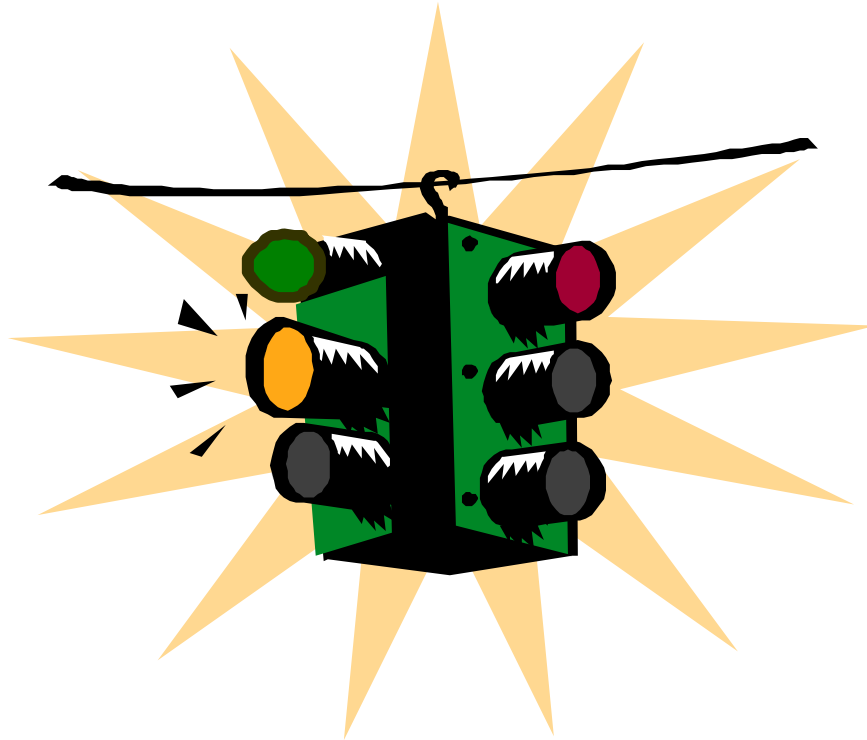


# BANKER`S



# DIGEST-2017

*"In today's environment, hoarding **knowledge** ultimately erodes your power. If you know something very important, the way to get power is by actually sharing it" **Joseph Badaracco***

Employees play vital role in service organizations and they need to be transformed into Knowledge Assets to remain competitive in the dynamic environment and it is more so with Banks as they are very service sensitive. Thus it is imperative for the bank staff to serve the clientele with updated information of bank's products & services to accomplish corporate objectives.

In this endeavor, I have been compiling and releasing the "**Banker's Digest**" every year for the benefit of Bankers since 2007. Tenth edition of Banker's Digest is released duly covering the important guidelines issued by RBI from time to time. For the benefit of the readers, the present edition is covering Banking & Finance, contemporary topics as well as Question Bank, which is of immense use for promotion aspirants.

All possible care is taken to provide error free information, however, readers may note that the information given herein is merely for guidance/reference and they need to refer the relevant circulars for full details.

I express my sincere thanks to friends/colleagues for their support in encouraging the idea and contributing the required resources for release of Banker's Digest on time. I solicit your views on the content and quality of the topics for further improvement.

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**Wish you all the Success**

Date: 01.02.2017

**N S N Reddy**

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## Deposits – General Guidelines

One of the important functions of the Banks is to accept deposits from the public for the purpose of lending. In fact, depositors are the major stakeholders of the Banking System. The depositors and their interests form the key area of the regulatory framework for banking in India and Reserve Bank of India has been issuing broad guidelines to the banks from time to time. Various deposit products offered by the Bank are assigned different names. The deposit products are categorized broadly into the following types.

a) "*Current Deposits or Demand Deposits*" mean deposits which are repayable on demand. These deposits are generally maintained by businessmen with the intention of making transactions with such deposits. The deposits can be drawn any number of times depending upon the balance in the account or up to a particular agreed amount. These accounts are meant purely to meet the business needs of customers. No interest is paid on balances in Current/Demand deposit accounts. Banks impose service charges for running these accounts. While opening of current accounts for business entities, banks should make reference to CIBIL/CRILC to ensure that the entity does not have borrowing arrangement and it is not on the list of defaulters. In either case a reference should be made to the lending banks before the current account is opened to ensure credit discipline among the borrowers.

b) "*Savings Deposits*" means a form of demand deposit which is subject to restrictions on number of withdrawals and amounts as decided by the banks during any specified period. These deposits combine features of both current account deposits and fixed/term deposits. These deposits carry interest as decided by the respective banks. Normally interest on Savings Deposits is less than fixed deposit interest rates. Banks have discretion to introduce special schemes with insurance coverage and other benefits to the specified group of customers with or without additional charges depending on the scheme terms and conditions. Savings Deposit customers are allowed to withdraw deposit amount by way of withdrawal/cheque. As per RBI guidelines, no bank should open Saving Deposit account in the name of

- Govt. Departments/bodies depending upon budgetary allocation for performance of their functions
- Municipal Corporations or Municipal Committees / Panchayat Samithis
- State Housing Boards
- Water/Sewerage/Drainage Boards
- State Text Book Publishing Corporations/Societies
- Metropolitan Development Authority
- State/Dist. Level Housing Co-op Societies
- Any political party/Trading/Business or Professional concern, whether such concern is a proprietary or partnership firm or a company or an association.

However, the above prohibition will not apply in the case of organizations/agencies such as Primary Co-operative Credit Societies, Khadi and Village Industries Boards, Agriculture Produce Market Committees; Societies registered 1860 Act or any other acts, Development of Women and Children in Rural areas (DWCRA), ITDA, SGSY, MPLADS, DDA, Zilla Parishads, Grampanchayats, SHGs, Farmers' Clubs and Vikas Volunteer Vahini (VVV).

c) "*Term Deposit/Fixed*" means a deposit received by the Bank for a fixed period withdrawable only after expiry of the fixed period and includes deposits such as Recurring/Cumulative/Annuity/Reinvestment deposits/Cash Certificates etc. The minimum period of Term Deposit is 15 days. However, branches can accept term deposit for 7 days also provided the amount of deposit should be ₹1 lakh & above. The maximum period should not exceed 10 years except in case court/minor deposits as special case. It is not operative account and no cheque book is issued.

However, the depositor has discretion to close the account at any time during the tenor of the deposit. Recently, RBI has allowed banks to take "**non-callable deposits**" which will not allow the customer to withdraw the money till the end of the tenor. Banks may pay higher interest to compensate the depositor for sacrificing the discretion to withdraw his money when he wants. The move is aimed at to overcome the asset-liability mismatches for the banks. The RBI will soon issue details relating to the tenor and interest rates.

While opening Term Deposits especially Bulk Term Deposits, mostly from Institutions, Government Departments, Public Sector Undertakings and High Networth Individuals (HNI), Banks shall ensure strict compliance with KYC guidelines. The deposit receipt is to be handed over to the institutional depositor by the branch personally. Further, Bank Branches shall act diligently with regard to deposit loans and premature cancellation of bulk term deposits. Banks should ensure the following precautions while allowing Loans/Overdrafts to self or third party against bulk term deposits:

- Validation of consent and independent confirmation shall be obtained from the depositor and the same is to be kept on record.
- KYC compliance shall invariably be verified and complied with, if the loan is allowed and credited to the account of a third party.
- E-mail or SMS shall be sent when the loan is granted or deposit is closed on maturity or premature cancellation.

Banks may, from time to time design/come out with new deposit products, with certain additional benefits with or without payment of certain charges to cater to needs of specified categories of depositors and the same may not be made available to other customers.

**Joint Accounts** – Deposit accounts can be opened by an individual in his own name or by more than one individual known as Joint Account. The account can be operated by single individual or by more than one individual jointly as per the mandate. The mandate for operations can be viz., Individual; or jointly; or Either or Survivor; or Former or Survivor; or Any one or Survivor. If the account is held by two individuals – Either or Survivor, the final balance with interest, if applicable, will be paid to survivor on death of anyone of the account holders. If the account is held on former or survivor basis, the final balance along with interest, if applicable, will be paid to survivor on the death of Former. The bank may at the request of all the joint account holders allow addition or deletion of name/s of joint account holder/s if the circumstances so warrant or allow an individual depositor to add the name of another person as a joint account holder. However the name of the first joint account holder cannot be replaced.

**Accounts of Firms/Companies/Trusts/Associations** – The above constituents can open domestic deposit accounts i.e. current, term deposits by producing necessary documents as specified in the application. All the members of the organization like partners, directors, trustees, etc. are subject to compliance of KYC norms. Only certain types of institutions are eligible to open Savings accounts. Branches should adhere to the following guidelines while opening of Government / Quasi Government / Public Sector Undertakings / Other Institutional Accounts.

- Obtain Government order or notification authorizing the concerned officer to open and operate the account
- Verify the identity of the officer authorized to operate the account
- Obtain photographs of the persons authorized to operate the account
- Address letter to next higher authority after opening of the account
- Not to make payment of maturity proceeds of term deposits in cash

- Obtain balance confirmation letter for operative and term deposits every quarter from the said accounts

**Minors' Accounts** – Savings Bank/Recurring Deposit Account can also be opened by a minor jointly with natural guardian or with mother as the guardian. Minors above the age of 10 will also be allowed to open and operate saving bank account independently. However, no overdrafts will be granted to these minors. On attaining majority, the erstwhile minor should confirm the balance in his / her account and if the account is operated by the natural guardian / guardian, fresh specimen signature of erstwhile minor duly verified by the natural guardian would be obtained and kept on record for all operational purposes. Direct Benefit Transfer (DBT) credits, if any, to such accounts should continue to be accepted and the benefits should not be returned for want of KYC compliance. However, a cushion of 6 months is given to such accounts to complete the KYC formalities, after attaining majority. As per the latest guidelines, RBI has allowed minors aged more than 10 years to open and operate savings bank accounts independently. However, banks can fix limits in terms of minimum age and the amounts up to which the minors are allowed to operate the deposit accounts. Banks are also allowed to offer facilities like Debit Cards, Cheque Book and Internet Banking. The aim of this move is to help children understand financial matters and open and operate bank accounts with ease and confidence. Further, it is also aimed to bring uniformity among banks in opening and operating minor's accounts.

**Illiterate Accounts** – The Bank may at its discretion open deposit accounts in the name of illiterate individuals. However, opening of Current Deposit Account requires prior permission from higher authorities. While opening of the account, the depositor needs to call on the Bank personally along with a witness who is known to both the depositor and the Bank. The Bank official shall explain the terms and conditions governing the account including safe keeping of Passbook, Cheque Book, Debit Card etc., to the illiterate person. At the time of withdrawal/repayment of deposit amount and/or interest, the account holder should affix thumb impression in the presence of the authorized officer who should verify the identity of the person.

**Visually Impaired Persons** – Visually Impaired Persons may be allowed to open all types of deposit accounts, except current accounts, either singly or jointly with other persons. Opening of Current Accounts for visually impaired persons at the branch level requires prior permission from higher authorities. The terms and conditions governing the accounts including special conditions, if any, should be read and explained to the visually impaired person by the bank official in the presence of a witness in view of his physical infirmity. Branch should obtain witness signature (known to the bank) on Personal Data Form and the Account Opening Form along with specimen signature of the depositor at the time of opening of the account.

**Pension Accounts** are opened on receipt of advice from pension disbursing authorities with all the relevant documents sent to the Bank at identified places / branches. Payment of pension will be made as directed by the pension disbursing authority. The terms and conditions for opening of accounts in the name of pensioners are available at these selected branches of the Bank. The pension can be credited to his/her existing savings/current account maintained with the branch selected by the pensioner. All pensioners of the Central Government Pensioners and those State Governments which have accepted such arrangement can open Joint Account with their spouses - "Former or Survivor" or "Either or Survivor". RBI has not stipulated any minimum balance to be maintained in pension accounts by the pensioners. Individual banks have framed their own rules in this regard. The pensioner is required to furnish a Life Certificate/Non-employment Certificate or Employment Certificate to the bank in the month of November every year. However, in case a pensioner is unable to obtain a Life Certificate from an authorized bank officer on account of serious illness / incapacitation, the bank official will visit his/her

residence/ hospital for the purpose of recording the life certificate. Since the banks are operating in Core Banking environment, the pensioner has option to approach any of the branches of the pension paying bank for submission of Life Certificate. In order to overcome the hardships associated with life certificate, Govt. of India has introduced Digital Life Certificate "**Jeevan Pramaan**" where the pensioner has option to visit nearby CSC center or any Government office to submit online through aadhar based biometric authentication.

**Senior Citizens:** Senior citizens who have completed 60 years of age and residing in India are given certain privileges such as 0.50% additional interest rate over and above the card rate. The depositor is required to furnish Proof of age to the bank. Joint accounts with another senior citizen or with person who is not a senior citizen is permitted. In the latter case, only if the senior citizen is the first named depositor, the privileges are applicable.

**Staff Accounts** – Banks can offer additional interest of 1% on the deposits placed by the staff members either working or retired subject to conditions laid down by the respective banks. The spouse of the deceased also can also avail this facility. In case of Joint accounts, the first name in the deposit should be the staff or ex-staff or spouse of the staff. However, staff rate of interest is not applicable for NRE/NRO/FCNR deposits.

**Permanent Account Number (PAN)** is mandatory for all account openings other than Basic Savings Deposit Account / PMJDY account. However, account can be opened provided he/she submits Form-60.

**Form 60/61** – It is the declaration by the customer who deposit high value cash (₹50000 & above) and who do not have PAN Card. Form-60 is meant for general public declaring that he is not a income tax assessee and Form-61 is for the persons who have agriculture income.

**Mandate** – At the request of the depositor, the Bank register mandate/power of attorney authorizing another person to operate the account on his behalf.

**Interest on Savings Bank Accounts** – The balances in the SB accounts are eligible to earn interest as decided by the respective banks since the interest rates are deregulated. However, RBI advised the banks that there should not any discrimination while extending interest rates to the customers and the interest shall be calculated based on daily balances and the interest amount is to be credited to the respective accounts at least once in quarter or at lower intervals as per the discretionary of the banks.

**Interest on Term Deposits** – The interest shall be calculated at quarterly rests on term deposits. However, banks are allowed to pay monthly interest at discounted value. For the purpose of calculation of interest on domestic term deposits repayable in less than three months or where the terminal quarter is incomplete, interest should be paid proportionately for the actual number of days reckoning at 366 days in a leap year and 365 days in other years. Whenever interest rates are revised, the revised rates are applicable to fresh deposits as well as renewed deposits. The interest rates offered are non-discretionary and non-discriminatory and are applicable uniformly to all depositors at all branches of the Bank. The rate of interest on deposits should be prominently displayed in the branch premises and Bank's website. Government of India advised the Banks not to pay any preferential interest on the deposits of Central Public Sector Enterprises. The interest payment can be made to any operative account as directed by the depositor in writing.

**Premature Renewal of Term Deposit** – In case the depositor desires to renew the deposit by seeking premature closure of an existing term deposit account, the bank will permit the renewal at the applicable rate on the date of renewal, provided the deposit is renewed for a period longer than the balance period of the original deposit. While prematurely closing a deposit for the purpose of renewal, interest on the deposit for the period it has remained with the bank will be paid at the rate applicable to the period for which the deposit remained with the bank reckoning from the date of deposit and not at the contracted rate. Banks are allowed to open Pension account jointly with spouse. In case pensioner expires, the spouse can continue the same account for family pension/other pension benefits.

**Premature withdrawal of Term Deposit** – The Bank on request from the depositor, at its discretion may allow withdrawal of term deposit before completion of the period of the deposit agreed upon at the time of placing the deposit. The Bank shall declare its policy on penalty which will be levied by way of interest reduction for premature withdrawal of term deposit. The Bank shall make depositors aware of the applicable rate along with the deposit rate. Normally, the premature cancellation of term deposit attracts a penalty of 1%. However, at present, deposits of Individuals up to **₹5 lakh** contracted for any maturity period and deposits of Govt / Corporates / firms / institutions / associations etc up to ₹100 lakh contracted up to 90 days are exempted from levying penalty. (Cir no.292 Ref 27/27 dated 17.10.2012)

**Overdue Term Deposits – Payment of Interest** – Overdue deposits will be renewed with effect from the date of maturity at interest rate applicable as on the due date, provided such request is received within 14 days (both days inclusive) from the date of maturity. Where the overdue period exceeds 14 days and where the deposit or part thereof is renewed, the rate of interest payable on the deposit so renewed shall be the lower of i) the rate of interest applicable for the renewed period prevailing on the date of maturity or ii) the rate of interest applicable for the renewed period and prevailing on the date of renewal. In case where the depositor is not interested to renew the overdue deposit and would like to withdraw the amount, in such cases, the depositor is eligible for applicable Savings Bank interest for the overdue period. For the sake of convenience of the Bank as well as Depositors, it is desirable to obtain mandate from the depositors at the time accepting of deposits with regard to disposal of maturity proceeds i.e. Automatic renewal or credit the amount to the operative account. Unless there are specific instructions to the contrary, term deposits will be renewed for the same tenure as it was for the matured term deposit and rate of interest would be as prevailing on due date.

**Deposits maturing on a holiday** – In case of reinvestment / recurring deposits, banks should pay interest for the intervening Sunday/Holiday/Non-business working day on the maturity value on the succeeding working day. However, in case of ordinary term deposits, the interest for the intervening Sunday/holiday/non-business working day should be paid on the original principle amount.

**Payment of Term deposits by cash** – Section 269 of Income Tax Act, 1961 prohibits payment of term deposits or notice deposits in cash if the amount involved, principal plus interest is ₹20,000/- or more. Hence, the payment of such deposits is to be made by way of credit to the account of the party (or) by way of A/c Payee crossed demand draft or pay order only.

**Term Deposits – Purchase of Cheques/Drafts:** Hitherto, Banks were permitted to purchase cheques/drafts at par provided the entire proceeds are placed as Term Deposits for a minimum period of 6 months. Now, RBI has advised all Banks to stop the purchase of cheques/drafts at par for placing the proceeds as Term Deposits with effect from 27.01.2014.



**Interest payable on term deposit in deceased account** – In the event of death of the depositor before the date of maturity of deposit and amount of the deposit is claimed after the date of maturity, the Bank shall pay interest at the contracted rate till the date of maturity. Again from the date of maturity to the date of payment, the Bank shall pay simple interest at the applicable rate prevailing on the date of maturity, for the period for which the deposit remained with the Bank beyond the date of maturity, as per the Bank's policy in this regard. However, in the case of death of the depositor after the date of maturity of the deposit, the bank shall pay interest at savings bank rate operative on the date of maturity (at present 4% p.a.) from the date of maturity till the date of payment. In the case of balances lying in current account standing in the name of a deceased individual depositor/sole proprietorship concern, interest shall be paid only from 1<sup>st</sup> May, 1983, or from the date of death of the depositor, whichever is later, till the date of repayment to the claimant/s at the rate of interest applicable to savings deposit as on the date of payment.

**Loans against Deposits** – The Bank may consider request of the depositor/s for loan / overdraft facility against term deposits duly discharged by the depositor/s on execution of necessary security documents. Whenever loan is granted, a lien on the deposit is marked and bank shall have the right to appropriate the deposit proceeds to the loan account on the date of maturity, in case the loan remains unpaid. The interest rates applicable, margins to be maintained etc. will be made known to the customers at the time of availing the Deposit Loan and also will be placed in Bank's website from time to time.

**Tax Deduction at Source (TDS)** – It is the statutory obligation to deduct tax at source (at present 10%) if the total interest paid/payable on all term deposits held by Resident person exceeds the amount specified, presently ₹10000 in a financial year under the Income Tax Act. However, TDS is exempted to the individual depositors who submits 15G (whose age is below 60 years) and 15H (whose age is above 60 years) stating that their total income from all sources including the interest on bank deposits is well within the taxable income limit. However, system deduct TDS automatically where the interest income exceeds ₹3 lakh & ₹5 lakh p.a. for senior citizens & super senior citizens (above 80 years) respectively. Branch should obtain 15G/15H in triplicate and return one copy to the customer as acknowledgement and it should bear round seal of the branch. As per extant guidelines, all depositors invariably submit PAN failing which the interest income on such term deposits attracts TDS @20% with effective from 01.04.2010. Acceptance of 15G from individuals is not valid where the interest income from deposits is more than the basic exemption limit of ₹2.50 lakh under the present Income tax laws. Normally, form 15G cannot be accepted from temple trust or other trusts, however, it can be accepted only when they produce the tax exemption certificate issued by IT authorities. In case where the deposit is made in the name beneficiaries as per the directions of the Court, applicable TDS is to be deducted. Please note that such deposits are not to be treated as deposits in the name of the Government. However, deposit held in the name of an administrator or receiver or any authority of similar nature by the Court are exempt from deduction of TDS. It is the responsibility of the branches to download Form 16A from TIN website and also generate single interest certificate for a customer. Branches should ensure that TDS certificate (Form 16A) as well as Interest certificate should be sent to the depositor without waiting for or seeking any written request from the depositor. The Bank will issue a tax deduction certificate for the amount of tax deducted. Further, if any depositor requests for TDS certificate, the same should be issued again even though the TDS certificate was already issued. However, interest earned on Savings Bank Deposits, Certificate of Deposits and Non Resident (External) Accounts including FCNR Deposits are exempted from TDS.

**Inoperative/Dormant Accounts:** Savings as well as Current account should be treated as Inoperative / Dormant if there are no transactions in the account for over a period of **two years**. For the purpose of classifying as above, both the type of transactions (Debit/Credit) induced at the instance of customers as well as third party should be considered. Charges levied or interest credited should not be treated as transaction for the said purpose. However, crediting the Fixed Deposit interest, Dividend and Interest warrants to Current/SB account are to be treated as a customer induced transaction, and consider the account as operative account only. Operations in Inoperative/Dormant accounts may be allowed after due diligence i.e. ensuring genuineness of the transaction, identify verification and signature verification. Before converting the account in to Inoperative, notice is to be issued to the depositor. The conversion may be postponed to another one year, in case depositor requests in writing that he undertakes to route the transactions in to the account. No charges should be levied for activation of inoperative accounts. Recently, RBI has instructed banks not to levy penal charges for non-maintenance of minimum balance in inoperative account.

**Frozen Accounts** – With regard to the savings bank accounts frozen by the enforcement authorities, Bank will continue to credit the interest to the account on a regular basis. However, withdrawal/debits can be allowed only when the accounts are released by the Enforcement Authorities. In the case of Term Deposit Accounts of Customers frozen by the orders of the enforcement authorities, Banks are required to obtain a request letter from the customer for renewal for a term equal to the original term, on maturity. No new receipt will be issued. However, suitable note will be made regarding renewal in the deposit ledger. Renewal of deposit shall be advised by registered letter / speed post / courier service to the concerned Govt. department under advice to the depositor. In the advice to the depositor, the rate of interest at which the deposit is renewed will also be mentioned. If overdue period does not exceed 14 days on the date of receipt of the request letter, renewal shall be done from the date of maturity. If it exceeds 14 days, interest for the overdue period shall be paid as per Bank's extant guidelines that are referred in this policy.

**Nomination facility:** As per section 45 ZA to 45 ZF of the Banking Regulation Act, 1949, account holder can nominate any individual of his choice as nominee to receive money from the bank in case of death of the depositor. Nomination facility is available to all types of deposit accounts (including joint accounts E or S), safe deposit lockers and safe custody articles, which are in the name of individuals. The nominee can be any individual including illiterates, minors. However, nominations cannot be made in favour of joint names / Bodies (institutions / trusts etc). The only exception is safe deposit lockers hired jointly; there can be more than one person as nominee. In case of illiterate account holders, branch to obtain two witnesses while accepting nomination. Consent of nominee is not mandatory. Nomination made in respect of a term deposit will continue to be in force even on renewal of such deposit unless the nomination is specifically cancelled or changed. The customer has option to change nomination any number of times during the currency of the deposit. The rights of nominee arise only after the death of the depositor. As per the recent guidelines, the name of the nominee is to be printed on the Passbook / Term Deposit Receipt at the specific request of the depositor. Branch should take witness of Magistrate / Judicial Officer or an Officer of Central Govt. or State Government or an Officer of a Bank or two persons acceptable to the Bank for settlement of claims under nomination.

**Passbook/Account Statement** – The Bank will provide either a statement of account or a Pass Book to Savings Bank as well as Current Deposit Account Holders periodically as per terms and conditions of opening of the account. However, in case a customer holds a pass book and still requests for a statement of account and vice versa, the same will not be denied and will be provided on payment of charges as specified by the Bank from time to time.

**Transfer of Accounts** – The deposit accounts may be transferred to any other branch of the Bank at the request of the depositor subject to fulfillment of KYC norms at transferee branch. However, if any deposit scheme is devised with a precondition that it cannot be transferred to other places/ branches, the account will continue to be maintained at the branch where it is opened.

**Standing Instructions** – Standing instructions can be given to the Bank for transfer/remittance of funds from one account to other account(s) maintained in the same branch, or any other branch of the bank or any other bank or any other third party. Applicable charges will be levied by the bank for rendering the said services. Revision in service charges, if any, will be communicated one month in advance to the customers before effecting the revision, through Bank's website.

**Insurance Cover for Deposits** – All bank deposits are covered under the insurance scheme offered by Deposit Insurance and Credit Guarantee Corporation of India (DICGC) subject to certain limits and conditions. At present, the insurance premium is being paid by the Bank. Each depositor in a Bank is insured up to a maximum of ₹100000/- for both principal and interest amount held by him in the same capacity and same right as on the date of liquidation/cancellation of bank's licence or the date on which the scheme of amalgamation/merger/reconstruction comes into force.

**Rounding-off transactions:** All transactions including payment of interest on deposits will be rounded off to the nearest rupee; i.e., fractions of fifty paise and above shall be rounded off to the next higher rupee and fraction of less than fifty paise shall be ignored.

**Settlement of Deceased Deposit account** – In case where the depositor exercised nomination, the balance outstanding in the account of the deceased depositor will be transferred to the account of/paid to the nominee after the Bank is satisfied about the identity of the nominee. In a joint deposit account, when one of the joint account holders dies, the Bank is required to make payment jointly to the legal heirs of the deceased person and the surviving depositor(s). However, if the joint account holders had given mandate for disposal of the balance in the account in the forms such as 'either or survivor, former/later or survivor, anyone of survivors or survivor', etc., the payment will be made as per the mandate to avoid delays in production of legal papers by the legal heirs of the deceased. In the absence of nomination and when there are no disputes among the claimants, the Bank will pay the amount outstanding in the account of deceased person against joint application and indemnity by all legal heirs or the person mandated by the legal heirs to receive the payment on their behalf without insisting on legal documents up to the limit approved by the bank's board. As per RBI guidelines, claims of the deceased depositors are to be settled within 15 days. This is to ensure that the depositors are not put to hardship on account of delays in completing legal formalities.

**Service Charges** – The terms and conditions for opening a deposit account and the charges that will be levied on the account will be provided to the customer at the time of opening of the account. The revised charges, if any, are to be informed to the customers well in advance either through press releases or advertisement in print media and or by displaying in Bank's web site.

**Customer information & Secrecy** – The information collected from the customers shall not be used for cross selling of services or products by the Bank, their subsidiaries and affiliates. If the Bank proposes to use such information, it will be strictly with the consent of the account holder. Bank should prepare a profile for each customer based on risk categorization. This profile contains the information relating to customer's identity, social/financial status, nature of business activity etc. The customer profile is a confidential document and details contained therein will not be divulged for cross selling or for any other purposes. The Bank shall not disclose

details / particulars of the customer's account to a third person or party without the express or implied consent from the customer. However, there are some exceptions, viz. disclosure of information when the interest of our Nation is at stake and compulsion of law, where there is a duty to public to disclose and where interest of the Bank requires disclosure.

**Unclaimed Deposits:** Accounts (CA/SB) where there are no customer transactions for the last 10 years are treated as unclaimed deposits. With regard to term deposits, which remained unpaid even after 10 years of maturity are treated as unclaimed deposits. Banking Regulation Act, 1949 (section 26A) has been amended and empowered RBI to establish a separate fund account titled "**Depositor Education and Awareness Fund (DEAF)**". As per this provision, unclaimed deposits are to be credited to the fund account within 3 months from the expiry of the period of 10 years. It also covers cash credit accounts, loan accounts after due appropriation by the banks, margin money against issue of Letter of Credit/ Guarantee/any security deposit, outstanding telegraphic transfers, mail transfers, demand drafts, pay orders, bankers cheques, sundry deposit accounts, vostro accounts, inter-bank clearing adjustments, unadjusted National Electronic Funds Transfer (NEFT) credit balances and other such transitory accounts, un-reconciled credit balances on account of Automated Teller Machine (ATM) transactions, undrawn balance amounts remaining in any prepaid card issued by banks but not amounts outstanding against traveler cheques or other similar instruments, which have no maturity period, rupee proceeds of foreign currency deposits held by banks after conversion of foreign currency to rupees in accordance with extant foreign exchange regulations etc. The Fund shall be utilized for promotion of depositors' interest and for such other purposes which may be necessary for the promotion of depositors' interests as specified by RBI. Banks shall calculate the cumulative balances in all accounts along with interest accrued, wherever applicable, should be transferred to the fund account. Subsequently, this exercise is to be done by the banks in each calendar month. Before transferring the balances to the fund, banks have to ensure that all legal obligations, till that date, including those pertaining to taxes deductible and payable, are met or adequate arrangements are made there for. The depositor would, however, be entitled to claim from the bank her deposit or any other unclaimed amount or operate her account after the expiry of ten years, even after such amount has been transferred to the Fund. In case of claim subsequent to transfer of the balances to the fund would pay interest from the date of transfer to till the date of payment to the customer, at the interest rate notified by the Reserve Bank from time to time. However, Term deposits which are transferred to DEAF are not eligible for renewal with retrospective effect from their due date. Further, banks are required to disclose the list of unclaimed and inoperative deposit account holders, in a bid to help the claimants trace their deposits and the names of the depositors shall be displayed on the Website. The list of unclaimed deposits shall be updated on a monthly basis. DEAF is in operation w.e.f 30<sup>th</sup> June 2014.

**Redressal of complaints/grievances** – Depositors having any issue with regard to services rendered by the Bank has right to approach authorities designated by the Bank for redressal. The details of the internal set up for redressal mechanism should be displayed in the branch premises. The branch officials shall provide all required information/procedure to the customers for lodging the complaint. In case the depositor does not get response from the Bank within **one month** from the date of complaint or he is not satisfied with the response received from the Bank, he has a right to approach Banking Ombudsman appointed by the Reserve Bank of India.

## Banks & Other Services

The deposits received from the public need to be deployed judiciously to earn reasonable interest income to pay the agreed interest amount to the depositors to enhance the value of the stakeholders. After meeting the statutory obligations (CRR/SLR), banks undertake the following lending activities:

**Overdrafts:** It refers to a facility in which a customer is allowed to overdraw his current account up to an agreed limit. This facility is generally given to the customers who are having proven track record. Normally, banks extend this facility to the customers for a short period say 7 to 15 days and they are expected to repay along with interest.

**Cash Credit:** It is a limit offered by the banks to the borrowers to meet their business requirements against current assets like stocks, shares, bonds etc. Under this bank sanctions a limit and the borrower free to use the funds subject to terms and conditions. Normally, the review/renewal of the limits will be done once in a year. These loans attract interest and the borrower is required to pay the interest as per the agreement.

**Demand Loans:** The another important area for the banks to deploy funds is demand loans which normally constitutes Loans against Deposits, Gold Loans, Kisan Credit Cards etc. These loans are to be repaid in a year or on demand.

**Term Loans:** Banks lend to the borrowers to create assets by way of term loans which are repayable in installments over a period of time depending on the type of activity and payment capability of the borrower. Normally, the manufacturing / service enterprises avail term loans for acquiring land, construction of buildings and purchase of machinery etc. Banks also lend to individuals to acquire movable (Vehicle loans) or immovable properties (purchase of house/flat or construction of house) and also extend personal/clean loans to meet their emerging financial needs.

Besides accepting deposits and lending, banks undertake the following ancillary services to the customers as well as general public:

**Transfer of funds:** Banks provide the facility of simple, hassle-free and cost effective funds transfer across the country and also abroad. Hitherto, the funds transfer instruments such as Telegraphic Transfers / Mail Transfers / Demand Draft / Pay Orders etc., have become extinct and being replaced with e-products such as National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS) and Electronic Funds Transfers (ECS).

**Locker facility:** Banks provide facility of safety vaults or lockers to customers to keep their valuable articles/documents in safe custody and for which banks levy service charges depending on the size of the locker.

**Forex:** Authorized branches of the banks undertake purchase or sale of foreign currencies on behalf their customers who are dealing with foreign exchange transactions.

**Cards:** Banks issue cards such as Debit Cards, Credit Cards, Gift Cards, Travel Cards to the customers / public to enable them to undertake paper less banking.

## Know Your Customer (KYC)

As per RBI guidelines, it is mandatory for the banks to ensure KYC norms for all the customers duly collecting full information of the account holder, type of transactions to be conducted, sources of funds and other relevant matters at the entry level itself. The policy guidelines are to be adhered not only to **new accounts** but also to the **existing accounts**. The guidelines are applicable to all types of deposit and advance accounts as well as new technology products such as Credit, Debit, Smart, Add-on cards. The objective of KYC is to insulate banking from unscrupulous participants and to avert misuse/undue advantage of system. The key elements of the policy are:

**i) Customer Acceptance Policy (CAP):** Bank should obtain prescribed application from the applicant along with the documents/information that is required as per constitution, risk perception, banking practices, legal requirements and RBI guidelines. Banks should not open accounts in the name of Anonymous or fictitious/benami names and Terrorist organizations notified under POTA.

**ii) Customer Identification Procedure (CIP):** It means collecting information relating to identity, activity, location of the person desiring to open an account in single name or in joint names and verifying the information collected using reliable, independent source documents, data or information. As per latest guidelines, banks are advised to accept Officially Valid Document (OVD) only while opening bank accounts in the name of individuals. Any of the documents such as Passport, Driving license, Permanent Account Number (PAN), Voter's ID card issued by Election Commission of India, Job card issued by NREGA and **Aadhaar Card** are treated as OVD. A provision has been added to the definition of OVD which states that where "simplified measures" are applied for verifying the identity of the customers by any of the documents like Photo Identity Card issued by Central / State / Quasi Govt. Departs and Public Sector undertakings including Scheduled Commercial Banks. For verifying the limited purpose of proof of address any of the following documents are deemed to be OVDs.

- Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile, piped gas, water bill)
- Property or Muncipal Tax receipt
- Bank Account or Post Office Savings Bank account statement
- Pension or Family Pension Payment Orders (PPO) issued to retired employees by Govt/Public Sector undertakings, if they contain address
- Letter of allotment of accommodation from employer issued by State or Central Government Departments, Statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies
- Documents issued by Government departments of foreign jurisdiction and letter issued by foreign embassy or mission in India

In case of a married woman, her identity proof with maiden name, if supported with marriage certificate could be considered a valid ID proof. As per recent RBI guidelines, bank account can be opened with address proof either permanent or local. This will help migrant workers and employees with transferable jobs to a great extent. Henceforth, customers may submit only one documentary proof of address (either present residence or permanent residence) while opening a bank account. In case the proof address furnished by the customer is not the local address, the bank may take a declaration of the local address on which all correspondence will be made by the bank with the customer. This address may be verified by the bank through "Positive confirmation" such as letter, cheque book, Debit card, telephonic conversation, personal visits etc. However, in the event of change of address, the customer should intimate the new address within 2 weeks.

If the OVD submitted for opening of account has both identity and address of the person, there is no need for submitting any other documentary proof. To address the associate issues, RBI advised banks to accept **utility bill** (Telephone/Electricity Bill) or any other document acceptable to establish address proof. However, banks to obtain declaration from the person (Father/Mother/Spouse/Son/Daughter) with whom the prospective customer is staying. In case of small value accounts branches are allowed to open accounts without insisting for proof of identification/address on proper introduction of another bank customer. With regard to the migratory workers, branches to open accounts by obtaining photo and permanent residential address with introduction.

KYC once done by one branch of the bank should be valid for **transfer of the account** within the bank provided the customer submits his address proof at new place. This is causing inconvenience to many customers especially migrant workers, transferred employees etc. To address the issue, RBI permitted the banks to obtain self declaration from the account holder about his/her current address, however, the address proof is to be submitted within 6 months. KYC verification of all the members of SHGs need not be done while opening the SB account of SHG and KYC verification of all the office bearers would suffice.

**Foreign Students:** Banks are permitted to open resident accounts in the name foreign students studying in India with ATM card facility by obtaining documents viz., Pass Port, Valid Visa with photograph, Proof of Admission – Letter from University/College, Address Proof – A letter from College/Hostel or certificate from embassy or any certification of registration issued by Foreigner Registration Regional Office (FRRO). One month time is allowed for them to furnish the proof of local address.

**E-KYC:** In order to reduce the risk of identity fraud, document forgery and to have paperless KYC verification, Unique Identification Authority of India (UIDAI) has launched its e-KYC services. The information containing demographic details and photographs made available from UIDAI as a result of e-KYC process is treated as an "Officially Valid Document" under PML Rules. Under this, any customer who walk-in to the bank branch provides his/her Aadhaar Number along with the biometrics. System will display the details on the screen with photo and on acceptance the same a reference number will be generated. Bank branch should enter the reference number in the system to fetch the details received from UIDAI and branches will be required to enter only the a few mandatory fields like "Title, City code, State Code and customer type" and submit. System will create CUSTID and Account ID in verified status. For the time being this facility is enabled only for SBEBT scheme accounts and shortly this facility will be extended to other SB group accounts. It is a simplified process and saves precious man-hours of the customers and Banks.

As per the latest guidelines, quoting of PAN or obtaining Form 60 is mandatory for all the accounts including KYC compliant BSBD accounts / PMJDY accounts where the balance in the account is beyond ₹50000/-. Similarly, accounts where the deposits are made ₹5 lakh and above (including transfer credits) after 9<sup>th</sup> November 2016 are required to submit either PAN or Form 60 invariably.

**Proprietary Concerns:** Copy of registration/licensed document issued by government agencies shall be accepted as valid proof of identification. Further, the proprietary concern is required to submit complete income tax return of the sole proprietor where the firm's income is reflected along with copy of any of the utility bills such as electricity, water, telephone bills in the name proprietary concern. Branch should verify the proof of the name, address and activity of the concern, like Registration Certificate, Certificate or License issued by Municipal authorities under Shop & Establishment Act, Sales and Income Tax returns (CST/VAT certificate), Certificate / Registration document issued by Sales Tax / Service Tax / Professional

Tax authorities, License issued by the registering authority like certificate of practice issued by Institute of Chartered Accountants of India, Institute of Cost Accounts of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities etc. For all new accounts, the customer acceptance procedure should be done through obtaining any of two of the above documents apart from observing the extant guidelines.

With regard to **HUF**, branch should obtain a declaration from the karta along with letter signed by all the major coparceners. The KYC guidelines that is applicable to individuals equally applicable to Karta and all major coparceners.

**Other legal entities:** With regard to opening of Partnership, Company, Trust, Club, Association, or any other legal body accounts, branch should obtain required information/documents to verify the legal status of the applicant. The documents which are mandatory in nature for opening of bank accounts by Partnership firm, Trusts/Foundations, Corporate and Companies are as under:

<b>Partnership</b>	<b>Trusts / Foundations</b>	<b>Corporate / Company</b>
Registration certificate	Registration certificate	Certificate of incorporation
Partnership Deed	Trust Deed	Memorandum and Articles of Association
		Board resolution
Authorization letter/Officially Valid Document in respect of the persons holding an attorney to transact on its behalf		

**iii) Due Diligence:** All the forms and documents submitted by the applicant while opening of the account are to be verified by the officer with the originals to ensure that the identification and address of the applicant is correct. Further, the officer should satisfy with the identity and legal existence of the applicant and note the same in the interview cum due diligence form. Further, the guidelines also stipulate sending a letter to the customer in the prescribed format on the same day of opening of the account.

**iv) Risk Categorization:** RBI advised the banks to classify the accounts into Low, Medium and High Risk categories based on the risk perception while opening of accounts and further reviewed once in 6 months. As per the existing guidelines, customer identification data (including photos) is to be updated once in 10 years and 8 years in case of Low Risk and Medium Risk category customers respectively. However, it is **2 years** in case of High Risk category customers. However, Bank need not seek fresh proof of identity and address at the time of periodic updation of "Low Risk" customers, in case there is no change in status with respect to their identities and addresses.

**Monitoring of transactions:** Banks are expected to fix threshold limit and monitor the transactions closely and ongoing basis. It covers monitoring of high risk accounts, NRE accounts, accounts with high turnover, large amount of cash transactions and Periodical review and reporting of the transactions to appropriate law enforcing authority.

**Non face to face customers:** With the introduction of telephone and electronic banking, increasingly accounts are being opened by banks for customers without the need for the customer to visit the bank branch. In such cases, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented may be insisted upon and, if necessary, additional documents may be called for. In such cases, banks may also require the first payment to be effected through the customer's account with another bank which, in turn, adheres to similar



KYC standards. In the case of cross-border customers, the bank may have to rely on third party certification/introduction.

**Money Laundering:** It is the process of transferring illegitimate money into legitimate money, normally follows from activities like human trafficking, sale of narcotic drugs, illegal dealings in arms and ammunition etc. It is a threat to the national security and economic activity as it often associates with the financing of terrorism and also evasion of taxes. GOI introduced "Prevention of Money Laundering Act, 2002" with an objective to prevent, combat and control money laundering and to confiscate/seize the property obtained from the laundered money and to deal with any other issue connected with money laundering in India. Banks are required to report the following transactions to the Financial Intelligence Unit (FIU), New Delhi.

Report	Nature of Transactions
Cash Transaction Reports (CTR)	i) All cash transactions of the value of more than ₹10 lakhs. ii) Series of cash transactions integrally connected to each other, which have been valued below ₹10 lakhs where such series of transactions have taken place within a month and aggregating ₹10 lakhs. iii) All cash transactions where forged or counterfeit notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place.
Suspicious Transaction Report (STR)	i) Large cash transactions; ii) Multiple accounts under same name iii) Frequent conversion of currency from small to large denomination notes; iv) Placing funds in FD and using them as security for more loans; v) Large deposits immediately followed by wire transfers
Counterfeit Currency Report (CCR)	As and when counterfeit currency is found at branch/currency chest, the same is to be informed to FIU and Reserve Bank of India immediately.

In order to monitor the implementation of KYC/AML guidelines on an on-going basis, RBI directed banks to introduce a system of employing "Decoy Customers" and conduct surprise checks to evaluate the extent of compliance with KYC/AML norms at all points where customer acceptance, risk profiling and updating, simple and enhanced due diligence of customer accounts etc. Based on such checks, banks may bring in necessary improvements to existing systems besides sensitizing the employees to pay required attention to comply the guidelines.

**Preservation of Records:** As per PML Act 2009, branches are required to preserve all the transactions for at least **10 years** from the date of transaction between the Bank and the client. With regard to KYC documents obtained at the time of opening and during the course of business relationship are to be preserved for minimum period of **5 years** after the business relationship ended. Reserve Bank of India directed all banks to implement KYC guidelines for new accounts in 2002 and subsequently made it mandatory for all accounts including retail investors with effective from 1<sup>st</sup> January 2011.

The **Four Pillars** of an AML compliance program are as under:

- Designate a full-time Compliance Officer.
- Develop systems for transaction monitoring so that unusual transactions are flagged and evaluated. Bank to conduct risk assessment for its products as well as customers.
- Ensure that employees are aware of the Bank's policies and procedures and required training is provided to the employees.
- Conduct independent testing of its AML program and review of its overall operation.

## Non Resident Indians – Products

**Non-Resident Accounts** can be opened and maintained by Person Resident outside India, Non-Resident Indians (NRI) and Persons of Indian Origin (PIO). Person Resident outside India means a person who is not resident in India. It also defined as a person who has gone out of India, or who stays outside India for the purpose of employment, carrying on business or vocation or for any other purpose under the circumstances indicating an uncertain period of stay. Person includes Individual, HUF, Firm, Company and Association.

**Non-Resident Indian** means a person resident outside India, who is a citizen of India or is a person of Indian Origin. Persons who visit India for temporary visit are treated as Non-Resident Indian. Students going abroad for studies are treated as Non-Resident Indians.

**Person of Indian Origin:** A Foreign Citizen (Other than citizen of Pakistan or Bangladesh) is deemed to be a person of Indian Origin if, he/she at any time held an Indian Passport or he/she or either of their Parents or Grand Parents was citizen of India by virtue of the constitution of India or Indian Citizen Act 1955 or he/she is a spouse of Indian Citizen or a person referred as above.

<b>N R O – Non Resident Ordinary Account</b>	
Who Can Open	Any NRI can open NRO account Singly or Jointly with Residents. However, individuals / entities of Bangladesh and Pakistan nationals require prior approval of RBI.
Nomination	Nominee can be a Resident or a Non Resident. Claim Settlement – Resident Nominees – In INR, NRI Nominee – Repatriable to that Country as per RBI Norms.
Repatriation	Remittances of Balances held in NRO accounts can be allowed up to USD one million per financial year, for all bona fide purposes to the satisfaction of Authorized Dealer(AD)
	Foreign Tourists visiting India – the balance amount in the account (other than local credits) can be repatriated at the time of departure from India provided the account has been maintained for a period not exceeding six months.
Type of account	Current, Savings, Recurring, Term Deposits.
Period of Deposits	As applicable to Domestic Deposits.
Rate of Interest	As applicable to Domestic Deposits.
Deposit Loans	As applicable to Domestic Deposits.
Foreign Currency Loans	Not Permitted.
Margin	As applicable to Domestic Deposits.
Interest on Dep. Loans	Dep. Rate + 2 %.
Applicability of Local Taxes	TDS on Int. earned @ 30% + Edn. Cess + Service Tax., including Interest on SB Deposits, irrespective of the amount of Interest. Wealth Tax, as applicable.
Transfer of funds	Permitted to NRE account within the overall ceiling of USD one million per financial year
Premature Cancellation of Deposits	As applicable to Domestic Deposits.

<b>N R E – Non Resident External Rupee account</b>	
Who Can Open	NRI can open NRE account Singly or Jointly with their resident close relatives. With regard to joint account with resident, the operation of the account should invariably be "Former or Survivor" and the former should be NRI. However, individuals / entities of Bangladesh and Pakistan nationals require prior approval of RBI.
Nomination	Nominee can be a resident or a Non Resident. Claim Settlement – Resident Nominees – In Indian Rupee Non Resident Nominee – Repatriable as per RBI Norms.
Repatriation	Balances in the account are Fully Repatriable.
Type of account	Current, Savings, Recurring, Term Deposits.
Period of Deposits	Term Deposits – Minimum one year and Maximum 10 years.
Rate of Interest	Saving Deposits – Deregulated – At present 4.0 % Term Deposit – As applicable to Domestic Deposits
Deposit Loans	Rupee loans to be allowed to depositor / third party without any ceiling.
Margin	15%
Interest on Loans	Dep. Rate + 2 %.
Applicability of Local Taxes	No TDS on Int. earned. No Wealth Tax. Free from all Taxes
Transfer of amount to other types	Permitted to NRO / FCNR
Premature Cancellation	Penalty 1% on premature cancellation is applicable. No Interest is payable, in case of cancellation before 1 year. Conversion from NRE to FCNR or vice versa, before maturity is subject to Penalty. No penalty in case the amount is placed in RFC.
<p>The recent RBI guidelines allowed Non-Resident Indians (NRIs) to operate resident bank accounts on "either or survivor" basis. Banks may include an NRI close relative in existing/new resident bank accounts as joint holder with the resident account holder on "either or survivor" basis, subject to fulfillment of a few conditions. An NRI can be a joint holder in more than one account. Cheques, instruments, remittances, cash, card or any other proceeds belonging to the NRI relative shall not be eligible for credit to this account. Besides, the NRI relative shall operate such account only for and on behalf of the resident for domestic payment and not for creating any beneficial interest for himself. Due to any eventuality, if the NRI becomes the survivor of such an account, it shall be categorized as Non-Resident Ordinary Rupee (NRO) account. The joint account holder facility may be extended to all types of resident accounts including savings bank accounts. While extending this facility, the banks should satisfy itself about the actual need for such a facility and also obtain a declaration, duly signed by the NRI account holder.</p>	

<b>Foreign Currency Non Resident account – F C N R (B)</b>	
Who Can Open	Any Non Resident Indian (Individuals of Bangladesh / Pakistan Nationality require approval from RBI) Singly or jointly with another Non Resident only.
Nomination	Nominee can be a resident or a Non Resident. Claim Settlement – Resident Nominees – In Indian rupees Non Resident Nominee – Repatriable as per RBI Norms.
Designated Currency	Account can be opened in any freely convertible currency.
Repatriation	Fully Repatriable without any limits.
Foreign Currency Exchange Risk	No Exchange Risk to the customer, in case of repatriation, as account is maintained in Foreign Currency only.
Type of account	Term Deposits only (FDR / Reinvestment)
Period of Deposits	Minimum one year and Maximum 5 years
Rate of Interest	Linked to LIBOR. Not exceeding LIBOR + 125 basis points.

	360 days is taken for a year for the purpose of interest calculation. Simple interest is paid for one year deposit. However, compound interest (half-yearly, 180 days) is paid for deposits beyond one year.
Deposit Loans	Foreign Currency loans to be allowed to depositor / third party without any ceiling.
Applicability of Taxes	No TDS on Interest earned and No Wealth Tax.
Amount Transfer	Permitted to NRO and NRE accounts
A/c can be opened at	Designated branches. (C Category Branches)
Premature Cancellation	No interest payable and no SWAP cost to be recovered for the deposits up to USD 10000 or equivalent, where the deposit is cancelled before the expiry of one year. However, SWAP cost to be recovered in case of deposits above USD 10000 or its equivalent. Cancellation of the deposit for the purpose of renewal in the same currency, same type of deposit/RFC, no SWAP cost is to be recovered. If the deposit is cancelled after one year, applicable rate is to be paid without Penalty. If the withdrawal for any other reason applicable interest with 1% penalty is to be levied.
<b>Note:</b> All branches are authorized to accept FCNR (B) deposits. Since the exchange risk is borne by the bank, branches are required to report all FCNR transactions (openings, closures, interest payments, transfers etc.,) to Investment & International Banking Division (IIB), Mumbai on the same day.	

<b>R F C – Resident Foreign Currency Accounts</b>	
Who Can Open	Non Resident Indians (NRI) returning to India who have been NRIs for a continuous period of not less than one year. NRIs returning to India for permanent stay in India.
Sources of funds	Foreign Exchange received as pension / superannuation / other benefits from employers abroad. Realization of assets held abroad. Foreign Exchange acquired as gift or inheritance from person who was a NRI. Foreign Exchange acquired or received or any income arising or accruing there on which is held outside India by any person in terms of general or specific permission granted by RBI.
Joint Accounts	Allowed with another eligible person/s or with resident close relative (Former or Survivor)
Types of accounts	Savings, Current, Term Deposits.
Period of Term Dep.	As applicable to FCNR B Accounts. Min 1 year Max 5 years
Currency	Pound Sterling, US Dollar, Euro, Australian Dollar, Canadian Dollar
Nomination	Nominee can be a resident or a Non Resident. Claim Settlement – Resident Nominees – In Indian rupees Non Resident Nominee – Repatriable as per RBI Norms.

<b>RFC Domestic Account</b>	
Who Can Open	Any person resident in India
Sources of funds	<ul style="list-style-type: none"> <li>➤ Foreign Exchange acquired in the form of currency notes, bank notes, cheques, drafts, and traveller cheques.</li> <li>➤ Payment / honorarium / gift for services rendered in India / abroad.</li> <li>➤ Unspent amount of foreign exchange acquired by him from an authorized person for travel abroad.</li> <li>➤ Gift from close relatives as defined in sec. 6 of the company act 1956.</li> <li>➤ Proceeds of Insurance policy claims / maturity /</li> </ul>

	surrender values settled in foreign currencies.
Joint Accounts	Not permitted
Types of accounts	Current Account / Savings Bank
Period of Term Dep.	Term Deposits are not permitted to be opened
Currency	Pound Sterling, US Dollar, Euro, Australian Dollar, Canadian Dollar
Interest	No Interest on Current Account. Banks have discretion to fix their own interest rates on Savings Deposits
Loan & Over drafts	Not permitted.
<b>Exchange Earner's Foreign Currency Accounts (EEFC)</b>	
Who Can Open	All Categories of Foreign Exchange Earners such as Individuals, Companies etc., who are <b>resident in India</b> , may open EEFC account with 100% of their Forex earnings. Resident Individuals are permitted to include his close relative as a joint holder, however, the joint holder is not allowed to operate the account during the life time of
Purpose	Authorized Dealers (AD) are allowed to open, hold and maintain foreign currency denominated accounts for the purpose of transacting foreign exchange business and other matters of the account holder. The accounts can be maintained with one or more Ads.
Currency	The account may be maintained in the currency of the remittance or any other permitted currency at the option of the depositor.
Credit facility	No credit facility, either fund or non-fund based should be permitted against the security of the balances held in the EEFC accounts.
Type of account	EEFC accounts should be in the form of non-interest bearing current accounts only. Cheque book facility is permitted.
Interest	No Interest is payable
Nomination	Nomination facility is permitted like any domestic account. Nominee can be Resident Indian only
Limit up to which foreign currency may be credited	A person resident in India may credit to the EEFC account 100% from out of the foreign exchange earnings
Permissible credits to EEFC accounts	Inward remittance through normal banking channels, other than the remittance received pursuant to any undertaking given to the Reserve Bank or which represents foreign currency loan raised or investment received from outside India, or those received for meeting specific obligations by the account holder.
	Payment received in foreign exchange by a unit in Domestic Tariff Area (DTA) for supplying goods to a unit in Special Economic Zone out of its foreign currency account.
	Payment received by an exporter from an account maintained with AD for the purpose of counter trade, in accordance with the approval granted in terms of regulation 14 of FEMA (Export of goods & Services) Regulations 2000.
	Advance remittances received towards export of goods / services.
	Payments received towards export of goods/ services from India, out of funds representing repayment of state credit in USD held in the account of Bank for foreign economic affairs, Moscow with an AD in India.
	Professional Earnings including Director's fees, consultancy fees, lecture fees, honorarium and similar other earnings received by a professional by rendering services in his individual capacity.
	Interest earned on the funds in the account.

	Re credit of unutilized foreign currency earlier withdrawn. However, the amount withdrawn in rupees shall not be eligible for conversion into foreign currency and for re-credit to the account.
	Amount representing repayment of loans/ advances granted to the account holder's importer customer.
	Representing the disinvestments proceeds received by the resident account holder on conversion of shares held by him to ADRs / GDRs under the sponsored ADR / GDR scheme approved by the Foreign Investment Promotion Board of Govt. of India.
Permissible debits to EEFC account	Payment outside India towards any current account transactions in terms of FEMA Current Account Transaction Rules 2000 and towards a capital account transaction Permissible under FEMA (Permissible Capital Account Transactions) Regulations 2000.
	Payment in foreign exchange towards cost of goods purchased from 100% EOU or a Unit in EPZ/STP/Electronic Hardware Technology Park.
	Payment of Customs Duty in accordance within the provisions of Export Import Policy of Central Government.
	Trade related loans/ advances, by an exporter holding such account to his importer customer outside India subject to compliance with FEMA (Borrowing & Lending in Foreign Exchange) Regulations 2000.
	Payment in foreign exchange to resident Indian for supply of goods / services including payment for airfare and hotel expenditure.
	Branches may permit their export constituents to extend trade related loans / advances to overseas importers out of their EEFC balance without any ceiling subject to compliance of provisions of Notification no. FEMA 3 / 2000 as amended from time to time.
	Branches may permit exporters to repay packing credit advances whether availed in rupee or in foreign currency from balances in their EEFC accounts and / or rupee resources to the extent exports have actually taken place.
	The balances in EEFC accounts may be allowed to be credited to NRE / FCNR - B account at the option / request of the account holders consequent upon change of their residential status to Non - Resident.
Conversion into Rupee Funds	There is no restriction on withdrawal in rupees of funds held in EEFC account. Branches should send the request to Investment & International Banking (IIB), Mumbai by e-mail / fax, for conversion of rupee funds and can take the conversion rate along with reference no.

**Loans to NRIs – Against Deposits:** Advances against FCNR/NRE deposit to the depositor himself should be granted only under his specific request for any purpose, except for the purpose of relending or carrying on agriculture/plantation activities or for investment in real estate business including direct investment by way of capital contribution to Indian firm/companies and for acquisition of residential flats/houses on non-repatriable basis. In case of loans to third parties against NRI deposits, normally the relative documentation should be done at the branch from where the loan is being sought by the NRI depositor. The loan should be granted only when the depositor himself executes the loan documents in the presence of the bank officials and witness acceptable to the bank. Advances to third parties against such deposits should not be granted on the basis of Power of Attorney. Banks are allowed to sanction Rupee loans in India or Foreign currency loans in India/outside India to the depositors or to third parties against NRE/FCNR (B) deposits without any ceiling subject to usual margin requirements. Further, the facility of premature withdrawal of NRE/FCNR deposits shall not be available where loans against such deposits are availed. The loan amount is to be credited only to NRO account of the depositor but not to any other account. Advances granted can be repaid by foreign inward

remittances, or transfer from NRE/FCNR accounts, or maturity proceeds of the deposit, or local rupee sources held in NRO account. The interest rates to be levied on such loans are as under:

No	Category	Interest Rate
1	Loan to depositor and repayment through inward remittance or adjustment of deposit or transfer of funds from NRE/FCNR deposits	Deposit Rate + 2%
2	Loans to depositor – Repayment by rupee funds in NRO accounts	Deposit Rate + 3%
3	Loans to third parties – Repayment by rupee funds (less than one year)	Base Rate + 5%
4	Loans to third parties – Repayment by rupee funds (one year & above and up to 3 years)	Base Rate + 5.75%

In case the rate of interest payable on NRE/FCNR deposit held as security is Nil due to premature closure before the expiry of minimum period i.e. one year, the rate of interest on the loans against such deposit is Base Rate + 7%.

**Diamond Dollar Account Scheme** in terms of which firms and companies dealing in purchase/sale of rough or cut and polished diamonds/precious metal jewellery plain, minakari and/or studded with/without diamond and/or other stones, with a track record of at least 2 years in import/export of diamonds/coloured gemstones/diamond and coloured gemstones studded jewellery/plain gold jewellery, and having an average annual turnover of ₹3 crore & above during preceding three licensing years, are allowed to open Diamond Dollar Accounts (DDA). RBI issue DDA on a case-to-case basis, subject to the following terms and conditions:

- Opened in the name of the exporter and maintained in US Dollars only.
- It should be in the form of current account and no interest should be paid on the balance held in the account.
- No intra-account transfer should be allowed between the DDAs.
- Not permitted to open and maintain more than **5 DDAs**.
- The balances held in the accounts shall be subject to CRR SLR requirements.
- Exporter firms and companies maintaining foreign currency accounts (excluding EEFC accounts) are not eligible to open Diamond Dollar Accounts.

The permissible credits in the accounts are amount of pre-shipment and post-shipment finance availed in US Dollars; Realization of export proceeds from shipments of rough, cut, polished diamonds and diamond studded jewellery; and Realization in US Dollars from local sale of rough, cut and polished diamonds. The permissible debits in the accounts are Payment for import/purchase of rough diamonds from overseas/local sources; Payment for purchase of cut and polished diamonds, coloured gemstones and plain gold jewellery from local sources; Payment for import/purchase of gold from overseas / nominated agencies and repayment of USD loans availed from the bank. Transfer to rupee account of the exporter.

**Investment opportunities to NRIs:** The permitted investment opportunities to NRIs in India are Government Securities, Company Deposits, Units of Mutual Funds, Company Shares/Debentures, Registered Chit Funds, Immovable property and Loans to residents. The investment can be under repatriation or non-repatriation basis. However, NRIs are prohibited from making investments in any entity, which is engaged in the activities such as Agricultural or Plantation activities, Real Estate business, Construction of Farm Houses without RBI's permission. Whenever the investments are allowed with repatriation benefits, the funds for the purpose should be received by inward remittances from abroad or from investor's NRE/FCNR accounts. While funds in NRO accounts could be used in respect of investments on non-repatriation basis.

## Alternate Delivery Channels & E-products

Hitherto, Branches were only the strategic outfits (Delivery Channels) and invariably the customers are required to visit the branches at the specified timings to complete their transactions. Extending service to the customers round the clock without presence of physical branch is called as "Alternate Delivery Channels". Adoption of new delivery channels (ATM, Mobile and Internet Banking) has become order of the day for banks to survive in the competitive environment to meet the emergent expectations of the customers besides achieving the optimum utilization of scarce resources. The convenience coupled with cost effectiveness has enabled the cardholders to use the card extensively for all their retail payments.

**ATM** is an electronic device, which acts as an independent banker without any human intervention. ATM provides round the clock service throughout the year (24X7X365) to the customers. ATMs extend services such as Cash Withdrawal, Balance Enquiry, Cash/Cheque Deposit, Funds Transfer, Bill Payments, Payment of Direct Taxes, Mobile Recharge, Mobile Banking Registration etc. Cardholder needs to enter password for each financial transaction on ATM.

ATM / Debit Card is a payment card used to withdraw cash from ATM, purchase of goods and payment for services automatically debiting to the card holder's bank account instantly, to the extent the credit balance exists. The card holder can draw cash using the PIN from ATM up to the balance available in his account subject to daily caps prescribed by Bank from time to time. To provide further value added services to customers, Banks are offering funds transfer facility through ATMs at free of cost. Under this, ATM/Debit Card holders can transfer funds Inter/Intra Bank using the card number of the beneficiary. There is no requirement for registration of beneficiary and the amount can be transferred instantly to any card number. As per RBI guidelines, Card to Card transfer limit is fixed as ₹5000/- per transaction and ₹25,000/- per month. For the benefit of persons of disabilities, RBI has made it mandatory for banks to have talking ATMs with Braille Keypads at all new ATMs installed from 1<sup>st</sup> July 2014.

In order to facilitate the cardholders RBI has issued guidelines to all banks not to levy service charges on ATM transactions of Savings Bank Cardholders. Other Bank Cardholders are allowed to withdraw cash on any ATM up to ₹10000/- per transaction. However, *RBI has reduced the number of free transactions per month at non-home bank ATM to Three (3) w.e.f. 1<sup>st</sup> November 2014 in six metros viz., Mumbai, Kolkata, Chennai, Bangalore and Hyderabad.* Five transactions per month are allowed free for Savings account holders in all other locations. Any transaction beyond the said stipulation (3 or 5) attracts charges @ Rs.20/- per transaction (inclusive of service tax). With regard to transactions on home bank ATMs, the banks are given discretion to levy charges. The number of free transactions shall be inclusive of all types of transactions, financial or non-financial. However, it is not applicable to Basic Savings Bank Deposit accounts (Small/No Frill) and they continue to avail five free transactions. With this, the customer of a Bank has become customer of all Banks, which has paved the way for Any Bank Banking. Further, RBI allowed the banks to levy charges to their own customers for more than five transactions at their own ATMs also.

**White Label ATMs** are purely managed by third party service providers and have their label. These are branded non bank ATM machines. Cash handling, management and logistics are provided by third party. Debit cards of all banks can be operated through these machines. The role of the concerned bank is only limited to provide account information and back end money transfers to the third parties managing these ATM machines. This initiative will enable the excluded segments to avail ATM services as at present majority ATMs are confined to Urban/Metro areas only.



However, service provider levy charges which are to be either bear by the Bank or the customer. RBI has allowed white label ATM's in India to have more penetration of ATM machines. Tata Communications Payment Solutions has become the first company to launch this service in India under the brand name "**Indicash**". It has a tie up with majority commercial banks and now you will soon see branded non bank third party white label ATM machines in your vicinity.

**Brown Label ATM** – We always think that the bank branded ATM machines operated by the bank concerned, but this is not the case. Banks only handle part of the process that is cash handling and back-end server connectivity. The ATM machine is owned by the third party service provider along with the physical infrastructure. This type ATM is called as "Brown Label ATM" and acts as intermediate between Banks owned ATM and White Label ATM.

**Complaint Resolution:** The revised guidelines has led to increased volume on ATM Network leading to deficiency in service on account of technology issues and the resolution is taking undue long time, which is causing concern to the customers and regulators. In the above backdrop, RBI issued the following directives to all banks:

- ATM failed transactions are to be resolved within a maximum period of **7 working days** from the date of receipt of the customer complaint.
- In case of delay in resolution of the complaint within 7 working days, the bank shall pay compensation of **₹100/- per day**, to the aggrieved customer and shall be credited to the customer's account automatically on the same day when the bank affords the credit for the failed ATM transaction.
- However, the cardholder (customer) is entitled to receive such compensation for delay, only if a claim is lodged with the issuing bank **within 30 days** of the date of the transaction.

As per recent guidelines, Banks are advised to issue debit cards with photographs with a view to reducing the instances of misuse of lost / stolen cards. Further, banks are asked to ensure full security of the cards and any loss incurred by the cardholder on account of breach of security or the failure of the security mechanism would be borne by the banks. ATM is most cost effective since the investment and operational cost are low when compared to traditional Branch Banking.

**Interoperable Cash Deposit Machines:** As part of NPCI initiatives, now Cash Deposit Machines (CDM) / Bulk Note Acceptors (BNA) are linked to the National Financial Switch (NFS) and become interoperable. A customer of Indian Banking Industry can have access to any CDM/BNA to deposit money across the country. Truly, like withdrawal from any ATM (irrespective of the customer Bank), now cash also can be deposited in any Bank machine up to a specified limit without any charges. This is leading to "Any Where Banking" by extending 24x7x365 banking services to the customers in letter and spirit.

## Digital Payments

RBI has been playing pivotal role in the area of national payment system, which is the backbone of economic activity and has taken several initiatives for a safe, secure, sound and efficient payment system in India. Last one decade witnessed spurt in digital payments on account of increased adoption of technology and regulatory guidelines. The evolution of e-payment systems in India are:

**i) Speed clearing:** Banks as part of their normal banking operations undertake collection of cheques/drafts deposited by their customers drawn on other banks and the collection process is taking 7 to 14 days since cheques need to move physically from presentation centre to drawee centre. In order to reduce the collection time, RBI has introduced Speed Clearing where in cheques/drafts drawn on outstation are treated on par with local cheques and presented in the local clearing provided the presentment location is MICR/ECCS centre and the destination bank branch is under CBS platform. However, Government cheques are not eligible for collection under Speed Clearing. Drawee bank debits the account online without movement of cheque and sends the proceeds to the collecting bank. Under Speed Clearing, it would be working on T+1 or 2 basis. No charges for cheques up to ₹1 lakh. For above one lakh the maximum amount that can be levied is ₹150/-. In case of return of cheques, the charges ranges from ₹50 to ₹500 depending on the value of the instrument. The facility of immediate credit would not be applicable to cheques collected under speed clearing arrangements.

**ii) Cheque Truncation System (CTS):** It is the process of stopping the flow of the physical cheque issued by a drawer at some point by the presenting bank en-route to the paying bank branch. In its place an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across bank branches, other than in exceptional circumstances for clearing purposes. Further, domestic instruments, where both presenting and drawee banks are the same are not allowed in the CTS. To facilitate the transformation to an image based processing scenario, RBI directed all banks to issue cheques conforming to CTS-2010 standard with uniform features in terms of size, paper quality and fields such as the MICR band, signature and date format. Now, CTS is implemented at all the MICR centres with the introduction of Grid Based Cheque Truncation clearing. Under this, all cheques drawn on bank branches falling within in the grid jurisdiction are treated and cleared as local cheques. Cheque collection charges including Speed Clearing Charges should not be levied if the collecting bank and the paying bank are located within the jurisdiction of the same CTS grid even though they are located in different cities. CTS effectively eliminate the associated cost of movement of the physical cheques, reduce the time required for their collection and bring elegance to the entire activity of cheque processing. In addition to operational efficiency, CTS offers several benefits to banks and customers, including human resource rationalisation, cost effectiveness, business process re-engineering, better service, adoption of latest technology, etc. Thus, it has emerged as an important efficiency enhancement initiative undertaken by RBI in the Payments Systems arena.

**iii) Electronic Clearing System (ECS):** The introduction of ECS – Credit i.e. Single Debit – Multiple credits, helped large corporate bodies to pay their dividend, interest and refunds electronically on the due date, which is very cost effective to Bank and its customers. Similarly, the utility bodies are now in a position to collect their bills through ECS Debit (Multiple Debits – Single Credit) right on the due date. The entire process including passing the credits to the beneficiaries' accounts take only one day, which is convenient and cost effective to both banks and customers.

As per RBI guidelines, Banks are advised to obtain ECS (Debit) mandate from the term loan borrowers who are maintaining operative accounts with other banks to facilitate timely and regular recovery of loan installments. In order to strengthen the recovery mechanism, RBI directed the banks to replace all existing Post Dated Cheques (PDC) with ECS mandates with immediate effect.

**National Automated Clearing House (NACH):** National Payments Corporation of India (NPCI) has implemented the NACH, a web based solution for Banks, Financial Institutions, Corporates and Government to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature. It is a centralized system, launched with an aim to consolidate multiple ECS systems running across the country leveraging robust technology platform with a single set of rules. It supports the financial inclusion measures through Aadhaar based transactions and Mobile based ACH transactions. The system is covering all core banking transactions towards distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium etc. Further, it has best in class security features, cost efficiency & payment performance (STP) coupled with multi-level data validation facility accessible to all participants in real-time mode rather than batch mode. It gives a positive confirmation from investors' bank about registration acceptance or non-acceptance, unlike ECS. Investors can opt for a one time registration and avail this facility any time for their future investments and can make use of this payment mode for their Lump-sum Mutual Fund investments apart from SIPs. Realization of funds from the investors account happens on "T" day which helps them to track their payments on time. The existing ECS is replaced with NACH with effective from 01.04.2016.

**iv) Any Branch Banking (ABB):** Under CBS, Branch customer has become Bank customer and they are allowed to approach any branch across the country for deposit of cheque or cash and withdrawal of cash or transfer of money. No cash payment will be made to third party (bearer). However, payment to third party up to ₹20000/- is allowed to NRE / NRO accounts and branch should ensure identity of the bearer while making payments. With regard to deposit of cash / transfer of funds among the bank branches is allowed at par for any amount.

**v) Real Time Gross settlement (RTGS):** RBI launched RTGS for instant transfer of funds across the banks (₹200000/- & above) across the banks within India. It offers a powerful mechanism for limiting settlement and systemic risks in the inter-bank settlement process. It enables in expediting the settlement, control and governance mechanism in the banking system. Funds will be transferred electronically and credited to the beneficiary accounts instantaneously. Transfer of funds below ₹200000/- are not allowed under RTGS. It saves lot of time and paper work and cost effective (Not exceeding ₹55/-). The timings for customer payments are 8 AM to 4 PM on all regular days including Saturdays except second and fourth Saturdays of the month with effective from 01.09.2015. Similarly, for interbank payments; the timings are 8 AM to 7.15 PM on all the days as stated above.

**vi) National Electronic Funds Transfer (NEFT):** For the benefit of retail customers, RBI introduced NEFT scheme. Under this, funds can be transferred across the banks instantaneously. There is no cap on minimum and maximum amount for NEFT. RBI has given discretion to the banks to levy charges, however, the service charge should not exceed 25/- per transaction. The timings for NEFT payments are 8 AM to 7 PM on all regular days including Saturdays except second and fourth Saturdays of the month with effective from 01.09.2015. The number of settlements is 12 in a day. Customer is required to furnish IFSC Code number of the Bank Branch and correct account number of the beneficiary for smooth transfer of funds under RTGS/NEFT.

**ix) Debit cards** known as check cards. It operates like cash or a personal check. Debit cards are different from credit cards. Credit card is a way to **"Pay Later"** whereas debit card is a way to **"Pay Now."** In case of debit card, bank account of the customer will be debited immediately on completion of transaction. Debit cards are accepted at many locations, including retail stores, petrol pumps, and restaurants. The liberalized norms coupled with ease of usage have led to increase debit card base over the years. Of late, banks are consciously driving the customers to alternate delivery channels by issuing debit cards on the day of opening of the account itself to reduce the work load and to enable them to pay focused attention on core banking activities. In order to make Credit/Debit Card transactions more secure, RBI mandated the card holders to enter PIN while transacting at POS terminals. As per recent RBI guidelines, all banks are mandated to issue only **Chip enabled Cards** w.e.f.01.10.16.

**xiii) RuPay Cards:** It is a domestic card payment network established by National Payment Corporation of India (NPCI) having more than 100 Banks in India as members with its ATM network spread across the country. These cards can be used in all the ATMs of NPCI network and POS terminals & e-com transactions (Internet) enabled for RuPay acquiring. The various types of RuPay cards are as under:

Card Type	Meant for
RuPay Kisan	Farmers availing Agriculture production loans (Crop Loans)
RuPay Aadhaar	Beneficiaries of Electronic Benefit Transfer (EBT) scheme
RuPay Debit	Beneficiaries under Financial Inclusion schemes

It provides accidental insurance cover upto ₹1 lakh without any charge to the customer. To avail this benefit, the card must be used atleast once in 90 days. The existing identification modes used in new delivery channels has a major drawback as it recognize the PIN but not the person. Sometimes, it leads to impersonation and may cause financial loss. To overcome the problem, biometric technologies such as Fingerprint Recognition, Face Recognition, Voice Authentication, Hand Geometry, Retinal Scanning, Iris Scanning and Signature Verification have come in to force. Whenever the user access to delivery channel, it verifies with the server and deliver the service if found correct.

**viii) Credit cards:** The concept of credit card was used in 1950 with the launch of charge cards in USA by Diners Club and American Express. Credit card became more popular with use of magnetic strip in 1970. The first Credit Card was issued in 1981 and Gold Card in 1986 by VISA. Credit cardholder need not carry cash and purchase goods and services at any approved Merchant Establishments/Point of sale Terminals by tendering the card duly signing the charge slip. Further, cardholders can make online purchases through internet using the card and PIN. Added to this, cardholder can withdraw cash at any ATM across the globe. However, cash advance attracts charge i.e. transaction fee as well as service fee/interest charge.

**x) Charge Card** is like any Credit or Debit Card. These cards neither offer revolving credit like the Credit Card nor debit the account instantaneously like Debit Card. However, the cardholder is required to settle the bill in **full** by the due date each month. Charge cards make a good option to develop financial discipline which likely to enable the cardholders to improve their credit history. Further, charge card offers a dynamic limit, while rewarding good payment record.

**xi) Prepaid Card** looks like a credit card and works like a debit card. These cards resemble credit and debit cards in appearance and allow users to load any amount up to ₹50000/- and can be used at any ATM/Point of Sale Terminal. On use of card, funds are directly debited from the card. Cardholders preload the cards with funds via a cash deposit or wire transfer. There are no finance fees or interest payments as

charges are deducted from the prepaid balance. It is an opportunity for people who have had little or no access to the mainstream financial system by loading funds onto a prepaid card. It is a secure and convenient alternative to cash. Various types of Prepaid Cards are – **Re-loadable Cards** (value is replenished once it is used), **Disposable Cards** (discarded once the value is used), **Closed Cards** can be used for a specific purpose (Phone Cards) and **Open Cards** (multi-purpose). Re-loadable cards are most popular among “under-banked” individuals, or those who tend not to possess conventional bank accounts.

**xii) Gift Card** is one of the paperless payment systems and is highly popular in card industry. It is a card with predetermined limit and value is loaded through cash or transfer from the account. However it is not reusable.

**xiv) Internet Banking** is leveraging the potential of Internet to facilitate customer access to his account from any place at any time. Apart from viewing the transactions in his account for any period, the customer is able to effect transfer of funds and request for various services. Internet is one of the cost effective channel for delivery of banking services. Internet Banking is provided to Individual/Joint/Sole proprietary concerns, Corporate etc. at their request. The terms and conditions governing Internet banking are displayed on the Bank’s website. The services available through Internet banking are - View account balances and download statements, Transfer of funds within Bank and across the Banks, Request for Cheque Book / Fixed Deposit, Payment of Utility bills viz., Electricity, Telephone, Income Tax etc., Booking of Train/Bus/Airline tickets, Recharge of Mobile / Online shopping, Online Equity Trading – Primary and Secondary market etc.

Customer access is controlled through “Customer ID” and “Password”. It is protected with “firewalls” to prevent unauthorized access, hacking and virus infection. Advanced encryption technology is used to ensure that messages from/to the customers are not intercepted and misused by others. Registered customer has an option to transfer balances between linked operative accounts of the same customer across the branches and also undertake third party transfers from his/her account to any other operative account. Funds transfer facility to the customers across the Banks through NEFT/RTGS is allowed on Internet. Normally, the transaction limit is fixed at ₹2 lakh per day, inclusive of all types of funds transfers (Self, Third party, External, e-tax payments, Online trading, e-commerce etc.). However, banks can have their own limits depending on the client profile. To execute funds transfer facility, the internet customer is required to create an account i.e. Online Authentication Code (OAC), which is a mandatory.

**Applications Supported by Blocked Amount (ASBA)** is a payment method for IPO or FPO where the bidding amount remains in investors account, but blocked by the bank until allotment is done. It is made mandatory for both retail and institutional investors with effective from 1<sup>st</sup> January 2016. The investors have option to bid IPO/FPO either through designated branches or Internet Banking. Revision and cancellation of bids are permitted till the issue closure date and time. The investor continues to earn interest on the application money. It enables the listing process faster. Registrar transfers the allocated shares to investor’s Demat Accounts. No charges will be levied to the investors for this service. It is an opportunity to branches to improve low cost deposits and non-interest income since bank earns commission on each application received under ASBA.

In the light of potential risks (hacking and phishing) associated with Internet Banking and to protect the interest of the internet customers, Banks have introduced Two Factor Authentication where bank generates six-digit One Time Password (OTP) and sending as SMS to the customer as and when the customer transacts on internet.

**xv) Mobile Banking:** The mobile-phone revolution that is transforming the world could also turn into a banking revolution. Banks have been exploring the feasibility of using mobile phones as an alternative channel of delivery of banking services. The swift growth in number of Mobile users and wider coverage of mobile phone networks has made this channel an important platform for extending banking services to customers. Today, the number of Mobiles in India crossed **1000 million** of which 1/3<sup>rd</sup> mobiles are in Rural India alone. At present, Mobile Banking is providing the Bill payment and Funds Transfer facility besides information services to the customers. The recent guidelines issued by RBI on Mobile Banking are as under:

- RBI approval is required to extend mobile banking services.
- All the transactions/services should be in Indian currency only. Cross-border transfers through mobile banking are strictly prohibited and the operating banks have to be based, licensed and supervised in India.
- Registered customers can only avail this facility from banks. For financial services one time registration should be done through a signed document.
- Banks are allowed to provide cash-out through ATMs or BCs subject to cap of ₹10000/- per transaction and maximum of ₹50000/- per month per customer.
- Banks may put in place end-to-end encryption of the mobile PIN number (mPIN) for better security.
- Banks are advised to provide registration facility to the customers at all ATMs as well as other Alternate Delivery Channels.

All operative account holders having ATM/Debit card are eligible to avail this facility. Customer has an option to link any CASA account connected to the card with the mobile number. However, the mobile handset should be Java enabled or Windows Mobile 5.0 & above model or Windows Mobile Professional model with activated GPRS (General Packet Radio Service). Customer can register for mobile banking through Branch or ATM across the country. It is hassle-free paperless process and upon registration, customer receives a registration slip which contains the default application password and MPIN. Under this the customer can transfer ₹50000/- in a day through mobile banking application and ₹5000/- SMS tag messaging which attracts transaction cost of ₹5/- plus applicable service charges.

The National Payment Corporation of India (NPCI) launched the intermediate payment service i.e. Inter Bank Mobile Payment Service (IMPS), a 24/7 real-time electronic Interbank fund transfer on a Person-to-Person (P2P) or Person-to-Merchant (P2M) basis, which has boosted mobile banking. It gives the banks an opportunity to expand their customer base without incurring additional infrastructure costs. It would also help in financial inclusion as it would provide a large number of un-banked people access to banking services. Banks could save a huge amount of money on card issuance and merchant acquiring with zero point of sale cost. Mobile Banking is the hottest area of development in the banking sector and is expected to replace the credit/debit card system in future. The increased phase of mobile usage is going to place our country on the top in the Asia Pacific region shortly.

**xvi) Interbank Mobile Payment Service (IMPS):** The National Payment Corporation of India (NPCI) has rolled out National Unified USSD platform (NUUP) based mobile banking service to boost IMPS based transactions. Users can dial \*99# short code on their handset, which will allow every banking customer to access banking services with a single number across all banks – irrespective of the telecom service provider, mobile handset make or the region. The service is currently available on MTNL/BSNL telecom operators and with majority commercial banks. Since the service is Unstructured Supplementary Service Data (USSD) based, it will work only with GSM telecom operators and not with CDMA. Apart from that, the service does not need users to send an SMS or require a GPRS enabled device and can be used even on a basic mobile handset. As of now, users can perform Interbank Mobile Payment Service (IMPS) fund transfer through the service with a daily

transaction limit of ₹5000 per customer. MMID or Mobile Money Identifier is a seven digit random number issued by the bank. When the customer dial \*99# the service will ask for entering first three letters of Bank name or first four letters of IFSC code. Customers can select i) Balance enquiry ii) Mini Statement iii) Send money using MMID iv) Send money using IFSC code v) Show MMID vi) MPIN vii) Generate OTP. The prerequisites for using this application are Mobile Banking Registration, MMID and MPIN. The charges will be levied by Telecom service provider @ 0.50 paise per session which is most cost effective to the customers.

**xvii) Mobile Wallet:** It is another payment channel independent of bank account. Recently, RBI has permitted the telecom service providers to enter into this space through collaboration. These entities can undertake host of services – Deposit, transfer of funds, utility payments and cash withdrawal. Under this the funds can be transferred from mobile to mobile and mobile to bank account. Companies that have launched mobile wallet in India are Paytm, Chillr, Buddy, mPay, Airtel money, Zip cash, Mobi cash etc.

**xviii) Unified Payments Interface (UPI)** is a unique payment solution as the recipient is now empowered to initiate the payment request from a smart phone. It facilitates “virtual address” as a payment identifier for sending and collecting money and works on single click Two factor authentications without knowing the recipient’s name, mobile number, bank account number and IFSC code. It allows the user to pay directly to different merchants without the hassle of typing card details or net banking password. It also provides an option for scheduling push and pull transactions for various purposes like sharing bills among peers. One can use UPI app instead of paying cash on delivery on receipt of product from online shopping websites and can perform miscellaneous expenses like paying utility bills, over the counter payments, barcode (scan & pay) based payments, donations, school fees and other such unique and innovative use cases. The interface is the advanced version of NPCI’s Immediate Payment Service (IMPS) which is a 24\*7\*365 funds transfer service. In order to make use the UPI services both the bank customer and the beneficiary is required to register with the bank and get the virtual ID.

**xix) BHIM:** A new digital application “Bharat Interface for Money (BHIM)” is launched on 30<sup>th</sup> December 2016 by Shri Narendra Modi, Prime Minister of India. It acts as aggregator for all UPI based offerings of banks across the country. Till now, each bank has come out with its own mobile banking application on UPI platform being operated by NPCI. It is built by NPCI and expected to evolve as the common UPI application to facilitate faster and smoother digital payments.

**Password:** Form a random sequence of words and/or letters but easy to remember say *base-word*. Add numbers to the base-word to make it more secure and use punctuation and symbols to complicate it further. Create complexity with upper and lowercase letters. Change the password frequently and do not share your password with anyone and desist the practice of writing password on paper or in the system.

**Digital Payments – Initiatives:** Government of India has initiated the following measures to promote digital payments by the Banking/Financial system.

- Issuance of **Debit cards** to all eligible accounts.
- Any Branch Banking is allowed without any charges.
- Payment of wages/salaries by the organizations to the employees through banking channels preferably e-mode only.
- It is directed that all payments handled by banks to their customers, vendors, suppliers will be done electronically from 1<sup>st</sup> July 2012 onwards.
- The validity period of cheques/demand drafts is reduced from 6 to 3 months w.e.f 1<sup>st</sup> April 2012 to discourage discounting of negotiable instruments.

- NPCI initiated steps to popularize 'RuPay' where Debit/Credit card payments are being routed through Indian e-service intermediaries which bring down the costs and improve their acceptability.
- Merchant Discount Rate (MDR) is the fee that merchant establishment pays to the terminal deploying bank (Acquiring Bank), which play vital role in Point of Sale (POS) transactions. Recently, RBI advised banks to cap MDR at 0.75 percent for transactions up to ₹2000/- and 1 percent for transactions above ₹2000/- to popularize POS transactions using Debit Cards.
- Banks are advised to promote Credit/Debit cards to pave the way for cashless economy. Further, card based transactions leave adequate audit trails and hence disincentives black money generation.
- Obtaining Post-dated Cheques (PDCs) from the borrowers is stopped forthwith and banks are advised to get ECS (Debit) mandate from borrowers.
- Demonetization of high value currency notes i.e. ₹1000/- & ₹500/- with effect from 9<sup>th</sup> November 2016.

In the light of post demonetization, the usage of cash is likely to lose its prime place with gradual replacement of cards, e-wallet and digital payments both in small and high value financial transactions, in a phased manner. Hope now it is the time to move from **JAM trinity** viz., Jandhan, Aadhaar and Mobile to CAM trinity viz., Cloud, Aadhaar and Mobile to handle the increased volumes with ease.



## Financial Inclusion

**Financial Inclusion** is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. It means not only to extending banking facilities to rural people but also to provide at their convenient time and location. Availability of banking services means to provide Basic Savings Bank Deposit Account (formerly known as No-Frills account) with Overdraft facility; Remittance product for Electronic Benefit Transfer (EBT) and other remittances; Variable Recurring Deposit and General Credit Card or Kisan Credit Card etc.

**Evolution of Financial Inclusion:** Social Banking is an instrument for Financial Inclusion. Though, social banking initiatives were introduced in India long back through measures such as co-operative banking movement, nationalization of banks (in 1969 & 1980), creation of Regional Rural Banks etc., their success was largely constrained by the size and population of the country (1.21 billion) and non-availability of banking services. In the above backdrop financial inclusion has received a big boost and greater efforts have been laid on inclusive banking. The following are the steps initiated for enhancing financial inclusion in India.

- Introduction of Basic Saving Bank Deposit account (known as No-Frill account) for all individuals with simplified KYC norms.
- Information and Communication Technology (ICT) based Business Correspondent model for delivery of low cost door step banking services in remote villages is being implemented.
- All villages with population above 2000 are already covered under FIP. Process of covering the remaining villages with population below 2000 is underway.
- Opening of 25% of new branches by banks in unbanked rural centers is made as mandatory.
- Mobile and network companies have been allowed to partner with banks in offering services collaboratively.
- Government has encouraged a multi-channel approach including mobiles, handheld devices, smart cards, micro ATMs, kiosks etc., for providing financial services to the target group.
- A village is considered to be covered by banking service if either a Brick & Mortar Branch or Ultra Small Branch or Business Correspondent.

**Basic Savings Bank Deposit Account (BSBDA):** As per RBI directions, Banks are required to adopt simplified procedure to open SB accounts without any stipulation on minimum balance. All individuals who are eligible to open normal SB accounts can open No frills accounts subject to introduction from another account holder who complied KYC norms. The introducer's account with the bank should be at least six month old and should show satisfactory transactions. Photograph of the customer who proposes to open the account and also his/her address needs to be certified by the introducer **OR** any other evidence as to the identity and address of the customer to the satisfaction of the bank. These accounts do not attract service charges / penal charges. No cheque book shall be issued. Drawals from account shall be permitted only through numbered withdrawal forms accompanied by passbook. Once the balance in the account exceeds ₹50000/- or total credits in the account exceeds ₹100000/- in a year, no further transactions will be permitted in the account. Similarly, the aggregate of all withdrawals and transfers in a month can not exceed ₹10000/- since post demonetization period. The customer has to close the account and open normal saving account fulfilling the complete KYC procedure. As per the recent guidelines, BSBDA account holders, who are earning members of the family

and preferably women of the house and who had satisfactory dealings with the bank for at least six months, are eligible to avail overdraft facility not exceeding an amount of ₹5000/-. However, Minors, Kisan Credit Card / General Credit Card holders and the account holders whose age is beyond 60 years are not eligible to avail overdraft facility. Overdraft attracts interest @ Base Rate+2%. BSBDA accounts which are not KYC compliant are to be treated as "Small Accounts" and are subjected to the limitations as stated above.

**Prime Minister Jan Dhan Yojana (PMJDY):** Though, India has been moving forward rapidly with modern banking and financial systems, it is untenable that a large majority of our population is deprived of basic banking facilities on account of trapping in a perpetual cycle of exclusion and deprivation. Thus, Banks need to enroll uncovered households and open their accounts. This is a national priority and there is urgency to this exercise as all other development activities are hindered by this single disability. Thus, there is a need to break that cycle. In the above backdrop, Government of India has launched a new scheme "PMJDY" on 28<sup>th</sup> August 2014. It is a National Mission on Financial Inclusion with an ambitious objective of covering identified unbanked households by opening two bank accounts to each household. With this, every household gains access to banking and credit facilities and will enable them to come out of the grip of moneylenders, manage to keep away from financial crises caused by emergent needs, and most importantly, benefit from a range of financial products.

In the above backdrop, banks are advised to open Savings Bank accounts with simplified procedure by obtaining Aadhaar card as proof of identity as well as address proof. Further, Banks are allowed to open zero balance accounts and ensure that operations take place in all such accounts at subsequent dates. The account holder (18 to 70 years) is issued with RuPay debit card with an inbuilt accident insurance of ₹1 lakh at free of cost. The account holder will also get life insurance cover of ₹30000/-. However, the life cover will not be available to the accounts opened after 31<sup>st</sup> January, 2015. Further, the account holder should normally be head of the family or an earning member of the family and should be in the age group of 18 to 59. In case the age of the head of the family is above 60 years, the second earning person of the family will be covered subject to eligibility. Central/State/PSU employees (in service or retired), income tax payees and Aam Admi Bhima Yojana beneficiaries are not covered under this scheme. Govt. intends to route all subsidies through these accounts and also propose to extend Micro insurance and Micro Pension products. Banks are advised to convert the existing normal bank accounts of DBT beneficiaries into PMJDY accounts on written request made by the customer. It is an ongoing scheme. As part of Financial Inclusion initiatives, TOD facility may be allowed to accounts opened under PMJDY scheme as well as SBEBT and SBGFI scheme beneficiaries. The eligible TOD amount is arrived based on average balance of the last 6 months multiplied 4 times or 50% of last 4 months credit summation, whichever lower subject to maximum ₹5000. However, this facility is not available to those who availed any loan under KCC/GCC facility. Interest on such TODs should be within MCLR+2%.

Opening a BSBDA/PMJDY is only the first step in building the relationship which would require sustained efforts on the part of Banks as well as Customers to achieve the objective of Financial Inclusion. However, in rural areas customers cannot be expected to come to branches in view of **opportunity cost and Time** and hence banks will have to reach out through a variety of technology driven delivery channels such as ATMs, Bio-metric ATMs, Mobile ATMs, Smart Cards and use of Post offices.

**i) Low Cost ATMs:** The presence of ATMs mostly found in Metro/Urban centers and banks are not keen to install at Rural/Semi Urban centers in view of high investment and low transaction volume. Deployment of low cost ATMs at Rural/SU centers with

basic features (cash withdrawal, balance enquiry etc.,) enables the customers to have access to cost effective convenient banking.

**ii) Biometric ATMs:** The penetration of ATMs into Rural / Semi-urban areas may not serve the purpose unless it is put to use by both Literate and Illiterates. The existing ATMs are not being used optimally by rural folk on account of PIN and Password related issues. Introduction of Biometric ATMs enables the illiterate and semi-literate customers to avail ATM facilities on par with literate customers. Under this, Thumb impression of the cardholder will be scanned and transfer the same to central server as one time measure. While swapping the card customer is required to keep thumb on the slot, system verifies the finger print and allows access to his account/s. These ATMs are also called as Micro ATMs.

**iii) Mobile ATMs** are designed for providing ATM facility to the rural folk as well as other customers. The Van would move at the pre-determined places and also accessible to Biometric card holders. It can also be used for opening of accounts during the visits to the rural areas.

All the above initiatives warrant the banks to invest substantial amount on infrastructure besides recurring expenditure. There is an urgent need to bank on alternatives to overcome the said constraints and to extend branch less banking to achieve desired goal.

**Business Correspondent (BC):** The BC model allows the bank to use third parties (Individuals/associations/institutions) to extend the basic banking services using Micro ATMs. BCs use biometric smart cards, in which customer data including finger prints are stored and works on PoS machines with key management.

**Business Facilitators (BF) Model** envisages the use of intermediaries by the banks to provide *Non Financial Services* to the public such as creating awareness about banks' products/services, identification of borrowers/processing of applications, post sanction monitoring and follow-up etc.

**Ultra Small Branches:** Recently, the Government has directed banks to set up "Ultra Small" branches in all villages under financial inclusion scheme by March 2012, typically in a premises spread 100 to 200 sft. It aims to provide a wide range of banking services, including credit transactions, in villages where only cash transactions are being provided by BCs. A designated officer will visit the village on a prefixed date and time every week with laptop and will be connected to Bank's central server (CBS).

**Grama Kranthi General Credit Card (GK-GCC) Scheme:** It is an Entrepreneurial credit scheme for covering the general credit needs of the Bank's customers in FI villages. The nature of the loan is by way of overdraft/cash credit with no end use stipulation. All SB account holders having active Smart card with satisfactory transactions at least for a period of 3 to 6 months are eligible to avail General Credit Card. Account is in the nature of cash credit and the quantum of limit is based on the assessment of income and cash flow of the entire household. However, the maximum limit per household shall be ₹25000/-. No collateral security should be insisted upon. The card holder is entitled to draw cash from the Point of Sale Terminals deployed at the custody of the CSP stationed at the particular village through authentication of fingerprints using smart card. Account will be reviewed every year and renewed after 3 years.

**Financial Inclusion – Progress:** Government/RBI has adopted a structured and planned approach towards FI by not just focusing on improving access to financial services but also encouraging demand for financial services through financial literacy initiatives. Adopted a bank-led model for FI, but have permitted non-bank entities to

partner banks in their FI initiatives. Further, banks are advised to open 25% of all new branches in unbanked rural centers. It is also emphasized to open accounts of all eligible individuals in camp mode with the support of local Government authorities and seed the existing and new accounts with Aadhaar numbers to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative.

**Common Service Centers:** Under the National e-Governance Plan (NeGP), the Common Services Centers (CSCs) have been established with front end service delivery points at the village level, for delivery of Government, Social and Private Sector services in the areas of agriculture, health, education, entertainment, FMCG products, banking and financial services, utility payments, etc. The infrastructure at the CSC includes a fixed place of business say 100 to 150 sq. ft, specified working hours, a Personal Computer/Lap top with internet connectivity web-cam, printer, power backup, biometric scanner. CSC acts as BC and providing ICT based banking services in unbanked villages. The Service Provider would be required to appoint BC. The Identified BC should not have been defaulters to any financial institution and should not have been blacklisted by any bank in the last two years for deficiency of service. The BC must be responsible to receive and pay money, to transfer money from one to another. BC may also be used for deposit mobilization and recovery of loans. The BC is responsible for routing all transactions of all villages in the assigned villages so that effective marketing and follow up, can take place.

**Direct Benefit Transfer (DBT):** The Central and State Governments have been earmarking substantial budgetary allocations towards social security and welfare schemes through various subsidies with an aim to improve the standard of living of vast majority of people who require social assistance. The fundamental challenge for any subsidy framework is to ensure effective targeting of beneficiaries which is a complex task and fraught with two types of errors viz., errors of Inclusion and errors of Exclusion. The former involves the wrongful inclusion of beneficiaries ineligible for subsidy, while the later concerns the exclusion of eligible beneficiaries. In the process, the lion share of subsidies has not been reaching the target group defeating the very purpose of the schemes. In order to ensure electronic transfer of subsidies directly into the accounts of the beneficiaries, they need to have bank account. Accordingly, banks have been advised that the service area bank in rural areas and banks assigned the responsibility in specific wards in urban area ensure that every household has at least one bank account.

All Banks are advised to provide basic banking services at all villages having population of above 2000 either opening a bank branch or appointing a Business Correspondent Agent in each of the FI village. All banks must complete the mapping of their respective service area to ensure that one BC is available in each Gram Panchayat. The collection of account opening data including Aadhaar number is to be done by BC. Banks are advised to establish a regular "Brick and Mortar" or "Ultra Small Branch" in all habitations with population of 5000 and above in under-banked districts and 10000 and above in other districts. Further, Banks are advised to provide onsite ATMs at all branches across the country. Further, it is stipulated that a BCA has to be made available within a radial distance of 2 KM and a branch within a radial distance of 5 KM. Banks should issue Debit Cards to all eligible account holders. The fact remains that the responsibility of implementation of financial inclusion initiatives and risky lending rests with the PSBs, while Private Sector Banks largely play safe. Though the intention of FI initiatives is welcoming, PSBs have been facing enormous pressure to meet the huge targets in a time bound manner. It is consuming considerable resources of the Banks which need to be compensated.

## Social Security Schemes

### I. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

Criteria	Scheme Details
Insurance Coverage	₹2 lakhs (Death due to any reason)
Premium	₹330/- p.a. plus applicable service tax
Eligibility	All SB accounts holders aged between 18-50 years
Coverage up to	55 years of age. There after no premium & no insurance coverage
Period of coverage	From 1 <sup>st</sup> June to 31 <sup>st</sup> May every year
Documents required	An undertaking for auto debit to his account and Keeping balance in the account for debit of premium amount
Insurance Company	Identified Insurance Companies. Banks have discretion to select the company – for example India First Life Insurance Company (IFLIC) is the agency for Andhra Bank.
Termination of assurance	The policy shall terminate on any of the following events and no benefit will become payable (a) On attaining age 55 years (age near birth day) subject to annual renewal up to that date (entry, however, will not be possible beyond the age of 50 years). (b) Closure of account with the Bank or insufficiency of balance to keep the insurance in force. (c) In case a member is covered under PMJJBY with LIC of India/other company through more than one account and premium is received by LIC/other company inadvertently, insurance cover will be restricted to ₹2 lakh and the premium shall be liable to be forfeited. (d) Participating Banks shall remit the premium to insurance companies in case of regular enrolment on or before 30 <sup>th</sup> of June every year and in other cases in the same month when received.
Lien Clause	A lien clause is incorporated whereby claims for deaths occur during the first 45 days from the date of enrollment will not be paid by the Insurance Company. However, deaths due to accidents will be exempt from the lien clause.

### II. Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Criteria	Scheme details
Insurance Coverage	₹2 lakhs (Accident Insurance Coverage only)
Premium	₹12/- per annum per member. The premium will be deducted from the account holder's savings bank account through 'auto debit' facility in one installment on or before 1 <sup>st</sup> June of each annual coverage period under the scheme. However, in cases where auto debit takes place after 1 <sup>st</sup> June, the cover shall commence from the first day of the month following the auto debit. Revision of premium will be done after 3 years.
Eligibility Conditions	All Savings bank account holders of aged between 18 years (completed) and 70 years (age nearer birthday) who give their consent to join /enable auto-debit, as per the above modality, will be enrolled into the scheme
Insurance coverage	United India Insurance Company-Death ₹2 lakh; Full disablement - ₹2 lakh; Partial disablement ₹1 lakh

### III. Atal Pension Yojana (APY)

Criteria	Scheme Details
Target group	Indian Citizens especially those in the unorganized sector are eligible to enroll as members in the scheme. Existing PF / EPF / PPF / Govt. pensioners/Tax Payers are also can become members of the scheme. To encourage to save for retirement.

Eligibility	18 to 40 years. The accounts can be opened through bank branch where SB account is maintained.
Contribution	Subscriber joining at 18 years of age have to contribute ₹42/- and ₹210/- on monthly basis to get a fixed monthly pension of ₹1000 and ₹5000 respectively. The monthly contribution is payable by auto debit facility from the subscribers SB account. The minimum period of contribution by the subscriber would be 20 years.
Government Contribution	Government co-contribution is 50% of the total contribution amount or ₹1000 per annum, whichever is lower, for a period of 5 years. However, the Govt. co-contribution is not available for those who are already covered by the existing PF/pension schemes.
Benefits	Minimum monthly pension between ₹1000 & ₹5000 to the Subscriber / spouse with return of corpus to the nominees after 60 years of age.
Voluntary Exit	Exit before 60 years of age is generally not permitted but in case a subscriber chooses to exit, he shall only be refunded the contributions made along with the net actual interest earned thereon after deducting the account maintenance charges etc. The subscriber is not eligible for Government co-contribution and interest earned thereon. However, if the account is closed due to terminal illness or death of subscriber, the accumulated corpus including govt. contribution and interest thereon will be returned to the subscriber or the nominee as the case may be.
Death	If the subscriber dies before the age of 60 years, the spouse will be given an option to continue contribution for the remaining vesting period. The spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.
Other features	Existing Swavalamban beneficiaries (18-40 years) can be migrated to APY automatically unless they opt out. Government co-contribution is available for 5 years, i.e., from 2015-16 to 2019-20 for the Subscribers who join the scheme during the period from 1 <sup>st</sup> June 2015 to 31 <sup>st</sup> March 2016. The management of funds under APY is as per the investment pattern specified by Government. Individual Subscribers will not be having any option for choice of investment or select Pension Funds.
Administration of the Scheme	Pension Fund Regulatory and Development Authority (PFRDA) through NPS architecture.
Documentation	Application Form, Self Declaration & Authorization for auto debit.

**IV. Sukanya Samridhi Yojana:** Government of India introduced the scheme in the month of March 2015 with an objective to ensure a bright future for girl children in India. It facilitate them proper education and carefree marriage expenses. It offers a small deposit investment for the girl children with higher interest rate compared to the current bank interest rates. At present the interest rate is 9.20% p.a. The account can be opened and operated by the natural or legal guardian of a girl child up to 10 years of age and beyond 10 year the girl child may operate her own account, if she chooses to. The minimum deposit required is ₹1000/- per annum or multiples of ₹100/- thereafter and the maximum amount that can be deposited in this account is ₹1.50 lakh per annum. The tenor of the scheme is 21 years from the date of opening of the account. However, operations in the account shall not be permitted once she gets married. To meet the financial needs of the account holder for the purpose of higher education and marriage, withdrawal up to 50% of the balance at the credit, at the end of the preceding financial year shall be allowed as withdrawal provided the account holder attains the age of 18 years. All banks are advised to popularize the scheme among the existing and prospective customers and open the accounts on behalf of GOI.

## Priority Sector – Revised Guidelines

The need for commercial banks to improve Priority Sector advances was emphasized since 1968 with special focus on Agriculture and Small Scale industries. Initially there was no specific target fixed in respect of priority sector lending but in the year 1974 banks were advised to raise the share of these sectors to 1/3<sup>rd</sup> of their aggregate advances by March 1979. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks under the chairmanship of Dr. K. S. Krishnaswamy, all commercial banks were advised to achieve the target of priority sector lending at 40% of aggregate bank advances with specified sub-targets for lending to agriculture and weaker sections. The Internal Working Group of the RBI headed by Shri C. S. Murthy and the Shri Y.H.Malegam committee constituted to study issues and concerns in the Micro Finance institutions (MFI) sector, inter alia, had recommended review of the guidelines on priority sector lending. Subsequently, RBI has setup a Committee headed by **Shri M V Nair** to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending classification and related issues. Subsequently, an Internal Working Group was set up by RBI in July 2014 to revisit the existing priority sector lending guideline and accordingly, revised guidelines are issued on 23.04.2015 which is as under:

**1. Agriculture:** The present distinction between direct and indirect agriculture is dispensed with. The lending to agriculture has been defined which includes Farm sector, Agriculture infrastructure and Ancillary activities. List of eligible activities under each category are furnished here under:

**i) Farm Credit:** Loans to individual farmers, including SHGs/JLGs directly engaged in agriculture and allied activities such as dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. The credit facilities to the above segments covers crop loans as well as term loans. Loans to farmers up to ₹50 lakh against pledge/hypothecation of agriculture produce for a period not exceeding 12 months. It also covers loans to corporate farmers, farmers' producer organizations, partnership firms and co-operatives of farmers.

**ii) Agriculture infrastructure:** Loans for construction of storage facilities (warehouses, market yards and silos) including cold storage units irrespective of their location. Soil conservation, watershed development programs, plant tissue culture, agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer and vermi composting are also cover under this category. To consider under priority, the aggregate sanction limit per borrower should not exceed ₹100 lakhs from the banking system.

**iii) Ancillary activities:** It covers, loans for setting up of Agri-clinics, Agri Business Centres, Food and Agro processing units (not exceeding ₹100 crore per borrower), loans to PACS, FSS, MFIs for on-lending to agriculture sector, and loans to co-operative societies of farmers up to ₹500 lakh for disposing of the produce of members. Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall is considered as part of agriculture lending.

**2. Micro, Small and Medium Enterprises:** Manufacturing Enterprises are those engaged in manufacturing or production of goods. These are defined in terms of investment in **Plant & Machinery**. Loans extended to Medium Manufacturing Enterprises shall be classified as Priority Sector advances. Similarly, Service Enterprises are the enterprises engaged in providing or rendering of services. These are defined in terms of investment in **Equipment**. The modified definitions of MSM Enterprises are as under:

No	Category	Investment in Plant & Machinery / Equipment	
		Manufacturing	Service
1	Micro Enterprise	Up to ₹25 lakhs	Up to ₹10 lakhs
2	Small Enterprise	₹25 to ₹500 lakhs	₹10 to 200 lakhs
3	Medium Enterprise	₹500 to ₹1000 lakhs	₹200 to 500 lakhs

Bank loans to Micro, Small and Medium enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector. However, bank loans up to ₹500 lakh per unit to Micro and Small enterprises and ₹1000 lakh to Medium enterprises engaged in providing or rendering services are covered under priority sector advances. All loans sanctioned to units in the Khadi and Village Industries (KVI) sector, irrespective of their size of operations, location and amount of original investment in plant & machinery. Such advances will be eligible for consideration under the sub-target of 7% / 7.5% prescribed for Micro enterprises under priority sector.

**3. Housing Loans:** Loans to individuals up to ₹28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to ₹20 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed ₹35 lakh and ₹25 lakh respectively. However, housing loans to banks' own employees will be excluded. As housing loans which are backed by long term bonds are exempted from ANBC, banks should either include such housing loans to individuals up to ₹28 lakh in metropolitan centres and ₹20 lakh in other centres under priority sector or take benefit of exemption from ANBC, but not both. Further, housing loans to the following are also treated as priority sector:

- Loans for repairs to damaged dwelling units of families up to ₹5 lakh in metropolitan centres and up to ₹2 lakh in other centres.
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of ₹10 lakh per dwelling unit.
- Loans sanctioned for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which does not exceed ₹10 lakh per dwelling unit, will qualify for priority sector status. However, the family income of the borrower should not exceed ₹2 lakh per annum irrespective of location.
- Loans to Housing Finance Companies (HFC), for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of ₹10 lakh per borrower, provided the all inclusive interest rate (Interest rate, processing fee and service charges). However, this segment should not exceed five percent of the individual bank's total priority sector, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.
- Outstanding deposits with NHB on account of priority sector shortfall.
- Bank loans up to a limit of ₹5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

**4. Education Loans:** Loans to individuals for education purposes including vocational courses up to ₹10 lakh in India and ₹20 lakh for abroad studies irrespective of the sanctioned amount will be considered as eligible for priority sector.



**5. Social Infrastructure:** Bank loans up to a limit of ₹5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

**6. Renewable Energy:** Bank loans up to a limit of ₹15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification. For individual households, the loan limit will be ₹10 lakh per borrower.

**7. Weaker Sections:** Priority sector loans to the following borrowers will be considered under weaker sections category:

No	Category
1.	Small and Marginal Farmers
2.	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
3.	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4.	Scheduled Castes and Scheduled Tribes
5.	Beneficiaries of Differential Rate of Interest (DRI) scheme
6.	Self Help Groups
7.	Distressed farmers indebted to non-institutional lenders
8.	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
9.	Individual women beneficiaries up to ₹1 lakh per borrower
10.	Persons with disabilities
11.	Overdrafts upto ₹5000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas
12.	Minority communities as may be notified by Government of India from time to time

**8. Investments by banks in securitised assets,** representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector.

**9. Transfer of Assets through Direct Assignment/Outright purchases** by banks representing loans under various categories of priority sector, except the 'others' category, will be eligible for classification under respective categories of priority sector.

**10. Bank credit to MFIs** extended for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, and 'Others', as indirect finance, provided not less than 85 percent of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, should be not less than 50 percent of the total loans given by MFIs. "Qualifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria:

- The household annual income of the borrower in rural areas does not exceed ₹1 lakh while for non-rural areas it should not exceed ₹1.60 lakh.

- Loan does not exceed ₹60,000/- in the first cycle and ₹1 lakh in the subsequent cycles. Tenure of loan is not less than 24 months when loan amount exceeds ₹15000/- with right to borrower of prepayment without penalty.
- Total indebtedness of the borrower does not exceed ₹1 lakh.
- The margin cap should not exceed 10 percent for MFIs having loan portfolio exceeding ₹100 crore and 12 percent for others. With effect from April 1, 2014, interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less.

The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that the criteria on qualifying assets, the aggregate amount of loan, extended for income generation activity, and pricing guidelines are followed.

**Factoring** - Reserve Bank has included factoring transactions under priority sector lending with an aim to increase cash flow to small and medium enterprises. Factoring transactions on 'with recourse' basis shall be eligible for priority sector classification. Factoring is a type of financial transaction and debtor finance in which a business sells its invoices to a third party, called a factor, at a discount. TReDS is an exchange-based trading platform to facilitate financing of bills raised by such small entities to corporate and other buyers, including government departments and PSUs, by way of discounting. Factoring through TReDS shall also be eligible for classification under priority sector upon operationalisation of the platform.

**Differential Rate of Interest Scheme (DRI):** The target stipulated for lending under DRI scheme is **1%** of previous year total advances of the Bank. The existing loan limit is increased from ₹6500/- to ₹15000/- and the housing loan limit is also increased from ₹5000/- to ₹20000/-. The borrower's family income eligibility criteria is revised to ₹18000/- & ₹24000/- p.a. for Rural & Semi-Urban/Urban areas respectively. At least two third of DRI advances should be granted through rural/semi-urban branches. 40% of DRI advances should go to SC/ST. 2/3<sup>rd</sup> of total DRI lending is to be routed through Rural and Semi Urban branches. Branches can assist the handicapped/disabled persons for acquiring aids, appliances and equipment needed especially by students for pursuing studies and vocational training – example Braille Typewriters for blind etc.

<b>Classification of Farmers</b>		
<b>Category</b>	<b>Irrigated Land Holding</b>	<b>Un-irrigated Land Holding</b>
Marginal	1.25 Acres Or	2.5 Acres
Small	2.50 Acres Or	5.0 Acres
Others	Above 2.50 Acres Or	Above 5 Acres

<b>Credit flow to SC/ST</b>	
<b>Scheme</b>	<b>Reservation / Relaxation</b>
DRI	40% of Advances. Land holding criteria is not applicable
SGSY	50% of the families assisted
SJSRY	Credit to be extended to the extent of their strength in the local population
PMEGP	22.50% of Advances. Age relaxation – 10 Years

<b>Priority Sector – Targets &amp; Sub-targets</b>	
<b>Category</b>	<b>Domestic commercial banks and Foreign Banks with 20 branches and above</b>
<b>Priority Sector</b>	40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
<b>Agriculture</b>	18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18%, a target of 8% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal farmers, to be achieved in a phased manner i.e. 7% by March 2016 and 8% by March 2017.
<b>Micro enterprises</b>	7.5% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner i.e. 7% by March 2016 and 7.5% by March 2017.
<b>Export credit</b>	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2015 subject to a sanctioned limit of ₹25 crore per borrower to units having turnover of up to ₹100 crore.
<b>Weaker sections</b>	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
<b>Differential Rate of Interest Scheme</b>	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to SC/ST. At least two third of DRI advances should be granted through rural and semi-urban branches.

With regard to foreign banks with below 20 branches, the target is stipulated 32% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. The additional priority sector lending target of 2% has to be achieved every year from 2016-17 and reach 40% by 2019-20. To ensure continuous flow of credit to priority sector, there will be more frequent monitoring of priority sector lending compliance of banks on 'quarterly' basis instead of annual basis as of now. Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to RIDF established with NABARD and other Funds with NABARD/NHB/SIDBI, as decided by the Reserve Bank from time to time. Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

**Priority Sector Lending Certificates (PSLC):** Presently, Banks which are short fall in Priority Sector (PS) lending are investing in Rural Infrastructure Development Fund (RIDF) of NABARD. However, the yield on such investments is low. To obviate the above situation, RBI introduced PSLC. The banks who have PS advances more than the stipulated norm, may issue PSLCs. The banks who contribute to these certificates can show the amounts subscribed against their PS lending. At the same time, the bank which has issued the certificate will reduce the amount from their PS advances. However, there will be no transfer of credit risk on the underlying assets. The transactions can be done through the CBS portal "e-Kuber" maintained by RBI. The standard lot size is ₹25 lakh and multiples thereof and the validity period is 31<sup>st</sup> March every year. This is credit positive for banks without expertise in making priority sector loans because it allows them to focus on their strengths and purchase credits from banks with expertise in making such loans, instead of diverting their own resources towards meeting PS lending targets.

## Government Sponsored Programs

**Prime Minister Employment Generation Programme (PMEGP):** Prime Minister's Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. The Scheme will be implemented by Khadi and Village Industries Commission (KVIC) and the details are as under:

Category	Project Cost		
	Borrower contribution	Subsidy	
		Urban	Rural
General	10%	15%	25%
Special (SC/ ST/OBC/Minorities/Women/ Ex-servicemen / Physically handicapped/ NER / Hill and Border areas etc.)	05%	25%	35%

- The maximum cost of the project/unit admissible under manufacturing sector is ₹25 lakh.
- The maximum cost of the project/unit admissible under business/service sector is ₹10 lakh.
- The balance amount (excluding MM/subsidy) of the total project cost will be provided by Banks as term loan

### Eligibility Conditions of Beneficiaries

- Any individual, above 18 years of age
- There will be no income ceiling for assistance for projects under PMEGP.
- For setting up of project costing above ₹10 lakhs in the manufacturing sector and above ₹5 lakhs in the business/service sector, the beneficiaries should possess at least VIII standard pass educational qualification.
- Assistance is available only for **new projects** under the PMEGP.
- Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme) are also eligible for assistance under PMEGP.
- Institutions registered under Societies Registration Act 1860; Production Co-operative Societies, and Charitable Trusts. However, existing Units (PMRY / REGP or any other scheme of Central / State Government) and the units that have already availed Government Subsidy (including units registered & certified khadi institutions who have availed subsidy from central/state government) are not eligible.

To claim Margin Money (Subsidy), the borrower is required to submit caste/community certificate or relevant document issued by the competent authority. In case of institutions, a certified copy of the bye-laws is required. Project cost will include Capital Expenditure and one cycle of Working Capital. Cost of the land should not be included in the Project cost. Projects costing more than ₹5 lakh, which do not require working capital, need clearance from controlling office. PMEGP is applicable to all new viable micro enterprises, including Village Industries projects except activities indicated in the **negative list** of Village Industries. Existing/old units are not eligible. Only one person from one family is eligible for obtaining financial assistance for setting up of projects under PMEGP. The 'family' includes self & spouse. No collateral security will be insisted upon for projects involving loan upto **₹10 lakhs** in respect of the projects cleared by the Task Force. After issuance of the sanction letter by the financing branch, the beneficiary must have to undergo EDP training (at least 2 weeks) for the purpose of release of funds. The margin money (subsidy) is to be kept in Term Deposit for three years at branch level in the name of

the beneficiary/Institution. No interest will be paid on the TDR and no interest will be charged on loan to the corresponding amount. Repayment schedule may range between 3 to 7 years after an initial moratorium as may be prescribed by the concerned bank/financial institution. Corporation Bank is acting as Nodal bank in implementation of PMEGP scheme in the country.

**Swarnajayanti Gram Swarajgar Yojana (SGSY):** It is a Scheme which is a restructure of the erstwhile schemes like IRDP, TRYSEM, DOWCRA, SITRA, GKY & MWS etc., with the objective to bring the assisted poor rural families above poverty line. The scheme aims at establishing a large number of micro enterprises in the rural area. The identification of the borrowers will be done by Grama Sabha. Productive and viable activities under Agriculture & ISB are eligible under this scheme with 50% coverage by SC/ST, 40% coverage by women and 3% to Physically Handicapped borrowers. The size of the loan under the scheme would depend on the nature of the project. The loans under the scheme would be composite loan comprising of Term Loan and Working Capital. Subsidy admissible is @ 30% or maximum ₹7500/- (For SC/ST- 50% or maximum ₹10000) & for groups – 50% or maximum ₹1.25 lac (no ceiling for minor irrigation projects).

For all individual loans exceeding one lakh and group loans exceeding ₹10 lakh, in addition to primary security such as hypothecation/mortgage of land or third party Guarantee as the case may be, suitable margin money/other collateral security in the form of insurance policy; marketable security/deeds of other property etc. may be obtained. The upper ceiling of ₹ 10 lakh is irrespective of the size of the group or prorata per capita loan to the group while deciding the limit for collateral security, the total project cost. The repayment period – minimum of 5 years and branches should ensure that repayment not to exceed 50% of incremental income. In the event of unfortunate/untimely death of the borrower, LIC make payment of ₹6000/- for natural death and ₹12000/- for accidental death to the legal heirs of the borrower. (Cir no. 189 Ref 28/3 dated 2.8.2012)

**Self Employment scheme for rehabilitation of Manual Scavengers (SRMS):** The objective of the National Scheme for Liberation and Rehabilitation of Scavengers and their dependents is to liberate them from their existing hereditary and obnoxious occupation of manually removing night soil and filth and to provide for and engage them in alternative and dignified occupations. The Scheme would cover primarily all scavengers belonging to Scheduled Castes community. Scavengers belonging to other communities would also be covered. The scheme covers rural and urban areas and the identification will be done by Ministry of Social Welfare & National SC/ST financial development corporation. The beneficiaries are eligible for term loan up to ₹ 15 lakh and Micro finance up to ₹25000/- is allowed without any margin. The loans sanctioned under this scheme are eligible for subsidy @ 50% for the projects where the unit cost is up to ₹ 2 lakh and ₹1 lakh + 33.30% of project cost between ₹2 to 5 lakh; ₹2 lakh + 25% of project cost between 5 to 10 lakh and ₹3.25 lakh for projects above ₹10 lakh. The moratorium period for repayment of loan is maximum of 2 years. The beneficiaries are eligible for cash assistance of ₹40000/- payable in monthly installments of ₹7000/- after the identification of manual scavenger. Government provides training to the beneficiaries and pays ₹3000/- per month as stipend during training period. Repayment period of the loan is 5 years for the projects costing up to ₹5 lakh and 7 years for projects above ₹5 lakh. Rate of Interest – For loans up to ₹25000 @ 4% for women; others 5%. For loans above ₹25000/-, the interest rate is @ 6% p.a.

**Deendayal Antyodaya Yojana - National Urban Livelihood Mission (DAY – NULM):** The GOI restructured the existing SJSRY and launched the NULM in the year 2013 in all district headquarters and all the cities with population of 1 lakh or more. The Self Employment Program (SEP) is one of the components of NULM which will focus on providing financial assistance through a provision of interest subsidy on

loans to support establishment of individual & group enterprises and SHGs of urban poor. With a view to improving the livelihood of opportunities for the poor in urban areas, GOI has enhanced the scope of NULM and renamed as "Deendayal Antyodaya Yojana - National Urban Livelihood Mission (DAY - NULM)" and the salient features are as under:

No	Criteria	Individual Enterprises	Group Enterprises
1	Identification	Urban Local Body through (ULB) Task force consisting Municipal Commissioner, Lead District Manager, City Project Officer, Representative from DIC, Banks and City level federation.	
2	Eligibility	Urban poor (unemployed / under employed) living below the poverty line, in any city/town. Minimum <b>18 years</b> at the time of applying for Bank Loan. Residing in the town for at least three years. No minimum and maximum educational qualification.	The group should have minimum 5 members (minimum 18 years) with minimum 70% members from urban poor families. More than one person from the same family should not be included in the same group. No minimum and maximum educational qualification.
3	Nature of Activities	Manufacturing, servicing and petty business having considerable local demand.	Manufacturing, servicing and petty business having considerable local demand.
4	Project Cost	₹2 lakh.	₹10 lakh.
5	Facility	Term Loan or Working Capital or Composite Loan.	Term Loan or Working Capital or Composite Loan.
6	Margin Money	No margin money up to 50000/- and for loans beyond fifty thousand 5% of the project cost.	No margin money up to 50000/- and for loans beyond fifty thousand maximum 10% of the project cost.
7	Interest	Prevailing interest rate. Interest subsidy will be given (over and above 7%) only in case of timely repayment of loan.	Prevailing interest rate. Interest subsidy will be given (over and above 7%) only in case of timely repayment of loan.
8	Collateral	No collateral is required. Loans should be covered under CGTMSE.	No collateral is required. Loans should be covered under CGTMSE.
9	Repayment	5 to 7 years after initial moratorium of 6 to 18 months as decided by Bank.	5 to 7 years after initial moratorium of 6 to 18 months as decided by Bank.
10	Others	Where the activity requires some special skills, appropriate training must be provided to the beneficiaries by the Nodal agency before extending financial support.	

**Swarna Jayanti Shahari Rojgar Yojana (SJSRY):** The objective of the scheme is to address Urban poverty alleviation, the scheme seeks to provide gainful self-employment to the urban poor (living below the urban poverty line) either unemployed or under employed, through setting up of self-employment ventures or provision of wage employment. The scheme has components such as Urban self Employment Programme (USEP), Urban Women Self-help Programme (UWSP), Skill Training for Employment promotion amongst Urban Poor (STEP-UP), Urban Wage Employment programme (UWEP), Urban Community Development Network (UCDN). The defaulter to any nationalized bank / financial institution / cooperative bank is not eligible to avail loan under SJSRY. The loans granted under this scheme should be treated as advances under priority sector. The scheme is meant for Urban Poor who

are under below poverty line and aims to cover 30% Women & 3% physically handicapped and SC & ST borrowers as per proportion to their population. Urban Self Employment Programme (USEP) – Operational details in regard to Self-Employment Individual through setting up of Micro-Enterprises

**Urban Women Self-Help Programme (UWSP) – Operational details in regard to self-employment (group) through setting up of Micro-Enterprises**

1	Identification	Survey by ULB
2	Eligibility	Urban poor women living below the poverty line, in any city/town with preference performing urban women SHGs. Minimum number of women in a group is <b>five</b> . 18 years at the time of the group applying for Bank Loan. No minimum and maximum educational qualification.
3	Activity	Any group activity/enterprise development for income generation by the urban poor women
4	Subsidy	Subsidy would be provided at the rate of 35% of the project cost subject to a ceiling of ₹3 lakh or ₹60,000/- per beneficiary.
5	Margin Money	5% of the project cost
6	Interest	Interest applicable to priority sector.
7	Collateral	No collateral is required.
8	Repayment	Repayment schedule ranges from 3 to 7 years after initial moratorium of 6 to 18 months as decided by Bank.

**STEP-UP, UWEP & UDCN** – Inputs under the scheme would be delivered both through the medium of community structures to be set up along with Urban Local Bodies (ULBs) like Community Development Society-CDS/ town-Urban Poverty Alleviation-UPA Cell.

**Differential Rate of Interest (DRI):** The income criteria to eligible for DRI loan is ₹18,000/- pa in Rural areas and ₹24000/- in Urban areas. With regard to farmers, the land holding should not exceed one acre wet land or 2.5 acres dry land. However, it is not applicable to SC/ST borrowers. The unit cost is ₹15000/- for general purposes but it is ₹20000/- for Housing Loans to SC/ST borrowers. The repayment of the loan ranges from 3 to 5 years. These loans attract interest @ 4% p.a. The target for the banks is 1% of previous year advances, of which 40% should go to SC/STs & 2/3<sup>rd</sup> through Rural/Semi-urban branches.

**Rajiv Gruha Kalpa Scheme**

- EWS house in urban areas.
- Income range is minimum ₹2,000/- per month and maximum ₹36, 000/- per annum
- Unit Cost of ₹75,000/- with 10% margin from borrower with Bank loan of ₹67,500 per house. 10% increase in unit cost is permitted.
- Site will be allotted by Govt. of A.P. at free of cost.
- Interest Rate 8% fixed

**Valmiki Ambedkar Awas Yojana (VAMBAY):** Housing Finance Scheme was launched in Andhra Pradesh on 01.11.2002 with an objective to provide shelter or upgrade the existing shelter for people below the poverty line and EWS in urban slums. The ultimate objective of the Scheme is to have "Slum Less Cities". The funding pattern is 50% Government, 40% bank Loan and 10% Borrower Margin. These loans attract interest @ 10% p.a. tripartite agreement between Beneficiary Bank & APSHCL.

**Interest Subsidy Scheme for Housing the Urban Poor (ISHUP)** is introduced by Government of India with an objective to enable the Economic Weaker Sections (EWS) and Lower Income Group (LIG) segments in the urban areas to construct or purchase houses by providing an interest subsidy of 5% on loan amount of maximum ₹1 lakh. EWS and LIG are defined as households having an average monthly income up to ₹5,000 and ₹5,001 to ₹10,000 respectively. The borrowers under the scheme must have a plot of land for the construction or have identified a purchasable house. The preference under the scheme should be given to SC/ST/Minorities/Women/persons with disabilities in accordance with their population in the total population of the area as per 2001 census. The scheme will provide a subsidized loan for 15-20 years for a maximum amount of ₹1 lakh for EWS individual for a house at least of 25 sq. mts, and ₹1.60 lakh for a LIG individual for a house at least 40 sq.mts, will be admissible. However, subsidy will be given for loan amount up to ₹ 1 lakh only.

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## Micro Credit / SHG

**Micro Credit** is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Banks have discretion to devise appropriate loan and savings products and the related terms and conditions including size of the loan, unit cost, unit size, maturity period, grace period, margins, etc. Such credit covers not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements. Banks, NBFCs, NGOs and other institutions/organizations are allowed to undertake activities relating to Micro Credit in India. The introduction of the 'Self Help Groups (SHG)' format and the nationalized banks' lending system helped accentuate the importance of the same.

SHG is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. It is aimed to inculcate saving habit and encourage thrift to undertake lending among the members. In the process, it boosts the confidence to carry out the activities with ease and paves the way for self-reliance. The membership of the group could be between 10 to 25 members. If more than 20 members are there, the group should be registered.

**Pre-requisites for financing:** Groups with 6 months of savings, regular meetings, regular thrift habit and habituated internal lending and 'A' or 'B' rating as per Critical Rating Index are eligible for bank finance.

Dose	Period	Regular loan	Debt Swapping	Housing
First	Having regular savings at least for 6 Months	4 times of savings / corpus or ₹50000/- whichever is higher	Minimum ₹25000/- or 50% regular loan limit whichever is higher subject to extent of debt.	₹20000/- per member subject to maximum of ₹100000/- per group
Second	Minimum of 12 Months from the date of availment of first dose of finance.	Rural SHGs: 10 times of savings / corpus or ₹100000/- whichever is higher. In case of Urban SHGs, the eligibility is ₹1.50 lakh.	Minimum ₹50000/- for rural SHGs and ₹75000/- for urban SHGs or 50% regular loan limit whichever is higher subject to extent of debt.	
Third & onwards	Minimum of 18 months from the date of availment of Second dose of finance.	Eligibility as per Micro Credit Plan (MCP)	40% of MCP or to the extent of debt whichever is lower subject to maximum of ₹200000/-	
Note: Minimum savings of the group should not be less than 10% of the loan amount.				

However, for Rural SHGs – the maximum amount allowed to each SHG Group including Debt Swapping and Housing is ₹1.75 lakhs, ₹2.50 lakhs and ₹5 lakhs under First, Second and third dose respectively. Similarly with regard to Urban SHGs, the maximum amount allowed to each SHG Group is ₹1.75 lakhs, ₹3.25 lakhs and ₹5 lakhs respectively. Recently, the upper ceiling limit is increased from ₹5 lakh to ₹10 lakh without collateral security for the groups undertaking income generation activities under agriculture/allied activities. Credit facility to SHGs up to ₹7.50 lakhs (with less than 36 months) and up to ₹10 lakh (Above 60 months) in other cases are classified under SME category.

In order to mitigate the hardships faced by SHGs with regard to documentation, Banks are advised to extend finance (renewals/fresh) by way of **Cash Credit facility** only. Further, Banks are advised to convert all outstanding SHG term loan accounts into Cash Credit immediately. The validity period of the limit is 5 years subject to annual review. No cheque book is issued to this account and no excess draws /ad hoc limits are allowed in these accounts.

**Corpus includes** Balance amount in SB account, Amount held as cash with authorized persons, Amount lent internally among members, Amount received as interest on loans from members, any other contribution received by the group like Grants, Donations and fund provided by Government

**Debt Swapping:** Financing to the group members for repayment of loans availed by them from non-institutional lenders i.e. Private Money lenders. It is only one time measure.

**Interest Rate:** The applicable interest rate for SHGs is Base Rate + 2.75% irrespective of the amount of finance. AP State Government has introduced "**Vaddi Leni Runalu (VLR)**" scheme where the state Government reimburse the full interest for the SHG loans who repay the loans promptly and the reimbursement will be done to the group at half yearly intervals. However, this facility is limited to the loans upto ₹5 lakh only. The reimbursement is to be credited to group's savings bank account, but not to the SHG loan account.

**Mandal Mahila Samakhya** consists of maximum 500 SHGs as members covering 20 to 30 Village Organisations (VOs) operating in a mandal. Vos/SHG Federation/MMS are to be registered under AP Mutually Aided Cooperative Societies Act 1995 to avail finance from Banks subject to Minimum two years of existence with audited balance sheet; "A" rating by External Agency i.e. Chartered Accountant; The maximum eligible amount is 10 times of the Networth of VOs (savings contributed by each SHG to VOs on monthly basis, interest earned on savings and internal lending, revolving fund if any) or 80% of Micro Credit Plan (MCP) whichever is lower subject to borrowing clause incorporated in the byelaws.

## Micro, Small and Medium Enterprises (MSME)

The Small enterprises contribute nearly 40% of the country's industrial output and offer the largest employment after agriculture. Therefore, this sector presents an opportunity to the country to harness its local competitive advantages for achieving global dominance. In recognition of these aspects, Government of India enacted the MSMED Act in the year 2006. The activities of MSME are broadly classified into Manufacturing Enterprises and Service Enterprises.

**Manufacturing Enterprises** are those which are engaged in manufacturing or production of goods. These are defined in terms of investment in **Plant & Machinery**. Recently, activities such as Seed Processing (for genetic enhancement) involving collection of germplasm, cleaning, gravity separation, chemical treatment etc., and Composite unit in Poultry with Chicken (Meat) Processing are treated as Manufacturing units under MSME.

**Service Enterprises** are the enterprises engaged in providing or rendering of services. These are defined in terms of investment in **Equipment**. Recently activities such as Medical Transcription Service, Production of TV serials / program, Ripening of Raw Fruits under controlled conditions and Service Rating Agency are treated as Service Enterprises under MSME. The modified definitions of Micro, Small and Medium Enterprises are as under:

No	Category	Investment in Plant & Machinery/Equipment (₹lakh)	
		Manufacturing	Service
1	Micro Enterprise	Up to 25	Up to 10
2	Small Enterprise	above 25 & up to 500	above 10 & up to 200
3	Medium Enterprise	above 500 & up to 1000	above 200 & up to 500

**Small Enterprises:** It includes all loans given to micro and small (manufacturing) enterprises engaged in manufacture / production / processing / preservation of goods, and micro and small (service) enterprises engaged in providing or rendering of services which include small road & water transport operators, small business, Professional & Self-employed persons and other service enterprises. Indirect finance to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and co-operatives of producers in this sector. As per recent RBI guidelines – Loans granted to private retail traders with credit limits not exceeding **₹20 lakh** and loans to retail traders dealing in essential commodities (fair price shops) and consumer co-operative stores without any ceiling in credit limit are eligible for classification under Micro (service) or small (service) depending on investment in equipment criteria as mentioned above.

**Medium Enterprises:** Enterprises engaged in manufacture/production/ preservation of goods and whose investment in plant and machinery should be as per above said guidelines. Bank's lending to medium enterprises will not be included for the purpose of reckoning under priority sector. Interest rates are charged as per rates prevailing at the time and are subject to change from time to time. Rate of Interest is determined as per credit rating system for loans above ₹10 lakhs as per Internal Credit Risk Assessment Model. No collateral security or third party guarantee is insisted for loan up to ₹5 lakh and for Tiny Sector up to ₹25 lakh based on the good track record and financial position of the borrowing unit.

**Book Debts:** Out of the regular OCC limit, a sub-limit, maximum of 60%, can be allowed with 50% margin provided the book debts are not older than 180 days.

**Standby Term Loan:** Banks are allowed to sanction standby term loan to "A" and above rated borrowers subject to a cap of 20 lakh for acquiring additional machinery with 25% margin.

**Composite loan** (Term Loan and Working Capital) up to ₹100 lakhs should be processed under single window concept.

**Interest Rate:** Normally, the interest rates charged to MSME borrowers are lesser than those being charged other borrowers. Further reduction of interest rate is available to special category of Rice Mills, Dall Mills and Cotton Ginning Mills. A concession of 0.50% is offered to women MSME borrowers.

**Collateral security:** Banks are mandated not to accept collateral security in case of loans up to ₹10 lakhs extended to units in the Micro and Small Enterprises sector and all such loans are to be covered under Credit Guarantee Scheme. Banks may, on the basis of good track record and the financial position of the MSE units, increase the limit of dispensation of collateral requirement for loans up to 25 lakh (with the approval of the appropriate authority). Women entrepreneurs will be given further interest rebate of 0.50% irrespective of credit rating and size of the unit.

**Subsidy:** Units undergoing technology up-gradation are eligible for 15% Credit Linked Capital Subsidy Scheme (CLCSS). Units engaged in food processing are eligible for subsidy 25% of unit cost with maximum of ₹50 lakhs and units are located at difficult areas (J&K, HP, Sikkim, Andaman, NE States and tribal development project areas) are eligible for 33.33% with maximum of ₹75 lakhs.

**Assessment:** 25% of assessed turnover shall be fixed as working capital limit for the MSME units availing credit limits up to 600 lakh.

**Targets:** Banks may fix self set target for growth in advances to SME Sector in order to achieve a minimum 20% year on year growth in credit to SMEs with the objective to double the flow of credit to the SME sector within a period of 5 years. Further, banks should ensure that –

i) 40% of the total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to ₹10 Lakh and micro (service) enterprises having investment in equipment up to ₹4 Lakh.

ii) 20% of the total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above ₹10 Lakh & up to ₹25 lakh, and micro (service) enterprises with investment in equipment above ₹4 Lakh & up to ₹10 Lakh. Thus 60% of MSE advances should go to the Micro Enterprises. Further, banks are advised to

- Achieve a 20 percent year-on-year growth in credit to Micro and Small enterprises to ensure enhanced credit flow.
- Allocate 60% of MSE advances to the Micro Enterprises.
- Achieve minimum 10% growth in number of Micro Enterprise accounts.
- Pay focused attention in opening of more MSE branch offices at different MSE clusters and each lead bank of a district may adopt atleast one MSE cluster.

Communication of the bank's decision regarding the credit assistance is done promptly. As per Ministry of Finance, Government of India, all credit proposals for additional limit, rescheduling for loan or any other facility should be disposed in 15 days from the date of receipt of application at the branch. With regard to new cases for sanction, the time norm stipulated is 30 days from the date of receipt of application at the branch. No loan application is rejected without approval of the next higher authority.

## Credit Guarantee Fund Scheme for Micro and Small Enterprises

**Salient features:** It provides guarantee coverage in respect of credit facilities sanctioned to the accounts up to **₹100 lakhs** to new/existing MSE units without any collateral security and/or third party guarantees. All Micro enterprises up to ₹ 10 lakh except Retail Trade and SHGs are to be covered under this scheme.

**Eligible Accounts:** All MSE units classified under Manufacturing, RTO, Business Enterprises, and Professional & Self Employed are eligible for coverage.

**i) Micro Enterprises:** Manufacturing units with investment in Plant & machinery up to ₹25 lakh and servicing units with investment in equipment up to ₹10 lakh are eligible for the coverage.

**ii) Small Enterprises:** Manufacturing units with investment in Plant & machinery above ₹25 lakhs and up to ₹5 crore and servicing units with investment in equipment above ₹10 lakhs and up to ₹2 crore are covered under this scheme.

The trust shall provide guarantee as under:

Category	Maximum extent of guarantee where credit facility		
	Up to ₹5 lakhs	Above ₹5 & up to ₹50 lakhs	> ₹50 to ₹100 lakhs
MSME	85% of amount default or subject to maximum of ₹4.25 lakhs	75% of amount default or subject to maximum of ₹37.50 lakhs	50% of loan irrespective of the borrower, location of the unit / credit facility w.e.f 16 <sup>th</sup> December 2013
Women Entrepreneurs / Units located in NE region (Other than credit facility up to ₹5 lakh to micro enterprises)	80% of the amount in default subject to maximum of ₹40 lakhs		
Others	75% of the amount in default subject to maximum of ₹37.50 lakhs		

Any credit facility which has been sanctioned by Banks, under CGS, to an eligible borrower with interest rate more than 4% over its Base Rate will not be eligible for coverage under CGS.

Composite all-in Guarantee Fee		
Credit Facility	Annual Guarantee fee (% p.a.)	
	Women, Micro Enterprises and units in NE region	Others
Up to ₹5 lakh	0.75%	1.00%
Above ₹5 lakh & up to ₹100 lakh	0.85%	

The lending institution may invoke the guarantee in respect of credit facility within a maximum period of two years from the date of NPA. The initiation of legal proceedings as a pre-condition for invoking of guarantees shall be waived for credit facilities upto ₹50000/-. The trust shall pay 75% of the guaranteed amount on preferring of eligible claim within 30 days. The trust shall pay interest at prevailing Bank Rate to lending institute for the period of delay beyond 30 days.

## **Credit Enhancement Guarantee Scheme for the Scheduled Castes (CEGSSC)**

The Finance Minister during the Union Budget speech 2014-15 had announced that a sum of ₹200 crore allocated towards credit enhancement facility for young and start-up entrepreneurs, belonging to Scheduled Castes (SC), who aspire to be part of neo middle class category with an objective to encourage entrepreneurship in the lower strata of the society resulting in job creation besides creating confidence in SCs. The Sponsoring Agency for the said scheme is Ministry of Social Justice and Empowerment and IFCI is the nodal agency with the responsibility of implementation of the scheme. The objectives of the scheme are to:

- Promote entrepreneurship among the schedule caste population in India
- Support, by way of providing credit enhancement guarantee to Banks / Financial Institutions providing financial assistance to SC entrepreneurs, who in turn will create wealth, value for the society, create jobs and ultimately will develop confidence as well as promote profitable businesses
- Promote financial inclusion for SC entrepreneurs and motivate them for further growth of SC communities

All small/medium enterprises, projects/units being set up, promoted and run by SCs in manufacturing, trading and services sector which are not covered under any State/Central subsidy or grant are eligible to cover under this scheme. The enterprises may be registered companies/societies/partnership firms having more than 75% shareholding by SCs with the management control for the past 12 months. The details of guarantee cover available under this scheme are as under:

Category	Loan amount (Crore)		
	Up to ₹200 lakh	₹200 to ₹500 lakh	Above ₹500 lakh
Registered Companies	80% of the amount in default subject to max. ₹160 lakh	70% of the amount in default subject to max. 350 lakh	60% of the amount in default subject to max of ₹500 lakh
Registered Partnership firms / societies	60% of the amount in default subject to minimum coverage of ₹15 lakh and maximum of ₹500 lakh		
Tenor of the guarantee	Maximum 7 years or repayment period whichever is earlier. However, initially the loan shall be guaranteed for one year and renewed at yearly intervals.		
Guarantee fee	1% p.a on the original sanctioned limit in case of working capital limits and on outstanding liability as on 31 <sup>st</sup> march every year with regard to term loans.		
Lock-in period	No claim shall be entertained by the Nodal agency if the account becomes NPA within 12 months.		

**Credit Guarantee Fund Scheme for Education Loans (CGFSEL)** – Govt. of India introduced new scheme with an objective to promote education loans up to ₹7.50 lakh without any collateral security and third party guarantee for pursuing higher education in India and Abroad as per IBA Model Educational Loan Scheme. The scheme covers loans sanctioned on or after 16<sup>th</sup> September 2015 only will be eligible for the coverage. The guarantee fee payable is 0.50% on outstanding loan amount and the fee is to be borne by the banks only. Under the scheme, the guarantee cover is available for all education loans up to 75% of default and the balance 25% of the guaranteed amount will be paid after obtaining certificate from the Bank that all avenues for recovering the amount have been exhausted. However, loans sanctioned with interest rate more than 2% over MCLR are not eligible for CGFSEL coverage. The fund and scheme is operated by National Credit Guarantee Trustee Company Ltd (NCGTC) owned by Govt. of India.

## Model Educational Loan Scheme (IBA)

Education is central to the human resources development and empowerment in any country and knowledge and information would be the driving force for economic growth. The current rate of economic growth of the country demands technically and professionally trained man power in large numbers. Though government intends to provide education to all through public funding, it is not feasible in view budgetary constraints. At the same time the cost of education has been going up in recent times and it has become financial burden to the parents of the students. Hence, there is a clear case for institutional funding in this area. As the focus is on development of human capital, repayment of the loan is expected to come from future earnings of the student after completion of education. Hence the assessment of the loan will be based on employability and earning potential of the student upon completion of the course and not the parental income/family wealth.

**Eligibility Criteria:** The student should be an Indian National and should have secured admission to a higher education course in recognized institutions in India or Abroad through Entrance Test/Merit Based Selection process. However, entrance test or selection purely based on marks obtained in qualifying examination may not be the criterion for admission to some of the post graduate courses or research programs. In such cases, banks will have to adopt appropriate criteria based on employability and reputation of the institution concerned.

**Minimum Age:** There is no specific restriction with regard to the age of the student to be eligible for education loan. However, if the student was a minor while the parent executed documents for the loan, the bank will obtain a letter of ratification from him/her upon attaining majority.

**Courses Eligible:** Approved courses leading to graduate/post graduate degree and PG diplomas conducted by recognized colleges/universities recognized by UGC/Govt./AICTE/AIBMS/ICMR; courses like ICWA, CA, CFA etc; Courses conducted by IIMs, IITs, IISc, XLRI. NIFT, NID etc; Regular Degree/Diploma courses like approved Aeronautical, pilot training, shipping in India. Banks may approve other job oriented courses leading to technical/professional degrees, post graduate degrees / diplomas offered by recognized institutions. Courses other than the above offered by reputed institutions may also be considered on the basis of employability.

**Expenses considered for loan:** Tuition, Hostel, Library, Laboratory and Examination fee; Caution deposit, Building fund/refundable deposit; Purchase of books, uniforms, equipments & instruments including computer/Laptop and study tour & project work costs etc., are to be considered as cost of education for the purpose of loan. If the student opts for outside accommodation, reasonable expenses may be considered. With regard to abroad studies, travel expenses/passage money and Insurance charges should also be considered as cost of education subject to cap of 20% of the total tuition fees. The scholarship/assistantship, if any, is to be excluded from the total cost while arriving eligible loan amount.

**Quantum of finance:** Banks may consider sanction of maximum up to ₹10 lakh for studies in India and ₹20 lakh for studies abroad. It may also be noted that even loans in excess of ₹10 lakh qualify for interest subsidy under Central Sector Interest Subsidy Scheme for loans up to ₹10 lakh.

**Top up loans:** Banks may consider top up loans to students pursuing further studies within the overall eligibility limit, if such further studies are commenced during the moratorium period of the first loan. The repayment of the loan will commence after the completion of the second course and further moratorium period, as provided under the scheme.

**Margin:** No margin is required to bring in by the borrower for the loans up to 4 lakh and for loans above 4 lakh, 5% margin is stipulated. In case of studies abroad the margin stipulated is 15%. Margin may be brought-in on year-to-year basis as and when disbursements are made on a pro-rata basis.

**Security:** The loan documents should be executed by the student and the parent / guardian as joint-borrower.

<b>Loan</b>	<b>Security / Co-obligation</b>
Up to ₹4 lakhs	Parent as Joint borrower. In case of a married person, joint borrower can be spouse or the parent(s)/parents-in-law.
> ₹4 & up to ₹7.5 lakh	Beside the parent as joint borrower, suitable third party guarantee.
Above ₹7.5 lakh	Parent/spouse as joint borrower and suitable tangible collateral security

All education loans sanctioned up to ₹7.50 lakh are eligible to cover under Credit Guarantee Fund Scheme for Education Loans (**CGFSEL**) w.e.f. 01.09.2015. The guarantee fee shall be paid by the Bank only. However, to be eligible to cover under the scheme are – No collateral or third party guarantee should be obtained and the interest rate should be below MCLR +2%.

**Rate of Interest:** Interest to be charged at MCLR as decided by individual banks. These loans attract simple interest during the study period. Servicing of interest during study period and the moratorium period till commencement of repayment is optional for students. Accrued interest will be added to the principal amount borrowed while fixing EMI for repayment. 1% interest concession may be provided by the bank, if interest is serviced during the study period and subsequent moratorium period prior to commencement of repayment. No processing/upfront charges may be levied on loans sanctioned under the scheme.

**Repayment:** Repayment of the loan starts after one year from the date of completion of course or 6 months after getting the job whichever is earlier. The repayment should be in Equated Monthly Installments (EMI) and maximum repayment period allowed for loans up to ₹7.5 lakhs & above ₹7.5 lakhs 10 & 15 years respectively. If the student is not able to complete the course within the scheduled time, extension of time for completion of course may be permitted for a maximum period of 2 years.

Educational loans can be sanctioned either at the Bank branch near to the residents of the parents or to the educational institution. Existence of an earlier education loan to the brother(s) and/or sister(s) will not affect the eligibility of another meritorious student from the same family obtaining education loan as per this scheme from the bank. Loan applications have to be disposed of in the normal course within a period of 15 days to one month, but not exceeding the time norms stipulated for disposing of loan applications under priority sector lending. Branches should not reject any eligible loan proposal for the reason that the applicant's residence does not fall under service area of the Bank/Branch.

The Govt. of India has launched online portal "**Vidya Lakshmi**" for the benefit of the students seeking education loans. It is developed and maintained by NSDL e-governance Infrastructure Limited. The aim of the portal is to minimize the need for personal interaction between the students and disbursing agencies and provide transparent processing student loans. The student borrowers would be in a position to submit their request to three member banks registered with the portal.



## Housing Loans

In pursuance of National Housing Policy of Central Government, Reserve Bank of India has been facilitating the flow of credit to housing sector. Since housing has emerged as one of the sectors attracting a large quantum of bank finance, the current focus of RBI's regulation is to ensure orderly growth of housing loan portfolios of banks. Banks with their vast branch network throughout the length and breadth of the country occupy a very strategic position in the financial system and were required to play an important role in providing credit to the housing sector in consonance with the National Housing Policy.

**Eligibility Criteria:** The following are the eligible categories to avail housing loans under Direct Housing Finance:

- Bank finance extended to a person who already owns a house in town/village where he resides, for buying/constructing a second house in the same or other town/village for the purpose of self occupation.
- Bank finance extended for purchase of a house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarters or because he has been provided accommodation by his employer.
- Bank finance extended to a person who proposes to buy an old house where he is presently residing as a tenant.
- Bank finance granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.
- Banks may consider requests for additional finance within the overall ceiling for carrying out alterations/additions/repairs to the house/flat already financed by them.
- In the case of individuals who might have raised funds for construction/acquisition of accommodation from other sources and need supplementary finance, banks may extend such finance after obtaining *paripassu* or second mortgage charge over the property mortgaged in favour of other lenders and/or against such other security, as they may deem appropriate.

**Age Criteria** – The age of the borrower should be between 21 to 65 years at the time sanction of the loan.

**Assessment of Loan** – The quantum of loan will be arrived based on the gross & net income of the borrower and other factors like spouse income, assets, liabilities, stability of income etc. Further, the loan amount also depends on the tenure of the loan and interest rate of the loan as these variables determine outflow which in turn depends on disposal income of the borrower/spouse.

**Loan To Value (LTV) Ratio** – In order to prevent excessive leveraging, the LTV ratio in respect of housing loans should not exceed 80 per cent. However, for small value housing loans i.e. housing loans up to ₹25 lakh (which get categorized as priority sector advances), the LTV ratio should not exceed 90 per cent. In order to ensure proper LTV, banks should not include charges such as stamp duty, registration/document charges in the cost of the asset.

**Interest Rate** – It is the discretion of the banks to levy their own interest rates.

**Gestation Period** – Normally, the gestation period allowed is 12 to 18 months. However, it can be extended maximum period of 30 months from the date of first disbursement.

**Repayment** – The maximum period allowed for repayment of home loan is 30 years or up to the age of 75 years of the borrower whichever is earlier.

**Equated Monthly Installment** – Normally, banks fix EMI which covers Principal as well as Interest. Some banks offer Floating and Fixed Interest Rates and it is up to the borrower to choose. Under **Floating Interest**, the interest rate is subject to changes from time to time by the Bank with reference to Bench Mark rate (MCLR) where as **Fixed Interest Rate** is a rate which continues to be the same during the entire tenor of the loan. Banks are also offering flexible repayment options viz., Step-up and Step-down, depending on the future cash flows of the borrower. Under Step-up option, the lower EMI in the initial years and EMI increases as years roll by. It is convenient for borrowers who are in the beginning of their careers. In case of Step-down option, EMI is high initially and decreases in the subsequent years, which is useful who are close to their retirement.

**Other conditions:**

i) In cases where the applicant owns a plot/land and approaches the banks/Fis for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility must be obtained by the Banks/Fis before sanctioning the home loan.

ii) An affidavit-cum-undertaking must be obtained from the person applying for such credit facility that he shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executants to obtain completion certificate within 3 months of completion of construction, failing which the bank shall have the power and the authority to recall the entire loan with interest, costs and other usual bank charges.

iii) An Architect appointed by the bank must also certify at various stages of construction of building that the construction of the building is strictly as per sanctioned plan and shall also certify at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

iv) In cases where the applicant approaches the bank/Fis for a credit facility to purchase the built up house/flat, it should be mandatory for him to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and/or building bye-laws and as far as possible has a completion certificate also.

v) An Architect appointed by the bank must also certify before disbursement of the loan that the built up property is strictly as per sanctioned plan and/or building bye-laws.

vi) No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.

vii) No loan should also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

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## Interest Subvention Schemes

**1. Short Term Agricultural Credit:** In order to provide short term credit (Crop Loans, PAGCC, Kisan Vikas Cards, Rythu Mitra Groups, Joint Liability Groups, Agricultural Gold Loans and Working Capital Loans financed to Fisheries) to the farmers at reasonable interest rate, Government of India announced a scheme of Interest Subvention in the year 2006. Under this, farmer receives short term credit at 7% p.a. from the date of disbursement to the end of the respective season with an upper limit of ₹3 lakh on the amount. Now the benefit is extended to small and marginal farmers availing Kisan Sampathi loans against negotiable warehouse receipts and restructured crop loans (CCATL) on account of natural calamities. However, Agricultural Medium Term Loans are not covered under this scheme. Government will provide Interest Subvention to the banks (PSBs, RRBs, and Farmers Service Co-operative Societies) on the amounts financed to farmers (short term).

Banks lending to short term agricultural credit are eligible to claim 2% Interest Subvention from Government of India. Further, farmers are eligible for another 3% interest subvention who repays the loan promptly. This additional subvention is available to Public Sector Banks on the condition that the effective rate of interest on short term production credit up to ₹3 lakh for such farmers will be **4% p.a.** Branches are required to submit claim half-yearly (September & March) for reimbursement of interest subvention amount from RBI. For crop loans up to one lakh disbursed in AP State attracts **zero interest rate** as state government is reimbursing the entire interest to the banks for prompt payment. Further, RBI has advised the Banks to ensure that all crop loans against which they are claiming interest subvention should satisfy, inter alia, the following criteria:

- The borrower should be a farmer
- The rate of interest charged should not exceed the rate stipulated by the Govt of India
- The amount of loan is fixed according to the prescribed scale of finance for agricultural loans and the loan is used for stated purpose
- Seasonality is observed in regard to both disbursement and recovery

**2. Export Credit:** Government is providing interest subvention at **3% p.a.** to all Scheduled Commercial Banks in respect of rupee export credit (Pre & Post shipment) extended to employment oriented export sectors such as Handicrafts, Handlooms, Carpets, Readymade garments, processed agriculture products, Sports goods, Toys, Engineering items, ITC and Textile goods. However, merchant exporters are not covered under this scheme. Banks are required to completely pass on the said interest benefit to all eligible exporters upfront and submit the claims to RBI on a monthly basis through a revolving fund system. This scheme is also called as **"Interest Equalization Scheme"** w.e.f. 01.04.2015 and valid for 5 years.

**3. Micro & Small Enterprises:** Paavala Vaddi Scheme was introduced for the benefit of Micro & Small Enterprises set up in AP State except in the Municipal Corporation limits of Hyderabad, Vijayawada and Visakhapatnam. The scheme is applicable to the term loans availed on fixed capital investment by the eligible new Micro and Small Enterprises on or after 01.04.2008. More than 75% of the plant and machinery should be new and not second hand. Under the scheme, interest charged over and above 3% p.a. (i.e. 10% - 3% = 7%) will be reimbursed to the group at half yearly intervals. However, the maximum reimbursement is restricted to 9% p.a. The benefit is available for a period of 5 years i.e. up to the first half of 6<sup>th</sup> year or till the closure of term loan, whichever is earlier. However, this benefit is available to only those accounts, which in regular in payment of principal and interest. It is applicable to one-time payment accounts also.

**4. Housing Loans:** The objective of the scheme is to provide interest subsidy on housing loan as a measure to generate additional demand for credit and to improve affordability of housing to eligible borrowers in the middle and lower income groups. The scheme is expected to provide relief to prospective home owners and improve home ownership in the specified target segment. Interest subvention of 1% will be available on housing loans up to ₹15 lakh to individuals for construction/purchase of a new house or extension of an existing house, provided the cost of construction / price of the new house/extension does not exceed ₹25 lakh. All loans sanctioned and disbursed on or after 01.10.2009 are eligible for the said interest subsidy. It will be applicable to the first 12 installments of all such loans sanctioned and disbursed during the currency of the scheme and will be computed for 12 months on the disbursed amount. The subsidy amount will be adjusted upfront in the principal outstanding, irrespective whether the loan is on fixed or floating rate basis. The interest subvention is applicable for the eligible borrowers for one housing unit only. The scheme will be implemented through Scheduled Commercial Banks. However, Non Resident Indians for construction of farm houses and staff members of the banks are not eligible for interest subsidy under this scheme.

**5. Educational Loans – Interest Subvention/Subsidy:** India is one of the few countries having large pool of young people and these Human Assets are converted into Knowledge Assets. Providing proper education to the students is a prerequisite to achieve the desired goal. The poor financial background of the students is one of the major constraints for the students aspiring for higher studies. To ensure technical/professional education to all the deserving students by providing required financial support by way of Interest subsidy. In the above backdrop, Government of India has launched the following schemes:

**i) Central Scheme to provide Interest Subsidy (CSIS)** to provide interest subsidy during the period of moratorium i.e. course period plus one year or six months after getting job, whichever is earlier, on loans taken by students belonging to **Economically Weaker Sections (EWS)** from scheduled banks under Educational Loan scheme of the Indian Banks Association, for pursuing any of the approved course of studies in technical and professional streams, from recognized institution in India. The benefits of the scheme would be applicable to those students belonging to EWS with annual gross parental/family income upper limit of **₹4.5 lakhs** p.a. from all sources. The interest subsidy shall be available to the eligible students only once, either for the first graduate degree course or post graduate degree/diplomas in India. Interest subsidy shall however be admissible for integrated courses (graduation plus post graduate). In order to claim the interest subsidy from Nodal agency, bank branches are required to obtain income proof certificate from appropriate authority as decided by state government and agreement with borrower/parents.

**ii) Padho Pardesh** - Government of India, Ministry of Minority Affairs has formulated a scheme for interest subsidy on educational loans for overseas studies to promote educational advancement of students from minority communities (Muslims, Christians, Sikhs, Buddhists, Jains and Parsis) for adoption by all banks. The objective of the scheme is to award interest subsidy to meritorious students belonging to economically weaker sections of notified minority communities so as to provide better opportunities for higher education abroad and enhance their employability. The approved courses are Masters, M. Phil and Ph.D levels. Presently the subsidy is restricted to the loans with limits specified under IBA model scheme i.e. ₹20 lakhs only. The overall family income of the student should not more than ₹6 lakhs p.a. and the Income certificate should be obtained from the competent authority at the time of availing loan. The scheme shall be applicable from the academic year 2013-14 starting from 1<sup>st</sup> April, 2013 and loans sanctioned and disbursed from 01.04.2013 onwards will **only be** eligible for interest subsidy under this scheme.

**iii) Dr.Ambedkar Central Sector Scheme:** The objective of the scheme is to award Interest Subsidy to meritorious students belonging to economically weaker sections (Backward Class & Economically Backward Class) of the society so as to provide them better opportunities for **higher education abroad** and enhance their employability. The eligible courses are Masters, M.Phil and Ph.D. Loans sanctioned under this scheme are eligible for interest subsidy for the period of moratorium i.e. course period plus one year after completion or 6 months after getting job, whichever is earlier. Presently the subsidy is restricted to the loans with limits specified under IBA model scheme i.e. ₹20 lakhs only. The overall family income of the student should not exceed **₹3 lakh** per annum. Income certificate submitted by the student (issued by revenue authorities) at the time of applying for loan is treated as valid proof of annual income and subsequent increase/decrease has no effect on the eligibility. The scheme is effective from 01.04.2014.

**6. SHG Loans:** AP State Government introduced "Vaddi Leni Runalu" scheme with effective from 01.01.2012 for all repayments made after that date for the outstanding SHG Bank loans, including any fresh loans given thereafter. The interest incentive will be available only to those accounts who repay the loans regularly. The incentive will be released directly to the credit of SHG account once in Half-year.

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## Ratio Analysis

**Financial statements:** The statement which provides us the financial position of a Balance Sheet are called "Finance Statements", which includes – Trading Account (in case of Manufacturing concerns), Profit & Loss Account, Balance Sheet, Cash Flow Statement and Funds Flow Statement. The analysis of Balance Sheet is a process of bringing down the difficult matter into a simple and easily understandable one. To have a clear understanding of the financial position of the Business concern, at least three years financial statements are to be ascertained. They provide us treasure of information. Balance Sheet of a business concern shows the strength of the concern on a given date but not reveal the current state of affairs of the concerns. Balance Sheet is having certain limitations, because it does not disclose the critical factors, such as Managerial Efficiency, Technical competence, Marketing capabilities and Competition in the market.

Ratio means a comparison of two items which are having cause and relationship. Ratios can be expressed in percentage OR in number of times. Depending upon the nature, the ratios are broadly classified in to four categories viz., Liquidity Ratios, Leverage Or Solvency Ratios, Activity Ratios and Profitability Ratios.

**I. LIQUIDITY RATIOS:** These Ratios helps to find out the ability of the business concern to pay the short term liability of its liquidity. Any adverse position in liquidity leads to sudden fall of the unit.

**Current Ratio:** Current Ratio denotes the capacity of the business concern to meet its current obligation out of the total value of the Current Assets. Current Ratio = Current Assets / Current Liabilities. Term Loan installments falling due for payment in next 12 months are to be taken as Term Liability for the purpose of calculation of Current Ratio /MPBF. Inter-corporate deposits are to be treated as **Non-Current Assets**. Ideal Current Ratio is **2:1**. Acceptable Ratio as per our Loan Policy guidelines is **1.33:1** for the limits enjoying above ₹6.00 crores and **1.15:1** for the business concerns availing limits of below ₹6.00 crores. Any deviation below the required ratio requires ratification of Higher Authority.

**Quick Ratio Or Acid Test Ratio:** This ratio is a comparison of Quick Assets to Current Liabilities. Quick Assets mean the assets which have instant liquidity of the business concern. Though the Inventory and Prepaid expenses are part of Current Assets, it may be difficult to sell and realize the inventory. Hence, Inventory and Prepaid expenses are to be excluded for arriving the Quick Asset Ratio.

$$\text{Ratio or Acid Test Ratio} = \frac{\text{Current Assets} - (\text{Inventory} + \text{Prepaid Exp})}{\text{Current Liabilities}}$$

Ideal Quick Ratio is **1:1**. Current Ratio is always to be read along with Quick Ratio. A fall in the Quick Ratio in comparison to the Current Ratio indicates high inventory holdings.

**II. LEVERAGE AND SOLVENCY RATIOS:** These Ratios helps to find out the Long Term Financial stability of the business concern

**i) Debt Equity Ratio:** Long Term Debt / Equity – Here, Equity refers Tangible Net worth. The Ideal ratio is **2:1** and the higher may also be considered as safe.

**ii) Debt Service Coverage Ratio:** It helps to know the capacity of the firm to repay the Long Term Loan Instalment and Interest. Ideal DSCR is **2:1**. The higher the DSCR, we may fix the lower repayment period. However, banks may also

consider DSCR **1.20:1** where fixed income generation is assured, such as Rent Receivables etc.

$$\text{DSCR} = \frac{\text{Net Profit After Tax} + \text{Depreciation} + \text{Int. on TL}}{\text{Int. on TL} + \text{Instalment on TL}}$$

**iii) Fixed Assets Coverage Ratio (FACR):** This ratio indicates the extent of Fixed assets met out of long term borrowed funds. Ideal Ratio is 2:1

$$\text{FACR} = \frac{\text{Net Block}}{\text{Long Term Debt}} \quad (\text{Net Block means Total Assets} - \text{Depreciation})$$

**iv) Interest Coverage Ratio:**

$$\text{Interest Coverage Ratio} = \frac{\text{EBIDT}}{\text{Interest}}$$

Where EBIDT is Earning Before Interest, Depreciation and Tax. This ratio indicates the interest servicing capacity of the unit. Higher the ratio has probability of non-servicing of interest and hence avoidance of slippage of asset.

### III. ACTIVITY RATIOS:

**Inventory Turnover Ratio:** Inventory constitutes raw material, work in process, finished goods etc. The ratio is arrived by dividing Inventory by average monthly Net sales to arrive at inventory levels in number of months. Lower the ratio, the faster the movement of inventories and Higher the ratio slower the movement of inventories. It also indicates the time taken to replenish the inventories. Separate parameters are laid down for fabrication units & seasonal industries (maintaining peak level inventories as at March) where operating cycle is longer compared to other businesses and others.

$$\text{Net Sales} = \frac{\text{Inventory} \times (\text{RM} + \text{WIP} + \text{FG}) \times 12 \text{ (OR ) Cost of Goods Sold}}{\text{Average Stock } ((\text{Opening Stock} + \text{Closing stock})/2)}$$

**ii) Debtors Velocity Ratio:**  $\frac{\text{Debtors}}{\text{Credit sales}} \times \text{period}$

Lower the collection period indicates efficiency in realization of receivables and vice-versa.

**iii) Creditors Velocity Ratio:**  $\frac{\text{Trade Creditors}}{\text{Credit Purchase}} \times \text{period}$

Higher velocity denotes that the company is enjoying credit from its suppliers and it has bearing on Maximum Permissible Bank Finance (MPBF)

**iv) Assets Turnover Ratio:**

$$\text{ASSET TURNOVER RATIO} = \frac{\text{Net Sales}}{\text{Total Operating Assets}}$$

Total Operating Assets = Total Assets – Intangible Assets. Higher the ratio indicates favorable situation of optimum utilization of all the fixed assets.

### IV. PROFITABILITY RATIOS:

a) **Gross Profit Ratio -> Gross Profit/Net Sales\*100** – Gross Profit Ratio indicates the manufacturing efficiency and Pricing policy of the concern. Higher percentage indicates higher sales volume, better pricing of the product or lesser cost of production.

**b) Net Profit Ratio:** 
$$\frac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100$$

A decline trend is a pointer to some unhealthy development unless the company had made usurious profits in the past and has consciously decided to reduce its profits by lowering the prices of its product.

**iii) Return on Equity:** 
$$\frac{\text{Net Profit After Tax}}{\text{Tangible Networth}} \times 100$$

### Working Capital Assessment

**i) Turnover Method:** (for WC limits up to & inclusive of ₹6.00 Crore)

- A. Accepted Projected Sales Turnover
- B. 25% of Sales Turnover
- C. Margin @ 5 % of Sales Turnover
- D. Actual NWC available as per latest Audited Balance Sheet
- E. B-C
- F. B-D
- G. M.P.B.F = E or F, whichever is less.

**ii) Inventory Method** – For WC limits up to & inclusive of ₹6.00 Crore

- A. Total Current Assets
- B. Current Liabilities (other than Bank Borrowings)
- C. Working Capital Gap = A – B
- D. Margin @ 13% of Projected Current Assets
- E. Actual NWC available as per latest Audited Balance Sheet
- F. C-D
- G. C-E
- H. M.P.B.F = F or G, whichever is less.

- Maximum Working Capital credit limit up to which Turn Over method can be extended is ₹6 Crores. Where the limits of above ₹6.00 Crore, the margin is to be taken as 25% projected current assets. If actual NWC is less than required margin, the borrower has to bring in the short fall.
- The minimum acceptable Current Ratio for working capital credit facility up to ₹6 crore & above ₹6 crore is 1.15 & 1.33 respectively.
- Maximum acceptable level of Total **Debt- Equity Ratio** is **4**.
- Maximum permissible **Gearing Ratio** while assessing the eligibility for non-funded limits is **10**.
- Standard average **DSCR** specified for all Term Loans is **1.50 to 2.00**. However, in case of assured source of income, it can be taken as **1.20**. Lower DSCR can be accepted for Rural Godowns.

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## Non Fund Business

**Bank Guarantee:** As a part of Banking Business, Bank Guarantee (BG) Limits are sanctioned and guarantees are issued on behalf of our customers for various purposes. Broadly, the BGs are classified into two categories:

**i) Financial Guarantees** are direct credit substitutes wherein a bank irrevocably undertakes to guarantee the payment of a contractual financial obligation. These guarantees essentially carry the same credit risk as a direct extension of credit i.e. the risk of loss is directly linked to the creditworthiness of the counter-party against whom a potential claim is acquired. Example – Guarantees in lieu of repayment of financial securities/margin requirements of exchanges, Mobilization advance, Guarantees towards revenue dues, taxes, duties in favour of tax/customs/port/excise authorities, liquidity facilities for securitization transactions and Deferred payment guarantees.

**ii) Performance Guarantees** are essentially transaction-related contingencies that involve an irrevocable undertaking to pay a third party in the event the counterparty fails to fulfill or perform a contractual obligation. In such transactions, the risk of loss depends on the event which need not necessarily be related to the creditworthiness of the counterparty involved. Example – Bid bonds, performance bonds, export performance guarantees, Guarantees in lieu of security deposits/EMD for participating in tenders, Warranties, indemnities and standby letters of credit related to particular transaction.

Though, BG facility is a Non-fund Facility, it is a firm commitment on the part of the Bank to meet the obligation in case of invocation of BG. Hence, monitoring of Bank Guarantee portfolio has attained utmost importance. The purpose of the guarantee is to be examined and it is to be spelt out clearly if it is Performance Guarantee or Financial Guarantee. Due diligence of client shall be done, regarding their experience in that line of activity, their rating/grading by the departments, where they are registered. In case of Performance Guarantees, banks shall exercise due caution to satisfy that the customer has the necessary experience, capacity and means to perform the obligations under the contract and is not likely to commit default. The position of receivables and delays if any, are to be examined critically, to understand payments position of that particular activity. The financial position of counter party, type of Project, value of Project, likely date of completion of Project as per agreement are also to be examined. The Maturity period, Security Position, Margin etc. are also to be as per Policy prescriptions and are important to take a view on charging BG Commissions.

Branches shall use **Model Form** of Bank Guarantee Bond, while issuing Bank Guarantees in favour of Central Govt. Departments/Public Sector Undertakings. Any deviation is to be approved by Zonal Office. It is essential to have the information relating to each contract/project, for which BG has been issued, to know the present stage of work/project and to assess the risk of invocation and to exercise proper control on the performance of the Borrower. It is to be ensured that the operating accounts of borrowers enjoying BG facilities route all operations through our Bank accounts. To safeguard the interest of the bank, Branches need to follow up with the Borrowers and obtain information and analyze the same to notice the present stage of work/project, position of Receivables, Litigations/Problems if any leading to temporary cessation of work etc.

The Financial Indicators/Ratios as per Banks Loan Policy guidelines are to be satisfactory. Banks are required to be arrived **Gearing Ratio** (Total outside liabilities+proposed non-fund based limits / Tangible Network - Non Current Assets) of the client and ideally it should be below 10.

In case where the guarantees issued are not returned by the beneficiary even after expiry of guarantee period, banks are required to reverse the entries by issuing notice (if the beneficiary is Govt. Department 3 months and one month for others) to avert additional provisioning. Banks should stop charging commission on expired Bank Guarantees with effect from the date of expiry of the validity period even if the original Bank Guarantee bond duly discharged is not received back.

**Letter of Credit:** A Letter of Credit is an arrangement by means of which a Bank (Issuing Bank) acting at the request of a customer (Applicant), undertakes to pay to a third party (Beneficiary) a predetermined amount by a given date according to agreed stipulations and against presentation of stipulated documents. The documentary Credit are akin to Bank Guarantees except that normally Bank Guarantees are issued on behalf of Bank's clients to cover situations of their non performance whereas, documentary credits are issued on behalf of clients to cover situation of performance. However, there are certain documentary credits like standby Letter of Credit which are issued to cover the situations of non performance. All documentary credits have to be issued by Banks subject to rules of Uniform Customs and Practice for Documentary Credits (UCPDC). It is a set of standard rules governing LCs and their implications and practical effects on handling credits in various capacities must be possessed by all bankers. A documentary credit has the seven parties viz., Applicant (Opener), Issuing Bank (Opening of LC Bank), Beneficiary, Advising Bank (advises the credit to beneficiary), Confirming Bank – Bank which adds guarantee to the credit opened by another Bank thereby undertaking the responsibility of payment/negotiation/acceptance under the credit in addition to Issuing Bank), Nominated Bank – Bank which is nominated by Issuing Bank to pay/to accept draft or to negotiate, Reimbursing Bank – Bank which is authorized by the Issuing Bank to pay to honour the reimbursement claim in settlement of negotiation/acceptance/payment lodged with it by the paying / negotiating or accepting Bank. The various types of LCs are as under:

**i) Revocable Letter of Credit** is a credit which can be revoked or cancelled or amended by the Bank issuing the credit, without notice to the beneficiary. If a credit does not indicate specifically it is a revocable credit the credit will be deemed as irrevocable in terms of provisions of UCPDC terms.

**ii) Irrevocable Letter of credit** is a firm undertaking on the part of the Issuing Bank and cannot be cancelled or amended without the consent of the parties to letter of credit, particularly the beneficiary.

**iii) Payment Credit** is a sight credit which will be paid at sight basis against presentation of requisite documents as per LC terms to the designated paying Bank.

**iv) Deferred Payment Credit** is a usance credit where payment will be made by designated Bank on respective due dates determined in accordance with stipulations of the credit without the drawing of drafts.

**v) Acceptance Credit** is similar to deferred credit except for the fact that in this credit drawing of a usance draft is a must.

**vi) Negotiation Credit** can be a sight or a usance credit. A draft is usually drawn in negotiation credit. Under this, the negotiation can be restricted to a specific Bank or it may allow free negotiation whereby any Bank who is willing to negotiate can do so. However, the responsibility of the issuing Bank is to pay and it cannot say that it is of the negotiating Bank.

**vii) Confirmed Letter of Credit** is a letter of credit to which another Bank (Bank other than Issuing Bank) has added its confirmation or guarantee. Under this, the beneficiary will have the firm undertaking of not only the Bank issuing the LC, but

also of another Bank. Confirmation can be added only to irrevocable and not revocable Credits.

**viii) Revolving Credit** is one where, under the terms and conditions of the credit, the amount is revived or reinstated without requiring specific amendment to the credit. The basic principle of a revolving credit is that after a drawing is made, the credit reverts to its original amount for re-use by beneficiary. There are two types of revolving credit viz., credit gets reinstated immediately after a drawing is made and credit reverts to original amount only after it is confirmed by the Issuing Bank.

**ix) Installment Credit** calls for full value of goods to be shipped but stipulates that the shipment be made in specific quantities at stated periods or intervals.

**x) Transit Credit** – When the issuing Bank has no correspondent relations in beneficiary country the services of a Bank in third country would be utilized. This type of LC may also be opened by small countries where credits may not be readily acceptable in another country.

**xi) Reimbursement Credit** – Generally credits opened are denominated in the currency of the applicant or beneficiary. But when a credit is opened in the currency of a third country, it is referred to as reimbursement credit.

**xii) Transferable Credit** – Credit which can be transferred by the original beneficiary in favour of second or several second beneficiaries. The purpose of these credits is that the first beneficiary who is a middleman can earn his commission and can hide the name of supplier.

**xiii) Back to Back Credit/Countervailing credit** – Under this the credit is opened with security of another credit. Thus, it is basically a credit opened by middlemen in favour of the actual manufacturer/supplier.

**xiv) Red Clause Credit** – It contains a clause providing for payment in advance for purchasing raw materials, etc.

**xv) Anticipatory Credit** – Under this payment is made to beneficiary at pre-shipment stage in anticipation of his actual shipment and submission of bills at a future date. But if no presentation is made the recovery will be made from the opening Bank.

**xvi) Green Clause Credit** is an extended version of Red Clause Credit in the sense that it not only provides for advance towards purchase, processing and packaging but also for warehousing & insurance charges. Generally money under this credit is advanced after the goods are put in bonded warehouses etc., up to the period of shipment.

### **Other concepts**

**i) Bill of Lading:** It should be in complete set and be clean and should generally be to order and blank endorsed. It must also specify that the goods have been shipped on board and whether the freight is prepaid or is payable at destination. The name of the opening bank and applicant should be indicated in the B/L.

**ii) Airway Bill:** Airway bills/Air Consignment notes should always be made out to the order of Issuing Bank duly mentioning the name of the applicant.

**iii) Insurance Policy or Certificate:** Where the terms of sale are CIF the insurance is to be arranged by the supplier and they are required to submit insurance policy along with the documents.

**iv) Invoice:** Detailed invoices duly signed by the supplier made out in the name of the applicant should be called for and the invoice should contain full description of goods, quantity, price, terms of shipment, licence number and LC number and date.

**v) Certificate of Origin:** Certificate of origin of the goods is to be called for. Method of payment is determined basing on the country of origin.

**vi) Inspection Certificate:** Inspection certificate is to be called for from an independent inspecting agency (name should be stipulated) to ensure quality and quantity of goods. Inspection certificate from the supplier is not acceptable.

**vii) Lloyds Certificate:** Shipments should be made only by Conference Vessels, which are in the approved list of Lloyds Register of Shipping and classified as Lloyds 100 A1 or its equivalent classification. Age of the vessel should not be more than 25 years and it should be seaworthy. Any other documents required by the applicant, such as weight certificate, packing list, quality certificates should be mentioned in the application.

**LoC/LoU** is issued for making payment of Import Bills received either under FLC or on collection basis for imports made into India in favour of Overseas Bank or Financial Institution outside India to the extent of US \$ 20 million or its equivalent per transaction. The period of such LoC / LoU / Guarantee has to be co-terminus with the period of credit, reckoned from the date of shipment. No roll-over/extension will be permitted beyond the permissible period. The precautions & Conditions for issuance of LOC/LOU are:

- The facility may be considered in cases where there is mismatch between cash flows to meet the FLC commitment on the due date.
- At any point of time the liability under FLC, FIBC and LoC/LoU/Guarantee put together shall not exceed the sanctioned FLC limit.
- The stocks procured under FLC/Letter of Comfort are to be deducted to ensure Working Capital limits are fully secured by adequate Drawing Power.
- Multi currency option is not available to the importer.
- In case the import is made on collection basis, branch should ensure strict compliance of KYC/AML regulations.
- Commission to be collected upfront @ 0.50% per quarter or part thereof for the specified period of liability i.e. actual validity period of LOC / LOU / Guarantee.
- Importer is required to pay all-in-cost (with a ceiling over 6 months LIBOR minus 200 basis points) to the Overseas Bank / FI outside India. All-in-cost includes arranger fee, upfront fee and management fee.

**General Guidelines:** LC is to be opened for our own customers known to be participating in the trade. The importer should have Import Export (IE) code number allotted by Director General of Foreign Trade. The importer should have adequate sanctioned limits and/or funds provision for clearance of goods. Exchange control copy of license to be obtained in case of the item of import falls under negative list. If the import is freely permissible obtain a declaration from the importer to that effect. Import LCs is to be advised through our Foreign Correspondents. Date of dispatch of goods should be after the date of opening of the LC. When the LC is opened against third party licence, the applicant should hold a proper letter of authority issued by the import licence holder along with the exchange control copy of the licence. The description of goods, validity for shipment, country of shipment and origin are as per the provisions of Policy/Licence etc. Branch is required to obtain confidential report on the overseas seller at the time of opening of LC in case where the value of LC is \$25000 and above, however, in case of borrowers with credit rating of A+ the limit is above USD 1 lac. Confidential report is a must in case where the importer dealings with the branch are less than 1 year irrespective of the value.

LC should be opened only in favour of overseas supplier/manufacturer or shipper of goods and not in favour of the applicant himself or his nominee. Terms of shipment such as FOB/C&F/CIF etc are to be clearly mentioned. For C&F and FOB, applicant should hold insurance cover note/policy in the joint names of the Bank and the Opener. The policy should cover at least 110% of the CIF value, and is valid for entire shipment period. Usance period should not exceed 180 days. LC should not be opened for import of goods from banned countries. LC should be signed by two officers, where the value of LC is ₹10000 and above, where it is not issued through

SWIFT. LC should invariably contain a clause that the credit is subject to the provisions of UCPDC 600 and URR 725.

LC should stipulate a condition that the shipments should be made only by conference vessels, which are on the approved list of Lloyds or any certificate to show that the vessel is seaworthy & not more than 25 years old. LC should insist for an inspection certificate issued by a well known international Inspection Agencies. Last date of shipment should be within the validity of Licence. Goods are to be consigned only in the name of LC opening bank and never directly to the buyer. Similarly Documents of title to goods should be required to be sent only to the LC opening Bank but not to the importer directly. The origin of the goods is to be specifically mentioned in the application. No onerous clause is incorporated in the LC, which is detrimental to the interest of the Bank. Payment to be claimed only against presentation of full set of documents. Currency in which payment for import is to be made is in accordance with the permitted methods of payment.

**LC – Operational Guidelines:** LC covering letter should be addressed to the bank to whom LC is being forwarded and signed by authorized officer of the branch duly mentioning Full name of the signatory of the letter, His/her Designation, Signature number/Power of Attorney number allotted by the bank, Authorized Email ID of the branch and Clearly mentioning that the any information relating to the said Letter of credit can be obtained by email id as provided in the letter by quoting the LC no and date. On receipt of LC, advising bank to send e-mail through its authorized mail ID seeking confirmation from LC opening bank in having issued the said LC. LC opening bank is required to give confirmation by email on the same email id of the LC advising bank, through its authorized e-mail ID only. The confirmation should normally be under the signature of signatories other than those to LCs. Effort may be made to verify the same through search engines such as google whether the firm exists, if so its addresses and other information positive or negative against the firm. Certain information is available on the internet in public domain such as sales tax defaulter or whether registration with sales tax still valid or not. Information is available state wise and within the state circle wise. The same may be confirmed by LC opening and advising banks.

LC discounting/negotiating bank to send confirmation by an email on the authorized email ID of the LC opening bank informing that the name of the courier, its docket no and list of documents dispatched. It has been ascertained that all the necessary details such as name of the beneficiary, date of last shipment, details of goods to be purchased under LC, name of LC advising bank etc is captured in CBS system while opening LC. Even all amendments such as amendment in last date of shipment, date of expiry and even change in usance and the amount of LC are also captured in CBS. Therefore LC confirmation work can also be **centralized** within the bank. Confirmation needs to be sent though the authorized email of the LC opening bank to the authorized email ID of LC negotiating bank.

Since transmission of LC messages through SFMS was introduced and stabilized, IBA has advised all member banks not to negotiate LCs issued in physical form w.e.f. 1<sup>st</sup> January 2015. While discounting bills drawn against LCs, the banks should ensure that LC is received through SFMS only. It is aimed at establishing a safe and secure environment in banking industry for conducting trade finance business and for sending and receiving messages for LC instruments. This serves as the basic platform for transmitting messages of Inland Letter of Credits by all banks in India.

**Recent guidelines on Trade Credit (Buyers Credit & Suppliers Credit):** As per revised guidelines, RBI has allowed resident importer to raise trade credit in Rupees (INR) within below framework after entering into a loan agreement with the overseas lender:

- Trade credit can be raised for import of all items (except gold) permissible under the extant Foreign Trade Policy.
- Trade credit period for import of non-capital goods can be upto one year from the date of shipment or upto the operating cycle whichever is lower.
- Trade credit period for import of capital goods can be upto five years from the date of shipment.
- No roll-over/extension can be permitted by bank beyond the permissible period.
- Banks can permit trade credit upto USD 20 million equivalent per import transaction.
- Banks are permitted to give guarantee, Letter of Undertaking or Letter of Comfort in respect of trade credit for a **maximum period of three years** from the date of shipment.
- The all-in-cost of such Rupee (INR) denominated trade credit should be commensurate with prevailing market conditions.
- All other guidelines for trade credit will be applicable for such Rupee (INR) denominated trade credits.

**Trade Credit Flow:**

- Importer imports goods in USD / EUR / Or any other freely convertible foreign currency.
- Importer will ask Importers Bank to book conversion rate for making payment on due date of bill and provide equivalent INR details for arranging buyers credit quote.
- Importers arranges quote through buyers credit consultant in INR
- Indian Bank sends lcu in INR to Indian Bank Overseas Branch.
- Indian Bank Overseas Bank transfers INR to Importers Bank.
- Importers Banks receives INR, converts the same in USD / Eur and makes payment to Supplier.
- On due date importer pay Principal + Interest in INR to Importers Banks
- Importers Bank makes payment in INR to Indian Bank Overseas Branch.

## Charges

Banks do business with depositors' funds. The Banks have to honor their commitment to return the deposits whenever demanded by the depositors. The primary source of funds for repayment is the business itself; hence banks take considerable care to evaluate the profitability and sustainability of the business financed by them. Despite all care and due diligence some of the businesses could fail. The cause of failure may be changes in the external environment or mismanagement. Banks have to ensure that even if the business fails, their funds are recoverable by invoking the "**Security**" offered by the borrowers. Security is an asset like land, building and machinery, stocks (raw materials / finished goods), receivables and other securities which are charged to the bank. Charge is the legal right given by the borrower to the bank to take possession of or dispose of the security in the event of default. The types of charges are:

**Pledge** is a charge where the borrower hands over possession of asset to the bank. For example loans against gold jewellery, warehouse receipts, key loan etc. The relationship between borrower and the bank is "Pledger" and "Pledgee". Under this, the ownership of the goods remains with the borrower but the possession of the goods is in the hands of the bank. The bank enjoys Right of Sale in case the loan is not repaid and the bank can sell the pledged goods after giving adequate notice of sale to the borrower. It is the responsibility of the bank to take as much care of the goods pledged as a man of ordinary prudence would under similar circumstances. When the loan is fully paid, it is the responsibility of the bank to handover the possession of the goods back to the borrower.

**Hypothecation** – Normally banks lend funds to the borrowers to acquire raw material / assets to undertake their business activities and these assets continue to be in the possession of the borrower. It is as if the borrower holds the asset on behalf of the Bank. Hypothecation gives the Bank right to take possession and sell the asset, in case of default. However, bank need to initiate action either under SARFEASI or Court/DRT to take possession of the asset.

**Pledge Vs Hypothecation** – Thus, while under pledge the ownership remains with the borrower but the possession passes on to the bank, under hypothecation, both ownership and possession remains with the borrower. While under pledge the bank can sell the asset without going to court, under hypothecation it can be done only through the legal process. Hypothecation creates "floating charge" on assets created out of bank funds. Though hypothecation is the most prevalent form of charge for bank finance, it is inferior to pledge. To protect their assets, banks need to inspect the hypothecated assets periodically.

**Mortgage** – While movable assets can be pledged or hypothecated, immovable assets (land and buildings) can only be mortgaged. It is similar to hypothecation – both ownership and possession remain with the borrower (mortgagor) and the bank (mortgagee) gets the right to take possession and sell the mortgaged property by SARFEASI or legal action. During the subsistence of the mortgage, the borrower can't sell the mortgaged property without the consent of the bank.

**Simple Mortgage:** A simple mortgage does not involve giving the possession of the mortgagor's property to the mortgagee. The mortgagee deposits the title deeds of the asset to the mortgagor and it is also called "Equitable Mortgage". It is under mutual agreement that in case of non-payment by the mortgagee to the mortgagor within the specified time, the mortgagee can cause the mortgaged property to be sold in accordance with law and have the sale proceeds adjusted towards the payment of the mortgage money.

**Mortgage by Conditional Sale:** This type of mortgage entails the apparent sale of property by the mortgagor to the mortgagee on a conditional basis, that on default by mortgagor, the sale shall become absolute and complete. If the mortgagor repays his loan, the sale shall become null and void.

**Usufructuary Mortgage:** It is a mortgage, by an express or implied term gives possession to the lender and gives him rights to accrue the rents or income coming from that property as repayment for interest and mortgage money till the time repayment is complete. There is no time limit for payment of the mortgage money.

**English Mortgage:** The mortgagor transfers the mortgaged property to the mortgagee in entirety. However there is a condition that on complete repayment of the repayment money, he will re-transfer the property back to himself.

**Anomalous Mortgage:** A mortgage that does not fall under the purview of any of the mortgage types is called an anomalous mortgage.

**Conditions attached with mortgage:** While mortgaging property, only legal rights are transferred to the mortgagee but not the possession. An instrument of mortgage deed is mandatory. On sale of a mortgaged property, the mortgage flows along with the property.

**Assignment of Debt –** While tangible assets are pledged or hypothecated or mortgaged, “actionable claims” are charged to a lender by executing a deed of assignment. It covers debts, receivables, subsidy or duty drawback receivable from Government, amount receivable under Insurance Policy etc. The person who assigns the debt is called the assignor and the person in whose favor the debt is assigned is called assignee. It is similar to hypothecation of a movable asset. The ownership and possession, in terms of the right to recover the debt, remain with the borrower. There are two types of assignments viz., Legal assignment and equitable assignment. Legal assignment is done by the assignor executing a deed of assignment. For example, granting loan against LIC policy. Under equitable assignment, the assignor executes an irrevocable power of attorney in favor of the bank to collect payment. Advances against Supply Bills falls under this category.

**Lien –** It means the right to hold another’s property till his debt is repaid. Section 171 of the Indian Contract Act 1872 confers the right of general lien on bankers. In the absence of any specific document or charge, Banks can exercise the right of lien on any asset of the borrower which has come into their possession. Thus, banker’s line is considered as an implied pledge. Bank can recover the dues by selling the asset only after giving the notice to the owner.

**Negative Lien –** It is an undertaking by the borrower not to create any charge on his assets without the consent of the bank. It does not confer any right on the bank.

<b>Banker Customer Relationship</b>		
<b>Service</b>	<b>Relationship</b>	
	<b>Bank</b>	<b>Customer</b>
Deposit	Debtor	Creditor
Loan	Creditor	Debtor
Pledge	Pledgee	Pledgor
Cheque/Bill Collection	Agent	Principal
DD/NEFT/RTGS/ECS	Fiduciary Agent	Principal
Safe Deposit Locker	Lessor	Lessee
Advisory services	Advisor	Recipient



## Joint Lending Agreement

Large banks do have the capability to meet the credit needs of most of their business clients. However, when the amount involved is huge, the bank may ask the borrower to approach other banks for the part of the credit requirements as they may not wish to take up the risk of lending the entire amount. Multiple banks may finance the borrower under two arrangements viz., Consortium arrangement and multiple banking arrangements.

**Consortium of Banks** – Under this the banks come together and collaborate with each other in assessing the credit requirements of the borrower duly sharing the credit facilities as well as sharing securities with “Pari Pasu” charge. Normally, the bank which has larger exposure act as leader who conduct meetings, assess the credit requirements of the borrower and share all the information with member banks from time to time. However, the decisions taken at the consortium meetings are not binding on the individual banks and the management of each bank has to approve in its respective boards.

**Multiple Banking** – Under this, the borrower approaches various banks and avails credit facilities across banks. Each bank undertakes their own assessment of risk, decide the mix of credit facilities and stipulate their own terms and conditions. Each of the banks takes the security and gets the charges registered with the ROC in their favour. Practically there is no co-ordination between the banks and they compete with each other to protect their business and interests. This is giving scope to the borrowers to take undue advantage from the banking system i.e. excess borrowings and interest concessions. In order to ensure financial discipline RBI issued guidelines on sharing of information between banks and making the lead bank responsible for ensuring proper assessment of credit requirements of the borrower so that over financing can be averted.

**Joint Lending Arrangement (JLA)** – Under the existing system of Credit Delivery, credit requirements of large borrowers are being met under Consortium or Multiple Banking arrangement systems. It is observed that high value borrowers have been availing credit limits through Multiple Banking over the years which has led to dilution of asset quality as well as control on the borrowers. In order to address the challenges associated with Multiple Lending, Govt. of India has introduced ground rules governing Joint Lending Arrangements. The scheme shall be applicable to all lending arrangements, with a single borrower with aggregate credit limits (both fund and non-fund based) of ₹150 crore and above involving more than one Public Sector Bank. Further, all borrowers with external rating of below BBB or equivalent, are to be brought under JLA irrespective of the amount of exposure. Borrowers having multiple banking arrangements below ₹150 crore may also be encouraged to come under joint lending arrangement, so that the wholesome view of the assessment of credit requirement as well as the entire operations of the customers can be taken by banks.

**New Borrowers** – Lending under joint arrangement shall be mandatory for Public Sector Banks for borrowers seeking credit limits of ₹150 crore and above by way of term loan, working capital and non-fund based facilities, from multiple banks. The Bank from which the borrower has sought the maximum credit will be the designated Lead Bank for the JLA.

**Existing Borrowers** – In case of borrowers presently enjoying aggregate limits in excess of ₹150 crore under multiple banking arrangement the Bank which has extended the highest credit, or any other Bank as mutually agreed by Member Banks, would become the leader of the JLA and take initiative for holding the meeting of all financing banks. In case of borrowers enjoying aggregate credit limits below ₹150 crore from more than one bank, where further enhancement would take

the aggregate limits to ₹150 crore or more, should be considered jointly by the financing banks concerned and the bank, which takes up the largest share of the limits, shall be deemed to be the leader of the formalized JLA.

For working capital exposure under ₹1000 crore, minimum share of 10% of the aggregated working capital limits is stipulated. For above ₹1000 crore, minimum share of 100 crore is stipulated. In the cases of existing JLA, if a member-bank is unable to take up its enhanced share, such enhanced share in full or in part could be reallocated among the other existing willing members. In case other existing member-banks are also unable to take up such enhanced share of an existing member-bank, a new bank willing to take up the enhanced share may be inducted into the JLA. In case of any contentious issue, the decision will be taken by member banks having more than 50% share in the exposure to the borrower.

An existing member-bank may be permitted to withdraw from the JLA after two years provided other existing member-banks and/or a new bank is willing to take its share by joining the JLA. In case, where the other existing member-banks or a new bank are unwilling to take over the entire outstanding of an existing member desirous of moving out of the JLA after the expiry of above-mentioned period of two years, such bank may be permitted to leave the JLA by selling its debt.

It is necessary that lead bank and member bank(s)/institution(s) ensure that formal joint lending arrangement does not result in delay in credit delivery. The Lead Lender will make all efforts to tie up the Joint Lending Arrangement within 90 days of taking a credit decision regarding the proposal. Lead bank will be responsible for preparation of appraisal note, its circulation, and arrangements for convening meetings, documentation, etc. In case of any contentious issue, the decision will be taken by the member banks having more than 50% share in the exposure to the borrower.

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## Takeover of accounts from other Banks

Corporates seeking better facilities/higher credit from Banks often approach different lenders for sanction of credit facilities. Central Vigilance Commissioner observed that sometimes existing accounts with one bank already showing signs of sickness are taken over by another bank and such accounts predictably turn NPA within a short time. To arrest unethical/unjustified practice of takeover of accounts, Department of Financial Services, Govt. of India has issued the following guidelines to all Banks.

- For taking over of any accounts, Banks must put in place, a Board approved Policy with regard to take over of accounts from another Bank and the same should be incorporated in the credit policy of the Bank.
- Normally, the accounts having ratings above the level approved by the Board should only be taken over and the concessionary facilities should be extended only in extremely deserving cases with specific reasons recorded in writing.
- In all cases of takeover of accounts, it is necessary to do proper due diligence including visit to the premises of the customer, if needed, before the account is considered for takeover by the bank.
- The guidelines of joint lending should be strictly applied in all cases where the borrower seeks to have additional exposure from the bank after taking over the account.
- No cases should be taken over by a Bank from any Bank where any of its ED or CMD had worked earlier. In case, any such cases need to be taken over, the proposal will need to be put up to the Board with specific reasons justifying the need for taking over the accounts.

The operational guidelines with regard to Take over of accounts are as under:

- The account should be a Standard Asset with Positive Net Worth & profit record. P & C Report is mandatory preferably before sanction, if not, at least before disbursement.
- Obtain credit information in prescribed format, which enables the transferee bank to be fully aware of irregularities, if any, existing in the borrower's account with the transferor bank.
- **Account Statement** – The account copies of all the borrowal accounts with the present bankers/financial institution shall be obtained at least for the last 12 months and ensure that the conduct of the a/c is satisfactory and no adverse features are noticed.
- **Existence & Previous profit track record** - i) In existence for a minimum of 3 years with Audited B/S ii) Profit making in preceding 2 years & iii) Availing Credit facilities with the previous Banker at least for 3 years.
- **Enhancement on Existing Limits with the present Banker:** i) Enhancement not beyond 50% ii) No further Enhancement/Additional Limits till one year or next ABS, whichever is earlier.
- **TOL/TNW** should not exceed 4:1 in case of takeover accounts.
- **Group Accounts** – In case of having Sister / Associate concerns, Groups consolidated position has to be examined.

Branches should ensure that Assessment is to be made independently as per our Loan Policy guidelines. Administrative clearance is to be obtained from Zonal Office / Head Office. To take all existing securities and to complete the documentation expeditiously duly complying with our loan policy guidelines on takeover norms, compliance, legal audit, permission for release of limit etc. While other bank is taking over our borrowal account, Branches are advised to inform adverse features if any, in the conduct of the accounts to the transferee bank duly obtaining permission from competent authority for issuing P & C Report.

## **Credit Management/Delinquency Management**

The success of a bank crucially depends how it manages its Asset Portfolio as it is the major source of income to the Bank. Managing credit risk plays an important role and its effectiveness lies in an efficient recovery and exit strategy. Timely follow up is the key to keep the quality of assets intact and enables the banks to recover the interest/installments in time. To have better control on the assets created out of borrowings, banks need to watch the functioning of the units by paying frequent visits and this is to be done to all the units irrespective whether the account is performing or non-performing one. Thus, Banks should focus attention on:

**Awareness Calling** – When the first payment is due, a call is initiated to make him aware of the date of payment of installments/dues. This can be done either by the branch or by call centre.

**Reminder Call** – When the demand is not paid, a reminder call may be made with a request to make payment of the dues and note the response or commitment. Repeat calls are made if the borrower fails to honor his promises.

**Demand Notice** – In case where there is n response to the calls, a written communication is issued to the borrower informing him the status of the account and advising him to pay the dues. Banks can also make use of technology and notice may be sent through SMS or E-mail.

**Field Visits** – It involves paying visits to borrower's office or residence either by bank staff or its agents to appraise the position of the dues and need for repayment. Continuous persuasion definitely yields positive results. These visits also enable the banks to assess the functioning of the activity and quality of the assets. If they found that the financial position of the borrower is deteriorated, bank may strike a compromise deal to recover the dues.

**Disposal of Assets** – In the event of failure of the borrower to repay the dues despite the said initiatives, the bank need to proceed to take possession of the assets including collateral duly invoking SARFEASI or through approaching Court / DRT. Repossession and sale of assets can be done by issuing Recall Notice, Pre-possession intimation, Letter of peaceful surrender of the asset, Record of inventory and notarization, Pre-sale notice to borrower and Auction of the asset.

**Outsourcing of Banking Services** – Of late, banks have been availing the third party services for recovery of dues. RBI has issued code of conduct to ensure that the customers are not harassed, their privacy is protected and the banks code of commitment to customers is not violated. Outsourcing agencies should be appointed only after proper due diligence with approved Board policy. Banks should publish the names of outsourcing agencies and the details are to be kept on Bank's website for the benefit of the customers and general public. The agents appointed by the outsourcing agency are to be provided with authorization letters / identify cards. All agents should undergo a mandatory 100 hours training conducted by the Indian Institute of Banking and Finance (IIBF) and get themselves certified before sending them into field. Customers are to be contacted ordinarily at the place of his choice, whether office or residence at appropriate time. In appropriate occasions such as bereavement in the family or such other calamitous occasions are to be avoided for making calls or visits. Professional and formal language is to be used in all interactions with customers. Each bank should have a mechanism whereby the borrowers' grievances with regard to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency. The Fair Practices Code for Lenders and the Code of Commitment to Customers must be adhered to strictly.

## Non Performing Assets/Prudential Norms

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. High level of Non Performing Assets (NPA) suggests low credit quality and warrants high provisioning, which has direct bearing on profitability and net-worth of banks and value of shareholders. The increased incidence of NPA is one of the major concerns of Indian Banks in the recent years. An asset is classified as NPA, if due in the form of principal and interest are not paid by the borrower for a period of 90 days. If any advance or credit facility granted by banks to a borrower becomes non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status.

Category	Treated as NPA if:
Term Loan	Interest and/or installment of principal remain <b>overdue</b> for a period of more than 90 days
Overdraft/ Cash Credit (OD/CC) accounts	1) The account remains <b>out of order</b> i.e., if the liability exceed limit/DP continuously for 90 days. If liability is within limit/DP, but there are no credits continuously for 90 days or credits are not enough to cover interest debited during the same period. 2) Drawings are allowed on DP calculated on stock statement older than three months continuously for a period of 90 days 3) Regular/adhoc credit limits have not been reviewed/renewed within 180 days from due date/date of adhoc sanction.
Agricultural Loans	A Loan is granted for short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season. "Long duration" crops would be crops with crop season longer than one year and crops which are not "long duration" crops would be treated as "short duration" crops. The crop season for each crop, which means the period up to harvesting of the crops raised would be determined by the SLBC in each state. In respect of agricultural loans which are not linked to harvesting season, term loans given to non agriculturists, identifications of NPAs would be done on the same basis as non-agricultural advances i.e. 90 days delinquency norm.
Bills Purchased / Discounted	Bill remains overdue for a period of more than 90 days.
Other a/cs	Any amount to be received remains overdue > 90 days.

**Potential NPA (PNPA):** are those accounts showing overdues and irregularities persist beyond 30 days. These are also known as Border line Performing Assets.

**Date of NPA:** It is the date on which the overdues or the irregularities cross 90 days or the date on which the account comes under Income Recognition norms.

**Overdue:** Any amount due to the bank under any credit facility is 'overdue' if it not paid on the due date fixed by the bank.

**Net NPA**=Gross NPA – (provisions held towards NPAs + Balances in Interest Sundry Suspense A/c + part payments received in suit filed accounts and kept in Sundry Suspense.+ claims received from ECGC/CGC and kept in Sundry Suspense a/c).

**Income recognition:** The policy of income recognition has to be objective and based on the **record of recovery**. Income from nonperforming assets (NPA) is not

recognized on accrual basis but is booked as income only when it is actually received. However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

**Reversal of Income:** If an account becomes NPA for first time during the year the unrealized interest that was taken to P&L account on accrual basis pertaining to the current year as well as pertaining to the preceding year, if any, shall also be reversed. This will apply to Government guaranteed accounts also.

**Valuation of Security for provisioning purposes:** In cases of NPAs with balance of Rs.5 crore and above stock audit at annual intervals by external agencies and collaterals such as immovable properties charged in favour of the bank should be got valued once in two years by valuers approved by the Board.

**Asset classification:** Banks are required to classify non-performing assets further into the following three categories based on the **period** for which the asset has remained nonperforming and the reliability of the dues:

**Substandard Assets:** A substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. It indicates credit weakness and scope for loss if deficiencies are not corrected.

**Doubtful Assets:** An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

**Loss Assets:** A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. It is considered as uncollectible and it is not warranted to continue as bankable asset since there is little scope for salvage or recovery value.

**Multiple Limits/Branches:** Facilities granted by a bank to a borrower will have to be treated as NPA (except bills discounted under LC) if any one facility of the borrower becomes NPA. Uniform lowest classification shall be accorded to all facilities. In case of credit facilities for a borrower at more than branch, the principal branch shall decide the NPA status.

**Advances under consortium arrangements:** Asset classification of accounts under consortium should be based on the **record of recovery** of the individual member banks.

**Accounts where there is erosion in the value of security:** Where there are potential threats for recovery on account of erosion in the value of security or non-availability of security, asset should be straightaway classified as doubtful or loss asset as appropriate.

**Advances against Term Deposits, NSCs, KVPs, IVPs and LIC policies** need not be treated as NPAs. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

**Loans with moratorium for payment of interest:** In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over.

**Agricultural Advances:** In cases of conversion or reschedulement short term production loan as a relief measure, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA.

**Government guaranteed advances:** Advances under this category, though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. However, interest can be recognized only on recovery basis not on accrual basis. State Government guaranteed advances would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

**Availability of security/Net worth of borrower/Guarantor:** The availability of security or net worth of borrower/ guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise, as income recognition is based on record of recovery.

**Post-shipment Supplier's Credit:** To the extent Export Credit Guaranteed amount is received from the EXIM Bank, the advance may not be treated as a nonperforming asset for asset classification and provisioning purposes.

**Ever greening:** Rescheduling of a loan without assessing the viability of the activity for the purpose of avoiding an account becoming NPA.

<b>Provisioning Norms</b>	
<b>Status</b>	<b>Provision to be made</b>
Standard	0.25% on Direct advances to agriculture and SME sectors. 1.00% on Commercial Real Estate 0.40% on all advances other than stated above
The provisioning norms in respect of <b>new Restructured Standard Accounts</b> are increased from existing 2.75% to 5% in a phased manner i.e. 3.50% by 31 <sup>st</sup> March 2014; 4.25% by 31 <sup>st</sup> March 2015 and 5% by 31 <sup>st</sup> March 2016.	
Sub-Standard	25% on unsecured exposures (20% in case of infra loans) 15% on other loans
Doubtful	Unsecured portion: <b>100%</b> Secured portion: if asset remained in doubtful <= 1 year <b>25%</b> If asset remained in doubtful - 1 to 3 years <b>40%</b> If asset remained in doubtful > 3 year <b>100%</b>
Loss	At 100% on the outstanding

**Fraud Accounts:** In case of fraud accounts, the banks are required to provide entire amount due to the bank, irrespective of the quantum of security held against such assets, or for which the bank is liable (including in case of deposit accounts) for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected. However, where there has been delay, beyond the prescribed period, in reporting the fraud to the Reserve Bank, the entire provisioning is required to be made at once. These guidelines are effective from 1<sup>st</sup> April 2015.

**Unsecured Exposure** is one where realizable value of tangible security, as assessed by the bank/approved valuers/RBI inspecting officers, is not more than 10 percent, *abinitio*, of the outstanding exposure (funded and non-funded). However, the following are the exempted categories from provisioning norms:

- Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies.
- Advances granted under rehabilitation packages approved by **BIFR / Term lending** institutions.
- Advances covered by **CGTSI** guarantee – No provision need be made towards the guaranteed portion. The outstanding in excess of the guaranteed portion should be provided.
- Advances covered by **ECGC /DICGC** guarantee – provision should be made only for the balance in excess of the amount guaranteed by the Corporation.

**NPA Identification:** RBI advised all banks to introduce system driven identification of NPAs on quarterly basis from 30<sup>th</sup> September 2011. Now it is proposed to switchover on monthly basis from 30<sup>th</sup> June 2014.

**Special Mentioned Accounts (SMA):** As per recent guidelines banks are required to submit data on large borrowers having aggregate fund / non fund based exposure of ₹5 crore and above to RBI. Before a loan account turns into NPA, banks are required to identify the incipient stress in an account based on the operations in the account under a new sub asset category called Special Mentioned Account (SMA) and which are further categorized into three categories viz., SMA-0, SMA-1 and SMA-2 and the details are as under:

No	Category	Criteria
1	SMA-0	Principal or Interest payment not overdue for more than 30 days but account showing signs of incipient stress like non submission of mandatory information, frequent cheque returns, reduction of drawing power, non repayment of devolved DPGs / BGs / LCs, Sale of promoter's stake (shares) etc.
2	SMA-1	Principal or Interest payment overdue between 31 to 60 days.
3	SMA-2	Principal or Interest payment overdue between 61 to 90 days.

#### **Asset Quality – RBI Initiatives:**

Deteriorating asset quality in the banking system has prompted RBI to initiate the various proactive steps to prevent slippages. Now, banks are required to carry out independent and objective credit appraisal instead depending on credit appraisal reports prepared by outside consultants. Further, it is the responsibility of the banks to ascertain the source and quality of equity capital brought in by the promoters and ensures that debt of the parent company is not infused as equity. If any of the director's names appears in the list of defaulters / willful defaulters, they are to be classified as "Non-co-operative borrowers".

RBI has set up a Central Repository of Information on Large Credits (CRILC) in January 2014 and issued guidelines to all lending institutions (Banks and non-banking companies) for management of stressed assets. As per the guidelines, the lenders are directed to share information with CRILC on quarterly basis regarding borrowers having aggregate exposure (fund ad non-fund) of ₹5 crore and above, including information regarding written-off accounts, balance of current account and information regarding non-coperative borrowers.

Banks will also have to furnish details of all Current accounts of their customers with outstanding balances, both debit and credit, of ₹1 crore and above. Banks will be required to submit SMA status of the borrowers to CRILC. If an account is slipped in to SMA-2 at any time or SMA-1 for any two quarters or SMA-0 for three quarters in a year, then the bank would be required to initiate corrective action.

**Restructured loans:** Hitherto regulatory forbearance enjoyed by the banks i.e. treating the restructured loan accounts as standard assets and attracts lower provisioning of 15%, is since withdrawn w.e.f. 01.04.2015. With this, here after, all restructured accounts will be treated as sub-standard assets and attracts higher provisioning norms.

**Accelerated Provisioning:** As per RBI guidelines, the SMA accounts attract higher provisioning norms where banks fail to report SMA status of the accounts to CRILC or resort to methods with the intent to conceal the actual status of the accounts or evergreen the account. The revised provisioning norms for sub-standard assets – secured and unsecured loans which are in the range of 6 months to 1 year are 25%



and 40% respectively. With regard to doubtful-1 & II (secured) loans, the provisioning is 40% & 100% respectively. However, it is 100% for unsecured portion of doubtful loans.

**Wealth Tax Returns of chronic defaulters** – Governments of India, Ministry of Finance has informed that Banks may obtain the information about the assets of the loan defaulters from Income Tax Department to enable the banks to proceed against the defaulter's assets for recovery of dues from chronic defaulters.

**Sale of Assets to Asset Reconstruction Companies (ARC):** ARCs were set up with an objective to buy stressed assets from banks and dispose the assets without the intervention of courts under SARFAESI act. The sale of NPAs to ARCs has gained momentum in the recent years in the light of increased pressure on banks to reduce NPA portfolio and also introduction of stringent norms on restructuring of stressed assets. Normally, banks are selling NPAs to ARCs at 60 to 70 percent of the loan value. However, banks receive around 5% of the value as upfront and the remaining amount through Security Receipt (SR). This form of sale may not improve bank cash flows but only enable them to show improved asset quality in the bank books. Further, banks may eventually end up bearing losses from default as well in the case of the loans not being recovered by ARCs. In view of the above, RBI mandated ARCs to pay minimum cash payment of 15% for every asset sale to ensure better cash flows to banks.

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## Restructure of Advances

Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of installments / rate of interest (due to reasons other than competitive reasons). It is applicable to all type of credit facilities including working capital limits extended to Industrial Units, provided they are **fully covered by Tangible Securities**. No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. The viability should be determined by the banks based on Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds etc., on case-by-case depending merits of the account. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects/activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns/action. The accounts not considered viable should not be restructured and banks should accelerate the recovery measures in respect of such accounts.

Restructuring of advances could take place either before commencement of commercial production/operation; or after commencement of commercial production / operation but before the asset has been classified as **Sub-standard or Doubtful**. Accounts that are restructured for the second time or more on account of natural calamities would retain in the same asset classification category on restructuring. Hence, these restructured accounts would not be treated as second restructuring.

**Corporate Debt Restructuring (CDR):** The objective of the CDR framework is to preserve viable units that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme, outside the purview of BIFR/DRT and other legal proceedings, for the benefit of all concerned. The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts/syndication/consortium accounts of corporate borrowers with outstanding fund-based and non-fund based exposure of **₹10 crore and above** by banks/financial institutions. However, there is no requirement of the account/company being sick, NPA or being in default for a specific period before reference to the CDR system. CDR is a non-statutory mechanism which is a voluntary system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). Three-tier structure is in place for CDR system.

**CDR Standing Forum** provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

**CDR Cell** undertakes the initial scrutiny of the proposals received from borrowers / creditors to decide whether rehabilitation is prima facie feasible. If found feasible, proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.

**CDR Empowered Group** considers the preliminary report of all cases of requests of restructuring, submitted by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package will be worked out by the CDR Cell in conjunction with the Lead Institution.

**CDR-1** system is applicable only to accounts classified as 'standard' and 'sub-standard'. **CDR-2** system is applicable to the accounts where the projects have been found to be viable but classified under 'doubtful' category provided minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring.

Reference to Corporate Debt Restructuring System could be triggered by any one or more of the creditors who have minimum 20% share in either working capital or term finance, or by the concerned corporate, if supported by a bank or financial institution. Under CDR, banks extend the repayment period or moratorium on repayment or reduction of interest rate on loans or combination of any of the above.

The promoters' are required to bring minimum of 20% of banks' sacrifice or 2% of restructured debt, whichever is higher. The promoters' sacrifice should invariably bring upfront while extending the restructuring benefits to the borrowers. It is mandatory to obtain promoters' personal guarantee while extending restructuring benefits to the borrowers.

Existing guidelines allow regulatory forbearance on asset classification of restructured accounts subject to certain conditions i.e. standard accounts are allowed to retain their asset classification and NPA accounts are allowed not to deteriorate further in asset classification on restructuring. The asset classification benefit is also available on change of date of commencement of operation for projects under infrastructure sector as well for projects under non-infrastructure sector. The accounts classified as NPA on restructuring should be upgraded only when all the outstanding loans/facilities in the account perform satisfactorily during the specified period i.e. one year.

**Strategic Debt Restructuring Scheme (SDR):** *"The general principle of restructuring should be that the shareholders bear the first loss rather than the debt holder".* Of late, it is observed that in many restructured accounts, borrower companies are not able to come out of stress due to operational / managerial inefficiencies despite substantial sacrifices made by the lending banks. In such cases, change of ownership will be a preferred option. With this principle in view and also to ensure more stake of promoters, JLF/ CDR cell shall consider the following options when a loan is restructured:

- Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
- Promoters infusing more equity into their companies;
- Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of company.

With a view to ensuring more stakes of promoters in reviving stressed accounts, banks may, at their discretion, undertake a Strategic Debt Restructuring (SDR) by converting loan dues to equity shares, which will have the following features:

- Option to convert the entire loan including unpaid interest, or part thereof, into shares in the company in the event the borrower is not able to achieve the viability milestones and/or adhere to 'critical conditions' as stipulated in the restructuring package.
- Conversion of outstanding debt (principal as well as unpaid interest) into equity instruments should be at a 'Fair Value' which will not exceed the lowest of the Market value (Average of the closing prices of the instrument on a recognized stock exchange during the ten trading days preceding the

reference date) or Break-up value i.e. Book value per share based on the latest audited balance sheet without considering 'revaluation reserves', if any.

- The decision on invoking the SDR by converting the whole or part of the loan into equity shares should be taken by the JLF as early as possible but within 30 days from the review of the account. Such decision should be well documented and approved by the majority of the JLF members (minimum of 75% of creditors by value and 60% of creditors by number);
- Post conversion, all lenders under the JLF must collectively hold 51% or more of the equity shares issued by the company. The conversion of debt into equity as approved under the SDR should be completed within a period of 90 days from the date of approval of the SDR package by the JLF.

**Stressed Assets – 5:25 Scheme:** Today, the total outstanding exposure of the Indian Banking industry to the major five sectors viz., Infrastructure, Iron & Steel, Textiles, Aviation and Mining stood at whopping 8.8 trillion contribute 24% of total advances and account for around 53% of total stressed assets which is a cause of serious concern to the Banks as well as to the economy. In a major boost for the above sectors and Banks financing long gestation projects, the RBI has recently extended its flexible refinancing and repayment option for to existing infra projects where the total exposure is more than `500 crore. The option will also be available for projects that have already been classified as bad debt or stressed, but it will treated as "restructuring" and the project will continue to be termed non-performing till the project gets upgraded after satisfactory performance on servicing the loans.

The RBI had introduced this flexible financing scheme in July 2015 popularly known as the 5:25 scheme. It allows banks to extend long-term loans of 20-25 years to match the cash flow of projects, while refinancing them every five or seven years. Existing projects were not initially covered under the scheme. Until now, banks were typically not lending beyond 10-12 years. As a result, cash flows of infrastructure firms were stretched as they tried to meet shorter repayment schedules. Banks can now fix fresh loan amortization schedules for existing projects without such exercise being treated as restructuring. This is important for banks since any freshly restructured asset will be considered as bad debt and they will have to set aside a minimum of 15% provision against such loans. It will save banks additional provisioning. With this change in rule, cash flows will match the repayment schedule and long-term infrastructure projects will become viable.

Further, now RBI has also allowed the Banks to raise Long Term Infrastructure Bonds to avert asset-liability mismatches and these funds are exempted from regulatory requirements such as the CRR/SLR. It is a great opportunity for companies for revival and survival. There will be phenomenal cash flow savings, at a time when cash flows of many infra companies are stressed. It is a big relief for infrastructure companies and these initiatives definitely elevated the sagging industry.

**Take-out Finance** – The scheme has been designed to enable lenders to address the concern of the hitting the sectoral limit, asset-liability mismatch and liquidity issues that may arise by the long-term debt financing to core projects. Under the scheme, banks and lenders can enter in an arrangement with financial institutions for transferring the loan outstanding in their books to those of the financial institution which is taking out long-term debt. The tenor of the take-out finance is up to 15 years. The sectors eligible for Take-out finance are Road and bridges, Railways, Seaports, Airports, Inland waterways and other transportation projects; Power, Urban transport, water supply, sewage, solid waste management and other physical infrastructure in urban areas; Gas pipelines Infrastructure projects in SEZs, International convention centers and other tourism infrastructure projects. It is one of the emerging product in the context of funding of long-term infrastructure projects. The norms of asset will have to be followed

by the concerned banks in whose books the account stands as balance sheet item as on the relevant date. The lending institution should also make provisions against any asset turning into NPA pending its takeover by the taking over institution. As and when the asset is taken over by the taking over institution, the corresponding provision could be reversed. At present IIFCL is providing a Take-out finance window to the banks in India.

**Scheme for Sustainable Structuring of Stressed Assets (S4A):** Of late, banks have been saddling with huge NPAs especially from large corporate involving a substantial write-down of debt and/or making large provisions besides loss of interest income. This has direct impact on the bottom-line of the Banks. In order to strengthen the lenders' ability to deal with burgeoning Non Performing Assets, RBI has been issuing guidelines from time to time and the latest scheme introduced is "*Scheme for Sustainable Structuring of Stressed Assets (S4A)*". The objective of the scheme is to offer an avenue for reworking the financial structure of entities facing genuine difficulties and requiring coordinated deep financial restructuring. The scheme provides flexibility in restructuring, which may involve material write-down of debt and/or making large provisions under a credible framework. For being eligible under the scheme, the project should have commenced commercial operations and the aggregate exposure (including accrued interest) of all institutional lenders in the account is more than **₹500 crore** and the debt meets the test of sustainability. The sustainability of the debt is to be arrived through an independent Techno Economic Viability (TEV) study. For this scheme to apply, sustainable debt should not be less than 50 percent of current funded liabilities.

The existing debt of the corporate should be classified into two parts Core and non-core. Core debt is one that can be serviced within the respective residual maturities of existing debt, from all sources, based on the cash flows available from the current and immediate period of 6 months of operations. The Non Core Debt is the difference between the aggregate current outstanding debt and Core Debt as stated above.

The resolution plan may be implemented either through the existing promoter or replaced with a new promoter through conversion of a part of the debt into equity under SDR mechanism which is thereafter sold to a new promoter or as per Prudential Norms on Change in Ownership of Borrowing Entities. There shall be no fresh moratorium granted on interest or principal repayment for servicing of Core Debt and Non Core Debt shall be converted into equity/redeemable cumulatively convertible preference shares. Wherever a new promoter comes in, the asset classification and provisioning requirement will be as per the 'SDR' scheme or 'outside SDR' scheme as applicable.

Unlike in 5:25, where banks could not take a haircut after structuring, S4A permits banks to do so by converting the unviable portion of debt to equity. Similarly, unlike in SDR, after conversion to equity, banks do not have to find a new buyer in any defined period of time. This provides a longer timeframe for turnaround and provides the bank an opportunity to benefit from an increase in equity valuation. It incentivizes existing promoters to opt for this scheme as they can continue to hold majority stake and banks have the option of holding optionally convertible debentures instead of equity, which might be more preferred. However, it can be applied to only operational projects and not to projects under construction. Further, it does not allow any rescheduling of original tenure of repayment or re-pricing of debt. Sustainable debt is another limitation as it cannot factor in incremental cash flows that could accrue as the external environment improves and it is more so with highly leveraged companies in the vulnerable sectors such as infrastructure and iron & steel. Despite the limitations, if implemented successfully, it strengthens the ability of lenders to deal with stressed assets, which have potential to be revived by providing an avenue for reworking the financial structure of entities facing genuine difficulties. Hope S4A scheme provides a lifeline to stressed corporates, while for banks it would curb additions to NPAs in the near future.

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## Risk Management

The growing sophistication in banking operations, online electronic banking, improvements in information technology etc, have led to increased diversity and complexity of risks being encountered by banks. These risks can be broadly grouped into **Credit Risk**, **Market Risk** and **Operational Risk**. These risks are interdependent and events that affect one area of risk can have ramifications for a range of other risk categories.

**Basel-I Accord:** It was introduced in the year 2002-03, which covered capital requirements for Credit Risk. The Accord prescribed CRAR of 8%, however, RBI stipulated 9% CRAR. Subsequently, Banks were advised to maintain capital charge for Market Risk also.

**Basel-II New Capital Accord:** Under this, banks have to maintain capital for Credit Risk, Market Risk and Operational Risk w.e.f 31.03.2007. The New Capital Accord rests on three pillars viz., Minimum Capital Requirements, Supervisory Review Process & Market Discipline. The implementation of the capital charge for various risk categories are Credit Risk, Market Risk and Operational Risk. Analysis of the bank's CRAR under should be reported to the Board at quarterly intervals.

**Internal Ratings Based (IRB) Approach:** Under this approach, banks must categorise the exposures into broad classes of assets as Corporate, Sovereign, Bank, Retail and Equity. The risk components include the measures of the Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Effective Maturity (M). There are two variants i.e Foundation IRB (FIRB) and Advanced IRB. Under FIRB, banks have to provide their own estimates of PD and to rely on supervisory estimates for other risk components (like LGD, EAD) while under Advanced IRB; banks have to provide their own estimates of all the risk components. It is based on the measures of Expected Losses (EL) and Unexpected Losses (UL). Expected Losses are to be taken care of by way of pricing and provisioning while the risk weight function produces the capital requirements for Unexpected Losses.

**Market Risk:** It is a risk pertaining to the interest rate related instruments and equities in the Trading Book i.e AFS (Available For Sale) and HFT (Held for Trading) positions and Foreign Exchange Risk throughout the bank (both banking & trading books). There are two approaches for measuring market risk viz., Standardized Duration Approach & Internal Models Approach.

**Operational Risk:** Banks have to maintain capital charge for operational risk under the new framework and the approaches suggested for calculation of the same are – Basic Indicator Approach and The Standardized Approach. Under the first approach, banks must hold capital equal to 15% of the previous three years average positive gross annual income as a point of entry for capital calculation. The second approach suggests dividing the bank's business into eight lines and separate weights are assigned to each segment. The total capital charge is calculated as the three year average of the simple summation of the regulatory capital charges across each of the business lines in each year.

**Advanced Measurement Approach (AMA):** Under this, the regulatory capital requirement will equal the risk measure generated by the bank's internal operational risk measurement system using certain quantitative and qualitative criteria. Tracking of internal loss event data is essential for adopting this approach. When a bank first moves to AMA, a three-year historical loss data window is acceptable.

**Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP):** Under this, the regulator is cast with the responsibility of ensuring that banks maintain sufficient capital to meet all the risks and operate above the minimum regulatory capital

ratios. RBI also has to ensure that the banks maintain adequate capital to withstand the risks such as Interest Rate Risk in Banking Book, Business Cycles Risk, and Credit Concentration Risk etc. For Interest Rate Risk in Banking Book, the regulator may ensure that the banks are holding sufficient capital to withstand a standardized Interest Rate shock of 2%. Banks whose capital funds would decline by 20% when the shock is applied are treated as 'Outlier Banks'. The assessment is reviewed at quarterly intervals.

**Pillar 3 – Disclosure Requirements:** It is aimed to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess the key pieces of information on the capital, risk exposures, risk assessment processes and hence the capital adequacy of the institution. Banks may make their annual disclosures both in their Annual Reports as well as their respective websites. Banks with capital funds of ₹500 crore or more, and their significant bank subsidiaries, must disclose their Tier-I Capital, Total Capital, total required capital and Tier-I ratio and total capital adequacy ratio, on a quarterly basis on their respective websites. The disclosures are broadly classified into Quantitative and Qualitative disclosures and classified into the following areas:

<b>Area</b>	<b>Coverage</b>
Capital	Capital structure & Capital adequacy
Risk Exposures & Assessments	Qualitative disclosures for Credit, Market, Operational, Banking Book interest rate risk, equity risk etc.
Credit Risk	General disclosures for all banks. Disclosures for Standardised & IRB approaches.
Credit Risk Mitigation	Disclosures for Standardised and IRB approaches.
Securitisation	Disclosures for Standardised and IRB approaches.
Market Risk	Disclosures for the Standardised & Internal Models Approaches.
Operational Risk	The approach followed for capital assessment.
Equities	Disclosures for banking book positions
Interest Rate Risk in the Banking Book (IRRBB)	Nature of IRRBB with key assumptions. The increase / decrease in earnings / economic value for upward / downward rate shocks.

The Basel-II norms are much better than Basel-I since it covers operational risk. However, risks such as Reputation Risk, Systemic Risk and Strategic Risk (the risk of losses or reduced earnings due to failures in implementing strategy) are not covered and exposing the banks to financial shocks. As per Basel all corporate loans attracts 8 percent capital allocation where as it is in the range of 1 to 30 percent in case of individuals depending on the estimated risk. Further, group loans attract very low internal capital charge and the bank has a strong incentive to undertake regulatory **capital arbitrage** to structure the risk position to lower regulatory risk category. Regulatory capital arbitrage acts as a safety valve for attenuating the adverse effects of those regulatory capital requirements that activity's underlying economic risk. Absence of such arbitrage, a regulatory capital requirement that is inappropriately high for the economic risk of a particular activity could cause a bank to exit that relatively low-risk business by preventing the bank from earning an acceptable rate of return on its capital.

Nominally high regulatory capital ratios can be used to mask the true level of insolvency probability. For example – Bank maintains 12% capital as per the norms risk analysis calls for 15% capital. In a regulatory sense the bank is well capitalized but it is to be treated as undercapitalized from risk perspective.

**Basel-III** is a comprehensive set of reform measures developed to strengthen the regulation, supervision and risk management of the banking sector. The new standards will considerably strengthen the reserve requirements, both by increasing the reserve ratios and by tightening the definition of what constitutes capital. The new norms will be made effective in a phased manner from 1<sup>st</sup> July 2013 and implemented fully by 31<sup>st</sup> March 2019 and banks should maintain minimum 5.5% in common equity (as against 3.6% now) by 31<sup>st</sup> March 2015 and create a Capital Conservation Buffer (CCB) of 2.5% by 31<sup>st</sup> March 2019. Further, banks should maintain a minimum overall capital adequacy of **11.5%** by 31<sup>st</sup> March 2019 and supplement risk based capital ratios by maintaining a leverage ratio of 4.5%. These measures will ensure well capitalization of banks to manage all kinds of risks besides to bring in more clarity by clearly defining different kinds of capital.

**Counter Cyclical Capital Buffer (CCCB):** The objective of CCCB is twofold viz., it requires banks to build up a buffer of capital in good times which may be used to maintain flow of credit to the real sector in difficult times and also to achieve the broader macro-prudential goal of restricting the banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk. The CCCB may be maintained in the form of Common Equity Tier-1 capital or other fully loss absorbing capital only and the amount of the CCCB may vary from 0 to 2.5% of total risk weighted assets of the banks. RBI intends banks to have a sustainable funding structure. This would reduce the possibility of banks' liquidity position eroding due to disruptions in their regular sources of funding thus increasing the risk of failure leading to broader systemic stress. The Basel committee on banking supervision framed two ratios viz., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as part of global regulatory standards on liquidity to be implemented from 1<sup>st</sup> January 2018.

**i) Liquidity Coverage Ratio:** In order to promote short-term resilience of the liquidity risk profile of banks, RBI has introduced Liquidity Coverage Ratio (LCR) in a phased manner, starting with a minimum requirement of 60% from 1<sup>st</sup> January 2015, and reaching a maximum of 100% by 1<sup>st</sup> January 2019. The LCR will ensure that banks have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario.

**ii) NSFR:** The ratio seeks to ensure that banks maintain stable source of funding with respect to the profile of their assets (loans and investments) and off-balance sheet activities such as extending asset management and brokerage services to the clients. The NSFR should be 100% on an ongoing basis. It limits over reliance on short-term wholesale funding, encourages better assessment of funding risks across all assets and off-balance sheet items and promotes funding stability.

**Tier – I & II capital** consists of Paid up Equity Capital + Free Reserves + Balance in Share Premium Account + Capital Reserves (surplus) arising out of sale proceeds of assets but not created by revaluation of assets **MINUS** Accumulated loss + Book value of Intangible Assets + Equity Investment in Subsidiaries+ Innovative Perpetual Debt instruments.

**Tier – II** consists of Cumulative perpetual preferential shares & other Hybrid debt capital instruments + Revaluation reserves + General Provisions + Loss Reserves (up to maximum 1.25% of weighted risk assets) + Undisclosed Reserves + Subordinated Debt + Upper Tier-II instruments. Subordinated Debts are unsecured and subordinated to the claims of all the creditors. To be eligible for Tier-II capital the instruments should be fully paid, free from restrictive clauses and should not be redeemable at the instance of holder or without the consent of the Bank supervisory authorities. Subordinated debt usually carries a fixed maturity and they will have to be limited to 50% of Tier-I capital.



**Economic Capital (EC)** is a measure of risk expressed in terms of capital. A bank may, for instance, wonder what level of capital is needed in order to remain solvent at a certain level of confidence and time horizon. In other words, EC may be considered as the amount of risk capital from the banks' perspective; therefore, it differs from Regulatory Capital (RC) requirement measures. It primarily aims to support business decisions, while RC aims to set minimum capital requirements against all risks in a bank under a range of regulatory rules and guidance. So far, EC is rather a bank-specific or internal measure of available capital and there is no common domestic or global definition of EC. The estimates of EC can be covered by elements of Tier-1, 2 & 3, or definitions used by rating agencies and/or other types of capital, such as planned earning, unrealized profit or implicit government guarantee. EC is highly relevant because it can provide key answers to specific business decisions or for evaluating the different business units of a bank.

**Dynamic Provisioning:** At present, banks generally make two types of provisions viz., general provisions on standard assets and specific provisions on non-performing assets (NPAs). The present provisioning framework does not have countercyclical or cycle smoothening elements. Though the RBI has been following a policy of countercyclical variation of standard asset provisioning rates, the methodology has been largely based on current available data and judgment, rather than on an analysis of credit cycles and loss history. Since the level of NPAs varies through the economic cycle, the resultant level of specific provisions also behaves cyclically. Consequently, lower provisioning during upturns, and higher provisioning during downturns have pro-cyclical effect on the real economy. However, few banks have started making floating provisions without any predetermined rules; many banks are away from the concept which has become difficult for inter-bank comparison. In the above backdrop, RBI propose to introduce dynamic provisioning framework for banks in India to address pro-cyclicality of capital and provisioning, after the financial crisis, efforts at international level are being made to introduce countercyclical capital and provisioning buffers.

Recently, RBI has allowed banks to recognize some of their assets like real estate, foreign currency and deferred tax, reducing the extra capital needs of state-owned banks by 15 per cent. The move is aimed to align the regulatory capital of banks with the Basel-III standards.

Banks in India need substantial capital funds in the ensuing years mainly to fund the credit growth which is likely to grow at around 15% to 20% p.a. and banks are required to set aside a portion of capital for the said purpose. Banks also need additional capital to write off bad loans as well as to meet the operational risks on account of weaker implementation of systems and procedures. More importantly, the implementation of Basel-III norms warrants pumping of substantial capital funds. Raising these funds, though, will require several steps, apart from legislative changes as Public Sector Banks can not dilute its equity below 51%. Attracting private capital will need atleast some governance and structural reforms. It is also proposed to create an independent bank holding company to invite private capital without diluting the equity to address the issue.

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**Risk Weighted Assets  
(Standardized approach under Basel-II)**

No	Category	Risk Weight
1	Credit exposure to Central / State Government	0%
2	Claims on RBI/DICGC/CGTSI	0%
3	State Govt. guaranteed claims / ECGC	20%
4	Corporates based on External Rating	
	<b>a) Long Term</b>	
	i) AAA rated	20%
	ii) AA rated	30%
	iii) A rated	50%
	iv) BBB rated	100%
	v) BB & below rated	150%
	vi) Unrated	100%
	<b>b) Short Term</b>	
	i) A1+	20%
	ii) A1	30%
	iii) A2	50%
	iv) A3	100%
	v) A4 & below	150%
	vi) Unrated	100%
5	Retail Portfolio	75%
6	Claims secured by Residential Property	
	i) Where loan amount is up to ₹30 lakh and	
	a) LTV Ratio < 80	35%
	b) LTV Ratio >80 & < 90	50%
	ii) Where loan amount > ₹30 lakh & up to ₹75 lakh and	
	a) LTV Ratio < 75	35%
	b) LTV Ratio >75 & < 80	50%
	iii) Where loan amount > ₹75 lakh & LTV Ratio < 75	75%
7	Commercial Real Estate	100%
8	Consumer Credit (Clean/Personal/Credit cards)	125%
9	Venture Capital	150%
10	Capital Market Exposure	125%
11	Loans and advances to staff – fully secured	20%
12	Non Performing Assets based on % of provisions	
	<b>a) Unsecured</b>	
	i) Below 20%	150%
	ii) 20% to < 50%	100%
	iii) 50% & above	50%
	<b>b) Secured by Residential Property</b>	100%
	i) Provision is 20% to < 50%	75%
	ii) Provision 50% & above	50%
RBI circular - DBOD.BP.BC.No.44/08.12.015/2015-16 dated 08.10.2015		

**Credit Information Bureau India Limited (CIBIL):** It is a repository of information, which contains credit history of commercial/consumer borrowers. The members of CIBIL are banks, NBFCs and Housing Finance Companies who provide borrower data to CIBIL. It collects and maintains records of an individual's payments pertaining to borrowal accounts including credit cards from the member institutions on a monthly basis. It provides the list of loans availed by the persons/entities with various Banks and Financial institutions along with payment history as well as overdues, if any. The CIBIL website also provides CIR along with CIBIL Trans Union Score2 (TU2) which is arrived on the basis of credit history of the borrower in a nutshell and is useful in taking informed credit decision. The possible score ranges 300 to 900. The minimum acceptable score is fixed as 600 and proposals with TU score in the range of 550 to 599 are to be referred to next higher authority for sanction. Proposals with TU score less than 550 should not be entertained. The payment history has a significant impact on the score as higher the score lower the risk. High utilization of credit limits also play a vital role in arriving credit score of an individual. "Credit Hungry behavior" – many applications for loans, indicates that the debt burden is likely to, or has increased and one is less capable of honoring any additional debt and is likely to negatively impact the score. Obtaining CIR from CIBIL is mandatory before sanctioning of any loan or advance. It is a powerful tool to protect the interest of the Banks. The name of CIBIL is changed to *TransUnion CIBIL Limited* with effective from 29.09.2016.

**Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI):** It is a government company licensed under section 25 of the Companies Act 1956 and the guidelines are notified on 30.03.2011. The objective of the company is to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property. The Central Registry is also an important for the development of the home loan market as lenders can now be sure that the property offered as a security has a clear title. The recent amendment to SARFAESI (CERSAI) Amendment Rules 2016 has enhanced the scope of registration of charges with CERSAI. By virtue of the said amendment in addition to registration/filing of particulars of creation, modification or satisfaction of Security Interest created by deposit of Title Deeds, the following charges should also be registered with CERSAI.

- Immovable property by mortgage other than the mortgage by deposit of title deeds;
- Hypothecation of plant and machinery, stocks, book debt or receivables, whether existing or future;
- Intangible assets, being know-how, patent, copyright, trade mark, licence, franchise or any other business or commercial right or similar nature; And
- Any Under-construction residential or commercial building or a part thereof by an agreement or instrument other than by mortgage.

Unlike *TransUnion CIBIL Limited*, where borrower information is accessible only by lenders, the records maintained by the Central Registry will be available for search by any lender or any other person. The lending institutions are required to make a payment of ₹250/- & ₹500/- for creation and modification of security interest to CERSAI for the loans up to ₹5 lakh & above ₹5 lakh respectively. Under this, the lenders should file details of the charge over any property with CERSAI within **30 days** from the date of creation. However, the delay in filling of records in the CERSAI portal attracts the additional fee as under:

<b>Delay</b>	<b>Additional fee</b>	<b>Remarks</b>
31 days to 40 days	Twice the amount of applicable fee	If the application fee is ₹100/-, additional fee will be ₹200/-
41 days to 50 days	Five times the amount of applicable fee	If the application fee is ₹100/-, additional fee will be ₹500/-
51 days to 60 days	Ten times the amount of applicable fee	If the application fee is ₹100/-, additional fee will be ₹1000/-

In respect of records, which are pending registration for a period of more than 60 days with CERSAI, permission/approval has to be sought by the branches for condonation of delay from Govt. of India. Non filling of the particulars of the transactions with CERSAI within the prescribed period would attract penalties amounting to ₹5000/- per day for the entire period of delay.

**Central KYC Registry (CKYC-R):** Government of India authorized CERSAI to act as and perform the functions of CKYC records registry which includes receiving, storing, safeguarding and retrieving the KYC records for all the individual accounts in digital form. As per the guidelines all reporting entities of Scheduled Commercial Banks shall furnish the details such as application (for the purpose of signature), Photograph of the applicant and KYC documents (POI/POA) in electronic format to CERSAI within 3 days from date of opening of the account. All bank branches are required to upload the KYC data pertain to all new individual accounts opened on or after 1<sup>st</sup> January 2017 with CKYC-R.

**Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act – 2002 (SARFAESI)** enables the banks to seize and sell the properties secured to the bank without the intervention of courts resulting in realization of the amount due in NPA accounts and reduction of NPAs. As per the act, officers with a rank of Chief Manager and above are empowered to act as Authorized Officer to initiate proceedings which includes issue of notices, taking possession of the property and sale of property except the following:

- Where the outstanding liability in the account does not exceed ₹1 lakh
- Any security interest created in agriculture land
- Pledge of movables / Lien on any goods
- Amount due is less than 20% of the principal amount and interest
- Creation of Security Interest in any Air Craft / Vessel
- Any conditional sale, hire purchase or lease or any other contract in which no security interest is created
- Any right of unpaid seller / Any properties not liable for attachment /sale under section 60 Civil Procedure Code.

It should be the endeavor of the lending institution to complete the entire process within a maximum period of 6 months duly adhering the under mentioned timelines:

Demand notice should be issued within **7 days** of an account being classified as NPA. The notice should be issued to all the borrowers. The time prescribed for considering the representation / objections by the borrower on receipt of the notice is fixed as 15 days. If the borrower avoids notice, the same may be served by publishing in two leading Newspapers (English and Vernacular language). In case of non-response to the notice, possession notice should be issued and published in two news papers within **60 days** of receipt of acknowledgement of demand notice. In case of resistance from the borrower to hand over the possession of assets, such resistance should be recorded in the presence of two witnesses and application should be made under Sec.14 of the act to Chief Metropolitan Magistrate/Dist. Magistrate seeking their assistance for taking possession of secured assets. The Possession of moveable property may be taken by taking inventory in the presence of two witnesses. Authorized Officer shall keep the property either in his own custody or in the custody of any person authorized or appointed by him who shall take as much care of the property in his custody as an owner of the property.

Sale notice should be issued within **30 days** of taking possession/issuance of the possession notice. Authorized Officer may sell the secured assets of which the possession is taken by obtaining quotations from the parties; by inviting tenders from the public; by holding public auction; by private sale. If the property is subject

to speedy decay, the Authorized Officer may sell it immediately. Auction notice is to be kept on the bank's website. If sale is by inviting tenders from the public or public auction the same has to be published in two news papers viz., English and another in Vernacular language. Sale can be affected only after issuing 30 days notice to the borrower / mortgagor. The authorized Officer cannot sell the property less than the reserve price. Insurance of secured assets and their valuations are to be done before sale of seizure of secured assets. Security agents can be engaged while seizing the secured assets.

If the entire liability of the bank is not cleared after affecting the measures under the Act, the bank is to file a suit or application before the court or DRT for recovery of the balance amount of loan. In the accounts where the borrower failed to honour his commitment under the compromise/OTS, then compromise/OTS permitted should be withdrawn before initiating action under the Ordinance.

**Recent Developments:** The Enforcement of Security Interest and Recovery of Debt Laws (Amendment) Bill, 2013 allows the banks to acquire immovable properties from the borrower so that they can sell the assets at a later date. Sometimes there are no buyers for a property or there is a cartelization from bidders, who deliberately quote lower price thus undervaluing it. The amendment will ensure that banks do not get into the situation of distress sale and get the right pricing for the assets on sale. The amendment states that banks will be heard in Debt Recovery Tribunals before granting any stay on recovery of loans from borrowers. This will ensure that the law is not misused by the borrowers to delay the settlements and payment of dues. Further, the amendment allows Asset Reconstruction Companies (ARC) to convert a part of the debt into equity. This could be a win-win situation for the borrower as well as the ARC. Since the borrower stand to gain because his outstanding liability decreases to the extent of equity conversion and the ARC will also become part of the management so as to aid in the turnaround of the stressed company. Auction under SARFAESI shall not be stopped or deferred at any stage unless the total overdues are recovered. Non-initiation of action under SARFAESI or deferring further action at any stage without prior permission from the competent authority amounts to defying the extant guidelines and the officers responsible for such lapses are subjected to disciplinary action.

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## Cash Management – Clean Note Policy

**Clean Note Policy:** The usage of stapling is causing mutilation of notes and shortening the life of the currency. RBI prohibited the banks from stapling currency notes under section 35A BR Act with an objective to provide clean notes to public. As per policy, Banks should

- Issue clean notes to the public and accept small denominations such as ₹1/, ₹2/- & ₹5/-.
- Not issue number cut notes to public and any deviation attracts penalty.
- Desist from writing anything whatsoever on the Bank Notes.
- Educate the customers and members of the public in this regard.
- Ensure sorting all notes by branches and only Clean Notes/issuable notes are put into circulation amongst general public.
- Ensure that branches are not hoarding any Fresh Notes and coins and to be distributed to the customers.

**Counterfeit Notes:** In order to combat the menace, RBI has issued guidelines to all Banks/Financial Institutions on detection and impounding of counterfeit notes. It is necessary that currency notes received are carefully examined and impound counterfeit notes wherever detected to curb circulation of such notes to public. Counterfeit Notes detected shall be branded with a stamp (size of 5 cm x 5 cm) **“Counterfeit Bank Note”** with branch/office name, date and signature. Branch/Office is required to issue acknowledgement to the tenderer of counterfeit note duly signed by the tenderer and counter cashier with details such as serial number, denomination and number of pieces. For cases of detection of counterfeit notes upto 4 pieces, in a single transaction, a consolidated report should be sent to the police authorities at the end of the month. However, **FIR** is required to be filed in case where the counterfeit notes found are **5 pieces** & above in a single transaction and acknowledgement is to be obtained from the concerned police authorities. RBI reimburses to the extent of 25% of the notional value of the counterfeit notes of ₹100 denomination & above, detected and reported to RBI/Police. All Counterfeit notes received back from police authorities are to be preserved in the safe custody of the branch/office for a period of 3 years and there after sent to the concerned issue office of RBI with full details. In no case, the Counterfeit Notes should be returned to the tenderer or destroyed by the bank branches/treasuries.

**Surprise Verification of Cash at Branches:** All Branch Heads should carry out verification of cash of their respective branches every month, at different dates of the month with total confidentiality. The verification should also be rotated every month i.e. once before commencement of office hours, another time at the middle of the day and sometimes at the close of the office hours. Besides the above, branches are subject to surprise verification of cash by controlling offices once in a quarter. Surprise verification report shall cover the aspects such as maintenance of Cash Movement / Key Movement / Cash Discrepancy Registers, maintenance of cash beyond retention limit, maintenance of Bait Money and shortage/excess of cash, if any. Wherever cash position is in excess of Cash Retention Limit, the entire cash on hand should invariably be verified by the Branch Manager and necessary endorsement should be recorded thereof.

**Surprise Verification of Cash at Currency Chests:** The balances of each currency chest should be verified at least once in a month by an officer not connected with the custody of the chest. A record of such verification should be maintained in a register at each chest. Two percent of balances in each denomination of Rs. 100/-, Rs. 500/- and Rs. 1000/- may be verified through Note Sorting Machines. The balances may be verified once in six months by the officials from the Controlling Office of the bank by packets and bundles and five percent of the balances in all denominations should be verified through Note Sorting Machines. The officials from Controlling Office after

verifying the balances may send the original balance certificate to the Nodal Officer for Currency Management at Head Office, Operations Department. Non-conformity to the above would attract penalty.

**Cash Remittances:** Cash movement takes place from one branch to another branch and branch to currency chest and vice versa on a regular basis. Branches / Offices are required to be adhered the following guidelines since it is an important and sensitive one. The guidelines are as under:

Remittance	Staff / Security Personnel to be accompanied
Below ₹50 lakh	One Clerk / Officer with 1 Sub-staff and 1 Security Guard (if available at the branch)
> ₹50 lakh & < ₹100 lakh	One Officer, 1 Sub-staff and 2 Armed Guards
₹ 100 lakh & above	One Officer, 1 Sub-staff and Armed Police Escort
Security Escort for cash remittances by Cash Vans	
Up to ₹200 lakh	To be escorted by 2 Bank Guards
> ₹200 lakh & up to ₹1000 lakh	To be escorted by 3 Bank Guards

**Cash Remittance by Other Banks:** RBI has allowed the Currency Chests to accept remittances from other bank branches under Linkage scheme. In order to incentivize the scheme, Currency Chests are permitted to levy service charge of ₹5/- per packet of 100 pieces from the non-currency chest branches of other banks.

**General Precaution in Remittances:** Remittance is to be done in Cash Van or Four Wheeler Vehicles. Cash Van must have Alarm system and Fire Extinguishers. Avoid Three Wheeler Vehicles. It is to be noted that Two Wheeler Vehicles should not be used. Cash Remittance may be done on foot provided the distance is short (within the complex) and the remittance must not be over ₹2 lakhs. Cash must be carried in Steel Boxes only. Remittance is to be done during Day time only. Probationary Officers are not to be detailed for cash remittance. In case of non availability staff, a clerk can be substituted for sub-staff and an officer for a clerk.

**Incentives & Penalties:** RBI introduced scheme in the month of September 2008 for providing incentives to banks for extending enhanced services in the area of mutilated/soiled notes & coin distribution and levying penalties for deficiency in providing services to members of the public. (Cir no. 158 Ref 55/13 dt.19.07.12)

No	Activity	Incentives
1	Adjudication of Mutilated Bank Notes	₹2/- per piece
2	Exchange of Soiled Notes	₹2/- per packet for exchange of soiled notes up to denomination of ₹50/-
3	Distribution of Coins over the counter	₹25/- per bag.
4	Establishment of coin vending machines	Capital Cost-Urban/Metro Centers 50% - Rural & SU centers 75% Operational cost @ ₹25 per bag.

Activity	Penalties
Shortage in soiled note remittances and currency chest balances	₹50/- per piece in addition to the loss (shortage) in case of notes in denomination up to ₹50/-. However, for notes in denomination of ₹100/- and above, the penalty is equal to the value of the denomination per piece in addition to the loss.
Counterfeit notes detected in soiled note remittances and currency chest balances	Equal to the value of the counterfeit notes in addition to the loss.
Mutilated notes detected in soiled note remittances and currency chest balances	₹50/- per piece irrespective of the denomination.
Non compliance of operational guidelines such as non-functioning of CCTV, non utilization of NSMs and keeping branch cash / documents in strong room.	₹5000/- for each irregularity. Penalty will be enhanced to ₹10000/- in case of repetition.
Violation of norms during RBI inspection viz., i) Non issue of coins over the counter to any member of public, despite having stock. ii) Refusal to exchange soiled notes/ adjudicate mutilated notes tendered by any member of public. iii) Not conducting surprise verification of chest balances, at least at bimonthly intervals by officials unconnected with the custody thereof. iv) Denial of facilities/services to linked branches of other banks. v) Non acceptance of lower denomination notes (₹10/- ₹20/- and ₹50/-) tendered by members of public and linked bank branches. vi) Detection of mutilated / counterfeit notes in 'reissuable' packers prepared by the chest.	₹10,000/- for any violation of agreement in this regard/deficiency of service  ₹5.00 lakhs in case there are more than 5 instances of violation by the branch. The same will be placed in public domain.

RBI during their Incognito visits to Branches may levy penalty with regard to non adherence of above guidelines and the same will be recovered from the officials responsible for such lapses. Hence all branches have to follow the laid down norms scrupulously without any deviation.



## Customer Service & BCSBI

The Government and the regulator (RBI) have been emphasizing the importance and the need to extend speedy, efficient, fair and courteous customer service in banking industry. In this direction, the following committees were set up:

- 1975 – Talwar Committee
- 1990 – Goiporia Committee
- 2004 – Tarapore Committee
- 2006 – Working group under chairmanship of Sri N Sadasivan

In addition to the guidelines framed based on the recommendations of the committees, RBI had been giving instructions to banks as and when required. Over the years, the customer service in banks has improved considerably with the introduction of technology based products. Further, the Government of India introduced the concept of Citizens' Charter at all bank branches with an objective to exercise in setting benchmarks for prompt delivery of banking services, including the pricing thereof. In the year 2010, RBI constituted a committee under the chairmanship of Sri.M.Damodaran to look into the customer service aspects in Banks. The recommendations of the committee are as under:

- Bank should offer a basic bank account with privileges such as certain number of transactions, cheque facility, ATM/Debit Card etc., without any prescription of minimum balance.
- The Passbook/Statement of accounts should indicate the account number, name, address and ID of the customer, MICR Code, IFSC Code, Toll free customer care number, Ombudsman contract details, instrument number and payee name on all debit entries and the full details of TDS (Gross Interest credited and TDS debited).
- Before marking the account as inoperative, the banks must intimate the account holder by SMS. Banks should introduce Uniform Account Opening forms and Account Number Portability across the banks.
- Banks should take Unique Identification Number (issued under Aadhar project) as KYC compliance for opening of accounts.
- The term deposit renewal notices should be sent to customers preferably in electronic form. A single Form 15G/H linked to a customer ID across the branches in a bank should be issued.
- Service charges should be reasonable. No charges are to be levied on Non-Home Branch transactions.
- The users of electronic bank platforms for making collections may offer small discounts to their customers to favour electronic payments.
- Cheque Drop Box should provide receipt/acknowledgement along with the image of the cheque.
- Reason for penal interest on loan accounts, rate of interest charged should be mentioned in Passbook/Statement of Account.
- Banks must ensure that loan statements are issued to the borrowers periodically giving full details including demand, repayments, interest component and charges.

- The title deeds should be returned to the customers within a period of 15 days after the loan closure.
- Bank should provide Most Important Terms and Conditions (MITC) of the product explicitly in Arial font and size 12 for better readability.
- All home loans should permit a switchover between fixed to floating or vice-versa at least once during the loan tenure at an appropriate and reasonable fee. Home loans backed by insurance products, the procedure should be explained upfront to the customers.
- Banks should provide prioritized service to the senior citizens/physically handicapped persons.
- Banks should put a system in a place for Automatic updation of the customers to the senior citizen category based on the date of birth.
- Pensioner may be allowed to submit the annual life certificate at any of the branches of the bank. Bank should make arrangements to disburse pension to sick and disabled pensioners at their door steps.
- SHG members should not be forced to take insurance products.
- Banks should ensure that at least one of the staff members in Tribal / North-East areas is conversant with local language.
- The staff manning Customer Service Departments in banks should receive specialized training so that customer complaints are professionally handled.
- With regard to "one-man branches" – Banks should place Proper systems for safety of cash and also continuity of services in case of leave etc.
- In case of frauds in the accounts of the customers, bank is required to credit the amount to their accounts after obtaining due affidavit.
- Banks should put in place secure systems like Multi-factor Authentication to minimize the fraud instances.
- Frauds involving cloned cards, unauthorized online transactions, ATM transactions not done by the customers etc., cannot be valid transactions as they are not authorized by the customers. The onus should be on the bank to prove that the customer has done the transaction.
- Banks to install CCTV at all ATMs. For Debit/Credit cards at POS, PIN based authorization should be made mandatory.
- Banks should ensure that ECS Mandate Management System is working effectively to comply with the mandate given by the customer.
- For transaction deficiencies, there should be in-built mechanism to pay compensation to the customers.
- Bank should provide for online registration of grievance in its website.

## Banking Codes and Standards Board of India (BCSBI)

RBI has set up BCSBI with an objective of evolving standards for bank services to depositors, borrowers and common persons at affordable and reasonable price and monitoring the same in effective manner. It covers Deposit Accounts (Current/Savings/Recurring/Term/PPF), Collection of cheques, Lockers, Safe custody services, Remittances (DD/PO/TT/NEFT/RTGS), Government transactions and Pension payments, Demat Accounts, Equity and Government Bonds, Loans and Advances / Foreign Exchange / Money Changing and Card products (Credit / ATM / Debit / Smart / Pre-paid / Travel). It is an independent and autonomous watchdog to monitor and ensure that the services are delivered as promised. Banks are required to register themselves with BCSBI as members and have the code of commitment to customers adopted by their respective Boards. BCSBI has revised "The Code of Bank's Commitment to Customers" and the important changes are as under:

- Advise the customer about change in minimum balance to be maintained in Savings/Current accounts 30 days in advance during which period, no charges will be levied for non-maintenance of the higher minimum balance prescribed.
- Provide an option to customer for giving nomination at the time of account opening itself with due acknowledgement. On request from the depositor name of the nominee will also be indicated on the Passbook/Term Deposit Receipt.
- Acknowledge receipt of loan applications and convey in writing the reasons for rejection of loan. Return all documents/securities title deeds to mortgaged property to the borrower within 15 days from the full payment of the dues, without waiting for request from the borrower.
- Compensate the customers for delayed collection of cheques without waiting for a request from customer.
- No charges will be levied for activation of inoperative account.
- In case a credit facility/credit card is issued without customer's consent and charges levied for the same would be reversed along with compensation.

Banks are advised to disclose the commission/fee details to the customers while selling third party products viz., Mutual Funds / Insurance policies.

**Fair Practices code for Lender's liability:** Loan application forms should be comprehensive to include information about rate of interest, interest application intervals, penal interest, processing charges, up-front fee, prepayment charges etc. Loan applications are to be processed within reasonable time and communicate the terms and conditions in writing to the borrowers. Banks should give notice to the borrower about the subsequent changes in interest rate / charges, if any.

**Credit Card – Fair practices:** All credit card issuers should provide Most Important Terms and Conditions (MITC) to customers and prospective customers. MITC should include information such as admission fee; cash advance charges, default charges, annualized percentage rate and grace period. Further, card issuers should maintain "Do Not Call Registries" and should not provide unsolicited calls/SMS/Cards/Credit facilities unilaterally. Card issuing banks are responsible for any omission or commissions of their agents (Sales/Marketing/Recovery agents).

As per revised code, banks are advised to introduce simplified process for opening of Basic Savings bank accounts and extend Doorstep service to the disabled customers and senior citizens. In case of electronic frauds, if the customer incurs any direct loss due to a security breach of the internet banking system that is not contributed or caused by the customer, the bank will bear the loss, unless it is able to establish that the customer is guilty. However, the onus of responsibility lies on the bank that the customer compromised the passwords, leading to the fraud. The revised code is expected to come into force shortly.

## Compensation Policy

Providing better and timely service to the customers is a prerequisite for banks to remain stay in the competitive market. Despite best efforts, sometimes, omissions and commissions may creep in which may lead to inconvenience to the customers. In order to protect the interest of the customers, banks formulated compensation policy based on the principles of transparency and fairness in the treatment of customers. The expected action and compensation payable to the customers, in the event of deficiency of service, are as under:

Category	Compensation payable	
Unauthorized / Erroneous debits	Bank should reverse the amount immediately and compensate the customer to the extent of financial loss incurred such as interest or service charges. In case the unauthorized debit is on account of third party, customer should be compensated up to ₹50000/- or actual debit amount whichever is less.	
ECS Debits – Execution failure	Bank should compensate the customer to the extent of financial loss incurred along with service charges, if any.	
Stop payment – Payment of cheques	Where the cheque is paid despite stop payment instructions, bank should reverse cheque amount along with charges, if any, with value date within 2 days of the intimation.	
Unsolicited Credit Cards – Levy of charges	Bank should reverse the charges immediately and also pay a penalty without demur amounting to twice the value of the charges reversed.	
Collection of foreign cheques / currencies – Undue delay	Delay up to 14 days	SB Interest + 0.25% simple interest
	Delay 15 to 45 days	SB Interest + 0.50% simple interest
	Beyond 45 days	SB Interest + 0.75% simple interest
Payment of interest on delayed collection	<b>Outstation Cheques</b>	
	Delay < 14 days	SB Interest
	Delay > 45 days	Applicable TD Rate
	Delay > 90 days	TD Rate + 2%
		<b>Local Cheques</b>
		SB Interest
However, in case of loan/ODCC credits, the interest payable is applicable interest rate on loan/ODCC plus 2%		
Cheques/instruments lost in transit / in clearing or paying bank branches	Bank should provide the required assistance to obtain duplicate instrument from the drawer of the instrument. The compensation policy that is applicable to 'Collection of outstation cheques' is equally applicable to this category of customers.	
RTGS/NEFT/ECS	Applicable Repo Rate plus 2% to be paid for delayed period.	
Delay in settlement of wrong ATM Debits	In case where the complaint is not resolved within 7 working days from the date of complaint made by the cardholder, bank should pay ₹100/- per day.	
Violation of the code by Banks` Agent	Appropriate steps to investigate the complaint and to compensate the customer for financial loss, if any.	
Delay in payment of Relief / Savings Bonds	SB Rate	
Delay in credit of pension payments	8% p.a.	

The above initiatives will definitely paves the way for better service and the instances of referring the customer grievances to Ombudsman or any other forum will come down to a greater extent.

## Monetary Policy

**Monetary policy** is the process by which monetary authority of a country, generally a central bank controls the supply of money in the economy by its control over interest rates in order to maintain price stability and achieve high economic growth. In India, the central monetary authority is the Reserve Bank of India (RBI) which monitors and regulates the monetary policy of the country stabilizes with the following objectives:

1. **Price Stability** implies promoting economic development with considerable emphasis on price stability. The centre of focus is to facilitate the environment which is favorable to the architecture that enables the developmental projects to run swiftly while also maintaining reasonable price stability.
2. **Controlled Expansion of Bank Credit** and money supply with special attention to seasonal requirement for credit without affecting the output.
3. **Promotion of Fixed Investment** with an aim to increase the productivity by restraining non essential fixed investment.
4. **Restriction of Inventories and stocks** to avoid over-stocking and idle money in the organization.
5. **Promote Efficiency** - It aims to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.
6. **Reducing the Rigidity** - RBI tries to bring about the flexibilities in the operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

**Recent Developments:** Government of India amended the RBI Act and entrusted the task of monetary policy making to newly constituted "**Monetary Policy Committee** (MPC)" consisting of six member panel with three members from RBI (Governor, Deputy Governor and another official) and three independent members nominated by the Government. The committee meets 4 times a year to decide on monetary policy by a majority vote and if there is a tie, the RBI governor gets the deciding vote. The new committee is expected to bring "value and transparency" to rate setting decisions to move towards to maintain a comfortable rupee liquidity position, augment foreign exchange liquidity and maintain a policy framework that would keep credit delivery on track so as to arrest the moderation in growth.

In a nutshell, the broad objectives of monetary policy are – Maintaining price stability, ensure adequate flow of credit to the productive sectors to support economic growth and financial stability. However, the relative emphasis among the objectives varies from time to time, depending on evolving macroeconomic developments. Policy decision will have far reaching implications for the economy, investors, savers and borrowers.

Monetary Policy refers to the use of the following Direct & Indirect instruments to regulate the availability, cost and use of money & credit.

### **Direct Instruments:**

**Cash Reserve Ratio (CRR):** The share of net demand and time liabilities that banks must maintain as cash balance with the Reserve Bank. The Reserve Bank requires banks to maintain a certain amount of cash in reserve as a percentage of their deposits to ensure that banks have sufficient cash to cover customer withdrawals. At present the stipulated CRR is 4%. Regulator uses CRR for dual purpose as liquidity reserve and as a monetary policy tool. On weekly basis, Banks have to report their

daily deposit position and balances with RBI to enable them to monitor maintenance of CRR. This is a mandatory reserve to be kept by the banks to meet the unexpected withdrawals from customers. It is also an instrument used by RBI to control credit flow in the economy.

**Statutory Liquidity Ratio (SLR):** This is a quantitative measure taken by RBI to control the credit supply in the economy. The banks are required to maintain the share of net demand and time liabilities in safe and liquid assets, such as government securities, cash and gold. Banks are advised to invest in securities issued and guaranteed by government known as Statutory Liquidity Ratio (SLR). At present SLR requirement is 20.75% of demand and time liabilities of bank. It is another liquidity cushion. The SLR securities are part of the investment portfolio of the bank. The HTM book primarily consists of SLR investments which have to be held permanently.

**Refinance facilities:** Sector-specific refinance facilities (e.g., against lending to export sector) provided to banks.

### **Indirect Instruments:**

**Liquidity Adjustment Facility (LAF):** It is a mechanism for liquidity management through combination of repo operations, export credit refinance facilities and collateralized lending facilities, supported by open market operations of the RBI at set interest rates. RBI manages its liquidity in the market through the operation of LAF as part of its monetary policy and money supply targets. It undertakes reverse repo transactions to mop up liquidity and repos to supply liquidity in the market. The LAF transactions are currently being conducted on overnight basis. Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

**Repo/Reverse Repo Rate:** These rates under the Liquidity Adjustment Facility (LAF) determine the corridor for short-term money market interest rates. In turn, this is expected to trigger movement in other segments of the financial market and the real economy.

**i) Repo** is a money market instrument, which enables collateralized short term borrowing through sale operations in debt instruments such as treasury bills and dated securities. It is a rate at which RBI lends to banks for short periods. Generally, repos are done for a period not exceeding **14 days**. Repo rate helps the banks to get funds at a cheaper rate and increase in Repo rate makes the borrowing more expensive. The present rate is 6.25%.

**ii) Reverse Repo** is the mirror image of a repo. It is a rate at which RBI borrows funds from banks by selling treasury bills at predetermined rate and dated government securities. This is also a debt instrument used by RBI to control money supply in the economy. An increase in Reverse Repo rate can cause the banks to transfer more funds to RBI and similarly reduction of rate may dampen the interest of the banks to lend to RBI. The present rate is 5.75%

**Open Market Operations (OMO):** Outright sales/purchases of government securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.

**Marginal Standing Facility (MSF):** Scheduled commercial banks can borrow overnight at their discretion up to one per cent of their respective NDTL to provide a safety valve against unanticipated liquidity shocks. The present rate is 6.75%.

**Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. It also signals the medium-term stance of monetary policy. The present rate is 6.75%.

**Market Stabilization Scheme (MSS):** This instrument for monetary management was introduced in 2004. Liquidity of a more enduring nature arising from large capital flows is absorbed through sale of short-dated government securities and treasury bills.

In an expansionary monetary policy, money supply increases causing an expansion in aggregate demand through lower interest rates. This stimulates interest sensitive spending on investment for manufacture of goods, housing, export, business etc. and in turn, acting through multiplier leads to a rise in gross domestic product. The reverse process takes place when monetary policy is tightened. However, in a fully employed economy monetary expansion would primarily raise prices and nominal gross domestic product with little effect on real GDP as the higher stock of money would be chasing the same amount of output.

#### **Other concepts:**

**Hot Money:** Money held in one currency that is liable to switch to another currency, in a flash, in response to better returns or in apprehension of adverse circumstances. Such a flight of money might cause the currency's exchange rate to plunge.

**Reserve Money (M0):** Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI = Net RBI credit to the Government + RBI credit to the commercial sector + RBI's claims on banks + RBI's net foreign assets + Government's currency liabilities to the public - RBI's net non-monetary liabilities.  
**M1** - Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI. **M2** - M1 + Savings deposits with Post offices. **M3** - M1 + Time deposits with the banking system = Net bank credit to the Government + Bank credit to the commercial sector + Net foreign exchange assets of the banking sector + Government's currency liabilities to the public - Net non-monetary liabilities of the banking sector. **M4** - M3 + Deposits with post office (excluding NSCs).

**Inflation:** It is termed as the continual rise in the general level of prices. It is commonly expressed as an annual percentage rate of change on an index number.

**Hyper Inflation:** An express growth in the rate of inflation whereby, money loses its value to the extent where other mediums of exchange like barter or foreign currency come into vogue.

**Consumer Price Index (CPI)** is an inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly and it is also called cost-of-living index.

**Stagflation:** A condition in the economy that is characterized by the twin economic problems viz., slow economic growth and rising prices.

**Deflation:** A sustained fall in the general price level of goods and services, usually accompanied by fall in output and jobs.

**Recession:** A phase of dismal economic activity, usually accompanied by rising unemployment. It is defined by two successive quarters of negative GDP growth and is considered to have a cyclic character.

**Stagnation:** It is a period during which economy does not grow or grows very slowly. As a result, unemployment increases and consumer spending slows down.

**Devaluation:** A fall in the fixed official rate at which one currency is exchanged for another in a fixed exchange rate system. While it is mostly by a deliberate act of government policy, in recent years, financial speculation has also been identified as a responsible factor.

**Demonetization:** Withdrawal of currency from circulation with an aim to strike at counterfeiting of currency and unaccounted money.

**Arthakranthi** is a suggestion which is being widely debated to address the important issues such as rampant corruption and fiscal deficit that are being confronting the country. It suggests abolition of taxes except for Customs & Import duties and introduction of Bank Transaction Tax on receipts. It also suggests currency compression by ensuring that the highest currency denomination is ₹50/-, which paves the way to adopt banking system extensively and also enables to phase-out fake currency from the system which is the need of the hour. Though, the suggestion appears simple and attractive but needs political will and revamping of entire eco system. In this direction, the present Government has taken a bold step of withdrawal of ₹1000 & ₹500 currency notes from circulation on 8<sup>th</sup> November 2016.

**National Institute for Transforming India (NITI) Aayog:** It was set up in the month of January 2015 as a successor to the erstwhile Planning Commission with a soul objective to work as a Think Tank to the Government for providing policy inputs as well as designing strategic and long term programmes for the Central and State Governments. It acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism. At the core of NITI Aayog's creation are two hubs viz., *Team India & Knowledge and Innovation*. The Team India Hub leads the engagement of states with the Central government, while the Knowledge and Innovation Hub builds NITI's think-tank capabilities. These hubs reflect the two key tasks of the Aayog. NITI Aayog is also developing itself as a State of the Art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues. Recently, Government has issued guidelines advising all Public Sector Undertakings (PSU) to seek concurrence from NITI Aayog for strategic sales and monitoring the closure of loss making companies.

**Pradhan Mantri Garib Kalyan Yojana, 2016 (PMGKY)** is an amnesty scheme launched by Government of India in December 2016 on the lines of the earlier Income declaration scheme, 2016 (IDS). The scheme provides an opportunity to declare unaccounted wealth and black money in a confidential manner and avoid prosecution after paying a fine of 50% on the undisclosed income. An additional 25% of the undisclosed income is invested in the scheme in any branch of authorized banks which can be refunded after four years. No interest will be paid on the deposit. The scheme is valid from December 16, 2016 to March 31, 2017 and it can only be availed to declare income in the form of **Cash or Bank deposits** and not in the form of jewellery, stock, immovable property, or deposits in overseas accounts. Not declaring undisclosed income under the PMGKY will attract a fine of 77.25% if the income is shown in tax returns. In case the income is not shown in tax returns, it will attract a further 10% penalty followed by prosecution. The decision is a step towards the development of the nation and equal distribution of income among the desired segments of the country.



## Union Budget – Concepts

Union Budget is the annual report of India as a country. It contains the government of India's revenue and expenditure for the end of a particular fiscal year, which runs from 1<sup>st</sup> April to 31<sup>st</sup> March. The Union Budget is the most extensive account of the government's finances, in which revenues from all sources and expenses of all activities undertaken are aggregated. It comprises the revenue budget and the capital budget. It also contains estimates for the next fiscal year.

**Capital Budget** is different from the revenue budget as its components are of a long-term nature. The capital budget consists of capital receipts and payments. Capital receipts are government loans raised from the public, government borrowings from the Reserve Bank and treasury bills, loans received from foreign bodies and governments, divestment of equity holding in public sector enterprises, securities against small savings, state provident funds, and special deposits. Capital payments are capital expenditure on acquisition of assets like land, buildings, machinery, and equipment. Investments in shares, loans and advances granted by the central government to state and union territory governments, government companies, corporations and other parties are also part of capital budget.

**Revenue Budget** consists of revenue receipts (taxes and other sources) and expenditure. Revenue receipts are divided into tax and non-tax revenue. Tax revenues are made up of taxes such as income tax, corporate tax, excise, customs and other duties that the government levies. In non-tax revenue, the government's sources are interest on loans and dividend on investments like PSUs, fees, and other receipts for services that it renders. Revenue expenditure is the payment incurred for the normal day-to-day running of government departments and various services that it offers to its citizens. The government also has other expenditure like servicing interest on its borrowings, subsidies, etc. Usually, expenditure that does not result in the creation of assets, and grants given to state governments and other parties are revenue expenditures. The difference between revenue receipts and revenue expenditure is usually negative. This means that the government spends more than it earns. This difference is called the revenue deficit.

**Direct Taxes** are the taxes that are levied on the income of individuals or organizations. Income tax, corporate tax, inheritance tax are some instances of direct taxation. Income tax is the tax levied on individual income from various sources like salaries, investments, interest etc. Corporate tax is the tax paid by companies or firms on the incomes they earn.

**Indirect Taxes** are those paid by consumers when they buy goods and services. These include excise and customs duties. Customs duty is the charge levied when goods are imported into the country, and is paid by the importer or exporter. Excise duty is a levy paid by the manufacturer on items manufactured within the country. Usually, these charges are passed on to the consumer.

**Plan and non-plan expenditure** - The plan expenditures are estimated after discussions between each of the ministries concerned and the NITI Aayog. Non-plan expenditure is accounted for by interest payments, subsidies (mainly on food and fertilizers), wage and salary payments to government employees, grants to States and Union Territories governments, pensions, police, economic services in various sectors, other general services such as tax collection, social services, and grants to foreign governments. Non-plan capital expenditure mainly includes defence, loans to public enterprises, loans to States, Union Territories and foreign governments.

**Fiscal Policy** is a change in government spending or taxing designed to influence economic activity. These changes are designed to control the level of aggregate demand in the economy. Governments usually bring about changes in taxation, volume of spending, and size of the budget deficit or surplus to affect public expenditure. **Fiscal deficit** is the gap between the government's total spending and the sum of its revenue receipts and non-debt capital receipts. It represents the total amount of borrowed funds required by the government to completely meet its expenditure.

**Finance Bill** - The government proposals for the levy of new taxes, alterations in the present tax structure or continuance of the current tax structure beyond the period approved by Parliament, are laid down before Parliament in this bill. The Parliament approves the Finance Bill for a period of one year at a time, which becomes the Finance Act.

**Gross Value Added (GVA) Vs. Gross Domestic Product (GDP)** - GVA is defined as the value of output less the value of intermediate consumption. Value added represents the contribution of labour and capital to the production process. When the value of taxes on products (minus subsidies on products) is added, the sum of value added for all resident units gives the value of GDP. Thus, GDP of any nation represents the sum total of GVA i.e., without discounting for capital consumption or depreciation in all the sectors of that economy during the year after adjusting for taxes and subsidies. As per Central Statistical Organization (CSO) it was decided that sector-wise estimates of GVA now be given at *basic prices* instead of *factor cost* with effect from 1<sup>st</sup> January 2015. In simple terms, for any commodity the basic price is the amount receivable by the producer from the purchaser for a unit of a product minus any *tax on the product* plus any *subsidy on the product*. However, GVA at basic prices will include production taxes and exclude production subsidies available on the commodity. On the other hand, GVA at factor cost includes no taxes and excludes no subsidies and GDP at market prices include both production and product taxes and excludes both production and product subsidies.

**Impact of the Budget:** The budget announcements have direct bearing on many sectors and impact the interest rates, stock markets and whole economy. The extent of the deficit and the means of financing influence the money supply and the interest rate in the economy. High interest rates mean higher cost of capital for the industry, lower profits and hence lower stock prices. The fiscal measures undertaken by the government affect public expenditure. For instance, an increase in direct taxes would decrease disposable income, thus reducing demand for goods. This decrease in demand will translate into a decrease in production, therefore affecting economic growth. Similarly, an increase in indirect taxes would also decrease demand. This is because indirect taxes are often partially or completely passed on to consumers in the form of higher prices. Higher prices imply a reduction in demand and this in turn would reduce profit margins of companies, thus slowing down production and growth. Non-plan expenditure like subsidies and defence also affect the economy as limited government resources are used for non-productive purposes.

### **Union Budget 2017-18 Highlights**

It is a unique budget on account of the date change moving towards to present the next budgets at the end of the calendar year. The distinction between plan and non-plan outlays is being done away by introducing information on capital and revenue outlays. *Further*, merger of Railway Budget with Union Budget 2017 is really a unique and historic one. India stands out as a bright spot amid world economic gloom while implementing bold and decisive measures such as "Demonetization" and rollover to GST. The theme of the present budget is TEC viz., **Transform, Energize and Clean India**. The highlights of the Budget 2017-18 are:

- Balancing growth with fiscal prudence. Fiscal Deficit is pegged at 3.2% and expected to bring down to 3% in the next three years.

- Assurance about GST corroborates govt's intent for earliest rollout.
- Public Sector Oil companies will be merged to form an "Oil giant" that will be able to compete with international players.
- Abolishes two decade old FIPB to bring more FDI policy easing reforms.
- Infra status to affordable housing and aim to build **one crore** rural houses.
- More focus on digitization. Merchant version of Aadhaar Enabled Payment System (AEPS) titled "Aadhaarpay" will be launched shortly which can be used without usage of Debit cards and Mobile phones.

India's tax-to GDP ratio is very low compared other economies. In order to improve the ratio, it is intended to bring more people in to tax bracket through simplified the tax procedure and slashing income tax rate from 10% to 5% for tax slab of ₹2.50 lakh to ₹5 lakh. Similarly, small firms with turnover up to ₹50 crore to pay 25% tax now, instead of 30%. No cash transactions above ₹3 lakh are allowed here after.

The hallmarks of the Budget are prioritizing investment expenditure, focusing on inclusive growth, and working within a prudent fiscal framework. The Budget has highlighted infrastructure development as a focus area and this covers highways, rural roads, and railways. These investments, aimed at improving connectivity through a multimodal network, will not only have a beneficial direct impact on growth, but will also boost the long term productivity of the economy. Focus on affordable housing will improve living standards in both urban and rural areas and will have a positive impact on the construction sector. All these initiatives will have a cascading positive impact on growth given their linkages to other sectors will boost employment and will make growth more inclusive.

**Electoral Bonds:** Funding to political parties by the individuals / organizations is the order of the day across the globe and India is not exception to that. However, the fact remains that most political parties use the lax regime on donations to accept cash from anonymous sources. To address this issue, the Union Budget 2017-18 has reduced the cash donation limit from ₹20000/- to ₹2000/- and insists that any amount over this must be paid through cheque or digital mode. In the above backdrop, Electoral Bonds are issued as part of election funding reforms. These bonds will be issued by a notified bank for specific denominations. If any citizen is interested to donate to registered political party, they can buy these bonds and gift the same to the political party. The bonds are treated as bearer bonds and the indemnity of the donor will not be known to the receiver. These bonds neither get tax exemption nor any interest on the amount. However, the new scheme will be operational subject to amendments to RBI Act. Let us wait and watch.

**Impact on Banking Sector:** The key themes of the budget viz., recapitalization, disinvestment, digital payments, affordable housing and a push to higher farm credit has direct bearing on the banking sector. With profitability under stress, some of the PSBs are finding difficult to meet regulatory requirements. Higher capital will help clean up balance sheet and meet loan growth targets. The banking sector has been struggling with bad loans for the last two years. While large-scale defaults have weakened bank balance sheet, the decade-low credit growth is exerting cost pressure. Capital infusion to the tune of ₹10000 crore announced would benefit under-capitalized PSBs. The budget provides that banks will be allowed tax deduction for NPA provisioning up to a limit of 8.5% of their total income, against the current limit of 7.5% which eventually reduce the tax liability of the banks. With Macro measures like fiscal consolidation road map and market borrowings will also impact the sector. A slowdown in the rural segment could lead to rising defaults and a demand to waive agricultural loans, and public sector banks and rural-focused non-banking finance companies (NBFCs) will be vulnerable to any such move. The budgetary allocations are a move in right direction to accomplish the task of inclusive growth besides tackling the corruption and encourage a cashless economy.

## Demonetization of Currency

Demonetization is the act of stripping a currency unit of its status as legal tender. So far India has pulled select denominations of its currency twice – pre and post independence. The first was when ₹1000, ₹5000, and ₹10000 notes were taken out of circulation in January 1946. However, all three notes were reintroduced in 1954. Subsequently, during Janata Government regime, again the high denomination currency notes were withdrawn from circulation on 16<sup>th</sup> January 1978.

**Background & Triggers:** Of late, Indian economy has been witnessing rampant circulation of Fake Currency Notes that primarily being used to propagate terrorism and subversive activities such as espionage, smuggling of arms, drugs and other contrabands detrimental to the interest of the Indian economy. The other menace of the nation is the disproportionate rise of Black Money by adopting corrupt practices casting elongated shadow (parallel economy) on real economy. As per World Bank report, the size of the shadow economy was estimated at 23.72% of the GDP in 2007. It corrodes the vitals of the country's economy and ignites inflation affecting adversely the common man. Further, it deprives Government of its legitimate revenues which could have been otherwise used for welfare/development activities. In the above backdrop, Government of India has taken a bold step to demonetize the Specified Bank Notes (SBN) of ₹500 and ₹1000 with effect from 9<sup>th</sup> November 2016. However, the public are allowed to deposit demonetized notes into their bank accounts and/or exchanged in bank branches or Issue Offices of RBI till the close of business hours on 30<sup>th</sup> December 2016. The courageous move was hailed as a masterstroke by one and all.

### Impact on the Economy:

- It has death blow to black money hoarders and corrupt people but also struck a sledgehammer at nefarious designs of Pakistan to fund terrorism and to disrupt the Indian economy with counterfeit currency.
- Quantum of cash in circulation has direct bearing on corruption level. Monetization of currency has significant impact on curbing the corruption practices. The influence of currency in election system is likely to come down.
- The demonetization has impact on inflation as consumer spending activities are likely to be reduced drastically.
- It has adverse impact on real estate sector and may witness corrections in land/house prices. Ultimately, the affordable housing may become a reality which is a long cherished desire of common man.
- Since huge money in circulation is withdrawn is possibly lead to slower industrial production which has direct impact on GDP growth rate of current year i.e. 2016-17.
- Public likely to make use the Banking & Financial system optimally through Branch Network/ADCs/Digital & Mobile Banking which truly augments the CASA deposits as well as profitability of the Banking Industry.
- When the financial system is cleansed, the government's revenue would naturally increase and the wealth of the nation would be spent to uplift the poor and the law-abiding citizens would be the greatest beneficiaries.

The ultimate aim is to move towards cashless economy by eliminating corruption, middlemen and prevent leakages in government schemes through JAM trinity (Jan Dhan, Aadhar and Mobile). Further, this process ensures direct transfer of funds to the intended beneficiary without any middleman or leakage of revenue – be it scholarship, subsidy, compensation or insurance. There might be little inconveniences to some people for few days but in the long run the benefits for Indian economy far outweigh it. This historic step will open up new opportunities for the poor and the middle class and let us join hands in making this **Demonetization a Big Success.**

## **New Banks and Payments & Small Finance Banks**

The guidelines for "Licensing of New Banks in the Private Sector" have now been released by RBI and the salient features are:

**i) Eligible Promoters:** Entities/groups in the private sector, entities in public sector and Non-Banking Financial Companies (NBFCs) shall be eligible to set up a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

**ii) 'Fit and Proper' criteria:** Entities/groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years. For this purpose, RBI may seek feedback from other regulators and enforcement and investigative agencies.

**iii) Corporate structure of the NOFHC:** The NOFHC shall be wholly owned by the Promoter/Promoter Group. The NOFHC shall hold the bank as well as all the other financial services entities of the group.

**iv) Minimum Voting Equity capital requirements for banks and shareholding by NOFHC:** The initial minimum paid-up voting equity capital for a bank shall be ₹5 billion. The NOFHC shall initially hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years and which shall be brought down to 15 per cent within 12 years. The bank shall get its shares listed on the stock exchanges within 3 years of the commencement of business by the bank.

**v) Regulatory framework:** The bank will be governed by the provisions of the relevant Acts, Statutes, Directives, Prudential regulations and other Guidelines / Instructions issued by RBI and other regulators. The NOFHC shall be registered as a non-banking finance company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

**vi) Foreign shareholding in the bank:** The aggregate non-resident shareholding in the new bank shall not exceed 49% for the first 5 years after which it will be as per the extant policy.

**vii) Corporate governance of NOFHC:** At least 50% of the Directors of the NOFHC should be independent directors. The corporate structure should not impede effective supervision of the bank and the NOFHC on a consolidated basis by RBI.

**viii) Prudential norms for the NOFHC:** The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis and the norms would be on similar lines as that of the bank.

**ix) Exposure norms:** The NOFHC and the bank shall not have any exposure to the Promoter Group. The bank shall not invest in the equity/debt capital instruments of any financial entities held by the NOFHC.

**x) Business Plan for the bank:** The business plan should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

### **xi) Other conditions for the bank:**

- The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census)
- The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks.
- Banks promoted by groups having 40 per cent or more assets/income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond ₹10 billion for every block of ₹5 billion.
- Any non-compliance of terms and conditions will attract penal measures including cancellation of licence of the bank.

### **xii) Additional conditions for NBFCs promoting/converting into a bank:**

Existing NBFCs, if considered eligible, may be permitted to promote a new bank or convert themselves into banks.

**Procedure for RBI decisions:** At the first stage, the applications will be screened by RBI and thereafter, the applications will be referred to a High Level Advisory Committee. Based on committee recommendations RBI issues in-principle approvals. The validity of the in-principle approval will be one year. In order to ensure transparency, the names of the applicants will be placed on the Reserve Bank website after the last date of receipt of applications.

Under revised norms, RBI has issued licenses to two banks viz., IDFC Ltd., and Bandhan Financial Services and they have commenced operations in the year 2015.

### **Payments Banks & Small Finance Banks**

In the liberalized financial world, every citizen need to have a bank account to meet their financial needs may be savings, borrowings and remittances. This is more so with the unbanked and under-banked population. However, the fact remains that the transaction costs have become barriers for penetration of banking into rural and unbanked areas. In the above backdrop, Reserve Bank of India has initiated steps to introduce the concept of setting up of "Payments Banks" and "Small Finance Banks".

**Payments Banks:** The primary objective of setting up of Payments Banks will be to further financial inclusion by providing small savings accounts and payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users, by enabling high volume-low value transactions in deposits and payments/remittance services in a secured technology driven environment.

The eligible promoters will include existing non-bank prepaid payment issuers and other entities such as individuals/professionals, NBFCs, Corporate Business Correspondents, Mobile telephone operators and Super market chains. A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payment bank subject to the stake holding complying with Banking Regulation Act. RBI would assess the 'fit and proper' status of the applicants on the basis of their past record of sound credentials and integrity; financial soundness and successful track record of at least 5 years in running their businesses.

The Payments Bank will be set up as a differentiated bank and shall confine its activities to further the objectives for which it is set up. Therefore, the Payments Bank would be permitted to undertake only certain restricted activities such as

- Acceptance of demand deposits (current and savings bank deposits). Payments Banks will initially be restricted to holding a maximum balance of ₹1 lakh per customer. After the performance of the Payments Bank is gauged by the RBI, the maximum balance can be raised. However, the payments bank **cannot undertake lending activities**. However, as per the recent RBI guidelines, Payment Banks are allowed to accept deposits beyond ₹1 lakh with sweep arrangements with other Scheduled Commercial Bank or Small Finance Bank. This arrangement should be activated with prior written consent of the customer.
- The Payments banks will provide small savings accounts and payments/remittance facilities to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users through various channels including Branches, BCs, and ATMs. Cash-out can also be permitted at Point-of-Sale terminal locations as per extant instructions issued under the PSS Act. In the case of walk-in customers, the bank should follow the extant KYC guidelines issued by the RBI. However, these banks are not allowed to issue credit cards.
- No Pass book will be issued to the customer. However, account information will be provided to the customers through multiple user friendly modes viz., SMS, E-mail, Internet Banking etc. They may provide a statement of account in paper form on request on chargeable basis.
- Opening of physical access points require prior permission from RBI for the initial five years period.
- A Payments Bank may choose to become a BC of another bank for credit and other services which it cannot offer. The Payments Bank cannot set up subsidiaries to undertake non-banking financial services activities. The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not comingled with the banking and financial services business of the Payments Bank.

The minimum paid up capital for Payments Bank shall be **₹100 crore**. The promoter's minimum initial contribution to the paid up voting equity capital of Payments Bank shall be at least 40 per cent which shall be locked in for a period of five years from the date of commencement of business of the bank. Shareholding by promoters in the bank in excess of 40 per cent shall be brought down to 40 per cent within three years from the date of commencement of business of the bank. Further, the promoter's stake should be brought down to 30 per cent of the paid-up voting equity capital of the bank within a period of 10 years, and to 26 per cent within 12 years from the date of commencement of business of the bank. Foreign Direct Investors (FDIs) are allowed to invest up to 74 per cent of the paid up capital of the bank.

The Payments Bank shall be required to maintain a minimum capital adequacy ratio of 15 per cent of its risk weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. The minimum Tier-I & Tier-II capital should be 7.50% each. The capital adequacy ratio will be computed under simplified Basel-I standards.

RBI has mandated that these banks are required to invest a minimum of 75% deposits collected from the public in government securities up to one year maturity. They are allowed to hold a maximum of 25% in current / fixed deposits with other scheduled commercial banks for operational and liquidity management purposes. These banks are required to maintain CRR and SLR as applicable to the existing commercial banks. The Payments Bank should have a leverage ratio of not less than

3.3 per cent, i.e., its outside liabilities should not exceed 33 times its net-worth / paid-up capital and reserves.

**New Players:** RBI has granted "in-principle" approval to set up Payments Banks to 11 players viz., Aditya Birla Nuvo Ltd., Airtel M Commerce Services Ltd., Cholamandalam Distribution Services Ltd., Department of Posts, Fino PayTech, Ltd., National Securities Depository Ltd., Reliance Industries Ltd., Shri Dilip Shantilal Shanghvi, Shri Vijay Shekhar Sharma, Tech Mahindra Ltd. and Vodafone m-pesa Ltd.

A detailed scrutiny was undertaken by an External Advisory Committee (EAC) as well as Internal Screening Committee (ISC) and furnished the list to the Committee of the Central Board (CCB) of RBI. The CCB evaluated applicants to assess whether there would be unacceptable risk even to the narrower functions of a payments bank. It has selected entities with experience in different sectors and with different capabilities so that different models could be tried. It did ensure that all the selected applicants have the reach and the technological and financial strength to service hitherto excluded customers across the country. The Payments Banks has plenty of business potential as the command area (rural and semi-urban) is unbanked or under-banked. However, the players need to adopt appropriate cost effective innovative viable business model.

Out of 11 in-principle approvals, subsequently 3 applicants viz., Tech Mahindra, Cholamandalam Investments & finance company and Dilip Shantilal Shangvi have withdrawn from the race. Recently, RBI has approved M/s. Aditya Birla Nuvo Ltd., to set up bank with title "**Paytm Payments Bank**" and commenced operations in the month of January 2017.

**Small Finance Banks:** Majority of residents of Rural areas are deprived of basic banking services on account of non availability of bank branches due to high cost operations and low volume. To address this issue RBI permitted private players to set up Local Area Banks (LAB) in the year 1996. At present four LABs are functioning satisfactorily and playing an important role in the supply of credit to micro and small enterprises, agriculture and banking services in the unbanked and under-banked regions. To strengthen the existing system further, RBI issued fresh guidelines for licensing of Small Finance Banks in the private sector in the month of July 2014.

The objective of the Banks will be for furthering financial inclusion by extending basic banking services to underserved and unserved sections of the population and **also to extend credit facilities** to small business units, small farmers, micro and small industries and other unorganized sector entities in their limited areas of operations through high technology & low cost operations.

Resident individuals/professionals with 10 years of experience in banking and finance, Companies and Societies will be eligible as promoters to setup Small Finance Banks. Existing NBFCs, MFIs and LABs can also opt for conversion into Small Finance Banks after complying with all legal and regulatory requirements. Local focus and ability to serve small customers will be a key criterion in licensing Small Finance Banks. RBI would assess the "fit and proper" status of the applicants on the basis of their past record of sound credentials and integrity etc., for at least a period of 5 years. However, the proposals from large public sector entities and industrial and business houses, including NBFCs promoted by them, will not be entertained to setup Small Finance Banks.

The area of operations of the Small Finance Banks will normally be restricted to contiguous districts in a homogeneous cluster of States/Union Territories. However, the bank will be allowed to expand its area of operations beyond contiguous districts in one or more States with reasonable geographical proximity. These banks must have at least 25% their branches in unbanked rural areas.



The minimum paid up capital for Small Finance Bank shall be **₹100 crore**. The promoter's minimum initial contribution to the paid up voting equity capital of Payments Bank shall be at least 40 per cent which shall be locked in for a period of five years from the date of commencement of business of the bank. Shareholding by promoters in the bank in excess of 40 per cent shall be brought down to 40 per cent within three years from the date of commencement of business of the bank. Further, the promoter's stake should be brought down to 30 per cent of the paid-up voting equity capital of the bank within a period of 10 years, and to 26 per cent within 12 years from the date of commencement of business of the bank.

The Small Finance Bank shall be required to maintain a minimum capital adequacy ratio of 15 per cent of its risk weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. The minimum Tier-I & Tier-II capital should be 7.50% each. The capital adequacy ratio will be computed under simplified Basel-I standards.

These banks are subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including requirement of maintenance of CRR/SLR and priority sector lending targets. These banks are required to extend 75% of its Adjusted Net Bank Credit to priority sector which include agriculture, micro loans, rural home loans, education loans etc. While Leverage Ratio set at 4.50%, the Liquidity Coverage Ratio (LCR) is as applicable to SCBs.

The maximum loan size and investment limit exposure to single/group borrowers/issuers will be restricted to 15% of its capital funds. At least 50% of its loan portfolio should constitute loans and advances of size up to ₹25 lakh in order to extend loans primarily to micro enterprises.

Small Finance Banks may, at their discretion, issue passbooks for the deposit accounts in addition to the electronic confirmation of the deposit. These banks should send a statement of accounts once in six months to the registered address free of cost, if passbooks have not been issued. However, account information will be provided to the customers through multiple user friendly modes viz., SMS, E-mail, Internet Banking etc. They may provide a statement of account in paper form on request on chargeable basis.

These banks may engage all permitted entities, including the companies owned by their business partners and own group companies, on an arm's length basis as Business Correspondents.

**New Players:** Microfinance Institutions (MFIs) dominated the second set of differentiated banks announced by RBI recently. Eight out of Ten approved Small Finance Banks belongs to Micro Finance sector. The entities who received "in-principle" approval to set up Small Finance Banks are – Au Financiers (India) Ltd., Disha Microfin Private Ltd., Equitas Holdings Private Ltd. (Ahmedabad), Equitas Holdings Private Ltd. (Chennai), ESAF Microfinance and Investments Private Ltd., Janalakshmi Financial Private Ltd., RGVN (North East) Micro Finance Ltd., Suryoday Micro Finance Private Ltd., Ujjivan Financial Services Private Ltd., and Utkarsh Micro Finance Private Ltd.

The entry of MFIs in this segment is a revolutionary step since these entities are well-familiar with the nuances of banking with the poor borrowers. MFIs were so far not allowed to accept deposits and engaged in extending credit after sourcing money from commercial banks. Now, by getting access to banking, these entities can tap public deposits, which will significantly lower their cost of borrowing and enable them bring down their rate of interest on loans from the current 24-26 per cent to a level decided by the market competition, possibly lower double digit figures. Becoming

Small Finance Banks will help them significantly lower their borrowing costs, and engage in businesses focused on small and medium enterprises and the lower end of the retail customer base.

In the light of rapid developments in the technology, RBI proposes to redefine the "Branch outlet" by including all Extension Counters, Satellite Offices, Ultra Small Branches, Fixed Point Business Correspondent outlets and manned ATMs as Banking Outlet. All Scheduled Commercial Banks are required to open minimum 25 percent of their new outlets in Unbanked Rural Centers (URC).

**Impact on existing banking players:** Once these firms enter the banking landscape, logically, the bigger commercial banks will face intensified competition in retail segment especially CASA deposits and small-value loan market. State-run banks, which used to have dominance in rural areas of the country with their reach, will find competition tougher if the new set of banks hit the market with competitive rates of interest to poach customers. Public Sector Banks will have to work harder. Nevertheless, the entry of Small and Payments banks mark the biggest banking revolution India has witnessed after the nationalization of banks. This will create positive disruptions in the country's banking sector, intensifying competition, thus making banking more affordable for the common man.

The new set of banks viz., Payments Banks & Small Finance Banks are generally operate among low-income segments and not chase big borrowers. Logically, they have to work out viable models to stay in the competition. This can give a major boost to financial inclusion and credit-expansion to unbanked areas given that in this case financial inclusion wouldn't be a charity forced by regulation like the existing commercial banks. In this case it would be the mainstay of the business. That's good news for the Indian poor.

Both Payments Banks and Small Finance Banks are "niche" or "differentiated" banks, with the common objective of furthering financial inclusion. Technology plays a major role in this regard. These Banks definitely unlocks business potential and paves the way to reach the bottom of pyramid, which is a long cherished desire of the nation.

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## Financial Sector Legislative Reforms Commission (FSLRC)

Financial sector being a catalyst for the real sector growth has to be dynamic enough to support the growth aspirations. The institutional framework i.e. laws, policies and organizations, governing the financial sector should enable its orderly growth in tune with such aspirations. The existing framework governing the financial sector built up over 60 Acts with multiple rules and regulations date back several decades, when the financial landscape was very different from that of today. At present, India has a legacy financial regulatory architecture viz., Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulation and Development Authority (IRDA), Pension Funds Regulation and Development Authority (PFRDA) and Forward Market Commission (FMC).

While the objective of RBI is to manage the monetary and credit system of the country, SEBI works towards promotion of orderly and healthy growth of the securities market duly protecting the interests of the investors. Similarly, IRDA promotes and regulates insurance industry and PFRDA deals with pensions and old age income security among all citizens of the country. The FMC is the chief regulator of forward and future markets in India. The weaknesses in the existing structure are prevalence of gaps where no regulator is in-charge, conflicts between regulators & laws. Fragmentation of financial regulation leads to a reduced ability to understand risk and problems are likely to exacerbate.

In the above backdrop, Financial Sector Legislative Reforms Commission (FSLRC) was set up in the year 2011 chaired by Shri B N Srikrishna, a former Supreme Court Judge, to review and rewrite the legal-institutional architecture of the Indian financial sector. The commission presented its report in the year 2013 and proposes a sweeping reorganization of the financial architecture and the significant recommendations are as under:

It is proposed that RBI will perform three functions viz., Monetary policy, Regulation and Supervision of banking in enforcing the proposed consumer protection law and micro-prudential laws. Further, It is proposed to create a separate agency to manage Public Debt, removing these functions from the RBI. Central Government would promulgate 'rules' governing inbound capital flows while the RBI would promulgate 'regulations' governing outbound flows.

The report presents ambitious legislative reforms that could be brought about by introducing 'non-sectoral' laws (Laws that represent a common set of principles for governance of financial sector regulatory institutions; Laws that are not specifically applicable to any one sector). The present operations of SEBI, PFRDA and FMC would be rolled into a new Unified Financial Agency (UFA). The unification of regulation and supervision of financial firms would yield consistent treatment in consumer protection and micro-prudential regulation. This would yield benefits in terms of economies of scope and scale in the financial system. To implement the revised financial regulatory architecture, it is proposed to create a new agency "Financial Redressal Agency". These initiatives enable the entities to focus attention on the core objectives i.e. ***Innovation and Consumer protection***.

## Aadhar Bill - 2016

The Unique Identification Authority of India (UIDAI) was established by Government of India with an objective to implement Multipurpose National Identity Card in the country. It is also called as UID or Aadhar Card. It is aimed to eliminate duplicate/fake identities and to put hassle-free, cost effective verification/authentication system in place thereby to save considerable resources of various User Departments as well as beneficiaries at large. Central/State Governments and Public Sector Banks are acting as Registrars for the project. The Registrar or its agents collect details of Demographic information and Biometric details such as Facial Image (Photo), Finger Prints (10) and iris scan of the applicant to establish individual's uniqueness. De-duplication exercise ensures that nobody gets more than one number and in case a person already enrolled approaches the registrar, his biometric parameters will be run through the database and if matches his application will be rejected right away. It is a **12 digit identity code** and will remain a permanent identifier. Aadhaar number is Indian equivalent to the Social Security Number in the United States of America.

Unique Identification project was initially conceived by the Planning Commission in the year 2006 as an initiative that would provide identification for each resident across the country and would be used primarily as the basis for efficient delivery of welfare services. It would also act as a tool for effective monitoring of various programs and schemes of the Government. Subsequently, Shri.Nandan M. Nilekani joined as first Chairman of UIDAI in July 2009. The Council is to advise the UIDAI on Programme, methodology and implementation to ensure co-ordination between Ministries / Departments, stakeholders and partners.

The recently passed Aadhaar Bill-2016 plans to use the identification number issued by UIDAI to deliver state subsidies directly in to the hands of the beneficiaries. The bill has gained utmost importance on account of its utility as well as the other issues associated with it. The lion portion of the Union Budget has been towards many kinds of subsidies and monetary payments to the economically weaker sections segments of the country. But as these payments trickle down from the centre through long chain of intermediaries to the final beneficiary, a lot of it is lost on account corruption, leakages and bribes. The government is now keen to reduce these leakages by crediting subsidies directly into the bank accounts of the beneficiaries through its JAM initiative – Jan Dhan Bank account – Aadhaar Number – Mobile Number.

The Aadhaar Bill directly affects the residents in two ways. One, with the government now having a right to demand for Aadhaar, the Identification Number may soon become essential to avail any subsidy or service from the government. Two, there are concerns that once the citizens share so much information with the government, including sensitive information such as fingerprints, these may be vulnerable to data theft or misuse by the authorities. However, Aadhaar Bill has some safeguards in place to address the privacy concerns. The UIDAI is not permitted to share information relating to any individual – be it personal details such as date of birth or biometrics except under sec 33 of the bill which are as under:

- In the interest of "National Security" which will be decided by the Oversight Committee comprising Cabinet Secretary, Secretaries of Legal affairs, Electronic and Information Technology.
- Courts may order that an individual's biometric and demographic information may be revealed.

It gives a big push to the government's financial inclusion agenda and provides strong foundation to deliver better services and improve the operational efficiency of the system.

## Goods & Services Tax (GST)

GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. It is a part of proposed tax reforms in India having an extensive base that instigate the applicability of an efficient and harmonized consumption tax system. The system of GST is commonly accepted in more than 140 countries across the world.

**Structural Tax Reforms:** The GST will reshape the indirect tax structure by subsuming majority of indirect taxes like excise, sales and services levies. This will do away with the complex indirect tax structure of the country, thus improving the ease of doing business in the country.

**Cost Competitiveness:** Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. GST is a key 'brahmastra' for India's gross domestic product in times of challenging global environment.

**Unified Market:** GST will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. It will help bring down logistical costs.

**Increased Tax Collections:** Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivizing firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganized sector, which is not part of the value chain, would be drawn into the tax net.

**Combating Corruption:** Documentation is a prerequisite to claim input tax credit. Thus, the new tax regime is seen as less intrusive, more self-policing, and hence more effective way of reducing corruption.

**Tax compliance:** The supplier, because of the paper trail left by the GST, knows that his evasion will be more likely to be detected once his client is audited. It improves tax compliance in the long run.

However, on the flip-side, the service tax rate could shoot up from the current level of 15 per cent (including Krishi Kalyan Cess to 18 per cent may lead to rise in prices and inflation in the short run.

**Impact on Exports:** The GST system mandates that all duties must be paid at the time of a transaction while refund for these can be obtained after exports. This means the exporter will have to arrange funds for the inputs, manufacturing and payment of duties and taxes. This may warrants increased working capital requirement which need to be resolved.

**Impact on Banking and Financial Services:** At present, the effective tax rate on banking and financial services (Loan processing, Debit/Credit card, insurance premium, Funds transfer, Service charges etc.,) is 14% which is likely to up by another 4% to 5% once the GST is implemented.

### Conclusion:

The GST rollout will be a time-consuming, complex process. There are a few key amendments which include changing the wording on the matter of five-year compensation to the states and work out a model to strengthen the built of the state dispute resolution mechanism, and, probably, working out a definition for the concept of revenue neutral rate (no loss, no profit tax rate for states).

The GST council agreed to implement rate structure with four slabs viz., 5, 12, 18 and 28%. The lowest rate i.e. 5% is proposed to mass consumer goods; the essential services are taxed at 12%; the products which are commonly used by the lower middle class are taxed at 18%; and white goods & consumer durables are taxed at peak rate of 28%. Apart from this, four "Demerit" goods viz., Luxury cars, Pan masala, Aerated drinks and Tobacco products will be taxed at 40% to 65% inclusive of a cess.

Once implemented, the GST will replace all versions of indirect tax levies including VAT, octroi, excise duty, service tax and any other state-level taxes. This is a big exercise and putting in place the systems to implement this will take months. Though bigger states are on board, the GST Bill will have to go through several other smaller states where practical implementation issues will play a bigger role than politics.

The macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance. Further, in a highly developed open economy with a high and growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue. Implementation of GST could facilitate a much needed correction in fiscal deficit.

*Passage of GST amendment is an important landmark in the history tax reforms in India. Nevertheless it is only the beginning of a long journey.*

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## Stand Up India Scheme (SUIS)

India is one of the promising economies where people have intelligent minds, ideas, concepts and above all much more dedication towards their career compared many countries across the world. If these people get a strong financial backup, there is every possibility that our country definitely can achieve a lot more success and capable of finding respectable place among developed nations. In the above backdrop, Prime Minister has launched a novel employment scheme titled "Stand up India Scheme (SUIS)" on 5<sup>th</sup> April 2016, with the objective to promote entrepreneurship amongst the Schedule Caste / Schedule Tribe and Women duly providing handholding support to enable them from mere **"Job Seekers to Job Creators"**. The broad features of the scheme are as under:

- Indian Citizens whose age is above 18 years.
- Meant for Scheduled Caste (**SC**) or Scheduled Tribe (**ST**) and **Woman**.
- Loans under the scheme are available for only Green field Projects.
- The entrepreneur may be engaged in manufacturing, services or the trading sector.
- The loan shall be a Composite loan (Term loan and working capital) between **₹10 lakh** and upto ₹100 lakh.
- The Scheme envisages 25% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn upon for availing admissible subsidies or for meeting margin money requirements. In all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.
- Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL), nodal agency National Credit Guarantee Trustee Company (NCGTC), as decided by the banks.
- The interest rate would be applicable rate of the bank for that category (rating category) not to exceed (MCLR+3%+ tenor premium).
- The term loan is repayable within 7 years with a maximum moratorium period of 18 months.

### Other Benefits:

- Earlier the startups had to struggle very much to get them registered. Now the government launched a mobile app on 1<sup>st</sup> April 2016 whereby the registration process will take only a day to complete. Also a web portal is launched to give clearances, approvals, etc. The labor law related inspection will not be carried out on the startups for the first three years.
- The startups can now claim up to 80% rebates on patent costs and the government will also be paying the fees of the facilitator that helped the startup to obtain the patents faster for Intellectual Property Rights (IPRs) by introducing simplified procedures.
- The eligibility criteria of having a prior experience or turnover experience to open a business has now be removed – without compromising on the quality of the goods produced.
- Tax exemptions on capital gains can now be claimed by the investors under this scheme. The tax exemption regulation which is applicable for newly formed MSMEs will now be extended to all start ups for the first 3 years. However startup will be eligible for tax benefits only after obtaining a certificate from the Inter Ministerial Board.

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## Make in India

India is a country with rich natural resources besides abundant skilled manpower. However, the economy is not growing in the desired direction and majority educated youth moving abroad for livelihood which is a cause of serious concern. In the above backdrop, The "Make in India" program was launched by Shri Narendra Modi, Prime Minister in September 2014 as part of a wider set of nation building initiatives with focus on to **boost the domestic manufacturing industry** and to invite foreign investors to India. The logo for the campaign is an elegant lion, inspired by the Ashoka Chakra and designed to represent India's success in all spheres.

Make in India is a powerful, galvanizing call to Indian Citizens & Business Leaders, and an invitation to potential Partners & Investors across the Globe. It represents a comprehensive and unprecedented overhaul of outdated processes and policies. Most importantly, it intends a complete change of the Government's mindset and move towards "**Minimum Government & Maximum Governance**" philosophy. The program aims to inspire confidence in India's capabilities amongst potential partners within and outside India duly providing a framework for a vast amount of technical information on the following **25 industry sectors** to reach out to huge market via social media.

Automobiles	Food Processing	Renewable Energy
Automobile Components	IT and BPM	Roads and highways
Aviation	Leather	Space
Biotechnology	Media and Entertainment	Textiles and garments
Chemicals	Mining	Thermal Power
Construction	Oil and Gas	Tourism and Hospitality
Defence manufacturing	Pharmaceuticals	Wellness
Electrical Machinery	Ports	
Electronic Systems	Railways	

Opening up of key sectors like Railways, Defence, Insurance and Medical Devices has paved the way to attract Foreign Direct Investment inflows. It demonstrated the transformational power of collaborative model "Public Private Partnership (PPP)", and has become a hallmark of the Make in India program. There is visible momentum, energy and optimism and moving on its way to become the world's most powerful economy.

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## Startup India

Many enterprising people who dream of starting their own business lack the resources to do so and as a result, their ideas, talent and capabilities remain untapped and the country loses out on wealth creation, economic growth and employment. In the above backdrop, the Prime Minister of India announced a new scheme "*Startup India*" on 15<sup>th</sup> August 2015. It is a revolutionary scheme that helps the people who wish to start their own business with required encouragement and support. The objective of the scheme is that "***India must become a nation of Job Creators instead of being a nation of Job Seekers***".

Startup India means an entity whether it is a Partnership firm, or Limited Liability Partnership or Private Limited company incorporated or registered in India, not older than 5 years, annual turnover does not exceeding Rs.25 crore in any preceding financial year, and it should work towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

One of key challenges faced by Startups in India has been access to finance. Often Startups, due to lack of collaterals or existing cash flows, fail to justify the loans. In order to provide funding support, Government has set up a fund with an initial corpus of Rs.2500 crore per annum for the next 4 years. The Fund is not meant for investing directly into Startups, but shall participate in the capital of SEBI registered Venture Funds. Debt funding to Startups is also perceived as high risk area and to encourage Banks and other Lenders to provide Venture Debts to Startups, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary corpus of Rs.500 crore per year for the next four years.

The action plan initiated by the Government to achieve the desired results is – creating environment to do the business with ease with simplified systems/procedures and providing fee exemptions as well tax concessions. A start-up ecosystem comprises of entrepreneurs, different kinds of financial support such as debt financing, equity investments, grants, and non-financial support including incubation, acceleration support, mentoring and technical experts. Hope that this initiative will go a significant way in reiterating Government of India's commitment to making India the hub of innovation, design and Start-ups.

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## Real Estate Investment Trusts (REITs)

Real Estate sector is playing a key role in economic development as many other sectors such as Steel, Cement, Labour etc., are depending on this sector. Real estate, particularly commercial real estate as an asset class has traditionally been out of reach of an average Indian investor as the entry level investment is huge and prohibitive. In order to provide access to common investor to this segment, REITs are permitted to raise funds through an Initial Public Offer (IPO) or Follow-on Public Issue (FPO), QIP, Rights Issue and any other mechanism specified by SEBI. Once REITs pool money from investors, units with minimum ticket size of ₹2 lakh will be issued to the investors which can be traded on stock exchanges (minimum lot size is ₹1 lakh).

REITs invest the funds received in income generating real estate assets such as shopping malls, office buildings, apartments, hotels, warehouses etc. As per SEBI guidelines, REITs are close ended schemes and can only invest in income generating real estate properties, prohibiting investments in vacant land. REIT schemes have to be rated by a credit rating agency and shall not invest more than 15% in a single real estate project.

The dividend payout depends on cash flow (distributable income) through sale of property or through rental income. As per SEBI guidelines, it is mandatory for REITs to declare 90% of distributable income as dividend to the unit holders. Thus, these instruments emerge as new asset class – typically a liquid, dividend paying and asset backed instrument. The investors in REITs will enjoy twin benefits – *Yield and capital appreciation*. Normally, the risk-averse investors opt for this type of instruments.

The REIT is an investment vehicle that invests in rent-yielding completed real estate properties has the potential to transform the Indian real estate sector. Currently, developers incur huge capital expenditure especially in Commercial Real Estate (CRE), on land, construction, furnishing, etc., which remains locked for long years until the asset generates returns to break-even. REIT will help attracting long-term financing from domestic as well as foreign sources at low cost. The disclosure norms such as average rents, occupancy levels, tenant profile, renewal profile, etc., have been paving the way to improve the transparency and governance issues and it is a win-win situation to both developers and investors.

The existing Dividend Distribution Tax (DDT), Minimum Alternate Tax (MAT) and stamp duty implications need to be resolved to encourage the retail investor participation in this sector. It is pertinent to tap interest from foreign investors as it would be a very viable asset class in the backdrop of low interest rates prevailing globally. Therefore, amendments to the foreign exchange control regulations is required to enable foreign private equity players who are currently invested in commercial stabilised assets to sponsor/manage the REIT. Listing of REITS would be greatly beneficial to the Indian real estate industry as it would be viable exit options to the relevant stakeholders. However, to ensure the success, the Government needs to move quickly on the REIT market reforms.

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## Gold Monetization Schemes

**Sovereign Gold Bond Scheme (SGB) 2015:** As part of implementation of Budget 2015-16 proposals, Govt. of India has introduced Sovereign Gold Bond Scheme (SGB) on 5<sup>th</sup> November 2015. SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bonds are issued by RBI on behalf of Government of India. The objective of the scheme is to discourage the investors to buy physical gold duly ensuring reasonable return on their investment. It protects the interest of the investors since they receive the ongoing market price at the time of redemption/premature redemption. Further it offers a superior alternative to holding gold in physical form. The risks and costs of storage are fully eliminated. It is free from issues like making charges and purity in the case of gold in jewellery form. The salient features of the Bonds are as under:

No	Item	Details
1	Eligibility	Resident Indian entities including Individuals, HUFs, Trusts, Universities and Charitable Institutions
2	Denomination	In multiples of grams of gold with basic unit of 1 gram
3	Minimum size	2 units (2 gram gold)
4	Maximum limit	500 grams per person in a fiscal year (April to March)
5	Account type	Individual or Joint
6	Forms of Bonds	Optional – Physical or Demat
7	Tenor	8 years. However pre-closure permitted from 5 <sup>th</sup> year
8	Interest Rate	2.75% p.a. payable half-yearly on the initial value of the investment
9	Nomination	Available
10	Transferability	Transferable
11	Tax treatment	Taxable as per Income Tax Act.
12	TDS	Not applicable. However, the responsibility of complying with the tax laws rests with the investor
13	Redemption	In Indian Rupees on the basis of the previous week's simple average closing price for gold of 999 purity published by IBJA
14	Loans	The holders of the bond shall be entitled to create pledge, hypothecation or lien in favour of scheduled banks
15	Documentation	KYC documents such as Voter ID, Aadhaar Card / PAN or TAN / Passport and residential proof required to be obtained

Banks earn 1% of SGB as fee which is paid by GOI. It is a source of other income to the Banks. As investors will get returns that are linked to gold price, the scheme is expected to reduce the demand for physical gold. The bonds will offer same benefits as physical gold and the bonds can be used as collateral for loans and can be sold or traded on stock exchanges as they are available in demat form. At the same time investors need not worry about holding physical gold.

So far, there are 4 issues since launching of the scheme and attracted many investors to this product. Hope this will help the economy to reduce gold imports and enable minimize current account deficit which is the need of the hour.

**Gold Deposit Scheme:** With a view to bring privately held stock of gold into circulation, Govt. Of India / RBI advised banks to introduce Gold Deposit Scheme (GDS). The salient features of the scheme are as under:

No	Feature	Details
1	Eligibility	Individuals (single/joint); HUFs; Trusts (including Mutual Funds/Exchange Traded Funds registered under SEBI); Companies.
2	Forms of subscription	Gold deposited (Bars/Coins/Jewellery) will be melted after removing the base metal and non-gold elements, if any, to identify the pure gold content of uniform fineness.
3	Minimum Quantity	30 grams and no upper limit
4	Tenor of deposit	Six months to Seven years (in multiples of three months)
5	Interest Rate	0.50% for deposit up to 3 years; 0.75% for deposit of more than 3 years up to 7 years. Interest is calculated in terms of Gold Currency (XAU) based on principal quantity of deposit.
6	Certificate	Gold Deposit Certificate (GDC) will be issued by Nodal Branch after the Gold is melted, assayed and minted at India Government Mint (IGM).
7	Redemption	The customer will be required to submit the original certificate, duly discharged on the reverse, to reach the Nodal Branch one month before maturity (15 days in case of cash repayment). The principal quantity of deposit will be paid in cash or gold (995 fitness) as specified by the customer in the Application Form. Any fraction quantity (< 10 grams) will be paid in equivalent Rupees. Premature Payment is permitted after a lock in period of six months with penalty of 0.25% on applicable interest rate.
8	Renewal	Any time after maturity as per the term and interest rate available on maturity.
9	Transferability	Transferable by Endorsement and Delivery. In case of certificates issued in dematerialized form, the depository rules for transfer would apply. Transfer to be noted with Nodal Branch.
10	Loan facility	Rupee Loan available at select Branches of our Bank for up to 75% of notional value of Gold Deposited.
11	Tax Benefits	Exemptions from Income Tax, Wealth Tax and Capital Gains available.
12	Documents required	The customers would have to fulfil all KYC requirements as applicable to other deposit products. In addition, customers will be required to submit Inventory Form with description of gold, number of pieces and weight of gold after preliminary checking of purity.

The mobilised gold with the bank will constitute an eligible asset under SLR if the banks hold such gold with themselves in physical form. Banks are required to convert the liabilities and assets denominated in terms of gold into rupees for the purpose of compliance with reserve requirements / capital prescription requirements / balance sheet translation requirements.

The GDS is a significant step towards mobilizing India's gold and it can provide a fillip to the gems and jewellery sector by making gold available as loans from the banks. However, the success of the scheme depends on trust of the consumers flowing around the monetization ecosystem, ease of transactions, robust infrastructure to handle increased volumes (scalability) besides providing win-win platform to all the stakeholders. The scheme is going to be operational shortly on circulation of final guidelines by the regulator.

## Retail Banking

Retail Banking is basically a mass banking with focus on Individual customer rather than on large Corporate Houses/Groups, both on liabilities and assets side of the balance sheet. While Savings, Current and Fixed deposits, with certain flavors, remain the prominent products on the liability side; the assets side includes products like Housing, Education, Vehicle, Clean and Personal loans. Besides the above, banks are also extending ancillary services such as Credit/Debit cards, Depository services, Bank assurance products, Mutual funds etc. It is appropriate to call Retail Banking as a **Life Cycle Product** package for individuals to meet all their banking needs right from childhood to silver-line age. While considerable growth rate is seen under PSBs deposits, the share of low cost deposits has come down from 40% to 35% during the last one decade. Similarly, Yield on advances is under strain on account of offering competitive interest rates to corporate clientele besides rise of Non Performing Assets over the years. Today, the survival and the success of the banks crucially depend on sustainability of Net Interest Margin (NIM), which is possible only through judicious deposit mix (CASA) besides augmenting Interest Income through expansion of credit portfolio with quality. In the above backdrop, banks have been focusing attention on Retail banking.

The Retail Banking segment is of heterogeneous nature as it comprises of various sets of people like Professionals, Employees, Entrepreneurs, Labour, Farmers, and Students etc. While the basic banking requirement i.e. Bank Account, remain the same for all the segments, they need specific services depending on their demographic, economic and social background. To reach the target customers the market can be segregated based on the geographic, demographic, psychographic and behavioral aspects. In order to penetrate in to the untapped market, there is an imminent need to map the banking requirements of the existing/prospective customers to the available products and channels on a priority.

The sustained GDP growth has given a fillip to a consumer boom. The rise of the Indian middle class coupled with more liberal attitude towards spending and personal debt is one of the major reasons for increased retail lending in India. Further, the increased proportion of young population (70%) provides greater demand for retail banking services. Retail lending enables the banks to improve interest spread as the lending rates are normally higher than other segments and the credit risk tends to be well diversified. This segment generally loyal and tend not to shift accounts very often and facilitates cross selling.

There are seven Ps viz., Product, Price, Promotion, Place, People, Process and Physical evidence, play a vital role for the banks in developing and designing of retail bank products. The appropriate mix will deliver the desired results. However, **Product** and **People** are to be very much cared in marketing strategies of retail products by the frontline staff. Today there are many players in the market to extend retail banking services on one hand and increased discerning demands of the customers on the other hand, which is making the banks to walk on the tight rope with utmost care and caution. Providing uninterrupted cost effective value added services to the customers is another major challenge for the banks. India is experiencing a surge in retail banking and the market has decisively got transformed from a Sellers' market to a Buyers' market in the light of evolving macro-economic environment, increased profile of Gen-Y and rapid advancement in information technology. Retail Banking is going to play significant role in Indian Banking landscape and banks now need to use retail banking as a **growth trigger**.

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## Micro Units Development and Refinance Agency Limited (MUDRA)

As per NSSO Survey-2013, there are close to 5.77 crore small-scale business units, mostly sole proprietorships, which undertake trading, manufacturing, retail and other small-scale activities. Most individuals, especially those living in rural and interior parts of India, have been excluded from the benefits of formal banking system. Therefore, they never had access to insurance, credit, loans and other financial instruments to help them establish and grow their micro businesses. Majority of them depend on local money lenders at exorbitant interest rates. Today, this segment is unregulated and without financial support or cover from the organized financial banking system.

In the above backdrop, MUDRA was launched on 8<sup>th</sup> April 2015 with a corpus of ₹20000 crore and a credit guarantee corpus of ₹3000 crore. Now it is operating as a subsidiary company of SIDBI with the following objectives:

- Bring stability to the microfinance system through regulation and inclusive participation.
- Extend finance and credit support to Microfinance Institutions (MFI) and agencies that lend money to small businesses, retailers, self-help groups and individuals.
- Register all MFIs and introduce a system of performance rating and accreditation. This will help last-mile borrowers of finance to evaluate and approach the MFI that meets their requirement best and whose past record is most satisfactory.
- Provide structured guidelines for the borrowers to follow to avoid failure of business or take corrective steps in time. It helps in laying down guidelines or acceptable procedures to be followed by the lenders to recover money in cases of default.
- Offer a Credit Guarantee scheme for providing guarantees to loans being offered to micro businesses.
- Introduce appropriate technologies to assist in the process of efficient lending, borrowing and monitoring of distributed capital.

MUDRA borrowers are classified into three segments viz., the starters (**Shishu** - Loans up to ₹50000/-), the mid-stage finance seekers (**Kishor** - Loans above ₹50000/- and up to ₹5 lakh and the next level growth seekers (**Tarun** - Loans above ₹5 lakh and upto ₹10 lakh). Initially, sector-specific schemes will be confined to "Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors". Banks are advised to classify all loans sanctioned up to ₹10 lakh for income generating non-farm activities can be classified under Mudra Loans. All TODs sanctioned in PMJDY accounts up to ₹5000/- also can be classified under Mudra and loans sanctioned under Shishu are exempted from Unit Inspection and Ledger Folio charges. In the long run, it is proposed to launch new schemes such as Mudra Card, Portfolio Credit Guarantee and Credit Enhancement, to encompass more sectors.

Govt. of India envisages building appropriate framework for developing an efficient last-mile credit delivery system to small and micro businesses. Hope this will be a game changer in the ensuing years.

## **Central Repository of Information on Large Credits (CRILC) / Wilful Defaulters (WD) / Reflagged Accounts (RFA)**

**CRILC:** RBI has set up a Central Repository of Information on Large Credits (CRILC) in January 2014 and issued guidelines to all lending institutions (Banks and non-banking companies) for management of stressed assets. As per the guidelines, the lenders are directed to share information with CRILC on quarterly basis regarding borrowers having aggregate exposure (fund ad non-fund) of ₹5 crore and above, including information regarding written-off accounts, balance of current account and information regarding non co-operative borrowers. Banks will also have to furnish details of all Current accounts of their customers with outstanding balances, both debit and credit, of ₹1 crore and above. Banks will be required to submit SMA status of the borrowers to CRILC. If an account is slipped in to SMA-2 at any time or SMA-1 for any two quarters or SMA-NF for three quarters in a year, then the bank would be required to initiate corrective action.

As per RBI guidelines a non cooperative borrower is broadly one who has any one or all of the mentioned irregularities viz., Does not provide necessary information required by a lender to assess his/ its financial health even after two reminders; Denies access to securities etc., as per terms of sanction or does not comply with other terms of loan agreements within stipulated period; Hostile/indifferent or in denial mode to negotiate with the bank on repayment issue; Plays for time by giving false impression that some solution is on horizon; Resorts to vexatious tactics such as litigation to thwart timely resolution of the interest of the lender/s. Once a borrower is identified as Non Cooperative Borrower, the same has to be reported to CRILC. Any exposures to such borrowers will attract higher/accelerated provisioning (5%) in case of slippage even if it is a standard asset. In view of the above the field functionaries are not permitted to consider sanction of enhancement / fresh limits to Non Cooperative Borrowers, even though they fall under their limits. These have to be forwarded to HO with due recommendation and proper justification has to be provided in the appraisal while considering the renewal of credit facilities/enhancements/fresh sanctions.

**Wilful Defaulters:** As per RBI guidelines, a Wilful Defaulter would be deemed to have occurred, where the unit has defaulted in meeting its payment / repayment obligations to the lender even when it has capacity to honour the said obligations or where the unit has not utilized the finance for the specific purpose for which finance was availed of but has diverted the funds for other purposes or disposed of or removed the movable fixed assets or immovable property offered for the purpose of securing a term loan without the knowledge of the Bank/Lender. It covers all non performing borrowal accounts with aggregate outstanding balance (funded facilities and such non-funded facilities converted into funded facilities) of ₹25 lakhs & above. Forensic audit should be conducted in high value accounts before recommending for identifying the related borrowers as willful defaulters. In all other accounts, a certificate from concurrent auditor or any other auditor appointed by bank should be obtained for declaring the borrower as willful defaulter. The classification of the borrower as Willful defaulter is vested with Committee at Head Office. However, the borrower will be given reasonable time (15 days) for making submission to the committee. Bank is required to submit the details of willful defaulters to RBI and *TransUnion CIBIL Limited*. RBI advised all Banks/Financial Institutions not to extend any additional credit facilities to the Wilful Defaulters and they are debarred from floating new ventures for a period of 5 years from the date RBI publication and also liable for criminal proceedings for breach of trust, cheating and wrong certification under IPC. RBI advised the lending institutions to formulate a policy to spell out the criteria to publish the names and photographs of defaulting borrowers (willful) and the approach is neither discriminatory nor inconsistent.

**Red flagged Accounts (RFA):** Alarmed over the rise in frauds in the banking system by the individuals/corporate borrowers and mounting Non-Performing Assets (NPAs), the RBI has introduced the concept of a Red Flagged Account (RFA). It is an important step towards fraud risk control as it throws one or more Early Warning Signals (EWS) of suspicious fraudulent activity of the borrowers. Some of these signs are bouncing of high-value cheques, a raid by tax officials, a dispute on title of collateral securities or funds coming from other banks to liquidate a loan due, etc. Banks being custodians of public money cannot afford to ignore such EWS and need to trigger to launch a detailed investigation into a RFA. The threshold for EWS and RFA is an exposure of ₹50 crore or more at the level of a bank irrespective of the lending arrangement, whether solo banking, multiple banking or consortium.

The decision to classify any standard or NPA account as RFA or fraud will be at the individual bank level and it would be the responsibility of this bank to report the RFA or fraud status of the account on the CRILC platform so that other banks are alerted. Thereafter, within 15 days, the bank which has red flagged the account or detected the fraud would ask the consortium leader or the largest lender to convene a meeting of the Joint Lenders Forum (JLF) to discuss the issue. The account would be red flagged by all banks and subjected to a forensic audit commissioned or initiated by the consortium leader or the largest lender under multiple banking arrangements. The forensic audit must be completed within three months from the date of the JLF meeting authorizing the audit. Within 15 days of forensic audit, the JLF will reconvene and decide on status of the account. In case the decision is to classify the account as a fraud, the RFA status would change to fraud in all banks and reported to RBI and on the CRILC platform within a week.

No restructuring or grant of additional facilities may be made in the case of RFA or fraud accounts. Further, the provisions as applicable to wilful defaulters would apply to the fraudulent borrowers including the promoter director and other whole time directors of the company in so far as raising of funds from the banking system or from the capital markets by companies with which they are associated is concerned, etc. Borrowers who have defaulted and have also committed a fraud in the account would be debarred from availing bank finance from banks and financial institutions for a period of five years from the date of full payment of the defrauded amount.

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## Prompt Corrective Action (PCA) Framework for Commercial Banks

The RBI has specified the following regulatory trigger points to commercial banks, as a part of prompt corrective action (PCA) Framework.

**CRAR less than 9%, but equal or more than 6%** - Banks are required to submit capital restoration plan to RBI. Further, there will be restrictions on RWA expansion, entering into new lines of business, accessing / renewing costly deposits, and making dividend payments, borrowing from inter-bank market, reduction of stake in subsidiaries, reducing its exposure to sensitive sectors like capital market, real estate or investment in non-SLR securities, etc. In case where CRAR less than 6%, but equal or more than 3%, RBI could take steps to bring in new Management/Board, appoint consultants for business/organizational restructuring, take steps to change ownership. In case CRAR less than 3%, impose moratorium on the bank and also initiate steps to merge / amalgamate / liquidate the bank.

**Net NPAs over 10% but less than 15%** - Special drive to reduce NPAs and contain generation of fresh NPAs; review loan policy and take steps to strengthen credit appraisal skills, follow-up of advances and suit-filed/decreed debts, put in place proper credit-risk management policies; reduce loan concentration; restrictions in entering new lines of business, making dividend payments and increasing its stake in subsidiaries. Where Net NPAs 15% & above, Bank's Board is called for discussion on corrective plan of action.

**ROA less than 0.25%** - Restrictions on accessing costly deposits, entering into new lines of business, bank's borrowings from inter-bank market, making dividend payments and expanding its staff; steps to increase fee-based income; contain administrative expenses; special drive to reduce NPAs and contain generation of fresh NPAs; and restrictions on incurring any capital expenditure other than for technological up-gradation and for some emergency situations.

<b>Broad classification of Banks basing on PCA framework</b>			
<b>Classification</b>	<b>Risk Based Capital Ratio</b>	<b>Tier-1 Risk Based Capital Ratio</b>	<b>Leverage Ratio</b>
Well Capitalized	10% & above	6% & above	5% & above
Adequately Capitalized	8% & above	4% & above	4% & above
Under Capitalized	< 8%	< 4%	< 4% & < 3% under CAMEL
Significantly undercapitalized	< 6%	< 3%	< 3%
Critically undercapitalized	Leverage Ratio is equal or less than 2%		

As and when the bank reaching the levels of undercapitalized, or significantly undercapitalized, or critically undercapitalized - RBI imposes restrictions on the concerned bank in respect of payment of capital distributions and management fees, growth of assets, expansion proposals and submission of a capital restoration plan. In addition to above, these banks are required to take prior approval from RBI in respect of entering into any material transaction other than in the usual course of business, such as any investment, expansion, acquisition, sale of assets, or other similar action; extending credit for any highly leveraged transaction; amending the institution's charter or bylaws; making any material change in accounting methods; paying excessive compensation or bonuses; paying significantly high interest on new or renewed liabilities; making any principal or interest payment on subordinated debt. Recently, **Indian Overseas Bank** is subjected to PCA ambit and restrictions are imposed on branch expansion, dividend payout and staff recruitments to improve internal controls and consolidation of its activities. The restrictions were, however, lifted after two years once its performance improved. Some more banks are likely to join in the list shortly.

## Marginal Cost of Funds based Lending Rate (MCLR)

Reserve Bank of India advised all Banks not to lend below Base Rate w.e.f. 01.07.2010 except certain categories such as Differential Rate of Interest (DRI) advances, Loans to bank's own employees, Loans to bank's depositors against their own deposits, Interest Subvention Schemes viz., Crop loans, Export credit and Restructured loans. As per RBI guidelines on Base Rate, Banks are required to fix Base Rate duly taking Cost of Deposits/Funds, Negative carry in respect of CRR and SLR, Unallocated Overhead Costs and Average Return on Net Worth in to consideration. There is no uniformity with regard to adoption of methodology in arriving cost of deposits/funds, which is the vital component for Base Rate. Majority banks have been adopting average cost of funds method which is causing lag in transmission of policy rates.

In order to have transparency in the methodology followed by the banks in arriving the existing Base Rate and to improve the transmission of policy rates into lending rates of banks as well as to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks, RBI has introduced **Marginal Cost of funds based Lending Rate (MCLR)** in lieu of present Base Rate with effective from 1<sup>st</sup> April 2016 and the highlights of the new norms are as under:

- Adopting marginal cost of funds methodology. All loans and credit limits availed by the borrowers will be priced with reference to MCLR.
- Actual lending rates will be determined by adding the components of spread to the MCLR.
- Banks will review and publish their MCLR of different maturities every month on a pre-announced date.
- Banks may specify interest reset dates on their floating rate loans. They will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of MCLR.
- The periodicity of reset shall be one year or lower.
- The MCLR prevailing on the day the loan is sanctioned will be applicable till the next reset date, irrespective of the changes in the benchmark during the interim period.
- Existing loans/credit limits linked to the Base Rate may continue till repayment or renewal, as the case may be. Existing borrowers will also have the option to move to the Marginal Cost of Funds based Lending Rate (MCLR) linked loan at mutually acceptable terms.
- It will be a tenor linked internal benchmark.

Since the MCLR is tenor linked internal bench mark rate, Banks are likely to levy different Interest Rates for different tenor based loans. Probably, with the implementation of new norms, Indian Banks slowly will be moving to International standards of benchmarking rates.

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## Bankruptcy Code

The Insolvency and Bankruptcy code which aims at speed-up the process of liquidation or revival of companies. However, the fact remains that the recovery rate in India is around 20% of the value of the debt only as the promoters stay in control of the company even after the default and tend to divest assets of the company which is detrimental to the interest of the stakeholders. Further, even to decide whether to save or liquidate an ailing company is taking undue long time under the existing bankruptcy rules.

It is reported that large number of corporate borrowers (1/3<sup>rd</sup> of the total borrowers) is facing significant balance sheet distress, leading the banking industry to squander good money after bad money, hampering the credit cycle adversely. When banks pull back from lending, it hurts the macro economic situation which has again direct bearing on the asset quality of banks.

Though, RBI initiated many steps in this direction, the desired result is not seen as the key problem for the present issue is the multiplicity of frameworks viz., Debt Recovery Tribunals (DRT), Corporate Debt Restructuring Mechanism (CDR), Joint Lenders' Forum, Strategic Debt Restructuring (SDR) etc. The establishment of earlier CDR or the present SDR mechanism has become another instrument for banks to postpone bad news. The SDR scheme micro manages the process and it attempts to replace subtle business judgment with a fixed bureaucratic scheme, probably not a right prescription. Further, Banks are facing challenges in recovering of debts from the wilful defaulters. Thus, the bankruptcy code needs to be a clean and modern replacement for these multiple procedures. To address the issue and to create a sound framework for all creditors, GOI constituted a committee to review and revisit "Bankruptcy Law Reforms" and entrusted the task to Shri T.K. Vishwanathan to draft a bankruptcy code. This is one of the most important initiatives of the government and the major recommendations of the committee report are:

- Formation of an Insolvency Adjudicating Authority which will have the jurisdiction to hear and dispose of cases by or against the debtor. DRTs would hear the cases for individuals and unlimited liability partnership firms where as cases for companies, limited liability entities will be dealt by National Company Law Tribunal.
- The creditor and the debtor will engage in negotiations to arrive at an agreeable repayment plan for composition of the debts and affairs of the debtor, supervised by a resolution professional.
- The period prescribed for insolvency resolution is 180 days, which may be extended to 270 days by the Adjudicating Authority only that too in exceptional cases.
- The insolvency resolution plan is to be approved by a majority of 75% of voting share of the financial creditors.
- Fast track insolvency process is made available for certain entities to complete the resolution process within 90 days from the trigger date.

The insolvency and Bankruptcy code is a veritable watershed reform which shall create an environment where failure of business enterprises is accepted by the society and a mechanism to resolve such failures is created. This shall help in reducing the burden of the courts by doing away unnecessary litigation which ensures to protect the interest of all stakeholders.

## **Brexit – Impact on Indian Economy**

Britain always provided a gateway to the European Union (EU) and many Indian businesses have their offices in Britain so they can avail benefits and continue to remain a part of the EU. India is one of the most lucrative markets for foreign investors and, hence, we attract attention globally. The Brexit referendum on June 23, 2016 was an unprecedented global development. The United Kingdom (UK) voting for the 'Leave' from the EU has considerable impact on socio, economic and political spheres across the globe including India.

Although Brexit's impact on India appears muted, serious risks remain, particularly for those sectors with significant exposure to the UK. Some of India's most prominent companies, which employ considerable workforce in the UK like Tata Group and several high profile IT firms, could be hardest hit. Now confronting the prospect of higher tariffs for their exports, the promulgation of new regulatory and immigration policies and a plummeting exchange rate, these companies have all indicated the need to review their massive operations in the UK given these new governing realities. However, it might also have a positive effect on the following segments.

- The massive selloff of the British pound that followed Brexit resulted in a roughly 8% decline of the currency relative to the Indian rupee, making it considerably less expensive for Indians to travel and study in the UK. The falling currency also presents cheaper real estate options for Indian citizens and companies seeking property in the UK's notoriously expensive property market.
- Britain and India have been so far unable to reach a free trade agreement, with negotiations having become mired in the convoluted financial politics of the 28-nation EU bloc. Now unencumbered by the rest of the EU, the UK will aim to boost trade ties with India and other similarly situated countries.
- The financial and political uncertainty enveloping the EU makes the Indian stock market a more attractive destination for foreign investment.
- Brexit could lead to changes in UK immigration policies that would favor high-skilled workers from India. Divorced from the rest of the Europe, the UK could potentially face a dearth of high-skilled EU workers if the movement of professionals from the continent is curbed. India could benefit from the possible shortfall.

Nevertheless, in the long run, Brexit will help strengthen our ties with Britain because India's focus on innovation and entrepreneurship still makes it an attractive destination for outsourcing and investment. The process might take time for both the governments to design and implement their policies.

## **Pradhan Mantri Fasal Bhima Yojana (PMFBY) & Weather Based Crop Insurance Scheme (WBCIS)**

India has been witnessing spate of farmer suicides on account of adverse climatic conditions besides other associated farming risks. Despite of implementing several crop insurance schemes since 1970s, farmers are not getting the desired protection from risks in farming, which need to be addressed on priority.

In the above backdrop, GOI introduced a new crop damage insurance scheme titled **"PMFBY/WBCIS"** during the current year 2016-17 starting from Khariff-2016. The scheme aims at supporting sustainable production in agriculture sector by way of:

- Support farmers suffering crop loss/damage arising out of unforeseen events.
- Stabilizing the income of farmers to ensure their continuance in farming.
- Encouraging farmers to adopt innovative & modern agricultural practices and
- Ensuring flow of credit to the agriculture sector and protecting farmers from production risks.

Similarly, Government of India has introduced WBCIS which aims to mitigate the hardship of the insured farmers against the likelihood of financial loss on account of anticipated crop loss resulting from adverse weather conditions relating to rainfall, temperature, wind, humidity etc. WBCIS uses weather parameters as "proxy" for crop yields in compensating the cultivators for deemed crop losses. Payout structures are developed to the extent of losses deemed to have been suffered using the weather triggers. For implementation of this scheme, the States are divided into clusters and Cluster wise Crops Notified for insurance coverage. Normally, crops like Cotton, Red Chilli, Sweet Lime, Oil Palm etc., are covered under WBCIS.

All farmers availing crop loans from financial institutions should be covered compulsorily under this scheme. The definition of farmer includes sharecroppers and tenant farmers growing the notified crops in the notified areas are eligible for insurance coverage. Crop insurance is mandatory for notified crops and insurance premium is to be debited to all eligible crops by the Bank Branches and remit to insurance company. The sum insured by the farmer is not the loan amount but it is the scale of finance per hectare multiplied by the land cultivated by farmer.

The non loanee farmers are required to submit necessary documentary evidence of land records (Record of Right), land possession certificate etc. As per the operational guidelines of the schemes (PMFBY or WBCIS), the districts are divided into clusters and each cluster is allotted to Empanelled General Insurance companies as Implementing Agency (IA). For example in Telengana State –

<b>Scheme</b>	<b>Implementing Agency</b>
WBCIS	SBI General Insurance Company Ltd. & Agriculture Insurance Company of India Ltd., (AIC)
PMFBY	Bajaj Allianz General Insurance Company Ltd. & Reliance General Insurance

The present insurance charges payable by the farmer under PMFBY or WBCIS are as under:

<b>Season</b>	<b>Crops</b>	<b>Maximum charges payable by farmer as % of sum insured</b>
<b>I.PMFBY</b>		
Khariff	All food grain and Oilseeds crops	2% of sum insured or Actuarial rate whichever is less
Rabi	All food grain and Oilseeds crops	1.5% of sum insured or Actuarial rate whichever is less

Khariif & Rabi	Annual Commercial & Annual Horticultural crops	5% of sum insured or Actuarial rate whichever is less
<b>II.WBCIS</b>	Cotton, Red Chilli, Sweet Lime, Palm Oil etc.,	5% of sum insured or Actuarial rate whichever is less

The Actuarial Premium Rate (APR) would be charged under PMFBY / WBCIS by the Implementing agency (IA). The difference between APR and the insurance charges payable by farmers shall be treated as Rate of Normal premium subsidy, which shall be shared by the Centre and State.

Apart from yield loss, the PMFBY covers post-harvest losses also. It also provides farm level assessment for localized calamities including hailstorms, unseasonal rains, landslides and inundation. This scheme provides full coverage of insurance.

Claims under WBCIS will be settled on the basis of weather data provided by the State Government and not on the basis of Annavari Certificate / Gazette notification declaring the area as Drought / Flood / Cyclone affected etc., by the District Collectors or any other Govt. Official.

The scheme has the potential to deal with the vagaries of nature on Indian farming. The premium paid by the farmers is kept low when compared with earlier crop insurance schemes. However, the scheme will increase the financial burden on the government and necessary budget allocations should be made. Losses from nuclear risks, riots, malicious damage, theft, and act of enmity, are all categorized under 'exclusions' in the new scheme.

Success of any government scheme depends on its sincere implementation. The key problems such as poor land records, flawed land titles, corruption etc. are common challenges any crop insurance scheme in India faces. Hope, the scheme provides the desired financial support to farmers and also to Banks for smooth credit flow to the Agriculture sector which is need of the hour.

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## Corporate Bond Market

Corporate rely on internal accruals or external sources or combination of both to meet their capital requirements. Normally, funds are raised from external sources either in the form of Equity or Debt or Hybrid instruments that combine the features of both debt and equity. Majority of corporate requirements are being met through borrowings from Banks / Financial institutions in the form of project loans, syndicated loans, working capital, trade finance, etc. Further, corporate sector raises funds through public issues or private placement route (issue of securities by a company to a select group of persons not more than 50).

Of late, corporate are focusing attention on Bond market to meet their financial requirements by issuing debt instruments - Commercial paper (CP) or Corporate Debentures/Bonds (CB). While CP has maturities between one week and a year, corporate bonds have longer maturities.

Corporate Bonds are transferable debt instruments issued by a company to a broad base of investors viz., Public Debt and Private Debt. The former type is an instrument issued by central and state governments, municipal authorities and the later pertains to bonds issued by financial and non-financial corporates. There are three main pillars that make up the corporate bond market ecosystem viz., the Institutions, Participants and the Instruments. The institutions comprise of the securities market regulator (SEBI), the banking regulator (RBI), the credit rating agencies, clearing houses, stock exchanges and the regulations and governance norms prescribed by these institutions.

Development of long-term debt markets is critical for the mobilisation of the huge magnitude of funding required to finance potential businesses as well as infrastructure expansion. Despite a plethora of measures adopted by the authorities over the years for development of Corporate Bond market.

Development of domestic corporate debt market in India is thwarted by a number of factors viz., illiquidity in the secondary market, narrow investor base, high costs of issuance, inaccessibility to small and medium enterprises, dearth of a well-functioning derivatives market, regulatory restrictions, high interest rates etc.

Development of Corporate Bond market is likely to be a gradual process. However, it is important to understand whether the regulators have sufficient willingness to shift from a loan-driven bank-dependent economy to deep developed bond market by corporate in a phased manner. Vibrant, deep and robust corporate bond markets are essential to enhance stability of financial system of a country, mitigate financial crises and support the credit needs of corporate sector, which is vital for the growth of an economy.

**Recent Developments:** The listed companies are allowed to lend money to banks through repo market mechanism, essentially overnight money, something that can have wide ranging ramifications for call money rates, short-term money market rates as well as the banking system liquidity. The RBI also seeks legal amendments to allow banks to borrow from it by pledging corporate bonds. The proposal to allow foreign portfolio investors direct access to bond trading platforms for government and corporate paper will widen the investor base. The RBI has also proposed that banks push corporate clients to borrow from the bond market. As per RBI guidelines, Foreign Portfolio Investors (FPIs) are allowed to have direct access to NDS-OM to ease the process of investment in debt securities. It has also been agreed with SEBI to provide FPIs facility to trade directly in corporate bonds.

## Treasury Management – Concepts

Banks not only lend money to customers but also invest in securities such as Bonds and Debentures of Government as well as Corporates. These instruments are easily tradable in the capital and money market. The tradability of securities makes investments an attractive option for banks for deployment of their funds. Further, banks buy securities not only to trade but also to hold them till maturity to take advantage of the attractive returns with relatively lower risk. Banks are allowed to invest in shares of companies. However, the volumes are low due to associated high risk besides regulatory restrictions. The investment portfolio of the banks broadly divided into three groups viz.,

**Trading Book** – Securities purchased with the intention of selling them within 90 days are held in the trading book. Trading opportunities arise in the market on account of fluctuation in interest rates and arbitrage opportunities.

**Available for Sale (AFS)** – Securities which are bought with the intention of selling them but not necessarily within 90 days is considered to be AFS securities. They are also part of the trading portfolio of the bank but only the time frame is different. Both the trading and AFS securities have to be “Marked to Market” every quarter while finalization of quarterly results.

**Held to Maturity (HTM)** – These securities are meant to be held till their date of maturity and the purpose investing in them is to earn reasonable steady income. These securities are carried in the books at cost or purchase price till maturity. Hence, HTM securities need not be “Marked to Market” as the bank is certain of receiving the maturity value on the specified date. Banks are not allowed to shift securities freely from trading and AFS to the HTM book as this may lead to overstating of profit figures. However, banks can opt for shifting only once in a year to adjust their overall portfolio. Banks are permitted to exceed the limit of 25% of total investments under HTM category provided (a) the excess comprises of only of SLR securities and (b) the total SLR securities held in the HTM category is not more than 23% by March 2014.

**Call Money Markets:** Call and notice money market refers to the market for short term funds ranging from overnight funds to funds for a maximum tenor of 14 days. Under Call money market, funds are transacted on overnight basis where as in case of notice money market; funds are transacted for the period of 2 days to 14 days.

**Coupon Rate:** It is a rate at which interest is paid, and is usually represented as a percentage of the par value of a bond. It refers to the periodic interest payments that are made by the borrower (who is also the issuer of the bond) to the lender (the subscriber of the bond) and the coupons are stated upfront either directly specifying the number (e.g.8%) or indirectly tying with a benchmark rate (e.g. MIBOR+0.5%).

**Zero Coupon Bond / Deep Discount Bond:** The bond is issued at a discount to its face value, at which it will be redeemed. When such a bond is issued for a very long tenor, the issue price is at a steep discount to the redemption value. The effective interest earned by the buyer is the difference between the face value and the discounted price at which the bond is bought. The essential feature of this type of bonds is the absence of intermittent cash flows.

**Commercial Paper (CP):** It is a short-term instrument to enable non-banking companies to borrow short-term funds through liquid money market instruments. CPs is therefore part of the working capital limits as set by the maximum permissible bank finance (MPBF). CP issues are regulated by RBI Guidelines issued from time to time stipulating term, eligibility, limits and amount and method of issuance. CP can be issued for maturities between a minimum of **7 days** and a maximum up to **one year** from the



date of issue. The maturity date of the CP should not go beyond the date up to which the credit rating of the issuer is valid. CP can be issued in denominations of ₹5 lakh and multiples thereof. It is mandatory that CPs should be rated by credit rating agencies. In a bid to make CPs attractive, the RBI has allowed issuers to buyback these instruments through the secondary market before maturity. It attracts stamp duty.

**Certificates of Deposits (CDs):** It is a negotiable money market instrument and issued in dematerialized form or as a Usance Promissory Note, for funds, deposited at a bank or other eligible financial institutions to raise short-term resources within the umbrella limit fixed by RBI. CDs may be issued at a discount on face value. CDs differ from term deposit as they involve the creation of paper, and hence have the facility for transfer and multiple ownerships before maturity. Banks use the CDs for borrowing during a credit pickup, to the extent of shortage in incremental deposits. Minimum amount of a CD should be **one lakh** and in multiples thereof. The maturity period of CDs should be not less than 7 days and not more than one year. However FIs are allowed to issue CDs not exceeding 3 years from the date of issue. Banks have to maintain the appropriate reserve requirements (CRR/SLR) on the issue price of the CDs. It attracts stamp duty. Banks/Fis cannot grant loans against CDs.

**Securitization** is an effective tool to reduce the mismatches in the maturities of assets and liabilities. It is a financing technique that involves pooling and re-packing of illiquid financial assets in to marketable securities. There are six players viz., Borrowers, Lending Banker (who becomes an originator for the Securitization transaction), Special Purpose Vehicle (SPV), Credit Rating Agency, Investors and Service Providers. The process of securitization involves identification of financial assets, rating of these assets by the rating agency, creation of a SPV for handling the securitization transaction, assignment of future receivables in favour of the SPV, issuance of marketable securities based on these underlying financial assets and selling the same to the investors. The service providers recover the amount periodically and remit to the SPV and who in turn pass the benefit to the investors.

**Asset and Liability Management – RBI Guidelines:** Of late, it is observed that PSBs have been accepting Bulk Deposits/Certificate of Deposits route to increase balance sheet size at very high interest rates, adversely affecting the profitability besides exposing the banks to ALM Risk. RBI directed banks not to accept Bulk Deposits beyond 10% of the total deposits and the total of Bulk Deposits & Certificates of Deposits should not exceed 15% of total deposits of the bank at any given point of time. An appropriate time-bound strategy for reduction of such existing bulk deposits should be put in place.

**Adjusted Net Bank Credit (ANBC)** denotes Net Bank Credit **plus** investments made by banks in non-SLR bonds held in HTM category. However, investments made by banks in the Recapitalization Bonds and Inter-bank exposures will not be taken into account for the purpose of priority sector lending targets/sub-targets.

**Subordinate Debt** is a debt owed to an unsecured creditor that in the event of liquidation can only be paid after the claims of secured creditors have been met. Normally, subordinate debt ranks below other secured loans with regard to claims on assets or earnings.

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## External Borrowings & Concepts

**External Commercial Borrowings (ECB):** It is the borrowings by the Corporates and Financial Institutions from International markets. ECBs include Commercial Bank loans, Buyer's Credit, Supplier's Credit, Securitized Instruments such as Floating Rate Notes, Fixed Rate Bonds etc. ECBs are usually available at interest rate of 100 to 400 basis points above LIBOR (London Inter Bank Offered Rate).

**American Depository Receipt (ADR):** It is a negotiable certificate of ownership in the shares of non-American Company that trades in an American Stock Exchange. ADRs make it convenient for Americans to invest in foreign companies as ADRs carry prices and dividends in dollars, and can be traded on the US stock exchanges like the shares of US based companies.

**Special Drawing Rights (SDR):** It is the International Monetary Fund's own currency. The value of SDRs is set relative to a basket of major currencies. It is used only among governments and IMF for balance of payments settlement.

**Global Depository Receipt (GDR):** These are the instruments through, which the Indian companies raise their resources from international markets. It is a negotiable certificate issued by a depository company (normally an investment bank) representing the beneficial interest in shares of another company whose shares are deposited with the depository. It is a Dollar denominated instrument, traded on Stock Exchange in Europe or USA or both and represents publicly traded specified number of local currency equity shares of the issuing Company.

**Foreign Direct Investment (FDI):** An investment which is made directly on the production facilities (either by buying a company or by establishing new operations of an existing company) of a country by a foreign source, usually a foreign company. These investments are more enduring than foreign investment in shares and bonds.

**Masala Bonds:** Recently, the RBI has permitted banks to raise capital through "Masala Bonds" in the overseas market in Indian Rupee. RBI's proactive steps acknowledged the potential of the market and issuance of these bonds from banks will help broaden and deepen the market for making the product more sustainable in the long run as a financing option. It definitely paves the way to develop the overseas market for rupee denominated bonds and enable the banks to shore-up their capital requirements (Tier-I & II) for financing infrastructure and affordable housing projects.

**Derivatives:** A credit derivative derives its value from the credit quality of the underlying loan or bond or any other financial obligation of an underlying company. The underlying asset can be equity, index, foreign exchange (forex), commodity or any other asset. Derivative products initially emerged as hedging devices against fluctuations in commodity prices and commodity-linked derivatives remained the sole form of such products for almost three hundred years. The financial derivatives have become very popular in the recent years. **Credit Derivatives** are financial instruments designed to transfer credit risk from the person / entity exposed to that risk to a person / entity who is willing to take on that risk.

**SWAP** refers to exchange of one asset or liability for a comparable asset or liability for the purpose of lengthening or shortening maturities or raising or lowering coupon rates to maximize **revenue** or minimize financing **costs**. This may entail selling one securities issue and buying another in foreign currency; it may entail buying a currency on the spot market and simultaneously selling it forward. There are various types of SWAPS such as Equity swap, Currency swap, Credit swaps, Commodity swaps, Interest rate swaps etc. These can be used to create unfunded exposures to an underlying asset since counterparties can earn the profit or loss from actions in price without having to post the

notional amount in cash or collateral. Swaps can be used to hedge certain risks such as interest rate risk or to wonder on changes in the expected direction of underlying prices.

**Futures & Options:** An agreement to buy or sell a fixed quantity of a particular commodity, currency or security for delivery on a fixed date in the future at a fixed price. Unlike an 'option', a 'futures' contract involves a definite purchase or sale and not an option to buy or sell. It may entail potential unlimited loss. However, Futures provide an opportunity to those who must purchase goods regularly to hedge against changes in prices. An arrangement where the rate is fixed in advance for the purchase or sale of foreign currency at a future date is called forward contract. Option is a contract, which gives the holder the right but not the obligation. A call and put option is a right to buy and sell the underlying product respectively.

**Liberalized Remittance Scheme (LRS):** RBI introduced the scheme as a step towards further simplification and liberalization of the foreign exchange facilities available to resident individuals. As per the Scheme, resident individuals may remit up to USD 250000 per financial year (April to March) for any permitted capital and current account transactions. This limit also includes remittances towards gift (USD 5000 per remitter/donor per annum) and donation (USD 5000 per remitter/donor per annum) by resident individual. Under the Scheme, resident individuals can acquire and hold immovable property or shares or debt instruments or any other assets outside India, without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with banks outside India. In addition, the existing facility of release of exchange by Authorized Dealer up to USD 10000 or its equivalent in a financial year for one or more private visits to any country will continue to be available on a self declaration basis. It is mandatory to have PAN number to make remittances under the Scheme. Further, Resident individuals are allowed to acquire equity shares of a foreign entity by way of/under i) qualification shares ii) professional services rendered and iii) ESOP scheme.

**Factoring and Forfeiting:** Factoring is a method where by the factor undertakes to collect the debt assigned by exporter where as international forfeiting is a method whereby the exporter sells the export bills to the forfeiter for cash. Forfeiting is resorted to for export of capital goods on medium terms and long-term credit, whereas the factoring is mainly short-term trade finance. In respect of forfeiting, the guarantee by the importer's banker is normally insisted upon whereas in factoring such guarantee by the importers banker is usually not stipulated. Forfeiting is without recourse to the seller (exporter), while factoring is undertaken both with and without recourse to the seller.

**Fed Tapering** – "Tapering" is a term that exploded into the financial lexicon when U.S. Federal Reserve Chairman Ben Bernanke stated in testimony before Congress that that Fed may taper or reduce the size of the bond-buying program known as Quantitative Easing (QE). The US central bank (Federal Reserve) has been spending substantial funds to boost the US economy as part of QE. Under the plan, the Fed has been buying assets – a mixture of US government debt and mortgage bonds. This has the effect of driving down US interest rates, including the cost of mortgages, car loans and financing for business. Quantitative easing was never intended to last forever, since each bond purchase expands the Fed's "balance sheet" by increasing the amount of bonds it owns. The program is designed to stimulate the economy. Tapering isn't an immediate, dramatic event instead it is likely to take place in a phased manner so as to create minimal market disruption. Tapering is going to remain dependent on economic conditions – Fed may pull back slightly if the economy continues to strengthen, but it could also increase the program again if the economy slowed or the financial markets were shocked by an unforeseen crisis. Fed tapering is not only necessity for reducing long-term inflationary pressures but it is also important from a macro-economic standpoint as US Fed balance sheet is becoming unsustainably huge. Tapering will definitely reflect confidence on the sustainability of economic growth and will be a long-term positive rather than a negative.

**Volcker Rule** restricts deposit-taking banks from engaging in proprietary trading, prohibiting them from engaging in more complex activities that are prone to conflicts of interest, in order to safeguard the core of the banking system, i.e. commercial or traditional banking (deposit taking and lending). The rule prohibits any banking entity from engaging as principal in short-term trading in securities, derivatives, or commodity futures, i.e. activities that may not be compatible with the risk profile of the banking entities, but allows exemptions for market-making, hedging, trading in US government securities, and other activities. There is a concern that it would be a challenging task to separate proprietary trades from permissible trades. Under the Volcker Rule the reporting and compliance regime is expected to assume greater significance. The rule applies to all US banks and bank-holding companies and all foreign bank-holding companies with US subsidiaries or branches. The Volcker Rule prescriptions can affect the operations of the US banks operating in India as they are active players as market makers in domestic foreign exchange market, Government securities market and interest rate swap market. This will change the entire depth and breadth of the Indian markets. An important fall-out of this rule could well be the decline in liquidity in these markets and the resultant cost escalation for market participants.

**Bitcoins:** It is a virtual and digital version of cash emerging as a global payment platform that can be used through smart phones, tablets, and other devices. Bitcoin was introduced in 2009 by pseudonymous developer Satoshi Nakamoto, when the global financial crisis led to distrust of Banks and Government was high. It is a peer-to-peer payment network and digital currency based on an open source protocol, which makes use of a public transaction log. When paying with Bitcoin, there will be no exchange of digital notes or tokens between buyer and seller. Instead, the buyer requests an update to a public transaction log which shows ownership of the coins and is maintained by a decentralized network that verifies and timestamps payments. What makes Bitcoin unique is that there is a record as to who possesses it, and there is a network that records transactions and there is no way to increase the number of Bitcoins in existence. It works on Cryptography proof that allows any two willing parties to transact directly with each other without the need for a trusted third party – whether it is State or Bank or Regulator. Bitcoin is fast evolving in terms of merchant adoption. Many large business houses, including Microsoft, Dell, PayPal, Dish Network, Expedia, NewEgg and TigerDirect have adopted it. Bitcoin helps businesses save on transaction cost and settlement time and mitigates risks related to foreign exchange. Bitcoin may be well suited to facilitating cheap cross-border money transfers. However, these coins lack intrinsic value as their value depends only on the willingness of users to accept them. Further, the big psychological hurdle in its usage is inability to reverse or recall transaction.

At present, the usage of virtual currency is not authorized by any central bank or monetary authorities. Israeli is in forefront in creating tools to facilitate the Bitcoins to be used in many ways such as buying of products, sending remittances and investments in stock market. The United States is currently considered to be Bitcoin friendly compared to other nations. On the flipside, there are concerns with regard to maintenance of its value, KYC compliance, taking undue advantage of the system (unlawful activities) by unscrupulous persons/agencies and lack of consumer protection. Recently, the Central Banks of Europe, China and India expressed their concerns about the usage of the unregulated currency. As on 1<sup>st</sup> January 2017, it is estimated that 15 million Bitcoins are in circulation across the globe and the value of one Bitcoin reportedly quoted at \$1000. Definitely, it is going to be a game-changer in virtual currency arena provided it crosses regulatory hurdles.

## Banking concepts

**New Development Bank (NDB):** Current financing and investment patterns are inadequate in meeting investment needs of the emerging economies. Private international capital flows are not only volatile they are also insufficient in volume and maturity to fund sustainable development, which typically requires long-term investment. In the above backdrop, BRICS states viz, Brazil, Russia, India, China and South Africa started New Development Bank (NDB), formerly referred to as the BRICS Development Bank in the year 2012. The initial authorized and subscribed capital of the bank is \$100 billion and \$50 billion respectively and the same is equally distributed among the founding members. The bank is headquartered in Shanghai, China. The objective of the Bank is to support public or private projects through loans, guarantees, equity participation and other financial instruments. A significant aspect of the Bank is to establish global, regional and local partnership with the new as well as established Multilateral Development Banks (MDBs) and with market participants. It provides technical assistance for projects to be supported by the Bank. The vision of the Bank is not restricted to funding infrastructure requirements but also envisages building a knowledge sharing platform among the developing countries and promote sustainable development. It is a testament of coming of age of these countries in the world of development finance and enables the emerging and developing economies to achieve their aspiration of standing on their own feet. NDB issued its first green financial bond in the year 2016 with issue size of RMB 3 billion (Renminbi, currency of China), tenor of 5 years with interest rate at 3.07% per annum. The proceeds of the bond are used for infrastructure and sustainable development projects in the member countries. Shri K V Kamat from India is the first elected president of the NDB.

**International Financial Reporting Standards (IFRS):** Convergence to IFRS will require significant alterations to financial accounting and reporting processes and systems. The potential benefits of an integrated global capital market regulated by a single world-wide financial reporting language would be long lasting and it is a big step towards improving the efficiency of international capital markets. Regulators will benefit from greater consistency and quality of information. It also enhances the communication of the Bank's financial results and position together with other performance indicators to analysts, investors, customers as well as other stakeholders. It also benchmarks the entity against its global peer group gaining a broader and deeper understanding of its relative strengths by looking beyond the country and regional benchmarks. It is proposed that the Corporates are to be moved to IFRS in a phased manner.

**Internal Capital Adequacy Assessment Process (ICAAP):** This is intended to ensure that the capital held by the Bank is commensurate with the Bank's overall risk profile. The ICAAP takes into account effectiveness of Bank's risk management system in identifying, assessing, measuring, monitoring and managing various risks. ICAAP comprises all of the Bank's procedures and measures designed to ensure appropriate definition and measurement of risks and appropriate level of internal capital in relation to Bank's risk profile.

**Unique Customer Identification Code (UCIC):** The increasing complexity and of financial transactions necessitate that customers do not have multiple identities within a bank as well as across the banking/financial system. RBI has directed all Banks to allot UCIC for each and every customer. The UCIC help the bank to identify the customers, avoid multiple identities, track the facilities availed, monitor financial transactions in a holistic manner and enable to have a better approach to risk profiling of customers. While opening account, all bank branches are advised to verify with Central KYC Registry whether the customer or applicant is already having account with other banks or not. This can be done entering the key fields like name, date of birth, gender, phone number and one of the Identification Proofs viz., Aadhaar or Passport number or PAN or Driving License or Voter ID etc. If the applicant is the existing customer with Branch/Bank, new

account can be opened but with existing customer ID only. Branches should ensure that no new customer ID to be created for an existing customer.

**Forensic Audit** is defined as the application of accounting methods to the tracking and collection of forensic evidence, usually for investigation and prosecution of criminal acts such as embezzlement or fraud. It involves examination of legalities by blending the techniques of propriety, regularity and investigative and financial audits. The objective is to find out whether or not true business value has been reflected in the financial statements and in the course of examination to find whether any fraud has taken place. Forensic Auditors has a unique job because the responsibility involves the integration of accounting, auditing, and investigation skills. It involves thinking beyond the numbers and out of the box. It essentially presumes the existence of fake transactions. It requires a more proactive, skeptical approach in examining the books of accounts.

**RuPay Card:** is the Indian domestic card payment network set up by National Payments Corporation of India (NPCI) at the behest of banks in India. RuPay cards can be used in all the ATMs of NPCI network and POS terminals & e-com transactions (Internet) enabled for RuPay acquiring. Currently the merchant fee is significantly high ranging from 1 to 1.50% on account of inbuilt charges of VISA/Master and Banks. The Rupay system lowers the cost of the transactions for shops and enables them to adopt electronic mode of payments. In a way it reduces the overall transaction costs for the banks, merchants and nation as a whole. The Indian market offers huge potential for cards penetration despite the challenges. RuPay Cards will address the needs of Indian consumers, merchants and banks. There are under-penetrated/untapped consumers segments in rural areas that do not have access to banking and financial services. Right pricing of RuPay products would make the RuPay cards more economically feasible for banks to offer to their customers. In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments. RuPay card is uniquely positioned to offer complete inter-operability between various payments channels and products. NPCI currently offers varied solutions across platforms including ATMs, mobile technology, cheques etc and is extremely well placed in nurturing RuPay cards across these platforms. Cardholders whose age is between 18 to 70 years are eligible for personal accidental coverage of ₹1 lakh provided there should be minimum one transaction within 90 days. The recent initiative of the Government/RBI in introduction of RuPay cards has immense benefit to card users, card issuing institutions and Merchant establishments which is a win-win situation to all besides saving precious foreign currency to the nation.

**Whistle Blower Policy:** In compliance with listing agreement relating to Corporate Governance, all banks are required to have a Whistle Blower Policy to enable the staff to inform the unethical behavior, actual or suspected fraud or violation of law or improper practice of the staff members of all cadres, direct to the Board of the Bank without informing their superiors. The employee shall make a written disclosure to the Audit Committee of the Bank in a closed/secured envelope along with supportive documents. The identity of the complainant will not be revealed. In case where the complainant is being victimized for filling a complaint, the complainant can approach CMD/ED for redressal. It provides protection to the Whistle Blowers from unfair termination/harassment from the superiors. Audit Committee of the Bank reviews the Whistle Blower mechanism at regular intervals.

**Holding Company:** By definition, a holding company is a company organized with the intention of acquiring equity ownership in other companies. A holding company can gain control over its subsidiaries without investing the entire equity requirement. Thus, it allows for structural leverage due to its ability to control the business of its subsidiaries by holding majority (just over 50% shareholding), but at the same time allowing for fresh external investment for the balance stake. Another key advantage of a holding company structure is that while it allows investment in multiple businesses under one parent company, it also ring-fences each business from the risks of the other, by

preventing the business performance of one business from affecting the performance and valuation of another. For investors, this offers the option to gain an exposure to any preferred business along with the flexibility to structure the investment (as debt, equity etc.) to meet their investment objectives. A holding company could also be an attractive target for strategic acquisitions, wherein these companies could be sold individually or collectively, thereby facilitating an exit for the investor. The holding company structure has certain inefficiencies that need to be recognized viz., distribution of dividends accompanied by two layers of dividend distribution tax and limited liquidity for minority shareholders. However, if the holding company structure is designed appropriately in the light of the objectives and scale of its businesses, it can lead to synergies and efficiencies in the underlying businesses and the commercial benefits there from can outweigh the tax and regulatory inefficiencies. According to RBI, banks will require additional capital of ₹5 lakh crore over the years to meet the Basel-III norms. To raise the required capital, PSBs will soon be allowed to set up a holding company. However, Government's holding in the banks will not go below 51 per cent.

**One Person Company (OPC):** In order to encourage unorganized proprietorship business entities to enter into organized corporate world, Companies Bill 2012 was passed. With introduction of OPC, a company can be started with one member and it is treated as Private Limited Company. The minimum share capital required is ₹1 lakh. The promoter can appoint a nominee so that perpetual succession provision is ensured. OPC can be formed in three ways viz., Company limited by shares, Company limited by guarantee and Unlimited Company. OPCs are exempted from holding Annual General Meetings. Provisions relating to minimum board meetings and quorum are not applicable. In case OPC has more than one director, it shall conduct at least one board meeting in each half-year and time gap between two meetings should be minimum 90 days. Relaxations and exemptions granted and benefits available will definitely encourage small and mid-size business to carry on business in corporate form.

**Reverse Mortgage:** The genesis of Reverse mortgage can be traced to developed countries where Silver Line segment (people above 65 years group) constitutes major chunk of population on account of higher standards of living, better access to health care and higher life expectancy. The ever-rising cost of living and health care has prompted Banks/Financial Institutions to introduce the Reverse Mortgage in the US, UK and Australia. It works like a traditional mortgage loan, but only in reverse direction. Under this borrower does not make regular payments to a lender; instead he receives payments from the lender. It supplements the income of the Senior Citizens, particularly to those whose pension or income is low. Instead of being dependent on their children/relatives for monetary support, this would be an ideal option for elderly people to continue with a graceful lifestyle. The borrower need not repay the loan during their life time and can also continue to live in their house during their life time. Thereafter, the legal heirs have the option to repay the bank loan and redeem the property. Otherwise, the bank will sell the property and liquidate the loan. The scheme is gaining momentum slowly.

**Corporate Governance:** It is the system by which companies are directed and controlled by the Management with greater transparency in the best interest of all the stakeholders. It encompasses commitment to values / ethical business conduct to maximize shareholder values on a sustainable basis, while ensuring fairness to all stakeholders including customers, employees, investors, vendors, Government and society at large. Good Corporate Governance, Good Government and Good Business go hand in hand. Openness, integrity and accountability are the key elements of Corporate Governance for any corporate entity. The major recommendations of "Ganguly Committee" on Corporate Governance in banks are as under:

- Boards should be more contemporarily professional by inducting technical and specially qualified personnel. There should be a blend of "historical skill" set

- and "new skill" set, i.e. skills such as marketing, technology and systems, risk management, strategic planning, treasury operations, credit recovery, etc.
- Directors should fulfill certain "fit and proper" norms viz., formal qualification, experience and track record. Certain criteria adopted for public sector banks such as the age of director being between 35 to 65 years and that he/she should not be a Member of Parliament / State Legislatures, etc. may be adopted for private sector banks also.
  - Selection of Directors could be done by a nomination committee of the board.
  - Need-based training should be imparted to the directors to equip them to govern the banks properly.
  - It is suggested formation of five committees of the board viz., Nomination Committee, Audit Committee, Shareholder's Redressal Committee, Supervisory Committee and Risk Management Committee.

Ethical leadership is need of the hour to conduct the business on sound lines. Every organization needs to note "What is ethical but not legal should not be done and at the same time what is legal but not ethical should not be practiced".

**Domestic Systemically Important Banks (D-SIBs):** During the recent global financial crisis, it was observed that problems faced by certain large and highly interconnected financial institutions hampered the orderly functioning of the financial system, which in turn, negatively impacted the real economy. Government intervention was considered necessary in many jurisdictions to ensure financial stability. Cost of public sector intervention and consequential increase in moral hazard require that future regulatory policies should aim at reducing the probability of failure of Systemically Important Banks (SIBs) and the impact of the failure of these banks. Further, the Basel Committee on Banking Supervision (BCBS) came out with a framework for identifying the Global Systemically Important Banks (G-SIBs) as well as D-SIBs. The indicators which would be used for assessment are - size, interconnectedness, substitutability and complexity. Based on the sample of banks chosen for computation of their systemic importance, a relative composite systemic importance score of the banks will be computed. In the above backdrop, RBI has initiated steps to assess D-SIBs and the computation of systemic importance scores will be carried out at yearly intervals. The first exercise was done in the month of August 2015 and identified two banks as D-SIBs viz., State Bank of India and ICICI Bank.

**Permanent Account Number (PAN):** As per section 139 (4A) of Income Tax Act 1961, all individuals whose income exceeds the tax free limit and in case where the person carrying a business, the sales turnover or gross receipts exceeds ₹5 lakh in a year are required to have PAN and the same is to be quoted in all returns and correspondence with IT authorities. As per the revised guidelines, the purchaser of goods and services shall furnish PAN number where the value of the transaction is beyond ₹2 lakh irrespective whether paid by cash, card, cheque or online. Similarly, the monetary limits for quoting PAN increased to ₹10 lakh from ₹5 lakh for sale or purchase of immovable property. With regard to payment of hotel/restaurant bills, the limit is increased to ₹50000 from existing ₹25000/- and for purchase or sale of shares of unlisted company it is raised from ₹50000/- to ₹1 lakh. Persons who do not hold PAN are required to fill a form and furnish any one of the specified documents to establish their identity. The above changes in the rules are expected to be useful in widening the tax net by non-intrusive methods and to curb black money.

**Dematerialization (Demat)** signifies conversion of physical form of securities in to electronic form and the converted securities will be credited to customer account with Depository Participant (CDSL/NSDL). This can be used for shares, bonds and Mutual funds. Now, it is mandatory that the investor should have Demat account to subscribe IPO/FPO. The benefits associated are - Faster settlement cycle, Elimination the risk of bad delivery, No stamp duty, Easy for the banks to lend against shares, Eliminate



delays/thefts/interceptions/fake certificates and Online credit of Dividends and Bonus/Rights/Split shares, if any.

**Money Mules:** An individual with bank account is recruited to receive cheque deposits or wire transfers and then transfer these funds to accounts held on behalf of another person or to other individuals is called Money Mules. The fraudsters adopt variety of methods including spam e-mails, advertisements on genuine recruitment web sites, social networking sites, instant messaging and advertisements in newspapers. Many times the address and contact details of such mules are found to be fake and making difficult for enforcement agencies to locate the account holder. RBI advised the banks to strictly adhere to the guidelines on KYC/AML/CFT to protect our customers from misuse by such fraudsters.

**Nachiket Mor Committee:** RBI appointed Nachiket Mor committee on Comprehensive Financial Services for Small Businesses and Low Income Households. The major recommendations of the committee are:

- Every Indian resident above the age of 18 should be issued a Universal Electronic Bank Account automatically at the time of receiving their Aadhar number. Access to Electronic payment points should be made available to all residents within a 15 minute walking distance by 1<sup>st</sup> January 2016.
- All low income households and small businesses should be provided with convenient access to formally regulated lenders to meet their credit needs at affordable price.
- Universal access to a range of insurance and risk management products (crop failure, live stock, fire, human loss etc.,) with reasonable charges.
- To set up specialized banks "Payments Bank" with a minimum capital of ₹50 crore to provide payment services and deposit products to small businesses and low-income households. These banks are allowed to accept a maximum deposit of not more than ₹50000/-.
- The existing banks are also permitted to create a Payments Bank as a subsidiary.

**Lending Norms by Micro Finance Institutions (MFI):** MFI sector has witnessed tight regulations in the light of spate of suicides by MFI borrowers in combined AP State and subsequent report submitted by Malegam Committee on NBFC-MFI in 2011. The growth pace of this sector is sluggish in the recent years. In order to boost the operations of this sector, RBI has revised the limits upward with regard to total indebtedness of borrowers, eligible rural and semi-urban household annual incomes and loan amounts to be disbursed in the first and subsequent cycles.

<b>Income / Quantum of Loan</b>	<b>Existing</b>	<b>Revised</b>
<b>Household Annual Income</b>		
i) Rural	60000	100000
ii) Semi-Urban / Urban	120000	160000
<b>Disbursement of Loans</b>		
i) First Cycle	35000	60000
ii) Subsequent Cycles	50000	100000

However, the total indebtedness of the borrower, excluding educational / medical expenses, may not exceed ₹1 lakh.

**Swavalamban Scheme:** The New Pension System (NPS Lite) is aimed to inculcate the saving habit and to provide pension benefit to the citizens through systematic savings plan. Under this, the government has made a provision to pay an incentive of ₹1000 per year (up to 2017) to every NPS account opened subject to the minimum contribution of ₹1000 and maximum ₹12000 per annum. The age of the subscriber should be between 18 to 60 years. The subscriber is required to invest minimum 40% accumulated savings to purchase a life annuity from any IRDA regulated insurance company, in case where he opts for exit at the age of 60. If the subscriber prefers to exit before 60 years, he is

required to invest minimum 80% of accumulated savings in annuity policy. In an unfortunate event, the nominee receives 100% of the NPS pension wealth in lump sum. However, the exit would be subject to the overriding condition that the amount of pension wealth to be annuitized should be sufficient to yield a minimum amount of ₹1000 per month. If not, the percentage of pension wealth to be annuitized would be increased so that the pension amount becomes ₹1000 per month, failing which the entire pension wealth would be subject to annuitisation.

**Swavalamban Health Insurance Scheme:** Health services and its access to persons with disabilities assume a very significant role in order to enable and empower persons with disabilities (PwDs) to live independently and with dignity as possible. In this context, the Health Insurance facility becomes important but presently such products are not easily available for persons with developmental disabilities. In such a situation, a tailor made Group Health Insurance Scheme called "Swavalamban Health Insurance Scheme" is introduced with the objective of providing affordable Health Insurance to persons with blindness, low vision, leprosy-cured, hearing impairment, loco-motor Disability, mental Retardation and mental Illness. It also aims to improve the general Health condition & quality of life of persons with disabilities. The Trust Fund for Empowerment of Persons with Disabilities, under the Department of Empowerment of People with Disabilities, Ministry of Social Justice and Empowerment, signed a Memorandum of Understanding (MoU) with the The New India Assurance Company on providing a comprehensive and affordable Health Insurance Scheme for the PwDs. The scheme is designed to deliver comprehensive cover to the beneficiary as well as his family (Spouse & up to two children), has a single premium across age band and can be availed by PwDs aged between 18 years and 65 years with family annual income of less than ₹3 lakh per annum. The scheme also ensures coverage of any pre-existing condition and a health Insurance covers up to ₹2 lakh per annum as family floater. Under the MoU, the New India Assurance Company Limited issues a list of Hospitals, where the Insured persons can avail cashless treatment.

**New Pension Scheme:** It is introduced for Bank Employees in the year 2010 under which Bank employees are eligible for Defined Contributory Pension Scheme (DCPS). It is mandatory that all employees who have joined the service of the Bank or after 1<sup>st</sup> April 2010 enroll themselves as members of this scheme which entails obtaining of Permanent Retirement Account Number (PRAN) from NSDL who are the Central Record Keeping Agency. Under this scheme, the members shall contribute 10% of the Basic pay and Dearness Allowance towards the DCPS and the bank shall make a matching contribution in respect of these employees. The scheme is governed by Pension Fund Regulatory and Development Authority (PFDR) and the funds are managed by approved fund managers from public and private sector with proven track record. Employees would be free to carry their PRANS to new employments or continue as individuals after change of employment status.

**Floating Rate Deposits** – Bank Term deposits are the most preferred among the variety of investment options. However, of late the Bank depositors found unattractive as the real rate of return is low and sometimes negative since they get interest at contracted rate only while the interest rates are on the rise. Asset Liability management is the greatest challenge for the Banks as majority of the banks liabilities are of short term while the repayments of assets spread over relatively longer tenure i.e. beyond 36 months. Further, the present term deposit interest rate scenario is acting as disincentive for long term investors since the interest rate on deposits of beyond 2/3 years is low compared to short term deposits. Normally, the retail borrowing happens at floating interest rates whereas their deposits with banks attract fixed rate exposing them to interest rate risk. In the above backdrop, Banks have been examining the feasibility of introduction of floating rate term deposits, wherein the rate of interest keeps changing depending on the market rates. The interest rate is reset with reference to a benchmark/anchor rates which are directly observable and transparent to the customer. Floating rate term deposit looks ideally attractive for the retail investors. On the flip


side, since the interest rate is floating, the income from term deposits may be adversely impacted when the rates fall. The floating deposit rate concept helps banks to manage their assets and liabilities better. At present, the Floating Interest Rate Deposits are being offered select banks only and the concept is yet to take momentum in India.

**Deregulation of SB Interest Rates:** As per RBI guidelines banks are free to determine their savings bank deposit interest rate w.e.f 25.10.2011 subject to the following two conditions viz., First, each bank will have to offer a uniform interest rate on savings bank deposits up to ₹1 lakh, irrespective of the amount in the account within this limit. Second, for savings bank deposits over 1 lakh, a bank may provide differential rates of interest, if it so chooses. However, there should not be any discrimination from customer to customer on interest rates for similar amount of deposit. Further, banks are free to determine their interest rates on NRE/NRO deposits w.e.f. 16.12.11. However, interest rates offered by banks on the said deposits should not be higher than those offered by them on comparable domestic rupee deposits. Banks are paying interest on SB accounts on **Daily Products** on quarterly basis. Though, the deregulation of interest is in vogue, at present all most all Public Sector Banks are paying 4% interest where as few Private Sector Banks are extending interest beyond 4% p.a.

**Core Banking Services (CBS):** It is an integrated solution where entire data of branches is stored in a central server and all the transactions of the branches will be done through this server. All back office activities such as Interest calculations, Levying Service Charges, Parameter Setting/Updation, Generation of Reports>Returns, Providing MIS, Start of Day and End of Day operations are undertaken by the central server. The customer's data can be accessed from various outlets at various geographical centers. It enables the bank to provide **triple "A"** services (Any Branch, Any Time, Any Where) to the customers through Multiple Delivery Channels viz., Branches, ATMs, Mobile, Lobby, Corporate Terminals, Kiosks and Internet Banking. It enabled the banks to introduce technology embedded value added products besides implementing Data Warehousing, Data Mining and Customer Relationship Management concepts. CBS is an opportunity to banks to improve customer service as well as operational efficiency of the banks. However, it is an imperative for banks to have a re-look to the existing systems and procedures to suit the changed environment.

**Doorstep Banking:** Extending Banking services like pick up of cash, instruments and delivery of cash etc., to Corporate Customers / Government Departments / PSUs / Individual Customers at their place through Employees / Agents is called Doorstep Banking. However, banks are not allowed to extend such services to Individual Customers. Cash collected from the customer should be acknowledged by issuing a receipt on behalf of the bank. Cash collected from the customer should be credited to the customer's account on the same day or next working day, depending on the time of collection. Doorstep services should be offered only to KYC compliant customers and the charges should be prominently indicated on brochures. It is a win-win situation for both customers and banks.

**Service tax** is a tax which is payable on services provided by the service provider to the Govt. of India. However, the Service Provider can collect this tax from the consumer of service i.e. Recipient of service. The concept of service tax came into effect in 1994 and was introduced by the then Finance Minister Dr. Manmohan Singh. Earlier Service Tax was payable only on a specified list of services. From 1<sup>st</sup> July 2012 onwards, all services (except those specified in the negative list of services by the Govt) are now liable for service tax. Budget 2016-17 has increased the service tax rate from 14.50% to 15% (additional levy of 0.50% towards Krishi Kalyan Cess) with effective from 1<sup>st</sup> June 2016.

 **Indian Rupee Symbol:** Now Indian rupee joined the select club of currencies such as the US Dollar, Euro, British Pound and Japanese Yen that have a clear distinguishing identity and it is considered as a step towards internationalization of Indian Rupee. Though the symbol is not be printed or embossed on currency notes or

coins, it would be included in the **Unicode Standard** and major scripts of the world to ensure that it is easily displayed and printed in the electronic and print media. The new symbol portrays the nation's strength & stability, both politically and economically and acts as Brand Ambassador.

**Mutual Funds Vs Exchange Traded Funds (ETF)** - Both the funds provide investors with the opportunity to diversify portfolios without having to pay the prohibitive trading costs that would normally required, which particularly benefits retail investors, who tend to execute smaller trades. By investing in either a mutual fund or ETF, the investor indirectly owns the portfolio of securities in which the fund invests and receives its share of the income generated by the fund based on ownership percentage. Mutual fund is the better choice for the investors who adopt strategy wherein an equal amount of money is invested in the fund each period, regardless of whether the fund's price is up or down. Unlike ETFs, the mutual fund transactions do not attract any commission and one can simply buy or sell the mutual fund units at their Net Asset Value (NAV). However, more sophisticated investors may want to place a bet that the portfolio in which an ETF is invested will decrease in value by selling it short. ETFs tend to be more tax efficient than their mutual funds. When we sell shares of an ETF, you are usually selling them to another investor, so the fund itself is unaffected. In contrast, when we sell shares of a mutual fund, we are selling them back to the fund itself, and the fund may need to sell some of the securities in its portfolio to fulfill its redemption requests. This can trigger capital gain income, which becomes taxable income for the other investors in the fund.

**Banking Ombudsman (BO) Scheme** – It cover redressal of grievances against deficiency in banking services viz., deposits, loans, debit/credit cards, remittances (DD/PO/ECS/NEFT/RTGS) etc. BO undertakes the cases where the value of dispute does not exceed **₹10 lakhs**. The complaints can be made in any form including online (email) and the same will be processed without any fee. The complainant is required to take up the matter with the concerned branch for redressal of the grievance and wait for 30 days and if not addressed he can approach the BO. He should not have filed a complaint before any other forum or court or consumer forum or arbitrator on the same subject matter and be pending when he approaches the B.O. On receipt of the complaint, notice will be sent to the bank advising the bank to settle the grievance within fifteen days from the date of receipt of the notice or else submit version and also attend a conciliation meeting at the office of the BO. If the grievance is not settled by conciliation, it will be taken up for passing an award. The complainant will have to accept award within fifteen days of receipt of the award. The time limit for implementation of award is 30 days from the date of such receipt of acceptance letter. However, Bank can approach Reviewing Authority (Deputy Governor RBI). Compensation for mental agony, reputation loss etc., will not be considered as per the provisions of the Scheme.

**Right to Information Act 2005** – The act has come into effect from October 12, 2005. This Act is meant to give to the citizens of India access to information under control of public authorities to promote transparency and accountability in these organizations. However, this mechanism is meant for seeking information only and not for making complaints. Under this Act, Citizens of India will have the right to make the request for information in writing, clearly specifying the information sought. The application should accompany a fee of ₹10/- either in cash or DD/PO. The application for request should give the contact details (postal address, telephone number, fax number, email address) so that the applicants can be contacted for clarifications or the information. All Public Sector Banks are covered under this act and they are required to furnish the information sought by the citizens of India. Branch Managers are designated as Central Assistant Public Information Officers (CAIPO) and they have to forward the requests received to the Zonal Managers concerned, who are designated as Central Public Information Officers (CPIO). The ultimate responsibility lies with CPIO to get the matter expedited within stipulated time of 30 days. While disposing off the request under RTI Act, CPIO is required to mention clearly the time limit of 30 days and address of the Appellate

Authority to the complainant. The Appellate Authority is the Senior Central Public Information Officer, who will be one of the General Managers at Head Office.

**Gyan Sangam-I:** Banks and financial institutions are the backbone of the economy - the stronger the financial system, stronger would be the growth of the economy. However, of late, it is observed that the Public Sector Banks (PSBs) are lagging behind in key indicators compared to private banks. In this direction, the government has embarked on a mission to overhaul PSBs, beginning with a two day high-profile retreat "Gyan Sangam" on 2<sup>nd</sup> & 3<sup>rd</sup> January 2015 in Pune to search for out-of-the-box ideas to reorient them to support the country's bid to move back to a high-growth trajectory. The objective of this retreat was to find solutions to problems, and this was the first step towards catalyzing transformation. A framework is drawn to achieve universal financial inclusion, leveraging technology to improve efficiency, rethinking priority sector lending, improving risk management, asset quality and recovery, consolidation and restructuring state-run banks besides building a robust people strategy. P. J. Nayak Committee report on governance in banks was also discussed in the meeting. The report has a number of useful suggestions relating to the composition of bank boards, appointment of chief executives and their tenure. PSBs are subject to dual regulation - from the Ministry and the RBI. By far the most discussed proposal is to have a separate holding company in which the government's shares in these banks will be vested. The holding company will monitor the performance of PSBs, make suggestions to improve governance and act as a buffer between them and the government and help in raising additional capital. It confers greater autonomy for the PSBs to enable them to function on commercial lines. While addressing the retreat, Prime Minister reiterated the importance of professional management in banks and assured that there would be no interference by the Government in the functioning of the Banks. Further, the issue of financial literacy has highlighted and called upon banks to take the lead in encouraging financial literacy campaigns in schools, villages and unbanked areas. The deliberations of the retreat can be summed up in three words viz., **Recapitalization, Consolidation and Professionalization of Banks' Boards** and their management. With this we envisage that Indian Banking system should attain the status of top banks of the world.

**Indradhanush (Rainbow):** To revive the fortunes of Public Sector Banks (PSBs), government unveiled a seven-point plan named as **Indradhanush** on 14<sup>th</sup> August 2015 focuses on systemic changes which are as under:

- It is proposed to recruit the executives from the private sector on hire basis to run state-owned banks.
- Setting up of Bank Board Bureau to monitor the functioning of PSBs.
- The government will inject capital into debt-laden state banks to the tune of ₹70000 crore over next five years and also propose to set up a Bank Investment Committee, which will act as a holding company for shares on behalf of the government.
- Strengthening of the existing Asset Reconstruction Companies (ARCs) to deal more effectively with stressed assets.
- The government will strive to make it easier for PSBs to hire. The government is looking at introducing Employee Stock Ownership Plan (ESOPs) for the PSU bank managements.
- The government also announced a new framework of key performance indicators for state-run lenders to boost efficiency in functioning while assuring them of independence in decision making on purely commercial considerations.
- The process of governance reforms will continue to focus on important key areas such as optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion.

Banks need autonomy to operate. Unless the government ceases to be the single largest stake holder in these entities, this autonomy will remain only on paper.

Presently, there are no strong laws that enable banks recover money from willful defaulters. In most such cases, the defaulters seek legal recourse to delay the process of loan recovery. A strong bankruptcy law, like in the west, is necessary for banks to deal with crisis-ridden companies and promoters. It offers a decent exit route to the promoter and freedom for the bank to take over the company before the value of the underlying asset deteriorates sharply.

**Gyan Sangam-II:** In the summit (Gyan Sangam-I) held on 2<sup>nd</sup> & 3<sup>rd</sup> January 2015, the government gave the assurance of infusing enough capital into PSBs to strengthen their balance sheets, reducing interference in banks' business, de-stressing banks by prodding all ministries involved in clearances to kick-start stalled projects, resolving issues that delay recovery through Debt Recovery Tribunals (DRTs) and finally fortifying the framework for governance and appointments at the top level. Though, there were few initiatives from RBI and Government, still several issues remain unresolved till date. At the same time, PSBs have been encountering new challenges. The biggest concern among PSBs and policymakers today is the increased level of stressed assets and the resultant erosion in capital. As per the extant guidelines, the capital infusion is linked to the performance of the banks which got worsened during the current year. The RBI's asset quality review that prodded banks to make provisions for visibly stressed accounts has wiped out profits of PSBs in Q3. In the above backdrop, the two-day (6<sup>th</sup> & 7<sup>th</sup> March 2016) summit named a forum where the highest officials from PSBs, RBI and the Government was held at New Delhi to discuss the pertinent issues confronting the banking sector viz., Mergers and Acquisitions, Management of Stressed Assets, Technology, Digital and Financial Inclusion and Credit growth. Government was actively looking into forming a Bank Consolidation Committee and tweak laws such as SARFAESI and Debt Recovery Tribunals (DRT). It is the time to streamline the process of DRTs and make it online which definitely improve the disposal time significantly.

**Channel Financing** is a new approach or system supporting business by a realignment of existing products, delivery process, procedures and organization structures so as to provide a comprehensive solution to the working capital requirements of an entity. It aims at extending working capital finance to authorized suppliers / dealers, whose small businesses are connected to large companies as suppliers/dealers in the business of the entity. Channel Finance provides credit facility to the suppliers of the Corporate for the supplies made is called as '**Supplier Finance**'. Similarly credit facility is provided to the dealers for the goods delivered by the corporate called as '**Dealer Finance**'.

**Supplier Finance:** Bank pays amount directly to the main operative account of the supplier as per advise of the corporate by discounting the bills with maximum of 180 days tenor and the same will be recovered from Corporate on respective due dates. If the supplier is enjoying working capital limits with another banker, the amount shall be credited to the account maintained with the said bank. An undertaking letter is to be obtained from the Corporate to pay the amounts on the due dates of bills discounted by our Bank. Alternatively, wherever feasible, Post dated cheques of the main operative account are to be obtained from the Corporate to enable the Bank to realize the dues on the respective due dates of the bills.

**Dealer Finance:** In case sanction of Bill facility to the Dealer as per referral letter of Corporate and agreed by the dealer(s), a suitable Bill discounting limit is assessed and post dated cheques are obtained from the dealer(s). The particulars of deliveries of the final products to the respective dealers are provided to the Bank with supporting documents such as invoices, bills of exchange and other documents evidencing delivery of goods to the dealers. The payment is made by the Bank to the credit of main operative account of the Corporate and the same will be recovered from the dealers on the respective due dates of the bills. If the Corporate is enjoying working capital limits with another banker, the amount shall be credited to the account maintained with the said bank.

**History of Banks**  
**Founder, Year of Operation & Tagline**

<b>Public Sector Banks</b>				
<b>No</b>	<b>Bank</b>	<b>Founder</b>	<b>Year of operation</b>	<b>Tagline</b>
1	Allahabad Bank	Group of British Citizens	24 <sup>th</sup> April 1865	A tradition of trust
2	Andhra Bank	Dr. Bogaraju Pattabhi Sitaramaya	20 <sup>th</sup> November 1923	Where India Banks
3	Bank of Baroda	Maharaja Sayajirao Gaekwad	20 <sup>th</sup> July 1908	India's International Bank
4	Bank of India	Sassoon J David	7 <sup>th</sup> September 1906	Relationship beyond Banking
5	Bank of Maharashtra	V G Kale and D K Sathe	16 <sup>th</sup> September 1935	One Family One Bank
6	Canara Bank	Ammembal Subba Rao Pai	1 <sup>st</sup> July 1906	Together we Can
7	Central Bank of India	Sir Sohrabji Pokhchanawalla	21 <sup>st</sup> December 1911	Central to you since 1911
8	Corporation Bank	Khan Bahadur Haji Abdul Haji Kasim Saheb Bahadur	12 <sup>th</sup> March 1906	Prosperity for all
9	Dena Bank	Devkaran Nanjee	26 <sup>th</sup> May 1938	Trusted Family Bank
10	Indian Bank	Annamalai Chettiar and Ramaswami Chettiar	5 <sup>th</sup> March 1907	Your Own Bank
11	Indian Overseas Bank	M Chidambaram Chettyar	10 <sup>th</sup> February 1937	Good people to grow with
12	Oriental Bank of Commerce	Rai Bahadur Lala Sohan Lal	19 <sup>th</sup> February 1943	Where every individual is committed

13	Punjab National Bank	Lala Lajpat Rai and other Swadeshi leaders	19 <sup>th</sup> May 1894	.....the name you can Bank upon !
14	Punjab & Sind Bank	Bhai Vir Singh, Sir Sunder Singh Majitha and Sardar Tarlochan Singh	24 <sup>th</sup> June 1908	Where service is a way of life
15	Syndicate Bank (Formerly known Canara Industrial and Banking Syndicate Ltd)	Upendra Ananth Pai, Veman Kudva and Dr T M A Pai	1925	Faithful and Friendly. Banking for the new generation
16	Union Bank of India	Seth Sitaram Potdar under European Mgt	11 <sup>th</sup> November 1919	Good people to bank with
17	United Bank of India	Narendra Chandra Dautta	1914	The Bank that begins with "U"
18	UCO Bank	Ghanshyam Das Birla	6 <sup>th</sup> January 1943	Honours Your Trust
19	Vijaya Bank	Attavar Balakrishna Shetty	23 <sup>rd</sup> October 1931	A friend you can bank upon
20	IDBI Bank Ltd	Indian Government	July 1964	Banking for all; "Aao Schein Bada"
21	Bharatiya Mahila Bank	Indian Government	19 <sup>th</sup> November 2013	Empowering women, Empowering India
22	IDFC Bank	IDFC	1 <sup>st</sup> October 2015	Banking Hatke



<b>State Bank Group</b>				
<b>No</b>	<b>Bank</b>	<b>Founder</b>	<b>Year of operation</b>	<b>Tagline</b>
1	State Bank of India	British Government	1 <sup>st</sup> July 1955	The Nation banks on us; Pure Banking Nothing Else; With you all the way
2	State Bank of Bikaner & Jaipur	Maharaja Ganga Singh and Ramnath Anandilal Podar	1963	The Bank with a vision
3	State Bank of Patiala	Maharaja Bhupinder Singh	17 <sup>th</sup> November 1917	Blending Modernity with Tradition
4	State Bank of Hyderabad	Nawab Amer Usman Ali Khan	8 <sup>th</sup> August 1941	You can always bank on us
5	State Bank of Mysore	Mokshagundam Visvesvaraya	2 <sup>nd</sup> October 1913	Working for a better tomorrow
6	State Bank of Travancore	C P Ramaswamy Iyer	12 <sup>th</sup> September 1945	A Long Tradition of Trust

<b>New Private Sector Banks</b>				
<b>No</b>	<b>Bank</b>	<b>Founder</b>	<b>Year of operation</b>	<b>Tagline</b>
1	Axis Bank (Formerly known UTI Bank)	UTI, LIC, GIC, NIC, UIC and OBC	1993	Everything is the same except the name.
2	HDFC Bank	HDFC Ltd	August 1994	We understand your world.
3	ICICI Bank	ICICI	1994	Hum Hain na!!
4	IndusInd Bank	Srichand P. Hinduja	April 1994	We make money simple
5	Kotak Mahindra	Kotak Mahindra Finance Ltd.	1985	Let's make money simple
6	Yes Bank	Rana Kapoor and Ashok Kapur	2004	Experience our expertise

7	Bandhan Bank (Initially NBFC-MFI)	Chandra Shekhar Ghosh	2001 Converted into Bank on 25 <sup>th</sup> August 2015	Aapka Bhala, Sabki Bhalai
<b>Old Private Sector Banks</b>				
<b>No</b>	<b>Bank</b>	<b>Founder</b>	<b>Year of operation</b>	<b>Tagline</b>
1	Catholic Syrian Bank	Swadeshi movement leaders	26 <sup>th</sup> November 1920	Support all the way.
2	City Union Bank	R. Santhanam Iyer, S.Krishna Iyer, V.Krishnaswami Iyengar, T.S.Raghava chariar. & others	31 <sup>st</sup> October 1904	Trust and Excellence since 1904
3	DCB Bank	Merger of series of co-op. banks	1930	We value you
4	Dhana Laxmi Bank	Group of ambitious and enterprising entrepreneurs	14 <sup>th</sup> November 1927	Tann. Mann. Dhan
5	Federal Bank	Pattamukkil Varattisseril Oommen Varghese and others	23 <sup>rd</sup> April 1931	Your perfect banking partner
6	ING vysya Bank (Formerly known Vysya Bank)	Margapuram Chengaiah Chetty and others	29 <sup>th</sup> March 1930	Jiyo easy
7	J & K Bank	Maharaja Hari Singh	1 <sup>st</sup> October 1938	Serving to Empower
8	Karur Vysya Bank	M.A Venkatarama Chettiar and Athi Krishna Chettiar	1916	Smart way to bank
9	Karnataka Bank	B R Vysaray Achar and K S N Adiga	18 <sup>th</sup> February 1924	Your family bank across India

10	Lakshmi Vilas Bank	V S N Ramalinga Chettiar	1926	The Changing Face of prosperity
11	RBL Bank	Group of eminent patriotic personalities	August 1943	apna ka bank
12	South Indian Bank	Group of Thrissur entrepreneurs	29 <sup>th</sup> January 1929	Experience Next Generation Banking
13	Tamilnad Mercantile Bank	Nadar Mahajana Sangam	11 <sup>th</sup> May 1921	Be a step ahead of life

### Banking at Glance

No.	Major Indicators	Number	As on
1	No. of Schedule Commercial Banks	147	31.03.16
2	No. of Bank Branches (lakh)	1.26	31.03.15
3	No. of ATMs (lakh)	1.99	31.03.16
4	Aggregate Deposits (Billion)	93273	31.03.16
5	Bank Credit (Billion)	72496	31.03.16
6	Credit Deposit Ratio (%)	77.72	31.03.16

No	Macro Rates	%
1	Bank Rate (w.e.f.04.10.2016)	6.75
2	Cash Reserve Ratio (w.e.f.04.10.2016)	4.00
3	Statutory Liquidity Ratio (w.e.f.04.10.2016)	20.75
4	Repo Rate (w.e.f.04.10.2016)	6.25
5	Reverse Repo Rate (w.e.f.04.10.2016)	5.75
6	Marginal Standing Facility (w.e.f.04.10.2016)	6.75

## Question Bank

1. Education Loans sanctioned by Banks are covered under "Credit Guarantee Fund Scheme for Education Loans (CGFSEL)" managed by National Credit Guarantee Trustee Company Ltd., provided the loans are

- a) Sanctioned on or after 16.09.2015 and the sanctioned amount should not be more than ₹7.50 lakh;
- b) Not backed by any collateral security or third party guarantee;
- c) The interest rate should not be more than MCLR + 2%;
- d) a & b;
- e) a, b & c

2. PIN stands for

- a) Personal Index Number
- b) Permanent Index Number
- c) Personal Identification Number
- d) Permanent Index Number
- e) None

3. EEFC Account can be opened by

- a) Non Resident Indian (NRI)
- b) NRI who returned to India permanently
- c) Any Resident with local source of income
- d) Residents who have forex earnings
- e) None

4. Failure of internal systems, processes and people lead to

- a) Credit Risk
- b) Market Risk
- c) Liquidity Risk
- d) Operational Risk
- e) Technology Risk

5. As per IBA Model Education Loan Scheme, the minimum & maximum age criteria for the borrower (student) are.....

- a) 10 & 35 years
- b) 18 & 35 years
- c) 18 & 45 years
- d) All majors
- e) None

6. As per extant guidelines, advance against book debts (other than MSME) should not exceed ..... % of working capital limits.

- a) 10%
- b) 50%
- c) 25%
- d) 100%
- e) no such ceiling

7. Government pays agency commission to the banks @ ..... for Pension payments

- a) ₹50 per credit
- b) ₹12 per credit
- c) ₹65 per credit
- d) ₹60 per credit
- e) None

8. PCFC advance generally allowed for a maximum period of

- a) 360 days
- b) 270 days
- c) 180 days
- d) 90 days
- e) no such limit

9. TDS deducted by bank, is to be remitted to Income Tax authorities within.....

- a) 15 days from the date of deduction
- b) 7 days from the date of deduction
- c) 15 days in the succeeding month
- d) 10 days in the succeeding month
- e) 7 days in the succeeding month

10. What is the rate charged by banks for the discounting of approved bill of exchange?

- a) Repo Rate
- b) Bank Rate
- c) Reverse Repo Rate
- d) MCLR
- e) None

11. Companies look for Commercial Paper since they need

- a) Long Term Low Cost funds
- b) Short Term High Cost funds
- c) Long Term High Cost funds
- d) Short Term Low Cost funds
- e) None

12. X aged above 65 years placed a term deposit and requests TDS exemption as his total income including interest income falls below the taxable income, which form he need to submit to the branch?

- a) Form G    b) Form H    c) a or b    d) No form is required    e) None

13. Borrowers availing crop loans up to 3 lakh in the current year are eligible for interest subvention at ..... besides prompt payment incentive of .....

- a) 1% & 3%    b) 2% & 1%    c) 3% & 1%    d) 2% & 3%    e) None

14. The minimum acceptable *TransUnion CIBIL Limited* score is fixed as ..... while entertaining credit proposals by the Banks / Financial Institutions.

- a) 300    b) 400    c) 550    d) 600    e) None of the above

15. To consider housing loan, the age of building shall not be more than

- a) 15 years    b) 20 years    c) 15 years in Rural/Semi Urban & 20 years in Urban/Metro areas    d) Residual life of the building should be at least 10 years over and above repayment tenor    e) Residual life of the building should be at least 15 years over and above repayment tenor

16. Bank is required to submit XOS statement to RBI, in respect of

- a) Foreign exchange transactions    b) Import transactions    c) Overdue export bills  
d) Overdue import bills    e) FCNR accounts

17. Zero Coupon Bonds refers to

- a) Bond issued at face value    b) Bond issued with face value & interest    c) Bond issued at discount from its face value with interest    d) Bond issued at discount from its face value without interest    e) None

18. "Sishu" scheme is meant for

- a) Loans granted to Minors    b) Deposit scheme for children below 5 years  
c) Subsidized scheme for children education    d) Scheme for pregnant women  
e) Loans sanctioned under Mudra scheme up to ₹50000/-

19. The insurance coverage is available to Rupay Cardholder only when there is a transaction within ..... days.

- a) 90 Days    b) 45 Days    c) 30 Days    d) No restriction    e) None of the above

20. As per recent guidelines, 40% of the total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to ..... Lakh and micro (service) enterprises having investment in equipment up to ..... Lakh.

- a) ₹10 & ₹4    b) ₹5 & ₹2    c) ₹10 & ₹5    d) ₹2 & ₹5    e) ₹15 & ₹10

21. For transfer of funds through NEFT (National Electronic Fund Transfer), the minimum and maximum amounts that can be transferred are

- a) ₹1,000 and maximum ₹5 lacs    b) ₹1,000 and maximum no limit    c) ₹5,000 and maximum ₹1 lacs    d) No minimum & maximum amount    e) None of the above.

22. One Rupee currency note bears the signature of
- a) President of India b) Prime Minister of India c) Governor RBI d) Finance Minister of India e) Finance Secretary of India
23. In case of restructured loans, the payment of installments should commence within ..... months from the date of restructure of loan.
- a) one month b) 3 months c) 6 months d) 9 months e) 12 months
24. It is mandatory for banks to obtain Joint Lending Agreement where the aggregate credit limits availed by the borrower from multiple banks exceeds....
- a) ₹100 crore b) ₹150 crore c) ₹300 crore d) ₹500 crore e) None
25. USB means
- a) Urban Savings Bank account b) Ultra Small Branch c) Uniform Savings Bank account d) Unique Small Finance Bank e) None
26. Whether borrower has any option to go for.....during the currency of the loan?
- a) Fixed Interest Rate to Floating Interest Rate b) Floating Interest Rate to Fixed Interest Rate c) a & b d) Continue with sanctioned terms & conditions only e) None
27. Cash kept in the currency chest is owned by
- a) Currency Chest Branch Bank b) Central Government c) Reserve Bank of India d) State Bank of India e) None of the above
28. Bank can't proceed against the borrower under SARFAESI Act where
- a) Security is agril land b) Liability is less than ₹1 lac c) Liability is less than 20% of the principal d) Pledge of movables e) All of the above
29. State which one of the following statement not true with regard to disclosure norms to be made at the footnote of Balance sheet as per RBI guidelines.
- a) Movement of NPAs b) Large exposure – Deposit & advances c) Capital structure & Capital adequacy d) Industry wise exposure e) Market Risk in Trading Book
30. Savings Bank account can be opened by
- a) Individuals b) Trusts c) Business entities d) a & b e) All
31. A cheque is received by the branch for payment issued by one of the customers. Meanwhile a request is received by a public prosecutor informing that the person issued the cheque is imprisoned for criminal activity and directs the branch not to make payment of the said cheque. What is expected by the branch?
- a) Branch should not make the payment b) Branch should ask for court order regarding imprisonment of the customer c) Branch should insist written request from the public prosecutor d) Branch can make the payment.
32. With regard to lockers, which of the following guideline is not issued by the RBI?
- a) Branches are to link the allotment of lockers to placement of fixed deposits b) To ensure prompt payment of locker rent, branch are to obtain a Fixed Deposit which

would cover 3 years rent and charges for breaking open the locker c) Branch Manager can allot the 1/3rd of vacant lockers d) Wait list of lockers need not be maintained

33. Within the bank's aggregate capital market exposure of .....of its net worth the bank's direct investment in shares/convertible bonds/debentures, units of equity oriented mutual funds/Venture Capital funds should not exceed .....of its net worth.

a) 40% & 15% b) 30% & 15% c) 40% & 20% d) 80% & 50% e) No ceiling

34. As per the compensation policy of the bank with regard to collection of foreign cheques, bank shall pay compensation @ ..... to the customer if the delay is beyond 45 days.

a) SB Interest b) Term Deposit Rate c) MCLR d) SB Interest + 0.75% e) None

35. Official Language Implementation Committee meetings are to be held once in....

a) Two months b) Three months c) Six months d) Twelve months e) None

36. In terms of direction of RBI & IBA on simplified procedure for settlement of claims preferred by the legal heirs of the deceased constituents, bank has to settle the death claims involving amount up to Rs.....

a) ₹10000 b) ₹50000 c) ₹100000 d) ₹25000 e) None

37. The minimum capital required to start a new private sector bank (other than Payments Banks & Small Finance Banks) is...

a) ₹100 crore b) ₹200 crore c) ₹300 crore d) ₹400 crore e) ₹500 crore

38. CDR mechanism, which of the following is not correct.

a) Multiple Bank Accounts b) ₹10 crores & above c) Fund & Non-fund based  
d) Preserving viable corporates e) Account should be NPA

39. Branches can negotiate bills drawn under LC for non-constituents, if

a) LC is restricted to our bank only, subject to the condition that the Proceeds will be remitted to the regular banker of the beneficiary b) LC is not restricted and proceeds will be remitted to the beneficiary c) LC bearing the clause without recourse d) None

40. X depositor approached the branch with term deposit receipt of ₹2 lakhs which was due in the year 2008 and not interested for renewal of the matured deposit and requesting for payment of interest for overdue period. How do you act?

a) No interest will be paid since the deposit is not renewed b) Term Deposit applicable interest at the time of maturity will be paid for the overdue period  
c) Interest rate at the time of maturity or at the time of renewal whichever is lower will be paid for overdue period d) SB interest will be paid for the overdue period

41. Which of the following Interest rates are still regulated by RBI?

a) SB Deposits b) Commercial Loans c) DRI Loans d) b & c e) all

42. Which of the following scheme is launched to provide pension to the members of unorganized sectors in India?
- a) PMSBY b) PMJBY c) Jeevan Dhara d) Jeevan Kalyan e) Atal Pension Yozana
43. To be eligible for classification under priority sector, the ceiling prescribed for lending to Agriculture Infrastructure (Cold Storage, Soil conservation, Tissue culture, Bio fertilizer, Vermi culture etc.,) is
- a) ₹50 lakhs b) ₹100 lakhs c) ₹200 lakhs d) ₹300 lakhs e) None
44. Right of Set-off refers to
- a) Marking of lien in deposit account of the borrower b) Transfer of term deposit balance, which is due for maturity in the next year to borrower account for adjustment of overdues c) Transfer of Savings Bank balances to borrower account for adjustment of overdues in loan account of the depositor d) b & c e) None
45. A term deposit of ₹500000/- in the name of individual with one year tenor is cancelled prematurely. The penalty for premature closure is....
- a) 0.50% b) 1.00% c) 1.50% d) 2.00% e) No charges
46. For the benefit of Senior Citizens, recently GOI introduced "Jeevan Pramaan" which relates to
- a) Life Insurance b) Health Insurance c) Housing facility d) Life Certificate e) None
47. The Banking Laws (Amendment) 2012 has facilitated the Public Sector Banks in increase of voting rights from.....to.....
- a) 10% to 26% b) 5% to 26% c) 1% to 5% d) 1% to 10% e) None
48. Maximum Project cost under USEP of SJSRY for individual borrower
- a) 1 lakh b) 2 lakh c) 5 lakh d) 10 lakh e) 50000
49. A bank can prefer appeal on the award passed by Banking Ombudsman within 30 days from the date on which the bank receives
- a) Passing Award b) letter of acceptance of Award by complainant c) the copy of the Award d) None of the above
50. Current Account is treated Inoperative/Dormant where there are no transactions in the account for the last
- a) 6 months b) 12 months c) 18 months d) 24 months e) 36 months
51. Which of the following is treated as indirect finance to agriculture?
- a) Purchase and distribution of inputs for the allied activities such as cattle feed, poultry feed etc., with loan amount up to ₹100 lakh per borrower b) Loans for setting up of Agriclincs and Agri business centres c) Loans for construction and running of storage facilities d) a & b e) all



52. What is the standard provision on the assets other than SME, Agriculture and Commercial loans?

- a) 0.40% b) 0.25% c) 0.50% d) 1.00% e) Nil

53. A customer's cheque realized for ₹2 lakh is credited to his account by mistake as ₹2000. Subsequently cheque presented for ₹20000 returned unpaid by the bank. What is the responsibility of the banker?

- a) Bank to pay damages to the customer b) Not responsible c) Customer to ensure balance before issuing the cheque d) None of the above

54. Which of the following statement is not correct with regard to RTGS?

- a) Meant for Two lakh & above remittances only b) Remittance should be through account transfer only c) Maximum charges should not be more than ₹50 per remittance d) Charges to be collected from the Beneficiary only

55. Power of Attorney was granted by a customer for a period of 12 months to X. The customer wants to revoke it after 6 months. What are the options available to the Branch?

- a) It should be revoked only after 12 months b) Yes he can revoke at any time c) Revoked with the consent of the power of attorney holder d) Yes he can revoke with the consent of the Banker e) None

56. Which of the following is not "Money Market Instrument"?

- a) Treasury Bills b) Commercial Paper (CP) c) Certificate of Deposits (CD) d) Fixed Deposit e) Equity Shares

57. RBI initiates Prompt Corrective Action against commercial banks where

- a) CRAR below 9% b) Net NPA above 10% c) ROA below 0.25% d) a & b e) All

58. Revised guidelines on Priority Sector have come into force based on the recommendations of .....Committee.

- a) Sri Y H Malegam b) Dr K S Krishna Swamy c) Dr C Rangarajan  
d) Dr K C Chakraborty e) Sri M V Nair

59. The minimum deposit required to open "PMJDY" Account

- a) ₹5 b) ₹50 c) ₹100 d) ₹500 e) Zero Balance

60. With regard to nomination to Illiterate account, which of the following statement is correct?

- a) Can extend in favour of literate only b) Nomination facility is not available c) Consent from Nominee is required d) Witness is a must e) None

61. SARFAESI – sale notice to debtor by creditor within ..... days?

- a) 30 Days b) 60 Days c) 45 Days d) 90 Days e) None

62. The company has its registered office in Mumbai and its factory is at Kolkatta. The Company has availed credit facilities from banks branch in Hyderabad. The equitable mortgage of company's immovable property is to be created at

a) Mumbai b) Kolkata c) Hyderabad d) Any notified place in India e) None

63. A cheque signed by the director as authorized signatory of a company is presented for payment but at the same time branch received information about the death of the director. Branch to

a) Pay the cheque as he signed in fiduciary capacity b) Stop payment c) Pay the cheque on receipt of confirmation from the company d) None

64. PMEGP cost of project for loans under manufacturing ..... and for Business/Service sectors.....

a) ₹15 lakhs & 10 lakhs b) ₹20 lakhs & 15 lakhs c) ₹25 lakhs & 15 lakhs  
d) ₹25 lakhs & 10 lakhs e) None

65. Under Cheque Truncation System (CTS), the instrument deposited by the customer for collection remain with.....

a) Collecting Branch b) Service Branch of Collecting Branch c) Paying Branch  
d) Service Branch of Paying Branch e) Clearing House

66. In case where the instrument is obtained by unlawful means, the holder of the instrument will not get any title as per .....

a) Section 58 of NI Act b) Section 48 of NI Act c) Section 89 of NI Act d) Section 128 of NI Act e) None

67. Banks are required to pay DICGC fee on

a) Monthly basis b) Quarterly basis c) Half-yearly d) Yearly e) None

68. Exposure to single/group borrower up to 5% is to be provided after-

a) Borrower consent to disclose the same in notes to account in Bank's annual report  
b) Approval of Board c) Charging additional interest @2% d) a & b e) a, b & c

69. Composite loan limit of ..... can be sanctioned by banks to enable the MSME enterprises to avail of their working capital limit requirements through single window

a) ₹25 lakhs b) ₹50 lakhs c) ₹100 lakhs d) ₹150 lakhs e) None

70. As per Liberalized Remittance Scheme (LRS), resident individuals may remit up to ..... per financial year (April to March) for any permitted capital and current account transactions.

a) One million US Dollors b) Two million US Dollors c) Three Million US Dollors  
d) 2.50 lakh US Dollors e) None

71. Family income criteria (per annum) for DRI loans in Rural & Urban areas.

a) ₹18000/- & ₹24000/- b) ₹15000/- & ₹24000/- c) ₹18000/- & ₹36000/- d) ₹24000/- & ₹36000/- e) None

72. What is the floor limit (Min & Max) in case of CRR?

- a) 3% & 10%    b) 3% & 15%    c) 5% & 10%    d) No limit    e) None

73. Fiscal Policy refers to

- a) Balance of Payments    b) Govt. taxes, expenditure and borrowings    c) Govt. borrowings from Equity Market    d) Sale and purchase of securities by RBI    e) None

74. Subordinated debt instruments are to be limited to ..... of Tier I together with other components of Tier II should not exceeds .... of Tier I capital

- a) 100% & 50%    b) 50% & 50%    c) 50% & 100%    d) No limit    e) None

75. DICGC covers

- a) Credit balance in cash credit account    b) Inter-bank deposits    c) Deposits of central / state govts.    d) a & b    e) a, b & c

76. Photographs/signatures can be converted into electronic form through

- a) Printer    b) Pen Drive    c) CPU    d) Scanner    e) Web Camera

77. As per the recent "Insolvency and Bankruptcy code" act, the time frame fixed for insolvency resolution is 180 days, however it may be extended to.....days by the Adjudicating Authority in exceptional cases.

- a) 210 days    b) 240 days    c) 270 days    d) 300 days    e) None

78. Crossed cheque, presented over the counter through the authorized agent of collecting banker for his valued customer for cash payment. Will you pay?

- a) Bank can pay    b) Payment can't be made since it is a crossed cheque    c) Payment can be made on cancellation of crossing duly signed by the drawer    d) None

79. Proprietor of a firm executed Power of Attorney to B. Cheque signed by Power of Attorney Holder is presented for payment after the death of the proprietor. Will you pay?

- a) Yes    b) No    c) Will be paid with the consent of legal heirs of the deceased    d) None

80. Banks are required to transfer "Unclaimed Deposits" every year to

- a) Govt. of India    b) RBI    c) Special Reserve Fund    d) Depositor Education and Awareness Fund    e) None

81. Banks to maintain SLR as per

- a) Section 24 of BR Act    b) Section 42 of BR Act    c) Section 42(1) of RBI Act    d) Section 24 of RBI Act    e) None

82. Competent authority to write-off loans given to Directors is

- a) Board    b) Management Committee    c) Chairman & Managing Director    d) Reserve Bank of India    e) None

83. Under Financial Inclusion Plan of the bank, the agents appointed by the bank to collect money and make payments to the depositors are called as
- a) Branch Managers b) Business Correspondents c) Business Facilitators d) b & c  
e) None
84. Floating Provisions can be added to Tier-II capital up to \_\_\_% of RWA
- a) 1% b) 1.25% c) 1.50% d) 1.75% e) None
85. What is the maximum loan amount to EWS & LIG under ISHUP scheme?
- a) 1 lakh & 1.60 lakh b) 0.50 lakh & 1 lakh c) 1 lakh & 2 lakh d) No limits e) None
86. In case where counterfeit note is found at the branch, FIR is to be filed by
- a) Remitter b) Cashier c) Beneficiary whose account the amount is to be credited  
d) Bank Branch where no. of notes exceeds 4 in a single transaction e) None
87. Relationship between Customer & Banker in case of Safe custody of articles
- a) Lessor&Lessee b) Principal&Agent c) Bailor&Bailee d) Assignor&Assingee e) None
88. Which of the following is not a Operational Risk?
- a) People Risk b) Technology Risk c) System Risk d) Liquidity risk e) None
89. Truncated Cheque means
- a) Shared Clearing b) Cheques presented will be processed by the depositing branch itself  
c) Physical movement of instruments from branch to clearing house d) Movement of electronic image instead of physical movement of instruments e) None
90. Provision on Standard Advances to be shown under which head of Balance sheet of the bank
- a) Advances & Other Assets b) Provisions & Other Assets c) Liabilities d) Provisions & Other Liabilities e) None
91. Name the new banks commenced operations in the year 2015?
- a) Bandhan Bank b) IDFC Ltd c) Bharatiya Mahila Bank d) SKS Micro e) a & b
92. What is the maximum loan amount that can be given under Small Manufacturing Units under MSME?
- a) 100 lakh b) 200 lakh c) 300 lakh d) 500 lakh e) No limit
93. Banks are focusing attention on Retail Banking since it facilitates
- a) Improved NIM b) Stable Business growth c) Diversified Risk d) a & b e) All
94. What is the age criterion for individuals to open New Pension System (NPS)?
- a) No age limit b) 10 to 60 years c) 18 to 60 years d) above 60 years e) None

95. Innovative Perpetual Debt Instrument should not exceed .... of Tier-I Capital and the investments by FIIs should not exceed ....

- a) 10% & 49%   b) 15% & 55%   c) 15% & 49%   d) 20% & 49%   e) None

96. Banks are installing "Cash Recyclers" which undertakes

- a) Cash withdrawal   b) Cash Deposit   c) Cheque Deposit   d) a & b   e) None

97. Your customer approached with Fixed Deposit of other Bank with a value of ₹5.50 lakh (including accrued interest) and due for payment in next 24 months and requested for a loan against the deposit. As Branch Manager how you deal with it?

- a) Loan can be allowed up to 75% value of the deposit   b) Loan can be allowed up to 80% value of the deposit   c) Loan can be allowed only on receipt of confirmation from other Bank having noted the lien   d) No loan can be allowed against other bank deposits   e) None

98. As per AML norms, banks are required to preserve records..... a) 3 years from the date of cessation of transaction   b) 5 years from the date of cessation of transaction   c) 10 years from the date of cessation of transaction   d) No time limit

99. Interest subsidy is available to all eligible Educational Loan Borrowers for a period of.....

- a) First one Year   b) First Two Years   c) During Study Period   d) Till closure of the loan   e) None

100. What is the maximum loan and repayment period is allowed for farmers to avail loans against pledge of agricultural produce?

- a) ₹5 lakhs & 6 months   b) ₹25 lakhs & 12 months   c) ₹50 lakhs & 12 months   d) No limit on amount but should be repaid within 12 months   e) None

101. A customer with a bearer cheque came for withdrawing the amount of cheque for ₹4000/-. The counter clerk expressed that the amount is not sufficient to pass the cheque as the balance is short by ₹700/-. The bearer of the cheque deposited ₹700/- and withdrawn the amount. Further account holder objected for revealing the balance in the account. In such a situation what is his liability?

- a) It is the responsibility of the customer to maintain sufficient balance in the account while issuing cheque and hence bank is not liable   b) Anybody can deposit amount in any account and bank has no right to stop such credits   c) Bank paid the cheque amount to the bearer since the instrument is in order in all respects   d) Bank is not in order in disclosing the account balance to the bearer of the instrument and hence liable for damages   e) None

102. LC states 'about' in case of amount, what does it indicate?

- a) 5%   b) 10%   c) 20%   d) 25%   e) None

103. Which statement is correct with regard to unspent foreign currency on return to India?

- a) Retain any amount of foreign currency   b) Returned to AD within 90 days   c) Allowed to retain \$5000 US Dollars   d) Need to return unspent foreign currency within 180 days, if the amount exceeds \$2000 US Dollars   e) None of the above

104. The minimum education qualification stipulated for borrower availing credit limit of ₹15 lakhs under PMEGP.

- a) Intermediate (10+2)   b) 10<sup>th</sup> Standard   c) 8<sup>th</sup> Class   d) None

105. Interest rate on Savings Bank Deposits are .....

- a) Regulated   b) Deregulated   c) Partially regulated   d) Linked to Repo Rate  
e) None of the above

106. As per RBI guidelines, the exposure norms for Single and Group borrowers including infrastructure projects are stipulated at ..... & ..... of Bank's Capital Funds respectively

- a) 10% & 20%   b) 15% & 40%   c) 20% and 50%   d) 20% & 40%   e) None

107. Which are the interest rates decided by the Banks?

- a) Repo Rate   b) Bank Rate   c) MCLR   d) SB Rate   e) c & d

108. As per AML/KYC norms, review of accounts, customer identification of data is to be updated once in ... years & ...years for Low Risk and High Risk Category accounts.

- a) 2 Years & 1 Year   b) Once in two years   c) 10 yr & 2 yr   d) 8 yr & 2 yr   e) None

109. Joint account operated "Either or Survivor", the number of nominees can be

- a) Joint depositors are allowed to nominate one each   b) Only one nominee is allowed  
c) No nomination facility is available for Joint Accounts   d) None

110. Under Education Loan scheme, interest subvention is provided to the students who pursue overseas studies and belongs to ..... category and whose family annual income is ₹1 lakh & below.

- a) SC   b) OBC   c) EBC   d) All   e) a,b & c

111. Crop loan treated as NPA if the loan amount remains unrecovered for

- a) One Crop Season   b) Two Crop Seasons   c) One Crop Season + 90 days  
d) Existing NPA norms that are applicable for Term Loans   e) None

112. For appealing to DRT, the borrower need to deposit

- a) 25% of suit amount   b) 10% of suit amount   c) 15% of suit amount  
d) No deposit required   e) None

113. Women granted a loan of ₹80 lakhs under CGTMSE, what is the amount of claim in case of default?

- a) ₹40 lakhs   b) ₹52.50 lakhs   c) ₹60 lakhs   d) ₹64 lakhs   e) None

114. PMJDY account holders are eligible to get insurance benefit of

- a) ₹30000 Life   b) ₹30000 Life & ₹1 lakh accident   c) ₹1 lakh Accident   d) ₹1 lakh Life & ₹2 lakh Accident   e) None

115. As per RBI guidelines, Branch to issue to SB account holders

- a) Pass Book   b) Account Statement   c) a & b   d) None

116. Post dated cheque presented in clearing paid by the bank and at the same time another cheque presented was returned as there is no sufficient balance in the account. Customer claimed for damages. What is the liability of the bank?

a) Bank can make payment, if the instrument is otherwise in order b) Bank is not in order in making payment c) It is the responsibility of the depositor to mention correct date while issuing cheque and hence banker is not liable d) Issuing cheque without adequate balance is the responsibility of the customer and hence banker is not liable e) None

117. As on 01.01.2017, Banks are required to maintain SLR at

a) 22% b) 21.50% c) 20.75% d) 25% e) None

118. The minimum CRR should be ..... maintained on daily basis.

a) 50% of eligible CRR b) 70% of eligible CRR c) 80% of eligible CRR  
d) 100% of eligible CRR e) None

119. Nominee obtains payment in the capacity of

a) Owner b) Beneficiary c) Agent d) Trustee e) None

120. Staff should present in the branch 15 minutes before commencement of business hours, this is applicable to

a) All Branches b) Rural Branches only c) Urban & Metro Branches  
d) No such stipulation e) None

121. Once the guarantor repays the loan and he attains the status of

a) Debtor b) Creditor c) Agent d) Right of subrogation e) None

122. When account is transferred from one branch to another branch, the account holder is required to submit again

a) Address proof b) Identity proof c) Declaration of local address for communication  
d) a & b e) None of the above

123. Banks obtain photograph at the time of opening of the account with a view to

a) Avoid benami accounts b) Verify the identity of the customer c) Verify with police records  
d) a & b e) a to c

124. Service charge rates are to be displayed by the bank in

a) Bank's own Website b) RBI Website c) Branch Premises d) IBA Website e) a to c

125. The form SDF is used for exports where

a) Custom office is not computerized b) Custom office is computerized c) Software d) Sent by Post  
e) None of the above

126. Banks to submit Wilful Defaulters list to

a) RBI with all accounts irrespective of liability b) *TransUnion CIBIL Limited* c) RBI where the liability is ₹25 lacs & above  
d) Banking Division, New Delhi e) None of the above

127. Banks are required to submit CTR (Cash Transaction Report) to ----- within --- of succeeding month.

a) FIU, 30 days b) FIU, 15 days c) FIU, 7 days d) RBI, 7 days e) RBI, 15 days

128. Annual premium payable on Deposit insurance on every ₹100 is

a) 10 paise b) 5 paise c) 25 paise d) 50 paise e) None of the above

129. "Floating charge" is a charge created on

a) Immovable Assets b) Movable Assets c) Assignment d) Deposits e) Assets created out of Bank finance

130. Who is not eligible to convert general crossing to special crossing?

a) Holder b) Drawer c) Payee d) a & b e) None of the above

131. Bank can create assignment on

a) Book Debts b) Stocks c) Land & building d) Deposits e) Immovable

132. Banks are required to preserve old records as per

a) BR Act b) RBI Act c) Indian Contract Act d) NI Act e) Evidence Act

133. The deposit schemes (interest) which are exempted from TDS are

a) Fixed b) Savings c) NRE/FCNR d) Recurring e) b & c

134. Which statement is not correct with regard to advances against shares?

a) Maximum loan allowed is ₹10 lacs against physical shares b) Maximum loan allowed is ₹20 lacs against demat shares c) Margin requirement is 50% for physical shares & demat shares d) None of the above

135. Garnishee order is not applicable

a) Credit balance in SB b) Credit balance in CD c) Credit balance in Cash Credit account d) Term Deposits in the Joint names e) None of the above

136. As per RBI guidelines, banks need to register the charge over the property with CERSAI within ..... days from the date of creation of charge.

a) 15 days b) 30 days c) 60 days d) 90 days e) None

137. The method of interest booking on agriculture advances is

a) Monthly b) Quarterly c) Half-yearly d) Yearly e) None

138. RBI injects liquidity through

a) Increase Bank Rate b) Reduction of Repo Rate c) Reduction of Reverse Repo d) Increase CRR e) Increase SLR



139. Provisioning norms are not applicable to loans sanctioned to  
a) Agriculture b) Exports c) DRI d) Govt. Sponsored Schemes e) Against Deposits
140. Banks are required to maintain minimum capital adequacy at .....  
a) 12% b) 11.5% c) 11% d) 10% e) 9%
141. Fixed Deposit is maturing on Sunday. It shall be deemed to be payable on  
a) Monday b) Immediate succeeding working day c) Preceding Day i.e. Saturday  
d) a & b e) None of the above
142. What is the tag line of "PMJDY"?  
a) Mera Khatha Bhagya vidhata b) Khatha Kholo Paisa Bachao c) Hamara Katha  
Bhagya Vidhata d) Hamara Katha Hamara Swabhiman
143. Exporter avail pre-shipment credit at the request of the issuing bank on the  
basis of  
a) Green Clause Credit LC b) Revocable LC c) Red Clause LC d) Back to Back LC
144. A person appointed by the court to look after the properties of the insolvent  
person is called  
a) Administrator b) Liquidator c) Assignee d) Attorney e) None of the above
145. Clayton's rule applies to  
a) Deposit Accounts b) Demand Loans c) Term Loans d) Overdrafts / Cash credits  
e) None of the above
146. Percentage of DRI advances should go to Rural/Semi Urban Branches.  
a) 50% b) 25% c) 66.66% d) 75% e) None of the above
147. AEPS denotes  
a) ATM Enabled Payment System b) Anywhere Everywhere Payment System  
c) Aadhar Enabled Payment System d) Aadhar Enabled Protocol System e) None
148. Which of the following statements are not correct with regard to MSME?  
a) Investments in Plant & Machinery is to be taken as criteria for Manufacturing  
Enterprises b) Investment in Equipment is to be taken as criteria for Service  
Enterprises c) No collateral security or third party guarantee is required for loans up  
to ₹5 lakhs d) No collateral security or third party guarantee is required for loans up  
to ₹25 lakhs in case of Tiny Sector e) None of the above
149. UCPD guidelines are issued by  
a) FEDAI b) RBI c) Ministry of Finance d) IBA e) ICC Paris
150. Your customer requested to include his wife and daughter as nominees after  
one year of opening of the account. Will it be accepted?

a) It can be accepted since the nominees are the family members of the depositor b) Cannot be considered since the request is not received at the time of opening of account c) Can be considered with 50% share each d) Nomination should be made only in favour of single name. Hence can't be considered e) None of the above

151. What is the relationship between the Bank and Overdraft Customer where the account is showing credit balance?

a) Creditor & Debtor                      b) Principle & Agent                      c) Trustee & Beneficiary  
d) Debtor & Creditor                      e) None of the above

152. What is the maximum period for which FCNR deposit can be opened?

a) One Year    b) Two Years    c) Three Years    d) Five Years    e) Ten Years

153. Which of the following can't be a nominee?

a) Illiterate Person    b) Minor    c) NRI    d) HUF    e) None of the above

154. In case of dishonour of cheques on financial grounds, the holder is required to issue notice to the drawer within ... days to claim remedy under section 138 of NI Act

a) 7 Days    b) 30 Days    c) One Year    d) Three Years    e) None of the above

155. Bank has right to cancel the allotment of locker, if the customer does not operate or surrender within ..... despite notice sent to the locker holder.

a) Three Years    b) Five Years    c) Ten Years    d) Banks discretion    e) None

156. Borrowers who are having satisfactory dealings with bank for a minimum period of ..... Years are allowed to avail LUCC facility.

a) 5 Years    b) 3 Years    c) 2 Years    d) 1 Year    e) None of the above

157. National Payment Corporation of India (NCPI) has setup payment network to enable the member banks to issue Domestic Payment Cards with a brand.....

a) Visa Card    b) Master Card    c) Prepaid Card    d) Rupay    e) Travel Card

158. Permanent Account Number (PAN) is mandatory for

a) Bank transactions (cash) of ₹50000/- & above    b) Purchase and sale of shares / debentures / bonds of ₹50000/- & above    c) Purchase and sale of immovable property where the value of the property is ₹5 lakh & above    d) a & c    e) All

159. High Debt Service Coverage Ratio (DSCR) indicates

a) Unable to meet the installment obligations    b) Able to meet payment of installments comfortably    c) Liquidity problem    d) a & c    e) None of the above

160. X Company approached the Bank for sanction of working capital limit of ₹800 lakhs and the Current Ratio of the company is 1.15:1. What is the course available to the branch?

a) Proposal can be considered as the current ratio is acceptable    b) Proposal can be declined since current ratio is below 1.33:1    c) Advise the company to increase capital to bring the current ratio to 1.33:1    d) Proposal is to be referred to next Higher Authority for sanction    e) None of the above.

161. Which of the following statement is not true with regard to Capital Gains Deposit Scheme?
- a) Income Tax Assesses who are eligible for exemption under section 54 of the IT Act are alone can open account with Banks b) Accounts can be opened under Savings, Fixed and Term Deposits c) Cheque book can be issued to eligible accounts. d) No lien or deposit loan is allowed against such deposits e) None of the above
162. Which of the following statement is not correct with regard to Tax Saver Scheme of Banks?
- a) Tax exemption is available for the deposit amount under section 80C of IT Act b) Period of deposit is allowed up to 5 Years c) TDS is applicable, if interest payment is above ₹10000/- in a financial year d) Maximum amount of deposit allowed is ₹5 lakhs e) c & d
163. A fall in Quick Ratio in comparison with Current Ratio indicates
- a) High Inventory Holdings b) Low Inventory Holdings c) Decrease in Current Liabilities d) None of the above
164. Financial statements includes
- a) Balance Sheet b) P & L c) Cash & Funds Flow d) a & b e) a, b & c
165. Banks are permitted to take over borrowal accounts from other Banks & Financial institutions provided
- a) Account should be Standard Asset with positive net worth b) Copy of the borrowal account for preceding 12 months is to be obtained c) P&C report is to be obtained from other bank before disbursement d) Branch to take approval from next sanctioning authority e) All above
166. The guidelines on extending Adhoc Limits to the borrowers are
- a) Allowed in fund and non-fund based limits b) Can be allowed maximum of 3 times during the validity of limit and the maximum period allowed is 3 months for each adhoc limit c) Adhoc Limit can be allowed up to 20% of the sanctioned working capital limits to all eligible borrowers d) a & b e) b, c & d
167. Which of the following statement is not true with regard to Temporary Overdrafts?
- a) Can be allowed in Savings Bank Account b) Can be allowed in Current Deposit Account c) Can be allowed only 3 times in a account in a year d) Should not be allowed in staff accounts e) None of the above
168. The Enforcement of Security Interest and Recovery of Debt Laws (Amendment) Bill, 2013 allows the banks to
- a) Acquire immovable properties from the borrower to avert distress sale b) Banks should be heard in DRT before granting any stay on recovery of loans c) ARCs to convert a part of the debt into equity d) a & c e) All
169. The applicable net interest rate on loans sanctioned under Surya Shakthi Scheme is.....
- a) 2% for individuals b) 4% for institutions c) BMPLR for industrial & commercial organizations d) a & b e) None of the above

170. With regard to lending to farm sector, the guidelines on obtention of No Due / No Objection certificate are

a) Banks should not insist for the above certificate for loans up to ₹50000/- b) No charges are to be levied for issuance of certificate c) Self declaration from the farmer is to be obtained d) All above e) None of the above

171. Unsecured exposure is one where realizable value of tangible security is not more than ..... of the outstanding exposure.

a) 5% b) 10% c) 25% d) 40% e) None

172. RBI extending incentives to Banks for the following services

a) Adjudication of Mutilated Bank Notes b) Exchange of Soiled Notes c) Distribution of Coins over the counter d) Establishment of Coin vending Machines e) All above

173. As per RBI guidelines, the banks' can levy charges to the Current accounts for not maintenance of minimum balances provided.....

a) Charges should not exceed ₹100 in a year  
b) Charges should not exceed ₹500 in a year  
c) Bank has discretion to levy any amount of charges  
d) No charges should be levied as Bank is not paying any interest to the customer on Current Account deposit  
e) Banks are allowed to levy reasonable charges but should be known to the customers through proper communication

174. Scheme of payment of ex-gratia in lieu of appointment of dependents on compassionate grounds for officers (Public Sector Banks) is

a) Minimum ₹5 lakh b) Maximum ₹8 lakh c) Maximum ₹7 lakh d) Maximum ₹6 lakh

175. The eligible criteria for the borrowers under "Scheme for Sustainable Structuring Stressed Assets (S4A) are

a) The project should have commenced commercial operations b) The aggregate exposure of all lenders should be more than 500 crore c) Sustainable debt (as per TEV report) should not be less than 50% of current funded liabilities d) All e) None

176. Under the liberalized norms, a NRI can remit abroad money from his NRO account, up to .....

a) One Million US Dollar Per Year b) US Dollar of Two Million Per Year c) US Dollar of 5000 per year without any declaration or certificate d) US Dollar of One Million per year on the basis of undertaking and certificate e) None of these

177. Branch sanctioned OCC limit of ₹10 lakhs against hypothecation of stocks worth ₹15 lakhs with 30% margin. What would be the notional drawing power when the present value of stocks is ₹20 lakhs?

a) ₹10 lakhs b) ₹14 lakhs c) ₹20 lakhs d) ₹10.50 lakhs e) None

178. Which of the following documents do not attract stamp duty?

a) Promissory Note b) Mandate c) Power of Attorney d) Form-A e) None

179. Short term sources is greater than short term uses indicates

- a) Low Current Ratio      b) High Debt Equity Ratio      c) Higher Current Ratio d)  
Low Debt Equity Ratio      e) None

180. What would be the applicable interest rate payable for the overdue period to the legal heirs of the deceased on matured Term deposit, if not renewed?

- a) SB Interest Rate      b) Contracted Interest rate of matured deposit      c) Simple interest applicable to FD for the period the deposit remained with bank after maturity  
d) Applicable FD interest will be paid if renewed for further period      e) No interest

181. Stamped receipt is to be obtained for all cash transactions of above

- a) ₹100/-      b) ₹500/-      c) ₹1000/-      d) ₹2000/-      e) ₹5000/-

182. The net of Exports & Imports and the services including foreign inward remittances forms part of.....

- a) Balance of Payments      b) Capital Account      c) Current Account      d) Trade Surplus  
e) Invisibles

183. Banks are empowered to take possession of securities (other than rural properties) under provisions of.....Act, when the borrower fails to repay the loan as per the agreement.

- a) Indian Contract Act      b) Revenue Recovery Act      c) DRT Act      d) SARFAESI Act  
e) Banking Regulation Act

184. What is the net interest rate (Interest Rate minus Interest Subvention) applicable for short term agriculture production loans (Crop Loans) up to ₹3 lacs?

- a) MCLR      b) Base Rate – 1%      c) 10%      d) 8%      e) 7%

185. MCLR of the Banks is fixed by

- a) Indian Banks Association      b) Reserve Bank of India      c) Planning Department of the Bank  
d) Asset Liability Committee (ALCO)      e) Discretion of the Bank

186. While renewing the credit limits of the company, it is found that the Debt Equity Ratio is 3 compared to that of 2.5 in the previous year. It indicates

- a) Increase of Profit enabled the Company to add to Reserves      b) Decrease of Debt Burden on the Company  
c) Adverse Impact on Profit on account of increased interest burden      d) None of the above

187. Banking Codes and Standards Board of India (BCSBI) deals with

- a) Inspection & Audit of Banks      b) Funds & Investments in Banks      c) Sanctioning of Loans  
d) Customer Service      e) Banking Ombudsman

188. Banks can issue draft against accepting cash up to

- a) ₹50000/-      b) ₹20000/-      c) ₹100000/-      d) ₹49999/-      e) Any amount

189. The Strategic Debt Restructuring (SDR) deals with....

a) Transfer of promoters' equity to Lenders b) Infusing more equity by the promoters c) Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of company d) all above e) None

190. As per RBI guidelines, Business Correspondents undertake the following activities

a) Small value receipts & payments of the same bank to whom they are appointed  
b) Account opening c) Small value receipts & payments of other banks d) a & b  
e) a, b & c

191. What is the insurance coverage available to the borrowers for natural death and death due to accident under SGSY scheme?

a) ₹6000 & ₹12000 b) ₹5000 & ₹10000 c) ₹6000/- only d) ₹10000/- e) None

192. Having furnished PAN, NRO Term deposit attracts TDS on interest income at

a) 10% b) 20% c) 30% d) 10.30% e) 30.90%

193. RBI advised the banks to implement MCLR which mainly focus on.....

a) Marginal cost of funds b) Average cost of funds c) Average return on Networth  
d) Both Marginal as well as average cost e) None of the above

194. Branches should keep the PMEGP backend received in ..... and should be adjusted to the loan account only after completion of ..... months.

a) Fixed Deposit & 36 months b) Savings Deposit & 36 months c) Savings Deposit & 24 months  
d) Fixed Deposit & 24 months e) None

195. Garnishee order issued by... and the customer and bank relation\_\_\_\_\_to it.

a) Income Tax Authorities & Debtor and Creditor b) Police & Debtor and Creditor  
c) Court & Judgment Debtor and Judgment Creditor d) Court & Judgment Creditor and Judgment Debtor  
e) None

196. Which agency is enabling the transfer of subsidies directly to beneficiary accounts through Aadhaar Enabled Payment Bridge (AEPB)?

a) RBI b) SEBI c) IDRBT d) NPCI e) SBI

197. Call Money Market interest are linked to

a) Bank Rate b) Repo Rate c) Reverse Repo Rate d) Market forces e) None

198. Under "Interest Equalisation Scheme", Banks are advised to pass on the interest upfront @....% p.a. to all the eligible exporters availing credit facilities under Rupee Export Credit (Pre and Post Shipment).

a) 7% b) 5% c) 3% d) 2% e) None

199. Firm X and Y are having accounts with Bank and the both the firms are represented by A, B and C as partners. Firm X showing a debit balance of 2.20 lakh

and there is a credit balance of 3 lakh in Firm Y. Bank adjusted the debit balance of X account with available balance in Y account.

- a) Branch can exercise right of set-off b) Right of set-off can't be exercised as the accounts are different c) Right of set-off can be exercised by issuing a notice d) None

200. Transaction Password relates to

- a) Core Banking b) ATM operations c) Internet Banking d) Tele banking e) None

201. Nomination in respect of the following is to be witnessed by two persons.

- a) All deposit accounts b) Deposit accounts where the nominee is a minor  
c) Physically challenged accounts d) Thumb impression accounts (illiterate)  
e) None

202. "Actionable Claims" deals with

- a) Debt b) Receivables c) Subsidy or Duty Draw Back d) a & b e) all

203. When the contents of the Negotiable Instrument are modified by the drawer, it is treated as

- a) Forgery b) Fraud c) Material alteration d) suppression of facts e) None

204. Loans to repairs to dwelling units up to ..... lakh is treated as priority sector.

- a) ₹1 lakh for Rural/Semi urban & ₹2 lakh for Urban/Metro centres b) ₹2 lakh for Rural/Semi urban & ₹5 lakh for Urban/Metro centres  
c) ₹2 lakh at all places  
d) Not more than 10% cost of the dwelling unit e) None

205. Housing Loan of ₹80 lakh where the LTV is below 75%, it attracts Risk weight @

- a) 75% b) 100% c) 125% d) 150% e) 175%

206. A cheque was issued for ₹8000/- leaving blank space both at figures and words column, and the bearer of cheque made it ₹80000/- and withdrew amount. Customer made a claim for ₹72000/- against the bank.

- a) Bank to reimburse the amount since the cheque was issued for ₹8000/-only  
b) Customer is liable since he is negligent having left blank space at figures and words column  
c) Bank and Customer equally responsible  
d) Bank to file case against the bearer for making alternations of cheque  
e) None

207. The least discussed aspect by a financial analyst while appraising proposal

- a) Ratio Analysis b) Economic conditions c) Technical aspects d) Managerial aspects  
e) Marketing aspects

208. Which of the following is part of Tier-I capital?

- a) Cumulative Perpetual Preferential Shares (CPPS) b) Subordinate Debt  
c) a & b  
d) Perpetual Non-cumulative Preferential Shares (PNCPS) e) Revaluation Reserves

209. Exercise of nomination by the depositor

- a) Optional to the depositor b) Mandatory in case of single named accounts

c) Mandatory in case of joint accounts d) Mandatory for locker accounts e) None

210. Which of the following is exempted from NPA provisioning?

a) Loans against Deposits b) Loans guaranteed by State Govt. c) Loans guaranteed by Central Govt. d) Loans against NSCs e) Loans against Govt. Securities

211. In case of deceased borrower, the legal heirs liability is?

a) Limited to the extent of property inherited b) Not liable at all c) Unlimited and unconditional d) 50% of liability e) None

212. X introduced for opening the account of Y. What is the responsibility of X in case of fraud committed by Y?

a) To be reimbursed fully b) No responsibility c) 50% of loss d) Assist the bank in identifying the account holder e) None

213. Under 'Whistle Blower' the information can be directly submitted to

a) Board b) Audit Committee of the Board c) Management Committee d) Central vigilance Commission e) Reserve Bank of India

214. The maximum loan can be sanctioned under DRI (including Housing)

a) ₹12500/- b) ₹25000/- c) ₹15000/- d) ₹20000/- for SC/ST e) c & d

215. Preservation time for applications of closed accounts

a) 3 years b) 5 years c) 10 years d) Permanent e) None

216. Foreign tourist who visits India can hold US dollars (currency) maximum of

a) \$1000 b) \$2000 c) \$3000 d) \$5000 e) None

217. Why Banks prefer to reverse the contra entry immediately on expiry of Bank Guarantees?

a) To avert claim from beneficiary b) To avert maintenance of CRAR c) To avert provisioning d) To improve profit e) None

218. Prepayment charges are exempted for

a) Housing Loans b) Education Loans c) Agr. Loans d) Corporate Loans e) a, b & c

219. IFSC code consists of ..... digits.

a) 9 b) 10 c) 11 d) 15 e) None

220. Loans sanctioned to....., are exempted from exposure ceilings.

a) Priority Sector b) Export c) State/Central Government d) Real Estate e) None

221. Right of General Lien can be exercised on

a) Securities outstanding in the name of the borrower b) Existing and Future liabilities c) Future liabilities only d) a & b e) None



222. Delay in collection of cheque > 90 days, bank to pay Interest at applicable

- a) SB Interest    b) Term Deposit Interest    c) Term Deposit Interest + 2%  
d) BMPLR            e) No interest

223. Payment of FD beyond ₹20000/- in cash is violation of IT rules and attracts

- a) Penalty & Imprisonment            b) Penalty – Double the amount    c) Penalty – Not more than deposit amount  
d) No penalty

224. On receipt of possession notice (SARFASEI) issued by the Bank, if the borrower raises objection, the same should be replied within.....

- a) 7 days    b) 10 days    c) 15 days    d) 30 days    e) None

225. Can a Private Limited company join as a partner in a partnership firm?

- a) Yes            b) No            c) Yes with limited liability    d) None

226. What is the limitation period for public to approach Consumer forum for redressal of their grievances against Bank?

- a) No limitation period            b) One year from cause of action    c) Two years from cause of action  
d) Ten Years from cause of action    e) None

227. When PMEGP subsidy can be adjusted to loan account?

- a) At the request of the borrower before closure of the account  
b) After 3 years provided if there are no recoveries in the account  
c) Discretion of the Bank  
d) A & B    e) None

228. Account opened in the name of A&B jointly and nomination is given in favour of 'C'. Branch received request from the nominee for payment of deposit as 'A' expired. What is the course of action?

- a) 50% of deposit can be paid to the nominee  
b) Nominee has no right since other joint depositor is alive  
c) Amount will be paid to nominee with the consent of legal heirs of 'A'  
d) Nomination facility is not available to Joint accounts  
e) None

229. Cheque signed by the drawer as "R N Das" instead full signature and paid in due course. Drawer demands for return the amount as signature differs.

- a) Bank is liable to pay the amount to the customer since the payment made is not in due course as signature on the cheque differs from specimen signature on record.  
b) Bank is not liable on the ground that the amount was paid to the customer and the contention of the customer is not tenable since it is not a forgery  
c) Bank to share 50% of the amount since there is negligence on the part of the official passed the cheque  
d) None of the above

230. What is the discount for inclusion of Subordinate Debt under Tier-II capital where the Sub-ordinate Debt maturity is less than 18 months?

- a) 50%            b) 60%            c) 70%            d) 80%            e) None

231. As per recent guidelines, Interest subvention benefit is extended to

- a) Crop loans b) Education & Housing loans c) Kisan Sampathi (loans against negotiable warehouse receipts) d) a & b e) All
232. To avert fraudulent encashment of cheques presented for collection, branches are required to
- a) Present in clearing immediately b) Introduce Drop Box c) Affix the Special Crossing Stamp immediately on receipt of instrument d) None
233. Loans for Commercial Real Estate include.....
- a) Plantations b) Housing c) Special Economic Zones  
d) Construction of Malls e) Hotels & Restaurants
234. What is the time limit to furnish the requested information under Right to Information Act (RTI) and what is the penalty for non-compliance of the said norm?
- a) 30 days & ₹100 per day b) 60 days & ₹100 per day c) 30 days & ₹250 per day maximum of ₹25000/- d) 60 days & ₹250 per day e) None
235. Received request from your borrower for a loan of ₹300 lakhs for purchase of equipment @ 12% interest repayable in 60 months. The estimated Net Profit and depreciation is ₹100 and ₹20 lakhs respectively. What is the DSCR?
- a) 1.20 b) 1.30 c) 1.50 d) 1.62 e) 1.75
236. The recent changes in issuance of Commercial Paper (CP) are
- a) Dilution of credit rating norms for the Issuers b) Allowing the Issuers to buyback CPs before maturity c) Relaxation in minimum amount d) a & b e) All
237. The primary business of Asset Reconstruction Companies is to
- a) Buy stressed assets from banks b) Buy stressed assets from banks and sell it to others for profit c) Buy the stressed assets from banks at discount and share the recoveries with the banks d) Act as Recovery Agent for the Banks e) None
238. Loans to food and agro-based processing units with investments in plant and machinery up to ----- is treated as priority sector advance.
- a) 1 crore b) 5 crore c) 10 crore d) 50 crore e) None
239. The documents to be insisted from a NRI for opening an account is
- a) Copies of Passport and VISA b) Local and Overseas addresses c) Compliance of KYC norms d) Latest Passport size photographs e) All of the above
240. After taking possession of the immovable property, copy of the possession notice is to be published in two local newspaper not later than ----- days
- a) 7 days b) 15 days c) 30 days d) 60 days e) None
241. Interest Subsidy on Housing Loans (1%) for the first year is available provided the loan amount does not exceed ----- and the cost of house should be within -----
- a) 10 lakhs & 15 lakhs b) 10 lakhs & 20 lakhs c) 15 lakhs & 25 lakhs  
d) 10 lakhs & No cap e) None

242. Commission on receipts (physical) relating to Govt. Business

- a) ₹25 per transaction    b) ₹30 per transaction    c) ₹50 per transaction  
d) ₹60 per transaction    e) 0.50% of the transaction or 45 whichever is higher

243. Minimum and Maximum period of Certificate of Deposits

- a) 15 days&1 year    b) 30 days&1 year    c) 7 days&1 year    d) 7 days & no limit    e) None

244. Customer not kept Cheque book under lock and key and one cheque leaf was stolen. Bank made payment of the said cheque which was forged.

- a) Customer is liable since he is negligent    b) Bank is not liable as the cheque was stolen  
c) Bank is liable since the payment is made on forged signature    d) None

245. Loans not exempted from Base Rate/MCLR Purview?

- a) Consortium Advance    b) Deposit Loans    c) Export Credit  
d) Loans to staff members    e) None

246. Under UCP 600, bank can accept/reject documents within maximum of --- days.

- a) 5 Banking days    b) 7 days    c) 10 days    d) 15 days    e) None

247. Which is the bank recently (October 2015) identified by RBI to initiate Prompt Corrective Action (PCA) framework?

- a) Andhra Bank    b) Central Bank of India    c) Dena Bank    d) Indian Overseas Bank  
e) UCO Bank

248. Visually challenged persons are allowed to avail the following banking facilities?

- a) Cheque Book    b) Debit Card    c) ATM Card    d) Locker    e) All

249. Customer Service Standing Committee Meeting does not cover

- a) Customer Grievances    b) Staff matters    c) Credit    d) New Products    e) B,C & D

250. In case of payment of Fake DD, who has to lodge complaint with police, when it is identified as fake upon presentation – as per recent IBA guidelines?

- a) Issuing Bank    b) Collecting Bank    c) Purchaser of the Draft    d) Beneficiary  
e) Paying Bank

251. When Current Liabilities are more than Current Assets ....

- a) Interest burden is less    b) Company can meet its obligations    c) Company may not meet its obligations  
d) Increased Networkth    e) None

252. Why 'A/c Payee' cheques are to be credited the payee's account only.

- a) To get protection under section 131 of NI Act    b) To comply KYC guidelines  
c) To comply RBI guidelines    d) To avert fraudulent conversions    e) C & D

253. Cap on Rate of Interest on FCNR deposits

- a) LIBOR+1.25%    b) LIBOR+1%    c) LIBOR+2%    d) LIBOR – 0.50%    e) LIBOR – 0.75%

254. In case of "Paripasu" what charge the subsequent creditor enjoys?  
 a) Equal charge    b) First charge    c) No charge    d) Second charge    e) None
255. Current Assets ₹48 lakh, Networking Capital ₹12 lakh. What is the Current Ratio?  
 a) 1.20    b) 1.10    c) 1.33    d) 1.45    e) None
256. Mr Sandeep left India on 1<sup>st</sup> August 2003 for taking up employment in a software company in USA. In this context, which of the following statement is true?  
 a) He would be treated as NRI from 1<sup>st</sup> August 2003 onwards    b) However, till that date, he would be treated as a Resident    c) His existing account will continue as a resident account    d) All the above    e) (a) and (b) are correct
257. X & Y opened SB account operated by "Either or Survivor" and exercised nomination in favor of "Z". Who is empowered to modify or cancel the nomination?  
 a) X    b) Y    c) Z    d) Jointly with the consent of Z    e) None
258. What is the Annual Guarantee Fee (CGTMSE) payable for accounts with credit limits of above ₹5 lakh to women for the units located in North Eastern region?  
 a) 0.75%    b) 0.85%    c) 1.25%    d) 1.50%    e) 1.00%
259. Break Even Point means  
 a) Sales equal to Fixed Costs    b) Sale proceeds matches to Variable Costs  
 c) The sale proceeds will take care of fixed as well as variable costs  
 d) Sales equal to Fixed costs + Variable costs + Minimum profit    e) None
260. Housing Loan up to ..... is treated as Priority Sector.  
 a) ₹10 lakh    b) ₹15 lakh    c) ₹25 lakh in Metro with population above 10 lakh & ₹15 lakh in other centres    d) ₹25 lakh at all places    e) None
261. Nominee can exercise his right  
 a) During the tenure of deposit    b) On maturity of deposit    c) Any time since he will be treated as joint depositor    d) He has no right on deposit since it is in the name of the depositor    e) On the death of the depositor
262. Name the Bank/s identified by RBI as Domestic Systemically Important Banks (D-SIB)?  
 a) SBI    b) ICICI Bank    c) Indian Overseas Bank    d) Punjab National Bank    e) a & b
263. Provision to be maintained on substandard assets which are fully secured.  
 a) 15%    b) 20%    c) 30%    d) 5%    e) 10%
264. Loans to Bank staff backed by terminal benefits attracts Risk Weights @  
 a) 0%    b) 5%    c) 10%    d) 20%    e) 50%
265. Balances under Cash Reserve Ratio (CRR) earn interest @....  
 a) 3% p.a.    b) Applicable SB Interest Rate    c) 5% p.a.    d) No interest    e) None

266. As per recent guidelines, the aggregate withdrawals including transfers in Small Accounts (BSBDA/PMJDY) cannot beyond ..... in a month.

- a) ₹5000/-      b) ₹10000/-      c) ₹24000/-      d) ₹50000/-      e) None

267. Bank branches are required to obtain ..... while opening Current Accounts in the name of companies/institutions, who are availing the credit facilities from other banks.

- a) P & C Report    b) Due Diligence Certificate    c) No Objection Certificate    d) None

268. All the loans sanctioned up to ₹.....lakhs for income generating non-farm sector activities are classified as Mudra Loans.

- a) ₹ 1 lakh    b) ₹ 5 lakh    c) ₹ 10 lakh    d) ₹ 15 lakh    e) ₹ 25 lakh

269. Banks are allowed to accept deposits under Capital Gains Scheme in ....

- a) Savings    b) Fixed    c) Current    d) a & b    e) Any scheme

270. X, a pensioner is maintaining joint account (Either or Survivor) with his wife. Branch received the request from wife of the pensioner to furnish the same account for family pension as the main account holder expired. Branch may

- a) advise the customer to close the existing account  
b) open another account exclusively for pension purpose  
c) a & b  
d) allow the existing account for family pension payments  
e) None

271. Loans extended to Medium Manufacturing Enterprises shall be classified as Priority Sector provided the loan amount should be within

- a) 2 crore    b) 5 crore    c) 10 crore    d) Not eligible    e) Entire amount

272. Which of the following is an example of Financial Assets?

- a) National Saving Certificate    b) Infrastructure Bonds    c) Indira Vikas Patra    d) Krishi Vikas Patra    e) All

273. Which of the statement not correct with regard to sanction of loan of ₹5 lakh to individual undertaking small business which covers under Micro & Small Enterprise (MSE) category?

- a) Primary security is mandatory    b) Collateral stipulation is the discretionary of the Bank  
c) Collateral should not be insisted    d) Collateral is needed for all loans above ₹10 lakh  
e) None of the above

274. Special Mentioned Accounts (SMA) attracts accelerated provisioning norms where banks....

- a) Fail to report SMA status of the accounts to CRILC    b) Resort to methods with the intent to conceal the actual status of the accounts  
c) Evergreen the account    d) All  
e) None

275. The maximum loan that can be allowed to third party in India against FCNR (B) deposits is .....

- a) ₹50 lakh    b) ₹100 lakh    c) ₹150 lakh    d) ₹200 lakh    e) No ceiling

276. As per the recent guidelines, banks are advised to transfer the unclaimed deposits to "Depositor Education and Awareness Fund" which includes...

a) Current/SB/Term Deposits b) Un-reconciled NEFT/ATM credit transactions c) Undrawn balances in prepaid cards (except traveler cheques) d) a & b e) All

277. Number of free transactions at non-home ATMs has reduced from 5 to 3 with effect from 1<sup>st</sup> November 2014 in six metro cities, however ..... accounts are exempted

a) Current b) NRE SB c) Basic Savings Bank Deposit d) b & c e) None

278. As per RBI guidelines Small Finance Banks are allowed to undertake the following activities

a) Deposit collection b) Withdrawals c) Small loans d) a & b e) All

279. Which is the statement not true with regard to "Demonetization" announced by Government of India in November 2016?

a) Withdrawal of ₹500 & ₹1000 currency notes b) SBNs can be deposited in Bank accounts on or before 30<sup>th</sup> December 2016 c) Amount deposited can be withdrawn in cash with specified limits d) No restrictions on transfer transactions e) None

280. Quoting of PAN or submission of Form 60 is mandatory for SB accounts including KYC complaint BSBD account/PMJDY account where the account balance.....

a) ₹50000/- or more b) ₹500000/- or more c) ₹250000/- or more d) the total deposits made including transfer exceed ₹200000 e) b & d

### Question Bank - Key

No		No		No		No		No		No		No	
1.	e	41.	c	81.	a	121.	d	161.	c	201.	d	241.	c
2.	c	42.	e	82.	d	122.	c	162.	d	202.	e	242.	c
3.	d	43.	b	83.	b	123.	d	163.	a	203.	c	243.	c
4.	d	44.	c	84.	b	124.	e	164.	e	204.	b	244.	c
5.	e	45.	e	85.	a	125.	b	165.	e	205.	c	245.	a
6.	b	46.	d	86.	d	126.	c	166.	e	206.	b	246.	a
7.	c	47.	d	87.	c	127.	b	167.	c	207.	b	247.	d
8.	b	48.	b	88.	d	128.	a	168.	e	208.	d	248.	e
9.	e	49.	b	89.	d	129.	e	169.	a	209.	a	249.	a
10.	b	50.	d	90.	b	130.	e	170.	d	210.	a	250.	e
11.	d	51.	e	91.	e	131.	a	171.	b	211.	a	251.	c
12.	b	52.	a	92.	e	132.	a	172.	e	212.	d	252.	a
13.	d	53.	a	93.	e	133.	e	173.	e	213.	b	253.	b
14.	d	54.	d	94.	c	134.	c	174.	b	214.	e	254.	a
15.	d	55.	b	95.	c	135.	d	175.	d	215.	b	255.	c
16.	c	56.	d	96.	d	136.	b	176.	d	216.	d	256.	d
17.	d	57.	e	97.	d	137.	a	177.	a	217.	b	257.	e
18.	e	58.	e	98.	c	138.	b	178.	b	218.	e	258.	b
19.	a	59.	e	99.	c	139.	e	179.	a	219.	c	259.	c
20.	a	60.	d	100.	c	140.	b	180.	a	220.	c	260.	c
21.	d	61.	a	101.	d	141.	b	181.	e	221.	a	261.	e
22.	e	62.	c	102.	a	142.	a	182.	c	222.	c	262.	e
23.	e	63.	a	103.	d	143.	a	183.	d	223.	c	263.	a
24.	b	64.	d	104.	c	144.	b	184.	e	224.	c	264.	d
25.	b	65.	a	105.	b	145.	d	185.	d	225.	c	265.	d
26.	d	66.	a	106.	c	146.	c	186.	c	226.	b	266.	b
27.	c	67.	c	107.	e	147.	c	187.	d	227.	b	267.	c
28.	e	68.	b	108.	c	148.	e	188.	d	228.	b	268.	c
29.	b	69.	c	109.	b	149.	e	189.	d	229.	b	269.	d
30.	d	70.	d	110.	e	150.	d	190.	a	230.	a	270.	d
31.	d	71.	a	111.	b	151.	d	191.	e	231.	e	271.	e
32.	a	72.	d	112.	a	152.	d	192.	e	232.	c	272.	e
33.	c	73.	b	113.	a	153.	d	193.	a	233.	d	273.	b
34.	d	74.	c	114.	b	154.	b	194.	a	234.	c	274.	d
35.	b	75.	a	115.	c	155.	a	195.	d	235.	c	275.	e
36.	c	76.	d	116.	b	156.	c	196.	d	236.	d	276.	e
37.	e	77.	c	117.	c	157.	d	197.	d	237.	c	277.	c
38.	e	78.	a	118.	b	158.	e	198.	c	238.	c	278.	e
39.	a	79.	b	119.	d	159.	b	199.	b	239.	e	279.	e
40.	d	80.	d	120.	a	160.	d	200.	c	240.	c	280.	e