Banking and Financial Awareness - January 2018

Interest Rate Swaps

An Interest Rate Swap is a contractual agreement between two parties who agree to exchange the future interest rate payments that they make on loans or bonds. The two parties are banks, businesses, hedge funds or investors.

The two common Interest Rate Swap are Fixed Interest Rate Swap and Floating Interest Rate Swap. The Fixed Interest Rate Swap means where one party 'A' will make payments to the other party 'B' based on an initially agreed initially of interest, to receive back payments based on a floating interest rate index.The Floating Rate is a reference rate that is London Interbank Offered Rate or LIBOR.

For Example

Shyam owns a $200000 investment that pays him LIBOR + 1% every month.As LIBOR goes up and down so the payment Shyam receives changes. Now, suppose Gaurav owns a $200000 investment that pays him 1.5% every month.The payment he receives never changes. Now, Shyam decides that he would rather lock in a constant payment and Gaurav decides that he would rather take a chance on receiving higher payments. So, Shyam and Gaurav agree to enter into an Interest rate Swap contract.

Advantages of Interest-Rate Swaps:

- An Interest Rate Swap helps companies to hedge against interest rate subjection by minimising the uncertainty of future cash flows.
- An Interest Rate Swap allows companies to revise their debt conditions to take advantage of current or expected future market conditions.
- An Interest Rate Swaps are used as financial tools to lower the amount needed to service a debt.
- Interest Rate Swaps allow companies to take advantage of the global markets more efficiently by bringing together two parties that have an advantage in different markets.

- Interest Rate Swap agreement can reduce uncertainty. If a company has a floating rate loan, they may not know what sort of interest rate payments they will be paying throughout the duration of that loan.
- The floating rate could increase or decrease and it could devastate the finances of the comapany. In order to annihilate uncertainty,the company could enter into an interest rate swap agreement with a bank that allows the company to make fixed payments instead of variable payments.
- An Interest Rate Swap can also minimise the coast of a loan.A company may be able to enter into an interest rate swap that allows it to pay a lower fixed interest rate to a swap trader than it would have had to pay for a fixed interest rate with a lender.
- An Interest Rate Swap has more transparent pricing and has no credit risk since the exchange stands in between the counterparties.
- An Interest Rate Swap obtains a lower cost of funding.
- Swapping allow issuers to re-examine their debt profile so that advantage of current or expected future market conditions can be taken.
- If interest rate decline, Swapping from fixed to floating rate may save the issuer money.
- Interest Rate Swaps are a financial tool that has a perspective to help issuers lower the amount of debt service.

How to Invest in Interest Rates Swaps?

Interest Rate Swaps has become an prominient tool for many types of investors, as well as corporate treasures,risk managers and banks because they have ample of potential uses.

Portfolio Management: Through Interest Rate Swaps the portfolio managers can regulate interest rate exposure and counterbalance the risks caused by interest rate volatility.The long-dated interest rate swaps can increase the duration of a portfolio and makes them an effective tool in Liability Driven Investing.

Speculation: The Interest Rate Swaps require a little capital upfront, they give fixed-income traders a way to speculate on movements in interest rates while possibly avoiding the cost of long and short positions in Treasuries.

Risk Management: Banks and financial institutions are involved in a tremendous number of transactions which involve loans, derivatives contracts and other investments.The bulk of fixed and floating interest rate exposures typically cancel each other out, but any remaining interest rate risk can be counterbalance with interest rate swaps.

Rate-locks on bond issuance: When corporations or organizations decide to issue fixed-rate bonds, they usually lock in the current interest rate by entering into swap contracts that give the time to go out and find investors for the bonds. Once they actually sell the bonds,they exit the swap contracts.

What are the Risks:

Interest-Rate Swaps involve two primary risks: Interest rate risk and Credit risk which is also known in the swaps market as counterparty risk. Actual interest rate movements do not always match expectations,swaps need interest-rate risk.A receiver(the counterparty receiving a fixed-rate payment stream) profits if interest rates fall and loses if interest rates rise.Contrary,the payer(the counterparty paying fixed) profits if rates rise and lose if rates fall.

Swaps are also subject to the counterparty's credit risk, the chance that the other party in the contract will default on its responsibility.This risk has been partially reduced since the financial crises,with a large portion of swap contracts now clearing through central counterparties (CCPs).

GST rates reduced on 29 Goods and 53 Services

- The GST Council headed by Finance Minister Arun Jaitley cut the tax rate on 29 goods and 53 categories of services such as education, insurance, entertainment and tourism which will now turn cheaper.
- GST council reduces tax rates on 29 goods and 53 categories of services
- The Council cut GST rate on second-hand medium and large cars and SUVs from 28 per cent to 18 per cent and on other old and used motor vehicles to 12 per cent.
- Tax on diamonds and precious stones was slashed to 0.25 per cent from current 3 per cent.
- Tax rate on sugar boiled confectionery (18% to 12%), drinking water packed in 20-litre bottles (18% to 12%), tamarind kernel power (18% to 5%), mehendi paste in cones

(18% to 5%), articles of straw, velvet fabric (12% to 5%)and rice bran(exempted) was also cut.

- The GST rate on services such as admission to theme parks, water parks, joy rides, merry-go-rounds, go-carting and ballet, has been reduced from 28% to 18%.
- GST Council also decided to increase the threshold limit for exemption for all theatrical performances like music, dance, drama, orchestra, folk or classical arts and all other such activities in any Indian language in theatre GST from Rs. 250 to 500 per person.
- Besides, it decided to allow input tax credit (ITC) for services in the same line of business at the GST rate of 5% in case of tour operator services.
- The GST rate on tailoring has been reduced from 18% to 5%. GST on job work services rate for manufacture of leather goods and footwear has been cut to 5%.
- To ease the burden on households it has been decided to raise the exemption limit of GST from Rs 5000 per month per member to Rs 7500 for services provided by resident welfare associations to their members against their individual contribution.
- Services relating to admission to, or conduct of examination provided to all educational institutions have been exempted from GST.
- Services provided by school buses have also been exempted from GST.
- The GST rate on transportation of petroleum crude and petroleum products such as petrol, diesel and jet fuel has been cut from 18% to 5% without ITC (input tax credit) and 12% with ITC. GST rates on work contracts for government construction projects has been reduced from 18% to 12%.
- GST on services of treatment of effluents, reduced from 18% to 12%.
- The Council, in its 25th meeting also discussed process to make filing of GST returns simpler with just one return to be filed every month.

Indusland Bank to Launch Battery-Powered Interactive Payment Card

- IndusInd Bank and Dynamics Inc. announced their plan to introduce the first battery-powered Interactive Payment Cards at the 2018 Consumer Electronics Show (CES).
- Dynamics Inc. a Pennsylvania-based company will design and manufacture these interactive payment cards.
- The card will have various buttons to enable the customer to use that single card in multiple ways.

- With the touch of a button, consumers can select credit points or monthly instalments as the payment option.
- I t will activate a different colour light based on the selected payment option.
- T hese interactive payment cards require no changes to be made to the payment infrastructure or merchant systems. Consumers can pay using points or via instalment method wherever MasterCard is accepted.

IndusInd Bank

IndusInd Bank was established in 1994 and has its headquarters in Mumbai, India. It was founded by S P Hinduja and has Romesh Sobti as its current CEO. It caters to the needs of both consumer and corporate customer. The IndusInd Bank also has representative offices in London, Dubai and Abu Dhabi. On April 1, 2013, it was included in the NIFTY 50 benchmark index.

Dilip Asbe appointed MD and CEO of NPCI

- Dilip Asbe has been appointed as the new MD and CEO of NPCI (National Payments Corporation of India), an umbrella organization for retail payment systems in India.
- Prior to this announcement, Dilip Asbe was CEO-in-charge of the NPCI since August 2017. He had replaced A P Hota whose term as the MD and CEO of NPCI ended in August 2017.
- Asbe has been in the NPCI since its inception and has played a pivotal role in designing, building, operationalising and managing large-scale payment processing platforms like the Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Immediate Payment Service (IMPS), India's homegrown card network RuPay, and several other initiatives.
- Asbe, who has previously worked with Euronet and Prizm Payments had joined NPCI way back in January 2010 as its first employee and as a chief technology officer. In 2013 he had assumed the position of its chief operating officer and has played a pivotal role in NPCI's technology initiatives since then.

PhonePe inks pact with FreeCharge

Flipkart's payment arm PhonePe has partnered with mobile wallet company FreeCharge to allow the customers of FreeCharge pay for transactions at PhonePe's partner merchants.

PhonePe has now enabled its 45 million users to link their existing FreeCharge wallets to the PhonePe app.

Once linked, the customers of PhonePe will be able to spend their FreeCharge wallet balance at all online and offline merchant outlets that accept payments via PhonePe.

To pay via FreeCharge on PhonePe, customers can link FreeCharge from My-Account-Other Wallets' section following which they can pay using FreeCharge or PhonePe wallet balance.

PhonePe

A Fin-Tech company PhonePe was founded in December 2015. It is headquartered in Bangalore and provides UPI based online payment system. Reserve Bank of India has licensed PhonePe to issue Semi-Closed prepaid payment system with an authorization number. Sameer Nigan is serving as the CEO of PhonePe

Ravi Menon Named Best Central Bank Governor in Asia-Pacific

- The Managing Director of Monetary Authority of Singapore (MAS) was recognised the leading UK based magazine 'The Banker' for his efforts in the makeover of the financial system of Singapore.
- Ravi Menon Named Best Central Bank Governor in Asia-Pacific
- The reason for selecting Ravi Menon was that the MAS, country's central bank, stands out for its cutting-edge regulatory approach to fintech while maintaining macroeconomic stability.
- Singapore's Finance Minister Heng Swee Keat was also named the best banker in 2011. He was then as MAS's managing director.
- Over the last three years, the central bankers of Vietnam, India and Bangladesh were named for the recognition.

RBI Introduces Rs10 Banknotes in Mahatma Gandhi Series

- The Reserve Bank of India is ready to issue Rs. 10 denomination banknotes in the Mahatma Gandhi (New) Series.

- Notes bear the signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India and have a motif of Sun Temple, Konark on the reverse, depicting the country's cultural heritage.
- The base colour of the note is Chocolate Brown. The note has other designs, geometric patterns aligning with the overall colour scheme, both at the obverse and reverse.
- All the banknotes in the denomination of Rs 10/- issued by the Reserve Bank in the earlier series will continue to be legal tender.
- The dimension of the banknote will be 63 mm x 123 mm as compared to the older notes with dimensions 63*137mm.
- Since demonetization, the RBI has come out with new designs for five denominations. While the new RS 2000 and Rs 500 notes were introduced immediately after demonetization, RBI has recently introduced the new Rs 200 ad Rs 50 notes.

Features of the note

Obverse (Front)

- See-through register with denominational numeral 10
- Denominational numeral १० in Devnagari,
- Portrait of Mahatma Gandhi at the centre,
- Micro letters 'RBI', 'भारत ', 'INDIA' and '10',
- Windowed demetalised security thread with inscriptions 'भारत' and RBI,
- Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right of Mahatma Gandhi portrait,
- Ashoka Pillar emblem on the right,
- Mahatma Gandhi portrait and electrotype (10) watermarks,
- Number panel with numerals growing from small to big on the top left side and bottom right side.

Reverse (Back)

- Year of printing of the note on the left
- Swachh Bharat logo with slogan
- Language panel
- Motif of Sun Temple, Konark
- Denominational numeral १० in Devanagari

IPPB and IICA Sign MoU for Training on Payment Banking

- The IICA (Indian Institute of Corporate Affairs) and the IPPB (Indian Post Payments Bank) have signed a Memorandum of Understanding for the training of employees of the IIPB in the field of payments banking.

- Under this agreement, IICA has been entrusted with a key responsibility of capacity building of IPPB by providing training to the IPPB employees.
- Indian Post Payments Bank has a massive network of post offices throughout India which can be utilized to achieve financial inclusion in India.
- IPPB was a flagship initiative of the government for financial inclusion so as to strengthen the Indian economy by including the portion of the country's population that is outside the ambit of formal banking.

IICA (Indian Institute of Corporate Affairs)

IICA was registered as a society on 12th September 2008 under the Societies Registration Act 1860 to establish, manage and run the IICA. The IICA society is headed by the Minister of Corporate Affairs who is the ex-officio Chairman of the IICA society. Its primary objective is to act as think-tank to advise the government on various issues impacting corporate functioning including e-governance initiatives. It aims to provide special focus on ethical corporate governance, corporate social responsibility, inclusive growth and sustainable development with key emphasis on innovation and entrepreneurship in SMEs (Small and Medium Enterprises)

IPPB (Indian Post Payments Bank)

Payments Banks are a new type of banks licensed by the RBI under section 22of the Banking Regulation Act 1949. A payment bank has to be registered as a public limited company under the Companies Act 2013.

Indian Post Payments Bank was incorporated as a public sector company under the Department of Posts with 100% Government of India equity. It was launched on 12th January 2017. It played a major role n=in financial inclusion as India Post has about 1.5lakh post offices and 90% are I rural areas. The bank offers demand deposits such as savings and current accounts up to a balance of Rs 1 lakh, digitally enabled payments and remittance services of all kinds.

Arun Jaitley Notified Electoral Bonds Scheme

- The Union Finance Minister, Mr. Arun Jaitley unveiled the contours of the Electoral Bonds scheme.
- This scheme aims to clean the political funding system by ensuring that there is a flow of clean money to the political parties without revealing the names of the donors.
- Arun JaitleyNotified Electoral Bonds Scheme
- The basic contours of this scheme were announced during the 2017 Budget which included their denominations, validity and eligibility of the purchasers.

Key features of the Electoral Bonds

- The Finance Minister said that the Electoral Bonds will be a bearer instrument in the nature of a Promissory Note and an interest-free banking instrument.
- These bonds can be purchased from specified branches of SBI by any citizen of India or a body incorporated in India.
- The Electoral Bonds can be purchased for any value in multiples of Rs 1000, Rs 10,000, Rs 1 lakh, Rs 10 lakh and Rs 1 crore.
- To benefit from this scheme, the political parties should be registered with the Election Commission. They should not have secured less than 1% of the votes polled to the most recent elections to the Lok Sabha or state Legislative Assembly.
- The bonds will not carry the name of the payee and will be valid for a period of only 15 days.
- During this period, these bonds can be used to make a donation only to certain political parties (which have secured less than 1% votes).
- Under this scheme, electoral bonds will be available for purchase for 10 days each in January, April, July and October.

Benefits of the scheme

- The Electoral Bonds scheme will bring transparency in the funding system of political parties and elections.

- The political funding system has always been criticized as people do not get clear details about the amount of money donated or spent.
- At present the donor, the amount of the fund or the source of the funds is unknown. But these Electoral Bonds will ensure the donor to know to which party he is donating the money to.
- Every political party will file return before Election Commission as to how much money has come through electoral bonds.
- According to Mr. Arun Jaitley, this scheme would help a lot of opposition parties as if a disclosure is made it will always be in favour of the ruling party.

What is an Electoral Bond?

Electoral Bond is a financial instrument for making donations to political parties. These are issued by scheduled commercial banks upon authorization from the Central government to intending donors, but only against cheque and digital payments. It cannot be purchased by paying cash.

No Transaction Charges up to Rs 2000

- Customers will not be charged any transaction charges up to Rs 2000 on making payments through debit cards, BHIM app and Aadhar-enabled payment system.
- In order to give a boost to digital transactions, the Union Cabinet approved a proposal that then the government will bear the MDR (Merchant Discount Rate) charges on transactions up to Rs 2000.
- The MDR will be borne by the government for a period of two years with effect from 1st January 2018. It will reimburse the same amount to the banks.
- This move is a big push to the cashless economy and will have an impact of RS 2512 crore on the exchequer.

Benefits of this move

- Due to this removal of transaction charges, more and more people will now go for digital payments methods.
- India has recently witnessed a tremendous growth in the digital payments which included a 62% increase in the digital transaction as compared to last year.

- As per a recent IDC (International Data Corporation) report, it has been revealed that the digital payments in India will become equal to the cash payments by 2022.
- Now with zero transaction fees up to Rs 2000 will help India achieve the cashless economy.

What is MDR?

- MDR is the fee that the store accepting your card has to pay to the banks when you swipe it for payments.
- The MDR compensates the bank issuing the card, the bank which puts up POS terminals and the network providers such as MasterCard or Visa for their services.
- MDR charges are usually shared in a pre-agreed proportion between them. In India, the RBI specifies the maximum MDR charges that can be levied on every card transaction.
- In December 2017, RBI had decided to rationalize the framework of MDR based on the category of merchants.
- It said that the small merchants (with an annual turnover of less than Rs 20 lakh) cannot be charged more than 0.4% per debit card transaction and the MDR paid to bank cannot exceed RS 200.

VAT introduced in UAE and Saudi Arabia

- For the first time ever Saudi Arabia and the United Arab Emirates (UAE) introduced the VAT (Value Added Tax).
- VAT introduced in UAE and Saudi Arabia
- They are the first two countries amongst the Gulf countries to introduce VAT system.
- The other four Gulf States who were also keen to introduce VAT are Bahrain, Kuwait, Oman and Qatar. But they have decided to delay it further till 2019.
- 5% sales tax is being applied to the goods and services.
- The estimated VAT income for UAE is around 12 billion dirhams.
- The governments of these two states are expected to raise as much as $ 21 billion in 2018 which is equivalent to 2% of the GDP.
- The UAE Finance Ministry has said that the VAT returns will be used to upgrade public services, boost economy of UAE and for infrastructure development.

- VAT will apply to a range of items like food, clothing, electronics, gasoline, phone, water, electricity bills, hotel reservations etc.

IMF recommendations

- The International Monetary Fund has recommended the oil-exporting Gulf countries to raise non-oil revenue by introducing taxes.
- It has also recommended the countries to introduce or expand the taxes on business profits as well.
- VAT will be a long-term tax reform to help the Gulf countries reduce their dependence on oil revenues. It will help them to diversify their revenues.

Metro Cards for Public Buses from 31st March 2018

- It is expected that by the end of this financial year, the Delhi commuters may be able to use their Delhi Metro smart cards on all public buses.
- Metro cards for public buses from 31st March 2018
- This proposal has been sent by the AAP (Aam Admi Party) to the Finance Department for approval.
- The Delhi Metro Rail Corporation (DMRC), the Delhi Transport Corporation (DTC) and the Delhi Integrated Multi-Modal Transit System (DIMTS) will be signing a Memorandum of Understanding (MoU) to roll out this pilot project for common mobility.
- This pilot project is expected to be completely roll out by January 2018.
- In the beginning, 200 low-floor buses of the DTC and 50 buses of DIMTC would be fitted with electronic ticketing machines.
- These electronic machines will have a secure access model (SAM) cards to enable real-time transactions.
- The fares collected would be deposited into the DMRC account and from there the fares for the individual bus rides would be separated.
- Around 250 machines have been procured for the pilot project.
- This project was first proposed to be done at the time of the Commonwealth Games 2010 but got delayed.

6 PSBs funded by the Government

The Government of India funded six stressed Public Sector Banks (PSBs) as some of them would have breached the minimum capital norms on 31st December, 2017.

These six PSBs include:

- Central Bank of India (received Rs 2257 crores as fund)
- Bank of India (received Rs 323 crores as fund)
- Bank of Maharashtra (received Rs 650 crores as fund)
- UCO Bank (received Rs 1375 crores as fund)
- IDBI Bank (received Rs 2729 crores as fund)
- Dena Bank (received Rs 243 crores as fund)

Some of these banks were on the verge of breaching the minimum capital requirement which is mandated by the Reserve Bank of India.

The Government infused the capital in these stressed banks so as to help the banks to improve on parameters such as the bad loans or NPAs.

These banks were facing problems of NPAs (Non Performing Assets) and were under RBI's prompt corrective action (PCA) framework.

What are NPAs?

- The bank has assets in the form of money. A customers take money from the banks in the form of loans which is incumbent upon the customer to pay it back.
- When these loans are not recovered from the customers, these loans do not perform for the banks and hence are given the term Non Performing Assets.
- The NPAs are those loans which are not recoverable for the banks.
- Assets are classified as nonperforming when the loan payments have not been made for a continuous period of 90 days. Then the entire deposit is termed as a NPA.

What is Capital Adequacy Ratio (CAR)?

- It is an international standard that measures a bank's risk of insolvency from excessive losses.
- Currently the minimum acceptable Current Adequacy Ratio is 9%.

- Maintaining an acceptable CAR protects the bank depositors and the financial system as a whole.
- CAR is also known as CRAR (Capital to Risk Assets Ratio).
- CAR mathematically is- [(Bank's Tier I Capital) + (Bank's Tier II Capital)]/Risk weighted assets
- Tier I Capital of bank- It is the ordinary capital of the bank which can absorb bank's losses without the bank having to suspend trading.
- Tier II capital of bank- It is the bank's subordinated debt which can absorb losses if the bank has to shut down.
- Risk weighted assets- These are calculated by evaluating the bank's riskiness. Each loan is assigned a percentage number. The higher the percentage number, the riskier the loan is.

Recent Amendments in FDI Policy

- Cabinet approves numbers of amendments in FDI policy on January 10, 2018.
- The union cabinet was headed by the Prime Minister Shri Narendra Modi.

Important amendments in FDI policy

Single Brand Retail Trading

Single Brand Retail Trading means when a seller sells multiple varieties of goods of the same brand under a roof. For example, Apple Company set up stores in India in which foreign parents of Apple invest. In such stores, Apple can sell only Apple products like Ipad, Iphone etc. under the category of single brand retail trading.

As per the existing policy, the government allowed only FDI up to 49% in Single Brand Retail Trading and above 49% investors need approval from the government.

But now the government has been decided to allow 100% FDI under single brand retail trading.

Civil Aviation

According to present policy foreign airlines are permitted to invest in the capital of Indian companies, operating scheduled and non-scheduled air transport services under government approval route up to 49% of their paid-up capital. But this provision was not applicable to Air India flight.

After this amendment, the government allowed investors to invest in Air India up to 49% under approval route in Air India.

Conditions to invest in Air India are:

Foreign investment In Air India shall not go beyond 49% (directly or indirectly).

Real ownership and control of Air India shall remain in the hands of Indian National.

Construction Development

Construction development includes townships, housing, built-up infrastructure, and real estate broking services.

According to the recent amendment, it has been decided that real-estate broking service amount to real estate business. So, it is permitted for 100% FDI under automatic route in construction development.

Power Exchange by Primary Market

According to the present policy, the government allowed to invest 49% by power exchange by the automatic route which comes under the central electricity regulatory commission (power market) regulation, 2010. But it was restricted to the secondary market only. No FIIs/FPIs can invest through the Primary Market

But, now it has been decided that FIIs/FPIs can also invest in Power exchange by the Primary Market up to 49%.

Approval under FDI Policy

- Earlier, an issue of equity share against non-cash like import of machinery, pre-incorporation expenditures and so on are allowed under the approval route.
- But now it has been decided to issue of shares against non-cash like import of machinery, pre-incorporation expenditures and so on shall be allowed by automatic route if the sector in which an investor invests comes under the automatic route.
- Foreign investors engaged in the activity of investing in the capital of other Indian companies and LLP (Limited Liability Partnership) and in the core investing companies are presently permitted up to 100% with the Government approval.

- But now it has been decided that if the above activities are regulated by financial sector then foreign investment up to 100% comes under automatic route and if they not regulated by financial sector then foreign investment up to 100% comes under government approval.
- Authorized authority for studying FDI proposals from country of concern

- Earlier, FDI applications for investment from the country of concern (unfavorable countries) need security clearance as per the present FEMA 20.
- If foreign investors from country of concern invest in automatic route activities and sector then FDI policy and security clearance are to be processed by the Ministry of Home Affairs
- And if investors invest in the government approval activities and sector then security clearance is to be done by respective administration departments and ministries.
- But now it has been decided that foreign investment in automatic route from the country of concern prior need approval from Department of Industrial Policy & Promotion (DIPP) for Government approval and for the government route the procedure will remain same.

Medical devices

Definition of medical devices states that instruments which help to assist monitoring and diagnose like appliances, kit, instrument, apparatus, control material, and so on are considered to be as medical devices.

Now it has been decided to drop the reference to drug and cosmetics Act from FDI policy and to amend the definition of medical devices as mentioned in FDI policy.

Features of amendments in FDI policy

- These amendments proposed to simplify and liberalize the FDI policy.
- Increase the FDI inflow into the country (In 2016-17, total FDI of US $ 60.08 billion has been received).
- Automatic route and Government approval route

- Automatic route: In automatic route, investors do not need prior approval from Reserve bank or government of India for investment. It is less restricted and more liberalized.
- Government approval route: In government approval route, investors need prior approval from the government of India and respective bodies.

New 7.75% Savings (Taxable) Bond Scheme

- **Launched on**: 5th January 2018
- **Commenced from:** 10th January 2018
- **Launched by**: Government of India and Reserve Bank of India
- **Inaugurated by:** Union Finance minister, Arun Jaitley
- **Maturity period**: 7 years
- **Replaces to:** 8% savings Scheme

Objective:

- To help citizens invest in a taxable instrument, without any monetary ceiling.
- This will facilitate resident of Indian or Hindu Undivided Families (HUF) to invest in a taxable bond, without any monetary ceiling.

Introduction:

- 7. 75% savings (Taxable) bond scheme is jointly launched by the Government of India and Reserve bank Of India.
- This scheme will replace old 8% savings bond scheme which was closed on 2nd January 2018 and this new scheme will start subscription from 10th January 2018.
- This 7. 75% savings (Taxable) bond scheme will give a steady flow of income although there is a lower rate of interest.

Highlights of the Scheme

- In this bond scheme, only Indian resident can make investment means NRIs are not eligible to invest in this bond scheme and issued only in DEMAT form.
- 7. 75% savings (Taxable) bond is non-transferable means a bondholder cannot transfer power to anyone else and cannot sell it on the secondary market.
- This bond has a minimum subscription face value of Rs 1000 and multiplication of it.

- There is no maximum limit for investment set by the central government it means an investor can invest up to any amount.
- One can invest individually or with a partner like joint investment and HUFs.
- This savings bond scheme has a maturity period of 7 years with interest rate 7.75% which is calculated and paid on a half-yearly basis. there are two types of interest getting methods like one is
- Cumulative and non-cumulative and an investor is free to choose anyone from this two.
- In a Cumulative method, an investor will pay at the end of the maturity period of a bond and in a non-cumulative method; an investor will be paid half- yearly.
- These bonds are exempted under the Wealth Tax Act, 1957 and interest on this bond scheme are taxable under the income tax Act, 1961.
- An investor is able to use these bonds as security to get a loan from the financial Institution like bank, NBFCs or any other.

New Two-Layer Security System for Aadhaar

In the wake of ongoing debate in the country regarding privacy and security related to Aadhar, Unique Identification Authority of India (UIDAI) introduced two new layers of security for Aadhaar.

Two-tier security of Aadhaar:

Recently, Unique Identification Authority of India (UIDAI) introduced two new layers of security for Aadhaar-They are

Virtual ID and

Limited KYC.

These two security measures related to Aadhar are introduced in the light of the recent media reports alleging Aadhaar data leak for just Rs 500.

The new two-tier security process will come into effect from June 1.

The main aim of new security measures is to eliminate the need to share and store Aadhaar numbers, which an Aadhaar holder can use in lieu of his/her Aadhaar number at the time of authentication, besides sharing of 'limited KYC' with certain agencies.

What is Virtual ID (VID) in the proposed two-layer security of Aadhar?

- The main purpose of VID is to avoid sharing their Aadhaar number
- As per Unique Identification Authority of India virtual Id is a temporary 16-digit, randomly-generated number that an Aadhaar holder can use for authentication or KYC services along with his/her fingerprint instead in lieu of the Aadhaar number.
- There can only be one active and valid VID for an Aadhaar number at any given time and it will not be possible to derive the Aadhaar number from Virtual ID
- The VID together with biometrics of the user would give any authorized agency, say, a mobile company, limited details like name, address and photograph, which are enough for any verification.

How Aadhaar holder get VID?

- As per proposed security measure to generate VID to Aadhaar card holders can go to the UIDAI website and generate their VID
- The generated Virtual ID will be valid for a defined period of time, or till the user decides to change it.
- One user can generate as many VIDs as that they want and older virtual ID gets automatically cancelled once a fresh one is generated.
- UIDAI will be releasing the necessary Application Programming Interface (API) by March 1 and all agencies using its authentication and e-KYC services have been instructed to ensure Aadhaar holders can provide the 16-digit VIDs instead of Aadhaar number in their applications.
- All authentication bodies have to fully migrate to the new system by June 1, and those failing to meet the deadline will face financial disincentives.

What is limited KYC?

- The main purpose of limited KYC is to regulate storage of Aadhaar numbers within various public and private databases
- In Limited KYC security measure UIDAI has categorised its Authentication User Agencies into two types. They are Global Authentication User Agencies and Local Authentication User Agencies

- AUAs, whose services, by law are required to use Aadhaar number in their KYCs, will be categorised as Global AUAs and will enjoy access to full demographic details of an individual along with the ability to store Aadhaar numbers within their system. Agencies like Banks and income tax authorities will fall in this category.
- Local Authentication User Agencies will get access to only need-based or limited KYC details. They will neither get access to full KYC, nor can they store the Aadhaar number on their systems. For authentication purpose Local AUAs will get a tokenized number issued by UIDAI to identify their customers. The 72 character alphanumeric 'UID Token' for your Aadhaar number be different for every authentication body you approach.
- There for limited KYC allows an agency to ensure uniqueness of its beneficiaries, customers etc. without having to store the Aadhaar number in their databases while not being able to merge databases across agencies thus enhancing privacy substantially

App Launched India's First Bitcoin Trading

- **Key information**
- **Date of launch:** 29 December 2017
- **Launched by:** Bharat Verma, Founder & CEO of Pluto Exchange
- **Launched at:** Delhi, India
- **Head office of Pluto exchange:** Dubai
- **Associated Cryptocurrency Partners:** Bitcoin, Ripple, Coin Zarus, Ethereum, Lite Coin
- **First Cryptocurrency:** Bitcoin (2008)
- **Inventor of Bitcoin:** Satoshi Nakamoto (an unknown inventor of Bitcoin)

Meaning of Cryptocurrency

In Cryptocurrency, Crypto means “Secret” and Currency means “Money”. It means, Cryptocurrency is a secret currency, which is used electronically. It is not a legal tender just like Rupee, Dollar, Yuan, etc. This type of currency is not accepted at shopping counter.

Cryptocurrency is created by codes. This is an encrypted string of data and encoded to signify unit of currency. This currency is free from all government sight and monitor by peer to peer protocol.

News about Cryptocurrency

Dubai originated company Pluto Exchange has recently launched an app for trading Cryptocurrency in India. It is a first Bitcoin application in India. This app can start by using 4 digit PIN number, users can buy, store, sell and spend by using a mobile number.

Different from other apps

As the market has already some applications which can be used by mobile.

But this application is different from other application as transactions done by Mobile number to mobile number, but other do the transaction through Bitcoin to Bitcoin address.

This app is a first wallet based mobile app enables Bitcoin transaction through the mobile number.

Trading in Bitcoin/ Cryptocurrency

- Trading in Bitcoin is quite easy but risky too. This works like as other exchanges do, but in a different manner. The process of trade in Bitcoin contains three parties i.e. buyer, exchange, and seller. The process is following:
- First, to find out an authorized exchange as this is not legal and not physically present anywhere so forgery can happen.
- After that make a secure ID.
- Buy some Bitcoin by adding legal currency like dollar, rupee, euro, etc. in Bitcoin wallet.
- Find a seller in Bitcoin exchange after selecting a seller (here, buyer and seller bargain with each other, this is the only reason the price of Bitcoin fluctuate.
- We can transfer the wallet money to exchange.
- Seller will also transfer his/her Bitcoin to the exchange.
- Now, exchange transfer Bitcoin to buyer and wallet money to the seller.
- The process is done after sending the confirmation to both parties by an exchange.

RBI warning against Cryptocurrency

Cryptocurrency is virtual currency and it is stored in digital form in the electronic wallet. Therefore, it is subject to loss arising out of hacking, loss of password, malware attack, etc. Since this currency is not a legal tender or authorized by the central government.

Payments are done by electronically, peer to peer basis without any authorized agency (like SEBI, RBI etc) which regulates such payments. As a result, the customer will face many problems like disputes, charges back etc.

The value of these currencies is a matter of speculation. Result huge fluctuation in the value of these currencies. Thus, the users revealed potential losses on account of such volatility.

Cryptocurrency are being traded on exchange platform whose legal status is unclear. Hence, the traders of digital currency on such platform are exposed to financial risk as well legal risk.

RBI also suggests that usages of these digital currencies are largely illegal and illicit activities. Lack of information about dealer/parties could subject the user to breach of anti-money laundering.

Rural Banking Schemes in India

- The Rural development is the foremost objective in India. It aimed at expanding the branch placement towards unbanked locations. The second major objective is to give importance to lending towards priority sectors.
- The major target groups are agriculturists, small businessman and entrepreneurs. The Reserve Bank of India used its control over the banking sector via the lead bank scheme to ensure that these targets are adequately implemented.
- The branch expansion program in unbanked rural or semi-urban population was not served by any commercial banks before. During the rural banking era, unbanked locations were identified by the 'Lead Bank'.The RBI would circulate the list of unbanked locations to all banks.
- The RBI has also maintained a licensing criterion which stated how many branches at unbanked locations a bank must open in order to be eligible to open a branch at an already banked location.The RBI has also set targets regarding the number of unbanked locations, which were to be banked during the BBE program (Banking Branch Expansion) to meet these targets.Under this program, unbanked locations were allocated to nationalized banks.

Government Schemes

The priority sector lending concept is recognized as "Social Banking" with all its new dimensions.The major objective is to make sure that more credit flows towards agricultural, small transport operators, retail trade, cottage, village, tiny industries and small-scale industries. As, agriculture is the backbone of Indian economy.The government has sponsored many schemes in rural areas for upliftment and betterment of rural people under rural banking. As per all government schemes, finance is provided by government banks.

These schemes are as follows:

(a) Swaranjayanti Gram Swarozgar Yojana (SGRY)

The SGRY scheme was launched by the Government of India on 1st April 1999 by restructuring the six programmes-Integrated Rural Development Programme, Development of Women & Children in rural areas, Training for Rural Youth for Self employment, Supply of Improved Toolkits to Rural Artisans, Ganga Kalyan Yojana, Millions Wells Scheme.

By this scheme, it identified the eligible beneficiaries with the involvement of Gram/local authorities in a transparent manner.It lends to individuals or group (SHGs) and selecting beneficiaries from BPL families by a team of three members (Bankers, Development officer, Sarpanch). Individuals or groups below poverty line whose income does not exceed 11,500/- sponsored by DRDA reserve quota for SC/ST-50 %, Women-40% and Disabled 3%.

In the scheme, the provision for training like basic orientation and skill development is included.The subsidy will be at 30% of the project, subject to a maximum Rs7500/- In accordance with SC/ST it will be 50% of the cost of the project, subject to a ceiling of Rs 1.25 lakhs. There will be no monetary limit on subsidy for irrigation projects.

(b) Prime Minister Rozgar Yojana (PMRY)

The PMRY was implemented on 2nd October 1993 which aims at providing sustained employment to the educated unemployed youth.

- **Age:** 18-35 years for all educated unemployed in general with 10 years relaxation for SC/STs, ex-servicemen, women and physically handicapped.
- **Educational Qualification:** Minimum qualification for this scheme is 8th pass. Preference for those trained in government recognized/approved institution for a duration of at least 6 months.
- **Family Income:** The family income should not exceed Rs.10000/- per annum.
- **Residence:** Permanent resident of the area for at least 3 years.
- Defaulter: Not be a defaulter of any nationalized bank/financial institutions/cooperative banks. Activity Covered: All economically viable activities including agricultural and allied activities excluding raising crop etc.

- **Project Cost:** Rs 2 lakh for the business sector, Rs 5 lakh for other activities.
- Reservation: In this scheme, preference will be given to weaker sections including women. The scheme includes 22.5% reservation for SC/ST and 27% for other backward classes OBC.

(c) Khadi and Village Industry Commission:

Its main aim is to create more employment opportunity in rural areas the Khadi Gram Udyog Commission has initiated a margin Money Bank Finance Plan since 1996-97.Its economic aim of helping in the manufacture of things that can be sold in the market.

The Margin Money Bank Plan is for setting up village industries and there is a provision of giving 25% to 30% of subsidy upon the sanctioning of the loan. The scheme provides for various cooperative committees like the individual, Khadi gramudyog for arranging loans from the bank's in an area with a population of 20000 and where per capita permanent capital investment is not more than 100000/-.

The aim of this scheme is to provide self-employment and subsidy to rural entrepreneurs. Under this scheme, the loan will be provided for rural industrialization and employment generation.

(d) Pradhan Mantri Jan Dhan Yojna (PMJDY)

It was launched on 28th August 2014. The scheme has been launched with a target to provide "Universal access to banking facilities". Under this scheme account holders will be provided zero balance bank A/c with Ru pay debit card in addition to accidental insurance cover of 1 lakh after 6 months of opening of bank a/c holders can avail Rs. 5000 overdraft from the bank.

A monitoring mechanism/MIS would be bought in place for online monitoring for ensuring proper coverage of villages.

(e) Bhamashah Yojna

It was launched on 15th August 2014 by CM of Rajasthan Vasundhara Raje. It aimed at the financial inclusion of women and also provide cash amount of Rs 2000 in the name of a woman head of every BPL family of the state in 2 instalments. Bank A/c are also being opened for about 1.5 crore families and the second instalment of Rs 1000 would be transferred in bank account 6 months after the first instalment. Conclusion:

It can be concluded that Rural Banking plays an important role in providing credit and other financial services to the poor. It helps in raising the standard of living of rural people and contributes towards social development.The government has taken many steps for the development of rural banking.In India, while one segment of the population has an access to an assortment of banking services surrounded by regular banking facilities and portfolio counselling.

In particular, a growth of information technology and its application in banking would warrant a thorough review of products, procedures and linkages among rural financial institutions.

Basics of Bond With Types & Features

Basics of Bond

We are aware that a bond is a fixed income instrument issued by the companies inviting the investors to subscribe to the issue. In other words, the total amount raised by a company through the bond issue is a loan taken by the company assuring the investors of some return in the form of interest. We also know that a company pays a coupon at a predetermined interval.ie annually and semi-annually. In the normal course of business, the company is expected to return back to the investors the amount of loan that they have advanced to the company.

Unlike stocks, bonds can vary significantly based on the terms of the bond's indenture. An indenture can be defined as a legal document which describes the characteristics of the bond. The issue pertaining to each bond is different and hence it is very important from the point of view of the investors to understand the intricacies and precise terms well before investing in the bonds. The following are some of the important features an investor should examine well before taking the final decision to invest.

Unsecured / Secured:

This is one of the most important features which may affect the investment decision. Generally, an unsecured bond is termed as a debenture. The return on the debenture is guaranteed only by the credit rating, reputation and integrity of the company. If the company is not able to generate profits & run successfully the investors do not get any returns as interest income. In some cases, there may even difficulty in getting back the money that has been loaned to the company. A secured bond, on the other hand, offers some protection to the investors as some assets are earmarked as security for the debentures issued. In the event of the company not honouring its obligations, the debenture holders have the first charge on the assets which have been already earmarked.

Preference in Liquidation:

In the eventuality of a company being wound up there is a particular sequence or order in which assets are realized and creditors are paid their dues. This is referred as a preference for liquidation. After the firm has sold off all their assets the company begins to return the money back to the investors. The senior or oldest debt is paid first, then the subordinated debt next. Subordinated debt can be defined as a loan that ranks below other loans or securities with regard to claims on the assets of a company. Preference shareholders are next on the list and finally, the equity shareholders who are the real owners of the company are paid whatever is left over.

Tax Status:

Most of the bonds issued by the corporation are taxable instruments. However, there are certain exceptions. Bonds issued by Governments or municipalities, Companies which are engaged in infrastructure or power may enjoy the status of being issued as non-taxable instruments meaning the capital gains realized on the bonds are tax exempt. Since no tax is payable by the investors these bonds normally carry a lower rate of interest than equal taxable bonds. An investor must calculate the tax equivalent yield to compare the return with that of taxable bonds.

Coupon and maturity

Coupon and maturity are also other important characteristics of a bond.

Characteristics of Bonds

- Most of the Bonds which are issued by the Corporate or by the Governments have certain common features.
- The face value of the bond which will be worth and available to the holder at the time maturity. This is the reference amount based on which periodical interest payments are made by the issuer of the bonds. For example if “A” purchases a bond with a face

value of Rs 1,000 at a discount & his purchase price is Rs 950 & "B " purchases the same bond at a premium and assuming his purchase price is Rs 1,050, both the parties will ultimately receive only Rs 1,000 at maturity which is the face value of the bond.

- The coupon rate is the rate of interest which is payable by the corporation who is the issuer of the bond. This is expressed as a percentage. For example, if a bond is issued at a coupon rate of 5% the purchaser of the bond will receive Rs 50 annually as the interest payment.
- Coupon dates are the dates on which interest payments are made by the issuer. Typically it is common for issuers to make the payment half-yearly or annually.
- Maturity or due date is the date on which a bond matures for payment and the issuer has to effect payment for the face value of the bond.

Features of a Bond:

Two of the most important features of a bond is their credit quality and tenure. They determine the rate of interest payable. If the issuer of the bond is assigned a poor credit rating by the rating agencies the risk of default is quite high and the bonds issued by such corporate is likely to trade at a discount to the issue price. There are certain bonds referred as "Junk Bonds" which are highly risky in nature, but they pay a very high rate of interest and are suitable for investors who have the appetite & do not mind taking risks in order to get a higher return than what the market offers. On the other hand, bonds issued by Sovereign Governments do not have any risk as they are guaranteed by the government & these bonds are referred as stable bonds. Credit ratings are calculated and issued by credit rating agencies. The maturities of the bonds may be for a very short term like a day or two and go up to as high as thirty years.

The longer the maturity of the bond or duration the greater is the chance of some adverse development happening which will have an impact on the repayment and hence bonds with long-dated maturities always commands a higher rate of interest than a short-dated bond. Further, the liquidity for a long-dated bond will be very low as compared to a bond with a short maturity.

An investor before adding a bond to his portfolio of investments will typically consider the duration ie.price sensitivity to changes in interest rates and convexity which is a measurement of how duration changes as yields change.

Types of Bonds

We know that a bond is a fixed interest security which is issued by the borrower (Corporate or Government) and the funds are invested by the investor usually through the intermediation of a group of underwriters. There are a variety of bonds available in the market & let us try to understand the types of bonds.

Traditional Bond:

This is also known as the straight bond which has a coupon and repayment of the principal in full at maturity. This type of repayment is known as bullet repayment. A very large number of variants of the straight bonds have evolved over a period of years. Bonds are generally issued up to a maximum tenure of thirty years. Bonds with maturities at the shorter end (7 to 10 years) are often called as "Notes".

A Callable Bond:

At the time of the issue, the issuer will incorporate a clause which will give him the right to redeem the bond at his choice prior to its maturity. The first call date would normally be some years from the date of issue; eg a fifteen-year bond may have a call provision which allows the issuer to redeem the bond at any time after 10 years. The call price at which the bond will be redeemed will normally be above the face value with the difference shrinking as maturity is approached. This feature allows the issuer to restructure his liabilities or refund a high-cost debt and convert it into a low-cost debt.

A Puttable Bond:

It is the opposite of a Callable bond. It allows the investor to sell it back to the issuer prior to the due date, at the discretion of the investor after the lapse of a certain period of time from the date of issue. However, the investor for enjoying this privilege has to receive a lower yield.

Sinking Fund Bond:

The feature of this type of bond is that instead of returning the entire amount at maturity, the issuer will repay a fixed amount of the principal each year so as only a small amount remains repayable at maturity. These types of bonds are generally issued by companies with a low credit rating and are deemed risky.

Floating Rate Note (FRN)

As its name implies is a bond with varying coupon.Periodically (typically every six months) the rate of interest payable for the next six months is set with reference to a market index such as LIBOR. In some cases, a ceiling may be put on the interest rate (capped FRNs), while in certain other cases there may be a ceiling and a floor.(collared FRNs).

Zero Coupon Bonds:

It is very similar to the cumulative fixed deposit schemes offered by companies or banks. The bond is considered risky and bought by the investor at a substantial discount from its face value. The advantage of this bond is that an investor can redeem the face value of the bond at maturity. One possible advantage of this type of bond is in its tax treatment. The difference between the face value and the purchase price is deemed to be entirely capital gains and taxed at a lower rate than the rate applicable to regular interest received on coupon bonds.

Convertible Bonds:

These are bonds that can be exchanged for Equity shares of the issuing company. The conversion price determines the number of shares for which the bond will be exchanged.

Risks of investing in Bonds

As a fixed interest instrument offering a coupon which is paid annually or half-yearly, bonds can be an attractive tool to generate a steady income. They are also considered as a safe investment when compared to shares. Thus bonds are preferred by all kinds of investors especially those who require a regular income and whose risk appetite is not very high. However, investors need to be aware of some risks and pitfalls when they take a decision to invest in bonds. Bonds issued by Governments have the sovereign guarantee.

The relationship between interest rates and bond prices are inversely proportional. When the rate of interest increases the prices of bonds generally fall and conversely when the interest rate falls bond prices increase. This happens because when interest rates are on the decline the tendency of the investors is to lock in their investments at higher rates. The psychology of the investors would be to scoop up existing bonds which pay a higher rate of interest than the rate of interest prevailing in the market. This resultant increase in demand translates into an increase in the price of bonds. On the flip side if the reverse were to happen the tendency of the investors would be to dump the bonds that pay a lower rate of interest.

Example: Interest rate and Bond prices

An investor owns a bond that trades at par value and carries a yield of 4%. Supposing the prevailing market rate of interest increases to 5%, investors will want to sell the bonds offering 4% in favour of bonds that fetch 5%. The net result would be that the bonds fetching 4% will be quoted below par.

Another risk faced by investors when they invest in bonds with a call option is the reinvestment risk. In a falling interest scenario, the issuers of bonds with a call option will exercise their option. The reason for this exercise is to reduce high-cost borrowing and convert it into a low-cost borrowing which is beneficial to the company, but the investors who have redeemed their investment are left with no choice other than invest in current market rates which are lower. However to compensate for this risk investors receive a higher yield on bonds which do not have a callable option. Investors who are very active in investing in the bond market can attempt to mitigate this reinvestment risk in their portfolios by staggering the potential call dates of their multiple bond investments. This strategy thus limits the possibility of several bonds being simultaneously called by the issuers.

Another major risk faced by the investors is on account of inflation when they decide to invest or a longer time horizon. The investor commits to receiving either a fixed rate of return or a variable coupon for the entire duration of investment or as long as they decide to hold it. But the real risk is that cost of living and inflation may rise quite dramatically when the economy is growing exponentially or at a rate faster than the income investment. In such a scenario which is very real, the investors will see an erosion in the value of their investments and actually achive a negative rate of return. Explaining in simple terms if an investor is receiving 4% on his bonds and the rate of inflation is 5% the investor gets a negative rate of return. ie - 1%.

Investors also have to contend with credit risk or default risk by the issuers and take a conscious decision before investing in bonds.

Fixed Income Securities – Bonds an introduction

A bond can be defined as a financial instrument which is similar in characteristic to a debenture or a bond. It is a fixed interest income security wherein the investor invests or advances money to a company which issues the bond. The bond is issued for a fixed period of time, at the maturity of which the investor can redeem his invested funds. Bonds are invested either at a fixed rate of interest or a floating rate of interest. So the investor has the option to take a view of the interest rates and then make a choice.

Bonds are issued by Companies, Sovereign Governments, Municipalities and state Governments also to raise finances for developmental activities. The money so raised is also utilized to finance a variety of projects and activities. The owners of bonds are termed as debt holders or Creditors of issues.

How Bonds Work:

Whenever a company or any other entity is in need of funds either to maintain ongoing operations or for expansion, they issue bonds and approach the investors directly instead of approaching a bank for a working capital loan or a loan for the acquisition of fixed assets. The company or the Government which is the indebted entity (Issuer of the Bond) issues a bond which is basically a contract which clearly states the rate of interest payable on the bond and the time at which such loaned funds by the investor will be returned back to him.(Maturity). The rate of interest payable on a bond is generally referred as the coupon rate which is the return the investors can expect on their investment.

Normally when the corporate or Government approach the investors with a new issue the bonds are always issued at par usually Rs 1000 or USD 1000. One feature of a bond which distinguishes itself from a fixed deposit is that it is tradable on the secondary market as it is listed on the secondary market. This provides a lot of liquidity options to the investors. The actual market price of a bond depends on various factors which include the credit quality of the issuer, the tenure of the bond, the coupon rate offered by the issuer as compared to the prevailing rate of interest in the market.

A fixed coupon rate bond will offer the same rate interest over time its market price will fluctuate depending upon whether the coupon it offers has become undesirable or desirable in comparison with the rate of interest prevailing at that point in time. For example, a bond for INR 1,000 or USD 1000 issued at par at a coupon rate of 5 % will fetch an interest of INR 50 or USD 50 annually. If the prevailing market rate is also 5 % the bondholder would be indifferent to purchasing the bond or saving the same money at the prevailing are of interest.

However, if the prevailing rate of interest drops to 4 % the bond will continue to pay interest at 5 % thus making it an attractive option. Investors will start evincing interest by purchasing the bonds bidding the price up to a premium until the effective rate of the bond will become equal to 4 %. On the other hand, if the interest rate increases to 6%, the 5 % coupon is no longer attractive and the bond will decrease in value and the holders will start selling at a discount till its effective rate reaches 6 %.

Microfinance in India

Since the 1980s microfinance has become an important component of development, poverty reduction and economic regeneration strategies around the world. By the early twenty-first century, tens of millions of people in more than 100 countries were accessing services from formal and semi-formal microfinance institutions

Microfinance rests on the belief of mutual faith and reciprocity. Members in a genuine, self-selected and closely associated group are mutually responsible for the financial dealing of each member. When a request for a loan is received, members discuss the need and prospects of repayment. Once satisfied, the loan amount is approved. Group lending is preferred to individual lending as social collateral, peer pressure and good collection methods reduce defaults significantly. Microfinance loans are primarily unsecured and work on the principles of peer pressure to avoid defaults. Microfinance serves low-income households and encourages the spread of banking services. Financial inclusion is essentially providing banking services to the population derived from this facility. Microfinance is thus an enabler for promoting financial inclusion.

Those institutions which have microfinance as their main operation are known as microfinance institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. The reason for the existence of separate institutions i.e. MFIs for offering **microfinance are as follows:**

- High transaction cost – generally micro-credits fall below the break-even point of providing loans by banks
- Absence of collaterals – the poor usually are not in a state to offer collaterals to secure the credit
- Loans are generally taken for very short duration periods
- Higher frequency of repayment of instalments and the higher rate of Default.

Salient Features of Microfinance

- Borrowers are from the low-income group
- Loans are of small amount – microloans
- Short duration loans
- Loans are offered without collaterals
- High frequency of repayment
- Loans are generally taken for income generation purpose

Reasons why big bank are not lending money to lower income segment groups

- High transaction cost of processing
- Lack collateral or guarantors
- Repayment capacity
- Lack of access to financial infrastructure

The Malegam Committee

The Reserve Bank of India (RBI) responded by appointing an RBI sub-committee known as the Malegam Committee. This committee aimed to address the primary customer complaints that led to the crisis, including coercive collection practices, usurious interest rates, and selling practices that resulted in over-indebtedness. The existing regulations did not address these issues, thus, who should respond to these issues, and how they should respond, was uncertain. This prolonged the general regulatory uncertainty and the resulting repayment and institutional liquidity issues. The Malegam Committee released their recommended regulations in January 2011. These recommendations were 'broadly accepted' by RBI in May 2011, though specific regulation was only released regarding which institutions qualify for priority sector lending at this time.

Additionally, an updated version of the Micro Finance Institutions (Development and Regulations) Bill 2011 is in Parliament, which aims to provide a regulatory structure for microfinance institutions operating as societies, trusts, and cooperatives. Although this shows that regulators are taking steps to address the crisis issues and resolve regulatory uncertainty, banks have not resumed lending to microfinance institutions as of July 2011.

Conclusion

While Microfinance may be scaling geographically and average lending per capita rising structural and cultural issues limit effectiveness. At times cross guarantee programs are rolled out to reduce credit risk and in turn foster community solidarity. When it works it works but when community buys it is difficult to achieve then lender risk rises and many at times individuals do not get approved for loans. To conclude, microfinance has made satisfactory progress during the last one and half decade. This progress was achieved purely at the public initiative. There is strong need to expand it to other backward areas. However, strong support, including policy and finance, from the government and other agencies would be necessary to extend it to all places.

Types of Micro Finance

Different types of microfinance institutions in India The microfinance models are developed in order to cope with the financial challenges in financially backward areas. There are various types of microfinance companies operating in India.

Joint Liability Group (JLG)

Joint Liability Group can be explained as the informal group consists of 4-10 individuals who try to avail loans against mutual guarantee from banks for the purpose of agricultural and allied activities. This category generally consists of tenants, farmers and other rural workers. They work primarily for lending purposes, although they also offer the savings facility. In this type of institution, every individual of a borrowing group is equally liable for the credit (Singh, 2010). This kind of institution is simple in nature and requires little or no financial administration (UBI, no date).

However, one of the serious problems of this structure is personal preferences in lending credit which resulted in a partial failure of the system. Of late due to various promotional initiatives were taken by banks such as Indian bank, Karur Vysya Bank and Indian Overseas Bank, the credibility of Joint Liability Group model has received a boost (The Hindu, 2016). It still remains a landmark movement in the area of protection of farmer's land ownership rights.

Self Help Group (SHG)

Self Help Group is a type of formal or informal group consisting of small entrepreneurs with similar kind of socio-economic backgrounds. Such individuals temporarily come together and generate a common fund to meet the emergency needs of their business. These groups are generally non-profit organizations. The group assumes the responsibility for debt recovery. The advantage of this micro-lending system is that there is no need for collateral. Interest rates are also generally low and fixed especially for women (Chowdhury, 2013; Business Standard, 2017). In addition, various tie-ups of banks with SHGs have been implemented for the hope of better financial inclusion in rural areas (Jayadev and Rao, 2012).

One of the most important ones is NABARD SHG linkage program where many self-help groups can borrow credit from the bank once they successfully present a track record of regular repayments of their borrowers. It has been very successful especially in Andhra Pradesh, Tamil Nadu, Kerala and Karnataka and during the year of 2005-06. These states received approximately 60% of SGH linkage credit (Taruna and Yadav, 2016).

The Grameen Bank Model

Grameen Model was introduced by the Nobel laureate Prof. Muhammad Yunus in Bangladesh during the 1970s. It has been widely adopted in India in the form of Regional Rural Banks (RRB). The goal of this system has been the overall development of the rural economy which generally consists of financially backward classes. But this model has not been fully successful in India as rural credit and system of recovery are a real problem. A huge amount of non-performing assets also led to the failure of these regional banks (Shastri, 2009). Compared to this model Self Help Groups have been more successful as they are more suited to the population density of India and far more sustainable (Dash, 2013).

Rural Cooperatives

Rural Cooperatives in India were set up during the time of independence by the government. They used the mechanism to pool the resources of people with relatively small means and provide financial services. Due to their complex monitoring structure, their success has been limited. In addition, this system only catered to the credit-worthy individuals of rural areas, not covering a large part of the country's financially backward section (Rajendran, 2012).

Present scenario of India

- India falls under low-income class according to World Bank.
- It is second populated country in the world and around 70% of its population lives in rural area
- 60% of people depend on agriculture, as a result, there is chronic underemployment and per capita income is only $6490
- The result is abject poverty, low rate of education, low sex ratio, and exploitation.
- Low asset base- according to reserve bank of India, about 51% of people house possess only 10% of the total assets of India.
- Resulted in low production capacity both in agriculture (which contribute around 22-25% of GDP) and manufacturing sector
- Rural people have very low access to institutionalized credit (from commercial bank).

Need of Micro Finance

About half of the Indian population still doesn't have a savings bank account and they are deprived of all banking services. Poor also need financial services to fulfil their needs like consumption, building of assets and protection against risk. Microfinance institutions serve as a supplement to banks and in some sense a better one too. These institutions not only offer microcredit but they also provide other financial services like savings, insurance, remittance and non-financial services like individual counselling, training and support to start own business and the most important in a convenient way. Some claim that the interest rates charged by some of these institutions are very high while others feel that considering the cost of capital and the cost incurred in giving the service, the high-interest rates are justified.

What is Currency Chest ?

Currency chest is the place where the RBI kept all the excess money of banks under custody. Whenever, RBI prints new currency notes, first it delivers to currency chests and then currency chests deliver these new currency notes to banks. A currency chest is a depositary of RBI. It's not possible for RBI to reach everywhere so it authorized PSU banks to operate currency chests on its behalf. The bank, however, must maintain separate account independently of the chest which is monitored by RBI. As of March 2016, there were 4102 currency chests and 3783 Small coin depots.

Functions of Currency Chest

- The foremost function of the RBI is to deliver currency notes across the country. It has to distribute new currency notes and recycle old notes, keep cash reserves of banks.
- Currency chest act as networks of currency distribution.
- The other function of currency chest is to facilitate note supply. It helps to undertake smooth supply of currency notes across the country. The cash reserve ratios of commercial banks are also kept at currency chests.
- Currency chest are located at authorized selected branches of scheduled banks they do their function on behalf of RBI and they also store the currency as well as notes.
- The currency chests are expected to distribute banknotes and rupee coins to other bank branches in their area of operation.
- Currency chest also helps in exchanging mutilated notes and withdraw unfit notes.

Some more information related to Currency Chests

The Department of Currency Management in RBI is responsible for administering the functions of currency management. This work is performed through 18 issue offices of the RBI. The RBI also coordinate with the government in designing the bank notes and security features. In terms of section 25 of RBI Act 1934, the design of our banknotes is required to be approved by the Central Government on the recommendation of the Central Board of Reserve Bank of India.

Infrastructure at Currency Chests

It should be ensured that necessary infrastructure facilities like ultra-violate lamp, weighing machine, dual display note counting machines, sorting machines for proper sorting/identification of suspect notes are provided at currency chest branches.

Currency Chests System

The RBI carries out the function of currency management through its network of issue offices and currency chests. Each issue office of RBI is responsible for the supply and withdrawal of banknotes and coins from the chests in its circle. The requirement of currency chests is at times met by arranging supplies from other surplus chests by issuing diversion orders by issue offices.

Steps taken by RBI to improve the quality of bank notes:

Clean Note Policy: In November 2001, the RBI issued to all banks a directive in public interest preventing the stapling of bank notes and by the end of July 2003 more than 4400 currency chests had destapled the stock of notes lying in their chambers.

Security and Controls: Installation of Close Circuit Television (CCTV) in the currency chests and security sealing of fresh note packets to enable visual inspection and taking over remittance without opening the bundles or packets.

Distribution of Currency: Direct supply of fresh notes from the press to currency chests to reduce transit risk.

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Banking and Financial Current Affairs One-Liners

- The IICA (Indian Institute of Corporate Affairs) and the IPPB (Indian Post Payments Bank) have signed a Memorandum of Understanding for the training of employees of the IIPB in the field of payments banking.
- The Reserve Bank of India is ready to issue Rs. 10 denomination banknotes in the Mahatma Gandhi (New) Series.
- Government launches 7.75% Savings (Taxable) Bonds 2018.
- Paytm Payments Bank, IndusInd Tie up for FD Facility.
- RBI Initiates PCA Against Allahabad Bank.
- NABARD Sanctioned Rs 372.51 crore to Odisha.
- Andhra Pradesh Grameena Vikas Bank Introduces Desktop ATMs in Rural India.
- SBI, NABARD Tie up to Promote Joint Liability Groups in Bengal.
- India has emerged as a top borrower from the China-sponsored Asian Infrastructure Investment Bank (AIIB) with USD 1.5 billion worth of loans last year and USD three billion more in the pipeline.

- IndusInd Bank and Dynamics Inc. at the 2018 Consumer Electronics Show (CES) announced plans to introduce the first battery-powered, interactive payment cards to the Indian market in 2018.
- Punjab National Bank (PNB) and National Scheduled Castes Finance and Development Corporation (NSFDC) have tied up to provide financial assistance for economic empowerment of persons belonging to Scheduled Caste (SC) families living below Double Poverty Line (DPL).
- Retail inflation crossed the RBI's comfort level and rose to 5.21 percent in December on rising in prices of food items, egg and vegetables, dashing hopes of interest rate cut in the near future. The retail inflation, based on Consumer Price Index (CPI), was 4.88 percent in November.
- In the financial year 2016-17, total FDI of US $ 60.08 billion has been received, which is an all-time high. The Cabinet chaired by PM Narendra Modi has approved amendments in FDI Policy and further liberalized few of the policies of FDI.
- World Bank has projected India's growth rate at 7.3 percent in 2018 and 7.5 for the next two years. According to the 2018 Global Economics Prospect release, despite initial setbacks from demonetisation and Goods and Services Tax (GST), India's economy is estimated to have grown at 6.7 percent in 2017.
- The provisional figures of Direct Tax collections up to December 2017 show that net collections are at Rs. 6.56 lakh crore which is 18.2% higher than the net collections for the corresponding period of last year.
- IndusInd Bank and Dynamics Inc. announced their plan to introduce the first battery-powered Interactive Payment Cards at the 2018 Consumer Electronics Show (CES).
- The World Economic Forum (WEF) has launched Global Manufacturing Index which is topped by Japan.
- IRFC's Green Bonds: India INX lists 1st Debt Security at IFSC.
- Amplus Energy Solutions announced entering into a pact with private sector lender Yes Bank for the strategic tie-up to co-finance projects in the solar energy space in India.

- HDFC Bank Becomes 1st Indian Bank to Cross Rs5 trillion Market Capitalisation.
- Bank of Baroda Partners with Invoicemart as a TReDS Partner.
- IDFC Bank, Capital First to merge in Share Swap Deal.
- Market regulator SEBI has approved the appointment of Vijay Kumar as Managing Director and CEO of the country's largest agri-commodity bourse NCDEX
- Indian Overseas Bank and NHB tie up for Rural Housing Interest Subsidy Scheme.
- Small Finance and Payments Banks to Offer Atal Pension Yojana.
- The government has announced 88,139 crores rupees' capital infusion in 20 public sector banks

Question Bank

1. What are the dimensions of new Rs10 Banknotes in Mahatma Gandhi Series?

Ans. 63 mm x 123 mm.

2. Which of the following temples' motif is on new Rs10 Banknotes in Mahatma Gandhi Series?

Ans. Sun Temple, Konark

3. What is the validity of electoral bonds?

Ans. 15 Days

4. Electoral bonds can be used to make a donation only to certain political parties which have secured less than

Ans. 1% votes

5. The MDR will be borne by the government for a period of

Ans. two years

6. MDR stands for

Ans. Merchant Discount Rate

7. Which of the two Gulf countries become the first to introduce VAT?

Ans. Saudi Arabia and the United Arab Emirates

8. How many digits are the present Virtual ID in the proposed two layered security of Aadhar?

Ans. 16

9. From which date two layered security of Aadhar came into force?

Ans. March 1st, 2018

10. Authentication User Agencies are classified into how many types of new two layered security of Aadhar?

Ans. 2

11. Which bank has introduced desktop ATM for the first time in India?

Ans. Andhra Pradesh Grameena Vikas Bank