

Banking Fundamentals

Retail Banking, Payments, and Wealth Management

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**Table of Contents**

|  |  |  |
| --- | --- | --- |
| **Unit 1** | **DEFINITION OF BANKING AND INDIAN BANKING SYSTEM** | **Pg No.** |
|  |  |  |
| 1.1 | Origin, Meaning and Definition of 'Bank' | 2 |
| 1.2 | Evolution of banking in India | 3 |
| 1.3 | Structure of Indian Banking System & Reserve Bank of India | 3 |
| 1.4 | How Banks work – Channels of Banking | 4 |
| 1.5 | Types of Banking | 5 |
| 1.6 | Summary | 5 |
|  |  |  |
| **Unit 2** | **INTRODUCTION TO RETAIL BANKING** |  |
| 2.1 | Retail Banking | 6 |
| 2.2 | Difference between Retail Banking & Corporate Banking | 6 |
| 2.3 | Products and Services offered by Retail Banking | 7 |
| 2.4 | Retail Banking Liabilities – Deposits | 8 |
| 2.5 | Retail Banking Assets – Loans & Advances | 11 |
| 2.6 | Loan Origination System | 12 |
| 2.7 | Credit Cards | 13 |
| 2.6 | Debit Cards | 13 |
| 2.7 | Payments, Cards & Fund Transfer Module | 15 |
| 2.8 | Payment Network | 16 |
| 2.9 | Payment System Design - Architecture | 17 |
| 2.9 | Banking payment types | 18 |
| 2.10 | Customer Onboarding – KYC & E-KYC | 20 |
| 2.11 | Money Laundering | 21 |
|  |  |  |
| **Unit 3** | **Wealth Management** |  |
| 3.1 | Introduction to Wealth Management | 23 |
| 3.2 | Mutual Funds – Types and Schemes | 24 |
| 3.3 | SIP – Features, Benefits | 25 |
| 3.4 | Miscellaneous – STPs & SWPs | 26 |
| 3.5 | Summary | 26 |
|  |  |  |

Unit – 1. Definition of Banking and Indian Banking System

* 1. **Origin, Meaning and Definition of 'Bank'**

Today much of retail banking is streamlined

electronically via Automated Teller Machines (ATMs) or through virtual retail banking known as

online banking.

**What is a Bank?**

* Bank is a financial intermediary institution which deals in loans and advances.
* Bank is an institution which collects idle money temporarily from the public and lends to other people as per need.
* Government or central banks typically regulate banks.
* Banks are vital for both consumers and businesses in the economy.
* Banks are required for **Investment reasons (Deposits), Financial reasons (Loans), Transactional reasons, Safe keeping (Lockers).**
* Banking is an integral part of the modern economy.
* Banking means 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.
* Banks may also provide other important services such as wealth management, currency exchange and safe deposit.
* In most of the countries around the globe; banks are generally regulated by either the **central government or central bank**. For example, The **Reserve Bank of India** reserves the rights to regulate all the retail banks of India.

**Origin of Banking**

* Banking system was introduced from the primitive stages of human civilization in some way or other in the world.
* It was said that in the year 1171, the authorities of Venice had taken loan from the people for meeting the expenses of war and the arrangements for repayment were also made by them.
* Banking's Ancient Roots: Traced back to early civilizations (Mesopotamia, Greece, Rome) using temples for safekeeping and lending.
* 17th-18th Century: Bank of England, Bank of Sweden pioneered modern systems, central banking, and paper currency.
* Functional Evolution: Banks progressed from safekeeping to diverse services like banknotes, trade facilitation, and wealth management.
* 19th Century: Banks fueled industrial growth by financing factories and infrastructure.
* Regulation Implementation: Governments introduced laws to monitor and stabilize banks, preventing financial crises.
* Global Expansion: Banks expanded worldwide, becoming multinational entities with diverse services.

**Points to Remember:**

* The central bank is entitled to deal with all the functions of commercial banking and thus, an individual customer is not eligible to have an account in the central bank.
  1. **Evolution of Banking in India**
* **Ancient Systems:** India had early banking systems with evidence of loans and deposits mentioned in ancient texts like Manuscript. Indigenous bankers known as "Shroffs" and "Seths" provided financial services.
* **Medieval Period:** During the Mughal era, indigenous bankers and moneylenders played a significant role in providing credit and financial services.
* **European Influence:** The arrival of European traders, especially the Portuguese, Dutch, and British, introduced modern banking practices in the 17th and 18th centuries. The establishment of the Bank of Hindostan (1770) and General Bank of India (1786) marked early European-style banks.
* **Reserve Bank of India (RBI):** In 1935, the RBI was established as the central bank to regulate the country's currency, credit, and banking operations.
* **Nationalization:** In 1969 and 1980, major banks, including SBI and several others, were nationalized to ensure better control and reach, leading to increased banking penetration in rural areas.
* **Liberalization and Private Banks:** In the 1990s, India initiated economic liberalization, allowing the entry of private and foreign banks, fostering competition and innovation in the banking sector.
* **Technological Advancements:** The 21st century witnessed a significant shift towards technology-driven banking, with the introduction of ATMs, internet banking, and mobile banking services.
* **Fintech and Digital Payments:** The rise of fintech companies and digital payment platforms further revolutionized the banking sector, offering innovative services and enhancing customer convenience.
  1. **Indian Banking System**
* The Indian banking system is a diverse ecosystem catering to various segments of society, aiming to evolve with technological advancements and regulatory reforms to provide inclusive and efficient banking services.
* The Indian banking system is governed by a central bank known as the Reserve Bank of India (RBI), which controls the entire financial sector.
* The Indian Banking System must follow the country’s central bank and the parent organisation’s regulations.
* The Indian Banking System includes commercial banks, regional rural banks, urban cooperative banks, and primary agricultural credit societies.
* India’s modern banking began in the 18th century. **The State Bank of India** is the biggest and oldest surviving bank. It began as the Bank of Calcutta in mid-June 1806.
* Indian banking systems are mostly state-owned. Their network and size enable them to dominate banking.
* The Indian Banking System is broadly divided into three types:
* **Commercial Bank:**  Commercial and industrial banks were formed to finance trade and commerce, while agricultural banks evolved to give short- and long-term loans.
* **Cooperative Bank:** Agriculture, small companies, and self-employment rely on cooperative banks.
* **Development Banks:** Development Banks finance Investment-intensive projects with low profits but enormous social benefits.
  1. **Reserve Bank of India**
* **Central Bank:** RBI is India's central bank, established in 1935.
* **Monetary Policy:** Formulates and implements monetary policies to control inflation and support economic growth.
* **Currency Issuance:** Sole authority to issue currency notes, except for one-rupee notes.
* **Regulator and Supervisor:** Regulates and supervises banks and financial institutions to ensure stability.
* **Banker to the Government:** Acts as a banker, advisor, and agent to the Central and State Governments.
* **Foreign Exchange Management:** Manages foreign exchange reserves and oversees foreign exchange transactions.
* **Policy Tools:** Uses tools like CRR, SLR, Repo Rate to control money supply and manage inflation.
* **Financial Stability:** Focuses on maintaining stability in the financial system through surveillance and crisis management.
* **Developmental Role:** Supports financial inclusion and promotes banking infrastructure in rural areas.
* **Autonomy and Accountability:** Operates independently but is accountable to the government and the public.

**Reserve/Central bank in other countries –**

*United States: Federal Reserve System (Fed)*

*United Kingdom: Bank of England*

*Canada: Bank of Canada*

*Germany: Deutsche Bundesbank*

*Japan: Bank of Japan*

*Australia: Reserve Bank of Australia*

*China: People's Bank of China*

*Brazil: Central Bank of Brazil (Banco Central do Brasil)*

*South Africa: South African Reserve Bank*

*Russia: Central Bank of the Russian Federation (Bank of Russia)*

* 1. **How Banks Work? Channels of Banking**
* Banks accept deposits from customers and use that money to offer loans and credit, earning interest and fees, while ensuring financial stability through reserves, investments, and regulatory compliance.
* Channel banking is a set of formats & channels made available by the bank to its customers so that the customers can access the various services (Collections and Payments) offered by the bank themselves without the assistance of a bank officer using a variety of modes.
* The banks offer various formats & channels to its customer to access its backend services. Some of these formats are: RTGS/NEFT, ECS, IMPS, SWIFT, SMS Banking, Internet Banking and ATM Banking
  1. **Types of Banking**

Banking can be broadly categorized into various types based on the nature of services offered and the clientele served. Two primary categories of banking are retail banking and Corporate/Wholesale banking:

* 1. **Retail Banking:**
* It is a banking service that is geared primarily towards **individual consumers**.
* Retail banking is usually made available by commercial banks as well as smaller community banks.
* Unlike wholesale banking, retail banking focuses strictly on consumer markets.
* Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services as well as debit and credit cards.
  1. **Corporate Banking:**
* Corporate banking involves financial services offered by banks to **large corporations**, institutions, and sometimes medium-sized businesses.
* They provide a wide array of specialized financial services tailored for corporate clients, including Corporate Loans, Trade Finance, Cash Management, Investment Banking Services, Risk Management
  1. **Summary:**
* Banking, a financial institution, facilitates loans, deposits, and diverse services for individuals and businesses.
* Originating from ancient civilizations, banking evolved to modern systems in the 17th-18th century with institutions like Bank of England.
* In India, banking dates back centuries, with the Reserve Bank of India established in 1935 as the central regulator.
* The Indian banking system encompasses commercial, cooperative, and development banks, evolving with technological advancements and regulatory reforms.
* Types of banking include retail (serving individuals) and corporate (catering to large entities) banking, each offering tailored financial services.

Unit – 2. Introduction to Retail Banking

* 1. **What are Retail Banks?**
* Retail banks specialize in providing financial services directly **to individuals and small businesses.**
* They offer essential services like savings and checking accounts, credit/debit cards, personal loans, mortgages, and customized financial products.
* Emphasizing convenience and personalized service, retail banks provide diverse banking options through physical branches, online platforms, mobile apps, and ATMs.
* ***Retail banking plays a crucial role in helping customers manage their money***, achieve their financial goals, and conduct routine transactions, making it an integral part of the economic landscape by serving as a bridge between individuals and the banking system.
* It caters to the day-to-day financial needs of people, offering a wide range of services aimed at personal banking rather than large-scale corporate or institutional requirements.
* Through retail banking, consumers may also obtain mortgages and personal loans.
* Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs) or through virtual retail banking known as online banking.
* Today's retail banking sector is characterized by three basic characteristics:
  1. Multiple products (deposits, credit cards, insurance, investments and securities)
  2. Multiple channels of distribution (call centre, branch, Internet and kiosk)
  3. Multiple customer groups (consumer, small business, and corporate)
  4. **Difference between Retail and Corporate Banking**
* **Audience**: Retail banking serves individuals and small businesses, while corporate banking caters to large corporations and institutions.
* **Services**: Retail banks offer basic services like savings accounts, loans, and credit cards, whereas corporate banks provide specialized services like corporate loans, cash management, and investment banking.
* **Scale**: Retail banking deals with smaller transaction volumes and lower financial values compared to corporate banking, which handles larger transactions and higher financial values.
* **Risk:** Corporate banking typically deals with higher financial risks due to larger transactions and exposure to complex financial markets, whereas retail banking involves relatively lower risks associated with individual accounts and smaller transactions.
  1. **Products and Services offered by Retail Banking**

1. **Deposit Products:**

* **Savings Accounts:** Accounts that allow customers to deposit their savings while earning interest.
* **Current Accounts:** Accounts that enable regular transactions, including withdrawals, payments, and deposits.
* **Time Deposits:** Time deposits, Certificates of Deposit (CDs) with fixed terms and interest rates.
* **Money Market Accounts:** Interest-bearing accounts that often offer higher interest rates compared to regular savings accounts.

1. **Lending Products:**

* **Personal Loans:** Loans provided for various purposes, such as home improvements, education, or personal expenses.
* **Mortgages:** Loans for purchasing homes or real estate.
* **Auto Loans:** Loans for purchasing vehicles.
* **Debit Cards:** Debit cards are a fundamental offering of retail banks and are among the essential products provided to their customers.
* **Credit Cards:** Revolving credit lines allowing customers to make purchases and payments based on a credit limit.
* **Mutual Funds:** Investment vehicles that pool money from multiple investors to invest in stocks, bonds, or other assets.
* **Stocks and Bonds Trading:** Retail banks often offer brokerage services for customers interested in buying and selling stocks, bonds, or other securities.
* **Payment Services:** Online and Mobile Banking Services allowing customers to manage their accounts, pay bills, transfer funds, and conduct transactions through digital platforms.
* **ATM Services:** Access to automated teller machines for cash withdrawals, deposits, and other banking services.
* **Wire Transfers:** Services for transferring funds between accounts or to other financial institutions.
* **Financial Planning and Advisory Services:** Financial Advisory Services: Guidance on investment strategies, retirement planning, wealth management, and other financial matters.
* **Insurance Products:** Retail banks may offer various insurance products, such as life insurance, health insurance, and property insurance.
* **Educational Resources:** Financial Literacy Programs: Banks often provide resources and educational materials to help customers understand financial concepts and make informed decisions about their money.
  1. **Retail Banking’s Liabilities - Deposits**
  2. **Demand Deposits - Savings Account and Current Account:**

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* + 1. **Current Deposits and Current Accounts**
* Transactional account for frequent financial activities.
* Designed for individuals and businesses needing daily financial operations.
* Allows unlimited deposits, withdrawals, and transactions often comes with an overdraft facility.
* Does not offer significant interest on deposited funds.

**Salient features of Current Account**

* Large firms and businessmen are eligible to have current accounts.
* Current bank accounts are useful to run a business.
* Unlike savings accounts, it doesn't offer Interest.
* There is no limit on the number of transactions made through current accounts.
* One can avail short term loan facility on current account.
* The amount for minimum balance is generally higher as compared to savings accounts.
  + 1. **Savings Account**
* Banking tool for individuals to deposit money and earn interest.
* Designed to preserve funds and encourage saving for future needs.
* Offers a modest interest rate on deposited amounts, encouraging long-term saving.
* May limit the number of withdrawals or transactions allowed per month.

**Salient features of Savings Account**

* An individual and the person with small business can opt for the savings accounts.
* The **main objective** of such bank accounts is **to promote savings**.
* A **nominal rate of Interest** is offered to saving account holders. The rate varies from bank to bank.
* The amount for the **minimum balance** in a savings account **varies from bank to bank**. However, these days, several Indian banks have started offering **Zero Balance Accounts** to the customers wherein they can avail debit card, net banking and certain numbers of free cash withdrawal.

**What is CASA?**

**CASA stands for "Current Account Savings Account."** It's a term commonly used in the banking sector to refer to the ***combined value of deposits held in a bank's current accounts and savings accounts.***

**CASA Ratio:**



The CASA ratio is a **crucial metric** that indicates the proportion of a bank's current and savings accounts to its total deposits. Banks strive to increase their CASA ratio as it helps reduce their cost of funds and improve their profitability.

This ratio is significant for banks because current and savings accounts typically offer lower interest rates to depositors compared to term deposits or fixed deposits. As a result, they are considered low-cost sources of funds for banks. **Higher CASA ratios** indicate that a bank relies less on costly deposits and more on the relatively cheaper current and savings accounts to fund their lending operations.

* + 1. **Other Special Accounts**
* **Non-Resident Account**

A Non-Resident Indian (NRI) is an Indian Citizen who resides in India for less than one hundred & eighty two days during the course of the preceding financial year, or who has gone out of India or who stays outside India for the purpose of employment, or who has gone out of India or who stays outside India for carrying on business or vacation outside India.

There are three types of NRI accounts which can be opened in India  
▪ **Non – Resident External (NRE) Account**  
It can be opened and maintained by NRIs with earnings originating from the respective individual’s country  
of residence but shall be held in Indian rupee denominations.  
▪ **Non – Resident Ordinary (NRO) Account**It can be opened with income earned from within India and shall be held in that deposit account in INR  
denominations. The source of income can either be rent, dividends, etc.  
▪ **Foreign Currency Non- Resident (FCNR) Account**  
It facilitates deposits made by Non-Residential Indians (NRIs) or Persons of Indian Origin (POI). NRIs or POI  
can make these deposits in the currency of their country of residence and shall be held in that account in  
any one of the foreign currencies prescribed by the RBI.

* 1. **Term Deposits:**

Term deposits refer to a type of savings account where funds are deposited for a fixed period, or term, at a predetermined interest rate.

* + 1. **Fixed Deposits**
* Fixed deposit comes under time deposit.
* A person deposits a certain amount which can't be withdrawn before the date of its maturity.
* Fixed deposits yield some interest for the time it is deposited by a customer.
* It
* yields a higher rate of Interest as compared to savings accounts.
* Fixed deposit has lower liquidity as compared to savings and current accounts.
* The Interest earned on such deposits is taxable.

**Exception:** Although fixed deposits have lower liquidity, an investor can opt for premature withdrawal wherein he or she can withdraw the sum of money that he or she has invested in a fixed deposit before its maturity if he or she needs the funds on an immediate basis.

**Salient features of Fixed Deposit:**

* One can opt for the fixed deposit for the **tenure of six days to ten years**.
* It can't be withdrawn on demand and does not enjoy cheque facility either.
* A person can deposit in fixed deposits only once. He or she must **open another fixed deposit account to make another deposit.**
* Senior citizens can enjoy higher rates of interest ranging from 0.25 to 1 percent.
* Fixed deposit may consist of bulk deposits. The rate of interest for such deposits are higher.
* **Premature withdrawal** is subjected to **penalties** ranging from 0.5 to 1.5 percent.
* The **Interest Income** more than 10000 rupees Is subjected to **TDS. (Tax deduction at Source**).
* Fixed deposits are the safest kind of investment and offer more stability as compared to mutual funds as it is subjected to market risk.
* One can enjoy a higher rate of interest which is offered on company's fixed deposits.
* One can also opt for the periodic interest payout to manage your monthly expenses.
  + 1. **Recurring Deposits**
* In recurring deposits, customers remit a certain sum of money on monthly instalments for a period ranging from 6 months to 120 months on a uniform pattern.
* The entire amount along with interest is payable after the payment of the last instalments.
* This type of deposit is much useful to the middle and low-income group of people.

**Salient features of Recurring/Reserved Deposit:**

* In India, the minimum amount that can be deposited is Rs.10 at regular intervals.
* The period of deposit is minimum six months and maximum ten years.
* Minimum tenure varies from bank to banks. Some banks allow minimum tenure in RD for 3 months.
* Minimum balance can be deposited under RD is 500 per month and thereafter in multiples of Rs 100/-
  1. **Retail Banking’s Assets – Loans and Advances**

The **bank assets** help the bank to grow its business in the market. Banks are entitled to provide short-term advances to account holders so that they can fulfil their short-term requirement.

But on the other hand, a loan is a kind of debt that is generally provided to the eligible account holders for their long-term requirements.

While advances generally come under credit facilities, a loan is offered for large scale planning and thus, can be repaid within tenure.

1. **Retail Loans**

Retail loans refer to various types of loans offered by financial institutions to individual customers for personal, household, or small business purposes. Below are the key types of retail loans:

* + - **Personal Loans:** Unsecured loans provided by banks or financial institutions for various personal needs such as home renovations, medical expenses, wedding expenses, or debt consolidation. These loans typically have fixed interest rates and repayment terms.
    - **Home Loans/Mortgages:** Loans specifically designed for purchasing a home or real estate properties. They come with varying interest rates (fixed or adjustable) and tenure options, allowing borrowers to repay the loan amount over an extended period, often several decades.
    - **Auto Loans:** Loans offered to finance the purchase of vehicles, including cars, motorcycles, or commercial vehicles. They come with fixed or variable interest rates and repayment periods.
    - **Education Loans:** Loans tailored to cover education-related expenses, including tuition fees, books, accommodation, and other educational costs. They often have favorable terms for repayment and may offer grace periods after completion of studies.
    - **Gold Loans:** Secured loans provided by banks against gold assets or ornaments pledged as collateral. Borrowers receive funds based on the value of the gold deposited.
    - **Consumer Durable Loans:** Loans granted for purchasing consumer durables such as refrigerators, televisions, air conditioners, etc., allowing customers to make affordable purchases through instalments payments.
    - **Loan Against Property (LAP):** Secured loans offered against the value of a property owned by the borrower, providing a way to access funds by pledging the property as collateral.

**CIBIL:**

CIBIL generates credit scores, commonly known as CIBIL scores, this score represents an individual's creditworthiness and is based on their credit history. A higher score indicates good creditworthiness, while a lower score may indicate credit risk. **CIBIL plays a significant role in the Indian financial system** by providing credit-related information that assists lenders in making informed decisions about extending credit to individuals and businesses.

**Loan Origination System:**

1. **Loan Origination System:** It's a software or platform used by financial institutions to manage and streamline the entire loan application process, from application submission to approval, including verification, underwriting, and funding.
2. **Loan Account Maintenance**: Refers to the ongoing administration and management of a borrower's loan account, involving tasks such as updating information, handling payments, managing changes in terms, and ensuring accurate records.
3. **Loan Management:** Encompasses all activities related to overseeing and handling loans throughout their lifecycle, including origination, servicing, repayments, collections, and mitigating risks associated with the loans in a financial institution's portfolio.
4. **Loan Accrual:** Accumulation of interest or income on a loan over time.
5. **Loan Balance:** The outstanding amount remaining on a loan at a given time.
6. **Loan Capitalisation:** Adding unpaid interest to the loan's principal balance.
7. **Loan Extension:** Prolonging the loan's maturity date beyond the originally agreed-upon timeframe.
8. **Loan Billing:** Generation of statements or invoices detailing loan payments and due amounts.
9. **Loan Delinquency**: Failure to make loan payments on time as per the agreement.
10. **Loan Fee and Expenses:** Charges or costs associated with acquiring or maintaining the loan.
11. **Loan Renewal:** Extending the loan agreement for an additional term after its maturity.
12. **Loan Securitisation:** Process of converting loans into marketable securities for investment.
13. **Loan Shadow Accounting:** Parallel accounting system for regulatory or internal purposes.
14. **Line of Credit:** Pre-approved credit limit that a borrower can access when needed.
15. **Loan file Maintenance:** Organizing and managing documentation related to the loan throughout its lifecycle.
16. **Loan Monetary:** Relating to the financial aspects or money involved in the loan.
17. **Loan Account Closure:** Process of terminating or closing the loan account after full repayment.
18. **Loan Insurance:** Protection against loan default or non-payment through insurance coverage.
19. **Cash Credit**

A Cash Credit (CC) is a short-term source of financing for a company. In other words, a cash credit is a short-term loan extended to a company by a bank.

1. **Overdraft**

An overdraft facility is a credit agreement made with a bank that allows an account holder to use or withdraw more money than what they have in their account up to the approved limit.,

1. **Discounting of Bills**

Discounting bills of exchange is another type of lending by the modern banks. Bill Discounting is a **discount/fee** which a bank takes from a seller to release funds before the credit period ends. Discounting bills refers to a facility in which the holder of a bill of exchange can get the bill discounted with the bank before maturity.

1. **Credit Cards**

* Credit cards are financial tools that allow consumers to borrow money from a financial institution to make purchases or pay for services.
* Each credit card comes with a credit limit, which is the maximum amount of money you can borrow using that card.
* The interest rate, often referred to as the Annual Percentage Rate (APR), can vary based on the card issuer and your creditworthiness.
* Credit cards might come with annual fees, late payment fees, cash advance fees, foreign transaction fees, etc.
* Many credit cards offer rewards such as cashback, travel miles, or points for every dollar spent.

**Which Credit Cards to use:**

1. Rewards and Benefits: Look for cards that offer rewards such as cashback, travel miles, points for purchases, or specific rewards tailored to your lifestyle (like dining or groceries).
2. Interest Rates: Consider the Annual Percentage Rate (APR) for purchases and balance transfers. Lower APR cards can save money if you plan to carry a balance.
3. Fees: Check for annual fees, late payment fees, foreign transaction fees, and other charges associated with the card.
4. Credit Limit: Ensure the credit limit offered meets your spending requirements without impacting your credit utilization ratio negatively.
5. Introductory Offers: Some cards offer introductory bonuses, like 0% APR for a certain period or bonus rewards for new cardholders.
6. Perks: Evaluate additional benefits like travel insurance, purchase protection, extended warranties, and access to airport lounges.
7. Credit Score Requirement: Understand the credit score needed for approval and whether you meet the card issuer's criteria.
8. Issuer Reputation: Consider the reputation and customer service of the card issuer.
9. Specific Needs: Choose cards that cater to your specific needs, whether it's for travel, cashback on certain purchases, or building credit.
   1. **Debit Cards**

* Debit cards are payment cards that are linked directly to your checking account.
* Unlike credit cards, debit cards typically do not charge interest because you are using your own money rather than borrowing funds from a lender.
* Debit cards allow you to access the money in your checking account to make purchases or withdraw cash from ATMs.
* Debit cards are widely accepted for purchases at most merchants globally, wherever the card network (like Visa, Mastercard, etc.) is accepted.
* Other names of Debit Card – Check cards, Plastic cards, Payment cards, Plastic currency, Plastic money, Asset card.

**Carrier:**

* "Card Carrier" refers to the documentation accompanying your card upon delivery. It includes details about your card and any specific functionalities it may have.
* It includes card details, activation instructions, security guidelines, features, terms, contact information, and disclaimers.

**Debit Card Eligibility:**

* **Bank Account:** To obtain a debit card, you typically need to have a bank account with the financial institution issuing the card.
* **Age:** Like credit cards, you generally need to be at least 18 years old to have a debit card. Some institutions might offer joint accounts for minors with parental consent.
* **Identification and Residency:** Providing identification documents and proof of residency may be required to open a bank account and get a debit card.
* **Minimum Balance or Account Type:** Some banks or credit unions might have specific requirements related to maintaining a minimum balance or opening a particular type of account to issue a debit card.

**Issuance of Debit Card:**

* **Customer Application**: Customers apply for a debit card linked to their bank account.
* **Bank Approval:** Upon approval, the bank issues a debit card for the approved account holder.
* **Activation:** The cardholder activates the card through methods specified by the bank.
* **Linkage to Account:** The card is linked to the individual's checking or savings account.
* **Usage:** Enables electronic transactions, purchases, and ATM withdrawals using funds from the linked account.

**Debit Card Maintenance:**

Making changes to the card status and managing it either via Back office or via Mobile/Internet Banking.

The below Maintenance will be taken place for cards.

* Block/Unblock – A Card will be either blocked or unblocked with this maintenance.
* Replace & Reissue – the new card will send to the registered mailing address.  
  o Reissue option will be used when the cards get expired,  
  o Replace is usually when Card is lost or damaged, applying service charges
* Closure – A Card will be permanently closed with this maintenance being used.
* Overdraft Limits – This is an advance provided to the customer, the advance amount limit can be altered based on the customer’s request. Charges are applied from the date of availing.
* Add On Cards – Add on cards are being given as per the customer’s request. The primary Card Holder Overdraft limit will be utilized for the add on  
  cards as well.
* Status will be changed in the backend application for the each & every maintenance made on the card/account and the same will be recorded in the  
  memo/notes as well.

**Types of Debit Cards in India:**

Debit cards can be associated with various payment networks such as Visa, Mastercard, and RuPay.

1. Visa Debit Cards: Offered through the Visa payment network, these cards are widely accepted globally. They allow cardholders to make purchases or withdraw cash from ATMs where Visa is accepted.
2. Mastercard Debit Cards: Operate on the Mastercard network and are also widely accepted worldwide. They offer similar functionalities for purchases and cash withdrawals.
3. RuPay Debit Cards: RuPay is an indigenous card network in India introduced by the National Payments Corporation of India (NPCI). RuPay cards are designed to promote domestic electronic payments and are accepted at ATMs, POS terminals, and e-commerce websites across India. They are often associated with lower transaction fees.
   1. **Payments, Cards & Fund Transfer Module**
   2. **Merchant**

A merchant refers to a person, business, or entity that sells goods or services. In the context of financial transactions, a merchant is the seller or provider of products or services who accepts payments from customers using various payment methods such as cash, credit cards, debit cards, mobile payments, online payments, and more.

* **Retail Merchants**: These are businesses that sell goods directly to consumers. They can be further categorized into:
* **Brick-and-Mortar Retailers**: Physical stores operating in a specific location, such as department stores, specialty shops, supermarkets, etc.
* **Online Retailers:** E-commerce businesses that sell products exclusively online through websites, online marketplaces, or mobile apps.
* **Wholesale Merchants:** Wholesale merchants sell goods in bulk quantities to retailers or other businesses rather than to individual consumers. They often operate large warehouses or distribution canters and offer products at lower prices compared to retail.
* **Service Merchants:** These merchants offer various services rather than physical products. This category includes professionals such as doctors, lawyers, accountants, consultants, freelancers, and other service-oriented businesses.
* **Hospitality Merchants:** These include businesses in the hospitality industry that provide lodging, dining, entertainment, and leisure services, such as hotels, restaurants, bars, resorts, and entertainment venues.
* **E-commerce Marketplace Merchants:** These are merchants that sell their products or services through online marketplaces that bring together multiple sellers and buyers, such as Amazon, eBay, Alibaba, and Etsy.
* **Specialty Merchants:** These merchants specialize in specific categories of products or services, catering to niche markets. Examples include boutique stores, gourmet food shops, art galleries, and antique stores.
* **Mobile Merchants:** These are merchants that conduct transactions via mobile devices or offer services like food delivery, ridesharing, mobile app subscriptions, and more.
* **Mail Order/Telephone Order (MOTO) Merchants:** These merchants accept payments through mail orders or telephone orders without face-to-face interactions. They often operate via catalogs, phone orders, or mail-in forms.
* **Nonprofit Merchants:** Nonprofit organizations or charities that accept donations or payments for their causes or services fall into this category.
  1. **Acquirer**

An acquiring bank, also referred to as an “acquirer,” is a bank or financial institution that processes customer credit or debit card payments on behalf of the business and routes them through the card networks to the issuing bank.

* 1. **Payments Network**
* Payment networks refer to systems that facilitate the transfer of funds or financial transactions between individuals, businesses, banks, or other entities.
* These networks allow for the secure and efficient movement of money **electronically**.
* Payment networks often support **various payment methods**, including credit/debit cards, bank transfers, digital wallets, and mobile payments, offering users flexibility in how they transact.
* Many payment networks aim for **fast transaction** processing to ensure timely fund transfers between parties, especially for online and point-of-sale transactions.

Types of Payment Network:

* **Visa:** Globally recognized payment network for credit and debit card transactions.
* **Mastercard:** International payment network offering credit, debit, and prepaid card services.
* **American Express:** Known for its credit card services, operating its payment network.
* **PayPal:** Online payment platform for electronic fund transfers and digital wallet services.
* **Alipay:** Leading Chinese payment network providing digital wallets and mobile payment solutions.
* **WeChat Pay:** Integrated into WeChat app, allowing users in China to make mobile payments.
  1. **Payments System Design - Architecture**

A diagram of a card payment process

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A diagram of a payment process

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In a typical payment architecture involving a customer, merchant, bank, and payment gateway, several components work together to facilitate a secure and seamless transaction process:

* ***Customer:*** The individual or entity making a purchase or transaction.
* ***Merchant:*** The business or seller offering goods or services for purchase.
* ***Bank (Issuer Bank):*** The bank that issues the payment card (credit/debit card) to the customer. It validates the card details, authorizes the transaction, and debits the customer's account.
* ***Acquirer Bank (Merchant Bank):*** The bank that maintains the merchant's account and receives funds from the transactions. It verifies the transaction, credits the merchant's account, and facilitates the movement of funds.
* ***Payment Gateway:*** An interface that securely connects the merchant's website or application with the payment networks, enabling the authorization and processing of transactions. It acts as a mediator between the merchant, customer, and financial institutions involved in the transaction.

**Payment Process Overview:**

* ***Initiation:*** The customer initiates a purchase on the merchant's website or platform and proceeds to checkout.
* ***Card Details Entry:*** The customer provides payment details, such as card number, expiration date, CVV, etc., on the checkout page, which is hosted and secured by the payment gateway.
* ***Payment Gateway Processing:*** The payment gateway encrypts and securely transmits the card details to the relevant financial institutions for further processing.
* ***Authorization:*** The Issuer Bank (customer's bank) validates the transaction details, checks for available funds, and approves or declines the transaction.
* ***Transaction Approval:*** If authorized, the transaction is approved by the Issuer Bank, and this information is conveyed back through the payment gateway to the merchant.
* ***Funds Transfer:*** The Acquirer Bank receives the approved transaction details, transfers funds from the customer's account, and holds them for settlement.
* ***Settlement:*** At the end of the day or in agreed-upon intervals, the actual movement of funds occurs between the Issuer Bank and Acquirer Bank. This process involves clearing and settlement procedures as discussed earlier.
* ***Confirmation:*** Confirmation messages are sent to both the customer and the merchant, finalizing the transaction.

The payment architecture ensures security, reliability, and compliance with industry standards (like PCI DSS) throughout the transaction lifecycle, providing a seamless experience for customers while enabling merchants to securely receive payments for their products or services.

* 1. **Banking Payments – Types**
* The central bank, such as the Reserve Bank of India (RBI), plays a crucial role in overseeing and developing payment systems within a country.
* **Central Role:** The Reserve Bank of India (RBI) oversees and develops national payment systems for safety, security, efficiency, and accessibility.
* **BPSS Oversight:** The BPSS, a sub-committee of the RBI, sets policies and standards for payment systems, acting as the highest governing body.
* **Legal Framework:** Governed by the Payment and Settlement Systems Act, 2007, and its regulations, allowing RBI authorization for payment systems' operation.
* **Authorization Power:** RBI has the sole authority to authorize and regulate payment systems in India, ensuring adherence to prescribed standards for safety and efficiency.

**Summarizing various payment systems:**

1. RTGS (Real Time Gross Settlement): Enables real-time and immediate high-value fund transfers between banks without batching, ensuring individual transaction settlement instantly.
2. NEFT (National Electronic Fund Transfer): A nationwide payment system in India for electronic fund transfers operating in batches during specific hours, settling transactions on a deferred net basis.
3. IMPS (Immediate Payment Services): Allows instant interbank electronic fund transfers 24/7 in India, facilitating mobile-based transactions and offering swift payment solutions.
4. Standing Order: Automated instructions set by bank account holders for regular fixed payments to specific recipients at scheduled intervals, such as rent or loan repayments.

**UTR – Unique Transaction Reference**

* Unique Identifier: UTR is a distinct alphanumeric code assigned to individual financial transactions.
* Identification Purpose: It uniquely identifies and tracks specific transactions within banking systems.
* Record-keeping: UTR serves as a reference for maintaining transaction records and facilitates reconciliation.
* Dispute Resolution: It aids in investigating discrepancies or disputes related to transactions.
* Used in Electronic Transfers: Widely used in systems like RTGS, NEFT, and IMPS for transaction identification and tracking.

**SWIFT – Society for Worldwide Interbank Financial Telecommunication**

It is a global messaging network and financial communications cooperative that facilitates secure and standardized communication between financial institutions worldwide.

* **Global Financial Network:** SWIFT is a worldwide messaging network for financial institutions.
* **Message Transmission:** Facilitates secure communication for financial transactions.
* **Standardized Format**: Uses standardized MT messages for consistency and security.
* **Bank-to-Bank Communication:** Enables banks to transact and communicate internationally.
* **Security Measures:** Maintains high-security standards for message confidentiality and integrity.
* **SWIFT Codes:** Assigns unique codes (SWIFT/BIC) for bank identification and transaction routing.
  1. **Customer Onboarding**

**Customer Onboarding:**

* The process of integrating new customers into a business or service, facilitating their entry, and setting up necessary arrangements.
* It refers to the welcoming and introduction of new customers to a product, service, or platform, often involving account setup and familiarization with features.
* Involves paper-based documentation and in-person verification, often time-consuming and less efficient.
* **Traditional methods** can be slow, costly, and less user-friendly. Compliance with regulations and the need for security measures also pose challenges.
* Utilizes digital channels and technologies to streamline onboarding, offering convenience, speed, and enhanced user experience.
* ***E-KYC for Individuals (India-based):*** Electronic Know Your Customer process in India, verifying identity electronically, enabling faster onboarding compliant with regulatory norms.
* ***Corporate E-KYC Onboarding Basic Concepts:*** Involves electronic processes to verify and onboard corporate entities, ensuring compliance with regulations and authentication of corporate identities.

**Customer Identification details:**  
— Customer contact details  
— Customer Demographic and family details  
— Customer Financial and business details  
— Customer Relationship details  
— Regulatory requirements, and  
— Miscellaneous

**KYC – “Know your customer”:**

KYC (Know Your Customer) in customer onboarding:

* Identity Verification: KYC involves verifying the identity of customers to prevent fraud, money laundering, and other illegal activities.
* Regulatory Requirement: It's a regulatory compliance measure mandated by financial institutions and businesses to ensure due diligence in customer identification.
* Information Collection: KYC involves gathering customer information, such as ID proofs, addresses, and other relevant details, to establish the customer's identity and assess the risk associated with the relationship.
* Risk Mitigation: It helps in assessing the risk level associated with a customer and tailoring services, accordingly, ensuring compliance with regulations and reducing financial risk.
* Ongoing Process: KYC isn't a one-time event; it's an ongoing process involving periodic reviews and updates of customer information to maintain accuracy and compliance.

**KYC – Elements**

* Customer Acceptance Policy
* Risk Management
* Customer Identification Process
* Monitoring of Transaction

**KYC – Documents Required**

1. Identity Proof: Government-issued photo ID (e.g., passport, driver's license)
2. Address Proof: Utility bills or official letters with address
3. Financial Documents: Bank statements or pay stubs
4. Business Documents (for Business Accounts): Certificate of incorporation or business license
5. Other Documents: References or notarized documents (if required)

**Customer Due Deligence**

Customer Due Diligence (CDD) refers to the process through which financial institutions assess and verify the identity and risk associated with their customers. Here are succinct points about CDD:

* Identity Verification: Confirming the identity of customers through official documents, such as government-issued IDs or passports.
* Understanding Customer Risk: Evaluating the risk level associated with a customer's profile, considering factors like their business activities, geographic location, or transaction behaviour.
* Enhanced Due Diligence (EDD): Conducting more in-depth scrutiny for high-risk customers, involving additional verification and monitoring procedures.
* Ongoing Monitoring: Continuously reviewing customer transactions and relationships to detect any suspicious activities or changes in behaviour.
* Regulatory Compliance: Following legal requirements to perform due diligence on customers as part of Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations.
* Risk-Based Approach: Tailoring the level of due diligence based on the assessed risk level of customers, ensuring proportionate measures are applied.

**Digital approach to customer onboarding:**

* Online Application: Customers apply for services via websites or mobile apps.
* Electronic Document Submission: Upload identification documents and forms digitally.
* Automated Verification: AI and algorithms verify documents and conduct background checks.
* E-Signatures: Enable electronic signatures for agreements or contracts.
* Biometric Authentication: Use biometrics for identity verification.
* E-KYC Compliance: Electronically verify customer identity, meeting regulatory standards.
* Personalized Experience: Tailor onboarding to user preferences, providing self-service options.
* Mobile Accessibility: Offer mobile-friendly interfaces for convenient onboarding.
* Security Measures: Implement robust security protocols to protect customer data.
* Real-time Updates: Provide instant feedback during the onboarding process.
  1. **Money - Laundering**

Money laundering in banking refers to the illegal process of concealing the origins of illegally obtained money, typically involving a series of transactions to make the funds appear legitimate.

* **Placement:** Initial stage where illegal funds are introduced into the legitimate financial system.
* **Layering:** Complex transactions to obscure the origin of the funds by moving them through multiple accounts or financial instruments.
* **Integration:** Final stage involving the integration of laundered funds into the economy, making them appear legitimate and challenging to trace back to their illicit source.

**What is Anti-Money Laundering (AML):**

* **Regulatory Compliance:** Following laws to prevent money laundering.
* **Identity Verification:** Confirming customer identities (KYC).
* **Risk Assessment:** Evaluating customer risk levels (CDD).
* **Reporting Suspicious Activity:** Alerting authorities about suspicious transactions (SAR).
* **Transaction Monitoring:** Tracking transactions for anomalies.
* **Staff Training:** Educating employees to identify red flags.
* **Intensive Scrutiny:** Extra checks for high-risk cases (EDD).
* **Global Cooperation:** International collaboration against illicit finance.
* **Enforcement and Penalties:** Imposing fines for non-compliance.
* **Adaptive Policies:** Updating AML protocols regularly.

Unit – 3. Wealth Management

Wealth management in banking refers to the specialized financial services offered by banks and financial institutions **to high-net-worth individuals** (HNWIs), affluent clients, and sometimes institutional investors.

Tailored financial services for affluent clients includes:

* 1. Investment management
  2. Financial planning
  3. Risk mitigation
  4. Private banking services
  5. Estate planning
  6. Client education
  7. Philanthropic guidance
  8. Access to legal and tax expertise.

**Why Wealth Management?**

* Diversified Investments: Using various assets like stocks, bonds, ETFs, real estate, and alternatives for balanced portfolios.
* Financial Planning: Tailored services covering retirement, estate, tax planning, insurance, and cash flow management.
* Private Banking: Exclusive services such as lending, specialized investments, and dedicated relationship managers for high-net-worth clients.
* Risk Management: Strategies to protect wealth through asset allocation, hedging, and insurance.
* Estate Planning & Trust Services: Structuring estates, setting up trusts, and managing wealth transfer efficiently.
* Performance Reporting: Regular updates on portfolio performance, market trends, and investment opportunities.
* Tax & Legal Advisory: Expert guidance on financial complexities, tax planning, and legal compliance.
* Philanthropic Guidance: Assistance in charitable giving and setting up charitable trusts or foundations.

**Wealth management often involves the utilization of mutual funds and Systematic Investment Plans (SIPs) as part of an investment strategy for clients.**



**MUTUAL FUNDS – INTRODUCTION**

Mutual funds are investment vehicles that pool money from multiple investors to buy a **diversified portfolio** of stocks, bonds, or other securities.

Mutual funds are operated by professional Fund managers, primarily AMC which stands for **Asset Management Company,** a financial institution or company that manages and operates mutual funds, hedge funds, or other types of investment funds. The primary role of an AMC is to handle the fund's investments based on its stated objectives and strategies.

* Mutual funds collect money from numerous investors to create a pool of funds.
* They invest pooled money in various securities (stocks, bonds, etc.), spreading risk across multiple assets.
* Fund managers make investment decisions, aiming to achieve the fund's objectives and generate returns.
* Different types of mutual funds cater to varying risk appetites and investment goals (e.g., equity funds, bond funds, index funds, etc.).
* Investors can buy or sell mutual fund shares at the fund's net asset value (NAV) on any business day.
* They may involve fees like expense ratios, sales charges (loads), or redemption fees, impacting overall returns.
* Mutual funds are regulated by government agencies to protect investors' interests and ensure transparency.
* They provide an opportunity for individuals to access diversified portfolios managed by professionals, even with relatively small investments.

**Different types of Mutual Funds:**

1. Equity Funds: Invest in stocks; categorized by market cap or sector focus.
2. Debt Funds: Primarily invest in fixed-income securities; varying risk levels and durations.
3. Hybrid Funds: Mix of stocks and bonds for balanced portfolios; conservative to aggressive allocations.
4. Index Funds: Mirror specific market indices' performance by investing in their components.
5. Sector Funds: Concentrate on specific industries like tech, healthcare, or finance.
6. Tax-Saving Funds (ELSS): Equity-based schemes offering tax benefits under Section 80C.
7. Money Market Funds: Invest in short-term, low-risk money market instruments.
8. Gilt Funds: Invest in government securities, relatively lower risk due to government backing.
9. International Funds: Invest outside the home country, providing exposure to global markets.

**SIP – SYSTEMATIC INVESTMENT PLAN: – INTRODUCTION**

SIP stands for Systematic Investment Plan. It's an ***investment strategy offered by mutual funds*** allowing investors to regularly invest a fixed amount at predefined intervals (usually monthly) into a mutual fund scheme. Here are its features and benefits:

**Features:**

1. Regular Investing: SIP allows investors to invest fixed amounts periodically (monthly, quarterly) in mutual funds.
2. Rupee-Cost Averaging: It helps in mitigating the impact of market volatility by buying more units when prices are low and fewer units when prices are high, averaging the cost per unit.
3. Disciplined Investing: Encourages a disciplined approach to investing by automatically deducting the predetermined amount from the investor's account.
4. Flexibility: Investors can start with relatively small amounts and gradually increase their investments over time.
5. Compounding Benefits: As SIPs provide the benefit of compounding over time, the longer the investment horizon, the greater the potential growth.

**Benefits:**

1. Mitigates Market Timing Risk: By investing regularly, SIPs reduce the risk associated with trying to time the market.
2. Affordability and Accessibility: Allows small and periodic investments, making it accessible to a wide range of investors.
3. Disciplined Saving and Investing: Encourages disciplined savings habits and instills a regular investing routine.
4. Rupee-Cost Averaging: Helps in averaging the cost of investments, potentially reducing the overall investment risk.
5. Long-Term Wealth Creation: Over time, SIPs can potentially help in wealth creation due to the power of compounding.

SIPs are popular among investors as they offer a convenient and disciplined approach to investing in mutual funds, aiming to reduce the impact of market fluctuations while fostering long-term wealth creation.

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**MISCELLANEOUS-**

**STP (Systematic Transfer Plan) & SWP (Systematic Withdrawal Plan)**

STP and SWP are two strategies used in mutual fund investments:

**STP (Systematic Transfer Plan):**

* Concept: STP involves transferring a fixed amount of money systematically from one mutual fund scheme (usually debt) to another scheme (usually equity or balanced) at regular intervals.
* Purpose: Used to manage risk by gradually moving funds from a lower-risk fund to a potentially higher-return fund, aiming to benefit from market fluctuations.
* Benefits: Helps in implementing a disciplined approach to rebalancing a portfolio and capitalizing on market opportunities.
* Variations: Can be implemented in various ways, such as fixed STP (transferring a fixed amount regularly) or capital appreciation STP (transferring gains from one fund to another).

**SWP (Systematic Withdrawal Plan):**

* Concept: SWP enables investors to withdraw a fixed or variable amount from their mutual fund investments at regular intervals.
* Purpose: Used by investors, especially retirees, to generate a regular income stream from their mutual fund investments while staying invested.
* Benefits: Provides a systematic way to derive regular income, while the remaining investment continues to stay in the fund.
* Variations: Can be set up to withdraw a fixed amount regularly (fixed SWP) or withdraw gains made on investments (capital appreciation SWP).
* Both STP and SWP offer systematic ways to manage investments in mutual funds by either transferring funds between schemes (STP) or withdrawing funds at regular intervals (SWP), catering to different investment goals and strategies.

**Summary:**

Wealth management encompasses tailored ***financial planning, investment strategies, and risk management*** to optimize and preserve assets for individuals or entities with significant wealth, aiming to achieve long-term financial goals while ***addressing tax, estate, and retirement planning needs***. It involves a comprehensive approach, personalized advisory services, and ongoing support to maximize wealth growth and security.