Banking & Financial Awareness

Part - 1

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KNOW YOUR CURRENCY - FEATURES OF NEW CURRENCY NOTES

India is a cash-based economy, so circulation of fake currency notes continues to be a threat. In order to contain the rising incidence of fake currency notes and black money, On November 8, 2016, the government of India announced a historic measure to demonetize the two largest denomination notes Rs500 & Rs1000.

- According to Reserve Bank of India Act, 1934, The Reserve bank has sole authority of currency management. The design and denomination of banknotes are required to be approved by the Government of India on the recommendations of RBI. However, there can't be banknotes in denominations higher than 10,000 rupees in terms of the current provisions of the Reserve Bank of India Act, 1934. Coins can be issued up to the denomination of R1000 in terms of The Coinage Act, 2011. Coins are minted at the four India Government Mints at Mumbai, Alipore (Kolkata), Saifabad (Hyderabad), Cherlapally (Hyderabad) and NOIDA (U.P.).
- The Indian rupee sign (R) is the currency sign for the Indian rupee, it was designed by D. Udaya Kumar.

- Currency notes reflect the nation's rich and diverse culture, her struggle for freedom and her proud achievements as a nation.
- The Reserve bank of India launched a new series of banknotes in a new design in order to bring the identity closer to the cultural heritage of the country and for showing our scientific advances in interplanetary space.

The new design banknotes are distinctly different from the old Mahatma Gandhi Series of bank notes in colour, size and theme. The theme of the new series notes is India's heritage sites.

- The Numerals in Devanagari and the logo of Swachh Bharat Mission are other elements added in the new design notes. The new notes also have design elements in myriad and intricate forms and shapes.
- While the security features in the current series of banknotes, such as the watermark, security thread, latent image of denomination numeral, denomination numeral in colour shifting ink, number panels, see-through register, electro-type, bleed lines, etc., continue to remain, their relative positions have been changed in the new design notes.

THE IMPORTANT FEATURES OF NEWLY DESIGNED BANKNOTES AS PART OF MAHATMA GANDHI (NEW) SERIES HAVE BEEN SUMMARISED IN THE TABLE:

Denomination → Properties↓	**50**	**200**	**500**	**2000**
Picture				
Colour	Fluorescent Blue.	Bright Yellow	Stone Grey	Magenta
Size	66mm×135mm	66mm×146mm	66mm×150mm	66mm×166mm
Obverse	1. Portrait of Mahatma Gandhi at the Centre 2. Ashoka Pillar emblem	1. Portrait of Mahatma Gandhi at the Centre 2. Ashoka Pillar emblem	1. Portrait of Mahatma Gandhi at the Centre 2. Ashoka Pillar emblem	1. Portrait of Mahatma Gandhi at the Centre 2. Ashoka Pillar emblem

	on the right	on the right	on the right	on the right
Reverse	1. Swachh Bharat logo with slogan 2. Motif of Hampi with Chariot	1. Swachh Bharat logo with slogan 2. Motif of Sanchi Stupa	1. Swachh Bharat logo with slogan 2. Red Fort with Indian Flag	1. Swachh Bharat logo with slogan 2. Motif of Mangalayan (Mars mission)
Other Feature	Number panel with numerals growing from small to big on the top left side and bottom right side	For visually impaired: Intaglio or raised printing of Mahatma Gandhi portrait, raised Identification mark H with micro-text R 200, four angular bleed lines with two circles in between the lines both on the right and left sides	intaglio printing of Mahatma Gandhi portrait, bleed lines, circle with D500 in the right, and the identification mark to enable the visually impaired person to identify the denomination	For visually impaired: Intaglio or raised printing of Mahatma Gandhi portrait, Ashoka pillar emblem, bleed lines and identity mark.

FAST FACTS ON NEFT, RGTS, AEPS AND MTSS

CORE BANKING SERVICES (CBS)

Core Banking Services (CBS): It is a process under which information related to customer accounts and database information was done over electronic media. It stored in

It stored in the central server instead of branch server. Due to its high advantages, Central bank of India i.e. RBI made it compulsory to all Banks to implement Core Banking Services (CBS) as soon as possible.

1. NEFT - "NATIONAL ELECTRONIC FUND TRANSFER"

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

FAST FACTS ON NEFT

- There is no minimum or maximum limit while transferring through NEFT platform.
- If you have Bank account in any NEFT enabled branches , then you can transfer fund through internet or bank branches directly.
- If you don't have an account, then there are few norms you need to follow, RBI sets an upper limit ceiling i.e. one can transfer up to Rs.50,000 per transaction.
- NEFT mode can also be used while transferring fund to Nepal under Indo- Nepal Remittance Facility scheme. Here also RBI sets an upper limit ceiling i.e. one can transfer up to Rs.50,000 per transaction.
- For these schemes, Banks charges as service charge or processing fee for each ENFT transactions.
- While transferring NEFT fund you to anyone you must have His/Her Bank Accounts Details like Account Number , Account Holders Name , IFSC code.

2. RTGS- "REAL TIME GROSS SETTLEMENT"

- Processing of instructions starts at the same time
- Settlement of fund transfer occurs according to individuals basis or it can be transferred instantly. There is no such time slot.
- Funds can be transferred in Real Time Basis.
- RBI sets a limit, One can transfer a minimum of Rs.2 Lakh

- The scheme is only applicable for those customers, Corporates, Firms, whose bank is entitled with RTGS Payment platform system.

FAST FACTS ON RTGS:

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

3. IMPS: IMMEDIATE PAYMENT SERVICES

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

FAST FACTS ON IMPS:

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

4. AEPS: AADHAR ENABLED PAYMENT SYSTEM

- It is a payment system which uses Aadhar card number and individuals online UIDAI authentication, which are linked to a customer's Bank account.

- A customer will have to register his/her Aadhar number to their existing bank account, provided their bank is AEPS enabled.
- Through AEPS, the customer can withdraw or deposit cash, make the balance enquiry, and transfer funds.
- The maximum amount of transaction per account per day is Rs.50,000.
- These transactions are normally conducted by Business Correspondents (BCs) service centres.

5. MTSS: MONEY TRANSFER SERVICE SCHEME

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

6. NEPAL REMITTANCE SCHEME

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

INFLATION - TYPES, CAUSES, MEASUREMENT AND EFFECTS

INTRODUCTION –

Inflation can be defined as :

- A rise in Price level
- The general level of prices of goods and services
- In an economic over a period of time

Fall in the value of money When the level of currency of a country exceeds the level of production, inflation occurs.
Value of money depreciates with the occurrence of inflation.

In case the general price level rises :

- Each unit of money / currency
- Buys fewer goods and services .
- Consequently inflation also reflects erosion in the purchasing power of money.

EXAMPLE –

- J In 2014 1 Kg of Rice = Rs 40
- J In 2016 1 Kg of Rice = Rs 60

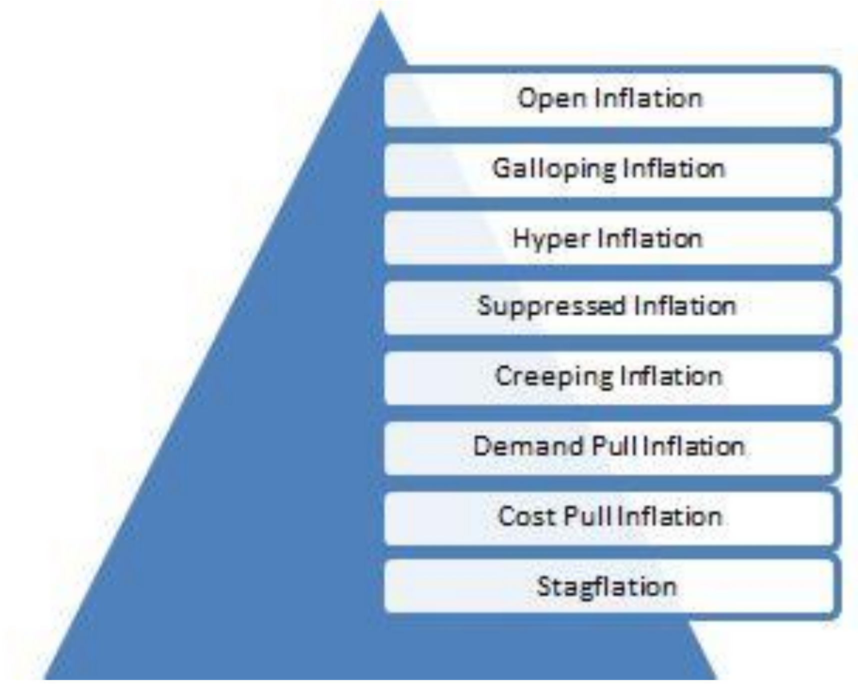
The above increase in price of wheat . The purchasing power of money has decline as the same amount of good is available at higher price

Hence , the above price rise of wheat over a period of time is called as inflation that is affecting the purchasing power of the people
This in turn reduces the value of money as for each commodity we have to spend more than the previous one .

DEFINITION -

- "Inflation is State in which the Value of Money is Falling and the Prices are rising."
- In Economics, the Word inflation Refers to General rise in Prices Measured against a Standard Level of Purchasing Power.

TYPES OF INFLATION –



EXPLICATION -

- **Demand Pull Inflation –** Inflation created and sustained by excess of aggregate demand for goods and services over the aggregate supply . In other words , demand pull inflation takes place when increase in production lags behind the increase in money supply
- **Cost Pull Inflation –** Inflation which is created and sustained by increase in cost of production which is independent of the state of demand (e.g. Trade unions can bargain for higher wages and hence contributes to inflation)
- **Stagflation –** In this types there is fall in the output and employment levels . Due to various pressure , the entrepreneurs have to raise price to maintain their margin of profits . But as they only partially succeed in raising the prices , they are faced with a situation of declining output and investment . Thus on one side there is a rise in the general price level and on the other side there is a fall in the output and employment .
- **Open Inflation -** The rate where Costs rise due to Economic trends of Spending Products and Services.
- **Suppressed Inflation -** Existing inflation disguised by government Price controls or other interference in the economy such as subsidies. Such suppression, nevertheless, can only be temporary because no

governmental measure can completely contain accelerating inflation in the long run. It is Also Called Repressed Inflation.

- **Galloping Inflation -** Very Rapid Inflation which is almost impossible to reduce.
- **Creeping Inflation -** Circumstance where the inflation of a nation increases gradually, but continually, over time. This tends to be a typically pattern for many nations. Although the increase is relatively small in the short-term, as it continues over time the effect will become greater and greater.
- **Hyper Inflation -** Hyperinflation is caused mainly by excessive deficit spending (financed by printing more money) by a government, some economists believe that social breakdown leads to hyperinflation (not vice versa), and that its roots lie in political rather than economic causes.

CAUSES OF INFLATION -

Factors on Demand Sides –

- Increase in money supply
- Increase in Export
- Increase in disposable income
- Deficit financing
- Foreign exchange reserves

Factors on Supply Side –

- Rise in administered prices
- Erratic agriculture growth
- Agricultural price policy
- Inadequate industrial growth

Black money (fake currency)
Increase in public expenditure
Decrease in the aggregate supply of goods and services

EFFECT OF INFLATION –

- They add inefficiencies in the market, and make it difficult for companies to budget or plan long-term.
- Uncertainty about the future purchasing power of money discourages investment and saving.
- There can also be negative impacts to trade from an increased instability in currency exchange prices caused by unpredictable inflation.
- Higher income tax rates.
- Inflation rate in the economy is higher than rates in other countries; this will increase imports and reduce exports, leading to a deficit in the balance of trade.

MEASUREMENT OF INFLATION –

The 2 ways of Measuring Inflation are –

1. CPI
2. PPI

- Inflation is measured by general prices index . General price index measures the changes in average prices of goods and services . A base year is selected and its index is assumed as 100 and on this basis price index for the current year is calculated . If the index of the current year is below 100 , it indicates the state of deflation and , on the contrary , If the index of the current year is above 100 it indicate the state of inflation
- Inflation rate and the value of money (Or the purchasing power of money) are inversely correlated . Hence , the value of money can also be measured with the help of price indices . The value of money declines when price index goes up and Vice-Versa.

CONSEQUENCES OF INFLATION –

- Adverse effect on production
- Adverse effect on distribution of income
- Obstacle to development
- Changes in relative prices
- Adverse effect on the B.O.P (Balance of Payment)

MEASURES OF INFLATION –

Monetary policy

- Credit Control
- Demonetization of Currency
- Issue of New Currency

Fiscal policy

- Reduction in Unnecessary Expenditure
- Increase in Taxes
- Increase in Savings
- Surplus Budgets
- Public Debt

Other Measures

- To Increase Production
- Rational Wage Policy
- Price Control

INFLATION A THREAT TO INDIAN ECONOMY -

- Inflation has become a household name for millions of Indians who are finding it extremely difficult to make both ends meet. Prices are growing faster than the household income almost for all products and services including real estate, food, transportation, luxuries.
- The global economic crisis saw many economies stumble but India rebounded faster and was surging ahead with a growth rate of 9%. But the inflationary pressure is forcing the government to adopt measures which are taking the steam out of the Indian growth story
- For the last two years India is witnessing double digit food inflation which had reached a high of around 18% in December 2010 with prices of onions, garlic and tomatoes skyrocketing. Lentils, milk and meat have witnessed a steady rise in prices which is putting pressure on the home budget of millions of Indians.
- Millions of poor people in India are struggling to arrange a two-square meal for their family members. We are running the risk of having an entire

generation of malnourished children who are otherwise considered the future of India.
- The tightening of the economy may control inflation in the long run but it is also slowing our economy and as predicted by the IMF India's growth will be only around 6-7% instead of 9%.

CURRENT STATUS OF INFLATION IN INDIA –

- Currently inflation rate is around 9.44% in India, much above the acceptable rate of 5%.
- The food price index is at 8.31% causing much discomfort to the policymakers. which under the current scenario seems impossible.

HOW TO CONTROL INFLATION –

Monetary Measures –

- Credit Control
- Issue of new currency

Fiscal Measures –

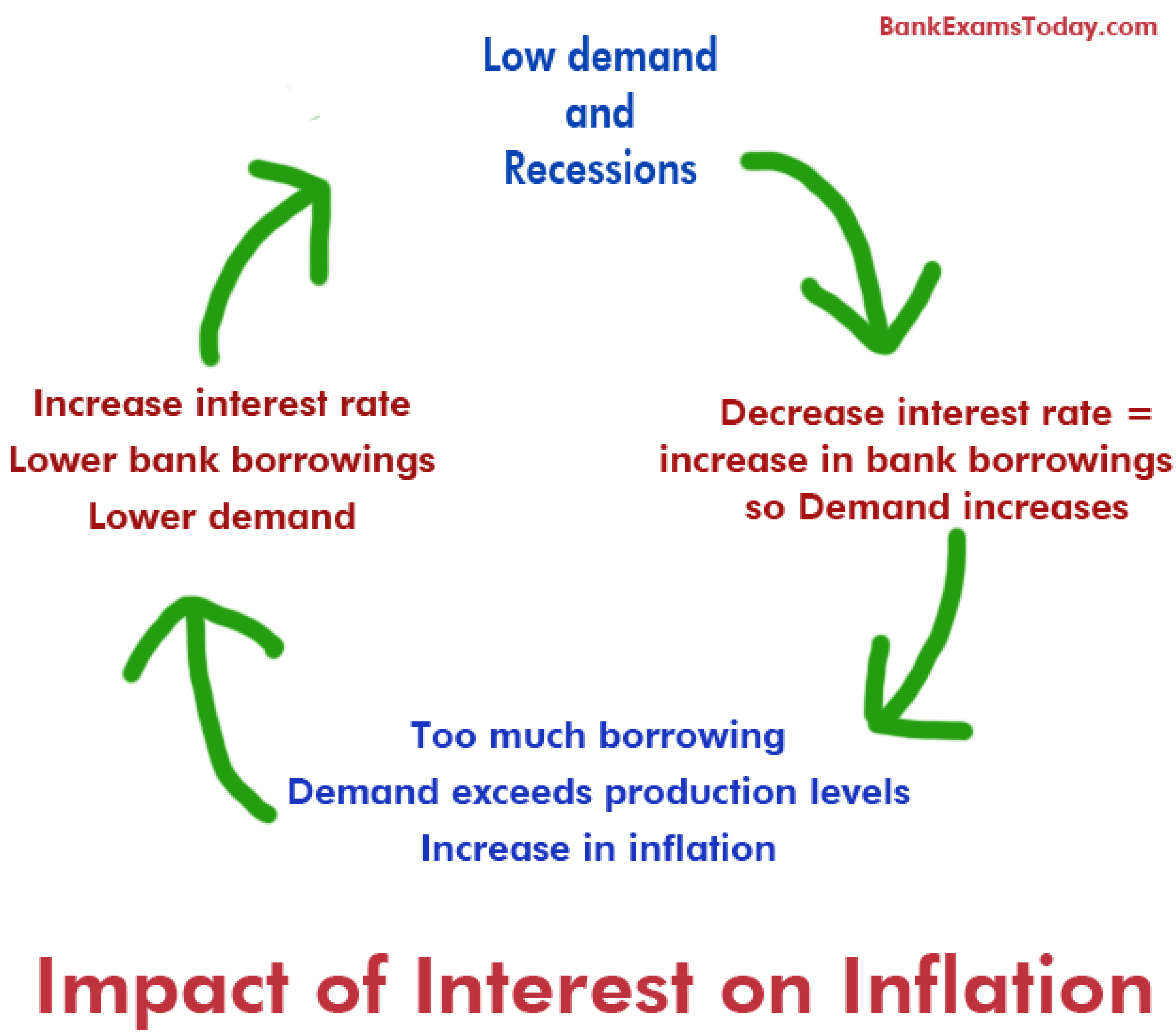
- Reduction in Unnecessary Expenditure
- Increase in taxes
- Increase in savings
- Surplus Budgets
- Public Debts
- To increase in production
- Rational wage policy
- Price control
- Rationing

RELATIONSHIP BETWEEN INFLATION AND INTEREST RATE

Inflation is the rise of prices of goods and services gradually overtime.

[Interest](#) is a major factor that impacts inflation rate. Today I am going to discuss various phases an economy faces to stabalize the prices.

EFFECT OF INTEREST RATE ON INFLATION



RELATION OF INFLATION AND INTEREST

PHASE I

Demand is very low in the economy, the unemployment rate is high. Government has two solutions,

- Increase production level or
- Decrease interest rate

PHASE II

Short term solution the decrease in interest rate. Now people will get loans at lower rate of interest. This will give a short-term booster to the economy.

PHASE III

As there are limited resources and people have infinite demands. People in the economy started purchasing more than production levels. Everybody started fulfilling their needs using funds from loans. This leads to high inflation rate

PHASE IV

Inflation makes a direct impact on poor people in the economy. Now the government is looking for ways to decrease the inflation rate. The interest rate is increased is increased, now people borrow less and demand level decreases.

BANKING CASH TRANSACTION TAX (BCTT): EXPLAINED

WHY BCTT IS IMPORTANT?

Recently, the Committee of Chief Ministers on Digital Payments has recommended the restoration of Banking Cash Transaction Tax(BCTT). It was recommended by the Committee in order to promote digital payments in the country. This committee was headed by Andhra Pradesh Chief Minister Chandrababu Naidu.

WHAT IS BANKING CASH TRANSACTION TAX (BCTT)?

- It is a type of Direct Tax which was levied(from 2005 to 2009) on cash transactions exceeding a specific amount from the bank by a customer.
- Currently, Government is examining the recommendations of the high-powered Committee of Chief Minister on Digital Payments. According to which, Banking Cash Transaction Tax(BCTT) should be levied on cash deals of Rs. 50,000 and above.

- Earlier, it was first introduced in 2005 by the UPA-1 government under the Finance Act, 2005. But after four years it was rolled back on 1 April 2009. During this period it was 0.1%. Also, it was not applicable in the state of Jammu and Kashmir.
- Again, Tax Administration Committee headed by Parthasarathi Shome had also recommended reinstating the BCTT in 2014.

BENEFITS OF BANKING CASH TRANSACTION TAX (BCTT)

- It will be a positive step against Black Money, as all currency denominations above a certain amount would be scrapped and it would force Black Money hoarders to switch to electronic methods of transaction. And with electronic transactions, a tax would be deducted straightway with every transaction at a nominal rate. It will drastically reduce the scope of hoarding cash wealth and evade taxes using the loopholes of Tax Laws.
- It will bring a large number of people under the taxation ambit.
- BCTT will help in achieving governments of making India a Cashless Economy.

KEY TERMS:

DIRECT TAX:

These are taxes which are directly paid to the government by the taxpayer. This tax is directly levied by the government on individuals and organisations. For Example, Income Tax, Wealth Tax, Corporation Tax, Banking Cash Transaction Tax(BCTT), etc.

INDIRECT TAX:

These taxes are levied on the manufacture or sale of goods and services. Indirect taxes are not directly paid to the government, instead, they are initially paid to an intermediary which transfer these taxes to the customer. For Example, sales tax, service tax, excise duty etc.

CASH CREDIT IN BANKING SYSTEM

INTRODUCTION:

Banks provide Cash Credit (CC) facility to the industrial/trading units to finance their daily working capital requirements. The working capital funds are generally required for the purchase of raw materials, for payment of labour, power charges, for storing semi-finished and finished goods till they are actually sold out and for financing the sales by way of sundry debtors/receivables.

THE CONCEPT OF CASH CREDIT:

Cash Credit is a proper limit sanctioned by the bank to the borrowing manufacturing/trading unit against the value of the raw materials, semi-finished goods and finished goods including stores and spares; and also receivables hypothecated by the account holder with the Bank. CC is sanctioned by way of running account. Credits within the CC limit are payable on demand. CC A/c functions like a Current A/c with cheque book facility. The securities hypothecated may vary from time to time from one set of securities to another. In 'Hypothecation', goods remain in the possession of the borrower, who is bound under the hypothecation agreement to show the goods and the proper accounting thereof to the banker whenever the banker requires the borrower to do so. Generally, this is done in a surprise inspection of the borrower's unit by the bank officer authorised once in a month. Thus, hypothecation is a device to create a charge over the assets under circumstances in which transfer of possession is either inconvenient or impracticable.

CC LIMIT FUNCTIONING:

CC Limit is fixed based on the requirements of the borrower for its working capital as agreed with the bank. Within the agreed limit and subject to the 'withdrawing power' the borrower is free to draw upon his credit account any number of times according to his needs and convenience. He is also free to repay into the account as frequently as he likes. All this makes CC limit highly flexible. CC Limit is normally sanctioned for a period of one year and secured by the security of tangible assets and personal guarantee. This guarantee is on the basis of a letter of Continued Guarantee signed by the guarantor. If the account is running satisfactorily, the limit of cash credit may be renewed by the bank at the end of a year. The interest is calculated and charged to the customer's account on the basis of the net amount of credit actually utilised, or in other words, bank charges interest on the amount utilised not on the limit sanctioned.

TYPES OF CC LIMIT:

C.C. LIMIT SANCTIONED BY THE BANK TO THE BORROWER CAN BE OF TWO TYPES:

A. By way of hypothecation of goods – named simply as C.C. Limit or Open Cash Credit Limit (OCC).
B. By way of pledge of goods – the goods remain in the godown of the borrower but the lock on the gate of the godown is the bank and the key also remains with the bank. 'Pledge' literally means transferring the possession of goods as security for the loan. Its primary purpose is to put the goods pledged in the possession of the lender. As and when a portion or the entire goods are required by the borrower, the firm has to make a written request to the banker and the pro-rata value of the goods is to be deposited as per the agreement. It is known as Key Cash Credit (KCC).

OVERDRAFT/CC LIMIT:

Some people misconceive CC with the overdraft. CC is totally different concept than the overdraft. Overdraft is allowed to a current a/c holder against a host of securities including financial instruments like shares, units of mutual funds, surrender value of LIC policy and debentures etc for a very short duration (usually up to one week). Some overdrafts are even granted against the perceived "worth" of a current a/c holder. Such overdrafts are called clean overdrafts. The word "Overdraft" means the act of overdrawing from a Bank account. In other words, the account holder withdraws more money from a Bank Account than that what has been deposited in it.

TWIN BALANCE SHEET PROBLEM IN INDIA: A HALT IN THE PROGRESS

UNDERSTANDING THE MEANING OF TWIN BALANCE SHEET PROBLEM

The recent Economic Survey of 2016-2017 highlights one of the serious challenges confronting the Indian Economy i.e. Twin Balance Sheet problem. It is a problem faced by the Public Sector Banks and the Corporate Sector. During

the high growth years around 2009, many companies borrowed a huge amount of money from banks to invest in infrastructure and commodity related business like steel, power, infrastructure development, etc. But now Indian Economy is going through a less profit period in both these sectors. Due to this slump in infrastructure and commodity related business
sector, the corporates are not able to repay their loans and their debts are increasing at an alarming level. And therefore, corporate sector have no other option other than to cut back investments. This creates a balance sheet problem in both public sector banks (PSBs) and corporate sector and, it has been seen as a serious obstacle to investment and growth desires of the country. sector, the corporates are not able to repay their loans and their debts are increasing at an alarming level. And therefore, corporate sector have no other option other than to cut back investments.

REMEDIES FOR TACKLING THE PROBLEM OF TWIN BALANCE SHEET

- Till June 2016, the total Gross Non-Performing Assets (NPAs) for public and private sector banks is around Rs. 6 lakh crore. And this figure is increasing day by day. But the Economic Survey 2016-2017 gives an effective solution for NPAs and called for a need to set up an Asset Reconstruction Company (ARCs) owned by the Indian Government. This ARC will be known as Public Sector Asset Rehabilitation Agency (PARA, also dubbed as a Bad Bank), it can be seen as an attempt to resolve India's twin balance sheet problem.
- There are some other solutions acknowledged by the RBI for twin balance sheet problem, such as Strategic Debt Restructuring (SDR), Asset Quality Review (AQR), Sustainable Structuring of Stressed Assets (S4A) which can heal PSBs from their bad loans. Also, RBI has set March 2017 as the deadline for Indian Banks to clean up their balance sheets.
- Last year, Union Budget also allocated Rs 25000 crore towards recapitalisation of Public Sector Banks. This was a necessary step to infuse capital into the Public Sector Banks.

KEY TERMS

ASSET RECONSTRUCTION COMPANY (ARCS):

An asset reconstruction company is in the business of acquiring Non-performing assets (NPAs). The Banks and an ARC get into an agreement in which the ARC take over the NPAs from the Banks Balance Sheet at a certain amount, lower than the Book Value. After this process, the particular ARC try to recover this amount from the borrowers.

BAD BANK:

A bad bank is solution to segregate NPA's from a bank's core business. After the bad assets are removed from the balance sheet, the bank can start its loan business again. The solution of NPAs lies in the fact that the bank will earn enough interest from new good loans to cover the losses from the bad loans it made earlier.

PROS AND CONS OF SBI'S MINIMUM BALANCE PENALTY

INTRODUCTION:-

I must admit, Indian Banks are very clever. Banks always find out the way around to protect their territory. Non-Maintenance of Minimum Balance is a major issue for the banks to handle. Banks incur the cost for keeping and servicing the Savings Account. Banks recover this cost by imposing minimum balance criterion i.e. an amount which should be reserved in the savings account on a regular basis to recover such cost. Charges imposed for Non-Maintenance of Minimum Balance generate substantial revenue for any bank. It is one of the most widely levied penalty by any bank.
regular basis to recover such cost. Charges imposed for Non-Maintenance of Minimum Balance generate substantial revenue for any bank. It is one of the most widely levied penalty by any bank.

SBI’S NEW RULE:-

- Making it necessary for account-holders to keep a minimum balance, the State Bank of India (SBI) on Thursday said it will be charging nonpayers a penalty from 1st April onwards.
- Making maintenance of Rs. 5,000 compulsory for accounts in metropolitan areas, Rs. 3,000 in urban areas, Rs. 2,000 in semi-urban areas and Rs. 1,000 in rural areas, the SBI listed out the charges to be effective from April 1.
- The charges will be based on the difference between the minimum balance required and the shortfall. For city areas, if the shortfall is greater than 75 percent, then the charges would be Rs. 100 plus service tax. If the shortfall is between 50-75%, the bank would charge Rs. 75 plus service tax and for below 50% shortfall, a fee of Rs. 50 plus service tax would be levied. Likewise, for rural areas, the penalty for non-maintenance of minimum balance ranges from Rs. 20-50 plus service tax.

HOW MINIMUM BALANCE CONDITION CAN COST YOU

Assume, if you get a new bank account with your new job. Your old bank account is left unobserved without minimum account balance as it used to be salary account. After some period, you may realize that your account is useless. The bank has converted your salary account to normal saving account. Now it is charging for non-maintenance of minimum account balance. If it has been one year (time passes swiftly) then you have to pay more. You can forget your unused account for more than a year.

DISADVANTAGES :-

- The major disadvantage is that regardless of shortfall, charges levied are fixed. In short, the normal penalty fixed, even if the shortfall is Rs 1 or it is Rs 5000.
- Second drawback is that banks are allowed to make negative balance i.e. banks keep on levying the charges and customers bank balance becomes Negative. In most of the cases, account holders are unaware and when they deposit money, the money will be deducted automatically. To avoid the sudden deduction of money, RBI issued some guidelines.

SUMMARY OF GUIDELINES ON NON-MAINTENANCE OF MINIMUM BALANCE ISSUED BY RBI W.E.F 1ST APRIL-2015

- Penalty for Minimum Balance necessity will be in proportion to the shortfall in the Minimum Balance. Charges will be according to slab structure which will be fixed with wide criterion of fixed percent of the difference between the actual balance maintained in the account and the minimum balance required.
- It will be the duty of a bank to inform the customer through SMS/Email/Letter regarding charges when minimum balance requirement is broken.
- Banks will not be able to create the negative balance. Account will be declared inoperative. Bank may limit the services available to such accounts. For example, bank may limit no of branch transactions or restrict usage of debit card if the minimum balance is not kept.
- Customer will have 1 month grace period to restore the Minimum Balance in account from the date of receipt of notice from the bank.
- Penal Charges can be levied only after 1 month's grace period.
- Any Penal Charges levied in this regard will be informed to the customer.
- Charges cannot exceed the actual cost of providing the service and must be reasonable.

FRACTIONAL RESERVE BANKING - EXPLAINED WITH EXAMPLES

INTRODUCTION:

A fractional reserve of the total deposits of all the depositors of a bank must be kept in the liquid form. Rest of the deposited money is either lent to the borrowers or invested in different options statutorily available to the bank. The prime motive of keeping fraction of the deposits as reserves in the banking system is to make available cash to the depositors, as and when they need money, without any delay.

FRACTIONAL RESERVE BANKING (FRB):

FRB is a banking business model. Every bank has to calculate some reserves out of the total deposited funds. Just for example, let us assume that a bank "A" has total deposits of Rs. 100 Crores. Bank "A" keeps cash as reserve to the tune of Rs. 10 Crores @ 10% and issues the balance Rs. 90 Crores to client X. In case X does not withdraw the money immediately, bank "A" keeping the 10% reserve of Rs. 9 Crores of Rs. 90 Crores lends to the tune of Rs. 81 Crores to client Y. And this process continues and that is how the system of FRB functions. Banks lend more money than the actual original deposits they have by using the FRB route. FRB has now become a part and parcel of the banking system all over the modern economies across the globe. FRB is practically running pretty well although theoretically it appears to be fearsome and frightful. Banks earn more profitability through extension of the funds and the country also stands to gain due to the more productive utilization of the country's funds.

The fundamental assumption at the back of such functioning is that not all the depositors would opt to withdraw their money at any given point of time. Now just imagine any such thing happens due to any financially panicky situation in the country as a whole or about a particular bank due to strong rumour mongering and the majority of the depositors of banks queue up outside banks for withdrawal of their deposits; the bank/s would surely default in making the payment.

RECENT EXAMPLE IS DEMONETISATION

The currency supply went down all of a sudden due to nearly 86% of the country's currency being demonetised and all the banks defaulted on account of repayment to the depositors and the RBI had to impose restrictions on daily, weekly withdrawal limits and image of the banks was thus saved to a great extent; otherwise there would have been complete chaos and mismanagement.

RISK OF LIQUIDITY:

New deposits are thus created out of the funds issued as loans. This way not only the Bank "A" as mentioned in the example but practically any of the banks can face the risk of liquidity if a major chunk of the depositors opt for withdrawal of their funds at a given point of time.

BANKS ARE GUARDIANS TO THE DEPOSITORS' FUNDS:

Banks are custodians/guardians of the funds deposited by the depositors. Banks play with these funds, though strictly as per the legal methodologies, for enhancing their overall profitability and FRB is just one such method. Ultimately, the stakes of the banks in the game may go higher and they may become even vulnerable.

ENHANCED ROLE OF CENTRAL BANK:

The role and the responsibility of the Central Banks of different countries become quite crucial and significant. For example, in the USA Federal Reserve and in India Reserve Bank of India have to keep a hawk's eye on the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) to take care of the liquidity of the banking system as a whole in order to safeguard the funds of the depositors. The Central Banks of different countries have to shoulder the greater responsibility of regulating the amount of hard currency with the banks and their overall deposits. The ratios of hard currency i.e. physical cash have to be changed from time to time for the entire banking system of the country including various regulations on particular banks for the safety of the banking system of the country. The central banks have to ensure that there is NO overextension of the deposits by any bank which may cause it to become vulnerable to collapsing. The more the CRR and the SLR (Statutory Liquidity Ratio), the less is the risk of bank failure and vice versa.

NOTE:

- Current Cash Reserve Ratio (CRR) in India is 4.000%. It has been maintained at this rate of 4.000% since February 09, 2013. The highest CRR in the economic history of India had been 15.00% on 08.10.1992.
- Current Statutory Liquidity Ratio (SLR) in India is 20.50%. It has been maintained at this rate of 20.50% since December 10, 2015. The highest SLR in the economic history of India had been 38.50% on 22.09.1990.

GREEN BANKING: ALL YOU NEED TO KNOW

INTRODUCTION

The concern for environmental sustainability by the banks has given rise to concept of Green Banking. The concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Green financing is the part of green banking. Green banking means promoting environmental friendly practices and reducing your carbon footprints from your banking activities. Green banking aims at improving the operations and technology along with making the clients habits environment friendly in the banking business. It is like normal banking along with the consideration for social as well as environmental factors for protecting the environment. It is the way of conducting the banking business along with considering the social and environmental impacts of its activities.

RISKS IN GREEN BANKING

Green banking is very important in mitigating the following risks involving in banks.

CREDIT RISK:

Due to climate change and global warming there will be direct as well as indirect costs to banks. It has been observed that due to global warming there had been extreme weather condition which affects the economic assets financed by the banks thus leading to high incidence of credit default. Credit risk can also arise indirectly when banks lead to companies whose businesses were affected due to changes in environmental regulation.

LEGAL RISK:

Banks like other business entities face legal risk if they do not comply with relevant environmental regulation. They also face risk of direct lender liability for cleanup cost for damages in case they actually take possession of pollution causing assets.

REPUTATION RISK:

Due to increasing environmental awareness banks are prone for reputation risk if their direct or indirect actions are viewed as socially and environmentally damaging. Reputation risks emerge from the financing of environmentally objectionable projects.

STRATEGIES

Indian Banks can adopt green banking as business model for sustainable banking. Some of following strategies little reflected in their banking business or must be adopted by banks.

CARBON CREDIT BUSINESS (CBS):

All Nations must reduce greenhouse gases emission and reduce carbon to protect our environment. These emissions must be certified by Certified Emission Reductions commonly known as carbon credit.

GREEN BANKING FINANCIAL PRODUCTS:

Banks can develop innovative green based products or may offer green loans on low rate of interest. As Housing and Car loan segments constitute the main portfolio of all banks so they adopt green loans facility.

PAPERLESS BANKING:

All banks are shifting on CBS or ATM platform providing electronic banking products and services. So there is a scope for banks to adopt paperless banking. Private and foreign banks are using electronics for their office but in PSU banks are still using huge paper quantity.

ENERGY CONSCIOUSNESS

Banks have to install energy efficient equipment's in their office. Banks have to transform this green banking in hardware, waste management, energy efficient technology products. Banks can donate energy saving equipment to schools and hospitals.

MASS TRANSPORTATION SYSTEM:

Banks have to provide common transport for groups of officials posted at one office.

SOCIAL RESPONSIBILITY SERVICES:

Indian banks can initiate various social responsibility services like tree plantation camps, maintenance of parks and pollution checkup camps.

The Financial Times and International Finance Corporation (IFC) is a member of World Bank Group launched Sustainable Finance Awards for institutions that are integrating social, environmental and corporate governance into their business operations. Their awards highlight the partnership between financial and non-financial companies in finding commercially viable and innovative solutions to sustainability challenges. The five categories of Sustainable Finance awards as per Financial Times are as follows

- Sustainable Bank of the Year
- Technology in Sustainable Finance
- Sustainable Investment of the Year
- Sustainable Investor of the Year
- Achievement in Inclusive Business

GREEN BANKING IN INDIA

The various banks in India which provide green banking services to their customers are as follows

STATE BANK OF INDIA:

SBI has launched green banking policy and set up windmills in Tamil Nadu, Maharashtra and Gujarat in generating 15MW power. This is the first bank in India which is in green banking and promoting green power projects.

PUNJAB NATIONAL BANK:

They had taken various steps for reducing emission and energy consumption.

BANK OF BARODA:

They had taken various green banking initiatives such as financing a commercial project. BOB is giving preference to environment friendly green projects such as windmills, biomass and solar power projects which help in earning the carbon credits.

CANARA BANK:

As a part of green banking initiative it had adopted environmental friendly measures such as mobile banking, internet banking, telebanking, solar powered biometric operations.

ICICI BANK LTD:

ICICI bank had started 'Go Green' initiative which involves activities like Green products/offerings, Green engagement and green communication with customers.

HDFC BANK LTD:

HDFC bank is taking up various measures for reducing their carbon footprints in waste management, paper use and energy efficiencies.

KOTAK MAHINDRA BANK:

Through the 'Think Green' initiative this bank had taken several initiatives such as to reduce the paper consumption and encouraging their customers to sign for e-statements and they had become partners with 'Grow- Trees.com' to plant one sapling for every e-statement on behalf of its customers.

INDUSIND BANK:

It has initiated its Green Office Project under which it had installed solar powered ATMs in different cities targeting energy saving as well as reducing CO_2 emissions.

YES BANK:

It has projects portfolio in the areas of alternative energy and clean Technologies.

HSBC GROUP:

HSBC has separate targets for data center, paper consumption and business air travel. The purposes of the targets are to drive efficiency, reduce its operational impact on the environment and generate cost savings.

IDBI:

IDBI Bank is providing various services in the field of Clean Development Mechanisms (CDM) to its client.

CONCLUSION

Green banking refers to the initiatives taken by banks to encourage environment-friendly investment. Green banking as a concept is a proactive and smart way of thinking towards future sustainability. It is very important for the banks to be pro-active and accelerate the rate of the growth of the economy. As there is a continuous change in the environmental factors leading the banks face intense competition in the global market. Banks needs to apply morality of sustainability and responsibility to their business model, strategy and formulation for products and services, operations and financing activities and become stronger. By adopting the environmental factors in their lending activities banks can recover the return from their investments and make the polluting industries become environment-friendly. These are the major information about Green Banking in India.

BLOCKCHAIN SYSTEM OF BANKING: ALL YOU MUST KNOW

INTRODUCTION

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

WORKING:

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

HOW IS IT UNIQUE?

- For any transaction to be done we need to have a reconciliation so as to ensure that the transaction is done in a genuine way. Every time having a reconciliation is a tougher task to ensure that the transactions are done in a smoother manner.
- To eradicate this problem block chain built applications will play a key role by not allowing reconciliation of any transactions as all the information will be readily available and verification will be done to see that if anyone is a part of particular block chain ecosystem.

EXAMPLE

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

WHY ARE BANKS INTERESTED?

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

ADVANTAGES:

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

doesn't support any back office, so automatically back offices will be eliminated in the banking sector.

HUGE POTENTIAL

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

CONCLUSION

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

FINANCIAL INCLUSION AND IMPORTANT INITIATIVES: KEY POINTS

AIM

- To provide formal banking services to people belonging to the weaker section of the society in urban & rural areas.
- To promote habit of saving money, making insurances and pension investment among poor people.
- To help poor people get loans at cheap rates from normal banks to prevent them from becoming victims in the hands of local moneylender.

SOME IMPORTANT INITIATIVES FOR FINANCIAL INCLUSION:

- Lead banking scheme (LBS).
- No frills account.
- BSBDA (Basic Savings Bank Deposit Account).

LEAD BANK SCHEME (LBS):

- LBS (Lead Bank Scheme) was introduced in 1969. It envisages assignment of lead roles to individual banks (both in public sector & private sector) for the districts allotted to them.
- A bank which has a large network of branches in the rural areas of a given district and is endowed with adequate financial and manpower resources is generally entrusted with the lead responsibility for that district. In this way all the districts in the country have been allotted to various banks.
- The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts

NO FRILLS ACCOUNT:

- No Frills account is a basic banking account which requires no minimum balance or very low minimum balance. Charges applicable to such accounts are low.
- The RBI directed banks in India to design a no frills account a, low 'minimum balance maintenance' account without any conditions and with simplified KYC (Know Your Customer) norms in 2005.
- But all the existing 'No-frills' accounts opened were converted into BSBDA in compliance with the guidelines issued by RBI in 2012.

BSBDA (BASIC SAVINGS BANK DEPOSIT ACCOUNT):

- In 2012, RBI introduced BSBDA. Some important features are:
- This account does not require any minimum balance.

- The services available in the account will include: deposit and withdrawal of cash at bank branch as well as ATMs.
- Receipt or the credit of money through electronic payment channels or by means of deposit or collection of cheques drawn by Central/State Government agencies and departments.
- While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.
- Facility of ATM card or ATM-cum-Debit Card.

RBI has set up a committee with the aim of creating a five-year measurable action plan for financial inclusion. It include take a look the existing policy of financial inclusion, including supportive payment system and customer protection framework and also taking into account the recommendations made by various committees set up earlier.

BITCOIN - EVERYTHING YOU NEED TO KNOW

INTRODUCTION

Bitcoin is a virtual currency (to be precise Bitcoin is cryptocurrency and a payment system). It can be defined as "decentralized means of tracking and assigning wealth or economy, it is a software protocol. It was invented by an unidentified programmer, or group of programmers, under the name of Satoshi Nakamoto. It was introduced on
31st October 2008 to a cryptography mailing list and released as open-source software in 2009. Bitcoin is the largest of its kind in terms of total market value. Bitcoin uses two cryptographic keys, one public (username) and one private (password) are generated, no name, IP address or phone number is recorded. It is estimated that there a total of 21Million Bitcoin. Just like 1Rupee=100 paisa, 1Bitcoin= 108 Satoshi.

THERE ARE 3 WAYS TO EARN BITCOIN

- Solving data blocks (Mining Software)
- Goods and service Exchange.
- Exchange currency (i.e. exchange your fiat currency for Bitcoin and vice versa).

SBI NETBANKING VERSES BITCOIN

RTGS: Real Time Gross Settlement	NEFT: National Electronic Fund Transfer	Bitcoin
Retail 2-5 Corporate:>5	50k at a time	No ceiling
Processing fees 25-55 Rupees	2.50-25 Rupees	None
Instant	1 hour cycles	Up-to 10 minutes
Bank account needed	Bank account needed	Not even ID is needed only Bitcoin wallet

ADVANTAGES OF BITCOIN

Safes from duplication (i.e. cannot be copied) by frequently checking code at an interval of 10 minutes.

- No Tracking
- No Transaction costs
- Bitcoin cannot be stolen
- No risk of charge backs
- It can easy be converted into Dollar from MT.GOX

DISADVANTAGES OF BITCOIN:

- No central bank has authorised Bitcoin
- No trade through BSE, NSE, commodity exchange (SEBI, FMC)
- No Forex dealer under FEMA converting $$=Rs=Bitcoin illegals
- Bitcoin Exchange website= legal status unclear

RISKS

- It can be Hacked, phished, damaged by malware, password lost. In all case, money will be lost.
- Consumer courts cannot help as these bodies follow fiat currency.
- Mere digital code, no intrinsic value, not backed by Gold Silver or crude oil.
- Same with all other crypto-currency lite coin, bbq coins, dogecoin etc. Even in India Laxmicoin.com is founder by Mitts Daki (US) and Raj Dangi(Bangalore) and promises to give 30% of profit to NGO but RBI denied their proposal in 2013 as they stand "Examining the issues in Digital currency".
- Buysellbitco.in; First Bitcoin exchange in India; founded by Mahim Gupta from Bhopal. It was closed by RBI in 2013. They provide around Rs 14,400 for 1 Bitcoin and sell 1 Bitcoin for around Rs 14,800.
- Reserve Bank Of India and People Bank Of China denied it as legal tender.

As we Indians have Income Tax Department USA has IRS (Internal Revenue Service), IRS stand for Bitcoin.

BITCOIN PRICE HISTORY

LOAN- TYPES, ADVANTAGES & DISADVANTAGES

INTRODUCTION

Nowadays loan is a common word because everyone is familiar with it in one or other way. In simple language loan is an amount which is lending from one person, entity or a financial institution to another person, entity or financial institutions.

MEANING:

- A loan is the lending of money from one source to another source for a specified period.
- A loan is a debt given by an organization to another organization with an interest rate.
- In a loan, a borrower borrows money from the lender with a certain rate of interest and pay back it in future.
- The main activities of financial institutions like banks, NBFC, is to provide a loan to the customer.

TYPES OF LOAN

There are mainly five types of loan.

1) SECURED LOAN

- In a secured loan, a borrower pledges some asset as collateral like property, car etc.
- A mortgage loan is a type of secured loan used by a customer. In a secured loan, a money is using to purchase a property.
- If in case the borrower fails to pay back the loan amount a lender has legal right to possess the collateral security and recover the money.

2) UNSECURED LOAN

- In the unsecured loan, a loan is not secured against any of property of the borrower.
- This type of loan is available from the financial institutions like banks, NBFCs and other private institutions.
- In unsecured loan interest rate depends on the lender and the borrower and the rate of interest in an unsecured loan is always higher than a secured loan.

- There is more risk associated with the unsecured loan that a customer may not pay back an amount.
- In case of insolvency, unsecured lenders are the second priority to pay the money.
- An unsecured loan may be one of the following:
- Personal loans
- Credit card debt
- Bank overdrafts
- Line of credit
- Unsecured bonds

3) DEMAND LOAN

- Demand loans, as the name suggests, are short term loans.
- Short term loan means there is no fixed time to repay an amount it means it can be repaid at any time.
- A demand loan uses the floating rate of interest to charge an interest.
- A demand loan may be a secured or unsecured.

4) SUBSIDIZED LOAN

- In a subsidized loan, an interest rate is reduced by subsidy.
- This type of loans is given to the students for education purpose.
- Sometimes in the subsidized loan the whole amount of interest is paid by the government.

5) CONCESSIONAL LOAN

- A concessional loan is also called as a "soft loan".
- A concessional loan is given either through below market interest rates, by grace periods or a combination of both.
- This type of loans is given by the developed countries to the developing countries.

ADVANTAGES & DISADVANTAGES

ADVANTAGES OF LOAN:

- Nowadays loans are easily available to anyone by stable financial sources like banks, NBFCs, private institutions.
- Nobody can take undue advantage of the borrower in any emergency.

- There various types of loan as per the needs of the customers.
- Due to competition among the financial institutions, a customer gets to benefit from this competition like lower interest, more time to repay.
- Sometimes there are government schemes like saving in tax, lower interest rate if in a specific time period loan is taken

DISADVANTAGES:

- There is a lengthy process to get a loan it requires various types of documents, proof, witness and many other things. So, it takes a longer time to section a loan.
- Sometimes the documents and many other things demanded by the institutions are so unnecessary that it makes inconvenient to the client.
- A loan is never granted in the full amount. There is always a ratio of the amount applied for a loan and the amount to grant.it may be 80:20 ratio, it means a bank give 80 percent loan of the applied amount.

MORTGAGE AND ITS TYPES: EXPLAINED

INTRODUCTION:

- A mortgage is a plan in which a property like land, house or a building is used as a guarantee to get a money through a loan.
- A mortgage is a transfer of a right to stable property for the security purpose of a loan amount.
- A mortgage is used in an agreement between two parties i.e. a debtor one who takes a loan and the creditor who gives a loan.
- If the debtor does not pay the loan amount a creditor take right on the mortgaged property.
- A mortgage is a method which used to create a charge on property by contract.
- By using mortgage, one can easily get a property without paying full value.

TYPES OF MORTGAGE

SIMPLE MORTGAGE

- In a simple mortgage, mortgagor makes a promise to himself to pay the mortgage money and agree that if he fails to pay a loan amount, a mortgagee will have right to sell the mortgaged property and cover the loan amount.

MORTGAGE BY CONDITIONAL SALE

- In a mortgage by conditional sale, there is some condition put at the time of the agreement between the mortgagor and mortgagee.
- A condition may be like if, in case of default of payment of loan amount after a certain date, a sell become unavoidable or many more conditions.

USUFRUCTUARY MORTGAGE

- In a usufructuary mortgage, a mortgagor delivers possession or bind to deliver ownership to the mortgagee and authorizes to retain ownership of property till the payment fully covered it includes principal amount, interest amount to the mortgagee.

ENGLISH MORTGAGEE

- In English mortgagee, a mortgagor makes a promise to pay the mortgage amount on a certain date and transfer ownership to the debtor with a provision that he has to re transfer the ownership once the payment done by the mortgagor.

ANOMALOUS MORTGAGE

- The anomalous mortgage is the which is not a simple mortgage, a mortgage by conditional sale, a usufructuary mortgage, an English mortgage or a mortgage by deposit of title deeds within the section 58 is called an anomalous mortgage.

EQUITABLE MORTGAGE

- In an equitable mortgage, a mortgagor gives original title deed to the bank with an aim to create security there on.
- An equitable mortgage is created by depositing the original title deeds along with documents.
- This, a mortgage has no need to be registered with sub-registrar.

REGISTERED MORTGAGE

- In a registered mortgage, a charge is created on the property with sub- registrar formally.

- A written proof is used for the security purpose and in case a borrower fails to pay the amount a lender has right to take ownership of property and vice versa

BALLOON MORTGAGES

- Balloon mortgages are just for short term and it has fixed rate mortgage.
- In balloon mortgage, a monthly payment is lower because of large payment at the end of a term.
- A balloon payment is for the honest and qualified borrowers who have good credit history.

REVERSE MORTGAGE

- A reverse mortgage as the name suggests it works on reveres stream. It is mortgage loan in which a lender pays monthly installments to the borrower.
- A reverse mortgage is helpful to the older people in their financial need.

REVERSE MORTGAGE LOAN: EXPLAINED WITH KEY POINTS

INTRODUCTION

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

FEATURES OF REVERSE MORTGAGE LOANS

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

RBI GUIDELINES

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

ELIGIBILITY CRITERIA

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

HIGHLIGHTS

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

DRAWBACKS

- Lengthy documentation procedures
- Fixed monthly amounts

CONCLUSION

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

SPECIAL DRAWING RIGHTS (SDR): KEY POINTS TO REMEMBER

INTRODUCTION

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

SDR CALCULATION

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

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

ROLE OF SDR

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

- Now, SDR has become a dominant force in international economic scenario

VALUE OF SDR

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

SDR WEIGHTAGE

Following is the weight assigned to the basket of five currencies

- US Dollar – 41.73 %
- Euro – 30.93 %
- Yuan – 10.92 %
- Yen – 8.33 %
- Pound Sterling – 8.09 %

CRITERIA TO GET ADDED TO SDR

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

SDR INTEREST RATE

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

CONCLUSION

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

RETAIL CREDIT OPERATIONS IN BANKS: EXPLAINED WITH IMPORTANT POINTS

INTRODUCTION

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

WHAT DOES RETAIL CREDIT OPERATIONS REALLY MEAN?

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

THE PROCESS OF RETAIL CREDIT OPERATIONS IN BANKS

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

Sourcing team consists of :

a. Retail Branch Team

b. Direct Sales Team.

c. Tele-Sales Team.

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

- Application is processed and moved to the disbursement team for disbursal, if all policy criteria are met.

ONLINE BANKING FRAUDS- THINGS YOU MUST KNOW

Bank being a vital element in a nation's economy deal with monetary transactions and services to the public. The personal and financial information of the bank's customer are under the threat of being misused by fraudsters.

WHAT IS A BANK FRAUD?

Bank fraud is the criminal offence of knowingly executing or attempting to execute a scheme or artifice to defraud a financial institution or to obtain property owned by or under the control of a financial institution by means of false or fraudulent pretences, representations, or promises.
RBI, the regulator of banks in India, defines fraud as “A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting in wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank."

TYPES OF FRAUDS

PHISHING :

Phishing is an attempt by fraudsters to 'fish' for account holder's bank details. A phishing attempt usually is in the form of an e-mail that appears to be from the bank. The e-mail usually encourages the Customers to click a link in it that takes them to a fraudulent log-in page designed to capture customer details. Individual's email addresses can be obtained from publicly available sources or through social networks.

ACT OF PHISHING- HOW IS IT DONE?

The fraudsters send fake e-mails claiming that customer information has been compromised, due to which the bank account has been de-activated/suspended, and ask customer to hence confirm the authenticity of their information/transactions like credit card number, Personal Identification Number (PIN), passwords or personal information, such as mother's maiden name. In order to prompt a response, such e-mails usually resort to using statements that convey an urgent or threatening condition concerning to bank account.

- When some emails are easy to identify as fraudulent, others may appear to be from a legitimate source. Reliability of the name or address in the "From" field should be checked, as this can be easily duplicated. Phishing e-mails may contain spelling mistakes.
- Even the links to the counterfeit websites would contain URLs with spelling mistakes, to take customers to a fake website which looks like that of a bank in which customer maintains an account.
- Phishing emails attempt to convey a sense of urgency or threat. For example: "Your account will be closed or temporarily suspended".
- Fake e-mails may direct the customer to counterfeit websites carefully designed to look real. Hence, such websites may look very similar and familiar to them but are in fact used to collect personal information for illegal use.
- Fake e-mails promise a prize or gift certificate in exchange for individuals completing a survey or answering a few questions. In order to collect the alleged prize, the customer may be asked to provide their personal information.

SPOOFING:

Spoofing is the act of creating a website, as a hoax, with the intention of performing fraud. To make spoof sites seem legitimate, phishers use the names, logos, graphics and even the code of the actual website. They can even fake the URL that appears in the address field at the top of your browser window and the padlock icon that appears at the bottom right corner.

THE ACT OF SPOOFING- HOW IS IT DONE?

Fraudsters send e-mails with a link to a spoofed website asking a customer to update or confirm account-related information. This is done with the intention of obtaining sensitive account- related information like Internet Banking user ID, password, PIN, credit card / debit card / bank account number, card verification value (CVV) number, etc.

VISHING :

Vishing is a combination of Voice and Phishing that uses Voice over Internet Protocol (VoIP) technology wherein fraudsters feigning to represent real companies such as banks attempt to trick unsuspecting customers into providing their personal and financial details over the phone.

ACT OF VISHING- HOW IS IT DONE?

- The fraudster sets up an automatic dialer, which uses a modem to call all the phone numbers in a region.
- When the phone is answered, an automated recording is played to alert the customer that his/her credit card has had illegal activity and that the customer should call the recorded phone number immediately.
- The phone number is with a caller identifier that makes it appear that they are calling from the financial company they misrepresent.
- When the customer calls the number, it is answered by a computer-generated voice that tells the customer they have reached 'account verification' and instructs the consumer to enter his/her 16-digit credit card number on the keypad.
- A fisher may not have any real information about the customer and would address the customer as 'Sir' and 'Madam' and not by name or the prefix 'Mr....' or 'Ms...'.
- Once a customer enters his/her credit card number, the "fisher" has all the information necessary to place fraudulent charges on his/her card. Those respondings are also asked for the security number (CVV) found on the rear of the card.
- The call can then be used to obtain additional details such as security PIN, expiry date, date of birth, bank account number, etc.

SKIMMING:

Skimming is a method used by fraudsters to capture customer's personal or account information of credit card. Customer's card is swiped through the skimmer and the information contained in the magnetic strip on the card is then read into and stored on the skimmer or an attached computer. Skimming is a tactic used predominantly for credit-card fraud, but it is also a tactic that is gaining in popularity among identity thieves.

ACT OF SKIMMING- HOW IS IT DONE?

ATM machines

Fraudsters insert a skimming device to the ATM's card slot. This device scans the card and stores its associated information. While a customer keys in his PIN, the wireless skimming device transfers the data to the fraudsters. This information is then used by the fraudsters for online shopping or to make counterfeit credit cards.

At Restaurants / Shopping Outlets

At restaurants and shopping outlets, the credit card is swiped twice, once for the regular transaction and the other in the skimmer that captures the personal information which is retrieved later by the fraudsters.

MONEY MULES

After the fraudster has captured personal information using any of the ways like phishing, Vishing, spoofing or skimming, he/she needs an account to which he/she can transfer funds from the compromised account. This is where a "Money Mule" comes into the picture. A Money Mule is an unwitting participant in the fraud who is recruited by fraudsters to launder stolen money across the globe.

ACT OF MONEY MULES - HOW IS IT DONE?

The Fraudster contacts prospective victims (money mules) with job vacancy ads via spam e-mail, Internet chat rooms or job search websites. Jobs are usually advertised as financial Services/management work, and ads suggest that no specific domain knowledge is required.

The crime rings even persuade the victim to come and work for their fake company. Some fraudsters even ask mules to sign official-looking contracts of employment.

Once recruited, money mules receive funds into their accounts. These funds are stolen from other accounts that have been compromised.

Mules then are asked to take these funds out of their accounts and forward them overseas (minus a commission payment), typically using a wire transfer service.

As the account of the mule has been involved in the transaction, the mule also becomes an unwitting participant in the frauds.

ASBA - A MECHANISM TO SUBSCRIBE IPOS THROUGH BANKS

INTRODUCTION

Banks play a pivotal role in primary markets.ASBA is the service provided by banks.

ASBA means “Application Supported by Blocked Amount (ASBA)". It refers to an application mechanism which helps investors to subscribe IPOs(Initial Public offerings)

ASBA ensures that the applicant's money remains in his/her bank account till the shares are allotted, it was introduced by Sebi for retail investors in 2008. Now it has been extended to corporate investors and HNIs as well (from January 1, 2010, onwards).
It is a mechanism in which the applicant has to give an authorisation to block his/her application money in the bank account for subscribing to the IPO.

WHAT IS ASBA?

ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his/her application money shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalised, or the issue is withdrawn / failed.

It is a supplementary process of applying in Initial Public Offers (IPO), right issues and Follow on public offers (FPO) made through book building route and co-exists with the current process of using cheque as a mode of payment and submitting applications.

LIST OF BANKS OFFERING ASBA FACILITY (AS ON 25 JANUARY 2016)

1. Axis Bank Ltd
2. State Bank of Hyderabad
3. Corporation Bank
4. State Bank of Travancore
5. IDBI Bank Ltd .
6. State Bank of Bikaner and Jaipur
7. YES Bank Ltd.
8. Punjab National Bank

9. Deutsche Bank
10. Union Bank of India
11. HDFC Bank Ltd
12. Bank of Baroda.
13. ICICI Bank Ltd.
14. Vijaya Bank
15. Bank of Maharashtra
16. State Bank of India.
17. Andhra Bank.
18. HSBC Ltd.
19. Kotak Mahindra Bank Ltd.
20. Bank of India.
21. CITI Bank.N.A
22. IndusInd Bank.
23. Allahabad Bank.
24. Karur Vysya Bank Ltd.
25. The Federal Bank.
26. Indian Bank.
27. Central Bank of India.
28. Oriental Bank of Commerce
29. Standard Chartered Bank
30. J P Morgan Chase Bank,N.A.
31. Nutan Nagarik Sahakari Bank Ltd.
32. UCO Bank
33. Canara Bank
34. United Bank of India
35. Syndicate Bank
36. South Indian Bank
37. Indian Overseas Bank
38. Tamilnad Mercantile Bank Ltd.
39. City Union Bank Ltd.
40. BNP Paribas
41. The Kalupur Commercial Cooperative Bank Ltd.
42. The Lakshmi Vilas Bank Ltd.
43. State Bank of Patiala
44. State Bank of Mysore
45. The Surat Peoples Co-op Bank Ltd

46. Dhanlaxmi Bank Limited(Has applied for new licence,as the previous one expired)
47. The Saraswat Co-Operative Bank Ltd.
48. DBS Bank
49. Dena Bank
50. Karnataka Bank Ltd.
51. The Ahmedabad Mercantile Co-Op. Bank Ltd.
52. ING Vysya Bank(merged with KMB)
53. Janata Sahakari Bank Ltd.
54. Barclays Bank PLC
55. Rajkot Nagarik Sahakari Bank Ltd

ELIGIBILITY CRITERIA:

SEBI has been specifying the investors who can apply through ASBA.
In public issues with effect from May 01, 2010 all the investors can apply through ASBA.
In rights issues, all shareholders of the company as on record date are permitted to use ASBA for making applications provided he/she/it:

- is holding shares in dematerialised form and has applied for entitlements or
- has additional shares in the issue in dematerialised form;
- has not renounced its entitlements in full or in part;
- is not a renounced;

who is applying through blocking of funds in a bank account with the 'Self Certified Syndicate' Bank
An "ASBA investors", at the time of submitting ASBA application should provide correct information related to

- PAN,
- DP ID,
- Client ID,
- Bid quantity, and
- Bank account number.

His/her bank account is debited only after the basis of allotment is finalised, or the IPO is withdrawn or fails. In a case of a rights issue, the application money is debited after the receipt of instructions from the Registrars.

BENEFITS OF ASBA

1. The investor need not pay the application money by cheque rather block his / her bank account to the extent of the application money, thus continue to earn interest on application money.
2. The investor does not have to bother about refunds, as in ASBA only an amount proportionate to the securities allotted is taken from the bank account when his / her application is selected for allotment after the basis of allotment is finalised.
3. The application form is simpler.
4. The investor deals with the known intermediary i.e. his or her own bank.
5. No loss of interest, since the application amount is not debited to the savings account on the application.
6. Since the amount is considered for calculation and crediting of quarterly interest.
7. Customer can revise / withdraw the bid before the end of the Issue in the prescribed format with the Bank.

MONEY LAUNDERING & ANTI-MONEY LAUNDERING

MONEY LAUNDERING

MEANING

It is a process of conversion of illegal money from various sources to appear to have originated from legitimated (Legal) source. By illegal money we mean to say that the money which has come from illegal sources like drug trading, Smuggling of Gold, Sand etc.. The major sources of illegal money are tax evasion, bribe, Smuggling etc. Mostly all financial institutions or government bodies which is wholly or partially governed by government have also been directed to look into this matter if any one find any suspicious activity in any accounts.

STAGES OF MONEY LAUNDERING

Basically money laundering is divided in 3 stages namely

1. PLACEMENT

Placement is the first stage of money laundering. It refers to the initial entry point of money. In this stage placement of money occurs through various channels like Placing money in bank account, Smuggling money to abroad, etc.

2. LAYERING

It is the second stage of money laundering. It refers to the complex network of transaction which obscure the link between initial entry point and the end of laundry cycle i.e. make separation between the initial entry point & the final entry point. In this stage the money placed is transferred to various account in small units so as to disrupt among various investments like in business, investments in lands, share market, etc.

3. INTEGRATION

It is the last stage of money laundering. It refers to the return of funds to the legal economy. Basically integration means merging, consolidate or joining.

ANTI-MONEY LAUNDERING

INDIA'S EFFORT

- To stop money laundering in India, Government introduced an act known as "Prevention of Money laundering Act, 2002".
- According to the act a convicted will force rigorous impersonated of 3 to 7 years and fine up to Rupees 5 Lakh.
- India's Bank also introduced various techniques to stop money laundering like "Know Your Customer" norms.

Enforcement Directorate (ED)

ED was made by India to stop money laundering.

- Director of Enforcement Directorate (ED) – Karnal singh
- Headquarters of ED – New Delhi

MONEY LAUNDERING ON INTERNATIONAL BASIS

On international Basis Financial action task force was established (FATF) to combat with money laundering cases and terrorism financing.

- Established in 1989
- Headquarters – Geneva
- Total member countries – 36
- Official Language – French, English
- President of FATF – Roger Wilkins

"PREVENTION OF MONEY LAUNDERING ACT, 2002"

It is an act enacted by Parliament of India to prevent money laundering and to provide for confiscation of property derived from money laundering.
This act was enacted on 17 th January 2003 & it was commenced on 1 st July 2003.

OBJECTIVES

1. To combat with money laundering
2. To impound and take over the property obtained from illegal sources
3. To deal with other issues which is interlinked with money laundering

PUNISHMENT FOR MONEY LAUNDERING

- If any person found guilty in money laundering case , He/she must be punished with rigorous imprisonment from 3 years to 7 years up may be extended up to 10 years instead of 7 years.
- If any person found guilty in money laundering case , He/she must be punished under the Narcotic Drugs and Psychotropic Substance Act, 1985 also.

KNOW YOUR CUSTOMER

The basic 3 points of KYC is listed below

- It is a process which is formulated by Central Bank of India i.e. RBI to avoid misused of Banking service.
- This Guideline was introduced in 2002 by Central bank of India. In this guideline all banks need to verify all accounts details.
- In this process each & every bank obtain information about the identity and address of the customers for maintaining transparency.

A country needs money supply for economic activity to carry out trade and commerce to quench demand and supply of goods and services. For such exchanges to continue payments of money and settlements of dues and charges need to be carried out.
The better, more convenient and reliable the payment and settlement of a country or an economy is, the better is the economic efficiency of that country.

The payment and settlement system comprises of various arrangements that is used to systematically, efficiently and securely transfer money/currency, cheques, demand drafts, and money through various electronic channels. In most countries the Central Bank is generally the regulatory authority and is responsible for development of the National Payment System.

In India, Reserve Bank of India is the regulatory authority and is in charge of driving the development of our National Payment and Settlement System. The highest policy making body on payment System in our country is the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of RBI and the regulation is done in accordance with the Payment and Settlement Systems Act, 2007 (PSS Act).

The Reserve Bank of India continually strives towards providing more secure, convenient and efficient payments systems in the country. RBI continuously works towards upgradation of the existing systems and pushes for innovation and development new ones, thus slowly and steadily revamping the payment and settlement facilities in India.

TYPES OF PAYMENT AND SETTLEMENT SYSTEMS IN INDIA:

- Paper Based Payment Systems-- Cheques, Drafts, etc.
- Electronic Payment Systems-- Gross Settlement System and Net Settlement Systems.
- Gross Settlement System-- Real Time Gross Settlement (RTGS)
- Net Settlement Systems--
- National Electronic Fund Transfer (NEFT)
- National Electronic Clearing Service (NECS Credit)

- National Electronic Clearing Service (NECS Debit)
- Credit cards and Debit cards
- Indo-Nepal Remittance Facility Scheme
- Immediate Payment Service (IMPS)
- Other Payment System--
- Mobile Banking System
- Automatic Teller Machines (ATMs)
- Point of Sale (POS) Terminals
- Online Transactions
- Paper Based Systems

The usage Paper Based systems/instruments such as cheques, demand drafts, etc. account for almost 60% of the total non-cash transaction in India by volume. But when compared in terms of value, it only accounts for around 11%. The share of paper based transactions has steadily been decreasing with time, whereas the electronic and other modes keep gaining popularity due to their obvious advantages. The Indian government (like most other governments in developed and developing nations) is also promoting online and electronic means of payments in favour of paper based ones, as the process there is conducted in real time, easy to track and there is very little delay.

Cheques

A cheque is a negotiable instrument used for payment and settlements in India, and is governed by the provisions of Negotiable Instruments Act, 1881. It is an unconditional order, which is drawn on a specific bank, signed by the drawer (person who draws the cheque to pay someone), directing the banker to pay the specified amount on demand only to or to the order of a certain person or to the bearer of the cheque.

THERE ARE THREE PARTIES INVOLVED TO A CHEQUE:

1. Drawer - the person who holds an account in a certain bank and draws a cheque to make a payment.

2. Drawee - the person upon whom the cheque has been drawn i.e. the drawee is the bank or simply the issuing authority, and is the party whom the drawer orders to pay the said amount, to the person named in the cheque, or to the bearer.

3. Payee - the party or the person who presents the cheque for receiving the payment and is liable to be paid by the bank. The cheque is drawn in his favour and his name is mentioned on the cheque. A payee can also be a bearer of the cheque (person other than one mentioned on the cheque) only if the cheque is issued as a bearer cheque.

USE OF CHEQUES:

- It is a very convenient instrument for paying and receiving money.
- Payment can be made only to a particular person or to a bearer by making it "Account payee" or "Bearer" cheques respectively.
- Cheque is a very liquid instrument and is considered near money and hence is highly endorsable for payments and settlements.
- It is a very secure mode of payment.
- Records of payments made by cheques are automatically maintained in the banker's books.

A cheque can be dishonoured (i.e. the payment is not done) for myriad reasons such as insufficient funds in the drawer's account, mismatch of signature, overwriting, cheque is more than 3 months old, etc.

BANK DRAFT

Bank Draft is also a negotiable instrument governed by the provisions of Negotiable Instruments Act, 1881. It is a facility offered by the bank to its customers for sending money to different destinations. This facility is offered to account holders only.

To send money to a specific destination a customer has to fill up a specific form provided by the bank. Name of the person/party to whom the amount is to be sent, the amount payable and the address of the destination must be declared in the form. The bank then issues a Draft to the customer after debiting the bank charges.

This bank draft is then sent by the payer to the person/party to whom it is payable. The receiver then deposits the draft in his bank and the bank will then credit the amount in his account. It is a time consuming process of transferring money and the charges are also high.

BANKERS CHEQUE

Bankers Cheque or Demand Draft is a negotiable instrument governed by the provisions of Negotiable Instruments Act, 1881 that is used to effect transfer of money. It is called Banker's Cheque since it is a pay order which is payable on demand, issued by the bank itself (drawn by one office of a bank upon another office of the same bank) withdrawing the amount from the payer's account and it cannot bounce. A bank renders itself liable for damages, if it fails to honour a bankers cheque. The bank is also liable in case of omission of signatures or wrong signatures.

The bank issues the bankers cheque in the name of the individual or the party to whom the customer wants to make the payment. By prior arrangement, the paying bank could also be a different bank. A certain amount of commission is charged upon the customer by the bank for this service. It is generally used for local payments.

ELECTRONIC PAYMENT SYSTEMS

RBI took an initiative in the early 90's and focused on technology-based solutions for the improvement of the payment and settlement system in India. It does its best to encourage alternative and modern system of payments, thus bring security and efficiency to the payments system and making the whole process easier for banks.

The successful growth of Indian banking sector calls for innovation and adoption of electronic payments to enhance the banking system. Introduction of e-payments in India has brought in an era of unprecedented growth in the banking sector.

RBI is playing a decisive role in mainstreaming e-payments in India by making it compulsory for the banks to route their high value transactions through Real Time Gross Settlement (RTGS) and also by introducing National Electronic Funds Transfer (NEFT) and National Electronic Clearing Services (NECS), thus encouraging individuals and businesses to switch to electronic methods of payment. E-payments in India have been growing at over 60% for the last few years.

REAL TIME GROSS SETTLEMENT (RTGS)

RTGS is a fund transfer mechanism is which the transfer of money/funds takes place from one financial institution to another on a 'Real Time' and on 'Gross' basis. It is the fastest possible transfer mechanism for payments and settlements through the banking channel.

Real Time Settlements mean that payment transaction is not subjected to any time delay and is done instantly. Settlement of transaction occurs as soon as they are processed.

Gross Settlement means the transactions are settled on one to one basis. No transaction is bunched with any other transaction and settlements of funds transfer instructions happen individually.

The money/fund transfer takes place in the books of RBI, and so once processed the payment is final and irrevocable. The charges for RTGS vary from bank to bank. Upper limit for the fees which can be charged by all banks has been set by RBI.

Banks participating in the functions of both remitting and receiving must have CBS (core banking solutions) in place to enter into RTGS transactions. An Indian Financial System Code (IFSC) is assigned to all Core Banking enabled banks and branches. IFSC is an eleven digit alphanumeric code which is unique to each branch of bank. The identity of the bank is indicated by the first four letters. The remaining seven numerals indicate a single branch. This code is also provided on cheque books, since it is required for transactions along with the account number of the recipient.

RTGS is a large value fund transfer system -- minimum value of transaction should be ₹2,00,000. It is used by financial intermediaries to settle interbank transfers pertaining to their own accounts or their customers. RTGS transfer system has specific timings. Customers can use the RTGS facility between 9 AM to 4.30 PM on weekdays and from 9 AM to 2 PM on Saturday. The timings may vary depending on the bank branch. RBI had introduced Time Varying Charges in October 2011. Primary purpose of RTGS is to facilitate transactions that need immediate settlement.

NATIONAL ELECTRONIC FUND TRANSFER (NEFT)

NEFT is one of the most prominent electronic funds transfer system in India started in November 2005. NEFT facility used to transfer funds from one financial institution to other in India enabling them to transfer funds easily and securely via electronic messages on a one-to-one basis.

Unlike RTGS which transfers funds on a Gross Settlement basis, NEFT does it on a Net Settlement or Net Transfer basis executed in hourly batches and hence results in a time lag.

RBI has explained NEFT scheme as "National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme."

NEFT system has no minimum or maximum fund transfer limit. Persons with no banks accounts can also use this facility. Such a person can deposit cash at an NEFT-enabled branch with instructions with instructions to transfer the funds using the NEFT mechanism. To facilitate walk-in customers in transferring of cash to the intended beneficiary, a separate Transaction Code (No. 50) has been allotted in the NEFT system.
National Electronic Clearing Service (NECS Credit)

To handle bulk and repetitive payment and settlement requirements such as salary, interest, commissions, dividend payments of corporates and other institutions, RBI introduced the ECS (Credit) scheme in the 1990s. Such payments are done on a timely-basis like a year, half a year, etc. In the ECS (Credit) scheme the customer accounts are credited on the specified value date. Presently this facility is available at all major cities in the country. It is also known as "Credit-push" facility or one-to-many facility.

RBI launched a new service in 2008 known as National Electronic Clearing Service (NECS). In the NECS (Credit) scheme the customer accounts are credited on the specified value date against a single debit from the account of the sponsor bank.

NATIONAL ELECTRONIC CLEARING SERVICES (NECS DEBIT)

NECS Debit facility is also known as "Debit-pull" facility. This method is used mainly to facilitate payments of small value from entities/individuals to big organizations or companies. RBI introduced this scheme to provide a faster method to facilitate periodic (or routine) and repetitive collections of utility companies, by 'mandating' the banks to debit their accounts (debit the payment/bill/investment from the customer's bank account) and pass on the money to the companies.

NECS facilitates routine payments by individuals/entities such as telephone bills, electricity bills, card and online payments and payment of insurance premiums. Credit cards and Debit cards

Transactions using Plastic Money in India is one of the fastest growing segments. The pace at which the general public is embracing Credit Cards and Debit Cards as a medium of payment is phenomenal, and is growing at a very fast pace. This payment mechanism facilitates customers by easing the process of making many payments through their card, such as shopping, paying their bills, and transferring funds.

Credit Card - it is a form of Plastic Money which allows the cardholder to pay for goods and services. The card issuing authority (usually a bank) creates a revolving account I the name of the cardholder and grants him a line of credit, from which the cardholder can borrow money for payments or cash advances. This requires the cardholder to repay the balance in full each month

Debit Card - it deducts money directly from a consumer's account to pay for a purchase. Unlike credit cards, they do not allow the user to go into debt (i.e. the customer can only withdraw money up to the limit of his holdings in his account), except perhaps for small negative balances that might be incurred if the account holder has signed up for overdraft coverage.

However, debit cards usually have daily withdrawal/purchase limits. It may not be possible to make very large purchases with a debit card.

Debit cards entered India in 1998. Ever since then their numbers have been growing. Nearly 3/4th of the total number of cards in circulation is debit cards. Although the credit card entered Indian market a decade before debit cards, they have registered a much slower rate of growth. Though in the last few years, the usage of credit cards has grown impressively.

A more recent innovation pertaining to the field of plastic money is co-branded credit cards. These cards provide a combination of many services into a single card. These cards are issued by banks when they enter into business partnerships with retail stores, telecom companies, airlines, etc. Such partnerships increase the utility of these cards, and they provide much more added facilities over simple debit or credit cards. Apart from using them at ATM's they can also be used at Point of Sale (POS) terminals and while making online payments.

INDO-NEPAL REMITTANCE FACILITY SCHEME

To facilitate transfer of money among people of India and Nepal, the Indo-Nepal Remittance Facility, a cross-border remittance facility was set up to transfer funds from India to Nepal, enabled under the NEFT Scheme.

The facility was launched to provide a safe and cost-efficient mechanism to the large migrant workers of Nepalese origin in India, to remit money back to their families in Nepal. A remitter can transfer funds up to the limit of ₹50,000 from any of the NEFT-enabled bank branches in India. The funds would be received by the beneficiary in Nepalese Rupee.
Immediate Payment Service (IMPS)

National Payments Corporation of India (NPCI) took up the initiative to set up Immediate Payment Service (IMPS). In this mechanism money can be transferred immediately from one account to another account, within the same bank or accounts across other banks.

With the rapid increase in usage of mobile phones, transactions using this service are expected to grow at a rapid rate in the coming years. The users can transfer funds to their desired bank accounts through their mobiles having internet access.

Upon registration, both the individuals/entities (parties involved in transaction) are issued a Mobile Money Identifier (MMID) Code from their respective banks, which is a 7 digit numeric code. For initiating the transaction, the sender needs to enter the registered mobile number, MMID and bank account number of the receiver in his mobile banking application. Upon successful transaction, the money instantly gets credited in the receiver's bank account.

IMPS facility is available 24X7 and it can be used through mobile banking application. Internet banking profiles of their customers are also being used by some banks to provide this service. Most banks provide this facility free of cost and offer it to their customers so as to encourage paperless payment system.

With the greater acceptance of mobile banking services, IMPS has evolved. Now money through IMPS can also be transferred directly, using the receiver's bank account number and IFSC code. Neither the receiver nor the sender needs to be registered for mobile banking service of his bank. There is also no need for MMID codes.

IMPS transfer mechanism differs from NEFT and RTGS in the fact that there is no time limit to carry out transactions. This facility is available 24X7. IMPS facility is available on all bank (including RBI holidays) and public holidays.

OTHER PAYMENT SYSTEMS

These include the Mobile Banking System, Automatic Teller Machines (ATMs), Point of Sale (POS) Terminals and Online Transactions.

MOBILE BANKING SYSTEM

- Mobile banking is defined as a service provided by a bank or other financial institution (according to operational guidelines on mobile banking published by RBI in 2008, only licensed banks are permitted to offer mobile banking services in India after obtaining necessary permission from RBI.) that allow its customers to conduct a range of financial transactions remotely using a mobile device (such as a mobile phone or tablet), and using software (usually an app), provided by the bank for this purpose.

- Such services are gaining huge importance with the unprecedented rise in the usage of mobile device in India. Banks are investing heavily on this arena. These services are of great importance if the Government wants to realize its dream of a cash-less society and a Digital India.

AUTOMATIC TELLER MACHINES (ATMS)

Automatic Teller Machines (ATMs) are electronic banking outlets that allow customers to complete basic transactions without visiting a bank branch. ATMs were first introduced in India in late 1980s. There are three different types of ATMs according to their label, which are as follows:

1. Bank's own ATMs: These ATMs are owned and operated by the owner bank and carry the Bank's logo. Such ATMs are the costliest way of providing ATM services.

2. Brown Label ATMs (BLAs): These ATMs are not owned by the sponsor banks. They are owned and operated by third parties (non-banking companies). They carry the logo of the bank outsourcing the service.

The concerned bank only handles a part of the process which back-end server connectivity and is handling of cash.

3. White Label ATMs (WLAs): These ATMs are owned and operated by a non-banking company and serve the customers of all banks. These ATMs are interconnected with the entire network of ATMs in the country and carry the logo of the company owning them. The role of the concerned banks is limited to providing only the account information and assisting in back end money transfers.

By RBI's order such companies have a mandate to deploy 67% of their ATMs in rural areas and 33% in urban locations. The first such company that secured permission from RBI to set up WLAs is Tata Communications Payment Solutions and its brand name is 'Indicash'.

POINT OF SALE (POS) TERMINALS

A Point of Sale Terminal (POS terminal) is an electronic device used to process card payments (credit/debit card) at retail outlets. A POS terminal can generally do the following:

1) It can read the basic account information available on a customer's credit or debit card by connecting to the banking and payment system networks.

2) It can check whether the funds in the customer's bank account are sufficient or not.

3) Its can transfers the funds from the customer's account to the seller's account.

4) It can record the transaction and prints a receipt.

ONLINE TRANSACTIONS

Online Transaction, which is also known as a PIN-debit transaction, is a method of payment which protected by password, used to authorize a transfer of funds over an Electronic Funds Transfer (EFT) mechanism.

When someone pays for goods/services with a debit/credit card, there is an option for processing the payment in two different ways: as an offline transaction via a credit card processing network, or an online transaction via an EFT system. The second option of using an EFT facility requires a PIN (Personal Identification Number) to complete the process. The fund transfer is completed via an EFT network depending on which EFT system the customer's bank is associated with.
Encouraging e-transactions to move towards a 'Cashless Society'

RBI is the apex financial and regulatory institution in the country in regulation of payment and settlement systems. It is mandatory for the RBI to ensure that the payments system in our country evolves continuously and is as technologically advanced as possible. To realise this goal, RBI has taken certain initiatives to strengthen the e-payments system in India and to encourage people to adopt it.

The Government and RBI want to revolutionize the payment system in India, by giving people the power to carry out everyday purchases directly from their bank accounts, without the need for carrying cash. RBI has introduced a new interface which allows the customers to do just that. Former RBI Governor Mr Raghuram Rajan launched the Unified Payments Interface (UPI) system, as its latest offering to boost digital money transactions.

UPI interface has been developed by NPCI (National Payments Corporation of India), which is the umbrella organisation for all retail payments in the country. The Unified Payment Interface seeks to make money transfers easy, quick and hassle free.

The Payment and Settlement Systems Act, 2007 was a major step in this direction. It enables the RBI to "regulate, supervise and lay down policies involving payment and settlement space in India." Apart from some basic instructions to banks as to the personal and confidential nature of customer payments, supervising the timely payment and settlement of all transactions, the RBI has actively encouraged all banks and consumers to embrace e-payments.

The Payment and Settlement Systems Act, 2007 (the umbrella act governing all payment and settlement systems in India) enables the RBI in regulation, supervision and in laying down policies involving payment and settlement mechanisms in India. Apart from providing basic guidelines to banks regarding the confidential and personal nature of customer payments, supervising timely payment and settlement of all transactions, RBI has actively been encouraging all banks and consumers to embrace e-payments.

To pursuit this goal and to move towards a ‘Cashless Society’, RBI has granted NBFCs (Non-Banking Financial Companies) the permission to issue co-branded credit cards in partnerships with commercial banks.

The Kisan Credit Card (KCC) Scheme was launched by NABARD (National Bank for Agriculture and Rural Development) in order to meet the credit/loan needs of Indian farmers. Its aim is to free the farmers of paper money hassles and encouraging them to use only plastic money.

RuPay, a domestic card scheme has also been started by NPCI, promoted by RBI and IBA (Indian Banks Association). It is promoting the use of cards (plastic money). Initially RuPay is focusing mainly on potential customers from rural and semi-urban areas of India to bring them into the folds of e-payments and transactions. India can benefit hugely from RuPay, as in due course of time it will have a much wider reach than Visa, MasterCard or American Express cards due to its indigenous nature.

Each employee working under the MNREGA (Mahatma Gandhi National Rural Employment Guarantee Scheme) is slated to have a Smart Card. This smart card will be functioning as a personal identification card, credit card, and driver's license. These smart cards will also be functioning as an electronic pass book, thus familiarising the rural populations and our poor with e-payments.

The way in which Indians carry out money transactions is changing and the pace of change will only be accelerating in the future. Rapid digitization of money is also changing the mind-set of Indians, towards risk and investment which can change the face of finance in India. Sustained evolution of Payment and Settlement Systems would be playing a major role in achieving this goal. Even if we cannot achieve a 'Cashless India' in the near future, we must strive towards a 'Less Cash India'.

TYPES OF BANK ACCOUNTS: EXPLAINED IN DETAILS

This topic is important for bank exams, as generally many questions are asked in bank exams and interview on bank accounts like what are different types of accounts in the bank , what is the difference between a current account and saving the account.So understanding this topic is very important.

VARIOUS TYPES OF BANK ACCOUNTS

1. Saving Account

2. Regular Savings
3. Current Account
4. Recurring Deposit Account
5. Fixed Deposit Account
6. DEMAT Account
7. NRI Accounts

1) SAVINGS ACCOUNT:-

A) BASIC SAVINGS BANK DEPOSIT ACCOUNTS (BSBDA)

- This account will be considered as normal banking service.
- For this account, maintenance of minimum balance is not required.
- ATM card/ ATM cum Debit card, Rupay card will be given for the account holders.
- There are going to be no limit on the number of deposits that can be made in a month but, account holders will be allowed most of 4 withdrawals in a month, which includes ATM withdrawals also.
- The above facilities will be given without any charge. There will be no charge levied for non-operation/ activation of in-operative basic saving bank deposit account.
- For this account, overdraft facility will be provided up to Rs. 5000/-.

B) BASIC SAVING BANK DEPOSIT ACCOUNTS SMALL SCHEME (BSBDS)

- These are accounts with relaxed KYC, with a minimum document requirement of self-attested address proof & photograph.
- Total credit should not exceed 1Lakh rupees in a year.
- Maximum balance should not exceed Rs. 50,000/- at any time.
- Cash withdrawals & transfers must not exceed Rs.10, 000/- in a month.
- Remittance from foreign account cannot be credited to this account without completing normal KYC formalities.
- This account can be opened only at Core Banking Solution linked branches of banks or at such branches, where it is possible to manually monitor the fulfillments of the conditions.

2) REGULAR SAVINGS BANK ACCOUNT

- Any resident individual- single accounts, two or more individuals in joint accounts, Associations, clubs etc., are eligible for this account.

- Modest credit option available to the depositor.
- Two free cheque books will be issued per year.
- Internet banking facility will be provided without any charge.
- Balance enquiry, NEFT, Bill payment, Mobile recharge etc., are provided through mobile phones.
- Students can open this account with zero balance by providing the required documents.

3) CURRENT ACCOUNT

- Any resident individual- single accounts, two or more individuals in joint accounts, Associations, Limited companies, Religious Institutions, Educational Institutions, Charitable Institutions, clubs etc., are eligible for this account.
- Payments can be done unlimited number of times.
- Funds can be remitted from any part of the country to the corresponding account.
- Overdraft facility will be available.
- Internet banking facility is available.

4) RECURRING DEPOSIT ACCOUNT

CUMULATIVE DEPOSIT SCHEME

- Any resident individual- single accounts, two or more individuals in joint accounts, Associations, clubs, Institutions/Agencies specifically permitted by the RBI etc., are eligible to open this account in single/joint names.
- Periodic/Monthly installments can be for any amount starting from as low as Rs.50/- onwards.
- Account can be opened for any period ranging from 6 months to 120 months, in multiple of 1 month.
- The amount selected for installment at the start of the scheme will be payable every month.
- The number of installments once fixed, cannot be altered.
- Approved rate of interest is compounded every quarter.
- The amount after maturity will be paid to customers one month after the deposit of the last installment.
- Pass book will be given to the depositor.
- TDS will be applicable on the interest, as per the latest changes in the Income Tax Act on cumulative deposits also.

5) FIXED DEPOSIT ACCOUNT

A) SHORT DEPOSIT RECEIPT

- Banks accepts deposits from customers varying from 7 days to a maximum of 10 years.
- The period of 7 days & above but not exceeding 179 days deposits is classified as 'Short Deposits'.
- The minimum amount that can be deposited under this scheme is Rs. 5 lakh for a period of 7-14 days.

B) FIXED DEPOSIT RECEIPT

- Any resident individual- single accounts, two or more individuals in joint accounts, Associations, Minors, societies, clubs etc., are eligible for this account.
- The minimum FDR in metro & Urban branches is Rs. 10,000/- & in rural & semi urban & for Senior citizens is Rs.5000/- .
- For the subsidy kept under the government sponsored schemes, Margin money, earnest money & court attached/ordered deposits, minimum amount criteria will not be applicable.
- Depositors may ask for repayment of their deposits before maturity. Repayment of amount before maturity is allowable.
- Interest rate differs from bank to bank depending upon the tenure of the deposits & as when the bank changes the rate.
- Additional interest of 0.50% is offered for senior citizens on deposits placed for a year & above.

6) DEMAT ACCOUNT

- Used to conduct stress-free transactions on the shares.
- An individual, Non-Resident Indian, Foreign Institutional Investor, Foreign National, Corporate, Trusts, Clearing Houses, Financial Institution, Clearing Member, Mutual Funds, Banks and Other Depository Account.
- For opening this account, an individual has to fill a form, submit a photo of the applicant along with a photocopy of Voter ID/ Passport/ Aadhar card/ Driving License & Demat account number will be provided to the applicant immediately after the completion of processing of the application.
- Facilities provided under this account are- Opening & maintaining of Demat accounts, Dematerialization, Rematerialization, Purchases, sales, Pledging & Unpledging, safe custody.

7) NRI ACCOUNTS:-

a) NRO (Non-Resident Ordinary Rupees) Account
b) NRE (Non-Resident External Rupees) Account
c) FCNR (Foreign Currency Non-Resident) Account

Specifics	**FCNR**	**NRE**	**NRO**
Account opening	NRIs/PIOs/OCIs(Individuals/entities of Bangladesh/Pakistan require prior approval of RBI	NRIs/PIOs/OCIs(Individuals/entities of Bangladesh/Pakistan require prior approval of RBI	Any Individual resident outside India
Joint Account	In the names of two or more non-resident individuals. With a local close relative on 'former or survivor basis'	In the names of two or more non-resident individuals. With a local close relative on 'former or survivor basis'	In the names of two or more non-resident individuals. With a local close relative on 'former or survivor basis'
Money in which account is denominated	US dollar, pound sterling, Yen, Euro, Australian dollar & Canadian dollar	Indian Rupees	Indian Rupees
Nominatio	Allowable	Allowable	Allowable

n			
Account Type	Term Deposit only	Savings, Current, Fixed, Recurring deposit	Savings, Current, Fixed, Recurring deposit
Interest Rate	Banks are allowed to determine interest rates for Deposits	Banks are allowed to determine interest rates for Deposits	Banks are allowed to determin e interest rates for Deposits
Fixed deposits-period	not less than 1 year and not more than 5 years	Min- 1year Max- 10years	As applicabl e to resident accounts
Income Tax	Not Taxable	Not Taxable	TDS on Interest received on NRO deposits to be deducted at 30.90%
Repatriabil ity	Repatriable	Repatriable	Not Repatriab le
Loans in	Without any financial ceiling	Without any financial ceiling	1)Permitt

India 1)To account holder 2)To third parties	on the loan amount subject to standard margin requirements	on the loan amount subject to standard margin requirements	ed 2)Permitted
Loans in Abroad 1)To account holder 2)To third parties	1) Without any financial ceiling on the loan amount subject to standard margin requirements 2)Not Permitted	Without any financial ceiling on the loan amount subject to standard margin requirements	1)Not permitted 2)Not permitted
Foreign Currency loans India 1)To Account holder 2)To third parties	1) Permitted 2) Not permitted	1) Not permitted 2) Not permitted	1) Not permitted 2) Not permitted

TYPES OF NRI BANK ACCOUNTS

At present bank accounts for Non- Resident Indian (NRIs) has three categories :

1. NRE- Non -resident (external) rupee account.

2. NRO- Non- resident (ordinary) rupee account.

3. FCNR(B) - Foreign currency non-resident (banks)accounts.

THESE ACCOUNTS CAN BE DISTINGUISHED AS FOLLOWS:

- While NRO and NRE accounts can be kept in the from of current , saving or term deposit accounts, while FCNR(B) deposit can be kept only in the form of term deposits, for period ranging from 6 months to 3 years.
- **Money from an NRO account is non-repatriable**, but NRE and FCNR deposits are repatriable.
- Remittances from abroad can be credited to any of these accounts . But earnings of NRIs on the property held by them in India, which are non-repatriable , can be credited only to NRO accounts.
- Interest earned on NRO accounts is eligible for repatriation.
- An NRO account may be jointly held with residents while NRE and FCNR (B) accounts cannot be jointly held with residents . But Indian resident power of attorney is permitted for local payments and investments in India.
- Balance held in NRE/FCNR accounts are exempted from wealth tax and interest earned is exempted from income tax. There are no tax exemptions on interest earned on NRO accounts.

EASY WAY

In simple terms NRIs can deposit income from Abroad in NRE accounts while income earned from Indian property need to be desposited in NRO accounts. This money is Non-Repatriable while interest earned on such money is Repatriable, means it can be converted into any foreign currency.
FCNR(B) accounts are meant for term deposits.

NOTE

Repatriable and Non-Repatriable accounts are two important terms used in the above explanations.

Repatriable Accounts : Indian rupees can be transferred back to foreign currency, in simple terms Indian Rupee can be converted to any foreign currency.

Non-Repatriable Accounts : Money cannot be converted to any foreign currency.

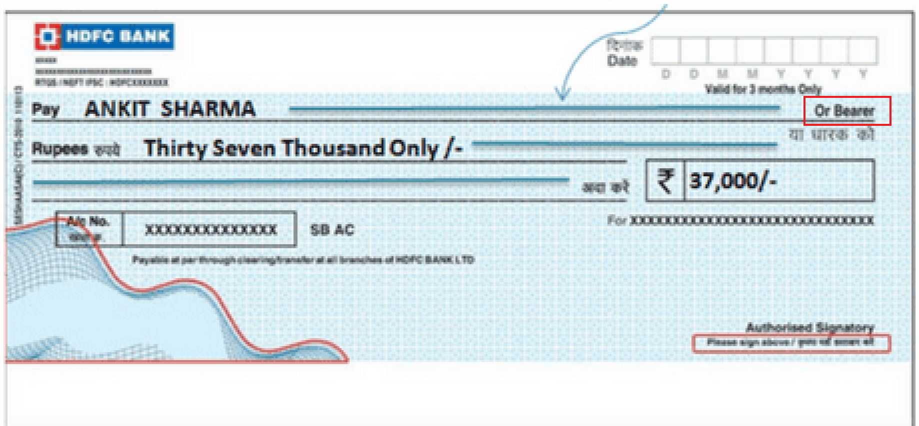
VARIOUS TYPES OF CHEQUES

A cheque is an unconditional order addressed to a banker, signed by the person who has deposited money with a banker, requesting him to pay on demand a certain sum of money only to the order of the certain person or to the bearer of the instrument.

1) BEARER CHEQUE

Bearer cheques are the cheques which withdrawn to the cheque's owner.These types of cheques normally used for a cash transaction.

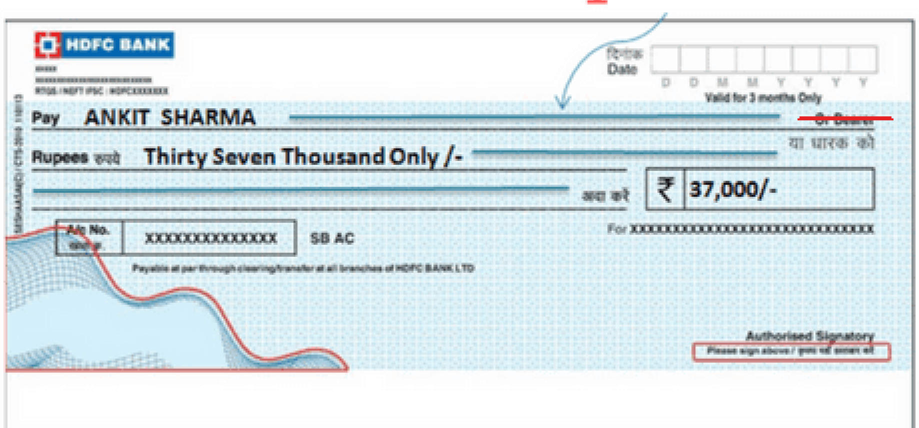
Bearer Cheque



2) ORDER CHEQUE

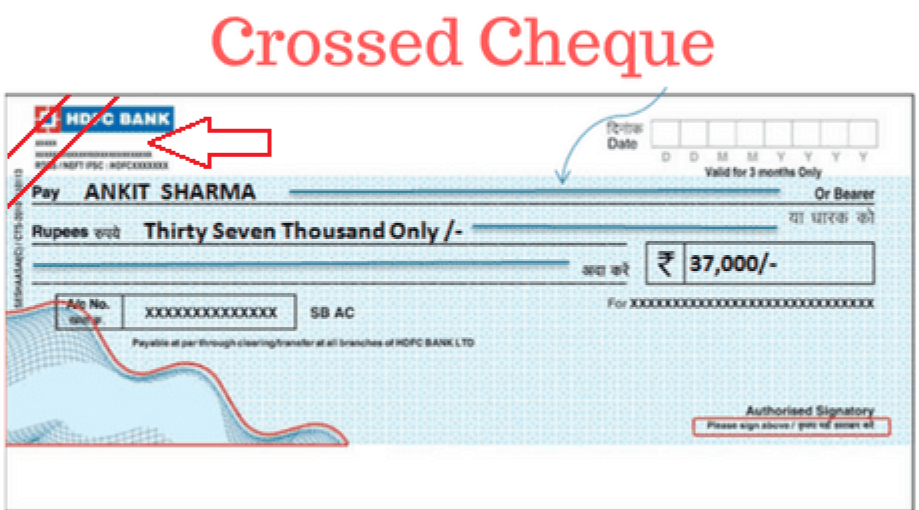
Order cheques are the cheques which are withdrawn for the payee(the cheque withdrawn for whose person).Before withdrawn to that payee, banks cross check the identity of the payee.

Order Cheque



3) CROSSED CHEQUE

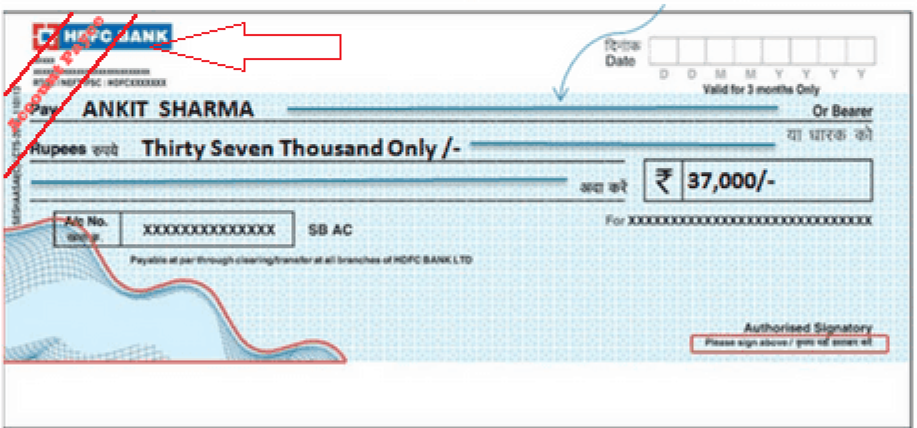
On that type of cheques two parallel line made on the upper part of the cheques, then that cheques formed to crossed cheques.This type of cheques payment does not formed in cash while the payment of that type pf cheques transferred to the payee account and the normal person's account who recommend by the holder on the cheque.



4) ACCOUNT PAYEE CHEQUE

When two parallel lines along with a crossed made on the cheque and the word 'ACCOUNT PAYEE' written between these lines, then that types of cheques are called account payee cheque.The payment of the account payee cheque taken place on the person, firm or company on which name the cheque issue.

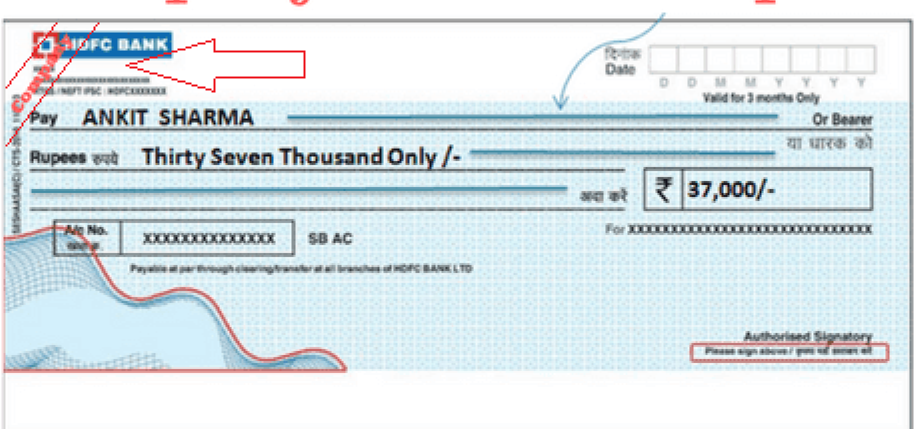
Account Payee Cheque



5) COMPANY CROSSED CHEQUE

When two parallel lines along with a cross made on the cheque and the word 'COMPANY' written between these lines, then that types of cheques are called company crossed cheques.Then the type of withdrawn does not take in cash while the person on which the cheque issue, transferred on its account.Normally crossed cheque and company crossed cheque are same.

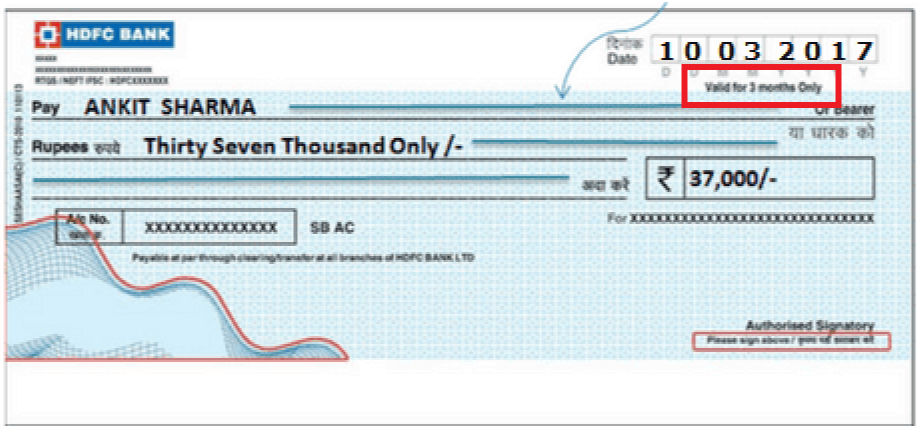
Company Crossed Cheque



6) STALE CHEQUE

If any cheque issued by a holder does not get withdrawn from the bank till three months, then that type of cheques are called stale cheque.

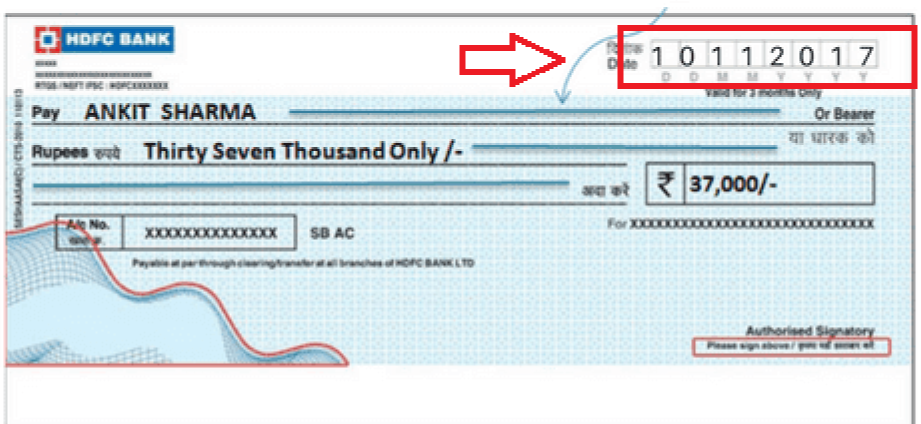
Stale Cheque



7) POST DATED CHEQUE

If any cheque issued by a holder to the payee for the upcoming withdrawn date, then that type of cheques are called post-dated cheque.

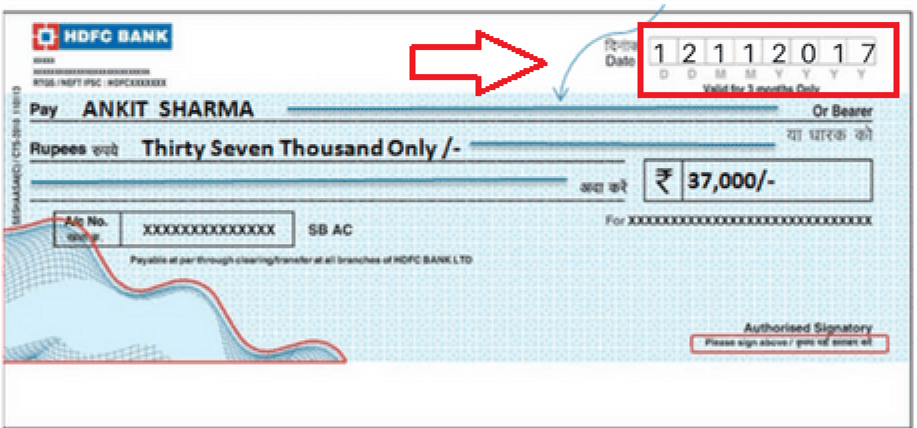
Post Dated Cheque



8) ANTI DATED CHEQUE

If any cheque issue for the upcoming withdrawn date but it withdraw before the date printed on the cheque, then that type of cheques are called anti dated cheques.

Ante Dated Cheque



CHEQUES - TYPES AND CROSSING OF CHEQUES

Section 6 of the Negotiable Instrument Act defines a cheque as, "A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand."

In simple words,

A cheque is a kind of bill of exchange or an unconditional order in writing, addressed by customer with signature to the bank to pay a certain amount to the bearer or as per order.

* Bills of Exchange - It is written and signed order directing the person named in it to pay a certain amount of money only to, or to the order of a certain person or to the bearer.

PARTIES TO CHEQUE

- DRAWER - The person who signs the cheque and order for payment
- DRAWEE - It is always bank on which cheque is drawn and is ordered to pay the amount of cheque.
- PAYEE - The person to whom the cheque is payable. (In many cases, drawer and payee can be the same person.)

TYPES OF CHEQUES

(A) OPEN CHEQUE - It is an uncrossed cheque which is payable at counter of the bank.

It can be Bearer Cheque or Order Cheque .

- **BEARER CHEQUE** - When a cheque is payable to a person whose name appears on the cheque or to the bearer i.e. to the person who presents the cheque to the bank for encashment, is called bearer cheque. It can be transferred by mere delivery and do not need endorsement.
- **ORDER CHEQUE** - When a cheque is payable to person named in the cheque or to his order, is called Order Cheque.When the word Bearer is cancelled , the cheque becomes the order cheque. It can be transferred only by endorsement and delivery.

(B) CROSSED CHEQUE - It is the cheque on which two parallel transverse lines are drawn across the top left , with or without the word :

(i) ' & Co.'

(ii) Not Negotiable

(iii) A/c Payee

It can not be encashed at the counter of the bank , can only be credited to the account of the payee.

(C) STALE CHEQUE - The validity of cheque is for three months. It cheque is not presented within the three months, it got expired and becomes the Stale Cheque or Out-dated cheque.

* Earlier the validity of cheque was for six months, it has been reduced to three months, with effect from April 1, 2012.

(D) ANTE- DATED CHEQUE - A cheque contains the date on which it is drawn. If it bears a prior date or back date, it is called Ante-Dated cheque. Bank will honour this cheque until it exceed the three months, i.e. stale period of cheque.

(E) POST-DATED CHEQUE - If the cheque bears the date later than the date on which it is drawn, is called Post-Dated Cheque. This cheque can not be honoured before the date written on it.

(F) MULTILATED CHEQUE - A cheque which is torn into pieces is called Multilated cheque.

CROSSING OF CHEQUES

Crossing of Cheques means to draw two lines transverse parallel on left hand corner of the cheque.It directs the bank to deposit the money directly into the account and not to be pay cash at the bank counter.

MODES OF CROSSING

Below are the modes of crossing of cheques and the effect of crossing of cheques:

(1) GENERAL CROSSING - When a cheque bears two transverse parallel lines at the left hand of its top corner. Words such as 'and company' or any other abbreviation (such as & co.) may be written between these two parallel lines, either with or without words 'not negotiable', is called General Crossing.

Effect - Payment can be paid through bank account only, and should not be made at counter of paying bank.

(2) SPECIAL CROSSING - When a cheque bears the name of the bank in between the two parallel lines, with or without the words 'not negotiable' is called Special Crossing.

Effect - The bank will pay to the banker whose name is written in between the crossing lines.

(3) RESTRICTIVE CROSSING / ACCOUNT PAYEE CROSSING - In this, crossing of cheques is done by writing Account Payee or Account Payee only in between the crossing lines.
Effect - Payment will be credited to the account of payee named in the cheque.

(4) DOUBLE CROSSING - When a cheque bears two special crossing, is called Double Crossing. In this second bank act as agent of the first collecting banker. It is made when the banker in whose favour the cheque is crossed does not have branch where the cheque is paid.

FEATURES OF CERTIFIED CHEQUE AND CASHIER'S CHEQUE

CERTIFIED CHEQUE

DEFINITION:

According to the Office of the Comptroller of the Currency, certified cheque is "a personal cheque drawn by an individual that is certified — guaranteed — to be good. The face of the cheque bears the word 'certified' or 'accepted,' and is signed by an official of the bank or thrift institution issuing the cheque."

FEATURES OF CERTIFIED CHEQUE

- As the name itself draws a meaning certify which means a guarantee carry by the payer's bank.
- A certified cheque is the written approval for a particular cheque by the bank that the signature of the bank customer on that cheque must be genuine and there is an ample amount of fund in the customer's account to clear the cheque when the cheque is presented for the payment.
- A certified cheque must be signed by both the party i.e. a customer and a bank. The bank and a customer are liable to pay under the UCC sec. 3409(d).
- If there is any problem regarding the certified cheque, both the bank and a client are responsible for giving assistance in a lawsuit to the beneficiary.
- A bank can impose terms and conditions upon its certification like a certified cheque becomes void after 60 days. if the cheque has been certified by error or acquired by fraud, in that case, it is corrected by cancelling the certification and send notice to the payee if the payee has not written " in reliance" on the certified cheque.
- This type of reliance would occur if the goods have been exported by relying on a cheque.
- In certified cheque, there is a possibility of forgery in that case a bank is not liable to pay for the forgery cheque.

- A Certified cheque is the one which has an offer of the bank, certified on the cheque that funds were available in the amount of the cheque at the time the cheque was originated and the signature on the cheque is legitimate.
- A bank will keep aside the funds and it will be only used to pay the certified cheque. If a cheque is not a fake, you no need to issue depositing funds into your bank account.

CASHIER'S CHEQUE

DEFINITION

- A cashier's cheque is "a cheque drawn on the funds of the bank, not against the funds in a depositor's account."
- Unlike a certified cheque, which is paid out of your own account, a cashier's cheque is issued by a bank.

FEATURES CASHIER'S CHEQUE

- Cashier's cheque is also known as teller's cheque or an official cheque. A cashier's cheque which is confirmed by the bank, drawn from its own fund and signed by the cashier.
- Cashier's cheque is guaranteed by the bank, unlike a usual cheque which is guaranteed by the purchaser.
- Cashier's cheque is used instead of cash. Personal cheques, credit cards, money orders and much more.
- A cashier's cheque is the one which is drawn by the bank on itself; a bank agrees to accept when properly presented for paying.
- A cashier's cheque is not signed by the customer but it is signed by the bank.
- A bank is responsible for the payment of cashier's cheque under section 3104(3) g.
- A bank will keep aside some amount of money in advance from the customers' account to pay itself when a payee presents the cheque for the payment.
- In cashiers' cheque, if there is any problem regarding the payment of the cashier's cheque in that case you can directly ask to the bank and demand remedies for it.

SHADOW BANKING: ALL YOU NEED TO KNOW

INTRODUCTION TO SHADOW BANKING:

Shadow banking is a new word hardly heard to common people. Shadow banking mostly deals with the big lenders and borrowers. Shadow banking is one type of mediate which helps to make easy procedure between the lenders and borrowers.

HISTORY:

The term SHADDOW BANKING first came into an existence in 2007. Economist Paul McCulley used it first time at FEDERAL RESERVE BANK OF KANSAS CITY'S ECONOMIC SUMMIT.

MEANING:

The term shadow banking is used while a non-banking financial intermediates make provision for the commercial banks.
Shadow banking is a comprehensive term to do financial activities among the non-banking financial institutions.
In simple language shadow banking is a financial intermediaries involved to facilitate credit in the financial system.

POINTS TO REMEMBER:

- It don't take deposits like commercial banking
- It is also called as the unregularly activities done by regular institutions.
- It works in lesser transparency, rules and regulations as compared to commercial banking.
- Shadow banks make money by market instruments like debentures, commercial paper.
- Shadow bank's liability is not insured.
- It deals with the high level of risk.
- Shadow banking make most of their money by being a mediate between the borrowers and lenders.
- They earn revenue the fees charges for service and interest rates spreads.
- No need to follow regulations like initial capital requirements.
- It has come under the increased scrutiny since 2008.
- This system is prominent worldwide.

- It is a complex system of investments like Asset-backed securities, derivatives, Credit default swaps and repurchase agreements.

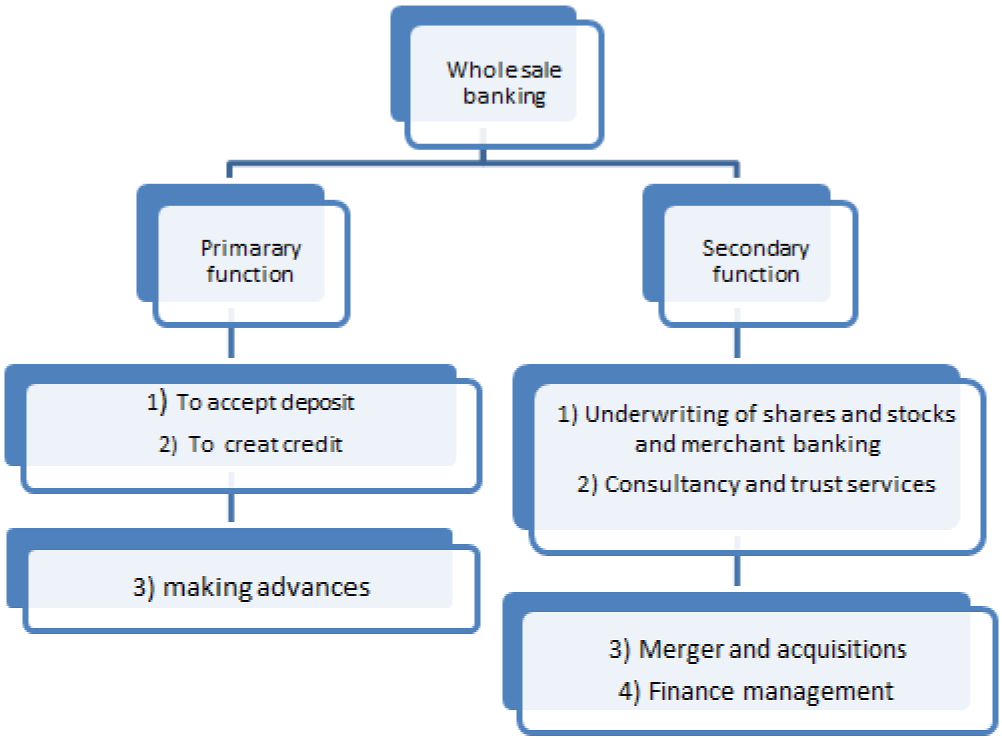
EXAMPLE:

Investment funds, mortgage lenders, hedge funds are all deal with shadow banking.

WHAT IS WHOLESALE BANKING

- Wholesale banking is the plan of services provided by banks to the corporations like mortgage brokers, big organizations, companies, real estate investors, international trade financiers, and institutional investors like government organizations.
- The financial services conveyed between financial service company and organizations like banks, insurance companies, and stockbrokers are known as wholesale banking. It occurs in the interbank market and comprises a huge amount of money.
- Wholesale banking services include the currency translation, Operational financing, Trading transactions and many other services.

FUNCTIONS OF WHOLESALE BANKING



FEATURES OF WHOLESALE BANKING

MEANING

Wholesale banking targets big corporate house and big clients and the main purpose is to facilitate services to the corporate customers.

RATE OF INTEREST

In wholesale banking, the cost of deposit is very high because of huge deposit with the corporate house which means they have bargaining power. so, banks offer a high rate of interest in the wholesale banking to pull the fund.

OPERATIONAL COST

The number of branches in wholesale banking is less due to a narrow customer base which means high-value transaction but with low volume and that is why the operational cost is lower.

EFFECT OF LOAN ON NONPERFORMING ASSET

In wholesale banking, the size of the loan is big which means the risk level is also high which leads to a huge impact on the NPA.

MONITORING AND RECOVERY OF FINANCE TRANSACTION

In wholesale banking, there is a close customer base so it becomes easy for the bank to monitor and recover the business transaction.

EXAMPLE:

Export credit, machinery finance, and cash management are some example of services provided by wholesale banking.

DRAWBACKS OF WHOLESALE BANKING

- The main shortcoming of wholesale banking is the risk it professes to all clients it concerned. Bank has to be stable while dealing huge amount of investment in a single investment.
- In wholesale baking, the business accounts are more expensive than the traditional bank accounts.
- Banks charge a high rate of interest for credit and the processing fees of the banking transactions are also higher which differ from bank to bank. So it is not possible to compare it.
- Sometimes it also happens that some services are not used by the client still they have to pay charges for it.
- The amount of money borrowed by the client in wholesale banking is huge which sometimes lead to exploitation of a client.

FEATURES & SIMILARITIES OF VISA CARD AND MASTER CARD

Both these cards provide the required technology and networks for processing card payment. These are the largest card processor network in the global. Both are the intermediaries between the bank and the client.

VISA CARD

- Visa card is a payment network company which transfers the fund electronically all over the Globe.

- It is the first multinational financial service provider company in California, the USA in 1958.
- It also provides many financial services like a credit card, debit card and prepaid card to clients.
- It collaborates with the financial institutions like banks to cater the services under their company name.
- The interest charges, transaction fees are decided by the bank or financial institutions, not by the network company.
- The payment technology network charges some percentage to the issuing company. And this is the source of income for them.

MASTER CARD

- The master card company is located in New York, USA since 1966.
- This company is earlier known as Interbank or Master charge.
- It is a multinational payment technology network company which provides financial services to the customers.
- It is processing payment company.
- It also provides the services like a debit card, prepaid card, charge card, under their company name.
- The company doesn't directly interact with the customers, it collaborates with the banks and financial institutions to serve the benefits.

FEATURES & SIMILARITIES OF VISA CARD AND MASTER CARD

Easy Payments

By using both these cards, the customer can easily make a payment just by tapping the card to a compatible reader. This will ease the life of customers.

Cards

They provide a variety of cards like a standard card, premium card, Platinum card, signature card and many other.

Services

It provides the various types of offers and services like global customer assistance, complimentary services, facilities at stores and at hotels, shopping offers, discounted services to special cardholders.

Protection

Both this card protects the online transactions in a very safe and secure way.

HOW THEY MAKE MONEY

Issuer fees:

They charge from bank or financial institutions for using their payment technology network.

Settlement fees:

Card issuer pat the fees while doing settlement.

Overseas fees:

They charge fees for international settlement. They charge somewhat more for foreign currency transactions.

TYPES OF BANK CARDS & THEIR FEATURES & DIFFERENCES

TYPES OF CARDS

Cards can be classified based on their usage, issuance, and payment by the cardholders. There are three types of cards-

1. Debit cards
2. Credit Cards
3. Prepaid Card

DEBIT CARDS

- A debit card can be used to withdraw cash up to the customer's bank account's limit. Therefore, debit cards are linked to bank accounts and issued by banks.
- To, use debit cards customers should have enough balance. Debit cards are used for withdrawing cash from an ATM, purchase of goods and services at Point of Sale (POS)/ E-commerce (online purchase) both domestically and internationally. Also used for domestic fund transfer from one person to another.

CREDIT CARDS

- In the case of credit cards, a customer can withdraw money beyond the amount of money present his bank account. However, there is a credit limit for the cardholder up to which the extra money can be withdrawn.
- Also, the withdraw money will have to be paid back as dues along with interest charges as applied by the issuer of card within a time limit.
- It issued by banks / other entities approved by RBI.
- These cards are used to purchase goods and service at E-commerce (online purchase)/ Point of Sale (POS) through recurring transaction/ Interactive Voice Response (IVR) or Mail Order Telephone Order (MOTO). In addition, it can be used domestically and internationally (provided it is enabled for international use).
- These cards are can be used to withdraw money from ATM and for transferring money to bank accounts, credit cards, debit cards, prepaid cards within the country.

PREPAID CARDS

- The usage of Prepaid cards depends on who has issued the card. It issued by banks/non-bank entities.
- For issuing a prepaid card, one has to pay the amount in advance for using the money whenever required. Therefore, this type of card is never linked to any bank account.
- The prepaid cards issued by banks can be used to withdraw money from ATM, purchase of goods and services at E-commerce (online purchase)/ Point of Sale (POS) and for domestic fund transfer from one person to another. This one known as open system prepaid cards. However, when it issued by authorized non-bank entities for the same usage it is known as semi-closed system prepaid cards. It can be used only domestically.
- One can store maximum Rs. 50,000/- at any point of time.

THE DIFFERENCE BETWEEN DEBIT, CREDIT AND PREPAID CARD.

DEBIT CARD	CREDIT CARD	PREPAID CARD
In debit card when you purchase something, money is deducted from your bank account.	In credit card, the issuer puts money toward the transaction, which is a loan and have to pay back within time	In prepaid card, one can withdraw up to the amount present in this card.

	limit.	
Application process is easy.	Application process is difficult, depending on one's credit score and other details.	Application process is easy. Once you load your card with funds, you can start using it.
Debit card linked to bank account when issued by bank.	Credit card also linked to bank account.	Prepaid card is never linked to account.
Debit card only issued by bank.	Credit card can be issued by bank/ other entities approved by RBI.	Prepaid card can be issued by bank/non-bank.
Can store any amount (i.e. present in bank account.	Can store any amount (amount present in bank account + extra amount permitted to drawn).	At a time can store only up to Rs/- 50,000.
Can be used at ATMs.	Can be used at ATM to withdraw cash.	Cannot be used in ATMs.
One cannot withdraw extra money than available in his account in debit card.	If one withdraws extra amount one has to pay back the amount with the rate of interest.	Amount is paid in advance and no rate of interest is to be paid in prepaid card.

ATM CARD AND DEBIT CARD: SIMILARITIES AND DIFFERENCES

- Now, it is very difficult to carry plastic money and it involves many risks also and it is necessary to use the latest information communication and technology.

- Banks are providing better products and services like internet banking, mobile banking, ATM card, debit and credit card.
- Debit card and ATM card are used to withdraw money by using a PIN

ATM CARD

- ATM card is a payment card which is issued by the bank that provides service to the client to access it and withdraw money when needed.
- ATM card is a plastic card issued made by the bank includes the essential information about the bank account of the account holder.
- ATM card is generally used to withdraw money anytime along with it one can also deposit money into their bank accounts using ATM cards
- ATM card facilitates the general purposes of withdrawals, balance inquiry by statement facility and by depositing money through it.
- It is secure because when the transaction happens in an account, banks will send an alert message. So, one can crosscheck the transaction.

DEBIT CARD

- A debit card is also known as "check card".
- Debit card facilitates the card owner to make transactions electronically and transfer the fund from the account while making a purchase.
- A debit card is a plastic card which is issued by the bank to pay for the purchase of goods and services at any time.
- The facility is used by those who have a bank account.
- A debit card is used to make online payment through electronic fund transfer at point of sale.
- A debit card is also used to check account balance, transfer funds to the account to another account.
- A debit card is linked to the cell phone so that the client will get a notification on time.

SIMILARITIES OF ATM CARD AND DEBIT CARD

- ATM card and debit card are made of plastic and both have the same appearance.

- Both are issued by the bank and provide the facility like balance inquiry, withdrawal of money or make payment online and much more.
- Banks charge fees for providing this kind of facility and it varies from bank to bank.

DIFFERENCE BETWEEN ATM AND DEBIT CARD

Basis	**ATM card**	**Debit card**
Meaning	ATM card is a payment card which is issued by the bank that provides service to the client to access it and withdraw money when needed.	A debit card is a plastic card which is issued by the bank to pay for the purchase of goods and services at any time.
Use	ATM card is less used as compared to the Debit card. ATM card is used for Balance statement, deposits, withdrawals, transfer of funds can be done.	A debit card has more usage than the ATM card. It is used for balance statement, deposits and online payment for any purchases.
Appearance	ATM card is a plastic card which has no logo of any particular ATM network provider.	A debit card is also a plastic card having features like the name of the bank, a name of payment processing networks like visa card or a master card.
Signature	In ATM card, there may or may not be a signature of the account holder.	On the back of any debit card, there must be a signature of an account holder.
Number on card	In ATM card, there is	A debit card has a 16 digit account

	bank account number which is in any number of digits.	number which differs from the bank account number.
Range	ATM card used in national boundary.	A debit card can be used beyond the national boundary it means internationally at any time.

DIRECT DEBIT: MEANING, FEATURES & ADVANTAGES

WHAT IS DIRECT DEBIT?

- Direct debit is a type of facility provided by the banks to make life easy for their customer.
- In direct debit, the payee has right to withdraw the fund due for payment from the account of the payer.
- It is a facility in which the payee withdraws the amount from the payer's account, the payer has instructed the bank to allow the payee directly withdraw the amount from the account.
- Direct debit is a simple and more convenient to both the parties for smooth transactions.
- Direct Debit is a financial activity in which one person withdraws funds from another person's bank account. Formally, the person who directly draws the funds ("the payee") instructs his or her bank to collect (i.e., debit) an amount directly from another's ("the payer's") bank account designated by the payer and pay those funds into a bank account designated by the payee.
- A Direct Debit gives authority to someone to collect payments from your account when they are due.
- Once authorised, the organisation can automatically transfer payments from payer's to account to the payee's account.

MEANING

Direct debit is a facility of payment by which the payee authorise their customer to draw the due fund directly from the bank account.

POINTS TO REMEMBER:

- It is also called pre-authorised debit, pre-authorised or Direct withdrawal payment.
- It is used for recurring payment i.e. various types of bills, credit card payments.
- It is also used for online transactions, the point of sale or mail order transactions.
- The payer can stop the transaction anytime by instructing bank.
- In direct debit, the payment varies from time to time.
- In direct debit, the frequency of payment changed from time to time.
- The administration fees are low.
- It is a fast process.
- On the failure of payment, the payee directly gets a notification.
- It is complex by nature.

ADVANTAGES:

- You don't have to worry about remembering payment. So, it saves time and effort.
- No penalty for late payment.
- It is safe and secure.
- Some organisations give benefit by paying direct debit.
- If the bank has by mistake credited in someone else's account, the bank will pay back in your account.

DISADVANTAGES:

- The payee has to maintain a track record of direct debit payment.

DIFFERENT TYPES OF PROFIT AND GAIN

A profit and gain both sound similar but have different meanings in the language of finance.

The main difference between profit and gain is that profit is the cumulative income for a certain period of time while the gain is a financial benefit which is derived from the arrangement of an asset above its net book value or market value.

PROFIT

- In financial language, the word profit means the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity.
- Profit is also known as the bottom line or net earnings.
- Profit is the real earnings of a business which indicates the financial position of the company as well.
- Profit is the positive earnings remained for a company after all costs and expenses have been subtracted from the total sales.
- Profit is all about what left out after subtracting expenses from the revenue.

TYPES OF EARNINGS

There are two types of earnings included in the profit which is as under

1) Direct earnings

It is the earnings which arrived from the main activities like selling of goods and services.

2) Indirect earnings

It is the earnings which came from the other activities like dividend from the shares, interest on property etc.

TYPES OF PROFIT

1) GROSS PROFIT

Gross profit is the fund from which trading expenses are deducted it means deduct the cost of goods from the revenue and what is left out is a gross profit.
Gross profit is calculated with the help of gross profit margin which shows the strength of the company like higher the gross profit margin, higher the efficiency of the business.

Formula:

Gross profit margin = Gross profit *100/ revenue

2) OPERATING PROFIT

Operating profit is arrived by adding net operating profit to the gross profit and then from it deducts the net operating expenses and what is left out is operating profit. Higher operating profit shows the higher efficiency of the business and vice a versa. Operating profit is measured by the operating profit margin formula.

Formula:
Operating Profit Margin = Operating Profit * 100 / Revenue

3) NET PROFIT

Net profit is the definitive profit amount which arrived after subtracting interest and taxes from the operating profit.
If there is a high level of net profit it will increase the value of the shares.

Formula
Net Profit Margin = Net Profit * 100 / Revenue

GAIN

- In a financial language, gain is the accretion in owner's equity which results from the other activities rather than day to day earnings from the repeated activity.
- The gain is indicated as a financial benefit which is derived not from the regular business activity but from the extra activity outside of a business like gain on sale of land and change in a stock's market price.
- Gains are written in the income statement after the operating profit under the section of other revenues.
- **For example:** If a machinery is purchased at a cost of RS 10,000 and sold it at RS 12,000. it is called gain.

TYPES OF GAIN

1) REALIZED GAIN

Realized gain is the one which has occurred and realized soon.

For example:
A company has purchased a share of Rs 100 each and after some time the price of

shares increase to Rs 125 each. So there is the gain and once it is sold in the market and it becomes a realized gain.

2) UNREALIZED GAIN

Unrealized gain is the one which has occurred but it has been not realized yet.

For example:
A company has purchased a share of Rs 100 each and after some time the price of shares increase to Rs 125 each. So there is the gain but it is not sold that is why it is called an unrealized gain.

TYPES OF RESERVES & OBJECTIVE- EXPLAINED

WHAT IS RESERVE AND DIFFERENT TYPES OF RESERVE?

The word reserve is not a new word because a reserve is an essential part of any business whether it is banking business or any other. We also in our life keep some money for future use in uncertainty, this is a nothing else but a reserve.

MEANING:

- A reserve is a part of retained earnings, which is kept in the side for any use in future.
- A reserve is a part of any business whether it is a bank or not.
- It is a portion of the shareholder's fund.
- A reserve is the sum of money which was left after making provisions and other expenses.
- A reserve is an extra fund that is put aside after analysing budget.
- A reserve is just an allocation of profit or a part of income.
- A reserve is for the future because future is always uncertain. So to meet unknown problems, a reserve is created.
- A reserve is not mandatory.

OBJECTIVES:

- The main objective to create a reserve is to make the business's financial position strong.
- A reserve helps business in unfavourable circumstances in future.
- A reserve helps to write off losses occurred in the business transactions.
- A reserve is also used to pay the bonus to shareholders and discount to debenture holders.

TYPES OF RESERVES

There are two types of reserves

1) Capital reserve
2) Revenue reserve
1) General reserve
2) Specific reserve

1) CAPITAL RESERVE

- When a reserve which is created from the capital profit, it is called capital reserve.
- It is created from some special earning which occurred in capital nature transactions.
- A capital reserve is not distributed among the shareholders.
- A capital reserve can be created from the sale of fixed assets and investments, revaluation of assets, share premium, redemption of debentures at discount, foreign currency transactions, etc.

2) REVENUE RESERVE

- When a reserve is kept aside from the revenue earning, a revenue earning is an earning which is earned from normal business transactions, it is called a revenue reserve.
- A retained earnings is shared among the shareholders and company's owner.
- A revenue reserve is also reinvested in the business for development.

There are further two types of revenue reserve

1) GENERAL RESERVE

- When a reserve is created out of profit, not for a general purpose is known as a general reserve.
- A general reserve is used to meet future incidents and needs, to make the financial position strong.

2) SPECIFIC RESERVE

- When a reserve is created for some predetermined purpose out of the profit.
- This type of reserve is just used for that specific purpose and not for another purpose.
- A specific reserve is created adjusting the profit and loss account.
- It is used for the redemption of fixed liability or for the R&D and for many other specific purposes.
- A specific reserve can be created in the form of a sinking fund, R&D fund, Dividend fund etc.

WHAT IS BILL OF EXCHANGE

DEFINITION

"An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to the bearer".

MEANING

A bill of exchange is a non- interest bearing written order which is used primarily in foreign trade which binds one party to pay a fixed amount of money to another party at a decided future date.
A bill of exchange is a signed by the creditor and accepted by a debtor.

PARTIES INVOLVED IN A BILL OF EXCHANGE

1. DRAWER:

The person who makes a bill of exchange is called drawer. He is either a creditor or a seller and orders the borrower to pay the borrowed money.

2. DRAWEE:

A drawee is the one to whom the bill of exchange is made. He is either a buyer or a debtor.

3. PAYEE:

One who has to receive the amount of the bill of exchange is called payee. In a bill of exchange, either a drawer or a maker may receive money himself or order a drawee to pay an amount to somebody.

4. ACCEPTOR:

A person who accepts a bill of exchange to pay is called an acceptor, it may be a debtor or a drawee or a banker.

5. HOLDER:

One who actually possesses the bill is called holder. He may be a drawer or a creditor, or a bearer or a payee.

6. ENDORSER:

One who transfers the right of possession of the bill to other party is called endorser. He may be a drawer or a holder.

8. ENDORSEE:

A person to whom the right of ownership is transferred is called an endorsee.

ESSENTIAL COMPONENTS OF A BILL OF EXCHANGE.

- A bill of exchange must be in writing form.
- It must contain an order to pay a fixed amount only.
- An order must be unconditional.
- A bill of exchange must be signed by the drawer.
- The parties involved in transaction must be certain i.e. A drawer, drawee and a payee
- A bill of exchange must be properly stamped.
- A bill of exchange can either be payable on demand or at a future date.

CLASSIFICATION OF BILL OF EXCHANGE

CLASSIFICATION BY PLACE

INLAND BILL

A bill which is used within a national boundary is known as inland bills. In this type, the drawer and drawee are in the same country and if a payee is from another country, the bill will remain an inland bill.

FOREIGN BILL:

In the foreign bill, a drawer and a drawee both are from the different country and it is known as a foreign bill.

CLASSIFICATION BY TIME

A DEMAND OR A SIGHT BILL

In a demand or a sight bill, a bill is payable on demand or at a sight. it means this bill does not contain a specific time for the payment.

TIME OR USANCE BILL:

This type of bill is issued for a specified period of time and it is payable only after that date. In this type of bill, a grace period of 3 days is allowed after the date fixed for the payment and once the grace period over it becomes null.

CLASSIFICATION BY DOCUMENTS

DOCUMENTARY BILL:

This type of bills carries documents with them same as railway receipts, insurance receipts etc. It is further classified into two types.

A) Documentary bill against payment:
These types of bills are only paid when the required documents are issued and submitted to the competent authority.

B) Documentary bill against acceptance:

A documentary bills are only which are accepted when the documents are realized by the drawer.

CLEAN OR NON-DOCUMENTARY BILLS:

A clean or non- a documentary is a bill which is either drawn or accepted without being attached to the documents.

CLASSIFICATION BY PAYMENT

BEARER BILL:

A bill which is payable to any person who bears or carries them.

ORDER BILL:

In this type of bill, a payment is assigned to the person whose name is written as payee.

CLASSIFICATION BY OTHER KINDS

TRADE BILL:

A trade bill an ordinary and most common type of bill used in business transactions. A bill is drawn by the seller against the buyer of goods.

ACCOMMODATION BILL:

An accommodation bill is drawn to borrow a specific amount of money. Its main intention is to accommodate the drawer.

BANK BILL:

A bank bill is drawn on the bank by a bank.