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DIFFERNECE BETWEEN IMPORTANCE BANKING CONCEPTS

RETAIL BANKING V/S CORPORATE BANKING

INTRODUCTION TO BANKING:

In simple and easy language banking is an institution which deals with the activity of accepting deposits from the clients and lending this money to the borrowers. To accept deposit and lend it to the borrowers is a traditional activity along with this now a days banks are doing different types of banking activity.
But, all in all the banking is mainly divided two types i.e.

- Retail banking
- Corporate banking

RETAIL BANKING:

- Retail banking is a part of bank that directly deal with consumers or individuals, located in the nearby city
- Retail banking is an activity done by bank with the customers face to face.
- Retail banking is clear or visible face to the consumer.
- Retail banking is also named as Consumer banking or Personal banking.
- It includes the services like savings account, current accounts, different types of loan, mortgages, debit and credit card, retirement planning, certificate of deposit etc.
- For retail banking, customer deposit is the most important source of fund.
- Retail bank makes profit from the interest margin of the lender and borrower transaction.

CORPORATE BANKING:

- Corporate banking only provide services to the large business corporations and business groups.
- Corporate banking first used in United States of America to differ it from the investment banking.
- Corporate banking is also known as Business banking.
- In short corporate banking is a one type of segment that caters service to the range of clients from big corporate firm to mid-scale company.

- Corporate banking earn profit from interest and fees they charge for services.
- Corporate banking provide services like saving account, current account, loan facility like secured and unsecured and credit facility to corporates.
- It also offer some more services like Trade finance, Foreign exchange, Custody, and Derivatives.
- In short it offers a services that are tailor-made to corporate firms.

DIFFERENCE BETWEEN RETAIL BANKING AND CORPORATE BANKING

BASIS	RETAIL BANKING	CORPORATE BANKING
Number of clients	Large number of clients	Small number of clients as compare to retail banking.
Cost	Low processing cost	High processing cost
Relationship	Medium level of relations	High level of relations
Transactions	lower value transactions	Higher level value transactions

CONCLUSION:

Both types of banking play an important role for the smooth functioning in an economy. Both offers services related to the segment oriented. They design service keep in mind the need of the clients.

DIFFERENCE BETWEEN CHEQUE AND DEMAND DRAFT

INTRODUCTION:

Both the Cheque and Demand Draft are used for the purpose of payments because it is not always possible to give the money in cash.

CHEQUE:

A cheque is a negotiable instrument instructing a bank to pay a specific amount from a specified account held in the issuer of the cheque/depositor's name with that bank.
A cheque is also termed as a bill of exchange drawn on a specified bank and payable on demand. It is the written order from the maker/issuer of the cheque directing a bank to pay certain specified amount of money to a specified individual or a firm. A cheque is written by an individual either from his/her own account or as an authorized signatory of the account of the

institution.

DEMAND DRAFT:

A demand draft, also commonly known as DD, is a kind of a pre-paid negotiable instrument used for effecting the transfer of money. It is almost equal to a banker's cheque that is used to make payments. When a bank gets a request for the issue of a Demand Draft from any Saving Bank Account holder or the party maintaining Current Account with a particular bank, it deducts the money from the bank account of that individual or the party along with the normal commission being charged by the bank concerned. However, anyone can get the draft made in lieu of cash provided the amount of the draft is under Rs.50000. A cheque may be dishonoured for lack of funds but a Demand Draft cannot be returned because it is a pre-paid instrument. Demand Draft is signed by the authorized officer/officers of the bank and so it is considered as 100% trustable.

DIFFERENTIATION BETWEEN A CHEQUE AND A DEMAND DRAFT

Cheque	Demand Draft
A cheque is issued by an individual.	A Demand Draft is issued by a bank.
A cheque is an order of payment from an account holder to the bank.	A Demand Draft is an order of payment by a bank to another bank.
Payment is made of the cheque issued after the presentation of a cheque for encashment.	Payment is to be made to the Drawer Bank before the issuance of a draft.
There are three parties involved in the case of a cheque: Drawer of the cheque, Drawee of the cheque, and the Payee.	In the case of a draft, two parties are involved: Drawer and the Payee.
Drawer and Payee may be two different persons – if the payment is to be made to any third party. Drawer and the Payee may be the same person if the cheque is drawn on "Self".	Drawer and Drawee are two different branches but of the same bank. The payee is the third party to whom the payment is to be made.
The drawer is the account holder of the bank.	Drawer is bank itself issuing the draft for a specific customer.
A cheque may be dishonoured for lack of sufficient funds in the account of the drawer of the cheque.	A Demand Draft cannot be returned because it is a pre-paid instrument.
A cheque can be paid either to the bearer (who presents the cheque to the bank) or order (whose name is specified on the cheque).	A Demand Draft is always payable to a specified party.
A cheque is defined in the Negotiable	Although a Demand Draft is also a type of

Instrument Act, 1881.	negotiable instrument, it is not defined in the N.I. Act, 1881.
A cheque requires a sign of the issuing individual or the authorized official of the firm.	It requires the stamp of the authorized officer/officers of the bank along with the rubber stamp of the bank.
No bank charges are levied while issuing a cheque.	Bank commission is charged to the account of the account holder for issuing of a draft or it is charged in cash.
Individual/firm issuing cheque must have a Savings Bank A/c or Current Account in the bank.	Individual/Party getting issued a Demand Draft may not necessarily be having a bank account in the bank. Demand Draft can be made in cash if the amount does not exceed Rs.50, 000/-.

DIFFERENCE BETWEEN BANKER'S CHEQUE AND DEMAND DRAFT

BANKER'S CHEQUE

- A banker's cheque is also known as a not- negotiable instrument issued by the bank on behalf of the client which carries an order to pay a defined amount to the particular person in the same location means in the city.
- A banker's cheque is issued by the bank itself by debiting an account of the payer at the same time.
- A banker's cheque is safe for the payee because it is an assured payment guaranteed by the bank.
- A banker's cheque has a validity of 3 months and once it passed, it becomes null. It means after the expiry date gone, a customer cannot sue to the bank for the payment.
- A banker's cheque can be revalidated subject to some constitutional formalities.
- A banker's cheque is a prepaid type of non-negotiable instrument it means there is no possibility at all for the dishonour of it.
- In a banker's cheque, there is clearly written not negotiable on the front side which means it cannot be further negotiated.
- A banker's cheque is cleared in the particular branch of the bank and the city to which it was issued.

For example:

A company has issued a banker's cheque of Rs 1, 00,000 for the Bank of Baroda in the Pune. Now, this banker's cheque will be cleared only in the Bank of Baroda's any branch in the Pune city only.

DEMAND DRAFT

- Demand draft is a type of negotiable financial instrument which is issued by the bank in favour of the client to transfer money to different cities.
- It contains an order to pay a specific sum of money to the payee from one branch of the bank to another branch in the same bank.
- It has a validity period of 3 months and it can be revalidated by putting an application.
- A demand draft of Rs 2000 or more than that can be issued only with A/c payee crossing.

For example:

XYZ Company is willing to pay money to the ABC limited in Delhi, in that case, XYZ Company will submit a request for the demand draft to the bank. XYZ will give an amount in advance along with a commission to the bank for issuing it. Now, a bank will issue a demand draft on behalf of the XYZ Company and in favour of the ABC Company which was given to the requested company and the same copy will be sent to the receiving company and it will present a demand draft to any branch of the same bank in Delhi.

SIMILARITIES OF BANKER'S CHEQUE AND DEMAND DRAFT

- Both are valid payment instrument and serve the same purpose.
- Both are paid in advance, issued by the bank on behalf of the customer.
- Both have a validation period of 3 months.
- Both of these instruments cannot be dishonoured because of a prepaid instrument.

DIFFERENCE BETWEEN BANKER'S CHEQUE AND DEMAND DRAFT

MEANING:

- Banker's Cheque is a type of cheque which is issued to make the payments within the same city.
- Demand draft is a type of financial instrument which is used to transfer money from one person to another person in the different city.

TYPE OF INSTRUMENT:

- A banker’s cheque is a type of non- negotiable instrument.
- A demand draft is a type of negotiable instrument.

CLEARANCE OF FINANCIAL INSTRUMENT:

- A banker’s cheque is cleared only in the same branch of the same bank in the same city only. It means an issuing bank and clearance bank will be the same.
- A demand draft is cleared in the different branch of the same bank in any city. It means the issuing branch and paying branch can be different in the different city.

WRITTEN ON THE INSTRUMENT:

- In a banker's cheque, if it is more than Rs 2000, it is issued with "A/c payee" crossing.
- In a demand draft, there is a non- negotiable printed on the front side of it.

DIFFERENCE BETWEEN NEFT AND RTGS

WHAT IS NEFT?

It is National Electronic Fund Transfer.

OBJECTIVE:

- Its main purpose is to enable electronic cash transfer having accounts in bank branches.
- It is used for transferring funds from one financial institution to another within India especially banks. IT was launched in November 2005, and was assigned to every bank. It was made mandatory by the RBI for all banks to migrate to NEFT.
- No minimum and maximum limit for cash remittance.

WORKING:

Step 1: Remitting bank requests for NEFT.
Step 2: Request is registered by NEFT servers.
Step 3: Request is cleared on the basis of the input.
RBI servers bunch up all the NEFT requests and clear it in hourly batches.

Example:

Suppose you have an account in Citi bank and you want to transfer 1,50,000 Rs to SBI customer and your bank has registered your NEFT service at 12:30 pm. Instantly it will be queued in a slot of 12:00 pm to 1:00 pm and at 1:00 pm all the requests will be cleared. So, effectively your transaction will be cleared after 30 minutes of registration.

WHAT IS RTGS?

It is Real Time Gross Settlement.

OBJECTIVE:

- Its main purpose is to enable electronic cash transfer having accounts in bank branches.
- It is a fund transfer system which is moved from one ban to another in real time and on the gross basis.
- It means that the payment transaction isn't subject to any waiting period. The transaction will be completed as soon as the processing is done, and gross settlement means that the money transfer is completed on a one to one basis without clustering with another transaction.
- The transaction is treated as final and irrevocable as the money transfer occurs in the books of the RBI. This system is maintained by the RBI, and it is available only during working days for a given number of hours.
- The minimum limit is 2,00,000 Rs and there is no maximum limit.

Example:

If you have registered for RTGS transaction through your bank branch it will be settled instantly in real time basis. Real-time means that your money will be credited within minutes in the beneficiary account.

DIFFERENCES BETWEEN NEFT AND RTGS:

Criteria	NEFT	RTGS
Arrangement.	It is done in batches and it is slower.	It is a real-time transfer and it is faster.
Acronym.	National Electronic Fund Transfer.	Real Time Gross Settlement
Timings on weekdays and weekends.	8:00am-6:30pm(Mon-Fri) 8:00am-12:30pm(Sat)	9:00am-4:30pm(Mon-Fri) 8:00am-1:30pm(Sat)
Minimum transfer limit.	No minimum amount	2 lakhs
Maximum transfer limit.	No limit	No limit.
Credit in beneficiary account.	Happens in hourly batch between the banks.	Real-Time between the banks.
Charges as per RBI.	Up to 10,000:-Rs. 2.5 from 10,001 – 1 lakh :-Rs. 5 from 1 – 2 lakhs :-Rs. 15 Above 2 lakhs:-Rs. 25	Rs. 25-30 (Up to 2 – 5 lakhs) Rs. 50-55 (Above 5 lakhs)
Beneficial	Small money transfer.	Large money transfer.

DIFFERENCE BETWEEN NEFT AND ECS

Both NEFT and ECS are types of electronic payment and settlement system which is used in developed country and developing countries also. So it is a type of modes which settles transactions in batches at a particular time.

NEFT

- The full form of NEFT is National Electronic Fund Transfer which is a countrywide payment system enables one to one transfer of funds.
- In India, it was first launched in 2005, November.
- NEFT enables the individuals or to an entity to transfer funds electronically from one bank to any other bank which uses this system.
- In NEFT the transactions are settled in batches during the specific timings.
- To avail the benefit of this system, one's bank has to be a NEFT enabled.
- Those who are not a customer of a bank can also avail this benefits by instructing bank for particular transaction.

ECS

- The full form of ECS is Electronic Clearing Service introduced by the Reserve bank of India.
- ECS is used for the transfer of a high volume and repetitive funds from one bank account to another.
- The bulk transfer includes low-value transactions and it is divided into two categories.
    - ECS Debit
    - ECS Credit

- ECS transactions are settled locally in the current accounts maintained with a bank which manages the clearinghouse.
- The payment or receipt of ECS are repetitive in nature and it occurs regularly.

DIFFERENCE BETWEEN NEFT AND ECS

MEANING:

- NEFT is a country-wide electronic fund transfer system used by banks from one to one.
- ECS is an electronic fund transfer from one bank account to another bank account with the help of services provided by the clearinghouse.

TRANSACTION VOLUME

- NEFT has high volume transactions with high value.
- ECS has high volume transaction with low value.

SETTLEMENT TIME

- NEFT settles transactions in batches.
- ECS settles transactions in few days.

CHARGES

- In NEFT, the charges varies from transaction value to transaction. NEFT is a cost effective for the customers.
- There is no charges at all so it is cost free to all the customers.

RISK ASSOCIATED

- In NEFT, there is no risk involved to the customer because it automatically transfer the fund when due date and time occurs. Customer has no need to visit any branch of the bank or to remind.
- In ECS also there is no risk involves like theft or a fear of fraudulent payment.

REGISTRATION

- For NEFT, a bank must be a NEFT enabled to make the transaction electronically and speedy.
- For ECS, There must be a registration with the approved clearing house to make payment through it.

LINE OF CREDIT V/S LETTER OF CREDIT

LINE OF CREDIT

- It allows the buyer to 'Purchase now pay later' which means it is a credit facility to a borrower extended by a bank. This lending totally depends upon the credibility and reliability of the borrower in terms of having adequate security. The line of credit is more or less like taking a loan from the bank and borrowers have to pay interest on the fund utilised.
- It may be in different forms as Overdraft protection, demand loan, purchase of commercial bills etc.

Example:

AABB ltd is granted a line of credit worth 100 crores. Now, on the basis of requirement of the borrower form of line of credit will be decided.

LETTER OF CREDIT:

- It is issued by a bank in a particular format which assures payment of goods and services when the seller provides authentic documents.
- Basically, it is a mode of payment where security and financial trust between buyer and seller are established by a third party (banks or reputed financial institutions as banks are the most trustworthy organisations and they ensure that payment is received when the goods are supplied).
- Mostly, letter of credit is issued/used for International trade and commerce. Two different countries have different laws and huge geographical distance and at the same time, it is impractical to know each party personally. So, in this scenario letter of credit plays a vital role.

ELEMENTS OF LETTER OF CREDIT:

- Beneficiary (who will get the payment)
- Buyer
- Issuing bank – The liability to pay and to be reimbursed from its customer is absolute upon the T&C of the letter of credit. The issuing bank also provides a guarantee to the seller that if, there would be any complaint document shown then a bank will pay the seller the due amount and cross check the document. The required documents are the Commercial invoice, transport docs(airways bill/logistics bill) and insurance document majorly.
- Advising bank – It is usually a foreign correspondent bank of the issuing bank
- Which works as an advisor to the beneficiary. Advising bank sends documents to the issuing bank but in case issuing bank is not making the payment advising bank is not accountable to pay.
- Confirming bank – this bank confirms the credit after evaluating the bank and the place of origin of the letter of credit. Usually advising bank acts as confirming bank.

CHARACTERISTIC OF LETTER OF CREDIT:

- Negotiability – It is negotiable in nature. The issuing bank is responsible to pay either to the beneficiary or the bank nominated by it.
- Revocability – It may be revocable or irrevocable in nature.
- Transfer and assignment.

- Sight and Time draft – Beneficiary has to present a draft and documents to get the payment.

The importance of letter of credit is to reduce the risk involved in international trade which has grown rapidly over the past few years.

INSOLVENCY V/S BANKRUPTCY

- Many people often combines up the words "Insolvency" and "Bankruptcy" presuming them as a same thing. Still these two terms are though equal, but have dissimilar meaning. Insolvency is a monetary situation in which a person or a company can no longer pays its bill in given period of time. It has temporary nature related to the financial state where amount is recoverable. In this term credit rating is also not much effected. It is the state of the economic distress.
- On the other hand, Bankruptcy is is basically know as when is declared incapable of paying their due and payable bills. In this case, an application filed in the court against the insolvent. A person who is declared as a bankrupt, then will also deemed to be solvent. It has permanent nature related to legal concept.

INSOLVENCY

Insolvency is essentially the state of being that cause one to the file for bankruptcy. An organization, a family, person, or company is declared as insolvent when they are unable to pay their debits back on time. Various loans and investment is given by numerous bank, shareholders, secured creditors, etc. In this groups banks are the major creditors that holds the fixed charge on property or other business assets. Typically, a person becoming insolvent can take certain steps towards a resolution. At present there are number of laws dealing against financial falls in India. One of the most common solution for insolvency is bankruptcy.

BANKRUPTCY

Bankruptcy is a legal decalartion of person who is unable to pay off debits. In generally, Bankruptcy is of two types- Reorganization and Liquidation bankruptcy.Under the bankruptcy of reorganization, debtors should restructure their bill plans to make them more easily met. Where as under liquidation bankruptcy, Debtors has to sell their assets to make money so that they can pay off their creditors. Bankruptcy is the final stage of insolvency, which results in winding up of an individual's assets. In this case, The court itself has to decide the appropriation of the individual property of the insolvent amoung their creditors.

KEY DIFFERENCES BETWEEN INSOLVENCY AND BANKRUPTCY

1. Insolvency arises due to non-payment of financial deeds where as bankruptcy cause when a person/company is helplessness for paying off the outstanding debts.
2. Insolvency is declared himself by the person and, In bankruptcy, a person/ company goes to a court.
3. All Bankrupt Individual/organization are insolvent while it is not neccesary that insolvency pilot to bankruptcy.
4. In Bankruptcy, An individual/company becomes bankrupt by legal state of process,whereas in Insolvency, An individual/ company related to financial state becomes insolvent.
5. In bankruptcy assets are totally upset of an individual on the other hand, Insolvency does not.

SIMILARITIES

1. Caused due to non-payment of debts.
2. Assets raises due to the liabilities.

CONCLUSION

These are the two terms considered tight interrelated as one leads to another, where insolvency ends the bankruptcy starts. But it dosen't mean that every person/company who is insolvent is bankruptcy, as conditions are temporary without any legal interventions.

DIFFERENCE BETWEEN OVERDRAFT AND CASH CREDIT: EXPLAINED

INTRODUCTION:

- Both Overdraft and Cash Credit are widely used short-term finance provided by Banks or, other financial institutions to their customers to fulfil their short-term working capital requirements. Both Overdraft and Cash Credit are having some similarities like payable on demand, more money can be withdrawn that that available in the account, there is a limit on withdrawal if we are withdrawing more than that available in our account, both charges interest on extra withdrawal.
- Both these facilities are very similar in nature, but we need to understand their differences in order to understand them in a better way.

OVERDRAFT:

- It is a facility provided by the banks to their customers to withdraw more money from their accounts than that available in their accounts.
- The overdraft facility is usually available to the current account customers and in exceptional cases to the savings account holders also.
- The extra withdrawal is decided by banks or, the financial institutions and they may vary from bank to bank.
- Interest is charged on the overdraft amount i.e. the extra amount that is withdrawn above the deposit.
- These are repayable on demand i.e. the bank can call the customer to repay the amount at short notice.
- Cheque book facility is available for the account holders.

CASH CREDIT:

- It is a facility provided by banks or financial institutions for short-term lending that is required to any company or organisation to fulfil their credit need.
- This credit amount is provided up to a predefined limit.
- This facility is provided for the business purpose only if the customers have submitted the company assets, inventory, company papers etc. to the financial institution.
- The limit of cash credit is generally supposed to be equal to the working capital requirement of the company.
- The withdrawal limit is decided by the bank and varies from bank to bank.
- Interest is charged on the extra withdrawal.
- Cheque book facility is provided.

THE DIFFERENCE BETWEEN OVERDRAFT AND CASH CREDIT:

Overdraft	**Cash Credit**
An overdraft facility can be availed for any purpose (that means for personal use as well as for business purpose also).	Cash Credit is specifically given for the purpose of business or, business related activities.
The excess withdrawal facility is provided to the current account holders and in exceptional cases to the saving account holders.	The excess withdrawal facility is given only if a customer opens a Cash Credit account with a bank.
Generally, they don't require any asset as security to avail overdraft facility.	Cash credit requires assets like company inventory, property, receivables for excess withdrawal
Overdraft is provided for a shorter duration of time (generally one week to one month).	They can be short terms and medium terms also (generally up to 1 year).
The Overdraft amount limit i.e. the excess withdrawal limit remains constant.	The excess withdrawal limit keeps varying as per the current assets kept as security.

The rate of interest is higher than that of interest charged on Cash credit.	Rate of interest is low w.r.t. Overdraft.

CONCLUSION:

Cash Credit and Overdrafts are two very important tools to fulfil the short term capital requirement of any individual or, company. Both are very similar in many aspects but we can see there are some differences also between them.

DIFFERENCE BETWEEN OVERDRAFT AND LOAN

When a customer wants to borrow money from the bank, a customer can avail the facility of an overdraft or loan in need.

OVERDRAFT

- An overdraft is one kind of facility provided by the banks to its customer.
- In an overdraft facility, a bank has permitted to withdraw the money to do the transactions.
- When the balance of an account holder goes below zero, a customer can use this facility.
- An overdraft limit is drawn by the bank it means a bank decides up to which limit an amount to give as an overdraft.
- In overdraft, a time limit by which an amount must be debited to the bank and that is also decided by the bank.
- To avail an overdraft facility, the client must have a current account in the bank.
- An overdraft facility depends on the customer's credit, eligibility and transactions a bank charges an interest on that.
- When the negative balance exceeds the agreed conditions, a higher rate of interest is applied.

LOAN

- A Loan is a money which can be borrowed from a bank or any financial institutions.
- So, a loan is fixed amount of credit given to the client by the bank for a pre-determined period.
- A loan is always for some specific amount, time and for a specific interest rate.
- A loan is repaid in instalments along with the interest applicable in a future.
- If a customer fulfils the eligibility criteria then only a loan will pass.

- A loan is given against some security provided by the customer to the bank, a security may be a property, gold, etc.
- If in case a creditor fails to pay the money a debtor can use this security to cover the loan amount.
- A loan is a lending of money by the bank to an individual or an entity.
- A loan is one kind of debt given to the customer for a certain period of time.
- A loan is an agreement between the bank and a customer to repay it in future

DIFFERENCE BETWEEN OVERDRAFT AND LOAN

Overdraft	Loan
An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero.	So, a loan is fixed amount of credit given to the client by the bank for a pre-determined period.
An overdraft facility is provided by the banks.	A loan is borrowed by the customer from the bank.
An overdraft is for a short period of time.	A loan is for a longer period of time.
An overdraft facility is generally used by the company to run their day to day transactions.	A loan is borrowed by both an individual and business entity also for long term purpose.
An interest is just charged on the amount overdrawn.	In a loan, an interest is charged on the whole amount.
In overdraft, an interest is payable by depositing money in bank account.	In a loan, a repayment is done by EMIs.
An interest is calculated on a daily basis.	An interest is calculated on monthly basis.

DORMANT V/S FROZEN ACCOUNT

INTRODUCTION

Dormant account and Frozen account both looking somewhat similar but both are very different from each other. These terms are used while we talking about the accounts in which the Bank has stopped transaction activity. Banks can make both saving as well as current account dormant and frozen.

DORMANT ACCOUNT:

In dormant account, there is no activity from a very long time by the account holder like Debit, Credit, cheque issue or any other activity except interest posting by the bank.

If An account holder don't do any type of activity in period of 1 year, this account automatically becomes an inactive account and if this continue for a period of 2 year. It becomes a Dormant Account.

FROZEN ACCOUNT:

In Frozen account, An Account holder is not in position to do any transaction until any decisions taken. All type of transactions get a hold and restrictions become tighten if bank finds it improper.

BASIS	DORMANT ACCOUNT	FROZEN ACCOUNT
MEANING	If an account is not used for a specific period, it is called Dormant account.	In account, If the whole transaction activity is posed by a bank. It is called frozen account.
Alternate name	It is also called inactive account or inoperative account.	It is also called a blocked account.
Authority	Banks by themselves do the dormant account as per RBI Guidelines.	Banks cannot do it by themselves. RBI, SEBI, judicial authority and income tax authority only.
On What Basis	No activity done by account holder in an account for a period of 2 years.	There must be some suspicious activity being done on this account.
Notification	Bank gives notification before moving to dormant account	Banks directly put hold on transaction in the account.
Reactivation	Application with specific reason of inactivity.	Power to reactive is only after completing legal procedure by specific authority.
Reasons	Change of the city, job change and many more.	Suspicious activity like Money laundering, illegal activity, Unpaid tax, Unpaid loan to an organisation, Terrorist activity.
Example	Individuals, organisation.	Kingfisher Airlines, Sahara group

MORATORIUM PERIOD V/S GRACE PERIOD

INTRODUCTION:

Now a days it becomes almost a trend to take a loan from the banks or financial institutions for necessity to luxury requirements. A loan is mostly repaid by an equally monthly instalments. An Equally monthly Instalments include the Principal amount plus interest at a predetermined rate. So, in loan and EIMs deal with the Moratorium period and Grace period.

MORATORIUM PERIOD:

- Once we have taken a loan from the bank and EMIs don't start immediately. So the gap between this time periods is a moratorium period.
- A moratorium period is a time period between the loan taken and the time before to start paying EMIs.
- So, in easy language a moratorium period is when the loan is taken and yet the borrower not started to pay EMIs.
- Moratorium period has a long time frame.
- Interest may be charged in moratorium period.
- If a borrower send a request to lender, it depends on lender to approve it and it is applicable to only that particular individual.

Example:

In Education Loan, there is lump sum amount given by bank and once the term is over the borrower is liable to pay EMIs with interest. Interest is calculated in moratorium period

GRACE PERIOD:

- A Grace Period is a time frame between the ending of a loan term and payment is not done.
- In short Grace Period is a chance given to a borrower to pay debt before end of the given extra term period.
- In fact, it is an extra time period given once the payment becomes due.
- Compare moratorium period to grace period there is short term time frame in grace period.
- Grace Period is an interest free time frame.
- In Grace Period if lender approves grace period, it applies to all clients.

Example:

In insurance policy, there is time limit in which you have to pay your Premium and if you have not paid, the company will give you some extra time period to pay. And that extra time period is called Grace period.

DIFFERENCE BETWEEN APR RATE AND NOTE RATE

INTRODUCTION

Both terms are used while applying for a loan. While choosing an option for borrowing, both these terms must be taken into consideration.

ANNUAL PERCENTAGE RATE (APR)

The Annual Percentage Rate (APR) is an annual cost of a loan expressed as a percentage.

DEFINITION OF APR

An annual percentage rate (APR) is the annual rate charged for borrowing. It is the actual yearly cost of a fund borrowed over the period of that loan and expressed as a percentage. APR includes additional costs associated with the borrowing agreement; however, excludes the effect of compounding.

HOW TO CALCULATE APR

- In APR, the interest received will add to the principal amount and the successive period's interest is calculated based on the sum total of interest and principal amount.
- There are various types of fees included while doing borrowing agreements.

FEES

- It includes transaction fees, processing fees of loan application, loan authorization fees, closing agent fees, other specific transaction fees for the specific transaction, underwriting, etc.
  Penalty for late payment
- If in any circumstances, the borrower fails to repay the loan amount, a penalty will apply.

NOTE RATE

- Note rate is also known as nominal rate.
- The Note rate is the main rate that is laid on the loan.
- It is the applied rate of interest on a mortgage loan or on a promissory note.
- It is monthly paid by the borrower over a period of a loan and it is the normal interest rate laid upon any loan.
- There are fixed note rate and adjustable rate.
- The Note rate doesn't include fees like an APR.

DIFFERENCE BETWEEN APR RATE AND NOTE RATE

Base	APR rate	Note rate
Meaning	It is the actual cost of a borrowed amount over a load period.	It is the main rate laid upon the loan.
Cost	It includes the various types of fees in it.	It doesn't include any type of fees.
Beneficial	It is used while comparing borrowing option.	It is less useful as compared to the APR rate while comparing.

CONCLUSION:

So, the main difference between both this terms are the additional costs included in the APR rate. In Note rate, it only includes the cost of interest applicable to it.

DIFFERENCE BETWEEN CROSS-SELLING & UP-SELLING

CROSS-SELLING

INTRODUCTION:

The Term cross-selling refers to Banks, Non-banking financials institutions (NBFC) that offer or sale of more than one product or service to promote the customers with different products & services according to their needs.It encourages the customers to buy a related or complementary product.

MEANING:

Cross-selling is a wide range of products to an existing customer is one of the corner stones of customer strategy in most financial institutions or banks that provide the financial services.It offering the right product to the right customer at a right time. Cross selling earning the confidence of customers as best retailer to satisfy a particular need of customers. The success of cross-selling program depends on various components such as well-defined business strategy, effective execution, regular monitoring & effective targeting strategy.It has proved itself to be effective or defining strategy for profitable growth in various sectors.

BENEFITS:

Cross selling builds up the relationship between customers & financial organization. cross selling offers benefit to both to customer & firm.

FOR THE CUSTOMER:

- Offers the right product at a right place.
- Give maximum satisfaction.
- Better services & Multiples choices of product & services.
- Get effective product at lower prices.
- Reduce the Acquiring cost.
- For the Firm:
- Growth of new & existing customers.
- Enhance customer profitability & build the customer equity.
- Promotes diversification & innovation of a new product.
- Entries into new & competitive markets.

PROCESS OF CROSS SELLING:

- Identify the opportunity
- Eligibility
- Business strategy
- Decision on analytics approach
- Next best product to buy recommendation
- Strategy implementation
- Tracking of cross-sell campaigns.

UP SELLING

INTRODUCTION:

Cross-selling and upselling are similar in that they both focus on providing additional value to customers by providing products & services. upselling is a practice to persuade customers to purchase a higher end product, an upgrade or innovative in order to make a more rewarding sale.

MEANING:

Upselling offers the higher end products to the customer to full fill their needs. it hleps in the customers visualize the value they will get by ordering a higher price item.upselling is a method commonly used in retail businesses to offering best product or services.

DIFFERENCE BETWEEN CROSS-SELLING & UPSELLING:

- Cross selling
- Upselling

A. BASIS

It involves sale of multiple products/services offered by single product.
It involves in selling the higher value products/services to an existing customer.

B. SIMILARITY

It is similar with upselling both providing maximum value to customer.
It also similar with cross-selling to mutualy benefits to customers by offering products/services according to their needs.

C.BENEFITS

Cross selling provides the benefits to its new customer & financial institutions.
Upselling provides the benefits to existing customers providing right product at comparable higher end product.

D. REVENUE

Cross selling helps in increasing the revenue without any recurring cost.
Upselling helps also boost the revenue by offering the products/services by customer value.

E. EXAMPLE

If you are selling a computer you can offer a mouse, keyboard, Anti virus &Headphones.
If you are selling a computer you can offer with additional 4 GB RAM or with 500 GB hard drive.

BENEFITS: Upselling benefits to its existing & new customers.

For the customer:

- Selling higher end product/services.
- Offers the right product at a right place.
- Increase the consumer confidence.
- Give maximum satisfaction.
- Better services & Multiples choices of product & services.
- Get effective product at lower prices.
- Reduce the Acquiring cost.

SIX STEPS STRATEGY TO INTELLIGENT CROSS-SELL & UP-SELL.

- Customer profiling: deliver the best service & cater the needs of highest value customers both existing & new customers.
- Cross-selling & up-selling is a big opportunity to the best agent.
- Set the business rules to automatically respond to change via diversification & innovation.
- Apply new business market & competitive strategies.
- Link inbound channels with business analytics & customer database.
- keep technology nimble and systems agnostic.

DIFFERENCE BETWEEN NATIONAL INCOME & DISPOSABLE INCOME

INTRODUCTION

These two concepts are used in an economy to measure the prosperity of a nation. The definition of income differs from person to person or from entity to entity. In economic terms income means the total of wages, salary, profits, rent, interest and many other gains over a period of time.

WHAT IS NATIONAL INCOME?

National income means the total value of the total output of a nation, it includes all goods and services produced over a period of one year.

DEFINITION OF NATIONAL INCOME

There are two types of definition

1) TRADITIONAL DEFINITION

According to Marshall: "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend."

2) MODERN DEFINITION

According to Simon Kuznets, "the net output of commodities and services flowing during the year from the country's productive system in the hands of the ultimate consumers."

METHODS OF MEASURING NATIONAL INCOME

1) GROSS DOMESTIC METHOD

It is the sum total of the market price of all goods and services produced in a financial year.

METHOD TO MEASURE GDP?

(I) PRODUCT METHOD

- In it, the value of all goods and services produced in a nation over a period of time is added.
- Another name of this method is a value-added method.

(II) INCOME METHOD

GDP by income method is the sum of salary and wages, rent, interest, and profit.

(III) EXPENDITURE METHOD

It includes expenditure on all items, it includes services, investment, goods, and import-export.

2) GDP AT FACTOR COST.

It is the sum total of net value added by all producers in Nation.

GDP at factor cost=net value added + depreciation

3) NET DOMESTIC PRODUCT (NDP)

It is the total of the net output of the economy during the financial year.

NDP= GDP at factor cost- depreciation

4) NOMINAL AND REAL GDP

Nominal GDP is measured GDP on the basis of current market price.

If GDP is calculated on the basis of fixed market price over a period of time.

5) GDP DEFLATOR

It is an index of price changes in goods and services, it includes GDP.

6) GROSS NATIONAL PRODUCT

It is the total of the flow of all goods and services at market value produced during a year in a country, it includes net income of abroad.

WHAT IS DISPOSABLE INCOME?

- Disposable income is the total amount of money that households used to spend on goods and services and saving after paying income taxes.
- It is also known as a Disposable personal income.
- It is an important indicator to measure the overall economy.
- It is a net amount of a household or an individual available to spend on needs, to invest, save after paying income taxes.

Disposable income= Personal income - personal income tax payment

NATIONAL INCOME VS DISPOSABLE INCOME

Basis	National income	Disposable income
Meaning	National income is the total value of the total output of a country, it includes all goods and services produced in one year.	Disposable income is the amount available to a household for spending, investing, and saving after paying income tax.
Measurement tools	Input method, Output method, income method.	Income- tax payment
Effect of tax	It doesn't consider tax.	It is calculated considering tax.

DIFFERENCE BETWEEN NEFT AND IMPS

WHAT IS NEFT?

- The full form of NEFT is NATIONAL ELECTRONIC FUND TRANSFER.
- NEFT came into existence in 2005.
- NEFT is a modification of Special Electronic Fund Transfer (SEFT).
- NEFT is an online fund transfer activity through the electronic wire.
- NEFT is used nationwide by individuals or institutions.
- Only NEFT enabled bank branches can transact.

- The amount does not immediately transfer but the Transactions are done in specific batches during fixed time.
- Those who have not bank account can use NEFT by depositing cash to NEFT enabled branches.
- NEFT is both secure and convenient.
- NEFT take place 11 hours on weekdays, 5 hours on Saturday and Sunday there is no NEFT transactions.
- No limit for minimum or maximum transfer amount.

WHAT IS IMPS?

- The full form of IMPS is IMMEDIATE PAYMENT SERVICE.
- IMPS is a real time 24×7 inter-bank transfer of funds through smartphones.
- It came into existence in 2010.
- This facility is provided by National Payment Corporation of India through National Financial Switch.
- With the help of IMPS, one can access bank account anytime, anywhere easily using mobile.
- It is customer-centric banking service used by bank customers by using a mobile phone.
- It is safe and economic.
- The bank charges fees for this type of facility and it differs from bank to bank.
- In IMPS transactions are done all the days. (Means no holiday)
- Both, the receiver and sender need to be registered with mobile banking service of Bank and get a mobile money Identifier (MMI) code. Which is comprised of seven digits issued by the bank.
- Bank account number, MMID code and IFSC code is necessary to complete the transaction.

COMPARISON BETWEEN NEFT AND IMPS

Basis	NEFT	IMPS
Meaning	It is an electronic payment system used nationwide by banks to transfer money.	It is an instant interbank mobile transfer facility by using a smartphone.
Settlement Time	It means it takes some time to transfer money.	It is an instant facility.
Working days	It operates Monday to Saturday except for 2nd and 4th Saturday, Sunday and a holiday.	It works on all days means 24×7 a day.

Transfer limit	No limit for minimum and maximum transfer.	No limit for minimum transfer and for maximum it is Rs.200000
No. of transactions	12 settlements per working day.	Transactions occur continuously.
speed	It is slower as compare to IMPS.	It is very fast.
category	It comes under electronic banking.	It comes under mobile banking.
Fees	It is fixed by banks.	Differs from bank to bank.

DIFFERENCE BETWEEN LETTER OF CREDIT AND BANK GUARANTEE

INTRODUCTION:

This two terminology looks similar but both are very different. When one wants to expand the business means beyond the national boundary or within, one needs assurance from the buyer side that after delivery of goods or services the payment will receive and this can be done by the bank only.
In short, both these terms are used while doing business or transactions with domestic or international companies.
So, both these services are facilitated by the bank but in a different way as per the need of seller party.

LETTER OF CREDIT

- It is used while there is a high level of risk involves in business.
- It is used while doing import and export transactions with international companies.
- L/C is a written commitment issued by the bank or some other financial institutions for payment assurance to the seller party from buyer's request.
- In L/C, the seller gets a guarantee of payment from the buyer's banks on the due date payment will receive only if the seller meets all the conditions of deal like timely delivery etc.
- Banks offer a service like L/C on the basis of proof provided by the buyer's party.
- If the buyer fails to make payment to the seller, the bank pays on behalf of a buyer and then the bank will recover it from a buyer anyhow.
- Banks will charge fees for this type of facilities.

- So in short, letter of credit is beneficial when product or service is delivered and payment is not done.
- It eliminates the financial risk involved in the business.

TYPES OF LETTER OF CREDIT

IRREVOCABLE LETTER OF CREDIT:
It is not modified or cancelled without the concern of all the parties.

REVOCABLE LETTER OF CREDIT:
In it, the issuing bank can revoke or cancel the letter of credit any time without prior notice to the seller.

CONFIRMED IRREVOCABLE LETTER OF CREDIT:
In it, the confirming bank gives more assurance to seller same as issuing bank.

UNCONFIRMED IRREVOCABLE LETTER OF CREDIT:
In it, an advisory bank from the seller's side performs as an agent for the issuing bank without any responsibility to the seller.

REVOLVING LETTER OF CREDIT:
This type of letter is used if in case regular transactions take place and remain valid for a long term without issuing the another letter of credit.

BANK GUARANTEE

- Bank guarantee is a service by which bank gives a guarantee to the seller on behalf of his client for assurance of payment.
- So, Bank guarantee has the same function as a letter of credit but with some differences.
- Bank guarantee generally used in domestic transactions.
- Bank guarantee is beneficial when contractual obligations are not fulfilled by the other seller party.
- Bank guarantee is used in infrastructure and real estate projects to reduce risk level.

LETTER OF CREDIT V/S BANK GURANTEE

Basis	Letter of Credit	Bank Guarantee
Definition	A letter of credit is an obligation by the bank to the seller if the criteria met, the bank will make payment.	In bank guarantee, if the opposing party doesn’t fulfil contractual obligations the Bank will make

		payment.
Boundary	It is used internationally.	It is used domestically.
Protection	It protects both parties but favours exporter.	It also protects both but favours buyer.
Industry	It is used by merchants.	It is used by real estate and infrastructure developer.

L/Cs are frequently used in international transactions compared with bank guarantees. When comparing the two instruments, the market for bank guarantees is much larger than that for L/Cs.

DIFFERENCE BETWEEN BASE RATE AND BENCHMARK PRIME LENDING RATE

WHAT IS A BASE RATE?

- The Base rate is the minimum interest rate bank charges from their clients while giving a loan.
- Banks can charge above the base rate.
- The base rate is used in place of Benchmark Prime Lending Rate.
- The base rate was introduced because there is no transparency in BENCHMARK PRIME LENDING RATE. So to make it fully transparent base rate is introduced.
- As per RBI guidelines, banks cannot lend money below the base rate.
- The base rate is calculated taking all risk factors into consideration.
- The base rate is fixed by the individual bank, so it will differ from bank to bank.
- Banks declare their base rates on the website to make lending more transparent.
- Banks have to revise base rate at least once every quarter or more than once a quarter as per convenience.

EXCEPTION CASE:

- Banks can charge lower base rate for the three categories
    - Bank's own employees
    - Bank's depositors against their own deposit
    - DRI allowances

WHAT IS BATCH PRIME LENDING RATE?

- Before, Benchmark prime lending rate, the prime lending rate was used to give a loan to customers.
- Benchmark prime lending is the rate by which banks charge their creditworthy clients.
- Banks can decide BPLR by unanimity of board members.
- RBI's REPO rate and CRR affect the benchmark prime lending rate.
- The BPLR is not a transparent, so sometimes bank could lend below the BPLR. And for that reason BASE rate was introduced.
- Sometimes bank would give a loan to big companies at lower BPLR rate than common people.

COMPARISION CHART

Basis	Base rate	Benchmark prime lending rate
Concept	It is a new concept.	It is an old concept.
Replacement	Before BASE rate, BPLR use for calculating interest.	Before BPLR, PLR (prime lending rate) use for calculating interest.
Transparency	It is fully transparent.	No transparency at all.
Revision	At least once a quarterly.	No scheduled time for revision.
Disclosure	It is shown on bank website	Not to disclose.

SECURED CARDS VS UNSECURED CARDS

INTRODUCTION

Now a days, online banking has been growing rapidly. There are different ways by which we can do a number of transactions from anywhere. You have to just carry a small card and you are able to do what you want to do. There are mainly two types of card
1) Secured card
2) Unsecured card
These cards are issued by banks to their clients to provide services as per their requirement.

SECURED CARD:

- A secured card has a support of security deposit as a backbone.
- It means a card is backboned by a collateral security.
- Secured card’s credit limit is the balance available in the bank account as a security.
- In short credit limit of card rely on deposit and it is expand by increasing the balance in deposit.

- Secured card is less risky for the bank. It is easy for customer to carry a secured credit card than paper money.

UNSECURED CARDS

- An unsecured card is a card which is not backboned against a collateral security.
- The limit of unsecured card is higher as compare to the secured card.
- In unsecured card there is high rate of interest charged because of high level of risk involved.
- Banks issue unsecured card to those who has a good credit history.
- Unsecured card sometime becomes issue when a customer is not able to pay debts.
- Generally unsecured card is issued to the highly credible customers.
- And in case of default, banks have to take legal action against defaulter to collect debts.

DIFFERENCE BETWEEN SECURED AND UNSECURED CARD

Basis	**Secured card**	**Unsecured card**
Protection	It is protected against collateral security.	It is not protected against collateral security.
Interest rate	Low rate of interest.	High rate of interest.
Risk level	Lower level of risk.	Higher level of risk.
Credit limit	Low credit limit	Higher credit limit
Case of defaulter	Bank Covers it from the balance available in bank account of the client.	Banks have to take legal action against defaulter to recover the unpaid debt.

CONCLUSION

The main difference of credit card rely on a number of factors such as collateral security, credit limits and interest rates. Unsecured cards are less issued as compare to secured cards. So while issuing an unsecured credit cards banks have to check credit history of the client.

DIFFERENCE BETWEEN SWIFT CODE AND IFSC CODE

WHAT IS SWIFT CODE?

Full form of swift is society for worldwide interbank financial telecommunication. This code was came into an existence in 1973 in Brussels. It is a non-profit organisation owed by their member banks. It is an electronic transfer system used internationally. With the help swift code system they are able to convey message as per the pre-determined format.

WHAT IS IFSC CODE?

IFSC stands for the Indian financial system code used in India to transfer funds between the banks with in country by electronic medium. IFSC is used through RTGS or NEFT to make transactions with India.

COMPARATION BERWEEN SWIFT COODE AND IFSC CODE

BASIS	SWIFT CODE	IFSC CODE
Acronym	Society for worldwide interbank financial	Indian financial system code
USE	It is used internationally while transferring money through wire	It is used only in India while transferring money through RTGS OR NEFT.
Constituted by	International Organization for Standardization (ISO)	Reserve bank of India (RBI)
Characters	Either 8 or 11 First four: bank code Next two: country code Next two: location code Last three: branch code(optional)	11 First four: bank code Fifth one: 0 (always) Last six: branch code
Code assigned by	ISO	RBI
Fees	Higher fees charges	Lower as compare to swift code
Where to find code	Bank website	RBI website

DIFFERENCE BETWEEN OFFSHORE AND ONSHORE BANKING

OFFSHORE BANKING

- Offshore banking originates from the Channel Islands being "offshore" from the United Kingdom.
- An offshore banking is one which is located in a different jurisdiction from its investors or depositors reside.
- An offshore banking has a history and reputation in the home country.
- An account in offshore banking is known as an offshore account.
- A company or an individual maintain the offshore account for tax benefits and many other legal benefits.
- In Offshore banking, one can open a multi-currency account which accepts deposit and withdrawals in different currencies.
- One can also open a multi-currency account with several account numbers, each named in a different currency.
- An offshore banking is licensed by offshore banking legislation in the foreign domain that gives financial and legal advantages like privacy, low taxation, and security against the political and financial environment.
- An offshore banking accepts deposits and investments from non-resident individuals and companies.

TYPES OF OFFSHORE BANKING

1) PRIVATE BANKING INSTITUTIONS

Private banking institutions mainly focus on the high-level investors.
It designs the exclusive investments services and products for the targeted customer.

2) RETAIL AND COMMERCIAL BANKS

Retail and commercial banks focus on the medium and small level investors.
In this, the services are not specifically designed but are for the mass.

ONSHORE BANKING

- Onshore Banking is the banking activity which is undertaken within the jurisdiction and territories of a nation or a sovereign state.
- An onshore banking is nothing else but your typical branch of the bank in which you maintain saving or a current account.
- An onshore banking operates under the rules and regulations governing all banking institutions in this country.

DIFFERENCE BETWEEN OFFSHORE BANKING AND ONSHORE BANKING

MEANING

- An offshore banking is one which is located in a different jurisdiction from its investors or depositors reside.
- Onshore Banking is the banking activities which are undertaken within the jurisdiction and territories of a nation or a sovereign state.

PRIVACY AND SECRECY

- In offshore banking, Authorities, regulators and even governments cannot access information except few exceptions.
- In Onshore banking, there is a standard privacy and security policy.

STABILITY

- In offshore banking, the stability remains neutral in any situation like wars, economic up-down, rules and regulations and political changes. All this are not going to affect the account.
- In onshore banking, all type of adverse conditions affects the account.

INITIAL DEPOSITS

- In offshore banking, the initial deposit is in large amount.
- In onshore banking, the initial amount is much lesser than the offshore banking account.

FLEXIBILITY

- Offshore banking is highly flexible because it serves the specific services as per their need. It has a high level of personalization.
- Onshore banking is not flexible but it provides services up to a certain extent of personalization.

REPUTATION OF CLIENT

- Offshore banking has a high level of goodwill because of high net worth customers who deal in international trade.
- Onshore banking has a normal level of reputation in the market because the customers are from the national boundary.

ELIGIBILITY OF CUSTOMER

- Only non-resident individual can open an account in the offshore banking.
- In onshore banking, the standard eligibility requirement is followed.

TAX BENEFITS

- An offshore bank account has no tax or a negligible tax.
- An onshore bank account has standard tax rules.

RULES AND REGULATION

- Offshore banking has minimum rules and regulation.
- Onshore banking has to follow standard rules and regulations of many authorities like tax department, central bank and government.

DIFFERENCE BETWEEN CENTRAL BANK AND COMMERCIAL BANK

Central bank and commercial banks are one of the key parts of any financial system. Central Bank performs a role of Bankers to All Banks.

CENTRAL BANK	COMMERCIAL BANK
The central bank is the apex institution of the financial and banking structure of the nation	It is one of the structures of the money market.
Wholly owned by the government	Owned by share holders
It is a no-profit organization which implements the financial policies of the government	It is a profit making organization
It has the monopoly of note issue	It can only issues cheques
It is a banker to the government and does not involve itself in normal banking activities	It is a banker to public
It grants space to commercial banks in the form of rediscount facilities, keeps their cash reserves, and clears their balances	It gives loans to and accepts deposits from the public
The control of credits in accordance with the needs of business & economy is done by this bank.	Credit is created to meet the business requirements
It helps to establish financial organization so as to strengthen money & capital markets in a country	It helps industry by guaranteeing shares & debentures, & agriculture by meeting its monetary requirements through cooperative or individually
The chief of this bank is designated as "GOVERNOR"	The chief of this bank is called as "CHAIRMAN"

This bank is the guardian of the foreign currency reserves of the country	It is the dealer of foreign currencies
Each country will be having only one central bank with its offices at major centers of the country	There are several commercial banks with hundreds of branches within and outside the country

DIFFERENCE BETWEEN DIRECT DEBIT AND STANDING ORDER

A direct debit and standing order is a service provided by the banks to their customers. It is a premium service provided by the banks to those who want it. Both services make monetary transactions easy to the customers.

DIRECT DEBIT:

- A direct debit is an automatic payment system in which a payee is authorized by the payer to withdraw money from payer's account.
- It means a payee has a legal right to draw the amount when the amount due from the payer's account at a certain period.
- In an advance, a bank account holder gives an instruction to a bank about timing and amount of withdrawals to the particular payee.
- A payee can withdraw any amount at any point of time but the control remains with the payer only.
- If anything changed between payer and payee, a payer can inform bank and has right to stop or cancel the payment.
- In direct debit, the monetary amount varies from time to time.

STANDING ORDER

- A standing order is also known as standing instruction or a bank's order.
- In standing order, a payer can instruct a bank to transfer specific amount from his account at regular intervals.
- In standing order, an instruction is already given to the bank by the payer to transfer a certain amount to the payee's account at a regular interval.
- A standing order facility is suitable to those payments which fall due on fixed time with a fixed amount. It means a monetary amount remains the same.

DIRECT DEBIT V/S STANDING ORDER

Basis	**Direct debit**	**Standing order**

Meaning	Direct debit is a service of payment in which a bank account holder can authorize the customer to withdraw the due amount directly from his account.	Standing order is an instruction given by the bank account holder to a bank to pay a fixed amount at an intervals to another person's account.
Transaction amount	In direct debit, a transfer amount varies from time to time	In standing amount, a transfer amount remains same all the time.
By nature	A direct debit is a complex by nature.	Standing order is simple by nature.
Control on payment	A payee has a total control on the payment.	Opposite to the direct debit, in standing order a payer has control on it.
Charges	Bank charges a low amount of fees for this service.	Bank charges a more fees as compared to the direct debit.
Speed of service	Direct debit is fast service.	Standing order is slow service as compared to the direct debit.
Notification	In case if the transaction failure by the payee, the bank will send notification.	There is no notification at all in any case.
Example	Mobile Bills, Electricity bill, Gas bill	Rent, Insurance premium, Subscriptions, Equated Monthly Instalments

DIFFERENCE BETWEEN CHARGE AND MORTGAGE

CHARGE:

- Charge creates an obstruction on the title of a property when there is a charge on the asset, the asset cannot be sold or transferred.
- The charge is incurred on the asset by the lender to the borrower's movable asset.
- So, the main difference between the mortgage and charge is the classification of an asset. The mortgage is on an immovable property while a charge is on a movable property.
- In charge, the lender doesn't get right to sell the property. If the lender sells the property to recover the amount it becomes mortgage.

STRUCTURE OF CHARGES

- On immovable property: Mortgages
- On movable property: Pledge, Hypothecation

TYPES OF CHARGES

1) Fixed charges
Fixed charges are incurred on the fixed assets like land & building, plant & machinery.

2) Floating charges
It is charged upon uncertain assets like stock, etc.

MORTGAGE:

- The mortgage is an agreement between two parties, (i.e. the lender and the borrower) the borrower gives assurance to the lender to transfer the right to the immovable property for the security purpose.
- Immovable property includes plant & machinery, building, land, and many other properties which are static.
- In a mortgage, the ownership remains with the borrower and the possession is given to the lender.
- If in any situation, borrower fails to pay back in time, the lender has right to sell the mortgaged property and recover the amount.

TYPES OF MORTGAGES

- Simple mortgage
- English mortgage
- Equitable mortgage
- Anomalous mortgage
- Usufructuary mortgage
- Mortage by conditional sale

DIFFERENCE BETWEEN CHARGE AND MORTGAGE

BASE	CHARGE	MORTAGE
Meaning	In charge, there is only security purpose to the lender.	In mortgage, the ownership of immovable property transfer to the lender.
Formation	It is created by following law or concerned parties	It is created by both parties like the lender and the borrower.
Act	It doesn't require registration.	It is registered under the property transfer act, 1882.
Time limit	In this, there is an infinity.	There is fixed time limit.
On which property	On moveable property.	On immovable property

DIFFERENCE BETWEEN LOANS AND ADVANCES

- A loan and advance is a financial facility provided by the banks and financial institutions to help their customers in financial need.
- A finance is a life blood for any type of business or a particular need. So when one is not able to get a full amount of money by his own. He can use this type of financial services provided by a bank.

LOAN

- A loan is an amount lent by the lender to the borrower for a definite purpose for a particular time period.
- So a loan is one kind of debt provided by a bank to fulfil the long term requirement of a borrower.
- A lender charges a fixed rate of interest applicable to the loan amount borrowed.
- A loan credit on the basis of borrower's income, credit history, financial transactions etc.
- A loan may be a granted against any type of security like collateral security, mortgage asset, pledge etc. and it is called a secured loan, while nothing is put as security it is called unsecured loan.
- An interest is generally paid on a monthly basis.
- A loan is generally repaid in equal monthly instalments or the repayment of full amount when the expiry of loan ends along with interest payable on the loan. It depends upon the borrower which option to choose to repay a loan.

ADVANCES

- An advance is a credit facility provided to the big corporations to fulfil their daily needs like salary and wages, admin expenses, material expenses etc.
- A businesses use this credit facility to run a day to day operations smoothly.
- Advances are for the short term like for one year.
- Banks or financial institutions charge a low-interest rate and that is why it is cheaper and convenient for businesses to use it.

DIFFERENCE BETWEEN LOAN AND ADVANCES

Basic	**Loan**	**Advances**
Meaning	When a fund is borrowed by an entity or business corporation or an	When a fund is provided by the bank to a business corporation or an

	individual from another entity, repayable after a specific period carrying interest rate is known as loans.	entity for a specific purpose to be repayable after a short duration is known as advances.
Nature	A loan by nature is a debt.	Advances are by nature a credit facility.
Time duration	Loans are generally for a long term.	Advances are for short term, maximum for one year only.
Collateral security	A loan is may be secured against collateral security on not.	Advances are facilitated only against primary security or ant type of guarantee.
Legal formalities	There are legal formalities while granting a loan.	There is low legal formalities as compared to the loan.
Example	Auto loan, Personal loan, Education loan, Home loan etc.	Short term loan, Overdraft facility, Cash credit, Bill purchased etc.

DIFFERENCE BETWEEN FISCAL POLICY AND MONETARY POLICY

Fiscal Policy	**Monetary Policy**
Fiscal policy refers to the changing tax rates and levels of government spending to influence aggregate demand in the economy by government	Monetary policy refers to changing the interest rate and influencing the money supply by Central Bank.
It focus on economic Development.	It focus on Economic Stability.
Tax rates and government spending are the key instrument used in fiscal policy.	Interest rates are the key instrument used in monetary policy.
Fiscal policy changes in every year.	Changes is depends on the economic status of the nation.
Fiscal Policy is concerned with government revenue and expenditure.	Monetary Policy is concerned with borrowing and financial arrangement.
There are two types of fiscal policy :- (a) Expansionary fiscal policy (b) Contractionary fiscal policy	There are two types of measures adopted by central bank to credit control in the economy. They are a) Quantitative measures b) Qualitative measures
The policy in which the government minimizes taxes and increase public spending is known as Expansionary fiscal policy .	Following are the quantitative measures:- -Bank rate, Cash reserve ratio, statutory liquidity ratio, Repo rate, Reverse repo rate. Open Market

	Operations
The policy in which the government increases taxes and reduce public expenditure is known as Contractionary fiscal policy	Following are the qualitative measures :- -Credit Regulation, Moral persuasion, Directives, Rationing of credit.

CONCLUSION

The main purpose of the monetary policy include bringing price stability, controlling inflation, strengthening the banking system, economic growth etc, while the main objective of the fiscal policy is to bring stability, reduce unemployment and growth of the economy.

BASE RATE AND DIFFERENTIAL RATE OF INTEREST

BASE RATE

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 bound 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 the 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 the 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 is 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.

DIFFERENCE BETWEEN DEVALUATION OF CURRENCY & DEPRECIATION CURRENCY

INTRODUCTION:

Both these terms look same but the meaning of both differs somewhat. Both these words are used in a foreign exchange market and both are affected by the international economy elements. Both these words are used when the value of the currency falls as compared to the other currency. Both have different causes and long term effects on the economy.

THE MEANING OF DEVALUATION:

- Devaluation of currency occurs when in the country the monetary policy authority or government intentionally reduces the value of its currency by lowering the exchange rate as compared to another country's exchange rate.
- The authority devalues the currency by lowering the fixed exchange rate in the international market.
- It is changed by only the country's authority by comparing the worth of the goods and services in the international market.
- It helps the economy in the short period.
- There is no fixed time for it to devalue the currency but when the need occurs or authority think there is a need to devalue the currency, it happens.

EFFECTS:

- Exports cheaper.
- Imports more expensive.
- Increased aggregate demand

- Improvement in the current account.
- Higher Inflation

THE MEANING OF DEPRECIATION:

- The depreciation of currency occurs by forces of demand and supply in the global market not by the government. (If under any circumstances the government sells a lot of currency more than needed in that case depreciation occurs.)
- By depreciating the value of currency the problem occurs only for short time but in a long time, it will help an economy to build well and reliable.
- It also guards against the market crack-ups.
- The floating exchange rate changes day basis. Floating exchange rate is a rate by which the country determine the value of their own currency in the global market.
- It happens in the global market on a daily basis because of change in the economic policy or political party in the global market.
- In the depreciation, the purchasing power of currency falls as compared to another country's currency means country's money has less power to purchase as compared to another currency.

EFFECTS:

- Exports cheaper
- Imports expensive
- Higher inflation
- Decrease in supply

Base	**Devaluation of currency**	**Depreciation of currency**
Meaning	Devaluation means to lower the value of country's currency as compared to the another country's value	The meaning of depreciation of the currency is the same as the meaning of devaluation of the currency.
circumstances	It is done by the government authority.	It is done by the force of demand and supply in the international market.
Rate	It is done by using fixed exchange rate.	It is done by using floating exchange rate
Effect on economy	It just for short term.	It affects the economy for a longer term
Changes	There is no fixed time for it but it doesn't occur in regularly.	It occurs on a daily basis.

DIFFERENCE BETWEEN VARIOUS NRI ACCOUNTS IN INDIA

Account opening	
FCNR	NRIs/PIOs/OCIs(Individuals/entities of Bangladesh/Pakistan require prior approval of RBI
NRE	NRIs/PIOs/OCIs(Individuals/entities of Bangladesh/Pakistan require prior approval of RBI
NRO	Any Individual resident outside India
Joint Account	
FCNR	In the names of two or more non-resident individuals. With a local close relative on 'former or survivor basis'
NRE	In the names of two or more non-resident individuals. With a local close relative on 'former or survivor basis'
NRO	In the names of two or more non-resident individuals. With a local close relative on 'former or survivor basis'
Currency in which account is denominated	
FCNR	US dollar, pound sterling, Yen, Euro, Australian dollar & Canadian dollar
NRE	Indian Rupees
NRO	Indian Rupees
Nomination	
FCNR	Allowable
NRE	Allowable
NRO	Allowable
Account Type	
FCNR	Term Deposit only
NRE	Savings, Current, Fixed, Recurring deposit
NRO	Savings, Current, Fixed, Recurring deposit
Interest Rate	
FCNR	Banks are allowed to determine interest rates for Deposits
NRE	Banks are allowed to determine interest rates for Deposits
NRO	Banks are allowed to determine interest rates for Deposits
Fixed deposits-period	
FCNR	Not less than 1 year and not more than 5 years
NRE	Min- 1year Max- 10years

NRO	As applicable to resident accounts
Income Tax	
FCNR	Not Taxable
NRE	Not Taxable
NRO	TDS on Interest received on NRO deposits to be deducted at 30.90%
Repatriability	
FCNR	Repatriable
NRE	Repatriable
NRO	Non- Repatriable
Loans in India **1)To account holder 2)To third parties**	
FCNR	Without any financial ceiling on the loan amount subject to standard margin requirements
NRE	Without any financial ceiling on the loan amount subject to standard margin requirements
NRO	Permitted Permitted
Loans in Abroad **1)To account holder 2)To third parties**	
FCNR	1) Without any financial ceiling on the loan amount subject to standard margin requirements 2) Not Permitted
NRE	Without any financial ceiling on the loan amount subject to standard margin requirements
NRO	Not permitted 2) Not permitted

DIFFERENCE BETWEEN FDI AND FII

INTRODUCTION:

Foreign Direct Investment (FDI) and Foreign Institutional Investment or, Investors (FII) are two different forms of investment tools for investing in a foreign country. Many of us are generally confused about FDI and FII. FDI basically means to invest in a foreign company and to acquire controlling ownership in that company and on the other hand FII means investing in the foreign stock market.

FDI is given preference over FII because it helps in the economic growth of the country.

FOREIGN DIRECT INVESTMENT (FDI):

- When any foreign organisation or, institution of one nation makes an investment in an organisation or, institution of another country then this is called as Foreign Direct Investment. This investment can be in various sectors like electricity, drinking water, road, factory, healthcare, properties, insurance etc. It is called direct investment because the Investors get a substantial amount of administrative control over the foreign company.
- Those poor countries where the availability of finance or, funds for their development and growth is quite low can avail the required financial support from the developed countries having good financial condition.

FOREIGN INSTITUTIONAL INVESTMENT/INVESTORS (FII):

The companies of a country that invest in the financial market i.e. the Stock market of a foreign country are known as Foreign Institutional Investment. The companies who invests through FII in another country needs to be registered with the Securities and Exchange Board of that country.

DIFFERENCE BETWEEN FDI AND FII:

	FDI	FII
1.	Foreign Direct Investment.	Foreign Institutional Investment or, Investors.
2.	When any organisation of one nation makes an investment in any organisation of another country, it is known as FDI.	When any organisation of any country makes an investment in the Stock market of another country, it is known as FII.
3.	FDI brings long term capital.	FII brings long term capital as well as short term capital.
4.	Entry and exit is difficult in case of FDI.	Entry and exit is very easy in FII.
5.	In FDI transfer of funds, technology, resources, strategies, new concept are done from the developed countries to the developing one.	In FII only funds are transferred from one country to another.
6.	FDI helps in developing infrastructure, increasing job opportunities and also plays a key role in the economic development of the country.	FII does not play any role in the economic development of the country.
7.	Through FDI, there is administrative control in the company.	Through FII, there is no any control in the company.
8.	FDI includes complex procedures and also	Through stock markets investors can make

	don’t gives an easy way in making money quickly.	money quickly under FII.
9.	Results in increase in GDP.	Results in increase in capital of the country.

FDI IN DIFFERENT SECTORS:

Agriculture and animal husbandry	**100%**
Print media	26%
Defence	100%
Broadcasting	100%
e-Commerce	100%
Railway	100%
Private Sector Banks	74%
Public Sector Banks	20%
Insurance	49%
White Label ATM	100%
NBFC	100%

CONCLUSION:

Keeping above points in mind we can say that both FDI and FII are two completely different forms of investment. Both have their pros and cons. However FDI is preferred over FII because it not only brings capital but also brings the latest technology, better infrastructure, better management and job opportunities.

PAYMENT BANKS VS SMALL FINANCE BANKS

- Payment banks can receive deposits and remittances, but cannot lend, focusing on migrant labour and low income households.
- Small banks will lend to “unserved and under-served sections”, including small business units, s mall and marginal farmers, and micro and small industries.

Payment Banks	Small Finance Banks
Objective	
Provide small savings accounts and payments /remittance services to migrant labour	Financial inclusion and supply of credit to small business units and farmers through high-

workforce and low-income households	technology and low-cost operations
Eligible Promoters	
Individuals or professionals with necessary experience and eligibility, existing NBFCs, corporate banking correspondents, mobile companies, supermarket chains, real estate co-ops and corporate entities	Resident individuals or professionals with 10 years of experience in banking and finance, companies and societies owned and controlled by residents, existing NBFCs, microfinance institutions and local area banks owned and controlled by residents
Scope of Activities	
Accept deposits but customer balance should not exceed Rs.1 Lakh	Basic services of accepting deposits and lending
Cannot give loans, can issue ATM/Debit card but no credit cards	No restriction on the area of operations
Can distribute non-risk simple financial products such as mutual funds and insurance products	At least 50% of its loan portfolio should constitute loans and advances of upto Rs.25 Lakh
NRIs will not be allowed to open accounts	
Capital Requirement and Promoter's contribution	
Minimum paid-up equity capital of Rs.100 Crore/initially 40%, to be gradually brought down to 26% within 12 years from date of commencement	

UPDATE

On 19 August 2015, RBI approved "in-prinicple" licenses to 11 entities to start payment banks, these are 11 entities are :-

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services
- Department of Posts
- FINO PayTech
- National Securities Depository
- Reliance Industries
- Dilip Shanghvi, founder of Sun Pharmaceuticals
- Vijay Shekhar Sharma, CEO of Paytm
- Tech Mahindra
- Vodafone M-Pesa

PUBLIC SECTOR BANKS V/S NATIONALIZED BANKS

Public Sector Units :- In Public sector Units (PSUs) government take or holds the majority interest.

In simple words, Government holds more than 50 % stake of an organisation.

- **Public Sector Bank :-** Public Sector Bank comes under govt. In these banks, the government is always responsible for each and every type of activity. There are 27 Public Sector Banks in India. These banks are as :-
    - 21 Nationalized Banks
    - 5 State Banks Group

LIST OF PUBLIC SECTOR BANKS :-

NATIONALIZED BANKS :-

- Allahabad Bank
- Andhra Bank
- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Canara Bank
- Central Bank of India
- Corporation Bank
- Dena Bank
- Indian Bank
- Indian Overseas Bank
- Oriental Bank of Commerce
- Punjab National Bank
- Punjab & Sind Bank
- Syndicate Bank
- UCO Bank
- Union Bank of India
- United Bank of India
- Vijaya Bank
- IDBI Bank Ltd.
- Bharatiya Mahila Bank

STATE BANKS :-

- State Bank of India
- State Bank of Bikaner & Jaipur

- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Travancore

NOW THE QUESTION ARISES, WHAT ARE NATIONALISED BANKS ?

Nationalized Banks :- Before discussing Nationalized Banks, we have to know about Private Banks. So, Private Banks are those banks whose majority stake is held by an individual or may be by any private entity.
So, When government buy that majority stake from that individual or private entity then that private bank will become Nationalized Bank.

LIST OF PRIVATE SECTOR BANKS :-

- Axis Bank
- Citi Union Bank
- Dhanlaxmi Bank
- ICICI Bank
- IndusInd Bank
- Karnataka Bank
- Kotak Mahindra Bank
- Catholic Syrian Bank
- Federal Bank
- HDFC Bank
- Karur Vysya Bank
- Lakshmi Vilas Bank
- Yes Bank

KEY DIFFERENCES BETWEEN NATIONALIZED BANK AND PRIVATE BANK :-

- The major difference between both of them is that all the Nationalized Banks will become Public Banks.
- No Public Banks will become Nationalized Banks.

RECENT NEWS ABOUT PUBLIC SECTOR BANK :-

On 22 June 2016, the government announced that they wanted to merge 26 banks into six big lenders.

WHAT IS THE NEED TO MERGE BANKS?

- So, the reason behind this activity is the competition. As our government took this step of merging the public sector banks, for understanding this activity we have to understand from the beginning.
- If we observe the balance of the each and every bank individually then you can clearly see that our balance is very less or we can say nothing as compared to foreign banks.
- So, for mentioning the competition between foreign banks and public banks of India. The government decided to combine or merge the several banks.

HOW MANY BANKS ARE THERE?

WHICH BANK IS GOING TO BE MERGED IN OTHER BANK?

According to government proposal :-
There are six big lenders leading merger. Those

- Bank of Baroda
- Bank of India
- Canara Bank
- Punjab National Bank
- State Bank of India

These above six banks are big lenders bank. There are some banks mentioned below whom are merging with big lenders banks.

- Syndicate Bank, Indian Overseas Bank, UCO Bank will be merged with Canara Bank.
- Central Bank, Dena Bank will be merged with Union Bank.
- Andhra Bank, Bank of Maharashtra, Vijaya Bank will be merged with Bank of India.

BENEFITS OF THIS ACTIVITY :-

- If these banks merge, then the capital of all these banks will also combine.
- This large capital helps the bank to increase the power of the bank.
- With this large capital, banks can easily give competition to the foreign banks.
- With increased capital, their balance sheet will also become more profitable.

DEMERITS IF WE AVOID THIS PROCESS :-

- The biggest disadvantage is that if these little banks don’t merge with large banks. Then after some time there are chances that these little banks would be banished.
- So, for their benefits they have to join the big lenders bank.

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.

DIFFERENCE BETWEEN REAL EXCHANGE RATE & NOMINAL EXCHANGE RATE

DIFFERENCE BETWEEN REAL & NOMINAL EXCHANGE RATE?

Exchange rate means the rate at which one currency will be exchanged for another.
In exchange rate, the words real exchange rate and nominal exchange rate are used while doing transactions in the international market.
The use of both this exchange rate is to buy and sell the currency with the foreign currency in the global market.

REAL EXCHANGE RATE:

- The real exchange rate is a rate which measures how many times an item of goods purchased locally can be purchased abroad.
- So, it indicates the ratio of items purchased in the domestic market to the items purchased in the foreign market.

- Real exchange rate actually determines the ratio of price in the local market to the price in the foreign market.
- So, it actually indicates the goods and services consumed as compared to another country.
- It is complex and also a difficult method to calculate the real exchange rate.
- So it measures the purchasing power of domestic currency to the foreign currency at a prevailing time.
- Real exchange rate is highly affected by the change in the exchange rate in the global market.

HOW TO CALCULATE REAL EXCHANGE RATE:

The formula of real exchange rate:

$$\frac{Nominal\ Exchange\ rate \times Domestic\ Price}{Foreign\ price}$$

For E.g.
If the 1 Kg Price of tea in India is Rs200 and suppose the Price for the same unit in the Dubai is 15 Dhiram. The Exchange rate is 1 Dhiram = Rs17.48

The formula of real exchange rate: $\frac{17.48 \times 15}{200}$

: 2.622

NOMINAL EXCHANGE RATE:

- Same as the Real exchange rate this exchange rate is also used to buy and sell the goods and services in the international market with another country.
- Nominal exchange rate means a rate by which you can exchange your domestic currency with the foreign currency at any financial institutions like banks, NBFCs etc.
- It is the value of money which is received in an exchange with another currency.
- So in short, the nominal exchange rate is the rate which is presented by the financial institutions.
- If the Nominal exchange rate is high it will benefit an economy a lot in the trading activities. If it is high, the goods and services get more foreign units
- If there is a change in the Exchange rate, Nominal Exchange rate is less affected as compared to the Real exchange rate.

HOW TO CALCULATE NOMINAL EXCHANGE RATE:

There is no particular formula to calculate the Nominal exchange rate. Let's understand with the help of theory. If you go on a foreign country as it but obvious that if you are in foreign country you need the domestic currency of that country, so you go to the financial institution and demand the foreign currency by giving the Indian currency and the rate at which it exchange is called nominal exchange rate.
For e.g.
Suppose the value of $1 = INR65, it means that if you go to USA. You will give rs60 and get the $1 to get the things

Real exchange rates may be more useful when assessing the impact of exchange rates on international trade than nominal exchange rates as it shows how many times an item of goods can be bought abroad.

DIFFERENCE BETWEEN BAD DEBT & DOUBTFUL DEBT

Both these words are related to the finance. When a client has purchased goods or taken a service without paying a price for it and making a promise to pay it later but it doesn't happen. Which means a money has been owed to a company, by its clients or customer. So the loss occurred in this is treated as a debt. Bad debt and doubtful debt both are a type of debt.

BAD DEBT

- When a company has given goods and services to its customer on a credit for some period it becomes receivables for the company.
- When creditors turn out not to repay the money and a company is unable to collect the amount ever, it is declared as bad debt.
- In a bad debt, a debtor fails to collect his accounts for the items sold on a credit in a certain period of time.
- A bad debt is written off by debtors and it is accounted as an expense to a company.
- This situation occurs when the creditor has been declared a bankruptcy by the debtor.
- So, the loss incurred on the credit given to the client sometimes interest also considered as a bad debt.
- This money is the account receivable means the company is a debtor and the customer is a creditor.
- So in a simple language, when a company is owed to its customer and a business entity is not able to collect and will not be able to collect in future, that amount of money goes to bad debt.
- A company makes provision for this type of loss.

DOUBTFUL DEBT

- It looks like same as the bad debt but both are a little bit different.
- Doubtful debts, which are not included in the bad debt, are considered or counted as a doubtful debt.
- When a creditor turns out not to pay money and a company may be able to collect the money so there is a chance of an amount will be recollected, it is called a doubtful debt.
- So, as the name suggests that doubtful debt, there is a possibility that the money will come, so this possibility makes doubtful debt.
- When an uncertainty comes to an end for the receivables doubtful debt turns to a bad debt.
- A company makes provision for this type of loss to cover in future like provision for doubtful debts.

Bad debt	Doubtful debt
When a money, which is owed to its customer and a business entity is not able to collect and will not be able to collect in future, that amount of money goes to bad debt.	When a creditor turns out not to pay money and a company may be able to collect the money so there is a chance of an amount will be recollected, it is called a doubtful debt.
In bad debt, a creditor is declared as a bankrupt by the debtor.	In doubtful debt, a creditor turns out not to pay the money.
In bad debt, there is no possibility that a money will be collected by a debtor.	In doubtful debt, there is a possibility that a debtor may collect the money.
Bad debt has a direct relation with the doubtful debt because when the possibility to collect money ends, a bad debt occurs.	Doubtful debt doesn't depend on the bad debt.

DIFFERENCE BETWEEN SINKING FUND AND AMORTIZATION

INTRODUCTION

For investors, there are a number of options and sources from where to arrange a fund for the investment. Funds can either borrowed or use a fund which was kept aside for future use. A sinking fund is one type of investment which was kept aside for future expectancy on the contrary amortization is a debt instrument like a loan or a mortgage which is paid in installments. Both have a notable difference between the characteristics of time, interest calculation method etc.

SINKING FUND

- A sinking fund is managed by arranging aside fund over a span of time to meet prospective future expenses.
- A fund will be kept in an account which earns compound interest over a period of time. It means an interest occurred on the original sum is added to it and this process goes on. It is also called an interest on the internet.

For example:

A business entity has made a deposit of Rs 1000 in the initial at the rate of interest 12 percent, so the interest on deposit is Rs 120 per month and for the second month an interest of Rs 120 is RS 1000 which is same as the first month. The same process continues until the maturity ends. There is a formula by which an investor is able to know the future value his fund at the time of maturity.

FV= PV (1+r) n   Where,
FV= Future Value of the fund (at its maturity)
PV= Present Value (the amount that should be invested today)
r = Rate of return
n = Number of time periods

AMORTIZATION

- Amortization is a periodic payment of a debt like a loan or a mortgage.
- Each periodic installment will include a principal amount as well as interest. Repayment installments are divided into equal amounts for the duration of the loan.
- Amortization is the arrangement of a lump sum cash flow into many periodic installments over a span of time, which is also called amortization agenda.
- Amortization is a word used to account for the reduction of the value of capital assets over a span. This is similar to the noncash expenditure like a devaluation which is done only for the intangible assets like Patents, copyrights, and trademarks.

For Example

A business entity has made a deposit of Rs 1000 in the initial at the rate of interest 12 percent, so the interest on deposit is Rs 120 per month.and for the second month an interest of Rs 120 is added to the principal amount that is RS 1000. So, now the initial amount for the second month is Rs 1120 and the interest calculated on this amount. The same process continues until the maturity ends.

DIFFERENCE BETWEEN SINKING FUND AND AMORTIZATION

MEANING:

- A sinking fund is managed by arranging aside fund over a span of time to meet prospective future expenses.
- Amortization is the arrangement of a lump sum cash flow into many periodic installments over a span of time.

INTEREST AMOUNT:

- In sinking fund, an interest amount is received from the borrower.
- In amortization, an interest amount is paid to the lender.

PURCHASING METHOD

- In sinking fund, you can only purchase with cash in hand and this is possible when you had kept aside a fund for future.
- In amortization, one will get a loan to purchase anything in the initial and pay it with interest at the end of maturity.

FACTORS

- In sinking fund, one knows the fund one want at the end of the period. So, one will calculate the amount one has kept aside each installemts to get that amount.
- In amortization, one knows a borrowed amount and the lender calculates the amount of each periodic installment for the borrower and the borrower knows the amount to pay until amortization period ends.

DIFFERENCE BETWEEN RETAINED EARNINGS AND RESERVES

INTRODUCTION

Risk and uncertainties are natural in all type of business and this will decide the future of the business. So, to meet this unexpected factor, retained earnings and reserves are arranged. Both are registered under the equity section in the balance sheet. The main difference between retained earnings and reserves is that in retained earnings, a part of net income which was left in the business after distributing dividends to the shareholders is included while reserves are a portion of retained earnings set aside for a future expectancy.

RETAINED EARNINGS

- Retained earnings are also called as the "retained surplus".
- Retained earnings are the combined earnings of the business since its founding.

- This is the share of the company's net gain which was left out after sharing dividend to the shareholders.
- The remaining amount is invested in the company for getting profitable returns which help to develop the company which is called accumulated profits, surplus, etc.
- Retained earnings come under the title of reserves and surplus.
- The main purpose to keep the retained earnings is to assure the solvency of the business and to meet a future emergency.
- The retained earnings of a company depend on the dividend pay-out ratio and the reservation ratio.
- Retained earnings are used either for the reinvestment or to pay debts.

FORMULA TO CALCULATE RETAINED EARNINGS

Retained Earnings = Beginning Retained Earnings + Net Income – Dividends

RESERVES

- Reserves are a portion of the retained earnings which is allotted for the particular purpose.
- These are essentially used to meet unforeseen future loss if in case it occurs.
- Reserves are kept aside before distributing profits to the shareholders as a dividend and after paying taxes of the company
- The reserves are like writing off fictitious assets, distribution of dividend if profit does not occur, acquisition and replacement of assets, redemption of debentures or preference shares, bonus issue, etc.
- The main motive of the reserve is to make financial position strong for the future.

TYPES OF RESERVES

1) REVENUE RESERVE

- It is created out of the revenue profit and it is obtained in the normal course of business.
- It is used to make financial position strong, to replace depreciable assets, to redeem liabilities, to declare the stable rate of interest, to conduct research and development activity etc.
- If the revenue reserve is not needed in the future it is shared among the shareholders as a dividend.

2) CAPITAL RESERVE

- A reserve which is created from the capital profit is known as the capital reserve.

- It is earned from the capital transactions and not from the normal course of business.
- The capital reserve is not made to distribute among the shareholders.
- A capital profit occurred from the capital transactions like Profit on sale of fixed assets, Profit on sale of investment, Profit on revaluation of assets and liabilities, Premium on issue of shares and debentures, Profit on re-issue of forfeited shares, Discount on redemption of debentures, Profit on a purchase of an existing business etc.

DIFFERENCE BETWEEN RETAINED EARNINGS AND RESERVES

Basis	Retained earnings	Reserves
Meaning	Retained Earnings are a portion of company's net income that is left out after distributing dividends to shareholders.	Reserves are a portion of the retained earnings which is allotted for the particular purpose.
Aim	Retained earnings are kept aside by the company for reinvesting it in the main business.	Reserves are managed by the company to meet future unexpetency.
Current year profit	In retained earnings, Profit for the current year is added to retained earnings after distributing dividends to the shareholders.	In reserves, a percentage of current year's profit is transferred to the reserves before distributing a dividend.

DIFFERENCE BETWEEN CHEQUE AND BILL OF EXCHANGE

CHEQUE

- A cheque is a type of instrument used for making payment to any individual.
- It is an absolute order which addresses the drawee to pay on behalf of the drawer to the payee.
- It is always due on demand for a fixed sum of money and signed by the drawer of the instrument.
- For payment of the cheque, an issuer and payee must have a bank account.
- The validity of cheque payment is 3 months and after the expiry of validity, a cheque will be dishonoured.

PARTIES INVOLVED IN THE PAYMENT:

1) Drawer: the issuer of the cheque

2) Drawee: The bank

3) Payee: a party who gets payment

BILL OF EXCHANGE

- A bill of exchange is an unconditional negotiable instrument of payment which directs a drawee to make payment for a certain amount of money to the payee.
- A bill of exchange is approved by the drawer and affirmed by the drawee which has a predetermined date on which the payment is to be done to the payee.
- Bill of exchange is an order to pay to the payee, not a promise or request which must be signed by the drawer.
- In a bill of exchange, there is a grace period of 3 days when it becomes due.

PARTIES INVOLVED IN BILL OF EXCHANGE

1) Drawer: A maker of the bill of exchange.

2) Drawee: An individual on whom the bill is drawn means a person who accepts to make payment to the payee.

3) Payee: A Person who gets the payment.

DIFFERENCE BETWEEN CHEQUE AND BILL OF EXCHANGE

Cheque	Bill of Exchange
Meaning	
The Cheque is a document which contains an order to a bank to pay fixed amount of money from the account of the client	A bill of exchange is a negotiable instrument which orders to drawee to pay a fixed amount of money to payee on demand
Existence	
A cheque exists in section 6 of the Negotiable Instruments Act, 1881.	A bill of exchange exists in section 5 of the negotiable instruments act, 1881.
Grace period	
A cheque has no grace period once it is presented for the payment.	A bill of exchange has three days of grace period.
Approved	
A Cheque does not need any approval from the parties before presented for payment.	A bill of exchange needs an approval from the drawee for the payment.
Validity	
A cheque has a validity of 3 months.	A bill of exchange has no validity for the

	payment.
Liability	
Parties remain liable to pay also in case notice of dishonour is not given.	In the bill of exchange, the parties who do not get notice of dishonour are free from the liability of paying.
Notice of Dishonour	
In cheque, notice of dishonour is not compulsory.	In a bill of exchange, notice of dishonour is mandatory.

DIFFERENCE BETWEEN BILL DISCOUNTING AND FACTORING

INTRODUCTION

Both these words are types of short-term finance by which financial requirements can be meet immediately. Bill of discounting is the short term finance borrowing from the commercial banks while the factoring is related to the debts and how to manage it.

BILL DISCOUNTING

- Bill discounting is a method of trading or selling the bill of exchange to any financial institution like banks before it becomes matured with a less price than its par value.
- Discount on a bill of exchange is based on the remaining time for a maturity of it.
- A bill of discounting involves trade debts which are backed by account receivables.
- In simple language, Bill of discounting is an advance against the bill.

PROCESS

Step - 1

The bank must satisfy itself about the credibility of the drawer before giving money.

Step – 2

A bank will deduct fees or discount from the granted money and then give the reaming money.

Step – 3

Once the bank purchases the bill of discounting it becomes an owner of the bills and if customer delays payment then he has to pay an interest rate to the bank at the directed rates.

Step – 4

If the customer does not pay bills on time and becomes a defaulter in that case bank has right over the goods or services provided by the borrower to the customer.

FACTORING

- Factoring is a process in which the customer or borrower sells its debts to the financial institution or a factoring company at a discount.
- Factoring finance deals in account receivables it means invoices.
- A factoring company deducts the interest charges on financial services and commission charges for additional services from the factoring charges.
- A customer gives the instruction to transmit payment directly to the factoring company and settles the due balance.
- A factoring company provides the number of services to the customer like Credit Investigation, Debtors Ledger Maintenance, Collection of Debts, Credit Reports on Debtors and much more.

PROCESS:

The factoring process mainly divided into two parts

Step - 1

The Initial account setup

It takes one to two weeks and includes various formalities like submitting an application, file of clients, report of invoices and a sample invoice.

Step – 2

Ongoing funding

This process comprises the detailed underwriting during the period in which the factoring company asks for additional papers like paper of incorporation, bank statements.

If it is approved the business will get a maximum credit line from which they can draw.

DIFFERENCE BETWEEN BILL DISCOUNTING AND FACTORING

Basis	Bill discounting	Factoring
Meaning	Bill discounting means to trade bill before it becomes due for payment at par value.	Factoring means to sell its bool debt to the financial transaction to the factoring company at a discount.

Existence	Bill discounting comes under the Negotiable instrument act, 1881.	There is no such specific law for factoring.
Settlement of finance	In bill discounting, the bill is discounted and paid when the transaction takes place.	In factoring, the financer gives a maximum amount as an advance when a transaction takes place the remaining amount at the time of settlement.
Parties involved	In bill discounting there is a drawer, drawee, and a payee.	In factoring, there is a factoring company, debtor and a customer.
Fees	A financer charges fees in the form of discounting charges or interest.	Financer gets fees in the form of interest for the financial services and commission for extra services facilitate.

DIFFERENCE BETWEEN BILL OF EXCHANGE AND PROMISSORY NOTE

INTRODUCTION

- Bill of exchange and promissory note are types of negotiable instrument act. A bill of exchange or a promissory note is payables either to the order or bearer deemed as the instruments under the negotiable instrument act, 1881.
- A bill of exchange is a type of negotiable instrument raised from the trade transactions. A promissory note is undertaken from the borrower to pay a certain sum of amount to the lender.

BILL OF EXCHANGE

- Bill of exchange comes under section 5 of negotiable instrument act, 1881 "A bill of exchange is an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money to the order a certain person or to the bearer of the instrument"
- It is an agreement between two party customer and seller used mainly in global trade.
- Bill of exchange is a documentation that a buyer party has accepted to pay a selling party a sum of money at a proposed time for delivered goods and services.
- Both the parties generally engage with the bank to issue a bill of exchange due to a risk associated with trading.
- The acceptor of a bill of exchange is liable to settle his liability as a principal debtor under the act.

TYPES OF BILL OF EXCHANGE

1) Trade bill
2) Accommodation bill

CHARACTERISTICS OF BILL OF EXCHANGE

- In a bill of exchange, there must be a proper dated and amount must be specific.
- It must carry an order it means the drawer of the bill of exchange directs the drawee to pay a certain sum to the payee.
- The drawee must accept the bill.

PROMISSORY NOTE

- The promissory note comes under the section 5 of negotiable instrument act, 1881 " A promissory note is an instrument in writing, contains an unconditional undertaking, signed by the maker to pay a certain sum of a company only to the order of the certain person to the bearer of the instrument.
- The promissory note is in written and signed by the maker, who is a promisor, is a negotiable instrument.
- It is an undertaking from the buyer to pay a certain sum of money to the lender.
- The person to whom payment is guaranteed is called a payee or owner.
- A promissory note can be either payable on demand or at a specific time.

CHARACTERISTICS OF PROMISSORY NOTE

- The promissory note is a written promise with specific due to pay money to the lender
- There must be a signature of the drawer.
- Both the promisor and promise must be certain.

DIFFERENCE BETWEEN BILL OF EXCHANGE AND PROMISSORY NOTE

PARTIES INVOLVED:

In a bill of exchange, there are three parties i.e. the drawer and the drawee an payee. While in a promissory note there are only two parties i.e. the maker and the payee.

TYPE OF PAYMENT

In a bill of exchange, the nature of payment is unconditional order to pay while in a promissory note, it is unconditional promise to pay.

ACCEPTANCE

A bill of exchange requires an acceptance of the drawee before it is presented for payment. In a promissory note, there is no need to accept as it is signed by the person who is responsible to pay.

ACCOUNTABILITY

The liability of a drawer in a bill of exchange is secondary and conditional. In a promissory note, the liability of maker is primary and absolute.

NOTICE OF DISHONOR

In a bill of exchange, if the payment fails in that case notice must be given to all persons are responsible to pay. In a promissory note, the notice of dishonour to the maker is not necessary.

PROTEST

In a bill of exchange, there must be a protection in case of dishonour while in a promissory note there is no protest at all.

POSITION OF MAKER

In a promissory note, the make has an immediate relationship with the payee while in bill of exchange drawer is in an immediate relationship with the acceptor and not with the payee.

COPIES

A promissory note cannot be drawn in sets while a bill of exchange can be drawn in sets

PAYABLE TO BEARER.

A promissory note cannot be made payable to a bearer, while a bill of exchange can be so drawn provided it is not payable to bearer on demand.

PAYABLE TO MAKER

In a promissory note, the maker cannot pay to himself. In the case of a bill of exchange, the drawer and the payee can be one person.

DIFFERENCE BETWEEN COMMERCIAL AND INVESTMENT BANK

The difference between both the banks is based on the work performed by the banks. Commercial banks are set only for the commercial transactions like to take a deposit and lend money to the clients. Investment banks are set up only for the investors.

COMMERCIAL BANK

- Commercial banks are involved in providing banking and financial services to the general public.
- Commercial banks help to mobilize the savings in the economy.
- Commercial banks accept deposits from depositors at a nominal rate of interest and lend this money to the borrowers at a higher rate of interest.
- The gap between the high rate of interest and low rate of interest is an income of the commercial bank.
- Commercial bank facilitates many other services like overdraft, cash credit facility, collection of bills and promissory notes, locker facility, card facility etc. to their clients and charge fees for it

INVESTMENT BANK

- The investment bank is set up especially for the investors, big corporation and government.
- It acts as a mediator between the buyers and sellers and helps to raise the business capital.
- Investment banks serve their customers a number of services like issuing securities, buying and selling stock, bonds etc., provide advisory services and much more.
- An investment bank earns an income from the fees they charge form their clients.
- Investment banks provide services like underwriting of securities, raise initial capital, asset management, wealth management, merger, and acquisitions etc.

DIFFERENCE BETWEEN INVESTMENT BANK AND COMMERCIAL BANK

Basis	Commercial bank	Investment bank
Meaning	Commercial bank is a bank that provides services like accepting	Investment bank refers to a financial institution, that offers services like

	deposits, lending money, payment on standing order and much more.	underwriting of securities, brokerage services and so on.
Risk involved	There is a low level of risk involved.	The level of risk in the investment bank is higher.
Type of clients	Commercial bank deals with the individuals.	Investment bank deals with investors, big corporations and government.
Type of service	Commercial bank provides standard service to all their customers.	Investment bank provides customer-specific service according to his need.
Customer base	Commercial banks have a wide customer base.	Investment bank has a narrow customer base.
Income	Commercial banks earn income from the fees charged and the gap in the interest rate.	Fees from the services provided and commission by acting as a mediator.

DIFFERENCE BETWEEN FIXED AND FLEXIBLE EXCHANGE RATE

Exchange rate means a rate which is used for converting the currency from one country from another country. There are two types of exchange rate a fixed exchange rate and flexible exchange rate.

FIXED EXCHANGE RATE

- The fixed exchange rate is officially fixed by the government or a competent authority, not by the market forces.
- In fixed exchange rate wherein the government and central bank attempts to keep the value of the currency is fixed against the value of other currencies.
- The value of each currency was set in terms of gold and exchange rate was fixed according to the gold value of currencies that have to be exchanged.
- For example in India, a currency price is fixed an official price of its currency in reserve is issued by the central bank.
- Once the rate determined, the central bank undertakes to buy and sell foreign exchange and the private purchase and sales are postponed.
- An apex bank changes the exchange rate if needed.

FLEXIBLE EXCHANGE RATE

- A flexible exchange rate is also known as a floating exchange rate.
- In a flexible exchange rate, a rate is set according to the demand and supply of market forces.

- A country's economic situation will determine the market demand and supply of its currency.
- It is particularly determined concerning other currency it means higher the demand of particular currency, the higher it's exchange rate.
- If an economy is strong the flexible exchange rate is higher and vice a versa. So the government has no control over the flexible exchange rate.
- A value of the currency is fluctuated or shift freely according to the demand and supply of international exchange.

DIFFERENCE BETWEEN FLEXIBLE EXCHANGE RATE AND FIXED EXCHANGE RATE

Basis	Fixed exchange rate	Flexible exchange rate
meaning	A fixed exchange rate is a rate which is maintained and controlled by the central government.	A Flexible exchange rate is a rate which is determined by the market force.
Controlled by	A fixed exchange rate is controlled by an apex bank or a monetary authority.	A flexible exchange rate is controlled by the demand and supply forces.
How it affects currency	A fixed exchange rate has a devaluation and evaluation in a currency.	A flexible exchange rate can depreciate and appreciate the value of a currency.
Hedging	There is no hedging risk if the country is using fixed exchange rate.	Hedging is used to reduce the currency risks in the flexible exchange rate.

DIFFERENCE BETWEEN NRE ACCOUNT & NRO ACCOUNT

NRE and NRO account is a type of account which is specifically designed for the NON-RESIDENT OF INDIA who leave the country for any purpose like education, employment. Both differ in the sense that NRE account is an external rupee account while NRO account is an ordinary rupee account.

NRE ACCOUNT

- A NON-RESIDENT EXTERNAL ACCOUNT is a bank account particularly framed for NRIs to save their foreign income in India.
- NRE account is opened in India by those who live outside in India for a minimum of 180 days in the previous year.
- An account holder can repatriate foreign income and transfer it to India transparently.
- In NRE account, an income occurred from the interest is exempted from the tax.

- NRE account can be opened in saving as well as current and it enables an account holder to convert foreign currency into Indian currency at the prevailing exchange rate.

NRO ACCOUNT

- NON RESIDENCY ORDINARY ACCOUNT is a bank account is intended to manage the income earned in India from sources like pension, dividend, rent, interest etc.
- NRO account is opened by the citizen of India who temporarily shifted to a foreign country.
- An ordinary account can be changed to NRO account when an account holder changes living status.
- An NRO account is kept in Indian rupee and cannot be changed and repatriated into foreign currency.
- In NRO account funds can be withdrawn in Indian rupees only.
- Funds received and repatriated in an NRO account must be notified to the Reserve bank of India.

DIFFERENCE BETWEEN NRE ACCOUNT AND NRO ACCOUNT

FULL FORM

- NRE stands for NON-RESIDENT EXTERNAL ACCOUNT
- NRO stands for NON-RESIDENCY ORDINARY ACCOUNT

MEANING

- A bank account in which NRI's can deposit their income which generated from foreign country.
- A bank account which is opened by NRI to deposit their income generated from an Indian sources.

TRANSACTIONS

- A NRE account holder can deposit his income in foreign currency and withdraw it in Indian currency.
- A NRO account holder can deposits in both currency like a foreign currency and Indian currency and withdraw it in Indian currency.

RATE OF INTEREST

- In NRE account, the rate of interest is low.

- In NRO account, the rate of interest is high as compared to the NRE account interest rate.

TAX TREATMENT

- An interest income from the NRE account is totally exempted from the taxation.
- An interest income from the NRO account is fully taxable.

TRANSFER OF FUNDS

- In NRE account, an account holder can transfer fund to the NRO account.
- In NRO account, an account holder cannot transfer fund to the NRE account.

REPATRIATION

- NRE account is fully repatriation which includes both Principal amounts along with interest.
- NRO account is not fully repatriable it means in his account only interest is repatriable not the principal amount.

JOINT HOLDING ACCOUNT

- NRE account can be open jointly with another NRI but it cannot be opened with an Indian resident.
- NRO account can be opened with both NRI as well as close Indian resident.

DIFFERENCE BETWEEN INTEREST RATE AND CASH RATE

The word interest rate is used to get heard to everyone whether one knows more or less about the bank. Because the word exists before the bank doesn't exist. But cash rate you might or not heard. Both this rates are types of interest rates and used in banking.

INTEREST RATE

- An interest rate is a rate at which a charge is either received or paid on saving or borrowed funds.
- An Interest rate is the amount of interest due for a certain period on the proportion of the amount borrowed, lent or deposited.
- In interest rate, a percentage charges on saved or borrowed funds.
- An interest rate charged by the bank or by other rate charges to borrow its money, or the rate payable by a bank to its client for depositing money.
- An interest rate may be calculated monthly quarterly or annually.

HOW TO CALCULATE:

There are two ways to calculate interest rate

1) SIMPLE INTEREST

Formula

$$\text{Simple interest} = \frac{Principal \times \text{time} \times \text{rate}}{100}$$

Example:

An amount of RS 50000 is borrowed from a bank at the rate of 10 percent per annum for 2 years at simple interest.

$$\text{Simple interest} = \frac{Principal \times \text{time} \times \text{rate}}{100}$$

$$\text{Simple interest} = \frac{50000 \times 2 \times 10}{100}$$

Simple interest = 20000

2) COMPOUND INTEREST

Formula

$$\text{Compound interest} = \text{Principal amount } (1 + \frac{rate}{100})^n$$

Example: An amount of RS 50000 is borrowed from a bank at the rate of 10 percent per annum for 2 years at compound interest.

$$\text{Compound interest} = \text{Principal amount } (1 + \frac{rate}{100})^n$$

$$\text{Compound interest} = 50000\,(1 + \frac{10}{100})^2$$

=60,500

Amount = Compound interest – principal

= 60,500 – 50,000

= 10,500

CASH RATE

- When a commercial bank borrows funds from the central bank, it is called a cash rate.
- In India, the cash rate is referred as a bank rate but the meaning of both are same, used in different countries.
- A cash rate is also known as the overnight money market interest rate.

- A cash rate is paid by the commercial banks on the borrowed funds from the central bank.
- A cash rate has an effect on the interest rate because as if the cash rate increases or decreases, it automatically affects an interest rate.
- The main purpose of increase or decrease in cash rate is to regulate the financial system to run the economy properly.
- A cash rate increases or decreases just in basis points.

DIFFERENCE BETWEEN INTEREST RATE AND CASH RATE

Basis	Interest rate	Cash rate
Meaning	An interest rate is a rate at which a charge is either received or paid on saving or borrowed funds.	When a commercial bank borrows funds from the central bank, it is called a cash rate.
Managed by	An interest rate is managed by the banks.	A cash rate is managed by the central authority or bank.
Effect on each other	An interest has no effect on cash rate.	A cash rate has an effect on the interest rate.
Effect on economy	An interest rate directly affects the economy.	A cash rate indirectly affects the economy.
Affected by	An interest rate is affected by external factors like inflation, government policy etc.	A cash rate is generally affected by the internal factors.

DIFFERENCE BETWEEN FIXED DEPOSIT AND RECURRING DEPOSIT

Both fixed deposit and recurring deposit are a type of deposit. The word deposit means to save which is a part of the whole and keep it aside for the future. So the word deposit is common to all.

FIXED DEPOSIT

- Fixed deposit is also known as FD and it is a kind of deposit in which the term is fixed for a particular money which is deposited in the bank or any financial institution.
- Fixed deposit carries a fixed rate of interest which depends upon the amount invested in an account.

- When the account expires on the due date the account holder will get the whole amount along with the interest which occurs on the principal amount.
- So in fixed deposit, the account holder just once deposit an amount and then it remains for a long time until the term ends.
- In fixed deposit, an account holder cannot withdraw an amount before the term ends. In case of emergency if an account holder withdraws an amount he has to close an account and he is liable to get an interest for the full term which occurred or going to occur.
- In fixed deposit, if an account holder wants to add an amount after some time he is not allowed to do it.

RECURRING DEPOSIT

- A recurring deposit is also known as RD and name itself describes the meaning of recurring deposit. So recurring deposit means a deposit which occurs at regular intervals.
- In recurring deposit, a depositor is allowed to deposit a sum of money at regular intervals in a bank or financial institutions on a particular time.
- In recurring deposit the interest is calculated on a compound interest.
- In recurring deposit, the entire amount is repaid along with an interest at the expiry of the term.
- In recurring deposit, a deposit holder cannot withdraw the amount in a middle and if he wants he has to close an account.

FIXED DEPOSIT V/S RECURRING DEPOSIT

MEANING

- Fixed Deposit or FD is a scheme, in which the deposit holder invests money for a long time in a lump sum amount.
- Recurring Deposit or RD is a type of bank account in which the deposit holder has to deposit a fixed sum of money in short intervals for a long time.

TYPE OF INVESTMENT

- In fixed deposit, the investment is one-time single lump sum amount.
- In recurring deposit, the investment is in parts or instalments at a particular time.

RETURN ON INVESTMENT

- In fixed deposit, the return on investment is high because the money invested is in a lump sum and the whole amount invested in one time only.

- In recurring deposit, the return on investment is comparatively low as compared to the fixed deposit.

DIFFERENCE BETWEEN INTEREST AND DIVIDEND

INTEREST

- Interest is the amount paid by the borrower it may be an entity, a company or an individual for the borrowed funds from the lender.
- Interest is a return on investment to the lender who charges it from a customer on the money lent.
- Interest paid by the company or an entity is an expense reduces the income of the company.
- Interest is payable at the regular time interval like annually, semi-annually or a quarterly to the moneylender at a specific time.
- Interest is calculated on the principal amount and the rate at which interest is calculated is known as an interest rate.
- Interest can be charged on the loan amount, bonds, debentures, securities etc.

TYPES OF INTEREST

- Simple interest
- Compound interest

DIVIDEND

- The dividend is generally paid by the company whether it is a private company, public company or a cooperative to the company's shareholders who are also owners of the company but has a small part of ownership.
- A dividend is an amount paid from the profit which left after paying all expenses and keeping all reserves and then distributed among the shareholders.
- A dividend is unanimously decided by the Board of Directors in the Board meeting.
- Shareholders will get a dividend in proportion to the money invested in the share of the company only if profit occurs.
- A share can be purchased from the initial public offer or from an open market.
- A dividend is generally paid annually but if board members want they will give semi-annually and quarterly also.
- A dividend is not always in cash form if the Board member wants they will give a share to the shareholders instead of a cash dividend

DIFFERENCE BETWEEN INTEREST AND DIVIDEND

MEANING

- Interest is the amount paid by the borrower it may be an entity, a company or an individual for the borrowed funds from the lender.
- A dividend is a return which paid by the company to its investors for the money invested by them.

FORM

- Interest is a charged against the profit.
- A dividend is a part of the profit it means it an appropriation of the profit.

COMPULSORY

- Interest is compulsory whether it a company or an individual an interest must be paid to the lender.
- A dividend is the paid only if profit occurs so it is not mandatory.

TO WHOM PAID

- Interest is paid to the lender or creditors by the borrower.
- A dividend is paid to the shareholders by the company

FIXED OR STATIC

- Interest is a fixed amount paid to the borrower at a predetermined rate.
- A dividend is not fixed and it varies from time to time depending upon the profit occur.

COMES UNDER WHICH HEAD

- Interest is an expense to the company.
- A dividend is not an expense to the company.

DIFFERENCE BETWEEN LIQUIDITY AND SOLVENCY

The word solvency is common nowadays because of many defaulters but the word liquidity you might or might not hear. But both are related to a finance while making an investment in a company.
With help of this two-parameter investor will decide whether to invest or not. Both this helps to determine the goodwill of the company but are very different to each other.

LIQUIDITY

- Liquidity covers the effectiveness of the firm's current liability to current assets.
- Liability is the firm's ability to meet their responsibilities in short run like one year.
- It determines the limit by which a business unit fulfil its financial commitments by using assets like stock, cash on hand, certificate of deposits, securities etc.
- The liquidity of the company directly affects the business because if it is not in a good position then there is a high chance that the company may default in future. So the liquidation position of the company helps to determine whether a company is secured or not.

SOLVENCY

- The word solvency means the potential of the business activities for the foreseeable future to expand and grow.
- It is the determinant of the company's capability to fulfil their long-term financial obligation which will due in payment.
- It measures assets of the company against its liabilities whether it is greater or not. It is shown on the balance sheet of the company and shows the soundness of an entity.
- Liquidity affects the day to day activities of the firm and affects the profit of the firm. It determines the firm's ability to run regular operations in the future.

DIFFERENCE BETWEEN LIQUIDITY AND SOLVENCY

MEANING:

- Liquidity means the ability of a firm to cover a firm's day to day operations currently. It shows the firm's capacity to run daily activities in time.
- Solvency means the firm's ability to pay the dues which are going to occur in the future and this can be done only if the firm has enough business assets.

RESPONSIBILITIES

- Liquidity has short-term obligations as said it has to just cover day to day operations.
- Solvency has long-term obligations means it has to arrange the fund for the future dues.

RISK INVOLVED

- Liquidity has a low level of risk.
- Solvency has a higher level of risk.

EFFECT ON THE FIRM

- If the liquidity of company is weak it directly affects the creditworthiness.
- Solvency of a firm lead to a bankruptcy.

NATURE

- Liquidity of the company is an easy tool to convert it into cash and reduce the short-term liabilities.
- Solvency of the company shows how it will sustain long in future to clear a long-term debt.

RATIO USED

- Liquidity used ratio like Current ratio, acid test ratio, and quick ratio
- Solvency used the ratio of Debt to equity ratio and interest coverage ratio

DIFFERENCE BETWEEN FIAT MONEY AND COMMODITY MONEY

Money is a legal tender generally used as a medium of exchange or make payment in different forms like a coin or a stamped currency. Both these are the type of money and each one is explained in detail as below.

FIAT MONEY

- Fiat money was introduced in 1000 A.D. in China as an alternative to the commodity money and representative money. But the use of it started in the 20th century widely by various countries.
- Fiat money is a currency which is declared by the government or by the law as a legal tender to use it as a medium to the economic transactions. It means the value of currency comes from the government.
- Fiat money is not supported by precious metals like gold, silver. Stones, diamond etc.
- Value of fiat money is separate to the value of a physical quantity.
- In fiat money, the face money is greater than its token value.

COMMODITY MONEY

- Commodity money is another type of money whose value comes from a commodity or goods itself as the name suggests.
- Commodity money is the money which has dual value status it means it carries the value in their usage as a money and value of intrinsic value (themselves).

- Commodity money includes various types of a commodity like gold, silver, copper, precious stone and much more. As said all of these has value by themselves and as a money.
- The main characteristic of commodity money is that its value is directly noted by the commodity user who uses its benefits.

DIFFERENCE BETWEEN FIAT MONEY AND COMMODITY MONEY

MEANING:

- The fiat money is a legally claimed money as it attains all their property from the law, it is like a purchase voucher which is used as an exchange for goods and services and the purchasing power of fiat money varies from time to time.
- Commodity money is obtained from the value from commodity or goods from which it is made. It is used for an exchange.

For example. Gold, Silver, metals etc.

GOVERNMENT INTERPRETATION

- In fiat, money government is maintained by the government in a fiat monetary system and the government has full control over the supply of it.
- Government is not entitled to make any manipulation in the commodity money because there is no need as a known commodity has themselves intrinsic value.

NATURE OF CURRENCY

- Fiat money is associated with government debt and it is interest-free.
- While commodity currency is an economic currency and the demand and supply of it is determined by the need of an economy because it is related to the real existence of commodity and goods.

QUANTITY DETERMINATION

- The quantity of fiat money is determined by the governmental monetary policy and the monetary policy is determined by the expert opinion. So we can say that fiat money is totally based on the knowledge and expertise of an expert.
- The quantity of commodity money is determined by the market force. It means it is supplied in the needed time only.

DIFFERENCE BETWEEN BANKS AND NBFC

Banks and NBFC (Nonbanking financial banking company) are the key financial intermediaries which offer the same services to the customers. Finance is the basic requirement of an individual as well as businesses. NBFC is a compliment to the bank because banks alone are not able to serve the requirement of all.

BANKS

- Banks are the financial institutions which are empowered by the government to do financial activities like to accept a deposit, Grant credit, to manage withdrawals pay interest, to clear cheques, to provide general services to the clients.
- Banks are the top organization which controls the whole financial system of the country.
- Banks act as a financial mediator between the depositors and the borrowers.
- Banks are responsible for the creating credit, mobilization of funds, safe and time bound transfer of finance.
- Banks help in smooth functioning of the economy.

NBFC

- NBFC is a company which is registered under the companies act, 1956 and it is under the control of central bank (Reserve bank of India).
- NBFC is not a bank but it is engaged in a lending fund as well as many other activities which are similar to banking like to provide loans and advances, credit facility, saving and various schemes etc.
- NBFC also provides services to the business corporation like an acquisition of shares, stocks, debentures, bonds, and securities issued by the government.
- It also facilitates services like hire purchase, leasing, venture capital finance, housing finance, and insurance

DIFFERENCE BETWEEN BANKS AND NBFC

Basis	**Banks**	**NBFC**
Meaning	Bank is a government entitled financial intermediary which aims to provide banking services to customers.	NBFC is a company which provides services similar to banking services to people without holding a bank license.
Registered under	A bank is registered under banking regulation act, 1949.	NBFC is registered under company's act 1956.

Deposit	Banks accept and lend deposit.	NBFC do not accept and lend deposit.
Investment	In banks a foreign investment is limited up to a certain fixed limit.	In NBFC, Foreign investment is allowed up to 100 percent.
Payment system	Payment and settlement is the core activity of banks.	In NBFC, the payment system is not a part of the activity.
Demand draft	Bank can issue self-demand draft on itself.	NBFC cannot issue self-demand draft their own.
Cheque drawn	Banks can draw a self-cheque by their own.	NBFC cannot draw self-cheque their own.
Credit creator	Banks can create credit through multiplier financial activities.	NBFC cannot do it.
Transaction services	Bank provides a variety of transaction services.	NBFC does not facilitate transaction services.

DIFFERENCE BETWEEN SECURED LOAN & UNSECURED LOAN

A loan is an amount which is borrowed from financial institutions for a certain period of time with a specific rate of interest.

A SECURED LOAN

- A secured loan means when a borrower takes a loan from the lender by pledges some property as a security against a loan.
- In a secured loan, a borrower just puts property as security it doesn't mean that the lender can possess and use it.
  If in case the borrower fails to repay the amount of loan in that case a lender has right to assess the secured property can cover the loan amount.
- In a secured loan, the rate of interest is because a borrower pledges a security.
- A secured loan is less risky.
- For example: Foreclosure, Non-recourse loan, Home equity line of credit, Mortgage loan, Repossession

UNSECURED LOAN

- An unsecured loan is opposite to the secured loan it means in unsecured loan a borrower doesn't need to pledge any property as a security to the lender.

- An unsecured loan is also known as a signature loan.
- An unsecured loan is approved based on the only borrower's promise

TO REPAY AND THE LENDER'S TRUST TO THE BORROWER.

- An unsecured loan is given to the borrower on the basis of borrowers credit history so there is no guarantee of payment loan amount.
- In an unsecured loan, there is a risk of repayment of the loan because nothing is put as a security.
- An unsecured loan is granted on the basis of customer's credit worthiness, financial status and ability to repay.
- In an unsecured loan, the rate of interest is very because of default.
- For example Personal loan, Personal line of credit, Credit card, Student loan

SECURED LOAN VS UNSECURED LOAN

Basis	Secured loan	Unsecured loan
Meaning	A secured loan means when a borrower takes a loan from the lender by pledges some property as a security against a loan.	An unsecured loan is opposite to the secured loan it means in unsecured loan a borrower doesn't need to pledge any property as a security to the lender.
In case of default	A lender sells an asset put a collateral security.	A lender can sue him for the default to pay.
Interest rate	A secured loan is at a low interest rate.	An unsecured loan is at a higher rate of interest.
Time duration	A secured loan is for a longer time because there is no risk of repayment of a loan and an interest payment.	An unsecured loan is for short time because there is a possibility of default.
security	Collateral security	No security
A Risk involved	In secured loan there is no risk or a little risk	There is a High level of risk in an unsecured loan.
Amount borrowed	In secured loan the amount borrowed is big because of security against loan.	An unsecured loan amount is small because there is a high level of risk involved in the repayment of loan amount.

DIFFERENCE BETWEEN MICRO FINANCE & MACRO FINANCE

INTRODUCTION:

- It seems like the same and people get confused in these words. Both are related to finance but the target market for both is different.
- Micro finance is specially framed for the need of an individual, a small industry or any type of small business unit.
- Macro finance is designed for the large section of the economy like big business corporations or a whole economy.

MICRO FINANCE

- A micro finance is a narrow concept which includes the various services like micro credit, micro savings, micro insurance and many more schemes.
- The purpose of micro finance is to help the small section of a society like low-income level people or a below poverty line who are not able to serve their needs just because of unavailability fund.
- Those who are not able to take a financial help by the conventional way of putting a security as a guarantee.
- A micro finance helps people to start their own business by proving finance with a low rate of interest and help to make them independent.

MACRO FINANCE

- Macro finance is a broad concept and works on a large scale and its advantages are widespread.
- Macro finance is an initiative which deals with the large section of an economy and covers all the financial need and how to provide it to the needed one.
- A macro finance includes the drafting policy, subsidies, multi-year expansion plans.
- The main aim of macro finance is to help an economy to grow and to generate employment and expand an economy.
- A government provides macro finance in any form to the business like tax benefits or a subsidy because it will benefit the economy in future.

DIFFERENCE BETWEEN MICRO FINANCE AND MACRO FINANCE

Basis	Micro finance	Macro finance
Meaning	Micro finance is an individual based concept to furnish financial services to low-income individuals who have no access to finance in a conventional way.	Macro finance is a whole economy based concept, which is not framed for any particular group, to grow the economy at a national level.
Concept	A micro finance is a narrow concept and focuses on the need of an individual.	A macro finance is a broad concept and focuses the whole nation.
By whom	A micro finance is provided by micro finance companies, self-help groups, and non-government organizations.	A macro finance involves a large entity like governments, big corporation, banks, and some big private lenders.
Money involved	In micro finance, the money involved is in a small amount.	The amount of money involved is in a large portion.
Time period	A micro finance is an endless activity which goes on and on.	A macro finance is for a specific time period like 2 years or a 3 year. It means it has a predefined tenure.
Risk level	In a micro finance, there is a risk of default that an individual may not pay.	There is no risk at all because the main aim is to give benefit to the economy.
Effect	A micro finance has a direct effect on an individual.	A macro finance has a direct effect on the whole economy which indirectly affects the whole population

DIFFERENCE BETWEEN OPEN ENDED & CLOSE ENDED FUNDS

Open ended fund and closed ended fund are types of mutual fund, which are collective investment Parkway. A mutual fund is a diversified investment plan in which a group of shareholders shares a fund and it is managed by experts.

OPEN ENDED FUND

- An open ended fund is the type of mutual fund in which an investor can enter and exit whenever he wants.
- In an open-ended fund, the capital invested is endless and there is no tenure for its redemption, so it is perpetual by nature.

- An open ended fund is available anytime to anyone for subscription and repurchase. It means it has no time limit for buying and selling.
- An Open ended fund can be bought from the initial public offer or from a secondary market like stock exchanges.
- An open ended fund deals with the net asset value which is calculated at a regular interval like annually.

CLOSED-ENDED FUND

- As the name suggests, a closed-ended fund has a fixed tenure, once the time limit over it will automatically redeem after that particular time
- An investor can invest in it during the initial public offer only. It cannot buy from the stock exchanges.
- In closed-ended, the fund invested by an investor for a short period because a closed-ended fund has short life span.
- A value of a closed ended fund is defined by the demand and supply.
- At the time of redemption of a closed ended fund, the total amount realized is distributed among the investors as per their investment

OPEN-ENDED FUND V/S CLOSED ENDED FUND

Basis	**Open ended fund**	**Closed ended fund**
Meaning	An open ended fund is the type of mutual fund in which an investor can enter and exit whenever he wants. It is a plan which continuous infinite.	As the name suggests, a closed-ended fund has a fixed tenure which is for a short duration.
Nature	By nature, an open ended fund is perpetual.	Closed ended fund is finite in nature.
The Redemption period	Open ended fund has no fixed redemption period.	A Closed ended fund has fixed redemption period.
Value	A value of an open ended fund is determined by the net asset value.	In the closed ended fund, a value is defined by the demand and supply force.
Trading	In open ended fund, an investor can buy and sell it from the initial public offer and from stock exchange also.	In the closed ended fund, an investor can invest or subscribe for the period of the initial offer, once the initial public offer is over no possibility to invest in it.

Listing on the stock exchange	Open ended fund is not listed on the stock exchange.	A Closed ended fund is listed on the stock exchange.
Transaction time	Open ended fund is executed on daily basis.	The closed ended fund is executed on real time basis.

DIFFERENCE BETWEEN REPO RATE AND REVERSE REPO RATE

DIFFERENCE BETWEEN REPO RATE AND REVERSE REPO RATE

- A repo rate and reserve rate is a monetary tool used by the central banks to maintain and control the economy. By using repo rate and reverse repo rate a central bank is able to balance the demand and supply of the money in the market.

REPO RATE

- A repo rate is the short form of repurchase rate
- A repo rate is also called as the cost of credit.
- A repo rate is managed by the central authority of the government (RBI in India)
- The main function of repo rate is to increase the flow of money in the economy and to maintain liquidity.
- When in a market, there is a lack of liquidity the interest rate is raised and vice a versa.
- A repo rate is a rate at which the central bank grants a loan to the commercial banks against government securities.
- Central bank used this function to control the inflation in the economy and to reduce the borrowings of the commercial banks.
- In simple language, a rate at which RBI lends money to commercial banks, by an agreement that banks will repurchase the same pledged securities at a future date with predetermined price, against pledge of government securities when banks needed a fund to meet their day to day transactions.

REVERSE REPO RATE

- A reverse repo rate is a rate by which the government securities are sold by the central authority in an auction.
- It is a monetary instrument used to maintain supply in the market.
- A reverse repo is the opposite of the repo rate.
- A reverse repo rate is a rate at which the commercial banks give a loan to the central authority.

- A reverse repo rate is always lower than the repo rate.
- If a reverse repo rate increases will decrease the money supply and if it decreases, the money supply increases.
- If a reverse repo rate increases it will beneficial to the commercial banks means a commercial bank can invest more money in the commercial bank.

DIFFERENCE BETWEEN REPO RATE AND REVERSE REPO RATE

Basis	**Repo rate**	**Reverse rate**
Meaning	A repo rate is a rate at which the central bank grants a loan to the commercial banks against government securities.	A reverse repo rate is a rate at which the commercial banks give a loan to the central authority.
The Rate charged by	A repo rate is charged by the central bank.	A reverse repo rate is charged by the commercial bank.
Effect on economy	A high repo rate drains excess liquidity from the economy.	A reverse repo rate injects liquidity into the economy.
Effect on commercial bank	When a repo rate is higher, commercial banks have to pay a high rate of interest to get a loan from the central bank.	In reverse repo rate, the situation is totally opposite to the repo rate.
Usage	A repo rate is used to control inflation in the economy.	A reserve repo rate is used to control the money supply in the economy.

DIFFERENCE BETWEEN SMALL FINANCE BANKS & COMMERCIAL BANKS

OBJECTIVES OF SMALL FINANCE BANKS:

- The prime objective of a small finance bank would be to undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections of the population.
- The SFBs provide services to small business units, small and marginal farmers, micro and small industries and unorganized sector entities through high technology & low-cost operations, While the Scheduled Commercial banks provided banking services to all sections of the society.

OTHER CONDITIONS:

- SFBs are required to open at least 25% of its branches in a financial year in unbanked rural areas, similar to the scheduled commercial banks.
- Further, the Small finance banks are required to extend 75% of its ANBC to priority sector, whereas the SCBs extend 40 % of its ANBC to priority sector.

THE DIFFERENCES BETWEEN THE TARGETS OF PRIORITY SECTOR LENDING FOR SCHEDULED COMMERCIAL BANKS AND SMALL FINANCE BANKS ARE AS FOLLOWS:

Category	**Scheduled commercial banks**	**Small Finance Banks**
Total Priority Sector	40 percent of ANBC, Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	75 percent of ANBC While 40 per cent of ANBC should be allocated to different sub-sectors under PSL as mentioned below, the balance 35 per cent can be allocated to any one or more sub-sectors under the PSL, where the banks have a competitive advantage.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. In the 18 percent target for Agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.	18 percent of ANBC (Adjusted Net Bank Credit) In the 18 percent target for Agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	7.5 percent of ANBC
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	10 percent of ANBC

SFBs should comply with the following common guidelines for all categories of advances under the priority sector.

I. RATE OF INTEREST

The rates on interest on bank loans will be as per directives issued by our Department of Banking Regulation from time to time.

II. SERVICE CHARGES

No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to 25,000. In case of eligible priority sector loans to Self-help groups/ Joint Liability Groups, this limit will be applicable per member and not to the group as a whole.

III. RECEIPT, SANCTION/REJECTION/DISBURSEMENT REGISTER

A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The record should be made to be available to all inspecting agencies.

IV. ISSUE OF ACKNOWLEDGEMENT OF LOAN APPLICATIONS

The Small Finance Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SECTOR :

- Advances are given to Micro, Small and Medium Enterprises (MSME) sector shall be quantified in computing achievement under the overall Priority Sector target of 75 percent of Adjusted Net Bank Credit (ANBC).
- Loans provided above 5 crores per borrower/unit to Micro and Small Enterprises and 10 crores to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, will not be calculated in computing achievement under the overall Priority Sector targets as above.

DIFFERENCE BETWEEN SHORT FORECLOSURE & SHORT SALE

- Both these words generally used while referring to the repayment of a loan which was taken by putting the asset as a mortgage or as a security.

- These are two different types of options available to the owner who consistently fails to repay the loan at a time.
- Both these terms are used at the different time depending on the situation.

FORECLOSURE:

- Foreclosure is one kind of legal procedure in which the lender seizes the mortgaged property of the owner.
- This circumstance occurs because the owner of the property fails to repay the loan amount to the lender at a specific time.
- So, it makes compulsory to the lender to put a mortgaged asset to the forced sale in an auction.
- By doing this the lender can cover the remaining or whole debt amount which the owner failed.
- Foreclosure is a legal action taken by the lender to cover the outstanding debt and redeem the mortgaged property.
- By doing foreclosure the lender can freely sell the borrower's property.
- In this, if after covering the borrowed amount something is left it transfers to the borrower.
- In short, Foreclosure means the situation occurs in which the owner of the property constantly failing to repay the loan amount and in this situation, the lender takes possession of the mortgaged property.

SHORT SALE:

- A short sale situation occurs when the borrower owes more debt than the property or an asset which was mortgaged and the borrower is unable to pay the outstanding debt amount.
- In this situation, the lender puts the property for short sale and the borrower is allowed to sell the property on his own
- In this situation, if the remaining balance to the lender accounted as a deficiency.
- In this, while selling the property the lender doesn't play an active role.
- It is a very lengthy process and requires lots of permissions.
- So in short, a short sale means to give a right to sell their own property and pay the debt amount to the institution, entity or the person.

SHORT FORECLOSURE VS SHORT SALE

BASIS	FORECLOSURE	SHORT SALE
Meaning	In this the lender seize the property of	I this the lender gives right to sell

	the borrower and put it in an auction to cover the debt.	the property on his own and pay a debt to the lender.
When this situation occurs	When the value of a property is more than the borrowed amount or outstanding debt.	When the Borrowed amount or outstanding amount is more than the selling value the property.
Selling by	The lender	The borrower
Controlled by	The lender	The owner
Method of selling	In this method the selling is done in an auction.	The selling is made by the owner himself after got permission from the lender.
Effect on credit history	It highly affects the credit history of the borrower.	It has less effect on the credit history of the borrower.

DIFFERENCE BETWEEN RECESSION & CREDIT CRUNCH

INTRODUCTION

- These terms are used while referring to the macroeconomics.
- Both have a great effect on the economy because both these terms are used when the economic cycle become because of certainly unfavourable factors which affect the economy.
- Both have an adverse effect on the buyer and the seller's deal.

RECESSION:

- When in a market, the growth of economy becomes negative or adverse by comparing it with GDP of that particular country this situation is called a recession.
- So a recession is a condition when the level of trading or industrial activity is reduced in the market for two consecutive quarters.
- If it falls continue for two consecutive quarters by comparing with a measurement of gross domestic product and if it fails it is called a recession or economic decline.
- A recession means a notable decline in the trading or and industrial activity in the economy.
- Recession can be seen in the employment, production activity, wages, trading activity.
- The recession is part of a business cycle and for short period.

CREDIT CRUNCH:

- A credit crunch is also known as a Credit squeeze or credit crisis.

- A credit crunch is a condition in which there is an immediate decline in the availability of a loan or the credit.
- A situation in which suddenly the credit becomes difficult to get.
- Sometimes it can be done by reverse actions like by strict rules and regulations to avail the fund from the financial institutions like banks, NBFCs, and many other lenders.
- This can also be done by making the interest rate higher than the normal rate so it automatically leads to the reduction in the demand for the credit and vice-versa.
- This can be the authority of a particular economy to handle or manage the inflation.
- A credit crunch is affected by the irregularly and improper lending manners which end with a loss to the financial institutions.
- And it will increase the debt to the lender and badly affects the whole economy.

RECESSION VS CREDIT CRUNCH

Basis	**Recession**	**Credit crunch**
Meaning	Recession is a situation in which the trading activities slow down because of some factors.	A credit crunch is a condition in which a sudden decline occur in the availability of a loan or the credit.
Reason	In recession, the trading activities starts falling in the market due to some unfavourable factors.	Improper lending to the borrowers leads to the credit crunch.
Indictor	A recession is indicated by the growth domestic product.	Debt increased in the market due to defaulters to the financial institutions.
Effect on economy	A recession has short term effect on the economy which affects the production activity, wages, trading activities etc.	A credit crunch has more effect on the economy as compared to the recession which affects the borrowers.

DIFFERENCE BETWEEN P.O.S & ATM MACHINE

P.O.S

Point of Sale terminal is a combination of software and hardware that allows retail location to process card payment. It reads the information of a customer's Credit and debit card; check whether the funds are sufficient in a customer's bank account. It also transfers the funds from the customer's account to the seller's account, records the transaction and after the transaction is approved the terminal prints receipt for the customer.

ATM: -

ATM stands for Automated Teller Machine. This computerizes machine permits customer to access their bank account with a magnetically encoded plastic card and a code number. It allows withdrawing money and making deposits, paying bills, obtaining bank statements, check account balance and transfer money.

DIFFERENCES BETWEEN P.O.S AND ATM

P.O.S	ATM
1. The full form of P.O.S. is Point of sale.	1. Where the full form of ATM is Automated teller Machine.
2. P.O.S. is basically used at grocery or retail stores.	2. Where an ATM. is used at public places for the ease of banking service to people.
3. P.O.S. is used to give support to business for cash transaction.	3. Where an ATM. is used to give support to banking services. That's why it is also called self-service banking machine.
4. P.O.S. is only used to transfer cash digitally from account to account.	4. Where an ATM. is used to transfer as well as withdrawal of cash.
5. A P.O.S. is run by a P.O.S. terminal, a server and a P.O.S. retail software.	5. Where an ATM. connects to a host computer through a network.
6. There is no restriction or no extra charge to use a P.O.S. at any number of time for a particular bank account in a given time.	6. Where there is a restriction or carrying extra charge to use a particular ATM. to use many numbers of time for a particular bank account to withdraw money in a given time.

DIFFERENCE BETWEEN REVENUE DEFICIT & FISCAL DEFICIT

INTRODUCTION

- Generally, the words are most commonly used in the budget, as you know budget itself means an estimation of income and expenditure well in advance.
- One can manage their work whether it financial or not, the budget gives you an estimate from where the money comes from and where it goes.
- And as you a budget is an estimation so it may never be the perfect so sometimes there may be surplus or deficit in it.

- Deficit means an excess of expenditure over revenue in some short of time.

REVENUE DEFICIT

- A Revenue deficit is a difference between the revenue expenditure and the revenue receipts of the government treasury in a financial theory.
- It means, there is an excess of expenditure of revenue over the revenue receipts in a fiscal year.
- A Revenue deficit occurs when there is an imbalance between the revenue income and Expenditure.
- A revenue budget is estimated on the basis of previous year's income and expenditure.
- So, Revenue deficit is a situation where the revenue falls and the expenses incurred as generally by nature.
- So, we can say that Revenue deficit is one kind of mismatch between the revenue and estimated expenditure.
- In simple language revenue deficit means the revenue doesn't match with the expenditure.

Revenue deficit = Revenue expenditure - revenue receipts.

FISCAL DEFICIT

- When the expenses for the period are higher than the actual revenue, it is known as the fiscal deficit.
- The fiscal deficit is a little bit same like revenue deficit but it covers the whole portion.
- Fiscal deficit includes revenue deficit along with those items which are excluded while calculating revenue deficit.
- It is defined as the imbalance between total expenditure over total receipts excluding last year's borrowings.
- There are some reasons why fiscal deficit occurs are like an unexpected expenditure, natural disaster etc.

Fiscal deficit = Total Expenditure - total receipts (excluding borrowings)

Basis	**Revenue deficit**	**Fiscal deficit**
Meaning	It is the excess of total expenditure over total receipts.	It is the excess of revenue over the receipts.
Measures	Revenue deficit measures the inability of the government to meet its regular needs.	It measures the total borrowings needed by the government.
How to control	The government can control the revenue deficit by increases the tax and non- tax resources.	In this situation, the government may borrow the money or to print new currency.

Formula	Revenue deficit = Revenue expenditure - revenue receipts.	Fiscal deficit = Total Expenditure - total receipts (excluding borrowings)
Example	If in a budget you thought that income may be of Rs 100000, but at the end of a financial year you just earn Rs 75000. So the gap between projected earnings and actual earning is called revenue deficit which is Rs 25000 in this case.	If in a budget you thought that an expenditure may be of Rs 100000, but you thought that the income may be of Rs 75000. So the gap between projected expenditure and expected earning is called fiscal deficit which is Rs 25000 in this case.

DIFFERENCE BETWEEN COST OF LIVING AND INFLATION

INTRODUCTION

Cost of living and inflation are the terminology which always makes people confused. Both this term are somewhat similar in nature but differ in economic conditions.

WHAT IS COST OF LIVING?

- Cost of living refers to the cost of maintaining a standard of living (it includes food, transportation, housing, healthcare, comfort level, material wealth, needs etc.). This all are primary measurement tools of economic prosperity in a country and it will change from time to time. Measurement tools for cost of living:

  There are two types of tools used to measure the cost of living.
  1) Cost of living index
  2) Purchasing power parity

COST OF LIVING INDEX:

Cost of living index is used to measure the relative cost of living from time to time within the country.

- It was first published in 1968.
- It considers the price of goods and services and allows substitute with other items.
- Cost of living index is calculated by taking into consideration of another region's cost of living as a base.

PURCHASING POWER OF PARITY

- This is another method to measure the standard of living. In purchasing power parity, it uses the differences in currencies.

- It is an economic theory which measures the exchange rate between two currencies to the ratio of currencies' respective purchasing power.
- The relative cost of living differs among countries who use different currencies.
- This is a complex method of calculating cost of living.

WHAT IS INFLATION?

- Inflation means an increase in the price of goods and services in an economy.
- Inflation is a big picture as compared to cost of living.
- There are two types of inflation
- Price inflation means a rise in the consumer goods.
- Red inflation means a loss in purchasing power parity.
- The effect of both this inflation is same.
- The Bureau of Statics measures inflation by the consumer price index.

CONSUMER PRICE INDEX

Consumer price index measures an average of a basket of goods, it includes food, medical care, transportation and many other. CPI is used to measure inflation.

COST OF LIVING VS INFLATION

Basis	**Cost of living**	**inflation**
Meaning	Cost of living index is used to measure the relative cost of living from time to time within the country.	Inflation means an increase in the price of goods and services in an economy.
Tools	Cost of living standard Purchasing power of parity	Consumer price index
Effect	It affects to the mobility of resources.	It is a macroeconomic condition and affects the whole economy.
Boundary	It is calculated for city, state, country or region.	It is calculated for each country.