BANKING AWARENESS CAPSULE: NOV-JAN 2017

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Summary of Banking events in India during the period of November 2016 to January 2017

1/18/2017

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AIRTEL PAYMENT BANK: EVERYTHING YOU NEED TO KNOW

INTRODUCTION

Airtel Payments Bank is the first company in India to receive a payments bank license from the RBI; plans to launch operations in the second quarter of the current FY 2016-17. Airtel M-Commerce Services Limited, a subsidiary of Bharti Airtel Limited, has been renamed as Airtel Payments Bank Limited after receiving necessary approvals from RBI.

MD and CEO : Shashi Aurora
Key stakeholder : Kotak Mahendra bank (19.9%).
Kotak Mahendra bank contribution : INR 98.38 crore

SIGNIFICANCE OF THE LOGO

The Company also unveiled a new logo to reflect its new identity. The new logo is a modified form of Bharti Airtel telecom services. It can be observed that Indian rupee symbol has been inscribed in it.
The '=' sign denotes 'Equality'. A bank that gives equal access to everyone.(as declared officially by the Payment bank).

SIGNIFICANCE OF AIRTEL PAYMENT BANK

- Airtel Payments Bank Limited is the first payment bank in India to receive a payments bank license from the Reserve Bank of India (RBI), on April 11, 2016.

- It is a joint venture between Airtel M Commerce and Kotak Mahindra bank. The bank strongly focuses on the payments bank segment and to the Government's vision of financial inclusion and banking services for every citizen.
- With Airtel's wide distribution network in the country, it claims that Airtel Payments Bank would deliver quality banking services to customers by leveraging the power of mobile the network which is well established.
- The bank accounts will be opened with Aadhar numbers without the need for any other documentation and the customer's mobile number will be the bank account number.
- The rate of interest offered is 7.25 % on demand deposits as the best in the banking industry, while other banks offer 4-5% on demand deposits.
- It will allow money transfer to any bank account in India and free money transfer from Airtel to Airtel numbers within Airtel Bank.
- The bank also offers personal accidental insurance of Rs 1 lakh with every savings account
- At present the bank is operating on a pilot test basis in Rajasthan, it plans to expand this network to 100,000 retailers in Rajasthan by the end of this year.
- Merchants who are part of the network would accept digital payments, helping customers go cashless.
- The network of merchants (sellers/shops) across Rajasthan will accept digital payments from Airtel Bank from day one, offering customers the convenience of cashless purchase of goods and services via their mobile phones in a quick and secure manner.

CURRENCY NOTES PRINTING: ALL YOU NEED TO KNOW

After the ban of 500 and 1000 Rs. currency notes there are a lot of curiosity regarding currency note printing.According to exam point of view, this is a very important topic for General awareness and personal interview, hence here we are providing some basic information about currency note printing for our reader.

Ques

Where printing of New currency notes (2000 Rs.) takes place?

Ans. - Printing of New currency notes (2000 Rs.) takes place at Salboni (West Midnapur,West Bengal.

Ques

Where printing of New currency notes (500 Rs.) takes place?

Ans.- Printing of New currency notes (500 Rs.) takes place at Security press of Nashik

(Maharashtra), and Devas (Madhya Pradesh) .

Ques

Who printed the currency notes?

Ans. - Currency notes are printed by Security printing and minting corporation of India.

Security Printing and Minting Corporation of India Limited (SPMCIL) was incorporated on 13

January 2006 under the Companies Act, 1956 with its headquarters in New Delhi. It is a Miniratna Company and is wholly owned by the Government of India.

The work of SPMCIL includes manufacturing of security paper, minting of coins, printing of currency and banknotes, non-judicial stamp papers, postage stamps, travel documents, etc.

The vision of SPMCIL is "To be leader in manufacturing of currency, coins and security products through process excellence and innovation".

Ques

How many Metric tonnes of paper required per year for printing notes for India?

Ans. - India required 22 Thousand metric tonnes of paper per year for currency notes.i.e. 88 lakh of Rim. We get 16.67 Rim paper by cutting one tree.Hence for currency note printing we have to cut 5,27,895 trees per year.

Ques

How much money we have to invest on currency printing?

Ans. - As per data released by RBI in June 2016 for last year,Investment of Government on the printing of 21.2 billion notes was 3,421 crores Rs.

Ques

Who printed 1st note of India ?

Ans. - British company 'Thomas de la ru' printed 1st note of India at 1862.Today this company printed currency notes for more than 150 countries.

PAPER MILL

The Security Paper Mill (SPM), Hoshangabad was established in 1968 which is responsible for the manufacturing of different types of Security Papers. It provides the numerous security features in paper via Fluorescence Fibres, Multi-tonal three Dimensional Watermark, Electrotype Watermark, various types of Security Threads, Tangents, etc.

PRINTING PRESSES:

Following are 4 printing presses in the country -

- Currency Note Press, Nashik Road
- Bank Note Press, Dewas
- India Security Press, Nashik
- Security Printing Press, Hyderabad

MINTS:

The Mints are situated at Mumbai, Hyderabad, Kolkata and Noida.
Coins are minted at the four India Government Mints at

- Noida, Uttar Pradesh – set up in 1986 and started minting ferritic stainless steel coins from 1988.
- Alipore (Kolkata), West Bengal, established in 1929.
- Mumbai, Maharashtra – established in 1929.
- Saifabad and Cherlapally (Hyderabad), Telangana – established in 1903 by the Government of the erstwhile Nizam of Hyderabad and was taken over by the Government of India in 1950 & started minting since 1953.

Each mint has its mark on the coin minted by it as shown below:

- Mumbai Mint: The Bombay Mint has a small dot or diamond mint mark under Date of the Coin as Mumbai mint.
- Kolkata Mint: The Calcutta Mint has No Mint Mark beneath the date of coin as Kolkata mint.
- Hyderabad Mint: The Hyderabad Mint has five pointed STAR Under the date of coin ashyd mint.
- Noida Mint: The Noida Mint has a small or thick dot under the date of the Coin.

UNIFIED PAYMENT INTERFACE - FUTURE OF PAYMENTS IN INDIA

INTRODUCTION:

We are seeing the tide which is rapidly moving towards a cashless economy or say digital money. It is really a boost to the economy where mobile wallets are increasing and e- commerce transactions are becoming easier. The benefit from this digital systems can be used to reduce the cash flow.
The transparency will be channelized and it will help to build the financial history of each and every one, which will result in the form of financial inclusion. By keeping all these aspects in mind the central bank of India (RBI) has taken a big step in terms of making India a cashless economy as it has launched Unified Payment Interface (UPI) initiated by National Payment Corporation of India (NPCI).

BACKGROUND:

The Reserve Bank of India (RBI) had released a payment system vision during the period of 2012-2015. The main agenda for releasing the vision is to encourage the implementation of a cashless society in our country. The real mission was that the payment and settlement systems need to be secure, efficient and it needs to meet international standards. Against this backdrop, the NPCI was set up to integrate all the multiple systems into a uniform process for all retail payment systems. In the mid-week of April 2016 RBI Governor launched the UPI developed by NPCI. It is a nice initiative to introduce UPI to make it easier and to provide a single interface across all systems. As of now 21 banks are implementing this UPI app. It is a type of payment system which allows easy and quick transfer of money between two parties.

UNIFIED PAYMENT INTERFACE:

This interface will integrate the entire payment systems in India. It uses a single application programme interface with a series of Application Programme interface (API'S). The mobile devices are the primary object for all the payments.

WORKING:

It is a payment system which allows the transfer of money between two bank accounts by using a smartphone. A customer will be paying directly from a bank account to different dealers both online as well as offline. There is no need of typing any card details, IFSC code or any passwords. It is a type of payment system which is like the existing NEFT, RTGS etc. UPI includes transactions such as bill payments, remittances, merchant payments etc. In this digital era, every one of us is having smartphones. Each and every user with android phones can download the UPI from Google Play store. After the installation process, you need to set up the app login and then create a virtual address, add the bank account and then finally set a mobile pin (M-Pin) and then start using UPI. The transaction limit is 1 lakh.

VIRTUAL ADDRESS:

It is the most innovative idea or we can say it is the heart of the UPI we generally make payments by using card details such as card number, CVV etc. Typing these numbers in a mobile is not a hassle free and to solve this problem, UPI has come up with an idea of the virtual address. It will be in the form of 'bankexamstoday@idbi'. There is no need of furnishing any other details.

FEATURES OF UPI:

- Payment systems should be simpler. Transfer of money should be done with just an identifier without having any complex details to hand. It should be done at a simple click.
- Innovation is a major aspect. Both the payer and payee shouldn't face any difficulties.
- The solution needs to have strong and efficient data protection.

- The adoption of this app needs to be scalable to a billion users and even large scale adoption also.
- In the coming 5 years, the number is expected to rise 500 million users of smartphones. So the solution should be channelized in a proper mechanism to take full advantage of that.

For Example, if a user wants to make payment to the commercial store, he can simply tell his virtual identity to the cashier the cashier will generate an invoice in UPI and the user approves it using his smartphone. In this process, the payment will be made.

USAGE OF UPI:

♣ UPI works only on the mobile interface.

♣ Some banks have integrated UPI with the existing apps and some have included a new one.

♣ Users can send money using their virtual ID only. By using the virtual ID only we can do payments. An alert message will be sent so as to authorise the transactions.

ADVANTAGES:

- The UPI will have a significant control over current systems and can take mobile payments to next level.
- The UPI is supported by the aadhar system. It is based on the unique identification code and it is ensured that each transaction happens between two persons.
- UPI will create a new ecosystem so that it will offer simpler and instant solutions to the customers.
- There will be no entry barriers for start-ups and for small businesses as it will solve the problem of collecting money for products and services.
- It is a very significant move, as the service can be provided to the merchant with the help of the smartphone at the place of business.
- It is a big platform for a growing economy like India. There will be no paper money and consumers will not be facing any barriers.

CONCLUSION:

The innovation is becoming a key factor as new players are emerging and entering into the payment landscape, so as to improve the customer experience. NPCI is playing a key role in ensuring the participants to innovate more with the existing systems. The increase in smartphones, universal access to banking in phones provides us with a unique opportunity to maintain an edge over the e-payments and to provide customers with stringent security and unparalleled ease of use.

RBI MEASURES ON NON-PERFORMING ASSETS (NPA)

INTRODUCTION

Non Performing Assets are increasing rapidly and shaking the entire banking sector including both public and private sector banks in India.

WHAT IS NPA?

- A credit amount for which both the principal amount and the interest due on the amount is not paid for a specific period of time (generally 90 days) is termed as NPA
- NPA are also termed as bad loans or defaults
- NPA arise as a result of bad lending practices, banking crisis, frauds in banking operations etc
- Public sector banks are highly stressed due to NPA
- NPA causes severe liquidity problems in banks and to the shareholders of the banks

NPA FACTS FOR CURRENT FISCAL

- RBI has reported gross NPA has increased to 11.1 percent from 9.2 percent in the previous year
- RBI reports a staggering gross NPA figure of 3 lac crore
- Stressed assets of banks stood at more than 6 lac crore
- RBI has revealed that 5 out of 8 PSU banks have recorded huge losses due to NPA

The highly stressed public sector banks include

1. Punjab National Bank
2. Indian Overseas bank
3. Syndicate bank
4. Bank of Baroda
5. Dena Bank
6. Allahabad bank
7. Central bank of India

ILL EFFECTS OF NPA

- Borrowers find it difficult to borrow from banks as bankers show aversion to borrowers
- The attitude of bankers towards the borrowers becomes arrogant
- Borrower gets demoralized with such behavior of the employees and loses faith in the banking system.
- Bank loyal customers move away from their banks
- The reputation of the bankers is at stake in such high NPA situation
- The relation between bankers and borrowers is not conducive
- Banks start to adjust daily operations and accounts as a result of NPA
- Shareholders lose confidence in the banks and withdraw their invested

money from the banks as a result of NPA

- Customer service of Banks becomes negative and employees start shouting at customers over the phone
- Banks start moving towards bankruptcy

Gross NPA figures of banks

- Punjab National Bank reported the maximum gross NPA and ranks top among public sector banks
- Punjab National Bank reported gross NPA of 34338 crore, an increase of 10000 crore from previous year
- Central Bank of India has reported gross NPA of 17564 crore
- Dena Bank has reported gross NPA of 7916.47 crore
- Allahabad Bank has reported gross NPA of 3494 crore
- ICICI banks is facing huge problems due to NPA and faces the heat in the private sector
- ICICI bank has reported gross NPA of 21149 crore, a steep rise of 70 percent compared to previous years

RBI MEASURES

- Asset restructuring
- Divestment through sell off of stressed assets
- Reformed Bankruptcy norms
- RBI has asked banks to accelerate provisioning of stressed assets
- This provisioning measure has reflected heavily on the profitability of the banks with banks recording huge losses or low profits
- RBI has eased the NPA redressal norms
- RBI revised guidelines on Strategic debt restructuring (SDR)
- Banks can make provisions to the tune of 15% of the loan value
- RBI relaxed Joint Lender's Forum (JLF) by bringing down the divestment limit to 26% from 51%
- RBI has released corrective action plan (CAP) on defaulters
- RBI has initiated criminal action on willful defaulters
- RBI has recognized Common Equity Tier I (CETI) capital for deferred tax assets
- RBI has unlocked 40000 crore to banks to handle the NPA problem temporarily
- Public sector banks will get an infusion of 35000 crore from RBI
- Private sector banks will get an infusion of 5000 crore from RBI
- SARFAESI Act amended to handle NPA related cases in State High court and Supreme court
- The recent demonetization drive could help banks in recovering some of the NPA arrears

ISLAMIC BANKING IN INDIA

INTRODUCTION:

Reserve Bank of India (RBI) has proposed the opening of an "Islamic window" in conventional banks for a gradual introduction of Sharia-compliant or interest-free banking in India.Interest-free banking, also known as Islamic banking, has shown significant increase, especially after the financial crisis across the globe. According, to Christine Lagarde, Managing director, IMF (2015), total Islamic
finance assets are estimated at around USD 2 trillion, practically a ten-fold increase from a decade ago, and outperforming the growth of conventional finance in many places. Even though many interest-free banking products are similar to conventional banks; the central concept of interest-free banking and finance is equality, which is achieved through the sharing of risk. All the stakeholders are to share profits and losses, and charging interest is strictly prohibited.

WHAT IS INTEREST-FREE BANKING?

The term "Interest-free/Islamic banking" refers to the system of banking that is based on Islamic law (Shariah) and is guided by Islamic economics.
Islamic Banking is known by several names:

- Interest free banking (Iran)
- PLS Banking (Pakistan)
- Islamic Banking (Gulf countries)
- Special Finance Houses (Turkey)

All expressions are used interchangeably.

ELEMENTS OF INTEREST-FREE BANKING :

- **Riba:** The most important aspect of interest-free banking is the prohibition of interest;
- **Haram/halal:** The code of 'ethical investments' which governs operations based on interest-free financial activities. Priority is given to the production of essential goods that satisfy the needs of the population, such as food, clothing, shelter, health and education;
- **Ghrarar/maysir:** Gambling in all forms is prohibited. It also condemns economic transactions involving elements of speculation;
- **Zakat:** This is an important instrument for the redistribution of wealth in the form of a mandatory levy.

BASIC FINANCIAL CONTRACTS UNDER INTEREST-FREE/ ISLAMIC BANKING

1. TRUST-BASED FINANCE (MUDARABAH)

It is the type of investment which represents the ownership of units of equal value in the equity. In Mudarabah, one partner provides the capital, while the other partner offers labour and expertise. Profits earned are shared in a predetermined ratio, whereas losses are borne entirely by the capital's owner.

2. COST-PLUS FINANCING (MURABAHAH)

In Murabahah, the buyer(customer) approaches the bank to acquire goods. In turn, the bank (seller) purchases them from a third party (a supplier) and then re-sells them to the borrower/customer (buyer) on the basis of an agreed mark-up for immediate or deferred payment. The total cost is paid in instalments and the product's ownership is with the buyer until the last instalment is paid.

3. LEASING (IJARAH)

In Ijarah, the bank acts as a lessor, buys and leases out an asset or equipment required by its clients(who acts as a lessee) for a lease rental fee. The responsibility for maintenance/insurance lies with the lessor.

4. EQUITY PARTICIPATION (MUSHARAKAH)

Musharakah is a partnership agreement between the bank and the customer where equity is contributed by both the parties, either in cash or in the form of goods or assets.The profits earned and losses incurred are shared on agreed ratios.

5. DEFERRED PAYMENT, DEFERRED DELIVERY (ISTISNA)

Istisna is a type of contract in which the manufacturer /contractor agrees to produce /build and to deliver a certain goods/premises at a given price on a given future date. The price might be paid in instalments or by part-paid in advance with remaining balance will be paid later, depending on the preferences of the parties involved.

6. PARTICIPATION SECURITIES (SUKUK)

Sukuk represent Shariah-compliant securities which are backed by tangible assets. It has a face value linked to the value of the underlying asset which can be traded in the secondary market. As with conventional bonds, Sukuks have maturity and the issuer has. Buyback option on the maturity date. Risk involved is that the initial investment is not guaranteed and the returns or principal repayment completely depends on the performance of the underlying assets.

7. AGENCY (WAKALA)

Wakala is a money market concept used in deposit products by Islamic finance houses. The depositors fund the bank to invest in suitable Shariah projects. The bank acts as agent to invest the funds into various assets and projects. The bank which acts as an agent is entitled to receive a fee for its expertise and services while the returns will be given to the depositors or investors.

8. DEMAND DEPOSITS (AL-WADIAH)

Al-Wadiah refers to a concluded contract between the owner/depositor of the goods/money and the bank which acts as the custodian for safekeeping. In this contract the depositor(s) grants the bank their consent to utilise the money for whatever purpose permitted by Shariah laws. Depending upon the financial results, the bank may decide to pay a premium at its discretion, to the depositors/customers.

9. BENEVOLENT LOAN (QARD HASSAN)

Under Qard Hassan(benevolent/virtuous loan), a loan is sanctioned on a goodwill basis, with the debtor (bank), where the customer is only required to repay the amount borrowed. Banks are allowed to charge borrowers a service fee to cover the administrative expenses of handling the loan as they are given mainly for welfare purposes.

LIST OF INSTITUTIONS WHICH PROVIDE ISLAMIC FINANCING IN INDIA

1 Atharvved Finance Corporation
2 TAMEEM IMPEX
3 Associated Industrial Credit Society Al-Siraat Investment & Banking
4 The Bank of Tokyo-Mitsubishi UFJ, Ltd
5 Baitun Nasr Urban Cooperative Society

INTEREST-FREE BANKING AND FINANCE IN INDIA- WAY AHEAD:

- In 2000, the southern Indian state of Kerala experimented with Islamic finance with a financial company called Alternative Investments and Credits Limited based in Kochi which promoted interest-free financing vehicles following Islamic banking principles.
- In 2013, Cheraman Financial Services was launched, a NBFC (Non-banking finance company) promoted by the Kerala State Industrial Development Corp and focusing on Shariah-compliant financing projects such as land and housing development scheme based on waqf, Islamic endowments and donations.

- Later, Taurus Mutual Fund and Tata Mutual Fund offer Shariah-compliant investment schemes in India, not specifically marketed as "Islamic," but as "ethical funds" in order to appeal to non-Islamic investors as well.
- EXIM Bank(in April,2016) has announced a collaboration with the Islamic Corp. for the Development of the Private Sector, a unit of Saudi Arabia-based Islamic Development Bank (IDB), to extend a $100mn financing line to support the export of Indian goods to Muslim countries. The IDB, would soon establish its first Branch in Ahmedabad.

RETAIL CREDIT OPERATIONS IN BANKS: EXPLAINED WITH IMPORTANT POINTS

INTRODUCTION

Banks being the financial houses which primarily are established to accept deposits and to lead loans to the public. Profitability of the bank depends mainly on the Net Interest Income(NII) generated.(I.e) If a bank accepts deposits from customers for which an interest of 6 % is paid every quarter, but lends a loan for an interest of (say) 13% which might fixed or a floating rate(it depends and varies for different asset products). The Net difference which is excluding the cost, earned is the Spread which is also called Net Interest Income. The quality of loans lent depends on the efficiency of the banks in sourcing, screening, processing and sanctioning of credit.

WHAT DOES RETAIL CREDIT OPERATIONS REALLY MEAN?

Retail Credit Operations means the sequential process which involves screening, evaluation of risk(s), and ensuring that the bank lends to a worthy(credit worthy) client from the asset products applications sourced.

THE PROCESS OF RETAIL CREDIT OPERATIONS IN BANKS

- Initially, the asset product(Personal loan/Mortgage/Business loan/Credit Card) applications are sourced by the Sourcing team.

Sourcing team consists of :

a. Retail Branch Team

b. Direct Sales Team.

c. Tele-Sales Team.

- Computerization of data and pre-screening of application is done by the pre-screening team, if any rejections like missing documents or signature mismatch/unsigned forms are rejected to sourcing team to attach the additional documents required.

- Then the application moves to the Credit evaluation team, which evaluates the application as per the Credit and product policy.
- A CPV(Contact Point Verification) is done to ensure correct phone number, address, employment details, existence of business, etc.A positive CPV check is essential to credit evaluation.
- Any suspicions in documents is observed, it is referred to the Fraud Management Unit and after FMU clearance it is processed further.
- Rejections observed during credit evaluation are clarified with Sourcing team and necessary documents are attached for further evaluation.
- If the Credit evaluation team while processing the application finds any recommendations attached by GM/VP/Country head-sales for policy deviations or all the policy criteria are met but any system deviations(errors in calculation of eligibility by the computer after policy revision) is observed then the application is escalated/recommended to Credit Risk Evaluators to process it from their end.
- When the policy criteria are not met(say customer has a poor credit score, cheque bounces in the recent past, or may not be eligible for the particular product) then the application is declined.
- Application is processed and moved to the disbursement team for disbursal, if all policy criteria are met.

MUTUAL FUNDS: IMPORTANT FACTS REVEALED

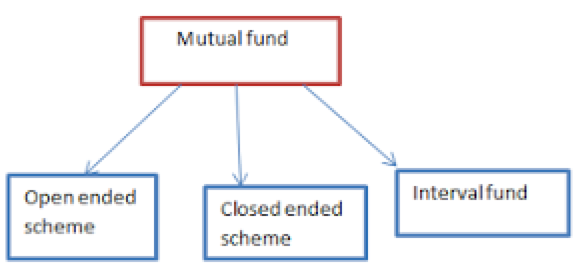
IMPORTANT FACTS ABOUT MUTUAL FUNDS

- A mutual fund is the trust that pools the savings of a number of investors who share a common financial goal.
- The money that are collected from investors then invested by the fund manager in different types of securities. These could range from shares to debentures upon the scheme's stated objective.
- Mutual fund is one of the most cost efficient financial products.
- By investing in mutual fund, one can gain the service of professional fund managers, who would otherwise be costly for an individual investor.

- Without investing a large amount of money one can enjoy the service of trading through mutual fund.
- Since many investors are investing in one scheme so the market risk (if any) get divided among the investors. Hence ultimately the risk is comparatively lower than other investment plans.
- The trading of units in mutual fund done through the stock market. And the price of commodity is not stable all the time. So the market value of the commodity is fluctuated and thus the risk mostly called the market risk also fluctuated with respect to the price of the traded commodity.

TYPES OF MUTUAL FUND

mutual funds are mainly of three types. These are listed below with the help of a diagram.



- **Open ended scheme:** under this scheme investors are free to buy or sell units at any point of time. This means that there is no maturity period. So the money available to you at any point of time.
- **Close ended scheme:** unlike an open ended scheme, there is a stipulated time period. Hence the money available to you only at the maturity date.
- **Interval fund :** This type of scheme is the combination of open ended scheme and closed ended scheme. Here the investors are allowed to trade at a pre -defined date.

ADVANTAGES OF MUTUAL FUND

- Professional management
- Diversification
- Convenient administration
- Low cost
- Liquidity
- Transparency
- Flexibility
- Choice of scheme
- Well regulated
- Tax benefit

HOW IS MONEY MADE THROUGH A MUTUAL FUND?

- Capital Appreciation: as the value of securities in the fund increase, the fund's unit price will also increase. There would be a capital appreciation when you sell your available units at a price higher than the price at which you bought.

- Coupon / dividend income : fund will earn interest/coupon from the bonds it holds on.

HOW TO INVEST IN MUTUAL FUND?

- **Step1 ->** identify your investment needs.
- **Step2->** choose the right mutual fund.
- **Step3->** select the ideal mix of scheme.
- **Step4->** investors pool their money.
- **Step5->** fund manager invest the pooled money in securities.
- **Step6->** income and dividend gets generated.
- **Step7->** income is distributed among the shareholders.

TAX BENEFIT FROM MUTUAL FUND

- Under sec 80c up to a limit of 100000 in a financial year is eligible for deduction in a savings scheme.
- Dividend from mutual fund scheme is tax free in the hands of investor.
- Indexation benefit under long term capital gain in debt scheme.

INDIA POST PAYMENTS BANK (IPPB) AS AN EFFECTIVE VEHICLE OF FINANCIAL INCLUSION

INTRODUCTION

India Post Payments Bank (IPPB) was incorporated on 17th August 2016 under the companies Act, 2013. IPPB is expected to speed up the financial inclusion in India especially in the rural areas with its extensive network of branches.

WHAT ARE PAYMENT BANKS?

- Payment banks are specialized banks to receive deposits up to 1 lac
- They can issue Debit or ATM cards
- They cannot issue Credit cards
- They cannot lend money

REGULATORY BODY

- RBI is the authority to license payment banks
- RBI approved 11 companies in the initial phase
- IPPB is one of the payment banks approved by RBI
- IPPB works under the Department of Posts

PURPOSE OF IPPB

- Aims to become the top most vehicle of financial inclusion in India
- IPPB is expected to bring nearly 40 percent of the Indian population that is outside the ambit of the formal banking sector
- Propagate financial literacy across the country
- Encourage people to move to a less cash economy
- The main goal of IPPB is to become the world's most accessible bank equipped with modern banking technology

FACTS ABOUT IPPB

- IPPB was proposed to be launched in Budget session of 2015
- IPPB becomes the first Public Sector Undertaking (PSU) under the Department of Posts with 100 percent Union government equity
- IPPB becomes the fastest rollout for a bank anywhere in the world
- IPPB will become the world's largest bank in terms of time and accessibility
- Initially, service will be available through 650 payment bank branches linked with the post offices
- Gradually services will be extended to 1.55 lac post offices across the country having physical presence
- IPPB will use alternate channels of modern technology including ATMs, Mobiles, POS devices etc
- Department of Posts is expected to roll out the IPPB all over the country by September 2017

IPPB SERVICES

- IPPB provides demand deposits up to 1 lac through savings and current accounts
- Remittances and payments are enabled in a digital manner
- IPPB provide access to Mutual funds, insurance, forex, credit products and other third party financial services by establishing partnerships
- People can pay educational institutions fee, utilities bill etc. through IPPB
- IPPB will offer internet services, mobile banking services, debit cards, mobile wallets, ATMs and POS devices etc.

IPPB FEATURES

- Develop a savings habit among people by increasing financial literacy
- Beneficiaries will receive MGNREGA wages, social security pensions and other government welfare measures directly to their bank accounts following the already successful DBT model through IPPB
- IPPB extends financial inclusion rapidly
- Post men are empowered to widen the accessibility of IPPB across the country
- The postal delivery system is the most reliable network in India
- IPPB will enjoy the trust of India post developed over the years

BENEFITS

- Easy access for customers
- Customers can get the leverage of postal network
- Wider reach especially in the rural and remote areas
- Direct transfer of subsidies to the actual beneficiaries in their bank account through IPPB services of financial inclusion
- Transparency in governance will improve
- Corruption will be reduced
- The intermediaries will be cut
- Low cost
- Availability of quality financial services across the country

Data Security is a major area of concern. IPPB is launched with huge expectations to develop India as a whole and hope it lives up to the expectations. This is yet another big step of the Government of India towards financial inclusion with the aid of RBI and Department of Posts.

DIPAM TO ADDRESS DIVESTMENT IN PSUS

INTRODUCTION

Union Government of India renamed the Department of Divestment to **DIPAM (Department of Investment and Public Asset Management)** on April 20, 2016.
This was formally announced in the Union budget 2016 - 2017 by Finance Minister Mr. Arun Jaitley

NEED FOR DIPAM

- Highly stressed PSUs
- Inefficient management structure in loss making PSUs
- Increase in loss making PSUs
- Rapidly rising non performing assets of Banks
- NITI Aayog has identified 74 loss making PSUs
- Among these 8 PSUs are identified to be closed this fiscal according to Union budget 2016 - 2017

PURPOSE OF DIPAM

- Proper management of Government investments in equity
- Divestment in Central Public Sector Undertakings (CPSUs)
- To advise government on financial restructuring matters of CPSUs
- To attract investment through capital markets
- To address issues of capital restructuring, bonus shares, dividend etc in CPSUs

BACKGROUND

- NDA government (1999 – 2004) was aggressive in divestment and privatizing loss making PSUs
- NDA earlier privatized more than a dozen companies
- UPA government buried this divestment regime in their rule
- Now, BJP is aiming to revive divestment again through DIPAM

EARLIER DIVESTED PSUS

- Some of the divested PSUs during the Atal Bihari Vajpayee led NDA government include
- Videsh Sanchar Nigam Limited (VSNL)
- Bharat Aluminium Company (BALCO)
- CMC Ltd
- HZL (Hindusthan Zinc Ltd)
- Hotels

DIPAM FUNCTIONING

- DIPAM will function under the finance ministry of India
- Head Quarters located in Delhi
- DIPAM will deal with the sale or divestment of equity in CPSUs
- DIPAM will manage government investments in equity
- DIPAM uses Open For Sale (OFS), private placement, stake sale, strategic sale etc to divest CPSUs
- All divestments to be handled by DIPAM or on the advice of DIPAM by the concerned ministry

DIPAM PROGRESS

- "Invest India" was the official agency for promotion of investment in India
- Main aim is to provide facilities for investment in India
- This is to be merged with DIPAM
- DIPAM works closely with "Make In India" and predicted to be first and foremost place for investors
- The experts and DIPAM team will provide the potential investors with the various opportunities existing in various sectors
- It will guide the investors from incubation to establishment and after care services
- DIPAM expedites regulatory provisions and approvals
- DIPAM will carry out privatization of PSUs in due course by transforming the poor or loss making PSUs as infrastructure to new potential investors through "Make In India'

CURRENT IMPLICATIONS

- NITI Aayog sell off 8 loss making PSUs for 56500 crore through Divestment
- Among this, 20500 crore to be divested through strategic sale
- Rest 30000 crore to be divested through stake sale
- DIPAM to garner more than 16000 crore by November end through share buy

backs and offer for sale (OFS) route of Divestment

- PSUs involved in Share buy back include NALCO, NMDC, Coal India, MOIL and Bharat Electronics accounting to 13500 crore
- NHPC Stake sale amounting to 3350 crore
- NTPC and IOC carry out Divestment through employee subscriptions
- SBI merger with its associate banks and Bharatiya Mahila Bank on share swap ratio basis approval on August 18, 2016

FAST FACTS ON NEFT, RGTS, AEPS AND MTSS

Core Banking Services (CBS): It is a process under which information related to customer accounts and database information was done over electronic media. It stored in It stored in the central server instead of branch server. Due to its high advantages, Central bank of India i.e. RBI made it compulsory to all Banks to implement Core Banking Services (CBS) as soon as possible.

1. NEFT - "NATIONAL ELECTRONIC FUND TRANSFER"

- It is a nation-wide payment system .
- One can transfer funds to others though self-account.
- Applicable to both Account holders and Non-Account holders.
- Funds can be transferred through electronic media
- Funds can be transferred in 12 slots on weekdays and 6 slots on Saturday
- Applicable for those customers, Corporates, Firms,whose bank is entitled with NEFT payment system.

FAST FACTS ON NEFT

- There is no minimum or maximum limit while transferring through NEFT platform.
- If you have Bank account in any NEFT enabled branches , then you can transfer fund through internet or bank branches directly.
- If you don't have an account, then there are few norms you need to follow, RBI sets an upper limit ceiling i.e. one can transfer up to Rs.50,000 per transaction.

- NEFT mode can also be used while transferring fund to Nepal under Indo-Nepal Remittance Facility scheme. Here also RBI sets an upper limit ceiling i.e. one can transfer up to Rs.50,000 per transaction.
- For these schemes, Banks charges as service charge or processing fee for each ENFT transactions.
- While transferring NEFT fund you to anyone you must have His/Her Bank Accounts Details like Account Number , Account Holders Name , IFSC code.

2. RTGS- "REAL TIME GROSS SETTLEMENT"

- Processing of instructions starts at the same time
- Settlement of fund transfer occurs according to individuals basis or it can be transferred instantly. There is no such time slot.
- Funds can be transferred in Real Time Basis.
- RBI sets a limit, One can transfer a minimum of Rs.2 Lakh
- The scheme is only applicable for those customers, Corporates, Firms, whose bank is entitled with RTGS Payment platform system.

FAST FACTS ON RTGS:

- Only Account Holders can enjoy the service. There is no provision to transfer funds for Non-Account holders.
- The customer can transfer funds in Between 9AM to 4:30PM on Monday to Friday. & 9AM to 1:30PM on Saturday.
- But Bank transaction time is in between 9AM to 4:30PM on Monday to Friday. & 9AM to 3PM on Saturday.
- As per RBI guidelines, Banks charges Rs.25 + Application time charge (Rs.5) A total of Rs.30 for each transaction in-between Rs.2 lakh to Rs.5 lakh.
- However, Above Rs.5 lakh Bank charges Rs.50 + Application time charge

3. IMPS: IMMEDIATE PAYMENT SERVICES

IMPS is an instant interbank electronic fund transfer service through mobile phones.

FAST FACTS ON IMPS:

- This service is available 24x7 for a transaction between interbank.
- It doesn't require any "batches". Though IMPS offers Instant Transfer.
- To be able to transfer fund through IMPS route you must first register for the immediate payment services with your bank.
- After successful registration, the bank will provide you "Mobile Money Identifier(MMID) and Mobile Personal Identification number(MPIN).
- For transferring of funds the Minimum & Maximum amount is to be Rs.1 and Rs.2,00,000.

4. AEPS: AADHAR ENABLED PAYMENT SYSTEM

- It is a payment system which uses Aadhar card number and individuals online UIDAI authentication, which are linked to a customer's Bank account.
- A customer will have to register his/her Aadhar number to their existing bank account, provided their bank is AEPS enabled.
- Through AEPS, the customer can withdraw or deposit cash, make the balance enquiry, and transfer funds.
- The maximum amount of transaction per account per day is Rs.50,000.
- These transactions are normally conducted by Business Correspondents (BCs) service centres.

5. MTSS: MONEY TRANSFER SERVICE SCHEME

- It is a system of money transfer for transferring personal remittances from abroad to beneficiaries in India.
- Through this only inward remittances into India are permissible. No outward remittance allowed.
- A maximum of Rs.50,000 can be remitted inwards as per the money value. And a maximum of 30 transactions per the calendar year.

6. NEPAL REMITTANCE SCHEME

- It is a cross-border one-way remittance facility scheme for remittance from India to Nepal.
- Maximum amount remittance is INR 50,000 and beneficiaries will receive in Nepalese Rupees.

RBI GUIDELINES FOR 100% FDI IN E-COMMERCE

INTRODUCTION

The tremendous growth of e-commerce market required streamlining in currency flow and regulation of e-commerce companies. In this purview, RBI along with DIPP have released guidelines for e-commerce companies

NODAL AGENCIES

- Department of Industrial Policy and Promotion (DIPP) is the nodal agency to provide licenses to e-commerce companies
- DIPP works under ministry of commerce and industry
- RBI regulates the money transactions in e –commerce
- Most of the transactions in e-commerce take place online and RBI has a huge role to provide safe and secure online transactions to the customers

BACKGROUND OF E-COMMERCE IN INDIA

- E-commerce is fast growing industry in India and is expected to touch $69 billion by 2020
- Already 100 % FDI is allowed in e-commerce
- In the last 2 years, there is a tremendous increase in e-commerce market place competition with the emergence of players like Amazon, Snapdeal, Flipkart, Myntra, e-bay etc
- The e-commerce companies give huge offers and discounts that drastically affected the sales of traditional brick and mortar companies
- Most of the traditional companies have gone out of business due to the heavy competition in e-commerce market place
- In this context, certain guidelines and measures needed to be taken to check

the online companies from give such high discounts and offers to customers

ISSUES AND GUIDELINES

- The recently released guidelines address two major issues of prominent display and online monopoly
- First, a large vendor with big discounts will get prominent display in online portals like Amazon, Snapdeal etc
- This forces other retailers in the online portal to reduce their prices and also get lower display
- Fixing of a floor price for the products in e-commerce is the recommended guideline to curb the above practice
- Second, monopoly creation in online market place
- WS retail in Flipkart alone accounts for more than 35% of sales
- CloudTail India sales in Amazon exceeds 40 %
- A single e-commerce entity is restricted to only 25 percent of the sales is the recommended guideline to prevent the above monopoly in e-commerce sales

IMPLICATIONS OF THE GUIDELINES

- Customers cannot enjoy the current huge online discounts once the guidelines come into force as the online retailers will be forced to reduce the discounts
- The guideline will provide a level playing field for both online and traditional brick and mortar companies
- The new guidelines will put an end to the existing predatory pricing
- The guidelines constitute a direct or indirect influence on the online market which is fast growing and needs streamlining
- The guidelines have been released as a first measure to regulate the online market

CONCLUSION

- The guidelines will make the e-commerce players operate as technology providers and not as retailers
- Market places will serve as only technology providing platforms to sellers and not get in to inventory based models resulting in predatory pricing
- The guidelines have put restrictions on the existing players and the new entrants in to the online market place
- Critics argue this to be a bureaucratic discretion
- The new guidelines clearly separate inventory based models from market based e-commerce
- In inventory based models, there is no FDI allowed
- 100 % FDI is allowed only in market based e-commerce

- The guidelines must be transformed in to policies and implemented strongly by the nodal agencies – DIPP and RBI
- Competition commission of India must establish a committee to look into the existing predatory pricing regime in online market place
- Overall, customers will not enjoy the huge discounts that they are enjoying now from the online shopping portals after the guidelines are implemented

NATIONAL INVESTMENT AND INFRASTRUCTURE FUND (NIIF)

INTRODUCTION

NIIF is established by the Union government as a category II Alternate investment Fund (AIF)

BACKGROUND OF NIIF

- SEBI constituted the 21 member committee under the leadership of N R Narayan Murthy, Infosys Co-founder
- The committee was named Alternative Investment Policy Advisory Committee (AIPAC)
- On the recommendations of the committee, Alternate Investment Funds (AIF) were established as start up eco system in India
- AIFs are private equity and hedge funds defined in SEBI Regulations
- Any form of privately pooled investment both from foreign or India origin in the form of a company, trust, body, corporate or LLP are classified as AIF
- AIFs are established to raise capital to reach a size of as much as 2 % of the GDP
- NIIF is established as a Category II AIF

NIIF – ESTABLISHMENT

- NIIF will be established under SEBI regulations
- NIIF will be financed by GOI with 49% equity
- The rest of the funds will be done through foreign and domestic partners
- Initial corpus amount of NIIF is 40000 crore rupees
- The amount of NIIF will be changed from time to time

OBJECTIVES OF NIIF

- To maximize economic impact through infrastructure development
- Investments made in brown field projects, green field projects, stalled projects and commercially viable projects

- NIIF would allow equity participation from anchor partners
- NIIF would also undertake nationally important projects

TAX BENEFITS OF NIIF

- Investments made through NIIF enjoy certain tax benefits
- Exempted income of NIIF is not taxed withholding 10 percent
- Overseas investors investing in NIIF are not subject to indirect tax provisions of IT act
- FDI process made transparent through investment in NIIF
- Tax residence measures to be introduced in NIIF after making amendments to IT act, 1961
- NIIF will make tax procedures simplified for overseas investors to make their investments and establish their companies in India
- Tax policies are made consistent, clear and certain
- NIIF funds will have parity with public market funds considering the tax policies

OTHER BENEFITS

- NIIF is established to promote the "Make In India" flagship initiative of GOI to attract more FDI in a direct manner
- NIIF will help in infrastructure development of India as a whole in a more transparent manner compared to the old FIPB route suffering from Red Tapism
- NIIF is a measure towards good governance of India
- Ease of doing business is enhanced through NIIF
- Adoption of global best practices to increase transparency
- Cooperation among the various regulators
- Innovation of new business and investment practices

RECENT MOU'S MADE THROUGH NIIF

- India and UAE signed a MoU in March 2016 to mobilize long term investment into NIIF
- This will allow transparent mechanism between investment institutions of UAE in Indian Infrastructure through NIIF
- NIIF signed MoU with Russian investment firm RUSANO OJSC
- The Russian MoU will help set up a high end technology private equity fund
- The will enable joint implementation of investments into diverse projects in India
- This will establish a joint working group to develop cooperation between India and Russia
- NIIF will work on the development of the agreements signed in the MoU

DIRECT TAX REFORMS PANEL: EASWAR COMMITTEE RECOMMENDATIONS

INTRODUCTION

GOI has established the tax reforms panel to streamline the indirect and direct tax policy for transparent administration.

DIRECT TAX RECOMMENDING COMMITTEE'S

- Parthasarthy Shome committee recommended the establishment of two tax panels
- Tax Policy Research Unit (TPRU) and
- Tax Policy Council (TPC)
- Easwar committee recommendations on Tax Deducted at Source (TDS)

TAX POLICY COUNCIL

- Headed by Finance Minister
- Advisory in nature
- Identify key tax policy decisions
- Suggest broad taxation policy measures
- Nine member body including
  1. NITI Aayog Vice Chairman
  2. Minister of state, Finance
  3. Finance Secretary
  4. Commerce Minister
  5. Chief Economic Advisor
  6. DEA Secretary
  7. DIPP Secretary
  8. Revenue department secretary
  9. Secretary of commerce department

TAX POLICY RESEARCH UNIT

- Multi disciplinary body
- Analyze and examine any tax policy or fiscal referred by CBDT and CBEC
- Disseminate and prepare background papers and policy documents pertaining to various taxation issues
- Comprises officers from CBDT, CBEC, economists, researchers, statisticians and legal experts

EASWAR COMMITTEE RECOMMENDATIONS

- Retired High court Judge Easwar committee was formed by GOI to change the direct tax laws
- The committee recommends for simplification in TDS
- Tax refunds to be made faster
- Deduction from taxable income slab revision
- Stock market gains up to 5 lac will be treated as capital gains

- These stock market gains are exempt from business income encouraging more retail investments in the stock market
- Tax payer friendly reforms introduced to align with Ease of Doing Business
- TDS rates reduced from 10% to 5% for individuals
- Income tax department transactions to be made in an electronic manner and human interface to be minimized to the core
- Presumptive scheme for business increased from 1 crore to 2 crore
- This step will make business people life easier and relaxing

IMPLICATIONS OF THESE REFORMS

- Project Saksham of digitalizing the Income Tax department is a direct implication of these tax reforms
- Project Insight launched to monitor income tax transactions
- Project e-sahyog launched to reduce the hassles of the small tax payers
- This makes it easy for tax payers to pay tax online and eliminates their visit to the income tax department offices to pay taxes and lodge their grievances
- Tax payers grievances are recorded online and addressed accordingly
- The tax reforms aim to bring more transparency in the direct tax sector

GREEN BOND: THINGS YOU MUST KNOW

INTRODUCTION

A green bond is a debt instrument issued by an entity like any other bond (with subtle differences) to raise funds from investors

ABOUT GREEN BONDS

- Initially, green bonds were issued by World Bank, multilateral organizations and few nations from 2007
- Green bonds are pioneered by development banks in few nations
- Green bonds is a niche product till 2012
- Green bonds are focused to Environment, Social and Governance (ESG) projects
- There is the double scope of environment benefit and development in green bonds
- Green bond concept is open to corporate from 2016 in India
- It is a new concept with regulations and guidelines still in the initial stages

NODAL AGENCY

- Securities and Exchange Board of India (SEBI) is the nodal agency

- SEBI released the green bond concept paper on December 2015
- SEBI frames the guidelines regarding issuance of green bonds

DIFFERENCE BETWEEN REGULAR BOND AND GREEN BOND

- Green bond is issued to finance only green projects
- Green bond issuer explicitly states that the fund raised will be used for environmental benefit activities like renewable energy, solar projects etc
- Green bonds are being used based on market practices
- Issuer can price Green bonds at a far better rate than the regular bonds due to the environmental benefit feature

BENEFITS OF GREEN BONDS

- Green bonds help to increase the reputation of the issuer
- Issuer will get positive publicity
- Green bonds develop a commitment among the corporate about sustainability and development of the environment
- Green bonds will give an international experience
- Positive public relations will be enhanced
- New set of investors will come in to the fray with the introduction of green bonds
- Issuer can get access to a diversified set of investors other than business oriented clients or investors
- Issuer will get a pricing advantage in case of green bonds
- The current scenario of global warming and climate change will attract global investors to invest in green bonds in large numbers
- The cost of funding for the green projects will be lowered with the expected increasing number of investors in the green bonds

CONCLUSION

- Green bonds is relatively a new concept to Indian market
- SEBI must frame guidelines for issuing green bonds to prevent the misuse of funds raised through green bonds
- SEBI must establish a monitoring mechanism to check the usage of the green bonds
- World nations are responding in a positive manner to the climate change scenario with the signing of the Conference of Parties (COP) in Rio by majority of the nations
- GOI has placed special emphasis on renewable energy projects especially on solar power generation making it conducive for green projects

- The reception of green bonds in India is on the positive side
- Overall, Green projects and green bonds offer huge opportunities in future for corporate for the overall development of the nation and the world as a whole

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) - A WORLD BANK INITIATIVE

INTRODUCTION:

The mission of the World Bank is defined by two goals

1. To end extreme poverty by reducing the percentage of people living on less than $1.90 per day to no more than 3% globally by 2030; and
2. To promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40% of the population of every developing country

To adhere its mission World Bank established subsidiaries which function as its arm to concentrate on particular areas as a focus. One such institution is IBRD (International Bank for Reconstruction and Development)

WHAT IS IBRD?

- The International Bank for Reconstruction and Development was established in the year 1944 to help Europe rebuild after World War II. Today, IBRD provides loans and other assistance to middle income countries primarily.
- IBRD belongs to World Bank group. It works closely with the rest of the World Bank Group in order help developing countries reduce poverty, promote economic growth, and ultimately to build prosperity.
- The institution constitutes of/ owned by the governments of its 189 member countries, which are represented by a 25-member board (5 appointed and 20 elected Executive Directors).
- It provides financial resources, knowledge and technical services, and strategic advice to developing countries, including middle income and lower income countries which are credit-worthy.

THE FIVE LARGEST OF IBRD'S SHAREHOLDERS ARE

- The United States of America(with 16.63% of the total voting power),
- Japan (7.19%),
- China (4.64%),

- Germany (4.21%), and
- France and the United Kingdom (with 3.94% each)

FUNCTIONS OF IBRD

- It supports long-term human and social development which private creditors do not finance.
- Provides support in times of crises which preserves borrowers' financial strength, when poor people are most adversely affected.
- IBRD promotes key policy and institutional reforms (such as safety or anti-corruption reforms)
- Facilitates in Creation of a favorable investment climate to catalyze the provision of private capital
- It also facilitates access to financial markets often at more favourable terms than member countries can achieve on their own

SERVICES OFFERED BY IBRD

- The World Bank works with middle income countries simultaneously as clients, shareholders, and global actors. As this association evolves, IBRD provides innovative financial solutions, including financial products (loans, guarantees, and risk management products and services) and knowledge and also advisory services (on a reimbursable basis also) at both the national and subnational levels to members (countries).
- IBRD finances projects across all sectors and provides technical support and expertise at various stages of ongoing projects.
- IBRD's helps countries to build resilience to shocks by facilitating access to products that mitigate the negative impact of currency, interest rate, and commodity price volatility, natural disasters and extreme weather by innovative financial products and services.
- Unlike commercial lending, it's (IBRD's) financing not only supplies borrowing countries with needed funding/financing, but also serves as a vehicle for knowledge transfer and technical assistance globally.
- Advisory services in the areas of public debt and asset management help governments, and development organizations build institutional capacity to protect and expand financial resources of nations.
- It supports government efforts to strengthen not only public finance, but to also cater enhanced investment climate, other policy and institutional actions and address service delivery bottlenecks.

FAQS ON GOLD REFORMS IN THE DEMONETIZATION DRIVE

INTRODUCTION

The recent demonetization drive saw large investments in Gold and accordingly reforms were made on holding gold by individuals. Some of the FAQ on gold reforms are as follows.

WHAT ARE THE RESTRICTIONS MADE ON MAINTAINING GOLD?

- A married woman can keep 500 grams of gold
- A male can keep 100 grams of gold
- An unmarried female can keep 250 grams of gold
- All must pass litmus test or heirloom test conducted by Income Tax department

WHAT IS LITMUS OR HEIRLOOM TEST?

- It is a measure to prove that the jewellery was handed over from the past generation

WHY THE GOLD REFORMS ARE ANNOUNCED NOW?

- As soon as the demonetization was announced, hoarders of black money invested in gold buying a whopping 70 metric tonnes of gold overnight
- Black money is hoarded in the form of gold to the tune of 20000 metric tonnes
- Gold forms the primary source of black money followed by real estate and liquid cash
- The main aim of the gold reforms announced now is to recover the black money
- The effectiveness of the reforms has to be seen after the results are produced

WHY GOLD IS SO SENSITIVE?

- Hoarders maintain gold in biscuit or other smuggled means
- In India, Gold is a customary aspect in marriages with parents doing stri dhanto their daughters
- Gold reforms become very sensitive as it directly impacts women on a mass scale
- Gold has been a part of the Indian society from the historical ages
- Gold is always a status symbol among Indians
- People continue to buy gold on festive occasions and during marriages boosting the demand of gold
- India ranks top among the gold importers in the world

HOW CAN GOLD BOND SCHEMES HELP IN THE CURRENT SITUATION?

- GOI introduced the gold bond schemes to bring in the 20000 metric tonnes of idle yellow metal present in the Indian households
- These are government securities and is the perfect substitute for keeping physical gold in bond format to be redeemed for cash on maturity
- RBI issues the gold bonds on the market value of gold
- Individual can invest from 2 grams to 500 grams annually in gold bonds
- Tax exemption is available

WHY GOLD REFORMS AND SCHEMES HAVE BEEN A FAILURE TILL NOW?

- Earlier the gold schemes of both 1999 and 2005 were a total failure
- Pitfall is the low-interest rate given on gold bonds
- Women will be hesitant to give away their idle jewellery for cash in the gold bonds
- Black money is hoarded mainly as gold biscuits and other forms
- The gold reforms target on jewellery keeping the gold biscuits and other gold forms out of the bracket
- This is the main reason for the failure of the gold reforms
- The current reforms may see a push in the gold bond investments

*99# USSD – TOWARDS A CASHLESS ECONOMY

INTRODUCTION

Unstructured Supplementary Service Data (USSD) (*99#) is a mobile banking service that allows customers to access the financial and non-financial services of the banks.

AGENCIES CONCERNED

National Payments Corporation of India (NPCI) is the nodal agency of USSD

USSD establishes a network between Banks and Telecom Service Providers (TSP)

ABOUT USSD

USSD technology is a GSM standard for transmitting information providing session-based communication in the banking services

Customer has to register their mobile number with their bank

Customer access financial services by dialling *99# from their mobiles registered with their bank accounts

USSD works exclusively on all GSM handsets

USSD links the benefits of the telecommunication network to make financial and banking transactions easier.

USSD FEATURES

No internet is required for its operations

Uses voice based connectivity

Very simple to use

Available to all GSM mobile users through a common code '*99#' across all TSPs

No roaming charges charged in addition to the ordinary service

Works round the clock on all days including holidays

USSD will act as a key financial inclusion measure of GOI

Customer need not install any new apps to avail this service

USSD SERVICES

USSD offers three main types of services to customers including

Financial

Non-Financial and

Value added services

FINANCIAL SERVICES

Financial services include fund transfers in the means of

P2P – Person to Person

P2A – Person to Account

P2U – Person to UID

NON-FINANCIAL SERVICES

Mini Statement

Balance Enquiry

Know MMID

Generate OTP

MPIN

WHAT IS MMID?

MMID is the 7 digit code given by the bank to the user while registering for mobile banking

Value-added Services

Aadhar based money transaction (*99*99#)

HOW TO USE USSD?

Customer has to dial *99# from their mobile

Welcome screen appears

Customer has to enter their bank IFSC first 4 letters or short name of Bank in 3 letters

Various options pop up for the user

The user has to select the appropriate option and complete their transaction

For fund transactions or transfers using MMID and mobile number, both the sender and the receiver must have registered their mobile numbers in their banks

However, the receiver need not have to register their mobile numbers in their banks for receiving money using Aadhar number or account number from the sender

LIMITATIONS

USSD is charged by TSPs from the customers

A maximum rate of Rs. 1.50 per transaction is set by TRAI

This charge will form a major hindrance for common man to switch to USSD

RBI has initially set a restriction of transacting only 5000 rupees per transaction

NPCI must make this USSD totally free of cost to achieve the cashless economy as promised by Prime Minister Mr Modi

CONCLUSION

USSD is a major initiative of NPCI to move towards a cashless economy like the USA

USSD enhances financial inclusion to a great extent

It helps India to move to digital revolution helping in 'Digital India' mission

Moving to a cashless economy will help curb black money, corruption etc

USSD is a positive step forward towards making India, a developed nation

EXCHANGE RATES: THINGS YOU NEED TO KNOW

INTRODUCTION

The exchange rate is the price of a country's currency in terms of another country's currency.

HOW TO CALCULATE EXCHANGE RATE?

- It is calculated by relating the value of one currency to other country currency

- In mathematical terms, Exchange rate = (price of domestic currency)/(price of foreign currency)
- Example: $1 = 65 rupees implies that one has to give 65 rupees to get $1

WHO DETERMINES EXCHANGE RATE?

- After World War II, World Bank and IMF were formed to reconstruct the war-torn world nations
- IMF determined the exchange rate initially with the quota of the developed nations
- Later, UK withdraw from the fixed rate regime and fixed its own currency rate depending on market conditions
- Gradually, countries also started moving to the floating currency regime
- Currently, the central bank of nations have the power to determine the exchange rate by buying and selling currencies in the foreign exchange market

HOW TO DETERMINE EXCHANGE RATE?

- To determine the exchange rate, there are three generally used methods
- Fixed exchange rate
- Floating exchange rate
- Crawling peg exchange rate

FIXED EXCHANGE RATE

- Also called as pegged exchange rate
- Central bank of a nation fixes and maintains the exchange rate
- The domestic price of the currency will generally be set against US dollar or other world currency like Euro, Yen or IMF basket of currencies
- Central bank will sell and buy its own currency from the foreign exchange market against the pegged currency
- RBI has been following the fixed exchange rate till 1991
- Now complete fixed exchange rate regime has come to an end and only a combination of fixed and floating rate are employed in the foreign exchange market

FLOATING EXCHANGE RATE

- Floating exchange rate is determined by demand and supply prevailing in the market
- Rate determined solely by the market
- Exchange rate constantly changes periodically (even on daily basis)
- Also termed as the self-correcting exchange rate
- When the demand for a currency in foreign exchange market becomes low, then its imports become expensive and ultimately its value will decrease
- This will cause heavy demand for goods and services domestically
- This, in turn, results in the creation of more jobs domestically

- Thus an automatic correction is made balancing the demand and supply in the floating currency regime
- The exchange rate changes in global scenario will affect the domestic currency in the floating rate regime
- Currently, this is the widely accepted and adopted currency regime by the world nations

CRAWLING PEG EXCHANGE RATE

- Also known as Dirty Floating rate
- This is a combination of fixed and floating exchange rate
- Government allows the currency to fluctuate freely in a given band determined by the central bank
- Once the currency exceeds the band fixed by central bank, Government intervenes in the foreign exchange market to stabilise the domestic economy

IMPLICATIONS OF EXCHANGE RATE

- Appreciation of exchange rate or rupee appreciation implies rise in exchange rate of rupee
- Depreciation of exchange rate or rupee depreciation implies fall in exchange rate of rupee
- Both appreciation and depreciation of currency occurs as a result of change in supply and demand of the currency in the foreign exchange market
- Depreciation of currency favours exports and makes imports costlier
- Appreciation of currency favours imports and makes exports costlier
- Devaluation of currency is similar to depreciation of currency
- India devalued its currency during the 1991 Balance of Payment crisis
- Recently China devalued its currency Yuan
- RBI has the power to devalue the rupee by selling more rupees and buying dollars from the foreign exchange market
- Similarly, RBI can revalue the rupee by selling dollars and buying rupees
- The activities of devaluation and revaluation of currency are associated with the fixed exchange rate regime

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)- A WORLD BANK INITIATIVE

INTRODUCTION

- The International Development Association (IDA) is an arm of the World Bank, that supports the world's poorest countries. It was established in 1960, IDA aims to reduce poverty by providing loans (credits) and grants for programs that enrich economic growth, reduce inequalities, and improve people's living standards
- IDA complements the World Bank's original lending arm—the International Bank for Reconstruction and Development (IBRD).
- IDA has done 889 projects worth $84.53Billion operating in 10,935 locations across 75 countries(as on 10.11.2016

SOME MILESTONES OF IDA:

- 120,000 Kilometres of roads were constructed, rehabilitated or upgraded (FY2011-2016)
- 64 MILLION People received access to better water services (FY2011-2016)
- 7MILLION Teachers were recruited and/or trained (FY2011-2016)
- Half a BILLION People received essential health services (FY2011-2016)

IDA DONORS MEET:

- Once in three years, global donors meet to replenish IDA resources and review IDA's policy's framework.
- The recent replenishment (IDA17) was finalised in December 2013, which resulted in a $52.1 billion replenishment to finance projects over the 3-year period ending June 30, 2017.
- The next replenishment- IDA 18 is from July 1, 2017, to June 30, 2022.
- The replenishment process typically consists of four formal meetings held over the course of one year.
- In addition to officials from more than 50 donor governments (IDA Deputies), representatives of borrowing member countries are invited to participate to ensure that IDA's policy and financing frameworks are responsive to country's requirements.

FOUR IDA18 REPLENISHMENT MEETINGS WERE SCHEDULED FOR 2016:

- 14 & 15th March 2016, in Paris, France
- 21 to 24th June 2016, in Nay Pyi Taw, Myanmar
- 10 & 11th October 2016, in Washington, D.C.
- 14 & 15th December 2016 – Yogyakarta, Indonesia

SPECIAL DRAWING RIGHTS (SDR): KEY POINTS TO REMEMBER

INTRODUCTION

Special Drawing Rights (SDR) was created in 1969 by IMF as a fixed exchange rate system to support the Bretton Woods agreement.

SDR CALCULATION

SDR is calculated based on the basket of five international currencies
The five currencies include

- US Dollar
- Euro
- Yen
- Pound and
- Yuan

ROLE OF SDR

- SDR had a dominant role in the world economy and trade during the fixed rate regime
- SDR role diminished after the collapse of fixed rate regime
- The floating rate regime saw huge accumulations of international currency reserves
- In 2009, SDR regained popularity by allocating 182.6 billion SDR to global economy amidst the global economic crisis
- IMF helped world nations to get out of the financial crisis through SDR allocation
- Now, SDR has become a dominant force in international economic scenario

VALUE OF SDR

- SDR is an international reserve asset
- SDR is not a currency
- It is also not a claim on the IMF
- SDR exchanged for freely usable currencies
- Allocated to members of IMF from time to time
- SDR is a potential claim on the IMF member countries
- 204 billion SDRs is equivalent to $285 billion in value
- Valuation and weight of the IMF currencies basket done once in 5 years
- Next valuation to be done on September 30, 2021

SDR WEIGHTAGE

Following is the weight assigned to the basket of five currencies

US Dollar – 41.73 %

- Euro – 30.93 %
- Yuan – 10.92 %

- Yen – 8.33 %
- Pound Sterling – 8.09 %

CRITERIA TO GET ADDED TO SDR

- SDR basket of currencies determined by the IMF Executive board
- Export criteria – The exports of the country must have the largest value in five years
- Freely usable criteria – Widely transacted in the international exchange markets
- Earlier in 1999, Euro was included in the SDR basket replacing Franc
- In 2016, Chinese Yuan was included in the SDR basket

SDR INTEREST RATE

- Interest rate is determined weekly by IMF
- Interest rate charged on IMF loans and SDR allocations
- Interest rate is given to members of IMF based on their SDR holdings
- Interest rate determined on short-term debt instrument basis prevailing in the money market of SDR currency basket

CONCLUSION

- SDR of IMF is going to play a crucial role in the global economy
- SDR allocations to member countries of IMF is focused on recovering from an economic turmoil
- SDR basket of currencies are considered as a global standard of currency exchange
- The currencies included in the IMF SDR currency basket will play a dominant role in the world economy
- The five nations in SDR are considered to be politically important and dominant in the international affairs
- The recent inclusion of Chinese Yuan is considered a political victory for China over the USA
- World trade is to be dominated by the SDR basket of currencies with a great boost in international relations

AADHAAR ENABLED PAYMENT SYSTEM (AEPS): AT A GLANCE

INTRODUCTION:

Aadhaar Enabled Payment System is a major initiative taken by Government of India to initiate a simple, secure user friendly mode of payment solution by Micro-ATM. It also empower Cashless Economy in the country in future. The basic meaning of AEPS is a customer can pay through Aadhaar Card, i.e. Empowering Cashless transactions in the country. Through Aadhaar Card a customer can access his/her bank account. However, these days Government of India is also trying to empower bank customers to use Aadhaar as his/her main identity to access his/her respective Aadhaar enbled bank account and perform various transactions like balance enquiry, cash deposit, cash withdrawal, Pay through Aadhaar, etc.

BASIC BANKING TRANSACTIONS THROUGH AADHAAR CARD:

- Aadhaar to Aadhaar fund transfer
- Cash withdrawal
- Cash Deposit
- Balance Enquiry

DURING ANY BASIC TRANSACTIONS A CUSTOMER'S NEEDS:

- IIN (Issuer Identification Number) – It is the Identification number to recognise the Bank to which the customer's banks account is associated.
- Aadhaar Card Number – It is a 12 digit unique identification number provided by the Gov. of India at the time of enrolment.
- Finger Print – A customers need his/her finger print which was captured during their enrolment.

MAJOR ROLE PLAYED BY NPCI IN AEPS:

- NPCI (National Payment Corporation of India): It was founded in 2008, Headquarters at Mumbai, It is the umbrella organisation for all retail payment systems in India, which aims to allow all Indian citizens to have unrestricted access to e-payment services.
- NPCI conducts all government benefits/subsidies to beneficiary account in a secured and transparent manner.
- It also provides a unique platform to use safe and secure payment interface to avail those benefits by using their finger prints.
- NPCI is directly in touch with Unique Identification Authority of India to provide Aadhaar Enabled Payment Service to reduce the forgery in Indian Financial System.

BASIC LAYOUT/ HOW IT WORKS:

Let us understand by using flow chart. I Hope it will clear everything. But here I will describe the following steps.

- Step 1 – Customer swaps his/her cards at Mini ATM.

- Step 2 – Mini ATM fetch data from Customers Bank
- Step 3 – Customers bank get confirmation from NPCI.
- Step 4 – NPCI get confirmations from UIDAI.
- Step 5 – UIDAI approve confirmed details about customer Account to NPCI.
- Step 6 – Again after getting confirmation from UIDAI , NPCI again asks Creditors details to his/her banks.
- Step 7- Creditors Bank Approve details of creditors to NPCI
- Step 8- NPCI now confirms to SBI
- Step 9 – SBI deduct the amount which customers want to pay/credit.
- Step 10 – Now customers get confirmations bill from Mini ATM.

BENEFITS OF AEPS:

- Aadhaar enabled Payment platform is a very important tools to rule out all the fake data in the system concerning National Social Assistance Programme (NSAP).
- The basic theme of Direct Benefit Transfer is to ensure that the beneficiary gets their benefit through Aadhaar Enabled Payment System (AEPS) which is an accountable, cost-effective and transparent.

MCLR: MARGINAL COST OF FUNDS BASED LENDING RATE- EXPLAINED

INTRODUCTION

RBI recently made its move from the historic Benchmark Prime Lending Rate (BPLR) to Marginal Cost of Funds Based Lending Rate (MCLR) in April 2016 as the current rate setting method for lending money by commercial banks

NEED FOR MCLR

- RBI changes the repo rates and other rates periodically but the banks are slow in changing their interest rates according to RBI rates
- Most commercial banks do not change their lending rates to customers
- Ultimately, bank customers does not receive the benefits aimed by RBI
- Till now, RBI was verbally instructing the commercial banks to change their lending rates with every Repo rate change
- The real benefit of repo rate change will be realised only when the customer gets benefited
- With the New MCLR, there will be quick change in the lending rate and the commercial banks will have to oblige with RBI at a fast pace as repo rate is included in MCLR calculation

HOW MCLR IS CALCULATED?

- RBI has instructed all the commercial banks to calculate their marginal cost
- Novel feature of MCLR is the inclusion of repo rate along with marginal cost
- Commercial banks now must include the marginal cost components along with the repo rate to arrive at the MCLR lending rate

WHAT ARE THE MARGINAL COST COMPONENTS?

- Marginal cost weightage in MCLR – 92 %, return on net worth – 8%
- RBI has included the following main components in marginal cost
- Return on net worth (capital adequacy norms)
- Repo rate (short term borrowing rate) and long term borrowing rate
- Interest rate given by banks to various deposits including
- Savings deposit
- Term deposit
- Current deposit
- Foreign currency deposit

WHAT ARE OTHER COMPONENTS OF MCLR?

- CRR negative carry charged on customers
- RBI does not pay any interest to banks for CRR maintained by them and hence banks charge interest to customers for this idle money in RBI
- Tenor premium of charging higher interest rates on long-term loans
- Exclusion of factor minimum rate of return under MCLR
- Overall, MCLR is mainly determined by the marginal cost and the deposit rate

BENEFITS OF MCLR

- MCLR revised on monthly basis benefiting bank customers especially borrowers
- Banks to compete with commercial paper market
- Reduces borrowing cost for companies
- Indian banking industry moves towards international standards

PITFALLS

- MCLR rule exempted for loans given to retired employees, existing employees, government schemes etc
- Banks will be reluctant to change to MCLR rule due to cut in interest rates as currently, it is up to the customer to exercise their loans under MCLR as an option

CONCLUSION

- Bank customers will quickly get the benefit of the repo rate changes from their respective banks
- Banks also get benefited to compete with commercial paper market

- Companies and borrowers will get benefited with the low-interest rates for short term loans and reflection on repo on lending rates
- MCLR has to be implemented by RBI with a strong monitoring system to check whether banks change their lending rates according to the repo rate cuts
- The ultimate success of MCLR lies in the end user getting benefited
- Lending rates will see quick change in MCLR
- The entire economy of India will get a boost with increase in rate transparency as a result of MCLR - A change in repo by RBI reflects on the loans borrowed by individuals from banks
- Overall, this MCLR regime is one of the innovative measures of RBI to improve Indian banking system to global standards

LINE OF CREDIT GUIDELINES BY IDEAS: EXPLAINED

INTRODUCTION

Indian Development and Economic Assistance Scheme (IDEAS) was given approval by the cabinet committee on Economic affairs chaired by Prime Minister Modi.

ABOUT IDEAS

- IDEAS is used by GOI to extend Line of Credit (LoC) to African nations, neighbours and other developing nations
- Earlier Department of Economic Affairs was held responsible for LoC till 2010
- GOI used to sign deed of guarantee with the recipient nations of LoC
- This deed serves as the guarantee against any default against principal or interest by the borrowing nations
- Now new guidelines have made Line of Credit to be processed through IDEAS

AGENCIES INVOLVED IN IDEAS

- Department of Economic Affairs is the implementation agency
- Ministry of Finance is the nodal agency
- EXIM bank is the lending agency
- Any PSU Bank or lending agency authorised by Ministry of Finance can extend Line of Credit

COUNTRIES COVERED UNDER LOC

- Low-income countries classified according to IMF

- Lower Middle-Income countries with no minimum binding concession requirement
- Other developing nations
- Detailed classification of low and low-middle income nations available under EXIM bank annexure

TERMS OF CREDIT

- The terms of credit vary across three categories of low income, low middle income and other developing nations
- The maturity period of the loan extended by LoC through IDEAS is 25 years maximum
- The maximum interest rate charged by EXIM Bank is 1.75%
- A maximum grant of 37.48 % is given to the borrowing nation by GOI
- A moratorium of 5 years
- Elements of credit are calculated by EXIM bank according to IMF formula
- GOI is the ultimate authority in India to revise the terms from time to time for LoC extended through IDEAS
- Countries are selected through competitive bidding based on their proposals
- Tenor of Infrastructure projects worth $200 million or more and strategic important projects worth $100 million or more are extended by 5 year

BENEFITS OF IDEAS TO BORROWING NATION

- Low interest rate to the tune of 1.5 % and a maximum of only 1.75 %
- 100 % finance from GOI
- Exemption from duties and taxes
- Administrative charges at the lowest including commitment and management fee of 0.5 % per annum
- Friendly relations with India

BENEFITS TO INDIA

- India will earn good will among world nations helping low-income nations especially the African nations
- IMF has lauded the real and sincere efforts of India in development of African nations
- Establish trade relations with world nations
- The recently inaugurated Friendship Dam in Saudi Arabia is one such example
- India will get the support of the borrowing nations in the international scenario while voting on strategically important decisions in UN and other international organizations
- Mongolia, African Nations like South Africa, Ghana, Zimbabwe, Nigeria, Congo, Namibia and other developing nations are covered under IDEAS scheme of GOI
- Indian officials in the high level including Prime minister, President and Vice President have visited these countries to extend LoC through IDEAS

- India can establish diplomatic ties with these borrowing nations and strengthen herself
- Bilateral ties and many other agreements are signed with the borrowing nations

CONCLUSION

- IDEAS scheme of GOI and EXIM Bank promote the friendship of India with the world nations
- The massive tours made by Prime Minister Modi to different nations are in line with the IDEAS scheme and promoting India as a manufacturing hub in the international scenario
- Overall, IDEAS is a positive step of India growing globally establishing friendship with world nations through positive means

KISAN CREDIT CARDS: ALL YOU NEED TO KNOW

WHAT IS A KISAN CREDIT CARD?

- Kisan Credit Card is offered to farmers in India in order to enable them to access affordable credit. Reserve Bank of India (RBI), along with National Bank for Agriculture and Rural Development (NABARD) initiated the conception of Kisan Credit Cards (KCC) in 1998-99, in order to assist agriculturists to have easily accessible cash credit facilities.
- Kisan Credit Card facility was proposed by the Finance Minister Shri Yashwant Sinha in the FY1998-99 Budget, with the objective of providing accessible short-term credit to farmers to meet their immediate credit requirements during the crop seasons.
- Reserve Bank of India (RBI), with National Bank for Agriculture and Rural Development (NABARD), shouldered the responsibility and initiated the Kisan Credit Cards in India.

WHY KISAN CREDIT CARDS?

- To provide timely credit facility to support agriculture and allied activities.
- To eliminate unregulated credit by money lenders.
- To boost nation's Agribusiness environment and productivity to international standards.

HOW DO KISAN CREDIT CARDS WORK?

- Based on the land holdings and the income earned from the cultivation in it, banks issue farmers Kisan Credit Cards.
- The card holder/ farmer should have a good credit history to be eligible for the KCC.
- The Card holders get facilities like passbook, particulars of land holding, address, validity period, credit limit, etc., which acts as the customer's unique identification and as a system for tracking transactions.
- Kisan credit cards can be used at outlets, as well as to withdraw cash to make the necessary purchases for agriculture.

INTEREST AND OTHER CHARGES ON KISAN CREDIT CARDS:

- Kisan Credit Card interest rates, as well as credit limits, varies from bank to bank. Generally, the applicable interest rate per annum for Kisan Credit Cards is 9%, for a maximum Rs. 3 Lakh as a credit limit.
- The Central government subsidies on interest rate applicable to the financing institutions, provided that the cardholder's credit history is good.
- The additional interest subsidy of 2% is provided and if the customer has a soundtrack record for 3 years, She/he is eligible for an increased credit limit.
- Other charges and fees involved in taking credit under KCC scheme are insurance premium, processing fees, charges on land mortgage deed, etc.

BENEFITS OF KISAN CREDIT CARDS:

- Time and cost-efficient scheme.
- Comparatively lower interest rates.
- Single term loan for all agricultural requirements.
- Flexible repayment options.
- Assists in the purchase of fertilisers, seeds, availing cash discounts from merchants/ dealers, etc.
- Funds withdrawal from any of the Bank's branches, as per the sole discretion of the bank is possible.
- Income from agriculture and allied sources determines the maximum credit limit.
- Repayment of the credit can be made once the harvest season in over.
- An elaborate documentation process is not required or continuous appraisals under the Kisan Credit Card Scheme.
- Cash withdrawal using the Kisan credit card requires very little paperwork, it is simple and hassle-free for both (the card holder and bank).
- Some other advantages include no transaction costs, lesser risks in loan recovery, etc.

TOP BANKS PROVIDING KISAN CREDIT CARD IN INDIA:

NABARD:

NABARD offers term loans and easily accessible credit to farmers to meet their basic agricultural expenses.

STATE BANK OF INDIA:

Short-term credit is offered to farmers, for the purpose of meeting the credit requirements for production, expenses related to agriculture allied activities, as well as contingency reserves and expenses.

BANK OF INDIA:

The Bank provides financial support to farmers in order to meet the expenses involved in cultivation and other Agri-allied activities, at a comparatively lower cost.

IDBI

IDBI offers Kisan Credit Cards to farmers along with additional features like crop loans, investment credit and working capital for meeting agricultural expenses.

NATIONAL PAYMENTS CORPORATION OF INDIA (NPCI) AND KCC

RuPay Kisan credit cards are to be offered by National Payments Corporation of India (NPCI), as a part of its domestic card scheme for multilateral payments in RuPay platform. Under PMJDY(Jan Dhan Yojana), debit cards are offered in RUPAY platform.

INSURANCE UNDER KISAN CREDIT CARD SCHEME:

A personal accident insurance cover for farmers who have a Kisan Credit Card, as soon as the customer avails the scheme is provided. The individual gets a personal accident cover of Rs. 50,000 in the event of deceased(death), and Rs. 25,000 in the case of disability.
In order to avail this insurance cover, the customer should not be above the age of 70 years at the time of availing the Kisan Credit Card

FINANCIAL INCLUSION FUND (FIF) BY RBI- KEY POINTS EXPLAINED

INTRODUCTION

Financial Inclusion Fund (FIF) was formed by merging FIF and Financial Inclusion Technology Fund (FITF) and established by RBI

BACKGROUND

- FIF and FITF were established in the year 2007 – 2008 over a period of five years
- Initial corpus was 500 crore
- Contribution of GOI, RBI and NABARD was in the ration 40:40:20
- RBI framed guidelines for both these funds
- RBI merged both funds into a single entity named FIF and came into effect in 2016

NODAL AGENCIES

- RBI established FIF with a corpus of 2000 crore
- NABARD maintains the funds of FIF
- GOI administers the FIF

NEED FOR FIF

- To create awareness among people about financial inclusion
- To set up financial literary centres at every block level
- To cater to the services of Jan Dhan Yojana account holders
- To set up standard kiosks to create financial literacy in gram panchayats
- The Kiosks will be highly interactive to educate the masses
- NABARD support to establish skill development centres (SETI)
- SETI aimed at imparting skills necessary for generating income
- To provide linkages in a forward manner and establish marketing activities
- To improve network connectivity by sharing government projects pertaining infrastructure and telecommunication development

OBJECTIVES OF FIF

- To enhance financial inclusion on a large scale
- To support promotional and development activities
- Increased technological absorption capacity
- To provide ICT solutions
- To increase stakeholder capacity building
- FIF funding is done through ICT – BC model (Information and Communication Technology – Business Correspondent Model)
- To support banks investment in purview of business expansion in future
- To address the various issues pertaining to financial inclusion including training, skill development, creating awareness and lack of infrastructure and ICT etc

ELIGIBLE INSTITUTIONS TO GET FIF

- Self Help Groups (SHG)

- NGO
- Cooperatives
- Farmer clubs
- Panchayats
- Village knowledge centres
- Agricultural societies
- IT enabled rural entities
- Rural multipurpose Kiosks etc

OTHER GUIDELINES

- Contribution to FIF in excess of 0.5 percent from STCRC and RIDF deposits
- NABARD to maintain all the fund sources and FIF
- FITF funds transferred to FIF
- RBI decides operation of FIF for a fixed period of years
- Union government in consultation with other stakeholders decides important amendments on FIF
- FIF will be included as a part of National E-Governance plan

EXCEPTIONS

- FIF not to be used for normal banking transactions
- FIF not to be used for normal business transactions

CONCLUSION

- FIF seems to a positive step forward to enhance financial inclusion
- This is yet another measure of GOI to move towards a digital lifestyle and a cashless economy
- Financial inclusion and its benefits will be known to the common people through training programs conducted through FIF
- This will help majority of the Indians to come into the formal banking sector
- Subsidies will reach the beneficiaries directly in the bank accounts
- FIF is a positive step of RBI, GOI and NABARD to educate the rural masses and bring them under financial inclusion

SOVEREIGN GOLD BONDS SCHEME: ALL YOU NEED TO KNOW

INTRODUCTION

Sovereign Gold Bonds scheme was launched in the budget session 2016 and approved by the cabinet to reduce the demand for physical gold

BACKGROUND

- India is one of the largest importers of Gold in the world
- The demand for Gold in India is rising rapidly

- Imports of India see a hike with Gold as the major contributor
- This affects the balance of trade figures for India
- GOI needed to restrict the Gold imports to have a positive balance of trade
- This created the need for Gold bonds scheme
- Gold Bonds are seen as an alternative to purchase gold metal

ABOUT GOLD BONDS

- Gold Bonds are issued by RBI with a fixed interest rate
- Ministry of Finance is the concerned ministry
- RBI in consultation with Finance ministry determines the issuing amount
- Risk of gold price changes borne by the Gold Reserve Fund created by RBI
- GOI aims to shift 300 tonnes of Gold purchased annually as bars and coins into the Gold Bond Scheme
- This Gold Bond scheme is expected to help GOI sustain the current account deficit

HOW DOES GOLD BONDS WORK?

- Gold Bonds are sold in banks
- Investor can walk in buy the gold bonds from the banks preferably where they have their Saving Bank accounts
- Gold Bonds are treated in a similar manner as a Bank Fixed Deposit
- The interest rates are fixed at 1 to 2 percent
- The tenure of the bond is from 5 to 7 years
- Value of the bond is determined by the gold price movements in the market
- Gold Bonds have an attractive feature
- The investor will get the value of bond according to the prevailing gold prices in the market at the time of redemption
- In this manner, the investor will get the same benefit of purchasing the metal gold without actually purchasing it
- In this manner, GOI can restrict Gold imports to a certain extent
- Returns on gold bonds can be positive or negative
- All risks of the gold bond are covered under the Gold Reserve Fund

FEATURES OF GOLD BOND

- Bonds issued by RBI with a sovereign guarantee
- Bonds can be easily traded and sold on exchanges
- Gold Reserve Fund will be created by GOI through RBI
- On gold bond maturity, redemption will be made in Rupee only
- Price of gold bond will vary with the market prices of gold
- Investor needs to be aware of this price volatility
- Gold bond deposits will not be hedged

- RBI has fixed tenor of the bond from 5 to 7 years to protect the investors from medium term volatility

LIMITATIONS

- NRI cannot buy gold bonds issued by RBI
- Common Indian buys gold for marriage and other occasions as a Jewellery and not for investment purpose
- The attitude of a common Indian towards gold is not of investor nature
- This attitude will see a Luke warm response to the Gold bonds scheme
- Also, the interest rate offered is very low in the tune of 1% to 2%

CONCLUSION

- The effectiveness of the scheme will depend on the investor attitude towards the gold bond scheme
- GOI must take steps to change the mindset of Indians from viewing gold as a jewellery or a status symbol to an investment avenue
- This transition in behaviour of Indians will take time
- Overall, Gold bond scheme is a welcome measure to cut imports on gold purchase

BETTER THAN CASH ALLIANCE NETWORK: EXPLAINED

INTRODUCTION

The move towards cashless economy in India has its roots from Jan Dhan Yojana triggered through UN's Better Than Cash Alliance Network

BACKGROUND

- Better than Cash Alliance Network is an initiative of United Nations Capital Development Fund (UNCDF)
- UNCDF is the secretariat of the alliance based at United Nations
- It is a partnership of international agencies, companies and countries
- Alliance is funded by Bill and Melinda Gates foundation, Master card, Citi foundation, Visa, Omidyar network and Ford foundation

AIMS AND BENEFITS

- Aim is to help countries to make a transition to electronic or digital payments
- Alliance promotes inclusive growth

- It reduces poverty by helping nations to benefit poor directly
- The alliance promotes financial inclusion
- It enhances digital finance
- Reduce costs for countries
- Women empowerment
- Increases transparency levels

IMPLICATIONS FOR INDIA

- Better than Cash Alliance fueled the world's largest financial inclusion system of Jan Dhan Yojana in India
- Helped open about 180 million accounts in a year accumulating to $3 billion in deposits in India
- Brought nearly 300 million Indian citizens under formal banking sector in 3 years
- The financial inclusion along with Aadhar identification will help in identification of beneficiaries to provide subsidies
- The LPG subsidy is a major success in India through DBT saving $2billion to GOI annually
- India can enhance its research and technology by joining in the alliance
- India gained a policy partner through the alliance
- India is a great case study and success story of Better than cash alliance

CONCLUSION

- India has benefited a lot from the alliance in the recent demonetization scenario
- GOI has partnered with the alliance to make a change to cashless economy
- It has improved transparency levels to a great extent by bringing most of the financial transactions under formal banking sector
- Alliance has given India the required infrastructure and technical expertise to change to a cashless economy
- The alliance has helped India develop a digital economy
- Creating awareness and changing the attitude of the Indians from traditional to modern methods is a big challenge
- India is progressing to a cashless economy despite facing a lot of hurdles and challenges
- UN Better than cash alliance is an aid to India's "Digital India" Mission
- Overall, India is changing with the partnership of the UN Better than cash alliance

REVERSE MORTGAGE LOAN: EXPLAINED WITH KEY POINTS

INTRODUCTION

A reverse mortgage is a special kind of home loan for senior citizens who are above the age of 60. This type of loan does not need any payments on a monthly basis but still the people who opt for such a loan have to take care of property taxes and homeowner's insurance. Reverse mortgage loans help senior citizens to defer or postpone payment of the home loan till their death or when they sell or
move out just because they have accessed the home equity that has been built up in their houses. The interest which builds up is added to the loan balance at the end of each month since there are no mortgage payments needed on such types of loans. The loan balance rises gradually and can even grow to exceed the value of the home mainly at the time when the value of the house is declining or if the person involved keeps on living in the home for more than the expected time period. However, the borrower is generally not required to repay any additional loan balance in excess of the value of the home. The reverse mortgage is also known as a Home Equity Conversion Mortgage (HECM).

FEATURES OF REVERSE MORTGAGE LOANS

- The scheme of reverse mortgage has been brought about in order to provide help of senior citizens who own a house but have inadequate income to meet their needs
- A homeowner who is above 60 years of age is eligible for the reverse mortgage loan. It allows him to turn the equity in his home into one lump sum or into payments which will be done periodically as agreed upon by the borrower and the banker.
- No repayment is needed as long as the borrower lives and he or she should take responsibility to settle payments of all taxes relating to the house and maintain the property as his primary residence.
- The loan amount to be provided depends on several factors:
  (i) Borrower's age
  (ii) Value of the property
  (iii) Current interest rates
  (iv) The specific plan chosen

RBI GUIDELINES

- Maximum loan amount would be up to 60% of the value of the residential property.
- Maximum tenure of the mortgage is 15 years and the minimum is 10 years.
- Monthly, quarterly, annual or lump sum loan payment options
- Property revaluation to be undertaken by the lender once every 5 years.
- If at such time, the valuation has increased, borrowers have the option of increasing the quantum of the loan. In such a case, they are given the incremental amount in lump-sum.
- Amount received through reverse mortgage is a loan and not income. Hence it will not attract any tax.
- Reverse mortgage interest rates could be either fixed or floating. The rate would be determined by the prevailing market interest rates.

ELIGIBILITY CRITERIA

- House owners above the age of 60 years. If spouse is a co-applicant, then she should be above 58 years.
- Owners of a self-acquired, self-occupied residential house or flat, located in India. The titles should be clear, indicating the prospective borrower's ownership of the property.
- Property should be free from any encumbrances.
- The life of the property should be of minimum 20 years.
- Property should be the permanent primary residence of the individuals.

HIGHLIGHTS

- Borrowers could prepay the loan at any time during loan tenor at no penalty or charges.
- The borrower can live in the house even if he outlives the tenure, but the lender may cease the monthly payment.
- Settlement of the loan is done only after the borrower's death.
- If one of the spouses dies, the other can still continue living in the house.
- After the death of both, the settlement of the loan takes place.
- The loan could be foreclosed by the lender if
- borrower has not been living in the house
- borrower has failed to pay property taxes and to ensure the home
- borrower is bankrupt
- mortgaged property is donated or abandoned by the borrower.
- If the borrower makes changes in the residential property, that could affect the security of the loan for the lender. This could be renting out part or entire house, addition of a new owner to the house's title or creating further encumbrance on the property.
- If the government under statutory provisions, seeks to acquire or condemn the residential property for health or safety reasons.

DRAWBACKS

- Lengthy documentation procedures
- Fixed monthly amounts

CONCLUSION

According to the scheme formulated by National Housing Bank (NHB), 15 years is the maximum period of the loan wherein the property's residual life should be 20 years or more. In case the borrower lives for a period longer than 15 years, no periodic payments will be made by lender. However the one who has opted for the loan can continue to occupy the house as long as he or she wants.

TRANSUNION CIBIL LIMITED: EVERYTHING YOU MUST KNOW

INTRODUCTION

- "CIBIL" stands for 'Credit Information Bureau India Limited'.
- "CIBIL" now known as 'TransUnion CIBIL Limited'.

It is India's first Credit Information Company(CIC).

It was founded in August 2000.
Basically, CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards.
CIBIL was formed to play a crucial role in India's financial system, helping loan providers manage their business.

FUNCTIONING OF CIBIL

- First, On a monthly basis records are submitted to CIBIL by member banks and credit institutions.
- Then, these informations are used to create Credit Information Reports(CIR) and Credit scores.
- Last, Records are provided to credit institutions in order to help evaluate and approve loan applications.

HISTORY

- Previously, when a person wanted loan from any bank or financial institution, Then Banks had no information regarding
- his/her loan re-payment capability.
- Due to this, Banks and financial institutions faced many losses because Borrowers were unable to pay their loan.
- In 2000, GOI decided to form an institution which keep records of every individual's credit score and maintains it and Provide it to its members.
- In 2004, Credit bureau services are launched in India (Consumer Bureau).
- In 2006, Commercial bureau operations commenced.
- In 2007, CIBIL Score, India's first generic risk scoring model for banks and financial institutions, was introduced.
- In 2010, Two firsts for the credit industry in India with the launch of:

(a) CIBIL Detect: India's first repository for information on high-risk activity.

(b) CIBIL Mortgage Check: The first centralised database on mortgages in India.

- In 2011, CIBIL TransUnion Score is made available to individual consumers.
- In 2016, TransUnion acquires a 82% stake in CIBIL to become TransUnion CIBIL, India's leading credit information company.

DIVISIONS OF CIBIL

CIBIL houses credit on over 220 million trades across individuals and businesses, organised into two divisions:

1. Consumer Bureau - The Consumer Bureau was launched in 2004 with 4 million records,

and now maintains more than 260 million records.
2. Commercial Bureau and MFI Bureau - The Commercial Bureau was launched in 2006 with 0.7 million records,
and now maintains more than 12 million records.

SHAREHOLDERS

- TransUnion International Inc.(55%), SBI(6.1%), ICICI(6%), Indian Overseas Bank(5%), The Hong Kong & Shanghai Banking Corp. Ltd.(5%),
- Union Bank of India(5%), BOI(5%), BOB(5%), India Alternatives Private Equity Fund(2.9%), India Infoline Finance Limited(1%).

QUICK FACTS

Name of organisation	TransUnion CIBIL
Founded	August, 2000
HeadQuarter	Mumbai, India
MD and CEO	Mr. Satish Pillai
Chairman	Mr. M.V Nair
Total members	900 members
Website	www.cibil.com

PRIMARY SECURITY VS COLLATERAL SECURITY

WHAT IS SECURITY?

One of the major functions of a bank is to provide credit to the customers for various purposes such as home, vehicle etc and a bank's strength and solvency depends on the quality of its loans and advances. Security resembles an insurance against emergency. It provides a protection to the lender in case of loan default as the lender could acquire the security if the repayment is not done by the borrower.

WHAT ARE SECURED AND UNSECURED LOANS?

An arrangement in which a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point in time is called a loan. A loan can be broadly classified as a secured and unsecured loan.

SECURED LOANS

Secured Loans are those which are protected by some sort of asset or collateral, for example – mortgage, auto loan, construction loan etc. If the lender is unable to repay the loan, the borrower has the right to sell off the asset to recover the loan.

UNSECURED LOAN

Unsecured loans include things like credit card purchases, education loan where borrower don't have to provide any physical item or valuable assets as security for the loan. If a person is not able to repay this type of loan it leads to a bad credit history which creates problems in future when he tries to get a loan from other lenders or the lender may appoint a collection agency which will use all its possible tools to recover the amount.

Basis for comparison	Secured loan	Unsecured loan
Asset	Compulsory	Not compulsory
Basis	Collateral	Creditworthiness
Risk of loss	Very less	High
Tenure	Long period	Short period
Borrowing limit	High	Less
Rate of interest	Low	High

WHAT IS THE IMPORTANCE OF ASSET/COLLATERAL?

For lender: It reduces the risk associated with the loan default as in the case of insolvency of the borrower the lender could sell off his asset to compensate the loss occurred. Moreover, the borrower will make payments if he doesn't want to lose his pledged security.

For borrower: Secured loan has a low rate of interest and give more time to repay the loan so a borrower with low income can easily afford it. Secondly, if a borrower has bad credit or limited income, most of the financial institutions are reluctant in providing a loan but if he pledges collateral, the lender may be more willing to approve his application.

TYPES OF SECURITY

There are two types of security

PRIMARY SECURITY

When an asset acquired by the borrower under a loan is offered to the lender as security for the financed amount then that asset is called Primary Security. In simple terms, it is the thing that is being financed.
Example: A person takes a housing loan of Rs 50 lakh from the bank and purchases a residential loan. That flat will be mortgaged to the bank as primary security.

COLLATERAL SECURITY

If the bank or financial institution feels that the primary security is not enough to cover the risk associated with the loan it asks for an additional security along with primary security which is called Collateral Security. It guarantees a borrower's performance on a debt obligation. It can also be issued by a third party or an intermediary.
Example: A person takes a loan of Rs 2 crore for the types of machinery. So to secure itself in the case of default by the borrower it asks for mortgaging residential flat or hypothecating jewellery, which will be termed as collateral security.
RBI has advised the banks not to obtain any collateral security in case of all priority sector advances up to Rs. 25000. In other cases, it is left to the mutual agreement of the borrower with the bank.

WHEN COLLATERAL SECURITY IS REQUIRED?

Collateral security is not required in housing loan, car loan, personal loan etc. It is required by lenders in corporate loans like cash credit because in cash credit primary security such as stock and book debts can be sold any time by the borrower so an additional security in shape of immovable property or some other assets are taken to secure loan.

WHAT ARE COLLATERAL FREE LOANS?

Loans that are disbursed without collateral or security, which limit the lender's exposure to risk, are called collateral free loans. This facility is provided under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), where micro and small enterprises can be extended loan upto Rs. 1 crore without security. This scheme was launched to solve the problem of lack of funding that these enterprises face as well as to boost their development.

ADVANTAGES

- No collateral or third party guarantee is required
- The subsidised rate of interest.
- Flexible repayment tenures up to 5 years.
- No track record required.
- Quick and hassle free processing of applications.
- Letter of credit/bill discounting up to 180 days.

Similarly, MUDRA (Micro Units Development and Refinance Agency) bank provide collateral-free financial aid up to Rs. 10 lakhs to sole proprietors or entrepreneurs carrying on Small and Medium enterprises.

PREPAID PAYMENT INSTRUMENTS - ALL YOU NEED TO KNOW

WHAT ARE PREPAID PAYMENT INSTRUMENTS?

Prepaid payment instruments are those which facilitate purchase of goods and services against the value stored on such instruments. Value stored on them is paid by the holder using a medium (cash, debit card, credit card etc).
These are generally issued in the form of smart cards, mobile wallets, paper vouchers, internet accounts/wallets.

CLASSIFICATION OF PPIS

PPIs are usually classified into 5 categories as follows:

1. Closed System Payment Instruments
They are usually **issued by businesses/organizations** for buying their own products or services only. These instruments do not permit cash withdrawal.

- E.g. - Delhi Metro Prepaid card - these can be **used for their respective establishments** only.

2. Semi-Closed System Payment Instruments

- These are redeemable at a group of **clearly identified establishments or stores** who enter into a contract with the issuer to accept that as a payment instrument.
- Do not permit cash withdrawal.

- E.g. - Sodexo cards are redeemable at designated stores only.

3. Semi-Open System Payment Instruments

- These payment instruments can be used at **any card accepting point of sale terminals** for purchase of goods and services.
- Do not permit cash withdrawals.
- E.g. - Gift cards

4. Open System Payment Instruments

- They can be used for purchasing goods and services and provide the **option of cash withdrawal** as well from ATMs.
- E.g. Debit cards, Credit cards.

5. Mobile Prepaid Instruments

- The value of talk time issued by mobile service provider can also be used to avail other '**value added services'** from them. E.g. You can use 'Airtel Money' balance to avail caller tune benefits or other packs from Airtel.

WHO CAN ISSUE THEM?

Only those entities who are incorporated in India, have a **minimum paid up capital of Rs. 5 crore** and minimum positive net worth of **Rs 1 crore** at all times are permitted to issue such instruments.They should also be in compliance with capital adequacy requirements of RBI from time to time.

WHERE THE MONEY COLLECTED CAN BE USED?

- For PPIs issued by **SCBs and NBFCs**, outstanding balances are a part of net time and demand liabilities for purpose of maintenance of reserve requirements.
- For PPIs issued by **other entities**, outstanding balances are to be maintained in an **escrow account (non-interest bearing)** account with any SCB.
- Entities who have been into business for **>1 year** & whose accounts have been duly audited for a full accounting year can keep their these funds in an interest bearing account. But no loan can be given against such interest bearing deposit.

VALIDITY

All PPIs issued in the country shall have a **minimum validity period of 6 months** from date of issuance or activation.

RBI'S MOVE AFTER DEMONETIZATION

RBI in Nov, 2016 doubled the limit of prepaid payment instruments limit to **Rs 20,000** from earlier limit of Rs 10,000 to facilitate digital transactions. Balance in such PPIs can not exceed Rs 20,000 at one point of time.

DEBT CONSOLIDATION: ALL YOU NEED TO KNOW

INTRODUCTION

The term "Consolidate" means in general terms that 'To bring together (separate parts) into a single or unified whole.

Debt Consolidation means Combining several unsecured debts — credit cards, medical bills, personal loans etc. — into one debt bill and paying all of them with a single loan.

Debt consolidation is nothing more than a "con" because you think you have done something about the debt problem but debt is still there.

Let us take an example to understand debt consolidation. Let's say you have Rs60,000 in unsecured debt, including a two-year loan for Rs40,000 at 14%, and a four-year loan for Rs20,000 at 13%. Your monthly payment on the Rs40,000 loan is Rs1517 and Rs1583 on the Rs20,000 loan, for a total payment of Rs3,100 per month. The debt consolidation company tells you they have been able to lower your payment to Rs2640 per month and your interest rate to 10% by negotiating with your creditors and rolling the loans together into one. Sounds great, doesn't it? Who wouldn't want to pay Rs460 less per month in payments?

ADVANTAGE OF DEBT CONSOLIDATION

1. The main advantage is that instead of writing 5–20 checks to creditors every month, you combine bills into one payment,
and write one check. This helps in eliminating mistakes that result in penalties like incorrect amount or late payments.
2. This process can result into a lower overall interest rate to the entire debt load and provide the convenience of servicing only one loan.

TYPES OF DEBT CONSOLIDATION

1. Debt Management Plans - Most financial experts agree that a Debt Management Plan is the preferred method of debt consolidation. DMPs are mostly managed by the non-profit organisations. Firstly, they started with a counselling session with us and try to know that how much can we pay monthly to the creditors. After that, they try to negotitate with the creditors for a lower interest rate. Now, You send one payment to the agency running the DMP and they split the payment into your creditors.Utilizing a DMP could affect your credit score. However, at the end of the 4-to-5 years process, you should be debt free, which definitely improves your credit score.

2. Debt Cosolidation Loans - A Debt Consolidation Loan (DCL) allows you to make one payment to one creditor in place of multiple payments to multiple creditors. A debt consolidation loan should have a fixed and lower interest rate than what you were paying previously, which reduce your monthly payments and make it easier to repay your debts.

3. Debt Settlement - Where an individual's debt is negotiated to a lesser interest rate or principal with the creditors to lessen the overall burden. Debt settlement companies promise to negotiate your monthly payment with each one of your creditors for less than what you actually pay. While this sounds fair but there are drawbacks. Many creditors refuse to bestow with debt settlement companies and debt settlements may impact a negative score on your overall credit score.

REASONS TO CONSIDER DEBT CONSOLIDATION

1. Lower interest rates
2. Convenience
3. Pay off your debt fastely
4. Scheduling.

TYPES OF LOANS WHICH CAN BE CONSIDERED UNDER DEBT CONSOLIDATION ARE

1. House Loans
2. Educatiom loans
3. Personal loans
4. Vehicle loans
5. Credit cards
6. Small Business loans and many more.

ELIGIBILITY FOR DEBT CONSOLIDATION LOANS

Anyone with a good credit score could qualify for a debt consolidation loan. If you do not have a good credit score, then it will be difficult for you to get the loan or whether you have to pay additional interest rate to get debt consolidation loan.

DIFFERENT TYPES OF BANKING: KEY POINTS TO KNOW

PARA BANKING:

- Para banking activities are defined as those banking activities which a bank performs apart from its daily activities like withdrawal or deposit of money.
- Under para banking activities banks can undertake activities either departmentally or by setting up subsidiaries.

NARROW BANKING:

- This is a type of banking in which banks invest money mostly in government bonds and securities.
- This is done to avoid risk in the market.
- Banks dedicated to such type of banking are also known as Narrow Banks.

OFFSHORE BANKING

- When a bank accepts currencies of countries abroad, such an activity is known as Offshore banking
- Sometimes people require more than their local banks can offer. In such cases they opt for Offshore banking.
- It provides financial and legal benefits like privacy and minimal taxation.

GREEN BANKING

- Green banking promotes deployment of clean energy technologies.
- It stresses on environmental friendly practices and aims at reducing carbon footprint from banking activities.
- These activities seek to reduce costs of energy for ratepayers, private sector investments and other economic activities.

RETAIL BANKING

- Retail banking is a type of banking in which direct dealing with the retail customers is done. This type of banking is also popularly known as consumer banking or personal banking
- Retail banking is the visible face of banking to the general public.

WHOLESALE BANKING

- Wholesale banking can be refered to as the services provided by banks to organisations like Mortgage Brokers, corporate clients, medium scale companies, real estate developers and investors, international trade finance businesses, institutional customers (such as pension funds & government agencies) and services offered to other banks or financial institutions.

UNIVERSAL BANKING

- The recommendation of the concept of Universal Banking was done by the R H Khan committee.
- This is a type of banking in which banks are allowed to undertake all types of financial activities regarding banking or development in accordance with the statutory and other requirements of RBI, Government and related legal Acts.
- Universal Banking includes activities like accepting deposits, issuing credit cards, investing in securities, merchant banking, foreign exchange operations, etc.

ISLAMIC BANKING

- Islamic banking is a kind of banking activity which strictly follows the principles of the Islamic law (Sharia) and its application practically through the development in Islamic economics
- A better and more apt term for Islamic banking is Sharia Compliant Finance.

UNIT BANKING

- USA is where such type of banking was first introduced.
- In such a type of banking all the operations are performed from a single branch.
- A customer having an account in a specified branch has to undergo all banking activities through that branch.
- Examples are Regional Rural Banks and Local Area Banks.

MIXED BANKING

- Mixed banking is a type of banking in which deposits and investment activities take place simultaneously.
- It can also be described as the dual functioning of investment banking and commercial banking.

CHAIN BANKING:

- Chain banking is a type of banking which is a group of minimum 3 banks held together by a group of people to carry out effective banking activities.
- Instead of having a holding company the bank functions independently.
- The revenue is maximised since there is no overlap of activities.

RELATIONSHIP BANKING

- In such a type of banking the the major needs of the customers are understood by the bank and accordingly banking services are provided to the individual.
- Banks get to know if the customer is credit worthy since they have to gather information about its customers.

CORRESPONDENT BANKING

- In more than 200 countries, this type of banking is prevalent and is considered the most profitable way of doing business.
- In such a type of banking, the bank does not have a physical presence or any limitations in the permission of operations.
- It acts as a banking agent for a home bank.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

INTRODUCTION

- "NABARD" means 'National Bank for Agriculture and Rural Development'.
- NABARD is an apex level bank set up by GOI(Government of India) with an instruction of providing credit flow for the promotion and development of agriculture, cottage, village and other small scale industries in the country.
- It is not a wholly own subsidiary of RBI now because RBI sold 99% of its stake to GOI.
- Its headquarter is in Mumbai, India.
- It has 336 district offices across the country.
- Chairman of NABARD is Dr. Harsh Kumar Bhanwala.

HISTORY OF NABARD

- On 30th march 1979, GOI and RBI constituted a committee under the Chairmanship of Shri B.Sivaraman to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD).
- The Sivaraman committee submitted a report on 28th november 1979 stated that there is a need for a new institution which will cater the supply of credit flow for the development of rural area.
- Through Act,61 of 1981, The Parliament approved the setting up of NABARD and NABARD came into the existence on 12th July 1982.

- NABARD was initially started with an amount of Rs100 crore.

MISSION

- Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives

ROLE

- The main role of NABARD is to provide and manage credit flow for the development of the rural area.

TYPES OF LOANS PROVIDED BY NABARD

SHORT TERM LOANS

These types of loans are provided for production purposes at reduced rate of interest to the RRBs(Regional Rural Banks) and SCBs(State Cooperative Banks). Then RRBs and SCBs provide the credit as loans to the needy ones for different purposes such as:

- Seasonal agricultural operations
- Marketing of crops
- Fisheries Sectors
- Industrial Cooperative Societies (other than weavers)
- Purchases, Stocking and Distribution of Chemical Fertilisers and other Agricultural Inputs.

MEDIUM TERM LOANS

- These types of loans are generally the extended period of short term loans. When crops are damaged, the banks give them extra period of time for re-payment of loans.

LONG TERM LOANS

- These types of loans are generally for the period of 3-15 years. These loans are generally taken by small scale industries, non farm sector, handicrafts, handlooms, powerlooms etc.

ELIGIBLE INSTITUTIONS FOR REFINANCING THE LONG TERM LOANS ARE:

- RRBs
- SCBs
- Commercial Banks (CBs)
- State Co-operative Agriculture & Rural Development Banks (SCARDBs)
- Non-Banking Financial Companies (NBFCs)
- State Agricultural Development Finance Companies (ADFCs)
- Scheduled Primary Urban Co-operative Banks (PUCBs)
- North East Development Finance Corporation (NEDFC).

QUICK FACTS

Name of organisation	**NABARD(National Bank for**
Function	Manage and provide credit flow
Founded on	12th July 1982
No of district offices	336
Website	www.nabard.org
Chairman	Dr. Harsh Kumar Bhanwala

BUSINESS OF BANKING COMPANIES IN BANKING REGULATION ACT, 1949

INTRODUCTION

The banking and regulations act was enacted to safeguard the interest of the depositors and to control the abuse of powers by controlling the banks by any means necessary and to the interest of Indian economy in general. There are many provisions of banking regulation act 1949 and we are going to the topic about business of banking companies.

OBJECTIVES OF BANKING REGULATION ACT 1949

- The provision of the Indian Companies Act 1913 was found inadequate and unsatisfactory to regulate banking companies in India. Therefore a need was felt to have a specific legislation having comprehensive coverage on banking business in India.
- Due to inadequacy of capital many banks failed and hence prescribing a minimum capital requirement was felt necessary. The banking regulation act brought in certain minimum capital requirements for banks.
- One of the key objectives of this act was to avoid cut throat competition among banking companies. The act was regulated the opening of branches and changing location of existing branches.
- To prevent indiscriminate opening of new branches and ensure balanced development of banking companies by system of licensing.
- Assign power to RBI to appoint, reappoint and removal of chairman, director and officers of the banks. This could ensure the smooth and efficient functioning of banks in India.
- To protect the interest of depositors and public at large by incorporating certain provisions, viz. prescribing cash reserve and liquidity reserve ratios. This enable bank to meet demand depositors.
- Provider compulsory amalgamation of weaker banks with senior banks, and thereby strengthens the banking system in India.
- Introduce few provisions to restrict foreign banks in investing funds of Indian depositors outside India.
- Provide quick and easy liquidation of banks when they are unable to continue further or amalgamate with other banks.

THIS ACT APPLIES TO THE FOLLOWING CATEGORIES OF BANKS

- Nationalized banks
- Non-nationalized banks
- Co-operative banks in the manner and to the extent specified in the act

BUSINESS OF BANKING COMPANIES

- In banking regulation act 1949, section 6 it provides a list of activities which a banking company may engage in the business of banking. The Main functions are as follows
- Acting as agents for any Government or local authority or any other person carrying the agency's business of any description but excluding of the managing agent or secretary and treasurer of a company.
- Managing the public loan and private loan and solving issues respectively.

- The insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue public or private of the State municipal or other loans or of shares, stock, debentures, stock of any company, corporation or association and the lending of money for any purpose
- May carrying on every kind of guarantee business.
- Managing, selling and realizing any property which may come into the possession of the company in satisfaction in any of its claims.
- Can acquire, hold and deal with any property or any right, title or interest in any such property which may form the security for any loan or advance which may be connected to any of that security.
- Undertaking and executing trusts.
- Undertaking the administration of estates as executor, trustee.
- Establishing and supporting of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company.
- The acquisition, construction, maintenance and alteration of any building or works necessary for the purposes of the company.
- Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with the property and rights of the company.
- Acquiring and undertaking the whole or part of the business of any person or a company, when such business is of a nature enumerated or described in the act.
- Doing all these things as are incidental or conducive to the advancement of the business of the company.
- Any other form of business which the Central Government fixed in the Official Gazette, and specified as a form of business in which it is lawful for a banking company to engage.

The above list of activities is exhaustive but not comprehensive. There are several kinds of services listed above both under main business as well as ancillary business, some are agency services and general utility services

AGENCY SERVICES

- Carrying and transacting guarantee business on behalf of its clients, collection of bills, securities etc. purchasing and selling of shares, bonds, debenture, etc. on behalf of constituents negotiating of loans and advances, mail transfer etc. and many more agency services are grouped as follows
- Non-fund Business
- Collection of instruments and securities on behalf of customers
- Portfolio Management or Merchant Banking

- Facility of remittance of funds
- Money Exchange business as Authorized dealer under foreign exchange business
- Other agency business on behalf of Government or local body
- Factoring Services
- Special Purpose Vehicle(SPV) services for securitization of assets under securitization and reconstruction of Financial assets and Enforcement of security interest act
- Collection of taxes on behalf of the people
- Collection of different dues of the people like telephone, electricity, municipal taxes

GENERAL UTILITY SERVICES

- Providing Safe-custody facility to its customers for keeping their valuables
- Providing the facility of Safe deposit vault under lease agreement to its customers for keeping their valuables
- Technology based utility services like Tele-banking, Mobile banking, Online banking, DEMAT services for securities trading, ATM services, etc.

CONSULTANCY SERVICES

- ECS services for payment of different dues of the people
- Payment of pension
- Payment of salaries of the employees

CONCLUSION

Some of the activities mentioned both under agency services and general utility services are of new generation activities particularly after reforms in the financial sector and growing adoption of technology-based banking. These are the important facts that are given in the 6th section of banking and regulations act 1949 regarding Business of banking companies.

GAAR-GENERAL ANTI-AVOIDANCE RULES: EXPLAINED WITH EXAMPLES

INTRODUCTION

General Anti-Avoidance Rule (GAAR) is an anti-tax avoidance regulation of India. It was introduced by then Finance Minister, Pranab Mukherjee, on 16 March 2012 during the Budget session.

TAX AVOIDANCE

Avoidance means nothing but an attempt to reduce the tax liability through the legal means.

The difference between Tax Avoidance and Tax Evasion

Evasion & Avoidance are two different entities. In Avoidance, tax reduction is done legally but in evasion, it is done illegally.

GAAR IN SIMPLE TERMS

Tax Avoidance is one of the major concerns across the world. Different countries framed different rules to minimise such tax avoidance. Such rules in simple terms are known as General Anti-Avoidance Rule (GAAR).Thus GAAR is nothing but the set of rules ratified so as to check the avoidance of tax.

HISTORY OF GAAR IN INDIA

- In India, the actual discussions started on 12th-Aug-2009, when the draft of Direct Taxes code Bill (DTC) released.

SOME OF THE RECENT DEVELOPMENTS ABOUT GAAR ARE

- On 16th-Mar-2012: Finance Minister, Pranab Mukherjee takes a tough decision & announces that the government will curb on tax avoidance effective from the fiscal year 2012-13.
- On7th–May-2012: Finance Minister, Pranab Mukherjee forced to change his opinion and agreed to defer GAAR by a year as his announcements spooked oversea investors.
- On 28th-Jun- 2012: Finance Ministry releases the first draft on GAAR, there was the wide criticism of the provisions.
- On 14th-Jul-2012: PM, Manmohan Singh, formed a review committee under Parthasarathi Shome, for preparing a second draft by 31st August and final guidelines by 30th September 2012.
- On 1st-sept- 2012: Shome Committee recommends to defer GAAR by three years.
- On 14th-Jan-2013: Govt. of India partially accepts the recommendations of Shome Committee and has decided to defer the same for 2 years and will now be effective from the year 2016-17.
- On 27th-sept-2013, as per the notification issued by Govt. of India, GAAR would be valid for foreign institutional investors that have not taken the benefit of an agreement under Section 90 or Section 90A of the I-T Act or Double Taxation Avoidance Agreement (DTAA).

Thus

- GAAR will not be applicable for the investments made by foreign investors prior to Aug-2010

- GAAR provisions that will come into effect from April 2016 and
- apply only to business arrangements with a tax benefit exceeding Rs3 crores.

SOME RECOMMENDATIONS OF PARTHASARATHI SHOME PANEL

- Defer implementation of GAAR by 3 years.
- The threshold of tax benefit is Rs.3 crores & additional with changes in 1962 Income Tax Rules.
- Mauritius Issue- GAAR should not appeal to inspect the realness of the residency FII from Mauritius. The government should hold the provisions of the CBDT circular that was issued in the year 2000 on acceptance of TRC (Tax Residence Certificate) issued by Mauritius government.
- The Approving panel is Five-member committee, two members must be non-government persons & of renown from the fields of Accountancy, Business or Economics.
- The other two members must be chief commissioners of IT dept., chaired by a retired High court judge.

TWO EXAMPLES TO UNDERSTAND GAAR PROVISIONS:

EXAMPLE -1

Facts:
A choice made by a company between leasing an asset and purchasing the same asset. The company would claim a deduction for leasing rentals rather than depreciation if it had their own asset. Would the lease rent payment be disallowed as an expense under GAAR?

Interpretation:
GAAR provisions, would not, prima facie, apply to a decision of leasing (as against purchase of an asset). However, if it is a case of circular leasing, i.e. the taxpayer leases out an asset and through various sub-leases, takes it back on lease, thus creating a tax benefit without any change in economic substance, Revenue would examine the matter for invoking GAAR provisions.

EXAMPLE -2

Facts:
`A` company borrowed money from a company `B` and used that to buy shares in three 100% subsidiary companies of `A`. Though the fair market value of the shares was Rs. Y, `A` paid Rs. 6Y for each share. The amount received by the said subsidiary companies was transferred back to another

company connected to `B`. The said shares were sold by „A" for Rs. Y/5 each and a short-term capital loss was claimed and this was set-off against other long-term capital gains.

Interpretation:

By the above arrangement, the taxpayer has obtained a tax benefit and created rights or obligations which are not ordinarily created between persons dealing at arm's length. Revenue would invoke GAAR with regard to this arrangement.

SKILL BANKS: ALL YOU NEED TO KNOW

INTRODUCTION

- Skill banks are training centres to provide training to potential immigrant workers
- Skill Banks are established first in the states of U.P and Bihar
- U.P and Bihar account for the maximum emigrants annually in India
- These two states have the maximum number of employees working abroad
- Also these states have the maximum population
- The training program is of international standards
- Skill banks cover about 110 job roles
- 50 global skill banks are set up by GOI in 2016

OBJECTIVES OF SKILL BANKS

- The primary objective of skill banks is to train workers for global markets
- To project India as the capital of Human resources in the world

MAIN FOCUS COUNTRIES OF SKILL BANKS

- South East Asia
- Norway
- Germany
- Canada
- Sweden
- Japan
- The above countries will have huge dearth of nurses and care givers in the next decade
- Skill banks focus on these countries for job opportunities and train people according to the requirement

KEY SECTORS COVERED BY SKILL BANKS

- Health care
- Medicine
- IT
- Hospitality
- Retail trade

- Automobile

Other sectors are likely to be included in the skill development training program of skill banks where job opportunities may emerge in future

SPECIAL FEATURES OF SKILL BANKS

- Youth trained in skill banks get acquainted with the local culture of the country in which they go to work
- Before emigration, trainees are made familiar with language and work ethics of the foreign nation
- Training at the skill banks is demand driven
- If the requirement in a gulf nation is for 1000 mason workers, then skill banks will train 1000 masons and send them to the respective nation
- This ensures that majority of the persons trained in skill banks will be sent abroad as it is demand-based
- Skill banks train the workers and certify them
- Skill banks ensure that the employee gets good working conditions abroad
- The trainees get a better salary abroad after attending the training program and sent abroad

CONCLUSION

- Skill banks help people go abroad and work in a safe manner
- Workers sent abroad through skill banks will have the support of GOI
- All migration-related issues and frauds by consultancies will not occur once workers are trained and sent abroad through skill banks
- Rural poor and unaware people can completely trust the skill banks for their overseas job opportunities
- Skill banks help in identifying the requirements arising abroad in various nations and match the requirements with the employees in India through skill training programs

ADHAR CARD ACT 2016

INTRODUCTION

- Aadhar card is given to every citizen of India
- It enables as identity proof of the individual
- It came into effect from 2016

AADHAR CARD DETAILS

- Aadhar number means an identification number issued to an individual
- Aadhar number holder means an individual who has been issued an Aadhar number under this act
- Authentication means the process by which the Aadhar number along with demographic information or biometric information of an individual is submitted to the Central Identities Data Repository
- Authority is given to the Unique Identification Authority of India
- The biometric information submitted are photograph, finger print, Iris scan
- The enrolment process is given to enrolling agency to collect demographic and biometric information of individuals

ENROLLMENT

- Every Indian shall be entitled to obtain an Aadhar number submitting his demographic information and biometric information by undergoing the process of enrolment
- An Aadhar number ,issued to an individual shall not be re-assigned to any other individual
- An Aadhar number should be a random number and should not bear no relation to the attributes or identity of the Aadhar number holder

UNIQUE IDENTIFICATION AUTHORITY OF INDIA

- The central government established an Authority to be known as the Unique Identification Authority of India to be responsible for the processes of enrolment and authentication and perform such other functions assigned to it under this act.
- The head office of the authority is in New Delhi
- The Authority may with prior approval of the central government, establish its offices at other places in India.

GRANTS, ACCOUNTS AND AUDIT AND ANNUAL REPORT

- The Central Government after due law passed in the parliament grant a sum of money to be utilised for the purpose of this act
- The fees or revenue collected by the authority shall be credited to the Consolidated fund of India

PROTECTION OF INFORMATION

- The authority shall ensure the security of identity information and authentication records of individuals
- The authority shall take all necessary measures to ensure that the information in the procession or control of the authority, including information stored in the central Identities Data Repository, is secured and protected against access, use or disclosure not permitted under this act or regulations made under.

OFFENSES AND PENALTIES

- Whoever impersonates or tries to impersonate other persons, whether dead or alive, real or imaginary by providing any false demographic information or biometric information shall be punishable for imprisonment for a term which shall be extended to three years
- Whoever with intention of causing harm or mischief to an Aadhar number holder shall also be punishable for imprisonment for a term which shall be extended to three years
- If an offence is committed for which no penalty is specified , the person concerned shall be punished with imprisonment up to 1 year or fine up to Rs 25000 or Rs 1 lakh or both
- The Aadhar act is the key to the ambitious financial inclusion programme of the government. The act empowers Aadhar with legal backing for the purpose of transferring subsidies and other welfare services to beneficiaries through designated bank accounts.

Banks can also use Aadhar number as identity proof, which will help them weed out fake Jan Dan accounts.

PREVENTION OF MONEY LAUNDERING ACT 2002: EXPLAINED

INTRODUCTION

The purpose of a large number of criminal minds is to make profit or money for themselves or for any criminal organisation. Money laundering is the simplest way for these criminal to hide their illegal origin.Selling illegal arms, smuggling, drug trafficking, and other illegal activities can generate large amounts of money. Stealing Money through Fraud Way, accepting a bribe and doing computer fraud for some benefits can also produce huge profits and so this all fraud individual use Money Laundering to make their activities authorised. Because the Money which is generated by the illegal way is dangerous and can not be used directly so to make it happen Money Laundering is the process of conversation of such illegal activities to make it appear like authorised or legal.

Simply it is the process of engaging in specific Financial transactions to hide the identity, Process source and destination of money.

MONEY LAUNDERING

The process of Money Laundering contains following stages.

PLACEMENT

The person who has the Money which is generated by illegal or fraud activities introduces such unauthorised funds into the Financial System by depositing smaller number of amounts in the Bank by using cheques or another instrument. In this stage the main work of the money launderer is the entry of his fund.

LAYERING

Now the second stage of Money Laundering is the layering. In this stage, the Money Launderer finds the unique way for transaction by creation of complex network In which he uses lots of different account so as to hide his true origin.He uses another person's account to place his money safe.

INTEGRATION

After successful placing of his criminal money through first two stages then money launderer uses such funds in the business, real estate, and in some other assets.Also then authorized money transferred or returned to the source where it has been originated.

The above stages always not work line by line sometimes illegal money gets mixed with authorized money like in the business of gambling nobody knows the source of money but after the gambling it becomes authorized for that individual.

ANTI MONEY LAUNDERING ACT

In India, the Anti Money Laundering measures are controlled by using the Prevention of Money Laundering Act, 2002 which was introduced got working from 1st July 2005. RBI, SEBI and IRDA have introduced it under the PML Act, and hence it will be now applicable to all financial institutions, banks, mutual funds, insurance companies, and other financial agencies.The agency which is responsible for monitoring the Anti Money Laundering activities in India is called Financial Intelligence Unit (FIU IND) .It works under Department of Revenue, Ministry of Finance which analyses all the information related to person who is suspect.

INDIAN GOVERNMENT'S STEPS TO FIGHT AGAINST MONEY LAUNDERING

- Government of India is doing best to fight against the threat of Money Laundering and so for that India has signed the rules with the following UN Conventions, which deal with Anti Money Laundering and Countering the Financing of Terrorism :

- International Convention for the Suppression of the Financing of Terrorism (1999).
- UN Convention against Transnational Organized Crime (2000).
- UN Convention against Corruption (2003).
- Under the special session held by United Nations General Assembly (UNGASS) during 8th to 10th June 1998 all the members of this group have to adopt the Anti Money Laundering Legislation & Programme and for that they have made act called 'Prevention Of Money Laundering Act 2002'.
- This Act has been again amended for enlarging its scope of money laundering, in 2009 by the law of Prevention of Money Laundering (Amendment) Act 2009. This Act was again further amended by Prevention of Money-Laundering (Amendment) Act 2012.

INTERNATIONAL RESPONSE TO FIGHT AGAINST MONEY LAUNDERING

- Financial Action Task Force (FATF) is a government body which is established and introduced in 1989 by the initiative of G7 group.
- The main objectives of FATF are to regulate the effective implementation for fighting against money laundering, terrorist Financial activities and other problems related to the international financial system.
- Freezing terrorist assets , establishing Financial intelligence unit for collection , evaluation and find suspicious transactions reports from Financial institution are the functions of FATF.
- Indian is one of the active member of this FATF group.

OFFENCE OF MONEY LAUNDERING

- Offence of money laundering has been defined in the section 3 of the Prevention Of Money laundering Act.
- Any person who is directly or indirectly attempts to become the part of the such illigal activity shall be guilty according to the offence of money laundering.

ACTIONS TAKEN AGAINST PERSONS INVOLVED IN MONEY LAUNDERING

- Under the section 17 and section 18 of Money laundering Act freezing of all unauthorised property and records takes place.

- Persons who committed this crime and found responsible according to offence of money are punishable to put in the prison for three years which may be extended upto seven years and also that person have to pay fine under the section 4 of money laundering act.
- If the offence committed is under the Narcotics and Psychotropic Substance Act 1985 then in that case the guilty person gets three years of prison which can be extended upto ten years and also that person have to pay fine.

CONCLUSION

After all this prevention and lots of rules and regulations by Government there are some people who are not stopping and that's why India is listed among the six countries which are actively monitored by the INTERPOL and other International banking agencies.

DIFFERENCE BETWEEN REGIONAL RURAL BANKS AND CORPORATIVE BANKS

INTRODUCTION

The banks which are present in India are divided into 3 major groups namely, Central Bank (RBI), Scheduled Banks & Non-Scheduled Banks. This means other than RBI, every bank will be either a scheduled bank or a non-scheduled bank. Based on the functions, there are five categories of Banks in India viz. Central Bank (RBI), Commercial Banks, Development Banks, and Cooperative Banks & Specialized Banks.

Further Scheduled banks are classified into scheduled commercial banks & scheduled cooperative banks. The basic difference b/w them are in their holding pattern. Regional Rural Banks comes under scheduled commercial banks.

REGIONAL RURAL BANKS

RRBs were established in 1975 under the provisions of the ordinance promulgated on 26th-sept-1975.
Every RRB is owned by 3 entities with their respective shares as follows:
Central Government -50%
State government-15%
Sponsor bank -35%

DIFFERENCE BETWEEN RRB AND CORPORATIVE BANKS

- **Ownership** – They are maintained by 3 different bodies as mentioned above.
- **Regulation**- They are regulated by NABARD, which is a subsidiary of RBI.Other banks in India are directly regulated by RBI.
- **Statutory Background** –These banks have a distinct law behind them viz. Regional Rural Banks Act, 1976.
- **Statutory pre-emptions** – RRBs need not maintain CRR (Cash Reserve Ratio) & SLR (Statutory liquidity ratio) like any other banks.

REASONS FOR ESTABLISHING THE RRBS:-

Even after nationalisation, there were cultural concerns which made it difficult for commercial banks even under the ownership of government, to lend to farmers. So Regional Rural Banks were started to work in rural perspectives & they can lend to more & more farmers, who are in real need of money. To provide them constitutional background, a separate act was passed.

VARIOUS PROBLEMS OF RRB:-

RRBs were considered as a low-cost organisation having a rural philosophy, local touch & pro-poor focus. Each bank was to be funded by a 'Public Sector Bank' (PSU), though; they were planned as the self-sustaining credit institutions which were able to refinance their core resources in themselves & were expected from the statutory pre-emptions. There were 196 RRBs in India in1990.This has reduced to 56 (as of mar-2014) after mergers & amalgamations.

CURRENT GOVERNMENT'S POLICY:-

The Modi govt. has put the hold on further mergers of the RRBs. The government is focusing on improving the performance of RRBs & to explore new opportunities in the same. At present, there is a bill pending to make some amendments in the RRB act which is aiming to increase the pool of investors to tap capital for RRBs.

COOPERATIVE BANKING

A cooperative bank is jointly owned enterprise in which same people are its customers who are also its owners. Therefore, the basic difference b/w scheduled commercial banks & a scheduled cooperative bank is in their holding pattern. These are registered under Cooperative societies Act. The cooperative banks work agreeing to the principles of mutual assistance.
These cooperative structures are one of the largest networks in the world comprising of more than 200million members.

HISTORY

Hermann Schulze & Friedrich Wilhelm Raiffeisen gave the idea of cooperative banking for the first time. In India, the history of cooperatives begins from 1904 when the cooperative credit societies act, 1904 led to the formation of societies in both rural & urban zones. The act was recommended by Sir Friedrich Nicholson (1899) & Sir Edward Law (1901).The cooperative societies act of 1912, further gave recognition to the formation of non-credit societies & the central cooperative organisations.

EXTENT OF COOPERATIVE BANKING IN INDIA

Further, it is divided into 2 broad categories namely, Urban Cooperative Banks & Rural Cooperative Banks.

Urban cooperatives have been further divided into scheduled & non-scheduled. Both categories are again divided into multi-state & single-state. The majority of these comes under no- scheduled & single-state category. All the activities of urban cooperatives are monitored by RBI.whereas; it is regulated by RBI & NABARD for rural cooperative banks.

SIGNIFICANT FEATURES OF COOPERATIVE BANKING IN INDIA:-

These are small financial institutions governed by Banking Regulations Act,1949 & Banking Laws cooperative Societies Act, 1965

Owned by its members

Involved in community development

Bringing banking to the doorstep of the lowest section of the society

Profits obtained will be combined to form some reserves while some amount is distributed to members.

Some sections of banking regulation act are not applicable to cooperative banks

PROBLEMS FACED BY COOPERATIVE BANKS IN INDIA:-

The state partnership has resulted in excessive state control & interference. Inactive membership has made them declining as there is the lack of dynamic & professional attitude. Credit retrieval is weak, especially in rural areas.

BASE RATE AND DIFFERENTIAL RATE OF INTEREST

INTRODUCTION

Base rate is the minimum rate set by Reserve Bank of India below which banks are not allowed to lend to its customers.

DESCRIPTION

- RBI prescribed the minimum rate of interest on loans with effect from Oct 1, 1960
- On recommendations of Working Group (Chairman : Deepak Mohanty) RBI decided that banks should switch over to Base Rate system from July 1, 2010 for enhancing transparency in lending rates and enables better assessment of transmission of monetary policy.
- RBI replaced the bases system with Marginal Cost Based Lending Rate (MCLR) with effect from April 1, 2016

MARGINAL COST BASED LENDING RATE

RBI introduced MCLR to determine Base Rate by banks to improve the efficiency of monetary policy transmission.

INTERNAL BENCHMARK

All rupee loans sanctioned and credit limits to be priced with MCLR. It will be internal benchmark

The MCLR comprises of

Marginal cost of funds

Negative carry on account of CRR

Operating Cost

Tenor premium

SPREAD

Banks should have policy delineating the components of spread which include a) Business strategy b) Credit risk premium. The spread charged to an existing borrower should be increased except on account of deterioration in the credit risk profile of the customer.

INTEREST RATES ON LOANS

Actual lending rates will be determined by adding components of spread to MCLR. There will be no lending below the MCLR of a particular maturity.

EXEMPTIONS FROM MCLR

- Loans under schemes of the government of India wherein banks have to change interest rates as per the scheme
- Working Capital Term Loan, funded interest term loan etc. as part of rectification/ restructuring package.
- Loans under various refinance schemes of government of India or any government
- Undertakings wherein banks charge interest at the rates prescribed under the schemes

REVIEW OF MCLR

Banks shall review and publish their MCLR of different maturities every month

RESET OF INTEREST RATES

Banks can offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of MCLR

The periodicity of reset shall be one year or lower

DIFFERENTIAL RATE OF INTEREST

ELIGIBILITY

- Individuals whose family income does not exceed Rs. 18000 per annum in Rural areas and Rs. 24000 per annum in Urban and Semi Urban Areas
- Individual whose land holding does not exceed 1 acre of irrigated and 2.5 acres of un-irrigated land
- No ceiling for SC/ST engaged in allied activities
- People engaged in Cottage and Rural industries
- Physically handicapped pursuing gainful occupation
- Orphanages and women's home
- State owned corporations /cooperative societies including State corporations for supreme Court / ST's /co-operative societies, large sized Adivasi Multipurpose Co-operative Societies for Tribal areas

PURPOSE OF LOAN

For productive Activities, pursuing higher, education by indigent students, purchase of artificial limbs, hearing aids, wheel chair by physically handicapped.

AMOUNT

Maximum Rs. 15000, for physically handicapped additional loan Rs. 5000 for artificial limbs / Braille typewriter. Loan up to Rs. 20000 for housing to SC/ST and under INDIRA AWAS YOJANA

TARGET

- Minimum 40% to SC/ST beneficiaries
- 2/3rd to be routed through rural and semi-urban branches

CLASSIFICATION - Weaker Section advances

SUBSIDY / MARGIN - No subsidy. No Margin

SECURITY

- Hypothecation of assets created out of bank loan
- No collateral security

REPAYMENT

Depending upon income generated maximum of 5 years including grace period up to 2 years depending upon the type of activity and income generation

CLEAN NOTE POLICY OF RBI

INTRODUCTION

Lots of people in our country have a bad habit of writing anything on the currency note, folding currency note, also somebody staple it which spoils the Note and reduces notes durability.

So to avoid such occurrences RBI introduced the Clean Note Policy in 2001 in an order to increase the life of currency notes.

OBJECTIVES

- The main objective of this Clean Note Policy is to provide good quality currency notes and coins to the citizens of our country.
- Also, the objective of this policy is to avoid the circulation of spoiled notes in the economy.

GUIDELINES

- According to this policy packets of notes are not stapled with a pin while the banding of such packets should be done by paper or polyethene bands so as to increase the life of the currency notes.The note packets can also be binded by rubber bands in order to minimise the damage of currency notes.
- Banks should sort the notes in two parts like re-issuable and non-issuable.
- RBI instructed all the banks to circulate good quality notes to the public and do not circulate spoiled notes in the counters of bank which they have received from people.
- Banks are instructed to provide clean currency in exchange of spoiled notes.
- RBI also provided the guideline for citizens of a country which says that avoid spoiling notes by oil, water etc . Do not write anything on the currency notes.
- According to RBI, the clear objective of providing good clean quality notes to public by the banks is provided under the section 35A of banking regulations act 1949 and if the bank does not follow this then that bank may be punishable and the license of such bank can be cancelled.

INITIATIVE BY RBI

- To stop such spoiled currency RBI developed Currency Verification and Processing System (CVPS) to speed up this process.This system is installed in the various offices of RBI. In this System have a watermark feature in which if something is written on watermark then this machine automatically rejects such note.
- This CVPS machine is capable of processing about 50,000 to 60,000 pieces of spoiled notes per hour.
- This machine sorts the notes which are in good or bad condition.The bad

condition notes are shredded online and the notes which are in good condition are banded into packets for reissue.

- RBI installed 42 such machines in the Currency issue offices.

CONCLUSION

- Now it has been almost 16 years since this Clean Note Policy was issued by the RBI but still the objective of this policy are not realised but there are some improvements in the banks which are not stapling notes, providing quality notes, exchanging spoiled notes.
- Clean Note Policy has been implemented almost with all aspects only some people due to lack of awareness are ruining this policy.

INX: INDIA'S FIRST INTERNATIONAL STOCK EXCHANGE: KEY POINTS

INTRODUCTION

January 9, 2017, brought a great day for Indian Market as Prime Minister Narendra Modi gifted India its first International Stock Exchange Market. This initiative of GOI has taken India a step ahead in the global stock market and it was a proud moment for all the Indian. In this article we will discuss the key points of INX because in the upcoming bank exams this will be the hot topic for discussion and one or two objective type questions will be surely based on INX.

FEATURES OF INX

1. SPEED

It is world's fastest stock exchange in terms of response. The highly advanced technology based stock exchange will work on four microsecond response time.

2. WORKING HOURS

To match the pace of global economy and stock market, INX will remain open for 22 hours a day. The stock exchange will open at 4 am and will close at 2 am. This time span is matched with Japan and US's stock exchange time. Japan Stock exchange open at 4 am according to Indian time and US Stock exchange closes at 2 am according to Indian time.

3. INVESTMENT TARGETS

Bombay Stock Exchange has kept the target of investing 500 crores in the market within three years.

4. EMPLOYEES

To function perfectly, the staff of BSE has relocated to Gujrat. 100 BSE employees have shifted to INX. There is a team of local and foreign personnel too.

5. TRADING

INX will trade in securities and products along with Indian Rupee. It will indulge in the trading of equity shares of companies incorporated outside India, depository receipts, debt securities, currency and interest rate derivatives, index-based derivatives, commodity derivatives. For the first six months, it will offer only derivative products.

6. SECURITY

To prevent money laundering and to manage risks and money manipulation, INX has a robust security system.

TAX BENEFITS

- The people who will invest via INX will get following tax benefits
- No income tax for fixed time span
- Low commodity transaction tax
- Beneficial for dividend distribution tax
- Renunciation in long-term capital tax
- Beneficial in Security Transaction tax

FAST FACTS FOR QUICK REVISION

Launched on	January 9, 2017
Launched by	Narendra Modi
Situated in	Gandhinagar, Gujrat
Situated at	Gujarat International Finance-Tec
Working hours	4 am- 2 am (22 hours)
Response Time	4 microsecond (fastest in the
Investment	500 crores in 3 years

Products	Derivative Products: equity,
Tax Benefits for	transaction tax, distribution tax
Income Tax	No income tax for three years

BLOCKCHAIN SYSTEM

INTRODUCTION

- These days the transactions in the banking sector is becoming a very tedious task and so as to ensure that this tedious task to be removed, our banking sector is trying to emerge towards block chain technology. To simplify the transactions without the help of any third party in a secure manner is really a great challenge, but to overcome this challenge an anonymous online ledger (collection of financial accounts) which uses the data structure to simplify it is called block chain technology.
- We can still see what comes in and gets out, and to whom. But now all these information's are present in the form of a digital format at one particular place. In banks we see physical financial collections, now we can get rid of it, and we can keep the records directly in block chain as it is framed even for record keeping.
- As mentioned about the block chain system that it is an anonymous part which protects the identities of the user. So, by this, it is very clear that the transactions will be done in a more secured manner. A bank's ledger is connected to a centralised network.

WORKING:

- Blockchain is a distributed database which takes in a number of inputs and they try to place them in a block. There will be blocks lined and each block is said to be chained to another block using a cryptographic signature. This ensures that block chains used as a ledger are accessed by anyone provided if he has the permission to seek the details.

HOW IS IT UNIQUE?

- For any transaction to be done we need to have a reconciliation so as to ensure that the transaction is done in a genuine way. Every time having a reconciliation is a tougher task to ensure that the transactions are done in a smoother manner.
- To eradicate this problem block chain built applications will play a key role by not allowing reconciliation of any

transactions as all the information will be readily available and verification will be done to see that if anyone is a part of particular block chain ecosystem.

EXAMPLE

- A person X wants to send his money to a person Y. So, here we have lender and beneficiary. Once the deal is sealed, in the block chain world this transaction gets recorded with all important details such as date, transaction value and the names also will be recorded. Next time when they want to repeat the process they wouldn't face any problems as their data is already stored in it. It is a decentralised ledger, and all the system numbers can store the information. Verifications by any intermediaries are not required at all.

WHY ARE BANKS INTERESTED?

- As we are in the digital era and even our country is advancing towards digital India and cashless society so we need to adopt good technologies so as to be in the forefront in terms of competition with the entire world.
- The first Indian bank to complete the block chain transaction successfully was ICICI bank. Even all major banks are also trying to implement this block chain system as it will be really beneficial for all sort of money transfers and for storing the records.
- In banks, we see a lot of hectic work is done by just making more paper-intensive works, but now this block chain application will just replicate this paper-intensive work into an electronic decentralised ledger which enables all participators the ability to access a single source of information. We can track any documents easily and we can validate ownership of assets digitally, by not allowing any changes in the real time.
- Block chain mechanism is to create a core banking platform. This technology is being developed by the Indian IT service providers like TCS and INFOSYS.

ADVANTAGES:

- Block chain technology validates each and every transaction which makes it more secure and reliable.
- The technology is decentralised and if any third party tries to enter he wouldn't get any chance as it will discard off in peer-to-peer transactions.
- Block chain technology is a cost-saving factor for banks as manual intervention is not required for reconciliation purposes. It is basically done by intermediaries but now with the help of block chain, there is no need of any manual interventions.
- This technology is cryptographically encrypted with our digital signatures and it is difficult to hack into. If in case there is any fraudulent transactions every node of it can detect it and it will deny the proceedings.
- A lot amount of aggressiveness is amounted in banks by looking at block chain technology. The banks can keep a

track of debit and credit data. Even, in the forex market, the back office of the respective banks they need to speak with the back office of another bank which is said to be a tedious process. In this case block chain technology will play a pivotal role as it doesn't support any back office, so automatically back offices will be eliminated in the banking sector.

HUGE POTENTIAL

- Banks tend to invest a lot of time in moving money, thus creating a problem, whereas the blockchain technology can free up the movement of money, instead of leaving it clogged in slow banking. It's very secure and till now no blockchain technology has never been hacked successfully. Transaction process will also become easy by this technology and in the same way, tracking also will become easy. It will play a crucial role particularly with bonds and stocks as banks spend a lot of money and time on tracking it.

CONCLUSION

Block chain technology will be a huge benefitting factor to the banking sector and even this technology is not limited to only this sector but rather, it can be used even in many other areas also. There will be no human intervention at all if we adopt block chain technology as it will verify all the transactions solely. The block chain architecture can significantly bring down the costs and even it can reduce the inefficiencies in the financial sector.

SUSTAINABLE STRUCTURING OF STRESSED ASSETS (S4A SCHEME)

INTRODUCTION

Reserve Bank of India has issued a new Scheme for Sustainable Structuring of Stressed Assets (S4A Scheme) for large stressed accounts in addition to existing Strategic Debt Restructuring Scheme issued last year. In strategic debt restructuring (SDR) the loans were converted into equity and the management control was taken over and the banks ended up with companies which they didn't have the expertise to run nor could find buyers to sell. The S4A Scheme helps in determination of sustainable debt level for stressed borrower and bifurcation of the outstanding debt into sustainable debt and conversion of remaining debt in equity/quasi-equity instruments which are expected to provide upside to the lenders when the borrower turns around. Under the S4A the loan account will be divided into two parts

- sustainable portion (Part A)
- unsustainable portion (Part B)

Part A includes debt which can be serviced from the existing operation while remaining will be classified as Part B. There will be no extension for the repayment of Part A and Part B will be converted into equity/redeemable cumulative optionally convertible preference shares. In case the resolution plan does not involve change in promoter banks may convert a portion of Part B into optionally convertible debentures.

ELIGIBLE ACCOUNTS

- To be eligible for the S4A Scheme a borrower must meet the following conditions
- The project has commenced commercial operations.
- The aggregate exposure (including accrued interest) of all institutional lenders in the account is more than Rs.500 cr.
- The debt meets the test of sustainability conditions

DEBT SUSTAINABILITY

A debt level will be sustainable if the Joint Lenders Forum (JLF)/Consortium of lenders/bank conclude through independent TEV report that the debt of principal value among the currently funded/non-funded liabilities owed to institutional lenders can be serviced over the same duration as that of the existing facilities even if the future cash flows remain at their current level.

Techno-economic viability (TEV): An independent agency will have to conduct a TEV report to assess the amount of the sustainable debt and a resolution plan should be agreed upon minimum 75 percent of lenders by value and 50 percent of lenders by number in the consortium. Once the resolution plan is decided it will go to the overseeing committee.

OVERSEEING COMMITTEE

- An Overseeing Committee (OC) comprises of eminent persons and will be constituted by IBA in consultation with RBI. The members of OC cannot be changed without the approval of RBI.
- The resolution plan shall be submitted by the JLF/consortium/bank to OC.
- The OC will review the process involved in preparation of resolution plan.
- The OC will be an advisory body.

THE RESOLUTION PLAN

The Resolution Plan shall have the following features

- There will be no fresh moratorium granted on interest or principal repayment for servicing of Part A.
- There will be no extension for the repayment schedule or reduction in the interest rate for servicing of Part A, as

compared to repayment schedule and interest rate prior to this resolution.

- Part B shall be converted into equity or redeemable cumulative optionally convertible preference shares. If the resolution plan does not involve change in promoter, banks may at their discretion convert a portion of Part B into optionally convertible debentures.

VALUATION

For the purpose of this scheme fair value for Part B instruments will be arrived as per the following methods

- Equity - The equity shares in the bank's portfolio should be marked to market on a daily basis or at least on a weekly basis. Equity shares for which current quotations are not available or where the shares are not listed on the stock exchange should be valued at the lowest value arrived using the following valuation methodologies
- Break-up value is applied from the company's latest audited balance sheet. If latest audited balance sheet is not available then the shares are to be valued at Re.1 per company. The independent TEV will assist in ascertaining the break-up value.

Discounted cash flow method in which the discount factor is the actual interest rate charged to the borrower 3%, subject to floor of 14%. Further cash flows occurring within 85% of the useful economic life of the project only shall be reckoned.

Redeemable cumulative optionally convertible preference shares/optionally convertible debentures -The valuation should be on discounted cash flow (DCF) basis by the weighted average actual interest rate charged to the borrower by the lenders.

ASSET CLASSIFICATION AND PROVISIONING

Change of Promoters: In case a change of promoter takes place under the resolution plan then asset classification and provisioning requirement will be as per the SDR scheme or outside SDR scheme.

No change of Promoters: When there is no change of promoters the lenders will have to make higher provisioning at 40% of the Part B Debt or 20% of the total outstanding debt whichever is higher. The lenders may upgrade the account to the standard category after one year of satisfactory performance of service of Part A Debt.

CONCLUSION

The new S4A scheme is a success for both the banks and as well as for promoters. It would be positive for the stressed sectors and also for the PSU banks. This scheme provides the banks a greater flexibility to structure the stressed assets. These are the important facts about the Sustainable Structuring of Stressed Assets.