shetty committee to review system of consortium lending, had suggested following methods alternative to consortium loans and advances.

- Inter-bank participation
- Commercial Paper
- Debentures and securitization of debts
- Syndication of Credit

RETAIL LENDING BY BANKS

Why Retail Lending by banks?

Banks are opting for more retail lending activities due to following various reasons:

- Increase in purchasing powers and desire to improve standard of living has led retail lending activities to grow.
- Consumer needs are ever changing resulting in more buying of consumer goods.
- Convenience of obtaining bank loans and easy operation of accounts due to technological improvements.
- Slow growth of Industrial sector has led banks see their slow credit off take thus, affecting its profit. Retail sector is a growing sector and hence bank's natural option shall be retail sector.
- Loans to retail sector are safe and lending rates are competitive.

Need of Retail Lending

Further need of retail lending by banks arose because of the following factors:

- Retail is a developing market,
- It is assumed that retail market is assured market for doing business.
- Easy to handle and overhead costs being very less, it becomes a profitable venture.
- Competitive products are available off the shelf for consumers to choose from hence, no delays in decision making.
- Since it is a compact loan, supervision and monitoring is nominal. Loan is safe and NPAs level is less.
- It also adds to the diversification of bank's credit portfolio thus providing a new growing channel of lending.

Drivers of Retail Lending

- More Income Tax Rebate in various categories of citizens has led to rising savings and thus giving higher disposable income in hand.
- Couples earning has led to more flow of income and double income.
- Young generation makes a lot of change in the consumer behaviour. An estimate shows that 65% population in India is less than 35 yrs. of age.
- Government of India has taken many steps to allow people to buy homes through bank loans. For incentive purpose, government has allowed interest rebate up to Rupees 1.50 lakhs from 2015-16 financial year increasing the level from Rupees 1.00 lakh during 2014-15 F.Y.
- Alternate investment opportunity offering good return
- With increasing urbanization, consumerism concept is growing and hence providing a positive boost to retail sector.

Various Retail Lending Products

- Home Loans
- Vehicle Loans
- Consumer product loans
- Repair & maintenance of home loan
- Education loans

The RBI guidelines for Rocovery Agents:

Banks and other financial institutions hire recovery agents in order to recover debts from clients on their behalf. These recovery agents are responsible for collecting outstanding payments from the bank's customers. Recovery agents have been accused of using inappropriate measures to collect money from people. Their recovery practices have recently come under the scrutiny of the law and justice keepers in the country.

Arm-twisting tactics

The common notion is that recovery agents use threat or 'goonda-gardi' practices and harass clients to collect debts due. The RBI has recently issued draft guidelines that recovery agents and banks will have to abide by when collecting debts from their customers. The idea is to streamline the practices used by recovery agents and keep a tab on them.

The gist of the guidelines

- Banks should approach Lok Adalats for small cases of outstanding consumer debts less than around $25,000 in the form of personal loans, credit card debts or other loans.
- Banks are responsible for the actions of the recovery agents. Hence banks have to ensure that the recovery agents they hire follow RBI guidelines and the rules of the Banking Codes and Standards Board of India throughout the recovery process.
- In cases where customers default on payments, banks are obligated to inform them about the details of recovery agents hired by the bank.
- The Indian Banks' Association (IBA) and the Indian Institute of Banking & Finance (IIBF) should conduct training courses for recovery agents in order to educate them about the preferred recovery practices.
- Customers should not be harassed or abused during the recovery process. For example, customers may be contacted only on telephone numbers provided by them and not on any other number.

RBI will take strict action against banks not complying with these guidelines.

MICRO, SMALL AND MEDIUM ENTERPRISES

What is the meaning of Enterprises?

An "enterprises" means an Industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use or engaged in providing or rendering of any service or services.

Importance of MSME

- Most significant sector after Agriculture. Employs 60 million persons spread over 30 million enterprises. Creates one million jobs every year.

- Accounts for about 45% of the total industrial output.
- Contributes 40% of the total exports.
- 94.9% are Micro enterprises, 4.9% are small and only o.2% are medium enterprises.

Micro enterprises (Manufacturing)

- Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (Original cost excluding Land and Building and the items specified by the Ministry of Small Scale Industries (vide its notification no. S.O.1722 (E) dated October 5, 2006) does not exceed Rs. 25 lakhs.

Micro Enterprises (Service)

(i) Enterprises engaged in the providing / rendering of services and whose investment in Equipment (Original cost excluding Land and building and furniture, fittings and other not directly related to the service rendered or as may be under the Micro, Small and Medium Enterprises Development, Act 2006) does not exceed Rs.10 lakhs.

(ii) The Micro Enterprises (Service) shall include Small Road & Water Transport Operator (SRWTO), Professional and Self Employed (PSEP), Small Business, Retail Trade and all other service enterprises whose investment in equipment does not exceed Rs.10 lakhs.

Small Enterprises (manufacturing)

- Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (Original cost excluding Land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O.1722 (E) dated October 5, 2006) is above Rs.25 lakhs to Rs.5 crore.

Small Enterprises (Service)

- Enterprises engaged in providing / rendering of services and whose investment in Equipment (Original cost excluding Land and building and furniture, fittings and such items as per 1.2.2.) is above Rs.10 lakhs to Rs.2 crore.
- The Small Enterprises (Service) shall include Small Road & Water Transport Operator (SRWTO), Professional and Self Employed (PSEP), Small Business, Retail Trade and all other service enterprises, whose investment in equipment is above Rs.10 lakhs to Rs.2 crore.

Medium enterprises (Manufacturing)

Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery Original cost excluding Land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O.1722 (E) dated October 5, 2006) is more than Rs.5 crore but does not exceed Rs.10 crore.

Medium Enterprises (Service)

- Enterprises engaged in providing/rendering of services and whose investment in Equipment (Original cost excluding Land and building and furniture, fittings and such items as per 1.2.2.) is more than Rs.2 crore but does not exceed Rs.5 crore.

- The Medium Enterprises (Service) shall include Small Road and Water Transport Operator (SRWTO), Professional and Self Employed (PSEP), Business and all other service enterprises, whose investment in equipment is above Rs.2 crore to Rs.5 crore.

Classification of MSME

- The Micro and Small Enterprises (manufacturing and service) will be classified under Priority Sector irrespective of whether the borrowing entity is engaged in export or otherwise.

Acknowledgement

- Each branch will issue an acknowledgement for loan applications received from the borrowers towards financing under this sector and maintain the record of the same.

Disposal of Applications

- In case of Loans up to Rs.25000/- : Within 2 weeks
- In case of Loans above Rs.25000/- : Within 4 Weeks

(Provided the loan applications are complete in all respects and accompanied by a 'check list' enclosed to the application form).

CREDIT GUARANTEE TRUST FOR MSME (CGTMSE)

The Government of India and SIDBI created CGTMSE for helping banks to help small enterprises which are unable to give security to the Banks and are denied loans. The Trust guarantees certain amount of loan if given as per the terms laid down by the Trust. Banks also need not take any security as per the CGTMSE scheme.

- Main contributors to the capital corpus of CGTMSE are Government of India and Small Industrial Development Bank of India (SIDBI).

Eligible Borrowers

- New and existing Micro and Small Enterprises engaged in manufacturing or service activity excluding 'Retail Trade'.
- As of now, all activities that come under service sector as per RBI's guidelines on 'Lending to Priority Sector' and MSMED Act, 2006 except retail trade are eligible for coverage under the scheme.

Whether loans given to Small Road Transport Operators are eligible for coverage under the Scheme?

- Yes. Small road and water transport loans are eligible for guarantee cover.
- Under the Guarantee Scheme, a borrower is required to obtain IT PAN number prior to availing of credit facility from the eligible lending institution. Also it is a mandatory requirement under section 139A(5) read with section 272(C) of the I.T Act 1961 to indicate IT PAN on all tax documents which include returns, challans, appeals, etc.
- However, in respect of loans up to Rs. 10 lakh, CGTMSE is presently not insisting that the IT PAN be obtained at the time of availing of the guarantee cover. *IT Pan No. is to be indicated in respect of credit facility above Rs.10 lakh.*

What Guarantee Fee required to be paid

- 1.50% of the total limit sanctioned, maximum to Rs 100 lakhs (0.75% in case of North Eastern Region including state of Sikkim & Jammu and Kashmir)

Annual Fee

- 0.75% of the total amount outstanding as on 31st of March of the preceding financial year.

  Whether the rates of guarantee fee and annual service fee can be varied after the commencement of guarantee cover?
- Guarantee fee will not be changed with retrospective effect.
- Since the guarantee fee is payable only once at the time of seeking guarantee cover, so any change in rate will have only prospective effect on the future proposals to be covered under the Scheme.
- As regards Annual Service Fee, it is payable on the guaranteed credit facilities as on March 31, the prevailing rate at that time will apply.

THIRD PARTY PRODUCTS (TPP)

Why TPP?

It is non-fund business for banks and is very lucrative business without lending any funds.

Bank's profit normally is based on **net interest margin**. Due to squeezing of interest rates and higher cost of products, manpower, infrastructure and competitive scenario, burden on banks has increased and spread reduced. Net Interest Margin has been reduced considerably.

This factor worried the banks and they looked for non-fund based business in TPP.

Advantages of TPP to Banks

- Immediate Return
- No risk of N P A or loss due to frauds
- Bulk business
- Good publicity
- Cross selling of bank's products
- Access to new market potential
- Reach to new business

Therefore the banks have targeted their focus on sell of Third Party Products with following points in their minds.

- Hassle free
- Low cost
- High profit (comm./brokerages)
- Easy marketing
- No follow up
- No Risk Involved

BANC ASSURANCE

What is Banc Assurance?

Fully exploiting the synergies between banking and insurance, so as to manufacture and distribute cost effective banking and insurance products to a common customer base. In simple words banc assurance is a linkage of insurance and bank products and distribution channel.

Why Banc Assurance?

Major reasons why banks should go for banc assurance are:

- Falling interest rates, reducing spreads and stiff competition.
- Alternative avenues of fee-based income for banks.
- Insurance business in India accounts for a mere around 3% of GDP and as such bright chance of expansion of business of insurance through alternative channels like banks.
- Provides under one roof all banking and insurance product / services and promotes insurance linked banking products / services.

- Banks act as Corporate agents of Insurance Companies under the Amended Corporate Agents Act.

To promote banc assurance business, banks may look into the following promotional aspects:

- Banc assurance should play proactive role in properity of Insurance industry.
- Bank should promote more product / services linked with insurance.
- Banc assurance should develop brand image to stand tall.

Banc assurance model available in the market are:

- Referral Model
- Deposit linked Insurance Schemes
- Corporate Agency Model

Referral Model of banc assurance means:

- Bank will identify customers interested in insurance products whose names will be referred to Insurance company.
- Insurance company sends its representative to customers for sales.

Deposit linked Insurance Schemes Models means:

- Deposit schemes are insurance linked through group insurance.
- Special deposit schemes are promoted.
- Nominal premium is charged from customers on special deposits-insurance linked schemes.

Salient features of Corporate Agency Model are:

- Popular model having more involvement of banks.
- Banks appoint specially licensed insurance trained executives/managers to meet customers and sell banc assurance products / services.
- Licensed executives / managers provide single window service for all the insurance requirements.

Following are the benefits of banc assurance to the banks:

- It offers fee based non-interest income to banks which does not require banks to maintain capital adequacy ratio on commission business. Bank's comfort level is improved.
- Banc assurance increases non-interest income which helps to increase total income without necessitating increase in capital or total assets. Thus balance sheet of banks improves by improved returns on assets and return on equity.
- Surplus manpower can be used for marketing of bank and banc assurance products without additional cost and efforts.
- Loan linked assurance products like most priority sector loans and others like home loans, vehicle loans, etc. can be marketed by banks through banc assurance and get commission.

SECURITIES FOR BANK LOANS: MODES

- **Hypothecation:** Banker has right over goods but physical possession of goods is not with him, e.g. Car Loan, Vehicle loan, CC Limit, Book Debts, Stock / Inventory. Hypothecation creates a transfer of interest in favour of hypothecate (Bank). It creates a charge in or upon any movable property, existing or future, created by the borrower in favour of secured creditor (Bank) without delivery of possession. The charge is floating charge and crystallizes at the time of maturity.
- **Pledge:** Banker has right over goods as well as their physical possession. In case of non-payment, Bank has the right to sell. e.g. marketable securities like shares, Gold. Section 172 of the Indian Contract Act, 1872 defines pledge as bailment of goods as security for a debt or performance of a promise.
- **Mortgage**: When an immovable property, the security is created by way of Mortgage; e.g. for Home Loan, Loan against Property.
- **Lien:** It is a charge on the specific asset (Specific Lien) or general assets (General Lien) of the borrower. It is a creation of right in favour of the lender for payment of dues**.**

PRIME LENDING RATE (PLR)

- After the deregulation of interest rate structure with regards to banking operations by banks, the concept of creating bank's own bench mark lending rate arose. There as a result of this banks started fixing their bench mark rate of interest which was called Prime Lending Rates. It is a rate at which banks would lend to their prime customers.
- As a general practice, banks mark up (add) 2.5 to 3.5% on the PLR to make it as commercial rate of lending to the customers of various credit rating.

PAST EXERCISE

1. As reported in some major financial newspapers, many times it is said that "Other Income" boosts the profit of a bank to a substantial level. What is this other income for a bank ? [Pick up the option(s) which are the part(s) of this other income. **[OBC 2008]**
   (1) Commission for selling insurance policies
   (2) Fee for providing various services (like ATM/Extra cheque etc)
   (3) Interest on advances and loans
   (a) Only (1) (b) Only (2)
   (c) Both (1) & (2) (d) Only (3)
   (e) All (1), (2) & (3)
2. Which of the following schemes has been launced specifically for helping Senior Citizens to avail loan by mrtgage of their residential property? **[OBC 2008]**
   (a) English Mortgage Scheme
   (b) Senior Capital Loan Scheme
   (c) Reverse Mortgage Loan Scheme
   (d) DEMAT Account Scheme
   (e) None of these
3. As published in the newspapers, the RBI has issued certain guidelines to be followed by the Recovery Agents appointed by the banks. In addition to this, the India Bank Association (IBA) has to formulate a special training course for them. Why do RBI and IBA have to come into picture for such an issue which is the responsibility of the banks? **[OBC 2008]**
   (1) RBI and Govt were getting many complaints from the public about the misbehaviour of Recovery Agents.
   (2) Govt of India is paying much emphasis on providing banking services to the poor section of the society. News about ill - treatment by agents or suicides due to inability to pay back loans create a negative picture. RBI does not want this to happen.
   (3) Despite banks' efforts to recover loans' many people still do not wish to repay their loans, intentionally. Recovery agents will help banks to get their money back by all possible means.
   (a) Only (1) (b) Only (2)
   (c) Both (1) & (2) (d) Only (3)
   (e) All (1), (2) & (3)
4. Banks these days have launched a new scheme product known as "Reverse Mortgage". The scheme is designed keeping which of the following groups of society in consideration? **[BOM 2008]**
   (a) Youngsters who have just started earning
   (b) Defence personnel whose life is always at high risk
   (c) Senior citizens
   (d) Women who do not have independent source of income
   (e) None of these
5. When more than one bank is allowing credit facilities to one party in coordination with each other under a formal arrangement, the arrangement is generally known as **[BOB 2008]**
   (a) Participation
   (b) Consortium
   (c) Syndication
   (d) Multiple banking
   (e) None of these

6. Which of the following correctly describes what sub-prime lending is? **[IOB 2008]**
   (1) Lending to the people who cannot return the loans.
   (2) Lending to the people who are high-value customers of the banks.
   (3) Lending to those who are not a regular customer of a bank.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
7. The Govt of India recently provided an amount of ₹65,300 cr to about 3.6 cr farmers in India. What was the purpose of the distribution of this much amount to the farmers? **[Andhara Bank 2009]**
   (a) To enable them to purchase tractors and other hitech agricultural machines
   (b) This was given to them as a debt waiver and relief package.
   (c) To provide them fertilisers and advanced high- yielding seeds for the next harvesting season
   (d) To help them avail Internet services and update their knowledge about the farming techniques and adopt new methods of the same
   (e) None of these
8. As we all know, Govt of India is giving much emphasis these days on the development of Small and Medium Enterprises (SMEs). Which of the following statements reflects the importance of the SME sector in the India economy? **[RBI 2009]**
   (1) The Govt is following a policy of keeping some items reserved for SMEs only. Hence a good number of items for local consumption come from these alone.
   (2) The main advantages of SMEs are reduction of regional imbalances, low investment, greater operational flexibility and low production cost. This helps in good control over prices of such items in local markets.
   (3) A very large number of people are employed in this sector and this sector is the second largest employer in India, after agriculture.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
9. As we have notices, many banks are now entering into Insurance business. Why are Banks entering into this sector, particularly when many insurance companies are already there in India? **[RBI 2009]**
   (1) By providing insurance products, banks are earning additional revenue in terms of fee/commission.
   (2) Banks with their huge customer base are leveraging on their existing relationship to convert customers into policyholders.
   (3) With increase of health-related problems, everybody wants an insurance cover, no matter how big or small it is. Banks are coming up with many attractive offers, which are also affordable.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) Only (1) & (2)
10. One of the key factors that provide impetus to strong growth is Interest Rates. How do interest rates contribute to the growth of economy, particularly when these are lowered down? **[RBI 2009]**
   (1) It gives corporations the opportunity to prepay high-cost debts and replace them with fresh funds raised at lower rates.
   (2) Banks use this opportunity to maximize profits on their treasury operations and these excess profits are used to clean their Balance Sheets by making higher provisions for NPAs or sticky loans.

(3) The Govt also gets benefited as it can borrow funds from open market at low interest rates and bridge its fiscal deficit.

(a) Only (1) (b) Only (2)
(c) Only (3) (d) All (1), (2) & (3)
(e) None of these

11. 'Sub Prime Lending' is a term applied to the loans made to **[Punjab & Sindh 2011]**
(a) those borrowers who do not have a good credit history.
(b) those who wish to take loan against the mortgage of tangible assets.
(c) those who have a good credit history and are known to bank since 10 years.
(d) those borrowers who are most preferred customers of the Bank.
(e) None of these

12. Which of the following schemes is launched specifically for helping senior citizens to avail loan by mortgage of their residential property? **[Indian Overseas Bank 2011]**
(a) English Mortgage Scheme
(b) Senior Capital loan Scheme
(c) Reverse Mortgage Loan scheme
(d) Senior Citizen Personal Loan scheme
(e) None of these

13. Bancassurance is **[Corporation Bank 2011]**
(a) an insurance scheme to insure bank deposits
(b) an insurance scheme exclusively for the employees of banks
(c) a composite finacial service offering both banking and insurance products
(d) a bank deposit scheme exclusively for employees of insurance companies
(e) None of these

14. Which of the following types of accounts are known as 'Demat Accounts'? **[IBPS 2011]**
(a) Accounts which are Zero Balance Accounts
(b) Accounts which are opened to facilitate repayment of a loan taken from the bank. No other business can be conducted from there.
(c) Accounts in which shares of various companies are traded in electronic form
(d) Accounts which are operated through internet banking facility
(e) None to these

15. The arrangement under which banks sell insurance products acting as the agents of the respective companies is called the **[IBPS 2013]**
(a) Insurance joint venture
(b) Bancassurance Model
(c) Hybrid Insurance Model
(d) Insurance Broking
(e) Integrated Model

16. Which one of the following is not a 'Money Market Instrument' ? **[IBPS 2012]**
(a) Treasury Bills
(b) Commercial Paper
(c) Certificate of Deposit
(d) Equity Shares
(e) None of these

17. Which one of the following is a retail banking product ? **[IBPS 2012]**
(a) Home Loans
(b) Working capital finance
(c) Corporate term loans
(d) Infrastructure financing
(e) Export Credit

18. Banks in India are required to maintain a portion of their demand and time liabilities with the Reserve Bank of India. This portion is called ______________. **[SBI Bank 2013]**
(a) Statutory Liquidity Ratio
(b) Cash Reserve Ratio
(c) Bank Deposit
(d) Reserve Repo
(e) Government Securities

19. Interest below which a bank is not expected to lend to customers is known as ______________. **[SBI Bank 2013]**
(a) Deposit Rate
(b) Base Rate
(c) Prime Lending Rate
(d) Bank Rate
(e) Discount Rate

20. In banking business, when the borrowers avail a Term Loan, initially they are given a repayment holiday and this is referred as ______________. **[SBI Bank 2013]**
    (a) Subsidy (b) Interest Waiver
    (c) Re-phasing (d) Interest concession
    (e) Moratorium
21. The arrangement under which banks sell insurance products acting as the agents of the respective companies is called the **[IBPS Bank 2013]**
    (a) Insurance joint venture
    (b) Bancassurance Model
    (c) Hybrid Insurance Model
    (d) Insurance Broking
    (e) Integrated Model
22. As reported in some major financial newspapers, many times it is said that "Other Income" boosts the profit of a bank to a substantial level. What is this other income for a bank ? [Pick up the option(s) which are the part(s) of this other income. **[OBC 2008]**
    (1) Commission for selling insurance policies
    (2) Fee for providing various services (like ATM/Extra cheque etc)
    (3) Interest on advances and loans
    (a) Only (1) (b) Only (2)
    (c) Both (1) & (2) (d) Only (3)
    (e) All (1), (2) & (3)
23. As per the reports published in the newspapers, the banks, particularly public sector banks, are typing up with various rating agencies for providing a qualitative assessment of the credit nees of the borrowers. Which amongst the following is/are such credit rating agencies in India? **[Punjab & Sindh 2011]**
    (1) CARE
    (2) CRISIL
    (3) ULIP
    (a) Only (1) (b) Only (2)
    (c) (1) & (2) only (d) Only (3)
    (e) All (1), (2) & (3)

ANSWER KEY

1.	(c)	**2.**	(c)	**3.**	(c)	**4.**	(c)	**5.**	(b)
6.	(c)	**7.**	(b)	**8.**	(d)	**9.**	(e)	**10.**	(e)
11.	(a)	**12.**	(c)	**13.**	(e)	**14.**	(c)	**15.**	(b)
16.	(d)	**17.**	(b)	**18.**	(b)	**19.**	(b)	**20.**	(e)
21.	(b)	**22.**	(c)	**23.**	(c)				

PRACTICE EXERCISE

1. Which of the following correctly describes what sub-prime lending is?
   I. Lending to the people with less than ideal credit status.
   II. Lending to the people who are high value customers of the banks.
   III. Lending to those who are not a regular customer of a bank.

   Select the correct answer using the codes given below:
   (a) Only I (b) Only II
   (c) Only III (d) All of these
   (e) None of these
2. Sub-prime refers to
   (a) lending done by banks at rates below PLR
   (b) funds raised by the banks at sub libor rates
   (c) group of banks which are not rate as prime banks as per banker's almanac
   (d) lending done by financing institutions including banks to customers not meeting with normally required credit appraisal standards
   (e) None of the above
3. 'Sub prime lending' is a term applied to the loans made to
   (a) these borrowers who do not have a good credit history
   (b) those who wish to take loan against the mortgage of tangible assets
   (c) those who have a good credit history and are known to bank since 10 years
   (d) Both (a) and (b)
   (e) None of the above
4. In banking parlance, 'Sub-prime' refers to
   (a) landing by banks at rates below PLR
   (b) funds raised by banks at sub-libor rates
   (c) group of banks which are not rated as prime banks as per bankers almanac
   (d) lending done by banks/FIs to customers not meeting with normally required credit appraisal standards
   (e) None of the above
5. Which of the following aspects are outlined by the loan policy of a bank?
   (a) Rating standards
   (b) Lending procedures
   (c) Financial covenants
   (d) All of the above
   (e) None of the above
6. An unsecured loan extended by one corporate to another is called
   (a) commercial papers
   (b) treasury bill
   (c) inter-corporate deposits
   (d) certificates of deposits
   (e) All of the above
7. Since, acceptance of deposits and granting of loans are the two general functions of a bank, the relationship arising out of these two main activities is known as
   (a) principal and agent relationship
   (b) financer and financee relationship
   (c) bailor and bailee relationship
   (d) general relationship
   (e) specific relationship
8. Which of the following lendings qualifies as a priority sector loan?
   (a) Loan for purchase of gold for marriage of daughter
   (b) Loan for consumer durables
   (c) Housing loan
   (d) Loan for purchase of tractor
   (e) None of the above
9. Which one of the following does not qualify as priority sector lending by commercial banks?
   (a) Software exports
   (b) Small business loans
   (c) Education loans

(d) Small industries loan
(e) None of the above

10. As reported in various newspapers, many banks have revised their interest rates on home loans, car loans and other such loans. Which of the following phenomenon prompted these banks to make such an upward revision in their interest rates?
    I. RBI has revised the CRR and other such rates upward, which has created a liquidity crunch in the market.
    II. Stock markets in the country are showing very high fluctuations as visible through their indexes. As a result, banks have lost a huge amount of money in trading. Banks now want to recover that money by increasing their interest rates.
    III. Banks are in need of a huge amount of money, as they have to give revised pay to all its employees.

    Select the correct answer using the codes given below
    (a) Only I (b) Only II
    (c) Only III (d) All of these
    (e) None of these
11. Bancassurance is
    (a) an insurance scheme to insure bank deposits
    (b) an insurance scheme exclusively for the employees of banks
    (c) a composite financial service offering both banking and insurance products
    (d) a bank deposit scheme exclusively for employees for insurance companies
    (e) None of the above
12. Which of the following schemes is launched specifically for helping senior citizens to avail loan by mortgage of their residential property?
    (a) English Mortgage Scheme
    (b) Senior Capital Loan Scheme
    (c) Reverse Mortgage Loan Scheme
    (d) Senior Citizen Personal Loan Scheme
    (e) None of the above
13. Which of the following is a retail banking product?
    (a) Home loans
    (b) Working capital finance
    (c) Corporate term loans
    (d) Infrastructure financing
    (e) Export credit
14. Life insurance in its modern form came to India from England in the year
    (a) 1818 (b) 1896
    (c) 1905 (d) 1907
    (e) 1919
15. In case of a debt taken by a married woman, her husband will be liable for debt only if the debt is taken
    (a) with his consent or authority
    (b) for the supply of necessaries of life to the wife, in case the husband defaults in supplying the same to her
    (c) Both (a) and (b)
    (d) Either (a) or (b)
    (e) None of these
16. Banks have the lowest lending levels in the ...... part of India.
    (a) Central (b) North-Eastern
    (c) Southern (d) Western
    (e) Northern
17. Bank loan against property requires the asset to be free from encumbrances. What does it mean?
    (a) The asset to be free from liability
    (b) The asset to be properly registered
    (c) The property to be fully constructed
    (d) The asset should not have multiple owners
    (e) None of these
18. In bank's parlance, credit risk in lending is
    (a) default of the banker to maintain CRR
    (b) default of the banker to maintain SLR
    (c) default of the banker to release credit to the customer
    (d) default of the customer to repay the loan
    (e) None of these
19. Loans and advances a bank, provides come under which of the following category?
    (a) Assets (b) Liabilities
    (c) Costs (d) All of these
    (e) None of these

20. Which of the following products of a bank is specifically designed to provide financial help to children in their higher studies in India or in a foreign nation?
(a) Personal loan
(b) Corporate loan
(c) Educational loan
(d) Mortgage loan
(e) None of these

21. Which of the following is a payment and settlement system used by the banks in India?
(a) Liquidity adjustment facility
(b) Real time gross settlement
(c) Forward rate agreements
(d) Central depository service
(e) Negotiated dealing system

22. Bridge loans refer to
(a) loans granted to construction companies for construction of bridges
(b) loan granted to PWD for construction of bridges over rivers
(c) interim finance allowed by banks to their customers, pending disbursement of term loans by financial institutions
(d) loan granted to railway for construction of bridges
(e) None of these

23. The right to retain possession only of those goods in respect of which the dues have arisen is called
(a) particular lien (b) general lien
(c) right of set off (d) All of these
(e) None of these

24. Land development banks provide long-term credit for schemes of basic importance to agriculture as
(a) minor irrigation purposes like wells, dug-cum-bore wells, tubewells, pump sets and irrigation tanks
(b) mechanisation of agriculture i.e., loans for purposes of tractors, power tillers, threshers, etc
(c) land reclamation, soil conservation, plantation of fruit orchards, dairy development schemes etc involving heavy expenditure
(d) Both (a) and (b)
(e) All of these

25. When more than one bank is allowing credit facilities to one party in co-ordination with each other under a formal arrangement the arrangement is generally known as
(a) participation (b) consortium
(c) syndication (d) multiple banking
(e) None of these

26. A Bill of Exchange in which a bank orders its branch or another bank, as the case may be, to pay a specified amount to a specified person or to the order of the specified person is called
(a) cheque
(b) bankdraft
(c) promissory note
(d) insurance
(e) None of the above

27. Which of the following is not considered as negotiable instrument under the Negotiable Instruments Act, 1881?
(a) Bill of Exchange
(b) Promissory Note
(c) Share Certificate
(d) Cheque Payable to Bearer
(e) Cheque with 'Not Negotiable' crossing

28. As per guidelines of Reserve Bank of India, a new private sector bank
(a) shall be subject to prudential norms in regard to income recognition, asset classification and provisioning, capital adequacy, etc.
(b) shall have to observe priority sector lending targets as applicable to other domestic banks
(c) will be required to open rural and semi-urban branches
(d) All of these
(e) None of these

29. Initial repayment holiday given to a borrower for repayment of loan is called is
(a) subvention
(b) moratorium
(c) re-schedulement
(d) amortisation
(e) EMI

30. In case where the loan is sanctioned by the bank against the borrower submitting the fake/forged documents and thus, playing fraud on the bank, such a loan is to be treated in the bank's books as a .... asset, even when there is recovery in the account as per the repayment schedule approved by the bank at the time of sanctioning the loan.
    (a) standard (b) sub-standard
    (c) doubtful (d) loss
    (e) None of these
31. A loan granted for short-term crops will be treated as NPA, if the instalment of principal or interest thereon or both remain overdue for ..... crop season(s).
    (a) one (b) two
    (c) three (d) four
    (e) None of these
32. Which of the following is not considered one among the loans under Retail Banking?
    (a) Car loan
    (b) Housing loan
    (c) Personal loan
    (d) Education loan
    (e) Infrastructure loan
33. When banks make advances to limited companies against their assets, the required forms are to be presented to the Registrar companies within .... from the date of execution.
    (a) 21 days (b) 30 days
    (c) 1 month (d) 2 months
    (e) None of these
34. Which of the following is the correct definition of the term commercial papers?
    I. It is nothing but the popular name of the judicial stamp papers used to register financial transactions.
    II. It is one of the instruments through which corporates raise debt from the market.
    III. It is the name of the 'Certificate of Deposits' (CD) provided by the bank to its retail customers.

    Select the correct answer using the codes given below:
    (a) Only I (b) Only II
    (c) Only III (d) Both I and II
    (e) All of these
35. Which of the following means of lending is considered as a priority sector loan?
    (a) Loan for purchase of gold for marriage of daughter
    (b) Car loan
    (c) Housing loan
    (d) Loan for purchase of tractor
    (e) Education loan
36. Which of the following does not qualify as priority sector lending?
    (a) Agricultural lending
    (b) Education loans
    (c) Auto loans
    (d) Loans to small scale sector
    (e) Housing loan
37. Which of the following would be treated as an unsecured loan?
    (a) Agricultural loan
    (b) Personal loan
    (c) Educational loan
    (d) Vehicle loan
    (e) Housing loan
38. The rate of interest banks charge its main/ major and prime customers is popularly called as
    (a) Risk Premium
    (b) Prime Lending Rate
    (c) Repo Rate
    (d) Reverse Repo Rate
    (e) Cost of Fund
39. Which of the following is not an activity of merchant banking in India?
    (a) The management of the customers securities
    (b) The management of the portfolio
    (c) The management of projects and counselling as well as appraisal
    (d) The management of underwriting of shares and debentures
    (e) None of the above

40. The industrial Finance Corporation of India provides loans to
   (a) government companies only which are in core sector (i.e., power generation, steel, coal and cement, etc)
   (b) newly established industries in backward districts
   (c) industries in private sector
   (d) joint stock companies and cooperative societies engaged in the manufacturing and processing of goods
   (e) None of the above
41. When a loan is granted by a bank for purchase of white goods it is called
   (a) Consumption loan
   (b) White goods loan
   (c) Consumer durable loan
   (d) All of these
   (e) None of these

ANSWER KEY

1.	(a)	**2.**	(d)	**3.**	(a)	**4.**	(d)	**5.**	(d)
6.	(c)	**7.**	(d)	**8.**	(d)	**9.**	(a)	**10.**	(a)
11.	(c)	**12.**	(c)	**13.**	(a)	**14.**	(a)	**15.**	(c)
16.	(b)	**17.**	(a)	**18.**	(d)	**19.**	(a)	**20.**	(c)
21.	(b)	**22.**	(c)	**23.**	(a)	**24.**	(e)	**25.**	(b)
26.	(c)	**27.**	(d)	**28.**	(d)	**29.**	(b)	**30.**	(d)
31.	(b)	**32.**	(e)	**33.**	(b)	**34.**	(b)	**35.**	(d)
36.	(c)	**37.**	(b)	**38.**	(b)	**39.**	(e)	**40.**	(d)
41.	(c)								

CHAPTER 14

Para Banking Services

LOCKER FACILITIES

- Banks provide safe custody of valuables of the customers.
- There are two ways to ensure safety of customer's valuables:
  (i) by hiring out safe deposit vaults (lockers).
  (ii) by accepting the valuables e.g. jewellery, documents etc. (Custodial service)
- Locker is a subsidiary activity offered by bank.
- It is a non-fund based activity that bank offers to the customers.
- The relationship between the Banker and the users of safe deposit locker is that of a lesser and lessee.
- Locker can be issued to an individual or two or more persons jointly. Locker can also be issued to Partnership Firms, Limited Companies, Societies, Associations, and Clubs etc.
- The Bank provides various sizes of lockers against payment of duly contracted/agreed yearly rent payable in advance to its customers on execution of standard application form specially designed, depending upon the status of the hirer of lockers.
- The intending hirer of locker is expected to maintain a duly introduced account with the branch for establishing identity of the hirer.
- The duly filled and stamped standard application form is required to be signed by both the hirer and the branch official at branch premises for the purpose of entering into an agreement to establish the lesser/lessee relationship.

Nominations facility

- Nomination is available in lockers as per section 45 Z of the N.I. Act, 1881.
- Hirer can nominate a nominee in the locker account.
- Nomination can be modified as per the need of the hirer but not before all the hirers have signed a letter of change.
- Signature of all the hirers must be verified with the one on record.
- On the death of the hirer, contents of the lockers can be handed over to the nominee safely unless any legal heir raises a contra issue or gets a stay on the disbursement of the contents to nominee.

Custodial Services by banks

- Customers may deposit his/her valuables / documents etc. with the bank for safety purposes.
- Property / valuables handed over to the bank are not subject to the general lien of the banker.

MUTUAL FUND

- Mutual Fund is a pool of investors fund to be held, managed, traded or disposed of for higher income for the investors with minimum risk. In simple words mutual fund is also called as 'Fund'.The money is invested in a wide range of assets. The assets in which the fund will be invested are clearly stated in the fund Prospectus.
- Mutual fund is a mechanism for pooling resources by issuing units to investors. The resources so mobilized are invested as per objectives of the Fund. Investments are diversified and well spread over a spectrum of instruments.
- For selling of Mutual Fund Schemes, AMFI Certification is required.

  Important Features of Mutual Fund

  - MF is a link between savings investors and capital market.
  - Capital market participants in promoting good corporate governance and investor protection.
  - A player who brings liquidity into the financial system.
- Mutual Fund is organized as a Trust.

Advantages to Investors

- Reduction in Risk
- Professional Management
- Reduced cost to the Investor
- Liquidity
- Better Yields
- Portfolio Diversification
- Economies of scale
- Tax benefits
- Investment Comfort

Advantages to banks

- Fee Based Income.
- Diverse Client base
- Intimate Customer Needs Knowledge
- Customer faith in Bank
- Leverage Branch net work to Mutual Fund distribution.
- Customer Retention.
- Reverse flow of funds

  Based on the period of the unit and the amount raised, Funds are categorized as:

  - Open ended funds
  - Close ended funds
  - Income oriented funds
  - Trust oriented funds

- Open ended fund is one in which no fixed quantum of amount to be raised nor the number of investors and where the investors can buy the unit whenever they want and sell the unit to the Fund at a price (net asset value-NAV) announced by Fund from time to time.
- Close ended fund is characterized by a maximum amount to be pooled by the Fund, fixed period, quick liquidity and having unit price normally less than the NAV.

Mis-selling:

Mis-selling is an ethically questionable practice of a salesperson misrepresenting or misleading an investor about the characteristics of a product or service. In an effort to make a sale to a potential customer, a financial products salesperson could leave out certain information or describe a financial product as something the investor urgently needs, even though sound financial judgment would come to the opposite conclusion.

BASEL ACCORD

Genesis: Bank for International Settlement (BIS) has been the oldest international bank, having its headquarters in Basel in Switzerland. The Central banks of G-10 nations came together in 1974 for the first time to establish broad supervisory standards and best practices for banks and form a Committee called Basel Committee.

Purpose of Basel accord was facilitating and enhancing information sharing and cooperation among bank regulators.

In 1988, the committee introduced the capital measurement system, commonly known as Basel Capital Accord-I. It fixed that banks should have minimum capital standard of 8% by 1992.

Then came the Basel accord –II by overcoming limitations of Basel-I accord. Basel –II accord suggested the concept of capital ratio. In capital ratio numerator represents the required capital by bank and the denominator shows risk weighted assets.

Banks were required to maintain capital of not less than 8 percent of their risk-weighted assets. This capital ratio is referred to as risk-based capital (RBC).

New capital framework under Basel-II accord consists of three pillars for risk mitigation.

- First pillar indicates minimum capital requirements
- Second pillar indicates supervisory review system, and
- Third pillar forwards the market discipline concept.

All these pillars address to the risk reduction processes. Risks are related to:

  - Credit Risk, and
  - Operational risk.

Commercial banks in India started implementing Basel-II w.e.f March, 31 2007. RBI was associated with Basel Committee on Banking Supervision (BCBS) from 1997.

Basis of emphasis of Basel-II guidelines are:

- Banks to assess their own risks to which they are exposed i.e. credit risk and operational risks

Important regulatory initiatives taken by RBI relevant to adoption of Basel-II are:

- Ensuring banks to have suitable risk management framework as per respective bank's needs.
- Risk based supervision (RBS) was introduced in banks on pilot basis.
- Encouraging banks to formalize their capital adequacy assessment process (CAAP) in alignment with their business plan.
- Developing areas of greater disclosure and transparency.

Capital structure of banks has now been developed into three categories. These are:

A. Tier-I capital comprising of:
- Paid up capital and disclosed reserves
- Retained profit and general reserves
- Legal Reserves

B. Tier-II capital comprises of:
- Undisclosed reserves
- Asset revelation Reserves
- General Loan Loss Reserves
- Hybrid (Debt/Equity) capital
- Subordinated Debt capital

RBI has now discontinued the implementation of Basel -II vis-à-vis Basel -I norms and have started concentrating achieving Basel-III norms for which it has issued guidelines. Important points of guidelines are:

BASEL-III NORMS (BASED ON RBI GUIDELINES)

Objectives: Basel III reforms are the response of Basel Committee on Banking Supervision (BCBS) to improve the banking sector's ability: (i) to absorb shocks arising from financial and (ii) economic stress, whatever the source.

Consequently, the Basel Committee on Banking Supervision (BCBS) released comprehensive reform package entitled "*Basel III: A global regulatory framework for more resilient banks and banking systems*" (known as Basel III capital regulations) in December 2010.

- Based on RBI Guidelines, banks in India have begun applying Basel-III norms on capital regulation from April 1, 2013 in phases and they will be fully implemented by March 31, 2018.

CREDIT RATING AGENCIES: Main Features

There are many important credit rating companies in India, of which few important are:

1. Credit Rating Information Services of India Ltd. (CRISIL)
2. Investment Information and Credit Rating Agency of India Ltd. (ICRA)
3. CARE
4. India Ratings & Research Pvt. Ltd.
5. SME Rating Agency of India Ltd (SMERA)
6. Briskwork

(a) Credit Rating Information Services of India Ltd. (CRISIL)

- CRISIL provides to its customers an analyzed data on companie's financial health, insights and opinion along with its advice to enable the investor, issuers, policy makers etc. to take investment decision.
- CRISIL helps mainly in the field of credit risk, financial risk, price risk, market risk, liquidity risk and exchange risks.
- CRISIL covers only corporate sector for its analysis.
- CRISIL provides consultancy services to public or private sector enterprises and also State Governments.

(b) Investment Information and Credit Rating Agency of India Ltd. (ICRA)

- ICRA was jointly promoted in 1991 by banking and industrial houses like IFCI, LIC, SBI, some public sector commercial banks, and some financial services companies.
- This was established with the objective of providing guidance to investor and creditors in determining risk associated with investment.
- ICRA in general provides services in the area of crating rating, credit assessment and general assessment about issuers of debt instruments like debentures, bonds, preference shares, fixed deposits, commercial papers etc. It shows that ICRA provides professional services for short term, medium term as well as long term debt instruments.

FINANCIAL INSITUTIONS IN INDIA

After independence, Government / RBI opened many specialized financial and development institution to bridge the gap in the capital market and provide various facilities like loans, underwriting of issues, guaranteeing deferred payment of entrepreneurs, training and skill development of entrepreneurs and help in promotional aspects of business. These financial institutions are broadly categorized into (i) All India institutions, and (ii) State level institutions, depending upon the geographical coverage of their operations. At the national level, Financial Institutions provide long and medium term loans at reasonable rates of interest. Their activities include subscribing to the debenture issues of companies, underwrite public issue of shares, guarantee loans and provide deferred payments facilities, etc. On the other hand, the State level institutions help in the development of medium and small scale enterprises, but the activities are by and large the same as for the national level institutions.

Important national and State level financial institutions are:

- Industrial development bank of India established in 1964 (IDBI)
- Industrial Finance Corporation of India established in 1948. (IFCI)
- Industrial Credit & Investment Corporation of India started in 1955 (ICICI)
- Technology Development & Information Co. of India Ltd (TDIC)
- Life Insurance Corporation of India established in 1956 (LIC)
- Unit Trust of India started in 1964 (UTI)
- State Financial Corporations (SFC)
- State Industrial Development Corporation (SIDC)
- NABARD established in 1982
- EXIM bank in 1982
- National Housing Bank in 1988, (NHB)
- Infrastructure Development Finance Company Ltd (IDFC) in 1997 etc.

1. Industrial Finance Corporation of India

- This corporation was set up as first development financial institution in 1948 under the IFCI Act, with the main objective of providing medium and long term finance to industries starved for funds at that time for new projects, diversification, expansion and modernization.
- Initially IFCI was established under the act of Parliament but later in 1993, July,1 it became a company under Indian Companies Act, 1956 with, however, Government holding maximum shares.

- IFCI has over all these years diversified its activities in the field of merchant banking, syndication of loans, formulation of rehabilitation programmes for sick industrial units, activities relating to amalgamations and mergers, etc.

2. Industrial Development Bank of India (IDBI)

- IDBI came into existence in July 1964 in the form of apex financial institution.
- Main objective of its setting up was to help medium and large industrial units financially to usher industrial development in the country.
- IDBI provides financial assistance in two ways: (i) Direct assistance, and (ii) Indirect assistance.
- Direct assistance is provided by way of project loans, underwriting of and direct subscription to industrial securities, soft loans, technical refund loans, etc.
- Indirect assistance is in the form of refinance facilities to industrial concerns.

3. Small Industries Development Bank of India (SIDBI)

- SIDBI was established by the Government of India in April 1990, as a wholly owned subsidiary of IDBI.
- It is the principal financial institution for promotion, financing and development of small scale industries in the economy.
- It aims to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

4. Industrial Credit & Investment Corporation of India Ltd. (ICICI)

- ICICI Ltd. is originally known as Industrial Credit & Investment Corporation of India was established as a joint stock company under the Indian Companies Act, 1955.
- The objective of its opening was to help industrial sector with permanent financial solution provider. It started its functions as a handling organization as well as helping with long term funding source.
- At present ICICI provides following support to industries:
  - Project finance
  - Leasing activities
  - Supplier credit
  - Merchant Banking activities.
- ICICI started as a company free from the Government controls. It found its own place in the market with its policies and management.
- ICICI has also floated its own bank by the name ICICI Bank.
- ICICI's funding has been through market borrowings and overseas capital markets, besides other local sources.

5. Unit Trust of India (UTI)

- Unit Trust of India (UTI) was established under the UTI Act, in 1963
- The purpose of its establishment was to encourage savings and investment among savers at all levels.

- Its main function is to mobilize savings of public and channelize in productive channels for economic development of the country.
- Main objective of such mobilization of savings was to help and motivate middle and low income groups to invest in schemes and enable them to share the benefits of the rapidly growing industrialization in the country.
- In December 2002, the UTI Act, 1963 was repealed with the passage of Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, paving the way for the bifurcation of UTI into 2 entities, UTI-I and UTI-II with effect from 1st February 2003.

6. National Housing Bank (NHB)

- National Housing Bank is wholly owned subsidiary of Reserve Bank of India established under the National Housing Bank Act, 1987.
- NHB is national level apex financial institution having a primary role of providing refinance to housing companies and banks doing the business of housing.
- NHB's main functions include: (i) extending financial assistance to housing finance institutions, (ii) formulate schemes of mobilization of resources and extension of credit for housing projects, (iii) formulate schemes for weaker sections of society at subsidized rates of interest etc., and (iv) providing guidelines to the housing financing institutions
- Share capital of NHB is largely contributed by RBI. However, NHB is empowered to raise line of credit from foreign sources like USAID Housing Guarantee Programme, Overseas Economic Cooperation Fund (OECF) of Japan etc. NHB also raises funds from debt market by offering bonds.

Some State level financial Institutions are:

1. Andhra Pradesh State Financial Corporation (APSFC)
2. Himachal Pradesh Financial Corporation (HPFC)
3. Madhya Pradesh Financial Corporation (MPFC)
4. North Eastern Development Finance Corporation (NEDFI)
5. Rajasthan Finance Corporation (RFC)
6. Tamil Nadu Industrial Investment Corporation Limited
7. Uttar Pradesh Financial Corporation (UPFC)
8. Delhi Financial Corporation (DFC)
9. Gujarat State Financial Corporation (GSFC)
10. The Economic Development Corporation of Goa (EDC)
11. Haryana Financial Corporation (HFC)
12. Jammu & Kashmir State Financial Corporation (JKSFC)
13. Karnataka State Financial Corporation (KSFC)
14. Kerala Financial Corporation (KFC)
15. Maharashtra State Financial Corporation (MSFC)
16. Odisha State Financial Corporation (OSFC)
17. Punjab Financial Corporation (PFC)
18. West Bengal Financial Corporation (WBFC)
19. Assam Industrial Development Corporation Ltd (AIDC)

REFORMS IN BANKING SECTOR

Salient Features

Banking sector reforms were required because of the following reasons:

- To create and enable environment for banks to overcome external constraints like interest rates, high levels of preemptions in the form of reserves, credit allocation to certain sectors etc.
- To create policy environment of public ownership and reduce the equity of government in banks and enhancing the transparency and disclosure standards.
- To enhance efficiency and productivity through competition.

- The reforms introduced in the banking and financial sector are:
  - Introduction of legal reforms by establishing Board for Financial Supervision (BFS) in 1994.
  - Passing of credit information companies (regulations) bill, 2004
  - Establishing best regulatory framework and supervisory practices matching with best in the world through introduction of CRAR and investment fluctuation reserve (IFR) out of profits towards interest rate risk, investment etc.
  - Prescribing prudential guidelines and encouraging market discipline.
- The special features of reforms are: (i) financial sector reforms were undertaken early in reform cycle, (ii) financial sector was not driven by any crisis and reforms have not been an outcome of multilateral aid, (iii) reforms were designed with the country in mind, (iv) government preferred that public sector banks manage the overhang problems of past rather than clean up the balance sheet with government aid.
- The banking/financial sector reforms have been the outcome of

  (a) Report of the committee on financial system (M. Narasimham Committee-I) in 1991

  (b) Report of the High Level Committee on Balance of Payments, 1992 (Dr. C. Rangarajan Committee)

  (c) Report of the committee on banking sector reforms, 1998 (M. Narasimham Committee-II)

Important impact of reforms on the banking system is:

- Overall efficiency and stability improved through manpower management, cost reduction and business per employee
- Capital adequacy matches with international levels.
- Gross NPAs have come down from whopping around 15% to around 3% in 2012.
- Improvement in profitability in banks

Narasimham Committee Report-II recommended the handling of critical issues like:

- Required action to strengthen the foundation of banking system.
- Procedural, and technological aspects
- Structural changes in the system
- Reorientation of human resource development.

Actions taken by Reserve Bank of India on reforms are:

- Portfolio of government securities of banks is marked to market and adjustment, if any, announced.

- Government and other approved securities have been assigned a risk weight against 'Nil' earlier.
- Capital adequacy ratio raised from 8% to 10% in 2002 and to 12% in 2006 and further 16 % by 2018 as per Basel-III norms.
- Setting up of an Asset Reconstruction Fund (ARF) to enable banks to issue bonds which form part of the Tier-II capital.

RBI has further taken steps to tighten the implementation of reforms:

- By tightening of definition of a loan account declared as NPA
- By reducing gross NPA to 3% and Net NPA to 0%.
- Accrual of interest for income recognition is reduced to 90 days.
- Introduction of minimum 1% provision for even standard assets.

- On the structural reforms as recommended by the Narasimham Committee Report-II, RBI and Government of India have taken certain important steps, like:
  - Voluntary merger of banks for promoting consolidation of banking industry
  - Foreign banks allowed to set up subsidiaries or joint ventures in India
  - Minimum share holding by government/RBI in equities of nationalized banks to be brought down, preferably to 33%.
  - Entry of private sector banks permitted subject to approval of RBI and initial capital requirement of Rs.500crores

INFORMATION TECHNOLOGY ACT, 2000 (AS AMENDED): SALIENT FEATURES

- In India, Law of Evidence till year 2000 required evidence which was paper based. However, commerce and trade, including banking found huge paper work leading to piling of papers to ensure that in case of need paper evidence could be produced in the court of law.
- Need was felt for legal changes for better and efficient e-commerce. The Government of India took the call of time and introduced a suitable Bill in 1999 called Information Technology Bill, 1999.
- Purpose of this Bill was to reduce paper work and provide a legal recognition to electronic records and digital signatures. It was felt that such law will recognize electronic records and digital signatures that will in turn improve electronic communication through internet etc.
- The Bill was passed by both houses of the Parliament and got the assent of the President of India in August, 2000. This Bill came to be called then as Information Technology Act, 2000.

Advantages

- This has brought dramatic changes in e-commerce. People of all walks of life are increasingly using this technology instead of paper documents. It is cheaper, easier to store and retrieve speedily huge data at a fast speed.
- It helps to provide legal sanctity to electronic records and other activities carried through electronic means.
- This Act states that unless otherwise agreed, same shall have legal validity and enforceability.

- The Act was amended by Information Technology Amendment Bill 2006, passed in Lok Sabha on Dec 22nd and in Rajya Sabha on Dec 23rd of 2008 .
- Through this Act the provisions to provide growth of electronic based transactions, to provide legal recognition for e-commerce and e-transactions, to facilitate e-governance, to prevent computer based crimes and ensure security practices and procedures in the context of widest possible use of information technology worldwide have been fulfilled.

OBJECTIVES OF IT ACT, 2000

Objectives of the Act are:

- To grant legal recognition for transactions carried out by means of electronic data interchange and other means of electronic communication commonly referred to as "electronic commerce" in place of paper based methods of communication;
- To give legal recognition to Digital signatures for authentication of any information or matter which requires authentication under any law. To facilitate electronic filing of documents with Government departments.
- To facilitate electronic storage of data
- To facilitate and give legal sanction to electronic fund transfers between banks and financial institutions
- To give legal recognition for keeping of books of accounts by banker's in electronic form.

Digital Signatures

- Digital signatures help the receiver of information to verify correctness and authenticity of origin of information. Receiver can also verify that the information is safe. In simple words digital signature
- A digital signature also prevents the sender of information to latter deny having not sent the information.
- A digital signature serves the same purpose as a handwritten signature.
- Handwritten signature is easy to counterfeit but digital not.
- A digital signature provide authentication and data integrity.
- Digital signature also identity of the signer and is better than handwritten signatures since former are more secured.

MERCHANT BANKING

- Merchant banking is a consultancy service provided to corporate bodies for project development and fund raising.
- Merchant banking activities include providing advice to corporate for promoting a new body and managing public issues for raising capital. In other words major functions undertaken by merchant bankers include issue management, market maker and capital restructuring or structuring.
- To become a merchant banker, approval of SEBI is required and a minimum net worth is required.

FACTORING

- Factoring is mainly a receivable management function undertaken by a 'Factor'.
- It relates to company's book debts which are held up due to some reasons and company is not able to en-cash own its own.
- Many a time, suppliers of goods and services in small scale sector face working capital shortage due to non-receipt of payments from buyers. Such trade credit gets locked up in the form of receivables.
- Timely collection of receivable help improve the cost of funds and efficiency.
- Such small and medium enterprises sometimes are forced (circumstantially) to
- Such receivables at discount to a company, called "Factoring Company" so that remaining funds can be can be used productively. Such people who takeover the receivable at discount are called "Factor".

Types of factoring

- Six types of factoring services are available:
  - Full Service Factoring (without Recourse)
  - Full Service factoring with Recourse
  - Credit factoring i.e. Invoice Discounting
  - Debt Administration (or maturity factoring)
  - Bulk factoring
  - Agency Factoring
- Benefits of Factoring
  - Elimination of trade discount paid to customers
  - Incentive discount for early payment not required
  - Prompt payments and credit
  - Savings in cost and time
  - Increased return to client
  - Improve in liquidity

PAST EXERCISE

1. As per the reports in the leading newspapers the Securities & Exchange Board of India (SEBI) has asked the Mutual Fund industry to stop "Misselling" their schemes to investors. What is "Misselling" of products? **[BOM 2008]**
   (1) Misselling takes place when mutual funds are sold without telling the likely returns.
   (2) When agents sell the products without telling investors what are the risks involved in investing in mutual funds
   (3) When agents invest somebody's money in mutual funds without their knowledge, it is called misselling.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
2. Which of the following is/are correct about the "Operational Risk' as used in the field of banking? **[UBOI 2008]**
   (1) Risk of loss due to inadequate or failed internal process.
   (2) Risk of loss due to natural calamities.
   (3) Loss occurred due to non-compliance of legal procedures.
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
3. The actual return of an investor is reduced sometimes as the prices of the commodities go up all of a sudden. In financial sector this type of phenomenon is known as .... **[IOB 2008]**
   (a) Probability risk
   (b) Market risk
   (c) Inflation risk
   (d) Credit risk
   (e) None of these
4. A/Bank/Finaical Organisation these days relies heavily on e-commerce for its transaction. As a part of system security, it has introduced the organisation's security awareness manual. This step of the organisation can be classified under which one of the following categories of measures for a business? **[IOB 2008]**
   (a) Preventive (b) Compliance
   (c) Corrective (d) Detective
   (e) None of these
5. Very often we see in the advertisements published by Financing Institutes/Agencies stating the their products are given high or average Ratings. These Rating Agencies classify bonds/investments into how many categories? **[UBI 2009]**
   (1) Low Risk
   (2) Average Risk
   (3) High Risk
   (a) Only (1) (b) Only (2)
   (c) Only (3) (d) All (1), (2) & (3)
   (e) None of these
6. Which of the following is/was NOT included in the agenda set for the Banking Reforms in India? **[RBI 2009]**
   (a) Dismantling of administered interest rates
   (b) Measures to strengthen risk management
   (c) Promulgation of SARFAESI Act
   (d) Promotion of the concept of easy credit to all with a guaranteed subsidy from the Govt
   (e) Granting of operational autonomy to public sector banks and allowing them to raise capital from the open market.
7. One of the major emphasis of Basel II is that banks should have —— .
   [Allahabad Bank 2010]
   (a) adequate Capital Adequacy Ratio
   (b) only few branches in urban centres
   (c) more and more branches in rural areas
   (d) core banking mode of operation
   (e) all the above to comply with Basel II norms

8. Which of the following is NOT a Government of India undertaking ?
[Allahabad Bank 2010]
(a) Oil India Ltd.
(b) Sutlej Jal Vidyut Nigam Ltd.
(c) ICICI Bank
(d) National Thermal Power Corporation Ltd.
(e) Rural Electrification Corporation Ltd.

9. Which of the following is NOT associated with climate change and/or global warming ?
[Allahabad Bank 2010]
(a) Basel norms
(b) Bali Meet 2007
(c) Copenhagen Conference
(d) Kyoto Protocol
(e) Bangkok Meet in 2009

10. Many times we read in newspapers that a company is planning to bring a public issue. What does it mean?
[Syndicate 2010]
(1) Shares of the company will be issued only through public sector organisations like banks/Central financial institutions etc.
(2) Shares of the company will be issued to general public only through primary market.
(3) This means some stakeholders/ promoters are willing to leave the company. Hence they wish to sell their stock to the general public.
(a) Only (1) (b) Only (2)
(c) Only (3) (d) All (1), (2) & (3)
(e) None of these

11. Basel-II norms are associated with which of the following aspects of the banking industry ? **[Punjab & Sindh 2011]**
(a) Risk management
(b) Manpower planning
(c) Retirement benefits for the employees
(d) Corporate Governance
(e) None of these

12. What is meant by "Underwriting", the term frequently used in financial sector ?
[Punjab & Sindh 2011]
(a) Undervaluation of the assets
(b) The act of taking on a risk for a fee
(c) Giving a Guarantee that a loan will not become a bad loan
(d) The act of permission to float an IPO
(e) None of these

13. Expand the term BCBS.
[Corporation Bank 2011]
(a) Bank's Committee on Banking Supervision
(b) Basel Committee on Banking Supervision
(c) Bank's Commission on Banking Supervision
(d) Basel Commission on Banking Supervision
(e) None of these

14. What do you understand by 'Para Banking' services? **[Allahabad Bank 2011]**
(a) Eligible financial services rendered by banks
(b) Utility services provided by banks
(c) Services provided through business correspondents
(d) Services provided to armed force personnel
(e) None of these

15. Which of the following is/was **NOT** included in the agenda set for the Banking Reforms in India? **[Andhra Bank 2011]**
(a) Dismantling of administered interest rates
(b) Measures to strengthen risk management
(c) Promulgation of SARFAESI Act
(d) Promotion of the concept of easy credit to all with a guaranteed subsidy from the Govt
(e) Granting of operational autonomy to public sector banks and allowing them to raise capital from the open market

16. Structure of Basel II is based on how many pillars? **[Indian Overseas Bank 2011]**
    (a) Two (b) Ten
    (c) Four (d) Five
    (e) Three
17. Credit Rating **[Corporation Bank 2011]**
    (a) is used to rate the borrowers while giving advances.
    (b) is used to work out performance of the employees.
    (c) is used to calculate the number of excellent auditrated branches.
    (d) is not used in any bank.
    (e) is necessary before giving promotion to employees.
18. Which of the following is not considered a money market instrument? **[IBPS 2011]**
    (a) Treasury bills
    (b) Repurchase Agreement
    (c) Commercial Paper
    (d) Certificate of Deposit
    (e) Shares and bonds
19. A Bank/Financial Organisation these days relies heavily on e-commerce for its transaction. As a part of system security, it has introduced the organisation's security awareness manual. This step of the organisation can be classified under, which one of the following categories of measures for a business?
    [Indian Overseas Bank 2009]
    (a) Preventive (b) Compliance
    (c) Corrective (d) Detective
    (e) None of these
20. One of the major emphases of Basel II is that banks should have **[Allhabad Bank 2010]**
    (a) adequate Capital Adequacy Ratio
    (b) only few branches in urban centres
    (c) more and more branches in rural areas
    (d) core banking mode of operation
    (e) All of the above
21. Structure of Basel II is based on how many pillars?
    (a) Two (b) Ten
    (c) Four (d) Five
    (e) Three
22. Which of the following cannot be called as a debt instrument as referred in financial transactions? **[Indian Overseas Bank 2009]**
    (a) Certificate of deposits
    (b) Bonds
    (c) Stocks
    (d) Commercial papers
    (e) Loans
23. Banks' mandatory lending to farmers for agriculture, micro and small enterprises and other weaker sections where in banks are required to lend up to 40% of the loans is generally described as **[IBPS 2013]**
    (a) Para banking
    (b) Sub-prime lending
    (c) Retail lending
    (d) Non-priority sector lending
    (e) Priority sector lending
24. Which of the following organization is made specifically responsible for empowering Micro, Small and Medium enterprises in India?
    [SBI Bank 2013]
    (a) NABARD (b) RBI
    (c) SIDBI (d) E C G C
    (e) SEBI

ANSWER KEY

1.	(e)	**2.**	(a)	**3.**	(b)	**4.**	(a)	**5.**	(d)
6.	(d)	**7.**	(a)	**8.**	(c)	**9.**	(a)	**10.**	(b)
11.	(a)	**12.**	(b)	**13.**	(d)	**14.**	(a)	**15.**	(d)
16.	(e)	**17.**	(a)	**18.**	(e)	**19.**	(a)	**20.**	(a)
21.	(e)	**22.**	(e)	**23.**	(e)	**24.**	(c)		

PRACTICE EXERCISE

1. Board for Financial Supervision (BFS) constituted in 1994 by RBI to undertake consolidated supervision of
   (a) commercial banks
   (b) financial institutions
   (c) non-banking finance companies
   (d) None of the above
   (e) All of the above
2. SMERA is an SME Rating Agency in India meant for
   (a) rating on credit worthiness of MSME
   (b) rating on quality management
   (c) rating on training system
   (d) rating on technology usage in (the organisation)
   (e) None of the above
3. Which of the following is not an objective of financial sector reform in India?
   (a) Creating an efficient, productive and profitable financial sector industry
   (b) Preparing the financial system for increasing international competition
   (c) Opening the external sector in a calibrated fashion
   (d) Reducing the fiscal deficit
   (e) Promote the maintenance of financial stability even in the face of domestic and external environment
4. Which of the following is/was not included in the agenda set for the Banking Reforms in India?
   (a) Dismantling of administrated interest rated
   (b) Measures to strengthen risk management
   (c) Promulgation of SARFAESI Act
   (d) Promotion of the concept of easy credit to all with a guaranteed subsidy from the government
   (e) Granting of operational autonomy to public sector banks and allowing them to raise capital from the open market
5. Which financial institution established by IBRD-American Mission, in 1955?
   (a) IDBI (b) ICICI
   (c) SBI (d) RRB
   (e) PNB
6. Bank of Rajasthan was merged with
   (a) HDFC Bank (b) ICICI Bank
   (c) AXIS Bank (d) Citi Bank
   (e) None of these
7. ICICI provides financial assistance to
   (a) small-scale industries
   (b) medium-scale industries
   (c) large-scale industries
   (d) All of the above
   (e) None of the above
8. ICICI provides assistance by way of
   (a) long and medium-term loans and equity participation
   (b) guaranteeing rupee and foreign currency loans raised from other sources
   (c) underwriting issues of shares and debentures
   (d) All of the above
   (e) None of the above
9. The most significant feature of ICICI's operations is
   (a) the foreign currency loans sanctioned by it
   (b) to channelise World Bank Funds to industry in India and to build capital market in India
   (c) the refinance facilities extended by it
   (d) Both (a) and (b)
   (e) None of the above
10. In the State of India, the State Financial Corporation have given assistance mainly to develop
    (a) agricultural farms
    (b) cottage industry
    (c) large-scale industries
    (d) medium and small-scale industries
    (e) None of the above

11. The services provided by merchant bankers includes
I. management of mutual funds.
II. public issues.
III. dealing with the corporate clients and advising them on various issues.
Select the correct answer using the codes given below
(a) Only I (b) I and II
(c) II and III (d) All of these
(e) None of these

12. Which was the first mutual fund started in India?
(a) SBI Mutual Fund
(b) Indian Bank Mutual Fund
(c) Kotak Pioneer Mutual Fund
(d) Unit Trust of India
(e) None of the above

13. Which of the following mobilise (s) the savings of the public to specifically invest in the industrial securities?
(a) UTI (b) LIC
(c) GIC (d) All of these
(e) None of these

14. Banks are authorised to sell third party products. Which are these products?
(a) Mutual funds (b) Term deposits
(c) Credit cards (d) Gift cheques
(e) None of these

15. Axis Bank is a
(a) Public Sector Bank
(b) Private Sector Bank
(c) Co-operative Bank
(d) Foreign Bank
(e) Gramin Bank

16. The UTI was established in
(a) 1956 (b) 1964
(c) 1972 (d) 1976
(e) None of these

17. What do you understand by 'Para Banking services?
(a) Eligible financial services rendered by banks
(b) Utility services provided by banks
(c) Services provided through business correspondents
(d) Services provided to armed force personnel
(e) None of these

18. Expand the term BCBS.
(a) Bank's Committee on Banking Supervision
(b) Basel Committee on Banking Supervision
(c) Bank's Commission on Banking Supervision
(d) Basel Commission on Banking Supervision
(e) None of these

19. Net balance maintained in current account by co-operative banks with .... are not treated as cash for the purpose of CRR/ SLR.
(a) State Bank of India
(b) State Bank of Hyderabad
(c) IDBI Bank Limited
(d) Canara Bank
(e) All of these

20. Basel I, which was issued in 1988, focuses on the
(a) capital adequacy of financial institutions
(b) improvement of the banking sector's ability to deal with financial and economic stress
(c) technology upgradation
(d) training of banking staff
(e) professionalism in banking

21. The formal beginning of the merchant banking services in India began in 1967, when the Reserve Bank of India provident licence to the
(a) State Bank of India
(b) Oriental Bank of Commerce
(c) Grindlays Bank
(d) Federal Bank
(e) None of the above

22. Banks in their daily business, face various kinds of risks. Which of the following is one such major risk?
(a) Customer risk (b) Reputation
(c) Goodwill risk (d) Protection risk
(e) Operational risk

23. All merchant banks must be worth atleast
(a) ₹ 1 crore (b) ₹ 2 crore
(c) ₹ 3 crore (d) ₹ 4 crore
(e) ₹ 5 crore

24. The merchant banking activity in India is governed by
    (a) SEBI (b) RBI
    (c) IRDA (d) All of these
    (e) None of these
25. Basel norms are important international regulatory stipulations. It is meant for which sector?
    (a) Insurance (b) Banking
    (c) Micro Finance (d) Pension funds
    (e) None of the above
26. Mutual funds fall within supervisory purview of
    (a) SBI (b) RBI
    (c) SEBI (d) IRDA
    (e) None of the above
27. What are major functions undertaken by merchant bankers?
    (a) Issue management
    (b) Capital structuring / restructuring
    (c) Market maker in capital market
    (d) All of the above
    (e) None of the above
28. Basel -II norms are associated with which of the following aspects of the banking industry?
    (a) Risk management
    (b) Manpower planning
    (c) Retirement benefits for the employees
    (d) Corporate governance
    (e) None of these
29. The main objective(s) of National Housing Bank is/are
    (a) to promote and develop specialised housing finance institutions for mobilisation of resources and extending finance for housing activities
    (b) to extend refinance facilities to housing finance institutions and to scheduled banks
    (c) to provide guarantee and underwriting facilities of housing finance institutions
    (d) All of the above
    (e) None of the above
30. Which of the following constitute the code of conduct for merchant bankers as stipulated by SEBI?
    (a) Maintenance of high degree of standards of integrity and fairness in dealings
    (b) Providing true and adequate information to investors and abide by the provisions of various acts, rules and regulation etc
    (c) Ethical conduct of business and provision of information to customers in respect of code
    (d) All of the above
    (e) None of the above
31. The main function(s) of SIDBI is/are
    (a) to provide refinance for loans and advances extended by the primary lending institutions to SSI units and also to provide resources support to them
    (b) it discounts and rediscounts bill arising from sale of machinery to or manufactured by industrial units in the SSI sector
    (c) it extends seed capital/soft loan assistance under National Equity Fund, Mahila Udyan Nidhi and Mahila Vikas Nidhi and Seed Capital Schemes through specified lending agencies
    (d) All of the above
    (e) None of the above
32. Which of the following public sector banks is regarded as being the first to launch its own Mutual Fund Scheme?
    (a) SBI
    (b) PNB
    (c) Bank of India
    (d) Canara Bank
    (e) ICICI Bank
33. Which is the principal institution for promotion, financing and development of small scale industries in the country?
    (a) RBI (b) SBI
    (c) IDBI (d) SIDBI
    (e) None of these

34. Credit rating is
   (a) used to rate the borrowers while giving advances
   (b) used to work out performance of the employees
   (c) used to calculate the number of excellent audit rated branches
   (d) not used in any bank
   (e) necessary before giving promotion to employees

35. ICICI is the name of a
   (a) chemical industry
   (b) bureau
   (c) corporation
   (d) financial institution
   (e) None of these

ANSWER KEY

1.	(e)	**2.**	(a)	**3.**	(d)	**4.**	(a)	**5.**	(b)
6.	(b)	**7.**	(c)	**8.**	(d)	**9.**	(d)	**10.**	(d)
11.	(d)	**12.**	(d)	**13.**	(d)	**14.**	(a)	**15.**	(b)
16.	(b)	**17.**	(a)	**18.**	(b)	**19.**	(c)	**20.**	(a)
21.	(c)	**22.**	(e)	**23.**	(a)	**24.**	(a)	**25.**	(c)
26.	(d)	**27.**	(d)	**28.**	(a)	**29.**	(d)	**30.**	(d)
31.	(d)	**32.**	(a)	**33.**	(d)	**34.**	(d)	**35.**	(d)

CHAPTER 15

Financial Awareness

INFLATION- WHAT IS IT?

Inflation in simple words means rise in prices of goods and services. It also means fall in value of money during a particular period/time. It is in fact a sustained rise in prices accompanied by fall in value of money.

It is measured normally in terms of percentage increase or decrease in the price index during a given period.

What is Hyper-inflation? Hyper-inflation means very high economic inflation during which period value of the country's currency nosedives in terms of its value and prices of commodities rises uncontrollably. Such a situation normally happen when there is uncertain political conditions in the country or there is war or war-like situation.

What is the Impact of Inflation?

(i) It brings heavy profit to business houses like manufacturers, traders, and other middlemen.

(ii) People living at below poverty line or those who are middle class earners remain the major surfers during the period of inflation.

(iii) Nearly all types of consumers are affected by the situation. Those who depend on interest income which is fixed, are the bigger sufferers since interest rates are not sufficient to cover inflation rate.

(iv) Many a time, inflation creates imbalance in the family budget of people leading to hard days.

What Causes Inflation?

(a) Deficit financing leads to increase in aggregate demand against aggregate supply, former being more than the latter.

(b) Increase in investment or other expenditure may cause inflation.

(c) Any level of speculation leading to hoarding for more profit through low supply of goods and services may also cause inflation.

(d) When income increases leading to increase in disposable income, it causes inflation.

(e) Increase in salary and wages, leading to more disposable income causes inflation.

(f) Market demand for large exports reduces supply of goods in the domestic market leading to labeling higher prices of goods and services.

(g) Population pressures also affect inflationary trends.

(h) Government's policy to supply more credit in the market also creates such situations.

NATIONAL INCOME – Important Points

It is total monetary value of goods and services produced in the country during a given period. In economic terms, national income is defined as the sum of net value added at factor cost by normal resident in domestic territory of a country and net factor from abroad during an accounting period. (Hansen)

- Concept of National Income has been presented in different ways. National Income is represented as Gross National Product (GNP), Net Domestic Product (NDP) at cost, Net National Product (NNP), Personal Income, Disposable Income, Net National Income (NNI) at cost, and Real Income.
- National Income is a flow concept which means flow of goods and services during a period. Only final goods and services are included during the period.
- Normally National Income covers an accounting year.
- It is expressed in monetary terms.

Gross National Product (GNP)

- It is the total flow of goods and services measured at market value resulting from current production of the period in consideration. It also includes net income from abroad.
- The constituents of GNP are:
  - (a) Consumer durables or goods that satisfy people needs.
  - (b) Gross investment in capital goods in domestic market like capital formation, residential construction, inventories of goods.
  - (c) Those goods and services that are produced by the Government.
  - (d) Net exports (difference between export and imports) of goods and services. This is also called **net income from abroad**.

Measurement of GNP

Three common methods are:

(i) Income Method

(ii) Expenditure Method

(iii) Value Added Method

Income Method:

GNP = Wages & salaries + Rent + Interest + Dividends + Undistributed Corporate Profits + Mixed Incomes + Direct Taxes + Indirect Taxes + Depreciation + Net Income from Abroad.

Expenditure Method:

Private Consumption Expenditure (C) + Gross Domestic Private Investment (I) + Net Foreign Investment (X- M) + Government Expenditure on goods & services (G).

BRICS – Important Features

- Nations like Brazil, Russia, India, China and South Africa together form the Brics bloc. The importance of BRICS lies in the fact that 40 per cent of the population of the world lies in these FIVE nations. They also have the combined GDP of around $24 trillion which is around 1/5th of the global GDP. Despite such a strong base, these nations are marginalized by global banks.
- Recent Sixth summit of BRICS was held from 15th July 2014 in Brazil's Fortaleza city.
- The purpose of BRICS summit is to develop greater economic cooperation among Brics nations and advance global economic stability and prosperity.

BRICS's BANK Floated

- BRICS countries agreed to roll out a new bank with headquarter in Shanghai in China. It will start functioning in next two years.
- The bank aims to counter western dominance on global finances.
- The subscribed capital of the Bank would be around $50 billion and the total authorized capital of $100 billion. Each country will have a shareholding of $10 million in the bank, making it clear that each country will have equal say in the bank.
- The President of the Bank for the initial 6 years will be India. After India completes its term, the Presidency will pass on to Brazil for 5 years, followed by Russia for another 5 years.

UNION BUDGET 2014-15 - SALIENT FEATURES

Important Budgetary Terms

Fiscal Policy: The spending and taxing activities of government constitute its fiscal policy.

Fiscal Deficit: It is the surplus of total expenses (expenditure) over the revenue receipts and capital receipts. Capital receipts included in fiscal deficit are exclusive of borrowings. For instance, Fiscal Deficit = Total Expenditure, that includes total of capital expenditure and revenue expenditure less Receipts that includes capital receipts less borrowings + revenue receipts.

Government Budget: This is a document that central government and all State governments prepare every fiscal year to show their income and expenses. This is a annual task which highlights the item-wise details of estimated receipts and expenditure for a fiscal year. This is also called annual budget of the government.

Government Receipts: The estimated income or money receipts from all sources during a accounting period is called government receipts.

Nostro Account: Nostro is Italian word meaning 'our'. In the business of foreign exchange funds are transferred from one country to another. Such transfers take place at our end involving particular currency and transferring it to another country in their currency at other centre. In order to transact such business, the foreign exchange dealers maintain balances, in current accounts in foreign currencies in overseas branches/correspondents etc. Such a foreign exchange account by a foreign exchange dealer is called 'nostro account'.

Primary Deficit: Primary deficit means net of fiscal deficit and interest payments. In simple words, primary deficit is the deficit arising out of the fiscal deficit minus payment of interest.

Public-Private Partnerships (PPPs): It is not new in the economy to involve public as partner to the growth and development of projects. In India this concept is being taken up by Government of India as well as State Governments. PPPs is a type of finance by public for development of projects beneficial to the society in general. Public or large business firms invest money for a return on investment, may be as interest, and part money is invested by the government. Management is jointly handled by the parties to the project.

Gross Domestic Product, Deflator: A price index which adjusts the overall value of GDP according to the average increase in the prices of all output. The GDP deflator equals the ratio of nominal GDP to real GDP.

Gross Domestic Product, Per Capita: The level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country, although this is misleading (because it doesn't account for differences in the *distribution* of income across *factors of production* and individuals, and it doesn't consider the value of unpaid labour).

UNION BUDGET- SALIENT FEATURES

Economic Survey-2013-14

- Fiscal deficit is in bad shape as announced by the Government.
- Growth estimated during 2014-15 shall range between 5.4 to 5.9%. Expected growth of 7-8% could be achieved by only 2016-17 subject to good monsoon.
- Import restrictions led to improvement in Balance of Payment (BoP) during 2013-14.
- The Economic survey has projected that current account deficit (CAD) shall be contained around 2.1% of the GDP in 2014-15.
- The current account and the capital account balances together form the country's BoP.
- CAD is the gap between inflows and outflows of a foreign currency. CAD which was $21.8 billion (Rupees 1.3 lakh crore) during April-June, 2013, moderated to around $1.3 billion (Rupees 7.765 crore) in January-March, 2014. This was possible due to the ban on import of gold because of rupee depreciation. Lower CAD will make Indian industries less susceptible to global economic changes and reduced volatility in foreign exchange rates.
- Food Procurement: Food grain stocks are to the tune of 69.84 million tones as on June 1. 2014. This is due to higher procurement. Irony of this situation is that despite higher procurement and stocks, inflation rate is still high.
- FDI: Government in its budget has announced allowing higher foreign direct investment (FDI) in selected sectors. FDI may be allowed in defence, insurance sector, infrastructure sector, technology etc.
- GST: Goods and Services Tax (GST) will be important step towards economic reforms as well as taxation reforms. Adoption of GST will help raising resources for states and central government. Replacing existing indirect taxes by GST, the later will help create national market as well as align taxation of imports and exports correctly. It is also hoped that when GST is adopted, it will improve competitiveness of production and exports from India. Direct Tax Code (DTC) is also seen as a step towards replacement of existing income tax laws.

- Non-Performing Assets (NPAs) of Public Sector Bank (Government owned banks): It shows a major concern in terms of rising NPAs of public sector banks as per the economic survey. This may be because of slowdown in the important industries and infrastructure, like textile industry, chemical industries, iron and steel industries, food processing, construction, telecommunication etc. Overall NPAs increased from 2.36% of total credit portfolio of banks in March 2011 to 3.90% in March 2014 as shown in the economic survey.

Some factual information on NPAs of public sector banks (PSB) is given below:

  - NPAs of PSBs stood at 4.4% in 2013-2014 against 2.09% in 2008-09.
  - Gross NPAs increased to Rupees 2,04,249 crore in March 2014 from Rupees 59,972 crore in March, 2010.
  - Overall NPAs of banks, including private sector banks, rose from 2.36% in 2011 to 3.90% in March 2014.

- Ganga Development Programme Project for the proper development, cleaning, and maintenance of river ganga has been allocated a total sum of Rupees 20,000 crore as announced by the Government. However yearly budget allocations is given in following sector-wise allocations.
- Main focus of the budget was on nursing public finances, tame inflation, simplify tax regime etc. It is believed by the government that above actions will lead to growth, investment and employment.
- On the front of direct taxes, salaried/wagers have been given a benefit in the income tax. The income tax slab has been increased to Rs.3.0lakh up to which no tax is payable. This is an increase of Rs.50,000 than last year. Also Rs.50,000 increase has been given in 80CC as savings incentive. From Rs.1lakh, now a person can save up to Rs.1.50 lakh and take income tax benefit.
- As per budget 2014-15, the government has extended tax holiday benefit for another 3 years to power companies which otherwise expires on 31.3.2014. Now it expires on 31.3.2017. Benefit of this extension is that power sector projects can avail tax benefit under section 81-IA of Income Tax Act. The law permits power companies to claim tax exemption for up to 10 years within first 15 years of a project's operation.
- Duty on cigarettes has been hiked to 72% on cigarettes with 65 mm length and 11-21% for cigarettes of other length.

Deficit and Inflation

- Decline in fiscal deficit from 5.7% in 2011-12 to 4.5% in 2013-14 mainly achieved by reduction in expenditure rather than by way of realization of higher revenue.
- Improvement in current account deficit from 4.7 % in 2012-13 to year end level of 1.7% mainly achieved through restriction on non-essential import and slow-down in overall aggregate demand. Need to keep watch on CAD.
- 4.1 per cent fiscal deficit a daunting task in the backdrop of two years of low GDP growth, static industrial growth, moderate increase in indirect taxes, subsidy burden and not so encouraging tax buoyancy.

OTHER KEY FEATURES OF BUDGET 2014-2015 (SPECIFIC SECTORS)

- Road map for fiscal consolidation outlines fiscal deficit of 3.6 % for 2015-16 and 3 % for 2016-17.

Administrative Initiatives

- Legislative and administrative changes to sort out pending tax demands of more than Rs.4 lakh crore under dispute and litigation.
- Resident tax payers enabled to obtain on advance ruling in respect of their income-tax liability above a defined threshold.
- Income-tax Settlement Commission scope to be enlarged.
- National Academy for Customs & Excise at Hindupur in Andhra Pradesh.
- The subsidy regime to be made more targeted for full protection to the marginalized, poor and SC/ST.
- Convergence with International Financial Reporting Standard (IFRS) by Adoption of the new Indian Accounting Standards (2nd AS) by Indian Companies.
- Setting up of Expenditure Management Commission to look into expenditure reforms.
- Employment exchanges to be transformed into career centers. A sum of Rs. 100 crore provided.

ECONOMIC INITIATIVES

Foreign Direct Investment (FDI)

- Government to promote FDI selectively in sectors.
- The composite cap of foreign investment to be raised to 49 per cent with full Indian management and control through the FIPB route.
- The composite cap in the insurance sector to be increased up to 49 per cent from 26 per cent with full Indian management and control through the FIPB route.
- Requirement of the built up area and capital conditions for FDI to be reduced from 50,000 square metres to 20,000 square metres and from USD 10 million to USD 5 million respectively for development of smart cities.
- The manufacturing units to be allowed to sell its products through retail including E-commerce platforms.

Bank Capitalization

- Requirement to infuse Rs.2,40,000 crore as equity by 2018 in our banks to be in line with Basel-III norms
- Capital of banks to be raised by increasing the shareholding of the people in a phased manner.

Public Sector Undertaking's Capital Expenditure

- PSUs will invest through capital investment a total sum of Rs. 2,47,941 crores in the current financial year.

Irrigation

- 1000 crore provided for "Pradhan Mantri Krishi Sinchayee Yojna" for assured irrigation.

Rural Development

- Shyama Prasad Mukherji Rurban Mission for integrated project based infrastructure in the rural areas.
- Rs. 500 crore for “Deen Dayal Upadhyaya Gram Jyoti Yojana” for feeder separation to augment power supply to the rural areas.
- Rs. 14,389 crore provided for Pradhan Mantri Gram Sadak Yojna(PMGSY).
- More productive, asset creating and with linkages to agriculture and allied activities wage employment would to be provided under MGNREGA.
- Under Ajeevika, the provision of bank loan for women SHGs at 4% to be extended to another 100 districts.
- Initial sum of Rs.100 crore for “Start Up Village Entrepreneurship Programme” for encouraging rural youth to take up local entrepreneurship programs.
- Allocation for National Housing Bank increased to Rs. 8000 crore to support Rural housing.
- New programme “Neeranchal” to give impetus to watershed development in the country with an initial outlay of Rs. 2142 crores.
- Backward Region Grant Fund (BRGF) to be restructured to address intra-district inequalities.

Agriculture Credit

- To provide institutional finance to landless farmers, it is proposed to provide finance to 5 lakh joint farming groups of “Bhoomi Heen Kisan” through NABARD .
- A target of Rs.8 lakh crore has been set for agriculture credit during 2014-15.
- Corpus of Rural Infrastructure Development Fund (RIDF) raised by an additional Rs. 5000 crores from the target given in the Interim Budget to Rs.25000 crores .
- Allocation of Rs.5,000 crore provided for the Warehouse Infrastructure Fund.
- “Long Term Rural Credit Fund” to set up for the purpose of providing refinance support to Cooperative Banks and Regional Rural Banks with an initial corpus of Rs.5,000 crore.
- Amount of Rs.50,000 crore allocated for Short Term Cooperative Rural Credit . Sum of Rs.200 crore for NABARD’s Producers Development and Upliftment Corpus (PRODUCE) for building 2,000 producers organizations over the next two years.

Food Security

- Restructuring FCI, reducing transportation and distribution losses and efficacy of PDS to be taken up on priority.
- Government committed to provide wheat and rice at reasonable prices to the weaker sections of the society.
- Government when required will undertake open market sales to keep prices under control.

INFRASTRUCTURE

- An institution to provide support to mainstreaming PPPPs called 4P India to be set up with a corpus of Rs. 500 crores.

FINANCIAL SECTOR

Capital Market

- Ongoing process of consultations with all the stakeholders on the enactment of the Indian Financial Code and reports of the Financial Sector Legislative Reforms Commission (FSLRC) to be completed.
- Government in close consultation with the RBI to put in place a modern monetary policy framework.
- Following measures will be taken to energize Capital markets:
  - Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector.
  - Introduce one single operating demat account
  - Uniform tax treatment for pension fund and mutual fund linked retirement plan

BANKING AND INSURANCE SECTOR

Banking

- Time bound programme as Financial Inclusion Mission to be launched on 15 August this year with focus on the weaker sections of the society.
- Banks to be encouraged to extend long term loans to infrastructure sector with flexible structuring.
- Banks to be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL).
- RBI to create a framework for licensing small banks and other differentiated banks.
- Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force.
- Six new Debt Recovery Tribunals to be set up.
- For venture capital in the MSME sector, a Rs.10,000 crore fund to act as a catalyst to attract private Capital by way of providing equity , quasi equity, soft loans and other risk capital for start-up companies with suitable tax incentives to participating private funds to be established.

Insurance Sector

- The pending insurance laws (amendment) Bill to be immediately brought for consideration of the Parliament.
- The regulatory gap under the Prize Chits and Money Circulation Scheme (Banking) Act, 1978 will be bridged.

Water Resources and cleaning of Ganga

- Rs.100 crore provided for Detailed Project Reports for linking of rivers.
- Rs.2037 crores provided for Integrated Ganga Conservation Mission "NAMAMI GANGE".

- Rs.100 crore provided for Ghat development and beautification at Kedarnath, Haridwar, Kanpur, Varanasi, Allahabad, Patna and Delhi.
- NRI Fund for Ganga will be set up as per budget provisions.

BUDGET ESTIMATES

- Mandate to be fulfilled without compromising fiscal consolidation.
- Non-plan Expenditure of Rs. 12,19,892 crore with additional provision for fertilizer subsidy and Capital expenditure for Armed forces.
- Rs.5,75,000 crore Plan expenditure – increase of 26.9 per cent over actuals of 2013-14.
- Special allocation of Rs.53,706 crore for North East Regions.
- Total expenditure of Rs.17,94,892 crore estimated.
- Gross Tax receipts of Rs.13,64,524 crore estimated.
- Net to centre of Rs.9,77,258 crore estimated.
- Fiscal deficit of 4.1% of GDP and Revenue deficit of 2.9% estimated.

OBJECTIVES OF TAX PROPOSALS

- Ambitious Revenue Collection Targets in Interim Budget. Proposed tax changes factored in the Budget Estimates 2014-15
- Measures to revive the economy, promote investment in manufacturing, rationalize tax provisions to reduce litigation, address the problem of inverted duty structure in certain areas. Tax reliefs to individual tax payers.

DIRECT TAXES PROPOSALS

- Personal Income-tax exemption limit raised by Rs.50,000/- that is, from Rs.2 lakh to Rs.2.5 lakh in the case of individual taxpayers, below the age of 60 years. Exemption limit raised from Rs. 2.5 lakh to Rs. 3 lakh in the case of senior citizens.
- No change in the rate of surcharge either for the corporates or the individuals, HUFs, firms etc.
- The education cess to continue at 3 percent.
- Investment limit under section 80C of the Income-tax Act raised from Rs. 1 lakh to Rs. 1.5 lakh.
- Deduction limit on account of interest on loan in respect of self occupied house property raised from Rs.1.5 lakh to Rs.2 lakh.
- Conducive tax regime to Infrastructure Investment Trusts and Real Estate Investment Trusts to be set up in accordance with regulations of the Securities and Exchange Board of India.
- Investment allowance at the rate of 15 percent to a manufacturing company that invests more than Rs. 25 crore in any year in new plant and machinery. The benefit to be available for three years i.e. for investments up to 31.03.2017.
- Investment linked deduction extended to two new sectors, namely, slurry pipelines for the transportation of iron ore, and semi-conductor wafer fabrication manufacturing units.

- 10 year tax holiday extended to the undertakings which begin generation, distribution and transmission of power by 31.03.2017.
- Net Effect of the direct tax proposals to result in revenue loss of Rs.22,200 crore.

INDIRECT TAXES PROPOSALS

- To boost domestic manufacture and to address the issue of inverted duties, basic customs duty (BCD) reduced on certain items.
- Colour picture tubes exempted from basic customs duty to make cathode ray TVs cheaper and more affordable to weaker sections.
- To encourage production of LCD and LED TVs below 19 inches in India, basic customs duty on LCD and LED TV panels of below 19 inches reduced from 10 percent to Nil.
- To give an impetus to the stainless steel industry, increase in basic customs duty on imported flat-rolled products of stainless steel from 5 percent to 7.5 percent.
- Concessional basic customs duty of 5 percent extended to machinery and equipment required for setting up of a project for solar energy production.
- To develop renewable energy, various items exempted from excise duty.
- Likewise there are many other sectors where either tax/duty exemptions have been given or taxes/duty increased.

APPRECIATION AND DEPRECIATION OF RUPEE

Appreciation and depreciation are two words that are commonly linked increase and decrease of any value. In case of monetary terms, when we say that value of rupees vis-à-vis dollar has increased from 58 to 60 per dollar, it means that rupee has depreciated. In other words, we have to shell out rupees 60 now to get a dollar i.e. more rupee money is to be parted with to get one dollar. On the other hand, if value of rupee comes down from 60 to 55 per dollar, we say that rupee has appreciated, i.e. less of rupees have to be shelled out for a dollar.

Such up and down movement of one currency vis-à-vis other currency continues in the foreign exchange market. As seen above dollar and rupee currency's upward or downward movement indicated that one is in more demand than the other. In other words when dollar is moving up it means more demand of dollar.

Effect of Changes in Currency Prices

When rupee gets depreciated then import items gets costlier. For instance, on importing an item from USA, we pay rupees 5500 if rupee is appreciated (1 $ =Rs.55). But same import costs Rs.6000 if rupee is depreciated (1 $ = 60 Rs.). This shows that on depreciation import items are affected the most since more money is paid.

Similarly with appreciating rupee importers will gain.

Mostly the changes in the4 currency value vis-à-vis other currencies are due to demand and supply. As per the economic theory if demand of a product is higher but supply is poor, the prices tend to rise. The vice versa is also true, i.e. more the supply and less the demands reduces the prices. The same principle applies to currencies.

Factors affecting rupee value

1. Employment

Higher unemployment causes low spending since there is no money with unemployed for spending. Sometimes employed are cautious and spend less to save for future. Unemployment indicates poor economic growth. When such situation arises demand for currency declines. So there is depreciation

2. Economic Growth

Higher economic growth leads to increase in prices of commodities. Workers earn more, but are unable to spend due to higher prices. Central banks of the countries may increase interest rates. A change in interest rates may signal a change in currency rates.

3. Interest Rates

During poor economic conditions, money supply is low. And so is the spending power of people. It means supply is low and demand is more. This increases the prices and value of rupee increases. RBI in India or Central Bank of any country can lower the interest rates to make borrowing cheaper. Higher inflow increases available cash in hand and increase spending.

4. Balance of Trade

Balance of Trade means = Total value of exports – Total value of imports

If above trade balance is positive it means the country's economy is good. If it is negative then there is trade gap or trade deficit.

Trade balance affects the supply and demand for a currency. During positive economy (positive trade balance) currency demand is higher. A trade deficit, on the other hand, increases the supply of a country's currency and could lead to devaluation if supply greatly exceeds demand.

In short we see that when currency depreciates corporate importing goods and services are most losers and exporters are gainers. However the situation is reverse when rupee currency appreciates.

PAST EXERCISE

1. When the rate of inflation increases **[IBPS 2011]**
   (a) purchasing power of money increases
   (b) purchasing power of money decreases
   (c) value of money increases
   (d) purchasing power of money remains unaffected
   (e) amount of money in circulation decrease
2. A type of fraud wherein criminals use an innocent person's details to open or use an account to carry out financial transactions is known as **[IBPS 2013]**
   (a) identity theft
   (b) hacking
   (c) money laundering
   (d) espionage
   (e) phishing
3. The part of a company's earnings or profits which are paid out to shareholders is known as **[IBPS 2013]**
   (a) capital gains
   (b) taxes
   (c) interest on borrowings
   (d) dividends
   (e) penal interest
4. The term 'Smart Money" refers to __________ . **[IBPS 2012]**
   (a) Foreign Currency
   (b) Internet Banking
   (c) US Dollars
   (d) Travelers' cheques
   (e) Credit Cards
5. In recent years it has been recognized increasingly that a large segment of the rural population is out of the reach of the formal banking services. Which of the following is the name of the concept floated to bring most of these rural persons in hte net of financial and banking services? **[Nabard Bank 2009]**
   (a) Corporate Governance
   (b) Financial Inclusion
   (c) Wealth Creation
   (d) Credit Management
   (e) Risk Management

ANSWER KEY

1.	(b)	**2.**	(e)	**3.**	(d)	**4.**	(e)	**5.**	(b)

PRACTICE EXERCISE

1. When the growth of GDP in a country slows down suddenly, people start losing their jobs and the situation continues for several weeks, what name is given to this state of economy (A big country was in this state recently)?
   (a) Inflation
   (b) Recession
   (c) Deflation
   (d) Economic boom
   (e) None of these
2. What is Gross Domestic Product?
   (a) It is the cost of production of all final goods and services made in the country
   (b) It is the cost of services made within the borders of a country in a year
   (c) It is the market value of all final goods and services made in the country
   (d) It is the market value of all final goods and services made within the borders of a country in a year
   (e) None of the above
3. In economic terms, the total market value of all final goods and services produced in a country in a given year is known as
   (a) GNI (b) GDP
   (c) inflation (d) PPP
   (e) wealth of a nation
4. GNP stands for
   (a) Gross National Product
   (b) Group Net Product
   (c) Grand Nuclear Process
   (d) Group Network Process
   (e) None of the above
5. In India, the National Income is measured on the basis of
   (a) flow of goods only
   (b) number of employed youth only
   (c) volume of tax collected per annum
   (d) earning of people working in PSUs and government jobs
   (e) All of the above
6. Which of the following is one of the measures of economic growth of a country?
   (a) Volume of direct investment made by foreign countries
   (b) Number of companies listed on the stock exchange
   (c) Gross domestic product of the nation
   (d) Number of foreign nationals working in a country
   (e) All of the above
7. Consider the following statements:
   I. The first attempt to calculate National Income of India was made by Dadabhai Naoroji.
   II. The first scientific method to calculate national income of India was made by Professor VKRV Rao.
   Which of the statements given above is/are correct?
   (a) Only I (b) Only II
   (c) Both I and II (d) Neither I nor II
   (e) Either I or II
8. Consider the following statements:
   I. GDP is a better measure of National Income than GNP.
   II. GNP is always higher than GDP.
   Which of the statements given above is/are correct?
   (a) Only I (b) Only II
   (c) Both I and II (d) Neither I nor II
   (e) Either I or II
9. Real national income growth refers to
   (a) national income growth adjusted for inflation
   (b) national income growth adjusted for population growth
   (c) national income growth adjusted for depreciation rate
   (d) national income growth adjusted for saving growth
   (e) national income growth adjust for saving

10. Consider the following statements:
    I. Net national product is most appropriate method to measure the economic growth of a country.
    II. Max O Lorenz firstly introduced Gross domestic product to measure the economic growth of a country.

    Which of the statements given above is/are correct?
    (a) Only I (b) Only II
    (c) Both I and II (d) Neither I nor II
    (e) Either I or II
11. Which one of the following is the correct sequence of contribution to gross domestic product in India by the various sectors of the economy in last 10 years?
    (a) Agriculture-Industry-Service
    (b) Agriculture-Service-Industry
    (c) Service-Agriculture-Industry
    (d) Service-Industry-Agriculture
    (e) None of the above
12. Which of the following is not included in the estimates of National Income?
    (a) Sale of collector's items
    (b) Addition to inventory, but not sale of the company's products
    (c) Market rent of self owned house
    (d) Cost of government services
    (e) None of the above
13. The term 'Gross National Happiness' was coined by
    (a) Amartya Sen
    (b) Bhutan's King
    (c) Maqbool Haq
    (d) European Union
    (e) Economists of Sweden
14. The largest share of Gross Domestic Product (GDP), in India comes from
    (a) agriculture and allied sector
    (b) manufacturing and construction
    (c) service sector
    (d) defence and public administration
    (e) defence and allied sector
15. GDP at factor cost is
    (a) GDP minus indirect taxes plus subsidies
    (b) GNP minus depreciation allowance
    (c) NNP plus depreciation allowance
    (d) GDP minus subsidies plus indirect taxes
    (e) None of the above
16. Gross Domestic Product (GDP) is defined as the value of all
    (a) goods produced in an economy in a year
    (b) goods and services in an economy in a year
    (c) final goods produced in economy in a year
    (d) final goods and services produced in an economy in a year
    (e) None of the above
17. Per capita income is obtained by dividing National Income by
    (a) total population of the country
    (b) total working population
    (c) area of the country
    (d) volume of the capital used
    (e) None of the above
18. Which sectors of Indian Economy contributes largest to the gross national product?
    (a) Primary sector
    (b) Secondary sector
    (c) Tertiary sector
    (d) Public sector
    (e) None of these
19. The main source of National Income of India is
    (a) service sector
    (b) agriculture
    (c) industrial sector
    (d) trade sector
    (e) None of these
20. Intermediate goods are excluded from GDP because
    (a) they represent goods that have never been purchased so they cannot be counted
    (b) their inclusion would understate GDP
    (c) their inclusion would involve double counting
    (d) the premise of the question is incorrect because intermediate goods are directly included in calculating GDP
    (e) value of intermediate goods is unknown

21. Gross domestic product is a measure of the total value of all
    (a) consumer income in an economy over a period of time
    (b) capital accumulation in an economy over a period of time
    (c) sales in an economy over a period of time
    (d) final goods and services produced in an economy over a period of time
    (e) final as well as intermediate goods and services produced in an economy over a period of time
22. The base year method of calculating real GDP compared
    (a) quantities produced in different years using prices from a year chosen as a reference period
    (b) quantities produced in different years with the prices that prevailed during the year in which the output was produced
    (c) the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output
    (d) prices at different points in time using a sample of goods that is representative of goods purchased by households
    (e) None of the above
23. The GDP is the value of all final goods and services produced
    (a) within the nations boundaries
    (b) by domestically owned companies
    (c) by citizens of the country
    (d) by domestically controlled companies
    (e) None of the above
24. In any year, real GDP
    (a) might be greater or less than potential GDP
    (b) will always be greater than potential GDP because of the tendency of nations to incur inflamation
    (c) always equals potential GDP
    (d) must always be less than potential GDP
    (e) cannot be determined
25. According to the World Bank, which of the following attributes of an economy are that of a 'high income' economy?
    I. GDP per capita of $15000.
    II. Adult literacy of more than 95%.
    III. Top 5 countries of the World GDP wise.

    Select the correct answer using the codes given below
    (a) Only I (b) Only III
    (c) I and II (d) I and III
    (e) II and III
26. Consider the following statements:
    I. The base year for measuring GDP in India is 2004-05.
    II. The CSO functions under the Ministry of Statistics and Programme Implementation.
    III. NSSO is a part of Central Statistical Organisation (CSO).

    Which of the statements given above is/are correct?
    (a) II and III (b) Only I
    (c) I and II (d) I and III
    (e) All of these
27. Which of the following is not included in National Income Accounts?
    (a) Second hand goods
    (b) Transaction in stock markets
    (c) Transfer payments
    (d) All of the above
    (e) None of the above
28. Which of the following is the standard definition of recession?
    (a) Negative GDP growth for the year as a whole
    (b) Negative GDP growth for two consecutive quarters
    (c) Negative GDP growth for three consecutive quarters
    (d) Negative GDP growth with increased rate of inflation compared to the previous years
    (e) Positive GDP growth for two consecutive quarters

29. Which of the following are signs of an open economy?
    I. Share of trade in GDP is high.
    II. GDP and GNP are almost the same.
    III. Exchange rate is determined by markets.

    Select the correct answer using the codes given below
    (a) I and III (b) Only II
    (c) I and II (d) II and III
    (e) All of these
30. Which of the following are included, when calculating GDP by the expenditure method?
    I. Value of tyres sold by a tyre manufacturer to a car manufacture.
    II. Amount of imports.
    III. Amount spent on education by a household.

    Select the correct answer using the codes given below:
    (a) Only II (b) I and II
    (c) II and III (d) Only III
    (e) All of the above
31. GDP growth as a measure of development is unreliable because
    I. it does not include environmental degradation.
    II. it does not measure growth in incomes.
    III. it does not measure increase in jobs.

    Select the correct answer using the codes given below:
    (a) II and III (b) I and II
    (c) I and III (d) Only III
    (e) All of these
32. Which of the following sectors makes maximum contribution to the national income of India?
    (a) Services (b) Agriculture
    (c) Industry (d) Both (b) and (c)
    (e) None of these
33. Inflation can defined as
    (a) a persistent rise in general price level
    (b) a persistent fall in general price level
    (c) an increase purchasing power
    (d) increase in value of money
    (e) decrease in money
34. Reason for cost push inflation is
    (a) increase in wage rate
    (b) increase in interest rate
    (c) increase in the price of raw material
    (d) increase in indirect tax
    (e) decrease in cost of production
35. Which of the following is not a reason for demand pull inflation?
    (a) Shortage of consumer goods
    (b) More exports
    (c) Economic growth
    (d) Less import
    (e) More exports and less imports
36. During inflation,
    (a) exports becomes more expensive
    (b) exports becomes more cheap
    (c) imports becomes more expensive
    (d) surplus balance of payment
    (e) All of the above
37. Union budget is always presented first in
    (a) the Lok Sabha
    (b) the Rajya Sabha
    (c) joint session of the Parliament
    (d) meeting of the Union Cabinet
    (e) the State Assemblies
38. As we all know, the Ministry of Finance every year prepares the Union Budget and presents it to the Parliament. Which of the following is/are the elements of the Union Budget?
    I. Estimates of revenue and capital receipts.
    II. Ways and means to raise the revenue.
    III. Estimates of expenditure.

    Select the correct answer using the codes given below:
    (a) Only I (b) Only II
    (c) Only III (d) All of these
    (e) None of these

39. Which of the following is not a tax/duty levied by the Government of India?
    (a) Income Tax (b) Education Cess
    (c) Service Tax (d) Customs Duty
    (e) Toll Tax
40. Fiscal deficit is
    (a) total income less government borrowing
    (b) total payments less total receipts
    (c) total payments less capital receipts
    (d) total expenditure less total receipts excluding borrowing
    (e) None of the above
41. The amount of which of the following reflects the overall budgetary position of the Government of India at a given time?
    (a) Revenue deficit
    (b) Total amount of income tax collected
    (c) Capital deficit
    (d) Fiscal deficit
    (e) None of these
42. Which of the following is/are the components of the Fiscal Deficit?
    I. Budgetary Deficit
    II. Market Borrowing
    III. Expenditure made from Pradhan Mantri Rahat Kosh

    Select the correct answer using the codes given below:
    (a) Only I (b) Only II
    (c) Only III (d) All of these
    (e) None of these
43. Which of the following is/are the Non-tax Revenue components of the Union Budget of India?
    I. Customs Duties
    II. Interest Receipts
    III. Dividends and Profits

    Select the correct answer using the codes given below:
    (a) Only I (b) Only II
    (c) II and III (d) Only IV
    (e) All of these
44. As we all know, Government of India pays special emphasis on the management of Fiscal Deficit. What is Fiscal Deficit?
    (a) The gap between projected of estimated GDP and actual GDP
    (b) The gap between the total number and value of the currency notes issued by the RBI uptill now over the number and value of those which are in actual circulation
    (c) The gap between the actual borrowings of the Government of India and the expected expenditure for which provision is made in the budget
    (d) Excess of government's disbursement comprising current and capital expenditures over its current receipts (tax/non-tax receipts)
    (e) None of the above
45. Which of the following is/are the Non-tax Revenue components of the Union Budget of India?
    I. Custom Duties
    II. Interest Receipts
    III. Dividend and Profits

    Select the correct answer using the codes given below:
    (a) I and II (b) Only II
    (c) II and III (d) Only III
    (e) All of these
46. Which of the following organisations/agencies is actively involved in drafting the Union Budget of India?
    (a) The Planning Commission
    (b) The Comptroller and Auditor General
    (c) Administrative Staff of the Lok Sabha
    (d) Ministry of Finance
    (e) Ministry of Rural Development
47. Which of the following is the target fixed for maintaining fiscal deficit in the Union Budget of India?
    (a) 4.6% of total budget
    (b) 4.6% of GDP
    (c) 3.6% of total budget
    (d) 3.6% of GDP
    (e) None of these

48. Which of the following is/are different categories of inflation?
    I. Open and suppressed
    II. Cost push
    III. Deman pull
    Select the correct answer using the codes given below:
    (a) Only I (b) I and II
    (c) II and III (d) All of these
    (e) None of these
49. Fiscal deficit is
    (a) total income less government borrowing
    (b) total payments less total receipts
    (c) total payments less capital receipts total expenditure less
    (d) total receipts excluding borrowing
    (e) None of the above
50. Inflation is caused by
    (a) increase in supply of goods
    (b) increase in cash with the government
    (c) decrease in money supply
    (d) increase in money supply
    (e) All of the above
51. Where is the head office of the International Monetary Fund (IMF)?
    (a) Paris
    (b) New York
    (c) Washington DC
    (d) Dhaka
    (e) Beirut
52. Which of the following statements is true about International Monetary Fund (IMF)?
    (a) It provides ways and means funds to member countries.
    (b) It is an agency of the World Bank and is situated in Prague.
    (c) It makes all the rules and regulations in relation to the world trade between the nations.
    (d) On becoming its member, countries get finance as temporary balance of payment needs.
    (e) It is an organisation floated by the members of NATO and caters to the need of those countries only.
53. Special Drawing Rights are the rights of countries provided by
    (a) World Bank
    (b) IMF
    (c) ADB
    (d) Federal Reserve
    (e) None of these
54. The main function of the IMF is
    (a) to help solve balance of payments problems of member countries
    (b) to arrange international deposits from banks
    (c) to act as private sector lending arm of the World Bank
    (d) to finance investment loans to developing countries
    (e) None of the above
55. On which one of the following issues has IMF supported monetary policy of India?
    (a) Introduction of GST
    (b) Stimulus for agriculture sector
    (c) Concessions for foreign investment
    (d) Tightening of monetary policy
    (e) None of the above
56. Which of the following organisations has given a warning to the nations of the world that there may be increased risk to global financial stability in the world?
    (a) World Bank
    (b) World Trade Organisation
    (c) Asian Development Bank
    (d) International Monetary Fund
    (e) United Nation Organisation
57. Consider the following statements:
    I. IMF and World Bank both are Bretton Wood heir.
    II. World Bank provides long-term loan for promoting balanced economic development.
    III. IMF provides loans to eliminate BoP disequilibrium.
    Which of the statements given above are correct?
    (a) I and II (b) II and III
    (c) I and III (d) All of these
    (e) None of these

58. The IMF and the World Bank were conceived as institutions to
    (a) strengthen international economic co-operation and to help create a more stable and prosperous global economy
    (b) IMF promotes international monetary cooperation
    (c) The World Bank promotes long-term economic development and poverty reduction
    (d) All of the above
    (e) None of the above
59. As per the news published in the newspapers, the International Monetary Fund (IMF) praised India's, performance on its economic front. Which of the following is not true in this respect?
    I. IMF favoured the cuts in fuel subsidies as part of expenditure measures to create space for spending on priority sectors.
    II. IMF was not in favour of huge foreign fund flow to India as it has created an imbalance at regional level.
    III. IMF wants some more structural reforms to be implemented quickly.

    Select the correct answer using the codes given below
    (a) Only I (b) Only II
    (c) Only III (d) I and II
    (e) All of these
60. As per the reports published by the World Bank, what percentage of Indian population lives below the new International Poverty Line?
    (a) 30% (b) 62%
    (c) 52% (d) 42%
    (e) 68%
61. What is the number of member states in the World Trade Organisation?
    (a) 144 (b) 148
    (c) 150 (d) 146
    (e) 170
62. Who have the largest share of world trade?
    (a) European Union, USA
    (b) Japan
    (c) Canada
    (d) All of these
    (e) None of these
63. Where is the Headquarters of World Trade Organisation?
    (a) New Delhi (b) New York
    (c) Geneva (d) Rome
    (e) None of these
64. Inflation in India is measured on which of the follow indexes/indicators?
    (a) Cost of Living Index (COLI)
    (b) Consumer Price Index (CPI)
    (c) Gross Domestic Product (GDP)
    (d) Wholesale Price Index (WPI)
    (e) None of these
65. Which of the following organisation agencies are involved in drafting the Union Budge of India?
    (a) The Planning Commission
    (b) The Comptroller and Auditor General
    (c) Administrative Ministries
    (d) Both (a) and (b)
    (e) All of the above
66. Inflation is measured in India on the basis of which index?
    (a) Consumer price index
    (b) Wholesale price index
    (c) Retail price index
    (d) Market forces
    (e) None of these
67. Financial inclusion is meant for?
    (a) Less provilged persons
    (b) Senior citizens
    (c) Micro finance institutions
    (d) All of the above
    (e) None of the above
68. As per reports in the newspapers the Indian Rupee is appreciated these days. What does it really mean?
    I. The value of the Rupee has gone up. It is now 110 paise and not 100 paise.
    II. The exchange rate of Rupee has gone up.
    III. Now we can purchase more in one Rupee.

Which was not possible earlier?
(a) Only I (b) Only II
(c) Only III (d) Both I and II
(e) None of these

69. What is a fiscal deficit?
(a) It is a gap between the values of exports and imports
(b) It is a gap between exports and imports minus external borrowings
(c) It is a gap between total expenditure and total receipts of the government
(d) It is a gap between total receipts minus external borrowings
(e) None of the above

70. Which one of the following deficits deducted the interest payments to internal and external debt from the fiscal deficit to calculate the deficit of an economy?
(a) Revenue deficit
(b) Twin deficit
(c) Primary deficit
(d) Budgetary deficit
(e) None of the these

71. Consider the following statements in the context of governance.
I. Encouraging foreign direct investment inflows
II. Privatisation of higher educational institutions
III. Down-sizing of bureaucracy
Which of the above can be used as measures to control the fiscal deficit in India?
(a) Only I
(b) Only II
(c) Only III
(d) All of the above
(e) None of the above

72. When did World Trade Organisation come into force?
(a) 2nd January, 1948
(b) 1st January, 1995
(c) 12th January, 1948
(d) 15th January, 1946
(e) 13th January, 1947

73. 'Sub-prime Lending is a term applied to the loans made
(a) those borrowers who do not have a good credit history
(b) those who wish to take loan against the mortgage of tangible assets
(c) those who have a good credit history and are known to bank since 10 years
(d) those borrowers who are most preferred customers of the bank
(e) None of these

74. Which of the following schemes available in the financial markets is not meant for investment purposes?
(a) National savings certificates
(b) Infrastructure bonds
(c) Mutual funds
(c) Letter of credit
(e) all of these

75. The term national income represents
(a) Gross national product at market prices minus depreciation
(b) Gross national product at markets prices minus depreciation plus net factor income from abroad
(c) Gross national product at market prices minus depreciation and indirect taxes plus subsides
(d) Gross national product at market prices minus net factor income from abroad
(e) None of the above

76. Credit cards are known as
(a) hard money (b) easy money
(c) soft money (d) plastic money
(e) real money

77. Financial inclusion is being emphasised by RBI for
(a) providing basic banking services to the unbanked areas
(b) providing loans to the unbanked population
(c) opening accounts for the poor
(d) bringing branches of all banks under one authority
(e) None of these

78. Insurance service provided by various banks is commonly known as ....
(a) Investment Banking
(b) Portfolio Management
(c) Merchant Banking
(d) Bancassurance
(e) Micro Finance

79. As we all know Ministry of Finance every year prepares Union Budget and presents it to the Parliament . Which of the following is / are the elements of the Union Budget ?
(1) Estimates of revenue and capital receipts.
(2) Ways and Means to raise the revenue.
(3) Estimates of expenditure.
(a) Only 1 (b) Only 2
(c) Only 3 (d) All 1, 2 & 3
(e) None of these

80. Which is not a monetary measure to control inflation ?
(a) Soft loan policy
(b) Hard credit policy
(c) Tighten the regulations of money issue
(d) To reduce the quantity of money
(e) None of these

81. Which is the monetary measure to control inflation ?
(a) Increase in taxation
(b) Decrease in taxation
(c) Soft credit policy
(d) Hard credit policy
(e) None of these

82. Selling of securities in the open market by the central bank creates—
(a) Inflation
(b) Deflation
(c) Both of the above
(d) None of the above
(e) None of these

83. To control inflation the central bank should —
(a) Sell government securities and decrease bank rate
(b) Sell government securities and increase bank rate
(c) Purchase government securities and increase bank rate
(d) Purchase government securities and to decrease bank rate
(e) None of these

ANSWER KEY

1.	(b)	**2.**	(d)	**3.**	(b)	**4.**	(a)	**5.**	(e)	**6.**	(c)
7.	(c)	**8.**	(d)	**9.**	(a)	**10.**	(d)	**11.**	(d)	**12.**	(a)
13.	(b)	**14.**	(c)	**15.**	(a)	**16.**	(d)	**17.**	(a)	**18.**	(c)
19.	(a)	**20.**	(c)	**21.**	(d)	**22.**	(a)	**23.**	(a)	**24.**	(a)
25.	(a)	**26.**	(c)	**27.**	(d)	**28.**	(b)	**29.**	(a)	**30.**	(c)
31.	(c)	**32.**	(e)	**33.**	(a)	**34.**	(c)	**35.**	(a)	**36.**	(a)
37.	(a)	**38.**	(d)	**39.**	(e)	**40.**	(d)	**41.**	(d)	**42.**	(d)
43.	(c)	**44.**	(d)	**45.**	(c)	**46.**	(c)	**47.**	(b)	**48.**	(c)
49.	(d)	**50.**	(d)	**51.**	(c)	**52.**	(d)	**53.**	(b)	**54.**	(a)
55.	(d)	**56.**	(a)	**57.**	(d)	**58.**	(d)	**59.**	(b)	**60.**	(d)
61.	(d)	**62.**	(d)	**63.**	(c)	**64.**	(d)	**65.**	(c)	**66.**	(b)
67.	(a)	**68.**	(b)	**69.**	(e)	**70.**	(c)	**71.**	(d)	**72.**	(b)
73.	(a)	**74.**	(d)	**75.**	(c)	**76.**	(d)	**77.**	(a)	**78.**	(d)
79.	(d)	**80.**	(a)	**81.**	(d)	**82.**	(b)	**83.**	(b)		

CHAPTER 16

Current Development in Banking

APPOINTMENTS

R. Chandrashekhar takes over as Nasscom president

Former telecom secretary R. Chandrashekhar, under whom a government information technology (IT) department was set up for the first time, took over as president of Nasscom—a body representing the $108 billion Indian IT-BPM (business process management) industry. He succeeds Som Mittal, who served as the president of Nasscom from 2007-13.

MCX-SX appoints Saurabh Sarkar as CEO and MD

MCX Stock Exchange Ltd (MCX-SX), the country's newest full-fledged bourse, announced the appointment of Saurabh Sarkar as its new chief executive officer (CEO) and managing director (M(d), after approval from market regulator Securities and Exchange Board of India (Sebi). Sarkar, previously MD and CEO of United Stock Exchange of India Ltd, has also worked with global financial servicesfirms like Credit Agricole, Standard Chartered and Calyon, and ANZ Grindlays Bank.

Arun Jaitley appointed ADB's Board of Governors

The Union Finance Minister Arun Jaitley has been appointed as India's Governor on the Board of Governors of the Asian Development Bank with effect from May 27. The position was previously held by former Finance Minister P Chidambaram. The Board of Governors is the ADB's highest policy-making body and has one representative from each member country. The Manila-headquartered multi-lateral funding agency, founded in 1966, aims to improve people's lives in Asia and the Pacific.

COMMITTEES FORMED/CONSTITUTED

Nachiket Mor committee

A 13-member panel called Committee on Comprehensive Financial Services for Small Businesses and Low Income Households headed by Nachiket Mor has been formed. The panel proposed that every adult Indian be granted a Universal Electronic Bank Account (UEB(a) by January 2016. It also proposed that all low-income and small businesses be given access to banking services by January 2016.

RBI constitutes an Expert Committee to Review Governance of Boards

The Reserve Bank of India has constituted an Expert Committee to Review Governance of Boards of Banks in India. The Committee would be chaired by Shri P. J. Nayak, former Chairman and CEO of Axis Bank. The terms of reference of the Committee would be, among other things, to review the regulatory compliance requirements of banks' boards in India, to judge what can be rationalised and where requirements need to be enhanced.

Vijaya Bhaskar Committee

RBI has accepted the P. Vijaya Bhaskar Committee's recommendations relating to Financial Benchmarks. RBI has asked for establishing an independent body for recommending benchmark foreign exchange rate in order to avoid any potential manipulation by the bankers. The Bhaskar Committee had suggested Indian money and currency markets should move their benchmarks towards transaction-based from poll-based in an attempt to comb out manipulation.

Urjit R. Patel committee

The expert committee was headed by Urjit R. Patel, Deputy Governor of the Reserve Bank of India. The committee felt that inflation should be the nominal anchor for the monetary policy framework. The nominal anchor or the target for inflation should be set at 4 per cent with a band of +/- 2 per cent around it. The nominal anchor should be communicated without ambiguity, so as to ensure a monetary policy regime shift away from the current approach to one that is centred around the nominal anchor.

NEW ENTRANTS IN 2014

The Industrial & Commercial Bank of China (ICB(c) opens its first branch

The ICBC becomes the first lender from mainland China to set up a shop in the country. The world's largest bank by profit, balance sheet as well as market value, has opened its first branch in the country in Mumbai. The opening of ICBC's maiden branch here not only shows the bank's confidence in the prospects of India's economic development and the friendly relationships between the two countries, but also both countries' commitment to building a commercial bridge between the two countries.

Doha Bank to open its 1st branch in India

The second largest Qatari lender Doha Bank will be opening its first branch in India here shortly and has set a target of USD 5-billion balance-sheet by the third year of operations. The Qatari lender is the third Arab lender to have operations in the country after Bank of Bahrain and Kuwait and Abu Dhabi Bank.

Canara Bank opens branch in New York

Canara Bank has achieved a milestone by opening its branch in New York. It will be the bank's seventh overseas branch after London, Leicester (UK), Hong Kong, Shanghai, Bahrain and Johannesburg. The branch was opened by Consul General of India in New York, Dnyaneshwar M Mulay. The New York branch will have the staff strength of seven people, four from India on deputation and three hired locally from United States.

ANNOUNCEMENT/A EYE-OPENER NEWS

Chhattisgarh ranks as the best performing state in most of the key fiscal parameters

According to a Reserve Bank of India (RBI) study, Chhattisgarh has done reasonably well in spending its money in developmental sector, one of the key parameters to judge States overall performance. As per RBI study, Chhattisgarh's development expenditure as per cent of Gross State Domestic Product (GSDP) is highest in the country.

India to Head BRICS' $100 Billion New Development Bank

Leaders of the BRICS emerging market nations launched a $100 billion development bank and a currency reserve pool recently in their first concrete step toward reshaping the Western-dominated international financial system. The bank, aimed at funding infrastructure projects in developing nations, will be based in Shanghai, China, and India will preside over its operations for the first six years, followed by five-year terms for Brazil and then Russia.

Hong Kong and Macau included in the sensitive list of countries

The Reserve Bank of India (RBI) has included Hong Kong and Macau in the sensitive list of countries — along with Pakistan and China — that will require its prior approval to set up business or related activities in India. Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran and China are already in the sensitive list.

The RBI grants bank licences to IDFC and Bandhan Financial Services

The Reserve Bank of India (RBI) gave its in-principal nod for new bank licences to IDFC and Kolkata-based Bandhan Financial Services Pvt Ltd. It was suggested that there was a need of "a different bank to cater to North East". This description fits perfectly to Bandhan Financial, which was the only one among aspirants presently operating extensively in the North East.

Video Branch by IndusInd Bank

Video Branch, a service offered exclusively for all IndusInd Bank customers, has recently been launched by the bank. By using this service, you can connect with your Branch Manager, Relationship Manager or with our centralized Video Branch Executive.Easy, convenient and completely secure to use, Video Branch service offers a wide range of information and transactions to cater to your needs.

Six PSU banks incurred ₹ 1900 crore loss on crop loan till Jun 2014: Government

Six public sector banks have incurred a loss of around ₹ 1,900 crore up to June 2014 because of credit granted towards crop loans. According to the information received from six Public Sector Banks (PSBs), a loss of around ₹ 1,900 crore in this regard during the years 2011-12, 2012-13, 2013-14 and 2014-15 (up to June, 2014) has been indicated. Finance Minister Arun Jaitley told Lok Sabha in a written reply.

State Bank of Patiala ready to merge with parent SBI

One of the five associate banks of the country's top lender, the State Bank of India (SBI), is set to merge with the parent this fiscal. State Bank of Patiala is the most likely suitor. One of these five associates will be merged with the SBI this financial year. The government-run State Bank of India has five associates -- State Bank of Bikaner and Jaipur, State Bank of Travancore, State Bank of Patiala, State Bank of Mysore and State Bank of Hyderabad. Out of these five, three of them are listed -- State Bank of Bikaner and Jaipur, State Bank of Mysore and State Bank of Travancore. State Bank of Patiala is the first in the queue.

RBI unlocks ₹ 40,000 crore of bank funds

Committed to keep inflation under check, RBI Governor Raghuram Rajan left key rates unchanged and unlocked about ₹ 40,000 crore of funds by reducing the amount of deposits banks are required to park in government securities. This is the second time in a row that interest rates have been left unchanged amid demands for moderation to spur growth. The repo rate, at which the Reserve Bank of India lends to banks, has been retained at 8 per cent, while the statutory liquidity ratio (SLR) for banks has been cut by 0.5 per cent to 22.5 per cent with effect from June 14.

The cash reserve ratio for banks has been kept unchanged at 4 per cent.

RBI simplifies KYC norms for opening of bank accounts

A bank account can be opened with just one address proof, permanent or local from now on helping migrant workers and employees with transferable jobs who at present face cumbersome procedure to access banking services.

Henceforth, customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation.

Bar 'wilful' defaulters from capital markets: RBI to SEBI

The RBI (Reserve Bank of Indi(a) has suggested to SEBI (Securities and Exchange Board of Indi(a) that "wilful" defaulters of bank loans should be prevented from raising funds through capital markets. At present, the information about wilful defaulters of bank loans are shared with SEBI and others, including credit information agencies on a quarterly basis. The central bank is exploring ways to share details of these defaulters with SEBI on real-time basis.

United Bank to 'name and shame' wilful defaulters

State-owned United Bank of India (UBI) will soon embark upon a process to 'name and shame' its wilful defaulters as part of its effort to recover dues. As part of this effort, the bank will publish photographs of defaulters and other details in newspapers and at notice boards of bank branches. If declared a wilful defaulter, the person would not be able to borrow in future and lose Director-level positions in companies.

SBI INTOUCH

In an effort to attract Gen Y, the bank, in association with Accenture, launched six digital branches across the nation on Tuesday. The bank terms these branches as digital stores, which will provide the facility for instant in-principal loan approval and an interactive dream wall to aid customers in conceptualising their journey toward realising their financial dreams. Named 'SBI INTOUCH,' the new branches are located in Bangalore, Chennai, Mumbai, Ahmedabad, and New Delhi.

World Bank Sets Interim Poverty Target at 9 Percent in 2020

Calling for greater urgency to end extreme poverty, World Bank Group President Jim Yong Kim announced that the World Bank has set an interim target to reduce global poverty to 9 percent in 2020, which, if achieved, would mark the first time the rate has fallen into the single digits. The milestone was based on a World Bank economic analysis of global poverty trends toward reaching a goal of ending extreme poverty by 2030. Living in extreme poverty is defined as below \$1.25 a day.

Instant Money Transfer (IMT)

Bank of India, recently launched Instant Money Transfer which allows cardless cash withdrawal at its IMT-enabled ATMs, a first-of-its-kind initiative by any public sector bank. IMT is an innovative domestic money remittance facility that allows the customers to send money to a receiver only by using the receiver's mobile number through the bank's ATM and retail internet banking facility. The receiver can withdraw money from a Bank of India's ATM without using a card.

RBI cancels licences of six Delhi-based NBFCs

The Reserve Bank of India (RBI) has cancelled the licences of six Delhi-based non banking financial companies (NBFCs) following which they would not be able to conduct business. They include NBFCs: GE Strategic Investments India, Profound Exports, Two Brothers Holding, Swank Services Private Ltd, Praxis Consulting and Information Services and Credible Microfinance Ltd.

The Rajasthan Road Sector Modernization Project

The government of India and the World Bank have signed a $160 million credit for the Rajasthan Road Sector Modernization Project to support the government of Rajasthan improve rural connectivity, enhance road safety and strengthen the road sector management capacity of the state.

Bilateral Local Currency Swap Agreement

The Reserve Bank of Australia signed a bilateral local currency swap agreement with the Bank of Korea allowing for the exchange of local currencies between the two central banks of up to A$5 billion or KRW 5 trillion. The effective period of the facility will be three years, and could be extended by mutual consent of both sides.

Tokyo Inter Bank Offered Rate (TIBOR)

It is the interest rate at which banks charge each other for loans in Japan. The difference between the TIBOR and LIBOR is often referred to as the "Tokyo premium" or "Japan premium", since it represents the credit risk of Japanese banks.

'Medium Term Note (MTN)'

Medium term note is a note that usually matures in five to 10 years. A corporate note continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years. This type of debt program is used by a company so it can have constant cash flows coming in from its debt issuance.

'Depositor Education and Awareness Fund'

The Reserve Bank of India (RBI) would establish a fund to be called 'Depositor Education and Awareness Fund', which would comprise unclaimed funds of depositors. The Fund will be created by taking over inoperative deposit accounts which have not been claimed or operated for ten years or more or any deposit or any amount remaining unclaimed for more than 10 years within three months from the expiry of the period of ten years.

SREI Infrastructure Finance Ltd (SREI IFL)

SREI Infrastructure Finance Ltd (SREI IFL) is one of India's leading Non Banking Financial Institutions (NBFI) and the only private sector infrastructure financing NBFI. The Company was incorporated on 29th March 1985 and now it has expertise in financing of infrastructure equipment (for construction, mining, oil & gas, power and others), infrastructure projects, infrastructure development and advisory in all verticals of infrastructure. The company's business portfolio was widened to include merchant banking and investment banking.

Trade Receivables and Credit Exchange for Financing MSMEs

The Reserve Bank of India has sought feedback on the Concept Paper on Trade Receivables and Credit Exchange for Financing Micro, Small and Medium Enterprises (MSMEs). The model outlined in the paper envisages both, primary market segment (in which invoices first undergo a reverse factoring process to enable the first level of financing to the MSMEs) as well as a secondary market segment (where the financiers of the primary segment get an opportunity to trade these invoices).

GLOBAL ECONOMIC PROSPECTS (GEP)

Developing countries are headed for a third consecutive year of disappointing growth below 5 percent, as first quarter weakness in 2014 has delayed an expected pick-up in economic activity, says the World Bank’s latest Global Economic Prospects report, issued on June 10, 2014. The global economy is expected to pick up speed as the year progresses and is projected to expand by 2.8 percent this year, strengthening to 3.4 and 3.5 percent in 2015 and 2016, respectively.

An expert committee appointed to examine the current monetary policy framework of the Reserve Bank of India (RBI) has suggested that the apex bank should adopt the new CPI (consumer price index) as the measure of the nominal anchor for policy communication.

Asian Development Outlook 2014

The Asian Development Bank (AD(b) published their latest economic outlook for 45 countries in Asia and the Pacific. Similar to 2012, developing Asia’s GDP grew on average by 6.1% in 2013. While the Chinese economy grew by 7.7%, it is predicted to slow down in the next years to achieve more sustainable and balanced growth in the long run. Although the economic situation in Asia has become more stable, the ADB recommends the use of adequate fiscal policy tools to tackle rising inequalities within the population.

Re-promulgation of the SEBI Ordinance 2014

President Pranab Mukherjee cleared the re-promulgation of the SEBI Ordinance that had lapsed on January 15, since Parliament could not pass the Securities Laws (Amendment) Bill 2013 in the Winter session. The Ordinance empowers the Securities and Exchanges Board of India (SEBI) Chairman to order searches and seizures and crack downs on Ponzi schemes.

Purchasing Managers' Index (PMI)

Purchasing Managers Index (PMI) is an indicator of business activity -- both in the manufacturing and services sectors. It is a survey-based measure that asks the respondents about changes in their perception of some key business variables from the month before. It is calculated separately for the manufacturing and services sectors and then a composite index is constructed.

Consumer Finance

The division of retail banking that deals with lending money to consumers. This includes a wide variety of loans, including credit cards, mortgage loans, and auto loans, and can also be used to refer to loans taken out at either the prime rate or the subprime rate.

IDBI tops the list of PSBs in terms of the Highest Net Profit Per Employee

IDBI Bank is the youngest, new generation, public sector bank. It offers personalised banking and financial solutions to its clients. The bank has an aggregate balance sheet size of ₹ 322769 crore and a total business of ₹ 423423 crore as on March 31, 2013. IDBI Bank's operations during the financial year ended March 31, 2013 resulted in a net profit of ₹ 1882 crore.

India ranks 120th in index of economic freedom for 2014

India continues to suffer from low, but improving, levels of economic freedom. The latest Index of Economic Freedom ranks the nation 120th globally and 25th among 43 countries in the Asia-Pacific region. Although India is rated a "mostly unfree" economy, the country achieved its highest score ever in the 2014 Index of Economic Freedom. The country's economic freedom score is 55.7, which is unchanged from last year.

Indian Global 500 companies

Eight Indian companies have made the cut in the list of world's 500 largest companies compiled by Fortune magazine, with Indian Oil and Reliance Industries finding a place in the top 100. Out of the eight, five are state-run entities. With an annual revenue of USD 86,016 million, Indian Oil has cornered the 83rd spot up from 98th place last year. Reliance Industries is the first Indian private firm to made into the top 100 list.

RBI sets govt's weekly WMA at ₹ 35,000 cr for H1

The Reserve Bank capped the ways and means advances limit for the central government in the first half of the new financial year (FY 2015) at ₹ 35,000 crore per week. The RBI may trigger fresh flotation of market loans when the government utilises 75 per cent of the ways and means advances (WM(a) limit. The second half limit will be fixed in September.

Marginal Standing Facility

MSF rate is the rate at which banks borrow funds overnight from the Reserve Bank of India (RBI) against approved government securities. This came into effect in may 2011. Under the Marginal Standing Facility (MSF), currently banks avail funds from the RBI on overnight basis against their excess statutory liquidity ratio (SLR) holdings. Additionally, they can also avail funds on overnight basis below the stipulated SLR up to 2.5% of their respective Net Demand and Time Liabilities (NDTL) outstanding at the end of second preceding fortnight.

Inflation indexed bonds

RBI launched inflation indexed bonds will be available till 31st December. The rate will be linked to CPI instead of WPI - the less accurate gauge of inflation. However, the flip side is that early redemption, even after the lock-in period is over, will entail hefty penalty.

The European Central Bank

The ECB is the central bank for Europe's single currency, the euro. The ECB’s main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 18 European Union countries that have introduced the euro since 1999.

RBI extends validity period of in-principle approvalfor new bank licence

The Reserve Bank of India extended the validity period of the in-principle approval which it gives a promoter for setting up a bank from one year to 18 months. The central bank has extended the validity period as applicants wanting to set up new banks, brought out several complex issues pertaining to re-organisation of the existing corporate structure, restructuring of businesses and meeting the regulatory requirements.

RBI releases draft guidelines on payments, small banks

The Reserve Bank of India released the draft guidelines for licensing of both payments banks and small banks. The central bank has sought views/comments on the draft guidelines from all interested parties and general public. According to the RBI, both payments banks and small banks are “niche” or “differentiated” banks; with the common objective of furthering financial inclusion.

PRACTICE EXERCISE

1. Recently, The Reserve Bank of India (RBI) constituted a 15-member inter-regulatory committee to monitor the growing phenomenon of shadow banking. Who has been appointed as the Chairman of this committee?
   (a) P. Vijaya Bhaskar
   (b) Dindyal Kukreja
   (c) N. Sundaresan
   (d) Ram Nath
   (e) None of these
2. What is the name of the new scheme announced by the Prime Minister Narendra Modi on Independence Day to help the poor in opening bank accounts, which will come with the facility of a debit card and an accidental insurance cover of ₹ 1 lakh?
   (a) Prime Minister Poor Helping Hand Scheme
   (b) Pradhan Mantri Garibi Hatao Yojana
   (c) Pradhan Mantri Jan Dhan Yojana
   (d) Prime Minster Poor relief Yojana
   (e) None of these
3. The Reserve Bank of India (RBI) announced recently that its board has given approval to create an additional post in the rank of Deputy Governor. For this RBI has approached the government for required legislative changes. Which post is this?
   (a) Chief Knowledge Officer (CKO
   (b) Chief Operating Officer (COO)
   (c) Chief Visionary Officer (CVO)
   (d) Chief Business Development Officer (CBDO)
   (e) None of these
4. Who took over as the fourth Deputy Governor of the Reserve Bank of India (RBI) during July 2014?
   (a) Subhash Sheoratan Mundra
   (b) Dr. Subir Gokarn
   (c) Anand Sinha
   (d) Urjit R. Patel
   (e) None of these
5. On 20 August 2014 the Finance Ministry ordered a forensic audit to be done at the branches of two banks in view of the reports of misappropriation of funds worth ₹ 436 crore. Which two banks are involved in this matter?
   (a) Allahabad bank and Dena Bank
   (b) Dena Bank and Oriental Bank of Commerce (OBC)
   (c) Punjab National Bank and Punjab Sindh Bank
   (d) Union Bank of India and Oriental Bank of Commerce (OBC)
   (e) None of these
6. Which international finance entity launched a \$2.5-billion onshore Indian rupee bond programme recently so as to strengthen the capital market and support infrastructure development in India?
   (a) International Union for Housing Finance (IUHF)
   (b) International Finance Corporation (IFC)
   (c) International Finance Organisation (IFO)
   (d) Public Finance International (PFI)
   (e) None of these
7. What is the name of the ambitious e-governance project of the Union Govt., which was approved by the Union Cabinet recently and which aims to ensure that government services are available to citizens electronically?
   (a) Digital India Project
   (b) Adhunik Bharat Project
   (c) Digital Bharat Project
   (d) Nav Bharat Nirmaan Project
   (e) None of these
8. India's capital market regulator SEBI recently ordered which NBFC entity to refund the money raised from some 58.5 million customers through collective investment schemes (CIS)?
   (a) Unimax Agrotech Ltd
   (b) Asia Agrotech Corp. Ltd
   (c) Omaxe Agrotech Corp. Ltd
   (d) Pearls Agrotech Corp. Ltd
   (e) None of these

9. The Reserve Bank of India recently announced its decision to reduce the number of mandated free transactions for savings bank account holders at other bank ATMs located in six metro cities from five to three per month. This reduction would come into effect from which date?
   (a) 1 October 2014
   (b) 25 October 2014
   (c) 1 November 2014
   (d) 1 December 2014
   (e) None of these
10. The Reserve Bank of India (RBI) has recently issued guidelines for asset reconstruction companies (ARCs) to increase their investments in security receipts (SRs) with the objective of strengthening the asset recovery sector. What is the minimum prescribed percentage of funds that ARCs would now have to invest in SRs as directed in this RBI guideline?
   (a) 7.5% (b) 10%
   (c) 15% (d) 18%
   (e) None of these
11. Indian Parliament recently has passed the bill to empower SEBI to act against ponzi operators and market manipulators more effectively. What is the name of this bill?
   (a) The Securities Law (Amendment) Bill, 2014
   (b) Judicial Appointments Commission Bill, 2014
   (c) The Constitution Bill,2014
   (d) The Banking Law,2014
   (e) None of these
12. India's capital market regulator SEBI cleared final guidelines for creation and listing of business trusts for key sectors of real estate and infrastructure on 10 August 2014. These guidelines have been cleared to help attract greater foreign and domestic investments into these sectors. What are the names of business trusts associated with real estate and infrastructure which would be created and listed with these SEBI guidelines?
   (a) Real Investment Trusts (RITs) and Infrastructure Investment Trusts (InvITs)
   (b) Real Estate Trusts (RETs) and Infrastructure Investment Trusts (InvITs)
   (c) Real Estate Investment (REI) and Infrastructure Trusts (InvTs)
   (d) Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)
   (e) None of these
13. Petroleum Ministry during August 2014 accorded its in-principle approval for stake-sale in ONGC which may fetch the government about ₹ 18,000 crore to meet disinvestment target for the current fiscal. For this how much stake-sale in the company is proposed?
   (a) 1% (b) 2%
   (c) 4% (d) 5%
   (e) None of these
14. Indian Railways during August 2014 launched a contact-less smart card enabling passengers to pay for reserved as well as unreserved travelling train tickets as part of a pilot project. What is the name of this smart card with lifetime validity?
   (a) Go-India (b) Go-Bharat
   (c) Go-Indian (d) Go-Railway
   (e) None of these
15. What is the name of the proposed airline of Tata-SIA Airlines Limited (TSAL), a joint-venture between Tata Group and Singapore International Airlines (SI(a)?
   (a) Vistara (b) Margaret
   (c) Tata-SIA (d) Legard
   (e) None of these
16. What is the definition of affordable housing loans as announced by the Reserve Bank of India (RBI) on 15 July 2014?
   (a) ₹ 50 lakh in metros and ₹ 40 lakh in non-metros, given by banks from the proceeds of long-term bonds (of minimum seven years maturity)
   (b) ₹ 30 lakh in metros and ₹ 20 lakh in non-metros, given by banks from the proceeds of long-term bonds (of minimum eight years maturity)

(c) ₹ 50 lakh in metros and ₹ 25 lakh in non-metros, given by banks from the proceeds of long-term bonds (of minimum six years maturity)
(d) ₹ 60 lakh in metros and ₹ 35 lakh in non-metros, given by banks from the proceeds of long-term bonds (of minimum seven years maturity)
(e) None of these

17. The fiscal deficit target for year 2015 (2014-15) has been retained at the level announced by former Finance Minister P.Chidambaram in his interim budget. What is this level?
(a) 4.1% of GDP (b) 5.7% of GDP
(c) 4.8% of GDP (d) 4.5% of GDP
(e) None of these

18. In the Union Budget 2014-15, the govt. announced setting up of a commission to bring in reforms related to spending for achieving maximum output. What is the name given to this commission?
(a) Expensable Management Committee
(b) Expenditure Management Commission
(c) Expedia Management Commission
(d) Expenditure Maximum Commision
(e) None of these

19. The revival of the Kisan Vikas Patra (KVP) was announced in the Union Budget 2014-15 on 10 July 2014. The KVP was discontinued from November 2011 on the recommendation of which committee's recommendations?
(a) Shyamlal Kunde Committee
(b) Shyama Prasad Committee
(c) Shyamala Gopinath Committee
(d) Gopinath Ghokle Committe
(e) None of these

20. What GDP growth rate range for 2014-15 was estimated in the Economic Survey 2013-14, which was tabled recently in the Lok Sabha?
(a) 5.3 to 5.9% (b) 5.2 to 5.7%
(c) 5.4 to 5.9% (d) 5.1 to 5.9%
(e) None of these

21. What was the fiscal deficit for 2013-14, as disclosed in the Economic Survey 2013-14?
(a) 4.1 % of GDP
(b) 4.2 % of GDP
(c) 4.3 % of GDP
(d) 4.5% of GDP
(e) None of these

22. The panel headed by C. Rangarajan, former Chairman of PMEAC (Prime Minister's Economic Advisory Council), has dismissed the Suresh Tendulkar Committee report on estimating poverty. The report submitted by Rangarajan to Planning Minister Rao Inderjit Singh recently stated that the number of poor in India was much higher in 2011-12 at 29.5% of the population. What was the poverty figure stated for the same year in the Suresh Tendulkar Committee report, which was severely criticized for its findings?
(a) 38.2% (b) 29.5%
(c) 21.9% (d) 20.25%
(e) None of these

23. In Union Budget 2014 -15, in Defence sector FDI cap raised to _____ from 26% at present?
(a) 51% (b) 74%
(c) 100% (d) 49%
(e) None of these

24. In Union Budget 2014 -15, Exemption limits on income tax raised from _____.
(a) ₹ 2 lakh to ₹ 2.5 lakh
(b) ₹ 2 lakh to ₹ 3 lakh
(c) ₹ 3 lakh to ₹ 3.5 lakh
(d) ₹ 2 lakh to ₹ 3.5 lakh
(e) ₹ 3 lakh to ₹ 4.5 lakh

25. In Union Budget 2014-15, the exemption on income for senior citizens has been raised to ____.
(a) ₹ 2 lakh per annum
(b) v 2.5 lakh per annum
(c) ₹ 3 lakh per annum
(d) ₹ 3.5 lakh per annum
(e) ₹ 4 lakh per annum

26. "Beti Bachao, Beti Padhao Yojana" a Scheme for women safety recently passed in Union Budget 2014-15. How much money has been allotted for this scheme?
(a) ₹ 500 Crore
(b) ₹ 100 Crore
(c) ₹ 150 Crore
(d) ₹ 50 Crore
(e) ₹ 1000 Crore

27. How much amount has been allocated to for setting up 5 more IIMs and IITs?
   (a) ₹ 500 Crore (b) ₹ 100 Crore
   (c) ₹ 150 Crore (d) ₹ 50 Crore
   (e) ₹ 1000 Crore
28. What is the name of the scheme proposed for hygiene and cleanliness in the recent Union Budget 2014-15?
   (a) Bharat Swach Yojna
   (b) Bharat Nirmal Yojna
   (c) Bharat Nirman Yojna
   (d) Bharat Sudhhikaran Yojna
   (e) None of these
29. How much amount has been allocated to for Statue of Unity, a statue of Sardar Patel in Gujarat, in the recent Union Budget 2014-15?
   (a) ₹ 500 Crore (b) ₹ 100 Crore
   (c) ₹ 200 Crore (d) ₹ 150 Crore
   (e) None of these
30. How much amount has been allocated to for irrigation plan named Pradhan mantri krishi sichayin yojana, in the recent Union Budget 2014-15?
   (a) ₹ 500 Crore (b) ₹ 100 Crore
   (c) ₹ 200 Crore (d) ₹ 1000 cr
   (e) None of these
31. How much amount has been allocated to for Internet connectivity in villages, in the recent Union Budget 2014-15?
   (a) ₹ 100 Crore (b) ₹ 200 Crore
   (c) ₹ 500 Crore (d) ₹ 150 Crore
   (e) None of these
32. Crisis Management Center for women will be open at ______?
   (a) Delhi (b) Mumbai
   (c) Bangalore (d) Kolkata
   (e) Gurgaun
33. Annual PPF ceiling to be enhanced to _____ from Rs 1 lakh
   (a) ₹ 1.5 lakh (b) ₹ 2 lakh
   (c) ₹ 3 lakh (d) ₹ 3.5 lakh
   (e) none of these
34. In the recent Union Budget 2014-15, Agriculture University will be set up in _____ ?
   (a) Haryana & Punjab
   (b) Uttar Pradesh & Bihar
   (c) Gujarat & Maharashtra
   (d) Andhra Pradesh & Rajasthan
   (e) None of these
35. The union government has announced a nationwide scheme "Rashtriya Gokul Mission" which aims to
   (a) Eliminate diseases of cattle
   (b) Increase milk production
   (c) Curb slaughtering of cattle
   (d) Protect the indigenous breed of cows
   (e) None of these
36. The Reserve Bank of India is planning to launch a new category of banks called D-SIB. What does D-SIB stands for
   (a) Domestic Systematically Important Banks
   (b) Domestic Saving & Investment Banks
   (c) Domestic Synchronised Important Banks
   (d) Domestic Synchronised Improvised Banks
   (e) None of these
37. Currently (July 2014), which country holds the chair of the Group of Twenty (G-20) forum?
   (a) Russia (b) Australia
   (c) Brazil (d) Canada
   (e) None of these
38. Which among the following countries will become the 19th member of the eurozone as it is set to adopt the euro on 1 January 2015?
   (a) Portugal (b) Greece
   (c) Lithuania (d) Latvia
   (e) None of these
39. As of 2014, the BRICS nations represent what per cent of the World economy.
   (a) 12 (b) 15
   (c) 18 (d) 23
   (e) None of these
40. According to the latest available data what was India's economic growth in 2013-14 ?
   (a) 4.5% (b) 4.7%
   (c) 5.5% (d) 5.7%
   (e) None of these

41. What is the objective of the government behind setting up a Minimum Export Price (MEP) for a particular commodity?
(a) To promote import
(b) To promote exports
(c) To check price rise
(d) To help exporters
(e) None of these

42. The Union Govt. recently launched a web portal for enabling government-citizen discussions on several issues. What is the name of this portal which was inaugurated by Prime Minister Narendra Modi?
(a) MyGov (b) MineGov
(c) MeriGov (d) MyGovern
(e) None of these

43. Public sector based Central Bank during July 2014 announced its plans to sell 4% of its stake to LIC for ₹ 581 crore. This stake sale is planned to meet bank's capital requirement of ₹ 2,000 crore this fiscal. With this proposed sale Union Govt.'s holding in Central Bank would come down to ________.
(a) 78% (b) 80%
(c) 84% (d) 88%
(e) None of these

44. How many banks were fined by the Reserve Bank of India (RBI) on 25 July 2014 for violating central bank rules in the case of Deccan Chronicle Holdings?
(a) Ten (b) Eleven
(c) Twelve (d) Thirteen
(e) None of these

45. S.K. Jain, who was arrested by the CBI on charges of allegedly accepting a bribe of ₹ 50 lakh to enhance the credit limit of some companies, was the Chairman and Managing Director (CMD) of which public-sector bank?
(a) Syndicate Bank
(b) Indian Bank
(c) Oriental Bank of Commerce
(d) UCO Bank
(e) None of these

46. The bank to launch 'video branch' is?
(a) HSBC (b) ICICI
(c) IndusInd (d) Yes Bank
(e) None of these

47. Consider the following Statements:
(1) Arun Jaitley is a member of the Board of Governors of the Asian Development Bank (ADB).
(2) Asian Development Bank is based in Phillippines.
Choose the correct statement/s using the following codes:
(a) 1 only (b) 2 only
(c) Either 1 or 2 (d) Both 1 and 2
(e) None of these

48. Consider the following statements:
(1) RBI has lowered Statutory Liquidity Rate (SLR) by 0.50% in its June review.
(2) Reduction in SLR helps in increasing credit availability in the market
Which of the above statement(s) is/are correct?
(a) 1 only (b) 2 only
(c) Either 1 or 2 (d) Both 1 and 2
(e) None of these

49. Which of the following statements regarding New Development Bank to be established by BRICS nations are correct?
(1) The headquarter of the bank will be in Shanghai
(2) It will provide financial assistance to infrastructure projects of BRICS nations only
(3) The proposal for the bank was first made in 2012 summit in New Delhi.
Choose the correct code from the options given below:
(a) 1 and 2 only
(b) 1 and 3 only
(c) 2 and 3 only
(d) 1, 2 and 3
(e) None of these

50. sbiINTOUCH launched by State Bank of India relates to
(a) ATM services
(b) digital branches
(c) infrastructure loans
(d) home loans
(e) None of these

51. Name the place where Canara Bank launched its seventh overseas branch in June 2014
(a) London (b) New York
(c) Leicester (d) Shanghai
(e) Canada

52. Global Economic Prospects (GEP) report revised down the economic growth forecast for developing world in 2014 from 5.3 percent to
(a) 4.5 percent (b) 4.8 percent
(c) 5 percent (d) 4.4 percent
(e) 4.9 percent

53. Name the bank that purchased the HSBC bank's Swiss private banking assets?
(a) Six SIS AG (b) Zurich Cantonal Bank
(c) LGT Bank (d) WIR Bank
(e) None of these

54. Recently, the BRICS countries firmed up plan to set up a New Development Bank (NDB) with an initial authorised capital of $100 billion. The NDB will be headquartered in ___?
(a) New Delhi (b) Shanghai
(c) Moscow (d) Johanesburg
(e) Brasília

55. As of 2014, the BRICS nations represented ____ per cent of the World economy. Fill the blank with correct option?
(a) 10 (b) 15
(c) 18 (d) 20
(e) 19

56. Which one of the following countries has launched the "Operation Barkhane" a counter terrorism operation in against Islamist militant in Northern Africa?
(a) USA (b) Russia
(c) France (d) Germany
(e) Portugal

57. According to the latest World Development Indicators (WDI) data, public spending on health and education in India is ___ per cent of country's GDP. Fill the blank with correct option?
(a) 8.5 (b) 4.7
(c) 7.0 (d) 8.9
(e) 16

58. Which among the following companies has topped the Fortune Global 500 list of the world's biggest companies?
(a) Exxon Mobil
(b) Wal-Mart
(c) Sinopec Group
(d) Indian Oil Corp
(e) None of these

59. According to Reserve Bank of India's latest study, which one of the following states ranks as the best performing state in most of the key fiscal parameters?
(a) Gujarat
(b) Kerala
(c) Chhattisgarh
(d) Odisha
(e) None of these

60. The Reserve Bank of India has power to print currency notes of up to ₹ ____?
(a) 1,000 (b) 5,000
(c) 10,000 (d) 15,000
(e) None of these

61. The RBI has recently decided to withdraw from circulation of currency notes that had been issued before___?
(a) 2004 (b) 2006
(c) 2005 (d) 2008
(e) None of these

62. India on 2 January 2014 has signed a credit agreement of 160 million dollar with World Bank for the modernization of
(a) Uttar Pradesh Road Sector
(b) Rajasthan Road Sector
(c) Bihar Road Sector
(d) West Bengal Road Sector
(e) None of these

63. Which institution has been recognized by RBI recently to act as local operating unit for issuing globally compatible legal entity identifiers (LEI) in India?
(a) FICCI
(b) India Inc
(c) Clearing Corporation of India Ltd.
(d) Financial Stability Board
(e) None of these

64. A panel of Reserve Bank of India has suggested to set-up specialized banks to cater to the low income households and small businesses. These banks will ensure that every citizen have a bank account by 2016. The panel was headed by
    (a) Mukul Mudgal
    (b) Nachiket Mor
    (c) Raghuram Rajan
    (d) Bilal Nazaki
    (e) None of these
65. Who has been appointed as the Managing Director and Chief Executive Officer of General India Life Insurance?
    (a) Arvind Mayaram
    (b) Santosh Hegde
    (c) JS Mathur
    (d) Munish Sharda
    (e) None of these
66. The Bank of Japan (BOJ) and the Reserve Bank of India (RBI) recently agreed to expand the amount of the Bilateral Swap Agreement (BSA) to
    (a) 15 billion dollars
    (b) 35 billion dollars
    (c) 50 billion dollars
    (d) 75 billion dollars
    (e) None of these
67. National Bank for Agriculture and Rural Development (NABARD) recently reduced the refinance rates for the banks and other lending agencies by 0.20 percent. The NABARD was established on the recommendation of which committee?
    (a) Narendran Commission
    (b) Mukherjee Commission
    (c) Justice Shah Commission
    (d) B. Sivaraman Committee
    (e) None of these
68. Reserve Bank of India (RBI) on 15 January 2014 included two countries in the sensitive list under FEMA Act, 2000. The countries in question are
    (a) Iran and China
    (b) Hong Kong and Macau
    (c) Syria and Sudan
    (d) Israel and Libya
    (e) None of these
69. Reserve Bank of India on 20 January 2014 constituted an Expert Committee to Review Governance of Bank Boards in India. The expert committee will be chaired by?
    (a) Urjit R. Patel
    (b) H.R. Khan
    (c) K.C. Chakrabarty
    (d) P.J. Nayak
    (e) None of these
70. Recently, an Expert Panel on Monetary Framework set up by the RBI recommended to strengthen and revise the current monetary policy framework. The Expert Panel was headed by?
    (a) Raghuram G Rajan
    (b) Peter J. Montiel
    (c) Rupa Nitsure
    (d) Urjit Patel
    (e) None of these
71. Recently RBI issued new guidelines on loan restructuring of Non-banking Financial Companies (NBFCs). The guidelines were based on the recommendation of which Committee?
    (a) Nachiket Mor Committee
    (b) Urijit Patel Committee
    (c) Bimal Jalan Committee
    (d) B. Mahapatra Committee
    (e) None of these
72. In international banking system, what does the TIBOR stands for ___?
    (a) Tokyo Interbank Offered Rate
    (b) Taiwan Interbank Offered Rate
    (c) Thailand Interbank Offered Rate
    (d) Tongling Interbank Offered Rate
    (e) None of these
73. Which one of the following committees was set up by RBI to study the various issues relating to financial benchmarks?
    (a) Umesh Chandra
    (b) Vijaya Bhaskar
    (c) Urjit Patel
    (d) Subbu Rao
    (e) None of these

74. Who among the following has been appointed new chairman of NABARD?
    (a) Harsh Kumar Bhanwala
    (b) Chandra Shekar
    (c) Hemanth Banswal
    (d) Amith Mishra
    (e) None of these
75. Which of the following foreign banks has been granted license to start its banking operation in India, recently?
    (a) Doha Bank
    (b) Bank of Japan
    (c) Barclays Bank
    (d) Kookmin Bank
    (e) None of these
76. Consider the following banks:
    1. ABN Amro Bank
    2. Barclays Bank
    3. Kookmin Bank

    Which of the following correctly represents their countries of origin?
    (a) Dutch, USA, Japan
    (b) Japan, USA, China
    (c) Dutch, UK, South Korea
    (d) Dutch, USA, China
    (e) None of these
77. Who is the chairperson of State Bank Of India?
    (a) Arundhati Bhattacharya
    (b) Naina Lal Kidwai
    (c) Chanda Kochar
    (d) Shikha Sharma
    (e) None of these
78. The World Bank has set a new goal of reducing extreme poverty to:
    (a) 9 percent by 2020
    (b) 6 percent by 2015
    (c) 3 percent by 2025
    (d) 0 percent by 2015
    (e) None of these
79. Consider the following statements in regard to inclusive development :
    (1) As per the RBI guidelines Public Sector Banks has to give loans to women SHGs at the interest rate of 7%.
    (2) The initiative is to get benefit of interest rate subvention scheme under the Damini scheme.
    (3) As per the RBI guidelines Public Sector Banks has to give loans to women SHGs at the interest rate of 9%

    Which of the statements given above is/are correct?
    (a) 1 only (b) 2 only
    (c) Both 1 and 2 (d) only 3
    (e) None of these
80. Consider the following statements regarding medium term note (MTN) programme :
    (1) Medium term note (MTN) is a debt bond which usually matures in 5 to 10 years.
    (2) Recently Union Bank of India has hit the global debt market to raise around USD 500 million through bond issuance.
    (3) Medium term note (MTN) is a debt and which usually matures in 7 to 12 years

    Which of the statements given above is/are correct?
    (a) 1 only (b) 2 only
    (c) Both 1 and 2 (d) only 3
    (e) None of these
81. Consider the following statements :
    (1) Instant Money Transfer (IMT scheme is launched by Bank of India.
    (2) It allows withdrawal of funds to individuals from its ATMs without an account in the bank.

    Which of the statements given above is/are correct?
    (a) 1 only (b) 2 only
    (c) Both 1 and 2 (d) Neither 1 nor 2
    (e) None of these
82. Consider the following statements:
    1. The RBI has announced the 'Depositor Education and Awareness Fund Scheme, 2014'.
    2. The Depositor Education and Awareness Fund Scheme will utilize unclaimed bank deposits for education and awareness of depositor.
    3. The scheme will be funded by centre for depositor 's education.

    Which among the above is/ are correct statements?
    (a) 1, 2 & 3 (b) 2 & 3
    (c) 1, & 2 only (d) One of the above
    (e) None of these

83. Consider the following statements :
    (1) Umesh Chandra committee was set up by RBI to study the various issues relating to financial benchmarks.
    (2) The committee has recommended change in determining money market benchmark.
    (3) Ram Chandra committee was set up by SEBI to study the various issues relating to financial benchmarks.

    Which of the statements given above is/are correct?
    (a) 1 only (b) 2 only
    (c) Both 1 and 2 (d) only 3
    (e) None of these
84. Which among the following finance companies has received RBI approvals to set up a minimum of 9,000 white label ATMs (WLAs) in the next three years in rural India?
    (a) CMS Finvest Ltd.
    (b) SREI Infrastructure Finance Ltd.
    (c) Reliance Capital Ltd.
    (d) Tokyo Finance Ltd.
    (e) None of these
85. Which of the following is the largest bank in the world in terms of market capitalization?
    (a) China Construction Bank
    (b) Industrial & Commercial Bank of China
    (c) Wells Fargo & Co
    (d) Bank of America
    (e) None of these
86. Recently, RBI has proposed setting up of a trade Receivables and credit exchange (TCE) for financing ____?
    (a) Regional Rural Banks
    (b) Micro, Small and Medium Enterprises
    (c) Public Sector Banks
    (d) Non-banking Financial Corporations
    (e) None of these
87. Which among the following is the largest foreign bank operating in India in terms of asset base?
    (a) Stanchart (b) HSBC
    (c) Citibank (d) DBS
    (e) None of these
88. Consider the following statements:
    1. The Reserve Bank of India (RBI) on 2 April 2014 granted in-principle approvals to IDFC Ltd and Bandhan Financial Services Pvt. Ltd to start new banks in India.
    2. These approvals have been granted under the guidelines on licensing of new banks in the public sector.
    3. The two have been granted the permission to set-up banks from a field of 25 aspirants.

    Which of the statements given above is/are correct?
    (a) 1 only
    (b) 1 and 2 only
    (c) 1 and 3 only
    (d) 1, 2 and 3
    (e) None of these
89. The Reserve Bank of India on 1 April 2014 adopted the Consumer Price Index (CPI) as the key measure of Inflation. It was adopted in the first bi-monthly monetary policy statement for 2014-15. It was adopted on the basis of recommendations of which Committee report?
    (a) Urjit R Patel Committee
    (b) A Ghosh Committee
    (c) C Rao Committee
    (d) Bhagwati Committee
    (e) None of these
90. Consider the following statements:
    1. Asian Development Outlook 2014 was released on 1 April 2014 by the Asian Development Bank.
    2. According to the ADB Outlook 2014, developing Asia is expected to extend its steady growth from 6.1 percent in 2013 to 6.2 percent in 2014 and 6.4 percent in 2015.
    3. Asian Development 2014 was released on 1st January 2014 by ADB.

    Which of the statements given above is/are correct?
    (a) 1 only (b) 1 and 2
    (c) 2 only (d) only 3
    (e) None of these

91. President Pranab Mukherjee on 30 March 2014 cleared the re-promulgation of the SEBI Ordinance Securities Laws (Amendment) Bill 2013. The ordinance aims to give powers to
    1. Securities and Exchanges Board of India (SEBI) to act against Ponzi scheme.
    2. The move was to arm the regulator with more stringent powers comes in the wake to curb the illegal involvement of chit fund companies.
    3. Parliament passed the Securities Laws (Amendment) Bill 2013 in the Winter session.

    Consider the above statements and choose the correct option.
    (a) 1 only (b) 1 and 2 only
    (c) 1 and 3 only (d) 1, 2 and 3
    (e) None of these
92. The Reserve Bank of India (RBI) extended the timeline for full implementation of the Basel III capital regulations by a year. Now the banks are required to comply with the Basel III norms by 31 March 2019 instead of
    (a) 31 March 2016
    (b) 31 March 2018
    (c) 31 March 2017
    (d) 31 March 2015
    (e) None of these
93. The Purchasing Managers' Index (PMI) is a venture of ___?
    (a) HDFC
    (b) HSBC
    (c) ICICI
    (d) EXIM Bank of India
    (e) None of these
94. Factors responsible for the widespread popularity of consumer finance in recent years: Providing access to purchasing power to the middle class consumer has been the most significant achievement of this product class.
    A complainant not satisfied with the decision of the Banking Ombudsman, has the right to appeal to the_______.
    (a) Governor SBP
    (b) AVP of the concerned bank
    (c) High Court
    (d) Supreme Court
    (e) None of these
95. Which of the following constitutes a significant portion of banks' lending portfolios?
    (a) Credit finance
    (b) Foreign Exchange
    (c) Consumer finance
    (d) Money laundering
    (e) None of these
96. Consider the following statements:
    1. The Reserve Bank of India (RBI) has said the investment limit in the inflation indexed bonds for individuals has been doubled to Rs 10 lakh.
    2. Interest rates on the bonds are linked to Consumer Price Index (CPI).

    Which of the statements given above is/are correct?
    (a) 1 only (b) 1 and 2
    (c) 2 only (d) Either 1 or 2
    (e) None of these
97. The public sector banks are banks where a majority state is held by the Government. Which of the following banks is the second largest public sector bank among the 236 PSBs in India in terms of profit?
    (a) Bank of India
    (b) Punjab National bank
    (c) bank of baroda
    (d) Central Bank of India
    (e) None of these
98. Consider the following statements:
    1. RBI in consultation with Union Government on 1 April 2014 capped the Ways and Means Advances (WM(a) limits for the first half of the new financial year 2014-15 (April 2014-Sep 2014) at 35000 crore rupees.
    2. The second half of the limit would be fixed in September 2014.
    3. This notification of Reserve Bank of India (RBI) is aimed at triggering fresh flotation of market loans when the government utilises 75 percent of the WMA limit.

    Consider the above statements and choose the correct option.
    (a) 1 only (b) 1 and 2 only
    (c) 1 and 3 only (d) 1, 2 and 3
    (e) None of these

99. CSO in its advanced estimates for the year 2013-14 projected the GDP growth rate at constant prices to be
(a) 4.6% (b) 4.8%
(c) 4.9% (d) 5.1%
(e) None of these
100. At current prices, the GDP growth rate for the year 2013-14, as projected by CSO stands at
(a) 11.9% (b) 12.3%
(c) 13.3% (d) 14.5%
(e) None of these
101. As per the status on January 28, 2014 the Marginal Standing Facility (MSF) stands at-
(a) 8.5% (b) 8.75%
(c) 9.0% (d) 9.25%
(e) None of these
102. India's economic freedom score in 2014 stands at 55.7 and on the basis of it, India has been placed at...rank in the list of Economic Freedom Index 2014.
(a) 118th (b) 119th
(c) 120th (d) 121th
(e) None of these
103. Which of the following year has registered the maximum GDP growth rate?
(a) 2005-06 (b) 2006-07
(c) 2007-08 (d) 2010-11
(e) None of these
104. During the first nine months of the financial year 2013-14, the trade deficit in India stood at
(a) 105 billion dollar
(b) 108 billion dollar
(c) 110 billion dollar
(d) 112 billion dollar
(e) None of these
105. During the first nine months of the financial year 2013-14, India's exports registered the growth of
(a) + 2.98% (b) + 5.94%
(c) – 4.76% (d) – 5.94%
(e) None of these
106. During the first nine months of the financial year 2013-14, India's imports registered the growth of
(a) – 4.64% (b) – 6.55%
(c) + 4.64% (d) + 6.55%
(e) None of these
107. The Ministerial Conference of World Trade Organisation (WTO) in was held in
(a) Japan (b) Mexico
(c) Canada (d) Indonesia
(e) None of these
108. Who is the newly appointed Managing Director and CEO of MCX-SX?
(a) Srikant Javlekar
(b) Saurabh Sarkar
(c) U.K. Sinha
(d) Prateep Chowdhary
(e) None of these
109. Which is the latest round of NELP unveiled by the government for the auction?
(a) NELP-IX (b) NELP-X
(c) NELP-XI (d) NEP-XIII
(e) None of these
110. Which of the following committee is associated with the review of Insider Trading Regulations?
(a) Sodhi Committee
(b) Sinha Committee
(c) Tarapore Committee
(d) Chandrashekhar Committee
(e) None of these
111. World Economic Situation and Prospects Report is associated with :
(a) IMF
(b) World Bank
(c) United Nations
(d) WTO
(e) None of these
112. Nachiket Mor committee has submitted its recommendations which are related to:
(a) Insider Trading
(b) Financial Inclusion
(c) Micro Financing
(d) Macro Financing
(e) None of these
113. RBI has introduced Inflation Indexed Bond which have the locking period of :
(a) 5 years (b) 10 years
(c) 15 years (d) 20 years
(e) None of these

114. Consider the following statements in regard to money market in India:
(1) It is a market for short-term and long-term funds with maturity ranging from overnight to one year.
(2) It acts as an instrument of liquidity adjustment for the Central Bank.
(3) It is a market for only long term funds.
Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) only 3
(e) None of these

115. Which of the following can be the outcomes of very high inflation in the economy?
(1) Reduction in economic growth.
(2) Increase in savings.
(3) Reduction in exports.
Select the correct answer using the codes below :
(a) 1 and 3 only
(b) 3 and 4 only
(c) 2 and 3
(d) 1 and 4 only
(e) None of these

116. Which of the following activities can lead to financial inclusion in India?
(1) Issuing of general purpose credit cards.
(2) Strict know your customer' (KY(c) norms
(3) Opening of Bank branches in unbanked rural areas.
(4) Opening of no-frills account.
Select the correct answer using the codes given below :
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1, 3 and 4 only
(d) 2 and 3 only
(e) None of these

117. Consider the following statements :
(1) Fiat money is a term used for Gold coins.
(2) Currency Deposit Ratio is the proportion of the total deposits commercial banks keep as reserves.
Which of the above statements is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2
(e) None of these

118. When the RBI wants to inject liquidity into economy, it may adopt the following :
(1) Buy the government securities from the banks.
(2) Enter into reverse repo operations
(3) Raise cash Reserve Ratio
(4) Reduce SLR.
Select the correct answer using the codes given below:
(a) 1 only (b) 1 and 4 only
(c) 1, 2 and 4 only
(d) 1, 2, 3 and 4
(e) None of these

119. Which of the following statements is/are correct in regard to 'micro-finance'?
(1) Micro-credit extended by banks to individual is reckoned as a part of their priority sector lending.
(2) RBI has prescribed a particular model for banks to provide micro-finance.
(3) RBI has prescribed a particular model for banks to provide macro-finance.
Choose the correct answer using the codes given below:
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) only 3
(e) None of these

120. Consider the following statements in regard to 'marginal standing facility (MSF)' of RBI :
(1) It will help in reducing volatility in the overnight lending rates in the inter-bank market.
(2) The borrowing under the MSF should be over and above the statutory liquidity requirement.
(3) It will not help in reducing lending rates.
Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) only 3
(e) None of these

121. 'Basel III' norms target at which of the following?
   (1) Improve the banking sector's ability to absorb shocks arising from financial and economic stress.
   (2) Improve risk management and governance.
   (3) Strengthen banks' transparency.
   Choose the correct answer using the codes given below:
   (a) 1 only (b) 1 and 2 only
   (c) 1 and 3 only (d) 1, 2 and 3
   (e) None of these
122. Which of the following is not correctly matched?
   (a) Chitra Ramkrishna – National Stock Exchange
   (b) Chanda Kochar – ICICI Bank
   (c) Naina Lal Kidwai – HSBC
   (d) Shikha Sharma – SBI
   (e) None of these
123. Which of the following definitions are correct?
   (1) Basis points: increase in interest rates in percentage terms.
   (2) Repo rate: rate at which commercial banks borrow from the RBI by selling their securities or financial assets to the RBI for a long-period of time.
   (3) Reverse repo rate: rate of interest at which the central bank borrows funds from other banks for a short duration.
   (4) Cash reserve ratio: minimum percentage of cash deposits that banks must keep with itself to avoid liquidity issues.
   (a) (1) & (2) (b) (2), (3) & (4)
   (c) (2) & (4) (d) (3) & (4)
   (e) None of these
124. During which plan was the National Bank for Agriculture and Rural Development (NABAR(d) established to facilitate the rural credit and agricultural development?
   (a) Third Five Year Plan
   (b) Fifth Five Year Plan
   (c) Sixth Five Year Plan
   (d) Eighth Five Year Plan
   (e) None of these
125. In India, which of the following have the highest share in the disbursement of credit to agriculture and allied activities?
   (a) Commercial Banks
   (b) Co-operative Banks
   (c) Regional Rural Banks
   (d) Microfinance Institutions
   (e) None of these
126. Choose the correct statements in the context of Cooperative Banks in India.
   1. Cooperative Banks operate on no profit no loss basis.
   2. Cooperative Banks are allowed to operate only in the agriculture sector.
   3. NABARD is a Cooperative Bank.
   (a) 1 only (b) 1 and 2
   (c) 1 and 3 (d) Either 1 or 2
   (e) None of these
127. Consider the following statements :
   1. Regional Rural Banks grant direct loans and advances to marginal farmers and rural artisans.
   2. NABARD is responsible for laying down policies and to oversee the operations of the RRBs.
   3. RRB is not responsible for laying down policies.
   Which of the statements given above is/are correct?
   (a) 1 only (b) 2 only
   (c) Both 1 and 2 (d) Neither 1 nor 2
   (e) None of these
128. Which one of the following agencies is not included in the operation of the Kisan Credit Cards?
   (a) Scheduled Commercial Banks
   (b) Co-operative Banks
   (c) Regional Rural Banks
   (d) NABARD
   (e) None of these
129. The Reserve Bank of India, released its June Mid-quarter Monetary Policy.
   Consider the following statements:
   1. RBI left its key policy, repo rate unchanged at 7.25% in line.
   2. CRR (Cash Reserve Ratio), remained at 4%.

3. Repo is the rate at which banks borrow from the central bank.

Select the correct answer using codes given below:

Codes:

(a) 1 and 2 only (b) 2 and 3 only
(c) 1 and 3 only (d) 1, 2 and 3
(e) None of these

130. Consider the following statements about Bharitiya Mahila Bank:

1. The Proposed Bank will be headquartered in Mumbai.
2. It will start 6 branches in Mumbai, Delhi, Kolkata, Chennai, Indore and Guwahati.

Select the correct answer using codes given below:

Codes:

(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Either 1 or 2
(e) None of these

131. Match the followings:

List-I Designation	List-II Chairperson/President
A. ASSOCHAM	1. Krishna Kumar Natarajan
B. FICCI	2. K. R. Kamath
C. NASSCOM	3. Rana Kapoor
D. Indian Bank Association (IBA)	4. Naina Lal Kidwai

Select the correct answer using codes given below:

Codes:

	A	B	C	D
(a)	4	3	2	1
(b)	3	4	1	2
(c)	2	1	3	4
(d)	1	2	4	3

132. Core Banking Solution(CBS) provides:

1. multiple delivery channels to the customers.
2. better MIS and reporting to external agencies such as government, RBI, etc.
3. better asset liability management and risk management by banks.

Select the answer from the codes given below:

Codes:

(a) 1 and 2
(b) 2 and 3
(c) 1 and 3
(d) All of the above
(e) None of these

133. Under which of the following circumstances Reserve Bank of India (RBI) raised the Repo rate under Liquidity Adjustment Facility (LAF) from 7.75 to 8 per cent in January 2014?

1. Global uncertainty continues to surround the prospects for some emerging economies.
2. Domestic fragilities getting accentuated.
3. Financial market contagion is a clear potential risk.
4. The CPI inflation is expected to be on the upside risk .

Select the answer from the codes given below:

Codes:

(a) 1, 2 and 3 (b) 2, 3 and 4
(c) 2, 3 and 4 (d) All of the above
(e) None of these

134. The RBI Expert Committee to revise and strengthen the monetary policy framework is headed by

(a) Dr. Urjit R. Patel Committee
(b) Suresh Mathur Panel
(c) Vijay Kelkar Committee
(d) Shah Nawaz Committee
(e) None of these

135. RBI appointed a Committee to Review Governance of Boards of Banks in India chaired by P.J. Nayak would

1. review the regulatory compliance require-ments of banks' boards in India.
2. judge what can be rationalised and where requirements need to be enhanced.
3. examine the working of banks' boards.
4. analyse the representation on banks' boards.

Select the answer from the codes given below:

Codes:

(a) 1, 2 and 3
(b) 2, 3 and 4
(c) 1, 3 and 4
(d) All of the above
(e) None of these

136. Which of the following are the recommendations of the RBI Expert Committee to revise and strengthen the monetary policy framework?

1. It recommended that a new Consumer Price Index (CPI) should be adopted by Reserve Bank of India (RBI) to anchor the monetary policy.
2. The committee has also set an inflation target at 4 percent with a band of plus/minus 2 percent around it.
3. The monetary policy decision should be vested in the hands of the Monetary Policy Committee (MP(c) that will be headed by the Governor.
4. Not to detach Open Market Operations (OMOs) from the fiscal operations and instead linked solely to the liquidity management.

Select the answer from the codes given below:

Codes:

(a) 1, 2 and 3
(b) 2, 3 and 4
(c) 1, 3 and 4
(d) All of the above
(e) None of these

137. Which of the following organizations is selected by the RBI for issuing globally compatible Legal Entity Identifiers (LEIs)?

(a) Industrial Credit and Investment Corporation of India (ICICI)
(b) Clearing Corporation of India Ltd (CCIL)
(c) Housing Development Finance Corporation (HDF(c)
(d) Security and Exchange Board of India (SEBI)
(e) None of these

138. Consider the following facts about Bhartiya Mahila Bank :

1. BMB was inaugurated on 19th November, 2013, the birth anniversary of Late Indira Gandhi.
2. Usha Ananthasubramanian is the founder Chairperson of the BMB.
3. BMB offered 4.5% interest rate on savings bank deposits upto ₹ 1 lakh and 5% on deposits above ₹ 1 lakh.

The correct codes are

(a) 1 only (b) 1 and 2 only
(c) 2 and 3 only (d) All of these
(e) None of these

139. RBI increased the validity period of the in-principle approval of setting up of new banks from one year to

(a) 14 months (b) 16 months
(c) 18 months (d) 20 months
(e) None of these

140. Recently the Reserve Bank penalised three banks for violation of KYC norms and anti-money laundering guidelines. Which one is not among them?

(a) Axis Bank
(b) HDFC
(c) ICICI
(d) Kotak Mahindra Bank
(e) None of these

141. RBI constituted an expert committee for examining its current monetary policy framework. Who is the chairman of the committee?

(a) Dr. Urjit Patel
(b) H. R. Khan
(c) Dr. Anand Sinha
(d) K. C. Chakrabarty
(e) None of these

142. RBI reduced the Marginal Standing Facility (MSF) Rate to 9% from

(a) 9.5%
(b) 9.3%
(c) 9.8%
(d) 9.9%
(e) None of these

143. Who is the first chairperson and managing director of public sector Bharatiya Mahila Bank (BMB)?
(a) Shilpa Phadnis
(b) Usha Anantha Subramanian
(c) Reeba Zachariah
(d) Sudha Misra
(e) None of these

144. Which is not a source of Agriculture finance in India?
(a) Co-operative societies
(b) Commercial Banks
(c) Regional Rural Banks
(d) Central Rural Bank
(e) None of these

145. In India 'Report on Currency and Finance' is the annual publication of
(a) SEBI
(b) RBI
(c) Finance Commission
(d) Finance Ministry
(e) None of these

ANSWER KEY

1.	(a)	**2.**	(c)	**3.**	(b)	**4.**	(a)	**5.**	(b)
6.	(b)	**7.**	(a)	**8.**	(d)	**9.**	(c)	**10.**	(c)
11.	(a)	**12.**	(d)	**13.**	(d)	**14.**	(a)	**15.**	(a)
16.	(a)	**17.**	(a)	**18.**	(b)	**19.**	(c)	**20.**	(c)
21.	(d)	**22.**	(c)	**23.**	(d)	**24.**	(a)	**25.**	(c)
26.	(b)	**27.**	(a)	**28.**	(a)	**29.**	(c)	**30.**	(d)
31.	(c)	**32.**	(a)	**33.**	(a)	**34.**	(d)	**35.**	(d)
36.	(a)	**37.**	(b)	**38.**	(c)	**39.**	(c)	**40.**	(b)
41.	(c)	**42.**	(a)	**43.**	(c)	**44.**	(c)	**45.**	(a)
46.	(c)	**47.**	(a)	**48.**	(d)	**49.**	(b)	**50.**	(b)
51.	(b)	**52.**	(b)	**53.**	(c)	**54.**	(b)	**55.**	(c)
56.	(c)	**57.**	(b)	**58.**	(b)	**59.**	(c)	**60.**	(c)
61.	(c)	**62.**	(b)	**63.**	(c)	**64.**	(b)	**65.**	(d)
66.	(c)	**67.**	(d)	**68.**	(b)	**69.**	(d)	**70.**	(d)
71.	(d)	**72.**	(a)	**73.**	(b)	**74.**	(a)	**75.**	(a)
76.	(c)	**77.**	(a)	**78.**	(a)	**79.**	(a)	**80.**	(c)
81.	(c)	**82.**	(c)	**83.**	(b)	**84.**	(b)	**85.**	(b)
86.	(b)	**87.**	(c)	**88.**	(c)	**89.**	(a)	**90.**	(b)
91.	(b)	**92.**	(b)	**93.**	(b)	**94.**	(a)	**95.**	(c)
96.	(b)	**97.**	(c)	**98.**	(d)	**99.**	(c)	**100.**	(b)
101.	(c)	**102.**	(c)	**103.**	(b)	**104.**	(c)	**105.**	(b)
106.	(b)	**107.**	(d)	**108.**	(c)	**109.**	(b)	**110.**	(a)
111.	(c)	**112.**	(b)	**113.**	(b)	**114.**	(b)	**115.**	(d)
116.	(c)	**117.**	(d)	**118.**	(b)	**119.**	(a)	**120.**	(a)
121.	(d)	**122.**	(d)	**123.**	(c)	**124.**	(c)	**125.**	(a)
126.	(a)	**127.**	(c)	**128.**	(d)	**129.**	(d)	**130.**	(b)
131.	(b)	**132.**	(d)	**133.**	(c)	**134.**	(a)	**135.**	(d)
136.	(a)	**137.**	(b)	**138.**	(a)	**139.**	(c)	**140.**	(d)
141.	(a)	**142.**	(a)	**143.**	(b)	**144.**	(d)	**145.**	(b)