Banking Domain Fundamentals

1. Introduction

A Bank is a financial institution that provides banking and other financial services to its customers. Banks are a subset of the financial services industry and play an important role in the global economies.

Banks play a key role in the entire financial system by mobilizing deposits from households spread across the nation and making these funds available for investment, either by lending or buying securities.

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2. Primary Functions of Banks

All banks have to perform two major primary functions, One is Accepting deposits. and another is Granting of loans and advances.

a. Accepting of Deposits.

Saving Deposits:

The account for saving deposits can be opened in a single name or in joint names. The depositors just need to maintain a minimum balance which varies across different banks.

Bank provides ATM cum debit card, checkbook, and Internet banking facility. Candidates can know about the Types of Cheques at the linked page.

Fixed Deposits:

Also known as Term Deposits, money is deposited for a fixed tenure. No withdrawal money during this period allowed. In case depositors withdraw before maturity, banks levy a penalty for premature withdrawal.

Current Deposits:

They are opened by businessmen. The account holders get an overdraft facility on this account. These deposits act as short-term loans to meet urgent needs.

Banks charge a high-interest rate along with the charges for overdraft facility in order to maintain a reserve for unknown demands for the overdraft.

Recurring Deposits:

A certain sum of money is deposited in the bank at a regular interval. Money can be withdrawn only after the expiry of a certain period. This type of account is operated by salaried persons and petty traders.

b. Granting of Loans & Advances

Bank offers the following types of Loans and Advances:

Bank Overdraft:

This facility is for current account holders, it allows account holders to withdraw money anytime more than available in bank balance but up to the provided limit. An overdraft facility is granted against collateral security.

Cash Credits:

A short-term loan facility up to a specific limit fixed in advance. Banks allow the customer to take a loan against a mortgage of certain property (tangible assets and / guarantees).

Cash credit is given to any type of account holder and also to those who do not have an account with a bank. Through cash credit, a larger amount of loan is sanctioned than that of overdraft for a longer period.

Loans:

Banks lend money to the customer for short-term or medium periods of say 1 to 10 years against tangible assets.

Nowadays, banks do lend money for the long term. The borrower repays the money either in a lump-sum amount or in the form of installments spread over a pre-decided time period.

Discounting the Bill of Exchange:

It is a type of short-term loan, where the seller discounts the bill from the bank for some fees.

The bank advances money by discounting or purchasing the bills of exchange.

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3. Secondary Functions of Banks

Transfer of Funds:
Transferring of funds from one branch/place to another.

Bill Payments:

Periodic Collections:
Collecting dividends, salaries, pension, and similar periodic collections on the clients' behalf.

Periodic Payments:
Making periodic payments of rents, electricity bills, etc on behalf of the client.

Collection of Cheques:
Like collecting money from the bills of exchanges, the bank collects the money of the cheques through the clearing section of its customers.

Portfolio Management:
Banks manage the portfolio of their clients. It undertakes the activity to purchase and sell the shares and debentures of the clients and debits or credits the account.

Utility Functions of Banks:

• Issuing letters of credit, traveler's cheque, etc.

• Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers.

• Providing customers with facilities of foreign exchange dealings

• Underwriting of shares and debentures

• Dealing in foreign exchanges

• Standing guarantee on behalf of its customers, etc.

4. Types of Banks

There are many different types of banks in the world and each serves its own special purpose.

Retail Banks
The majority of people are the most familiar with retail banks, as they are aimed primarily at consumers.

Commercial Banks
Commercial banks service primarily individuals and small businesses. Typically, they will offer similar services as a retail bank.

Central Banks
Central banks serve a more governmental role than the other kinds of banks.

Cooperative Banks
Cooperative or mutual banks can offer the financial products that both retail and commercial banks provide.

Investment Banks
Investment banks serve as intermediaries and advisers for large corporations, governments, hedge funds, and other financial institutions.

Private Banks
Like many other banks, private banks offer a suite of financial products and services, but to a much more specific audience.

Online Banks
While retail banks have traditionally had physical locations, many are beginning to migrate to a purely digital space.

Credit Unions
A credit union is a type of cooperative bank that is entirely member-owned.

Savings and Loan Associations
Savings and loan associations are mutually owned financial institutions that concentrate on offering mortgages and helping people buy a home.

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5. Type of Bank Accounts

Savings Account
Savings accounts can be opened by an individual or jointly by two people with an aim to save money.

Current Account
This type of bank account is mostly opened by businessmen. Associations, Institutions, Companies, Religious Institutions, and other business-related works, the current account can be opened.

Recurring Deposit Account
A Recurring Deposit account or RD account is a form of account wherein the account holder needs to deposit a fixed amount every month until it reaches the fixed maturity date.

Fixed Deposit Account
FD or a fixed deposit account is another type of bank account that can be opened in any Public or Private sector bank.

DEMAT Account
Shares and securities which can be held in electronic format constitute the DEMAT account. The DEMAT account also stands for Dematerialized Account.

NRI Account

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6. Types of Bank Loans

a. Secured Loans

Types of secured loans:
1. Industrial Loans

2. Home Loan
3. Loan Against Property (LAP)
4. Loan Against Insurance Policies
5. Loan Against Fixed Deposits
6. Gold Loans
7. Loan Against Mutual Funds and Shares

b. Unsecured Loans

Types of Unsecured loans:
1. Personal Loans
2. Educational Loans
3. Agricultural Loans
4. Short Term Business Loans
5. Vehicle Loans
Etc,

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7. Banking Software Applications

In Banking, we have several business operations that require different types of Software Applications.

Important Banking Software Applications are,

1. Core Banking System
2. ATM Banking
3. Internet Banking System (Online Banking)
4. Mobile Banking System
5. Forex Management
6. Treasury Management System (Treasury Management for Banks)
7. Asset Liability Management System
8. Financial Management System
Etc…

1. Core Banking System

Core Banking System automates Banking branch business operations, covers Retail and Corporate Banking Services.

It provides a Software solution for General Ledger, Accounts Management, Deposits, Loans, Advances, Bills, Clearing, Sundries (Normal-Accounting), Remittances, Safe-Deposit-Lockers, Safe-Custody-Items, and Transaction-Process Etc…

Important Functional Features:

• Master Data
• General Ledger
• Accounts Management
• Deposits
• Withdrawals
• Loans
• Transaction Process
• Advances
Etc…

2. ATM Banking System

ATM (Automatic Teller Machine) Banking System is connected to a network, that offers basic banking functions to users (access to bank account (balance, bank transfers) and retrieval of money, etc..).

Important Functional Features:

• Balance Enquiry
• Money Withdrawals
• Bill Payments
Etc…

3. Internet Banking System (Online Banking)

Internet Banking System integrates the various levels of interactions between the bank and its customers and provides the customers of the bank with the necessary interface to avail banking services on the Net.

Internet banking helps the customer of a bank to access his account from anywhere in the world. It helps the bank to handles the customer requests more efficiently and effectively and saves lot of time for the customer as he can get the information without going to the bank.

Important Functional Features:

- Balance Enquiry
- Bill Payments
- Statement of Account
- Stop cheque requests
- Cheque book requests
- Reporting of loss of ATM cards
- Previous transaction report
- Cheque payment status
- Stop payment status
- Transfer of funds from one account to another
- Information services
- Interest rate for various deposit schemes and loan schemes
- Product features of various bank products
- Branch listing etc.,

4. Mobile Banking System

Mobile Banking System is a mobile banking solution. It allows transactions through WAP enabled mobile phones and also using SMS.

It helps the customer to access his account from anywhere using the mobile phone. There is no need to have a computer or an internet connection. This will facilitate access to the account even when the customer is traveling or when he is in a location where required facilities are not available. The same transaction can be carried by SMS. Wireless Application Protocol (WAP) technology allows secure, on-line access of web using mobile devices whereas in the case of SMS (short messaging service) technology, there is a time lag in communication.

Important Functional Features:

- Balance Enquiry
- Stop cheque requests
- Cheque book requests
- Reports loss of ATM card
- Previous transaction report
- Cheque payment status
- Transfer of funds Etc…

5. Forex Management System

Forex Management System is used to automate the foreign exchange (Forex) operations of bank branch (Category 'B' and Category 'C').
It enables the bank to deal with the complexities of the business of foreign exchange with ease.

Important Functional Features:

- Accepting foreign currency from customers/non-customers
- Accepting FC Travelers Cheques from customers/non-customers
- Managing remittances (inward and outward foreign remittance)
- Maintaining accounts in foreign currency (FCNR type accounts-mostly Term deposits)
- Import/export bills handling
- Packing Credit
- Import Letters of Credit
- Reserve Bank (RBI) returns (R returns) data generation
- Foreign currency cash balances
- Maintaining the stock of TCs, other security items like foreign DDs etc.,
- Correspondent DD payment; maintaining advices received and limits for DD
- Foreign exchange transactions suspense maintenance
- Forex rates maintenance (Daily card rates) and Notional Rates
- Margin maintenance for bills
- Limits maintenance
- Foreign currency loans

6. Treasury Management System (Treasury Management for Banks)

Treasury Management System provides an efficient Integrated Treasury Management System to a typical bank. This system is seamlessly integrated with Core Banking System. It can be deployed as an independent as well as add-on module with the existing system.

Important Functional Features:

- Handling all types of foreign currency exchange deals such as inter bank and merchant i.e. bookings, realisations and reversals
- Enables all types of foreign currency investments and borrowings related to inter bank and merchant
- Computes GAP wise holdings and holding rates, keeping track of currency wise / maturity wise limits and positions, counter party limits and exposures
- Generates various online internal control statements and compare them with limits
- Takes care of all types of SLR and NON SLR securities and local money deals
- Computes SLR security holdings, Yield to Maturity (YTM) on all instruments and manages counter party limits and exposures
- Maintains required registers and statements
- Generates regulatory returns
- Enables the users to define various foreign exchange products

7. Asset Liability Management System

Asset Liability Management System is a risk management tool that helps a bank's management take investment / disinvestment decisions, maintain the required statutory liquidity ratio (SLR), credit reserve ratio (CRR) and other ratios as per Reserve Bank of India (RBI) guidelines.
It generates the SLP / IRS / MAP / SIR reports and supports risk management modules like graphical analysis, data analysis and interest rate simulation.

Important Functional Features:

• Add a new user, modify or delete an existing user or lock / unlock users.
• Linking various categories with a group of users.
• Setting user-level permissions to access different options.
• Registration of the bank and its branches into the ALM system.
• Extracting data from any branch, it is necessary to register the branch.
• Data processing after all the required parameters have been set.

8. Financial Management System
Etc,

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8. Banking Interview Questions

1. What is Banking?

In general terms, 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.

2. What is the Banking domain and explain briefly?

The banking domain is nothing but a software division in a bank. Most of the banks are computerized now, the required software which is used will be under maintenance and very little enhancements. The members who work on this s/w can say that they are in the banking domain.

3. What is BFSI?

Banking, Financial Services and Insurance (BFSI) is an industry term for companies that provide a range of such services.

4. What are the different types of Banks available in India?

Types of Banks in India:

i. Saving Banks,

ii) Commercial Banks,

iii. Industrial Banks / Development Banks,

iv. Land Mortgage / Land Development Banks,

v. Central / Federal / National Bank,

vi. Co-operative Banks,

vii. Exchange Banks,

viii. Rural Banks

Etc…

5. What are the different types of Accounts available in Banks?

Savings Accounts:

They are for people who want to keep their money in a safe place and earn interest at the same time. We don't need a lot of money to open a savings account.

Certificates of deposit:

They are savings deposits that require you to keep a certain amount of money in the bank for a fixed period of time. Usually banks charge a penalty if we withdraw our money early.

Individual Retirement Accounts:

They are savings deposits that offer an excellent way to save for our later years.

Checking accounts or Current accounts:

They offer safety and convenience. We keep our money in the account and write a check when we want to pay a bill or transfer some of our money to someone else. Banks sometimes charge

a fee for checking accounts, many banks also offer no-fee checking and checking accounts that earn interest if you agree to keep a certain amount of money—a minimum balance—in the account.

Money market deposit accounts:

They are similar to checking accounts that earn interest, except that they usually pay a higher rate of interest and require a higher minimum balance.

6. What are the different types of Loans available in Indian Banks?

Types of Loans:

i. Housing loans,

ii. Industrial Loans,

iii. Personal Loans,

iv. Vehicle Loans,

v. Education Loans,

vi. Agriculture Loans,

vii. Gold Loans,
Etc…

7. What are the important operations in Internet Banking?

Important operations in Internet Banking:

i. Balance Inquiry,

ii) Fund Transfers,

iii. Mini statements,

iv. Detailed reports,

v. Bill payments,

vi. Shopping,

vii. Credit card payments,

viii. Loan Payments,

ix. Utility payments etc…

8) What is Corporate Banking?

Corporate Internet Banking (CIB) helps Corporate and Institutional customers to execute complex banking transactions from their desktops.

Key facilities:

• Single window view Bank accounts mapped to a single user ID. This includes loans, deposits and linked accounts like channel partner, vendor and dealer accounts.

• Intra and Inter-Bank fund transfer using NEFT and RTGS

• Bulk payments

• Online Tax payment

• Utility Bill payments

• Trade Services

• Cash Management Services which includes Cheque / DD printing, collections MIS, internet-based cheque writing, etc

• Requests for Fixed Deposit(FD) opening, checkbook and cheque stop payment

9. What is Mutual Fund and how it is related to Banking?

A mutual fund is a type of professionally managed collective investment vehicle that pools money from many investors to purchase securities. While there is no legal definition of mutual fund, the term is most commonly applied only to those collective investment vehicles that are regulated, available to the general public and open-ended in nature.

Nowadays large-scale Banks are offering Mutual funds to their customers.

10. What should test in the Banking Domain application?

We should test in Banking Domain application:

• Banking Workflows.
• Data Integrity issues.
• Security and access issues.
• Recovery testing.
All the above needs to be tested in the expected banking environment (Hardware, LAN, Op Sys, domain configurations, databases).

11. What are the multiple software testing techniques involved in banking applications?

If we talk about testing banking applications, it requires an end to end testing methodology involving multiple software testing techniques to ensure:

• Total coverage of all banking workflows and Business Requirements.

• Functional aspect of the application.

• Security aspect of the application.

• Data Integrity.

• Concurrency.

• User Experience.

12. What are the characteristics of Software applications in the banking domain?

The characteristics of a Banking application are as follows:

• Multi-tier functionality to support thousands of concurrent user sessions

• Large scale Integration, typically a banking application integrates with numerous other applications such as Bill Pay utility and trading accounts

• Complex Business workflows

• Real-Time and Batch processing

• High rate of Transactions per second

• Secure Transactions

• Robust Reporting section to keep track of day to day transactions

• Strong Auditing to troubleshoot customer issues

• Massive storage system

• Disaster Management.

13. What are the different types of Banking Software Applications available in the Industry?

i. Core Banking System (for Branches and Head office Automation)

ii. ATM Banking (for computerizing Automated Teller Machines)

iii. Internet Banking System (for online Banking Services)

iv. Financial Management System (for internal financial services management)

v. Loan Management System (for handling loan approvals, sanctions, payments and recovery operations)

vi. Credit Card Management system (for handling credit card related operations)

vii. Wealth management system

viii. Investment Management System

ix. Stock market management system

Etc…

14. What is Islamic Banking?

Islamic banking refers to a system of banking or banking activity that is consistent with the principles of the Shari'ah (Islamic rulings) and its practical application through the development of Islamic economics.

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9. Banking Transactions & Activities

1. Acceptance of Deposits
2. Lending of Funds
3. Clearing of Cheques
4. Remittance of Funds
5. Lockers & Safe Deposits
6. Bill Payment Services
7. Online Banking
8. Credit & Debit Cards
9. Overseas Banking Services
10. Wealth Management
11. Investment Banking

1. Acceptance of Deposits

Deposits are the basis of the loan operations since banks are both borrowers and lenders of money. As borrowers they pay interest and as lenders, they grant loans and get interest.

2. Lending of Funds

The second major activity of banks is to provide loans and advances out of the money received through deposits. These advances can be made in the form of overdrafts, cash credits, discounting trade bills, term loans, consumer credits, and other miscellaneous advances.

3. Clearing of Cheques

Cheque books are issued to the holders of accounts in banks. The cheque is a negotiable instrument and the most convenient and widely used credit instrument. Cheques are used to facilitate trade and business by endorsements and withdrawal of deposits

4. Remittance of Funds

Banks also facilitate fund transfer from one place to another, leveraging the vast network of branches that are interconnected to each other. Many banking instruments are in usage for enabling the transfer of funds from one account to another like bank drafts, pay orders, wire or mail transfers. Bank earns nominal commission by way of bank charges on some of the transfers.

5. Lockers & Safe Deposits

Bank safe deposit lockers are a good option for safeguarding valuables and important documents. Each locker is operated by a combination of two sets of keys, one for the customer, and the other with the bank.

6. Bill Payment Services

Banks also provide services related to bill payments, payment of insurance premiums, collection of dividends, etc. Recurring payments can be automated for payment using the facilities extended by modern banks. Account-holders can directly pay from their account or using credit/debit cards for their electricity, gas, landline and mobile phone billers, and many more.

7. Online Banking

The growth of the Internet and e-commerce has transformed the banking industry and customers are fast moving from branch banking to virtual banking. Users with internet on PC or Mobile can get connected to the bank's website and avail a variety of banking services and functions.

8. Credit & Debit Cards

Credit cards issued by banks are another form of lending, and they are not only good business for the bank, but they also help the economy. Offering Credit Card is a profitable form of lending for banks that has greatly expanded in the last few years.

9. Overseas Banking Services

Banks offer financial services, such as payment accounts and lending opportunities, to foreign clients. These foreign clients can be individuals and companies, though every international bank has its own policies, most of them offer various products and services to cater to the needs of their international clientele.

10. Wealth Management

Wealth management services offered by banks include a full range of financial services and products clubbed with advisory services from expert professionals. Wealth management services are provided to an affluent client and may relate to any financial product.

11. Investment Banking

A wide range of services are provided under this umbrella and may include assessment of investment needs, evaluation of asset structure and the liability-management requirements, managing portfolios of financial assets, trading in securities, fixed income, commodity and currency, corporate advisory services for mergers and acquisitions, corporate finance, and debt and equity underwriting.

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10. Software Testing for Banking Applications

Integration Testing:
Integration testing is needed to make sure all components work well together and are validated.

Functional Testing:
Testing Banking business operations (functionalities) with respect to its requirements.

Database Testing:
This is one of the most crucial aspects of bank application testing. It is carried out to ensure data integrity, data loading, migration, stored steps, functional validation, and rule testing.

Security Testing:
Security testing ensures that there are no security flaws in the software.

Performance Testing:
Confirming Performance (Load, Stress, Spike, Data Volume, and Endurance) of Banking Transactions.

Usability testing:
Since banking apps serve a variety of customers over several devices, usability testing ensures that the app works for different user groups.

Availability Testing:
Confirming 24/7 availability of the Software System.

Note: Domain Knowledge is required for Business Analysts, Software Developers, and Software Testers.

Domain Knowledge for IT Professionals.

1. Banking Domain Fundamentals

2. Banking Domain Knowledge for Testers

3. Interview Questions on Banking Domain

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6. Insurance Domain Fundamentals

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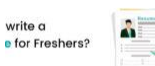
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