# ALL THE VERY BEST FOR YOUR EXAMS

# SHORT NOTES FOR
# JAIIB
# INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Though we had taken enough care to go through the notes provided here, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. Creation of these short notes is the efforts of so many persons. First of all we thank all of them for their valuable contribution. We request everyone to go through the Macmillan book and update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information).

**Dr. K Murugan, DMS, MBA (Finance), MBA (HR), MCA, MSc (IT), CAIIB**



www.jaiibcaiibmocktest.com

# Indian Economy & Indian Financial System

## Index


| S No | Topic | Page No |
|---|---|---|
| 1 | JAIIB & DBF – General Information | 3 |
| 2 | Syllabus | 5 |
| 3 | Module A – Indian Economic Architecture | 13 |
| 4 | Module B – Economic concepts related to Banking | 41 |
| 5 | Module C – Indian Financial Architecture | 57 |
| 6 | Module D – Financial Products And Services | 91 |


www.jaiibcaiibmocktest.com

## JAIIB / DBF – GENERAL INFORMATION

- **Consists of 4 papers :**
  1. Indian Economy & Indian Financial System
  2. Principles & Practices of Banking
  3. Accounting & Financial Management for Bankers
  4. Retail Banking & Wealth Management
- Only existing employees of banks can appear for JAIIB Exam.
- People other than Bank Employees can appear for Diploma in Banking and Finance Exam. If Passed, JAIIB Examination certificate will be issued after joining the bank.
- Syllabus & exam pattern for both JAIIB and DBF exams are mostly same.
- Both JAIIB and DBF exams are conducted in on-line mode only.
- The examination will be conducted normally twice a year in May / June and November / December on Saturdays/Sundays.
- The duration of the examination will be of 2 hours.

- **Examination Pattern** : Each Paper will contain 100 objective type MCQs, carrying 100 marks including questions based on case studies. The Institute may, however, vary the number of questions to be asked for a subject. There is no negative marking for wrong answers.

- **Passing Criteria** - Minimum 200 in total and minimum 45 in each subject in any single attempt (not required to be the 1st attempt) is considered as pass. Else 50 in each subject. Passed subject gets carried forward to 5 attempts or 3 years (whichever is earlier) from the 1st attempt. If not passed in 5 attempts or 3 years, you need to appear in all the 4 papers.
  - **First Class :** 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT.
  - **First Class with Distinction :** 70% or more marks in aggregate and 60% or more marks in each subject in the FIRST PHYSICAL ATTEMPT.
  - Candidates who have been granted exemption in the subject/s will be given **"Pass Class"** only.

- **Cut-off Date of Guidelines /Important Developments for Examinations** - The Institute has a practice of asking some questions in each exam about the recent developments/ guidelines issued by the regulator(s) in order to test if the candidates keep themselves abreast of the current developments. But, there could be changes in the developments / guidelines from the date the question papers are prepared and the dates of the actual examinations. In order to address these issues effectively, it has been decided that:

- In respect of the exams to be conducted by the Institute for the Period from February to July of a calendar year, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers.
- In respect of the exams to be conducted by the Institute for the period from August to January of a calendar year, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

- **Exam Fees**

**JAIIB**

- First attempt fee Rs. 4,000/-*
- 2nd attempt fee Rs. 1,300/-*
- 3rd attempt fee Rs. 1,300/-*
- 4th attempt fee Rs. 1,300/-*
- 5th attempt fee Rs. 1,300/-*

**CAIIB**

- First attempt fee Rs. 5,000/-*
- 2nd attempt fee Rs. 1,300/-*
- 3rd attempt fee Rs. 1,300/-*
- 4th attempt fee Rs. 1,300/-*
- 5th attempt fee Rs. 1,300/-*

**DBF**

- First attempt fee Rs. 3,500/-*
- 2nd attempt fee Rs. 1,300/-*
- 3rd attempt fee Rs. 1,300/-*
- 4th attempt fee Rs. 1,300/-*
- 5th attempt fee Rs. 1,300/-*

* Plus convenience charges and Taxes as applicable

**Please Note: Candidates are required to register for every attempt separately**

## SYLLABUS

The details of the prescribed syllabus which is indicative are furnished below. However, keeping in view the professional nature of examinations, all matters falling within the realm of the subject concerned will have to be studied by the candidate as questions can be asked on all relevant matters under the subject. Candidates should particularly prepare themselves for answering questions that may be asked on the latest developments taking place under the various subject/s although those topics may not have been specifically included in the syllabus. Any alterations made will be notified from time to time. Further, questions based on current developments in banking and finance may be asked.

**Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by IIBF.**

### MODULE A: INDIAN ECONOMIC ARCHITECTURE

**An overview of Indian economy**
Evolution of Indian Economy, Basic Characteristics of Indian Economy, Indian Economy in Pre-British period, Economy till 2008 & after 2008, Structural changes in Indian Economy

**Economic Planning in India**
Definition of Economic Planning, History of Economic Planning, Objectives of Economic Planning, Types of Planning, Achievements of Planning, Financial resources for 5-year plans

**Sectors of Indian Economy**
Role & Importance of Primary, Secondary, Tertiary Sector, Quaternary & Quinary Sectors, Different Revolutions in Primary sector, Difference between the sectors, GDP contribution of different sectors, Agriculture, Industry, Services, Employment growth rate in Secondary sector, Sunrise Sector of Indian Economy, Organised and Unorganised sectors

**Role of Priority Sector and MSME in the Indian Economy**
Definition & Role of Priority Sector, List of Priority Sectors identified in India, Priority Sector Lending Norms, Definition of MSME, Role & Significance of MSME in economic development, Contribution of MSME in GDP, Recent Initiatives in MSME sector viz,, Atmanirbhar Bharat package, Make in India, Start-up India, Stand-up India etc.



www.jaiibcaiibmocktest.com

**Infrastructure including Social Infrastructure**
Infrastructure & Economic Development, Energy, Power, Transport system viz., Rail, Road, Civil Aviation, Concept of Social Sector & Social Infrastructure, Health, Education, Family welfare, Development of Health Infrastructure

**Globalisation - Impact on India**
Globalisation and its Advocacy, Globalisation and its Impact on India, Fair Globalisation & the Need for Policy framework, Globalisation in reverse gear - The Threatened Re-emergence of Protectionism

**Economic Reforms**
A brief overview, Transformation, Economic Transformation — Real Sector, Economic Transformation — Financial Sector, Economic Transformation — Integration with the Global Economy, Economic Reforms in India

**Foreign Trade Policy, Foreign Investments and Economic Development**
FTP—Structural Changes during 1990s, FTP policy — 2015-2020, Challenges to be addressed in upcoming FTP, FDIs, FIIs and Recent trends, Economic development vs economic growth, Importance of economic development as a dimension etc.

**International Economic Organisations (World Bank, IMF etc.)**
IMF and World Bank, World Trade Organization (WTO) — India and WTO, Regional Economic Co-operations, Recent International Economic Issues

**Climate change, Sustainable Development Goals (SDGs)**
Core elements of Sustainable Development, Global Issues and initiatives, India's progress in SDGs including Climate change, CSR Activities

**Issues facing Indian Economy**
Poverty Alleviation, Jobless growth, Rising Inequalities, Migration and excessive pressure on resources, possible remedies, Pandemic situations



www.jaiibcaiibmocktest.com

## MODULE B: ECONOMIC CONCEPTS RELATED TO BANKING

**Fundamentals of Economics, Microeconomics Macroeconomics and Types of Economies**
Economics — An Introduction, Microeconomics and Macroeconomics, Types of Economies, Market, Command, and Mixed Economies

**Supply and Demand**
The Demand Schedule, Forces behind the Demand Curve, shifts in Demand, The Supply Schedule, Forces behind the Supply Curve, shifts in Supply, Equilibrium of Supply and Demand, Effect of a Shift in Supply or Demand, Interpreting Changes in Price and Quantity

**Money Supply and Inflation**
What is Money, Money Supply, Inflation, Causes of Inflation, Measures of Inflation

**Theories of Interest**
Classical Theory of Rate of Interest, Keynes' Liquidity Preference Theory of Rate of Interest, Money Demand Curve, Determination of Rate of Interest, Equilibrium in the Money Market, Effect of an Increase in the Money Supply, shifts in Money Demand or Liquidity Preference Curve, Hicks-Hansen Synthesis, IS-LM Curve Model

**Business Cycles**
Characteristics of a Business Cycle, Phases of a Business Cycle

**Monetary Policy and Fiscal Policy**
Tools of Monetary Policy, how did Monetary Policy in India Respond to the Global Financial Crisis? Fiscal Policy, FRBM Act

**National Income and GDP Concepts**
Computation, Utility

**Union Budget**
Receipts, Expenditure, Plan Expenditure, Deficit Concepts

**MODULE C: INDIAN FINANCIAL ARCHITECTURE**

**Indian Financial System — An Overview**

What is a Financial System? Phase I: Pre-1951 organisation, Phase II: 1951 to Mid-eighties organisation, Phase III: Post Nineties Organisation, Narasimham Committee (1991) on the banking system in India, Reform of the Banking sector (1992-2008), Present Status of Banking System

**Indian Banking Structure**

Functions, Development of Banking in India, Scheduled Commercial Banks- Types and functions, Local Area Banks, Regional Rural Banks, Cooperative Banks, Payment Banks and Small Finance Banks, NBFCs, Key RBI Guidelines

**Ranking Regulation Act. 1949 and RBI Act, 1934**

Background of Enactment, PART-1 Reserve Bank of India Act, 1934: Chapter I to Chapter V, Schedules to the RBI Act, 1934, PART-I1 Banking Regulations Act, 1949, Background and Structure of the Banking Regulation Act: Section 1 to Section 56

**Development Financial Institutions**

Evolution of Development Financial Institutions in India, Gaps in the Post-Independence Financial System, Objectives of Development Financial Institutions, Classification of DFIs, Role of DFIs in the Indian Economy, Changing Role of DFIs and Emergence of Universal Banks, Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI),Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), Export Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), National Bank for Financing Infrastructure and Development (NaBFID)

**Micro Finance Institutions.**

Evolution of Microfinance in India, Grameen Bank Model, Delivery of Microfinance, SHG-Bank Linkage programme, Joint Liability Groups (JLGs), Regulatory Framework for Microfinance Institutions, Inclusion of Bank Finance to Microfinance Institutions in Priority Sector Lending, Regulatory Framework for Micro Finance Loans RBI Directions 2022, RBI's Fair Practices Code for NBFC-MFIs

**Non-Banking Financial Companies**

What is a Non-Financial Banking Company (NBFC)?, Evolution of NBFCs in India, Role of NBFC in Promoting Inclusive Growth of India, Regulators of NBFCs, Classification of NBFCs, Regulatory Oversight by RBI on NBFCs, Types of NBFCs, Concept of Owned Funds and Net Owned Funds (NOF) for NBFCs, Bank Finance to NBFCs, Fair Practice Code for NBFCs, Applicability of

Ombudsman Scheme to NBFCs, Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

**Insurance Companies**
History and Development of Insurance. Privatisation and Foreign Direct Investment (FDI) in Insurance Sector. Insurance Business Globally and in India. Insurance Penetration and Density. Number of Insurance Companies Operating in India. Legislations Governing Operation of Insurance Companies. Insurance Intermediaries. Reinsurance. Insurance Repository's-Insurance Account

**Indian Financial System - Regulators & their roles**
Role of Financial Sector Regulators in an Economy, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDA), Pension Fund Regulatory and Development Authority (PFRDA)

**Reforms & Developments in the Banking sector**
Bad Banks, Infrastructure financing, Formation/role of NaBFID-National Bank for Financing, Infrastructure & Development, Basic concepts on EASE.

**MODULE D : FINANCIAL PRODUCTS AND SERVICES**

**Overview of Financial Markets**
What is a Financial Market?, Evolution of the Financial Market, Segments of Financial Markets, Functions of Financial Markets, Price Discovery

**Money Markets and Capital Markets**
Call Money, Notice Money and Term Money, Treasury Bills, Certificates of Deposit, Commercial Paper, Repo, Tri-Party Repo, Bill Rediscounting Scheme (BRDS), Long-Term Repo Operations (LTRO)

**Fixed Income Markets - Debt / Bond Market**
Government Securities, Bond Valuation and Theorems, Auction of Government Securities, Primary Dealers, Fixed Income Money Market and Derivatives Association of India (FIMMDA), RBI Retail Direct Scheme (BRDS), Corporate Bond Market, Inter-Corporate Deposits

**Capital Markets and stock Exchanges**
Primary Market, Secondary Market Stock Exchanges in India, Financial Products/Instruments Dealt with in the Secondary Market, Regulatory Requirements Specified by SEBI for Corporate Debt Securities, Commonly Used Terms in the Capital Market, Types of Capital Issues in the



www.jaiibcaiibmocktest.com

Primary Market, Eligibility Norms for Making Capital Issues, Intermediaries in an Issue in the Primary Market, Applications Supported by Blocked Amount (ASBA) Qualified Institutional Placement (QIP)

**Forex Markets**

Profile of Foreign Exchange (Forex) Market, Evolution of the Forex Market in India, Characteristics of the Forex Market, Market Participants, LIBOR and Alternate Reference Rates (ARRs), Foreign Exchange Dealers Association of India (FEDAI), Foreign Exchange Management Act (FEMA), 1999, FX-Retail Platform, US Dollar Index (USDX), American Depository Receipt (ADR) and Global Depository Receipt (GDR)

**Interconnection of various markets/Market Dynamics**

Process of Interconnectedness of Financial Markets, Reasons for interconnectedness, Importance of Interconnectedness of Financial Markets, Heterogeneity of Financial Markets, Achievement of Market Integration in India, Different Levels of Market Integration, Asian Clearing Union, Benefits and Costs of Interconnectedness of Markets, Interconnectedness of the Money Market, Interconnectedness of the Credit Market, Interconnectedness of the Capital Market, Interconnectedness of the Forex Market, Integrated Treasury Operations, Contagion Effect

**Merchant Banking Services**

Definition of Merchant Banking, Historical Background, Development of Merchant Banking in India, Merchant Banking Vs Commercial Banking, Licensing Requirements, SEBI Regulations on Merchant Banking, Activities of Merchant Banks, Key Policy Requirements as per SEBI Regulations, Key Codes of Conduct as per SEBI regulations

**Derivatives Market including Credit Default Swaps**

What is a Derivative. History of Derivatives, Size of the Derivatives Market, Underlying Assets, Exchange Traded and Over-the-Counter Markets, Participants in the Derivatives Market, Functions of Derivatives, Types of Derivatives, Forward Contracts, Futures, Options, Swaps, Credit Default Swaps (CDS), RBI guidelines on Credit Default Swaps, Documentation for Derivatives — ISDA Agreement.

**Factoring, forfaiting & Trade Receivables Discounting System (TReDS)**

What is Factoring, History of Factoring, Types of factoring, Domestic Factoring, International Factoring, Bills Discounting vs Factoring, Fees Involved in Factoring, Advantages of Factoring, What is Forfaiting, Mechanism of a Forfaiting Transaction, Fees Involved in Forfaiting, Advantages of Forfeiting, Differences between Factoring and Forfaiting, What is TReDS? Participants under TReDS, Process Flow under TReDS, Eligibility Criteria to Set Up and Operate TReDS.

**Venture capital**

Concept of Venture Capital, Evolution of Venture Capital in India, Characteristics of Venture Capital Finance, Stages of Venture Capital Financing, Process of Venture Capital Financing, Regulatory Aspects of Venture Capital Funds, Modes of Venture Capital Financing, Advantages and Disadvantages of Venture Capital Financing, Exit Routes for Venture Capital Finance.

**Leasing and Hire Purchase**

Lease Finance, Evolution of Leasing in India, Types of Leasing, Advantages and Disadvantages of Lease Finance, Market Share of Various Leased Asset Classes, Impact of Leasing on Financial Ratios, Legal Aspects of Leasing, Regulatory Aspects of Leasing Activities, Hire Purchase, Evolution of Hire Purchase in India, Legal Aspects of Hire Purchase, Parties to a Hire Purchase Contract, Leasing and Hire Purchase Compared,

**Credit Rating agencies & their functions**

What is Credit Rating? Credit Rating Agencies (CRAs) ;History of Credit Rating; Characteristics of Credit Rating ;Importance of Credit Rating, Benefits of Credit Rating, Factors Considered while Rating Companies/Instruments, Process of Credit Rating, Credit Rating Symbols, Ratings Outlook, Regulations for CRAB in India, Fees for Credit Rating, What is Credit Scoring?, Credit Information Companies (CICs) in India, Membership to CICs, Regulatory Guidelines Governing CICs, Credit Scores, Difference Between Credit Ratings and Credit Scores

**Mutual Funds**

Mutual Funds and their Functions, Management of Mutual Funds, Evolution of Mutual Funds, Classification of Mutual Funds, Role of Mutual Funds, Supervision of Mutual Funds, New Fund Offer, Risks Associated with Mutual Funds, Risk Depiction — Riskometer, Net Asset Value (NAV), Expenses Ratio, Load/No-Load Funds, Strategies for Investment in Mutual Funds, Role of Mutual Funds in the Capital Market, Alternative Investment Funds

**Insurance Products**

What is Insurance? Fundamental Principles Governing Insurance Products, Classification of Insurance, Types of Insurance Business, Group Insurance Schemes, Micro Insurance, Insurance Based Social Security Schemes, Bancassurance, Insurance Ombudsman Scheme, Government Business Products (Social Security Schemes like PAJJBY, PMSBY)

**Pension Funds (include APY, NPS)**

Pension System and its Aspects, Pension Products, Different Types of Pension Schemes, Employees Provident Funds Scheme, Public Provident Fund (PPF) Scheme, Insurance Annuity Schemes, National Pension Scheme (NPS), Atai Pension Yojana (APY)

**Guidelines on Para Banking & Financial Services provided by Banks**
Types of Para Banking and Financial Services provided by Banks, Organisation of Para Banking and Financial Services Activities by a Bank, Para-Banking and Financial Services Undertaken by a Bank, Disclosure of Commissions/Remunerations earned from Para Banking and Financial Services Activities

**Real Estate Investment Funds I Infrastructure Investment Fund (concept)**
What are Real Estate Investment Trusts (REITs), History of REITs, Organisation of REITs, Types of REITs, Difference Between REITs and Real Estate Mutual Funds, Advantages and Disadvantages of Investing in REITs, Comparison of Various Modes of Investment in Real Estate, Taxation Guidelines for Investors of REITs, Regulatory Guidelines for REITs. What are Infrastructure Investment Trusts (InvITs), Organisation of InvITs, Rationale of Setting up InvITs, Activity of InvITs in India, Types of InvITs, Advantages and Disadvantages of InvITs, InvIT's Revenue Model, Taxation on Investments in InvITs

www.jaiibcaiibmocktest.com

# Indian Economy & Indian Financial System

## MODULE A – INDIAN ECONOMIC ARCHITECTURE

### Unit - 1. An Overview of Indian Economy

1. In terms of GDP purchasing power parity (PPP), India ranked 3rd in the world only after USA and China (IMF WEO April 2022).
2. According to the Angus Maddison database, India and China contributed 50.5 per cent of global GDP in 1000 AD.
3. As per the work of Angus Maddison, India's share of global income was 23 per cent in 1600 A.D., but, by the time the British left in 1947, it had shrunk to only 3 per cent.
4. The British East India Company, ignored industrialisation in the nation, and infrastructure was created not to industrialise India, but to exploit its raw materials.
5. India accounted for 33 % of global trade in 1600, but fell to less than 3 % in 1947.
6. The pre-independence period was characterised by near-stagnation, with little change in the organisation of production or productivity levels.
7. As per the World Bank classification, Indian economy is a lower-middle income economy, which is attributed to low per capita income, high levels of poverty, unemployment and illiteracy.
8. Following independence and the start of the planning process, agriculture's share decreased, while the shares of industry and services increased.
9. During the time of direct British control from 1858 to 1947, the colonial government's official transfers of monies to the United Kingdom were referred to as "Home Charges".
10. India's growth rate was slow (3.5 per cent) during the first three decades after independence. In 1978, Professor Raj Krishna coined the phrase "Hindu rate of growth" to describe the slow growth of the Indian economy.
11. Following the 1991 economic crisis, the implementation of reforms and the adoption of LPG (Liberalisation–Privatisation–Globalisation) policies paved the way for positive economic outcomes and higher GDP growth rates.
12. According to the provisional estimates of annual national income, 2021-22, the growth in GDP during 2021-22 is estimated at 8.7 per cent, as compared to a contraction of 6.6 per cent in 2020-21.
13. The COVID-19 pandemic disrupted global supply chains, shipping, and logistics, as well as affecting the Indian economy through mass lockdown, loss of life, and destruction in permanent demand.
14. According to the International Monetary Fund (IMF), India's contribution of global GDP reached 7.3% in 2021. However, in terms of GDP purchasing power parity (PPP), India is ranked 3rd in the world only after USA and China.

15. A number of factors influence the nature and characteristics of the Indian economy. Some of these factors include:
(i) low per capita real income, (ii) rapid population growth, (iii) a high rate of unemployment, underemployment, and disguised unemployment, (iv) excessive reliance on the primary sector, (v) a vicious circle of poverty, and (vi) rising unemployment.
16. 1950 : Agriculture was a dominant sector : 53.1% of GDP, Industry : 16.6%,, services : 30.3%.
17. 1980–81, the services sector (38%) surpassed agriculture (36.1%) to become the largest contributor to India's GDP. Industry : 25.9%
18. Under British rule, India remained a low-quality labour market. Less than 1/6 of Indians were only literate.
19. 1867-68 : Dadabhai Naoroji published the first estimates of national income in India in his book "Poverty and Un-British Rule in India"
20. According to him, British India's national income was Rs. 340 crore, Per capita income was Rs. 20 per annum at current prices
21. In 2008, in order to mitigate the effects of the crisis, the government provided 3 stimulus packages totalling Rs. 1.86 lakh crore (3.5% of GDP) to the economy.
22. The RBI eased monetary conditions and injected Rs 5.6 lakh crore (roughly 9% of GDP), in domestic and external liquidity.
23. Prior to the COVID-19 pandemic, the economy's average annual growth rate between 2008-09 and 2019-20 = 6.5% (base year 2011-12 prices)
24. COVID-19

- End of Dec 2019: First reported officially in Wuhan, China
- Mar 11, 2020: COVID-19 was declared as pandemic
- Jan 30 2020: 1st COVID-19 case was recorded in India
- India has had three waves of infections as on June 2022, pushing its total case load to the world's second highest.
- On January 16, 2021, India launched its vaccination programme.
- A number of factors responsible for the most severe economic impact on India, with the severity of the lockdown being the most frequently stated explanation.
- GDP contraction was more severe in countries with a higher stringency index — India, Argentina, Italy, and the United Kingdom.

25. Economic Recovery Dynamism Post COVID

- During the first wave of infections, India had one of the world's worst recessions.
- In the Q1 of 2020-21: GDP contracting by as much as 23.8%
- Supported by low base, economy recovered handsomely in 2021-22.
- The growth in GDP during 2021-22, estimated at 8.7% as compared to a contraction of 6.6 % in 2020-21

**Unit - 2. Sectors of the Indian Economy**

1. Primary sector includes all those economic activities where there is the direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc.
2. Secondary sector includes all economic activities that involve the processing of raw materials extracted from the primary sector also called industrial sector. An industrial economy is the one, in which, the secondary sector generates at least half of a country's national GDP and employment.
3. Tertiary sector includes all economic activities that produce services, such as education, healthcare, banking, communication, and so on.
4. Difference between the sectors

| Primary Sector | Secondary Sector | Tertiary Sector |
|---|---|---|
| **Agriculture, forestry, and mining are examples of activities in this sector** | Manufacturing units, small-scale units, major enterprises, and global organisations are all included | This sector involves banking, insurance, and communications |
| **Known as agriculture and associated services** | The industrial and manufacturing sector is often known as the manufacturing sector | Known as the service sector |
| **Provides raw materials for the production of goods and services** | Transforms one good into another by value addition to it | Offers valuable services to the primary and secondary sectors |
| **Unorganised and most of the times employs old methods** | Organised and employs more efficient production methods | It is well-organised and use advanced logistics techniques to carry out its tasks |
| **In most developing economies, such as India, this sector employs a large proportion of the workforce, compared to developed countries.** | Since this sector requires a particular set of talents, the employment rate is in equilibrium. | This sector's employment share has risen dramatically in recent years |

5. Quaternary sector is also known as the 'knowledge' sector. This includes activities such as teaching, research and development, Hospitals and physicians' offices, Theatres, Accountancy and Brokerage businesses
6. Quinary Sector includes occupations such as Senior company executives, Government officials, Research scientists, Financial and legal advisors and others
7. Agriculture's share of the country's gross income has been declining, while the industrial and service sectors' shares have been steadily increasing.
8. Industry's share of GVA has increased from nearly 17 per cent in 1950–51 to 29 per cent in 2021–22

9. The services sector's proportion has increased from 33 per cent in 1950 to 53 per cent in 2021-22
10. The construction sector is the second largest employment sector in the country, only after agriculture. It employs over ~31 million people and accounting for around 8 per cent of total employment.
11. Green Energy, Fintech, Information Technology, Electronics, Pharmaceuticals, Automobiles, Healthcare, Infrastructure Sector, Retail Sector, Processing Plants, and other emerging sectors of the Indian economy, form part of the Sunrise Sector
12. The organised sector is the one, in which, the job terms are fixed and regular, and the employees are guaranteed work. The organised sector comprises manufacturing, enterprise, business, school, hospital, and unit registered with the government.
13. Unorganised sector, on the other hand, is one in which employment terms are not defined and regular, and enterprises are not registered with the government. Construction workers, domestic workers, street workers, and those operating in tiny workshops unaffiliated with the government are all part of the unorganised sector.
14. Difference between Organised and Unorganised sectors

| BASIS FOR COMPARISON | ORGANISED SECTOR | UNORGANISED SECTOR |
|---|---|---|
| **Meaning** | The sector in which the employment terms are fixed and employees have assured work is Organised sector. | **The sector that comprises of small scale enterprises or units and are not registered with the government.** |
| **Governed by** | Various acts like Factories Act, Bonus Act, PF Act, Minimum Wages Act etc. | **Not governed by any act.** |
| **Government rules** | Strictly followed | **Not followed** |
| **Remuneration** | Regular monthly salary. | **Daily wages** |
| **Job security** | Yes | **No** |
| **Working hours** | Fixed | **Not fixed** |
| **Overtime** | Workers are paid remuneration for overtime. | **No provision for overtime.** |
| **Salary of workers** | As prescribed by the government. | **Less than the salary prescribed by the government.** |
| **Contribution to Provident fund by the employer** | Yes | **No** |
| **Increment in salary** | Once in a while | **Rarely** |
| **Benefits and perquisites** | **Employees get add-on benefits like medical facilities, pension, leave travel compensation, etc.** | **Not provided.** |

**Unit - 3. Economic Planning in India & NITI Aayog**

1. As per Economist H. D. Dickinson, Economic Planning can be defined as “the making of major economic decisions–what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole.”
2. National Planning Committee, set up in 1938 by the Indian National Congress defined planning in India as “Planning, under a democratic system, may be defined as the technical coordination, by disinterested experts of consumption, production, investment, trade, and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics, and raising of the standard of living, but must include cultural and spiritual values, and the human side of life.”
3. Planning is a vital component of every economy and is carried out at many levels. It is the skill of reaching any sort of objective utilising the resources at hand.
4. India has a centralised planning procedure that offers a broad framework for the economy’s developmental and investment requirements. The Planning Commission was in charge of planning in India since 1950.
5. Depending on the goal, planning may be categorised into several types. From a territorial standpoint, planning may be regional or national. Similarly, from a political standpoint, planning might be federal, state, or local.
6. Planning may be classified as centralised or decentralised planning from the standpoint of participation. From a temporal standpoint, planning might be long-term or short-term. Similarly, planning may be sectoral as well as geographical.
7. Objectives of Economic Planning in India
   - Economic Growth
   - Poverty Alleviation
   - Employment Generation
   - Social justice and reducing the inequalities
   - Self-reliant economy
   - Modernisation of the economy
8. Five-Year Plans and their Performance
   - Fundamental goal : To raise national income as well as per capita income.
   - However, both national and per capita income growth were quite modest during the planning era.
   - 7 of the 12 five-year plans experienced lower growth rates than expected.
   - Growth rates were modest during the first three decades of planning, but then picked up.
   - Massive fluctuations were another aspect of growth story.

- Negative per capita income growth has recorded in times such as 1971–72 and 1991–92.
- Agriculture growth has indeed been highly volatile, due to the change in environmental factors. The green revolution of the 1960s and the government's efforts to promote agriculture via different programmes have worked splendidly for the country.
- Today, India, has not only attained self-sufficiency in food grains production, but also a leading exporter of many agricultural products.
- With the expansion of the iron and steel, machine tool, and heavy engineering industries, India has made major strides toward capital equipment self- sufficiency.
- Engineering items account up a significant portion of India's exports, contributing for around 86 per cent of overall merchandise exports.

9. The National Institution for Transforming India, generally known as NITI Aayog, was established on January 1, 2015, by a resolution of the Union Cabinet and replaced Planning Commission.
10. NITI Aayog is chaired by the Prime Minister. The governing council of NITI Aayog is made up of the chairperson, ex-officio members of NITI Aayog, vice chairperson, full-time members, chief ministers of states, the Lieutenant Governor of the Andaman and Nicobar Islands (Union Territories), and special invitees of NITI Aayog.
11. In December 2018, NITI Aayog published its comprehensive national Strategy for New India which is a full exposition spanning 41 critical areas that recognises previous accomplishments, identifies binding restrictions, and recommends a path ahead to achieve the explicitly defined objectives.
12. Functions of NITI Aayog

- To develop a shared vision of national development priority sectors and strategies, with active state participation, in the light of national objectives.
- To promote cooperative federalism on a constant basis through organised support programmes and processes with the states, understanding that strong states make a strong nation.
- To create procedures for developing viable plans at the village level and gradually aggregating these at higher levels of government.
- To ensure that national security considerations are included into economic strategy and policy in areas explicitly referenced to it.
- To give special attention to those segments of our society, who may be at danger of not benefiting adequately from economic advancement.
- Create strategic and long-term policy and programme frameworks and initiatives, as well as track their development and efficacy. Lessons learned through monitoring and feedback will be utilized to make novel changes, including midcourse adjustments.
- To give guidance and foster collaboration between important stakeholders and like-minded think tanks on a national and worldwide level, as well as educational and policy research organisations.

- To establish a collaborative network of national and international specialists, practitioners, and other partners to encourage knowledge, innovation, and entrepreneurship.
- To provide a forum for the resolution of cross-sectoral and cross-departmental issues in order to expedite the execution of the development plan.
- Maintaining a cutting-edge Resource Centre, serving as a repository for research on good governance and best practices, in sustainable and equitable development, and assisting in their dissemination to stakeholders
- Actively monitor and assess programme and initiative execution, including the identification of required resources, in order to increase the likelihood of success and scope of delivery.
- To concentrate on technological advancement and capacity building for programme and initiative execution.
- To carry out any additional actions that may be required to enhance the implementation of the national development strategy and the previously indicated goals.

13. The 41 chapters of the comprehensive national Strategy for New India are divided into four sections: Drivers, Infrastructure, Inclusion, and Governance
14. In India, there are three key sources of funds available for funding economic plans: Domestic budgetary sources, deficit financing, and foreign assistance
15. Taxation is among the most significant domestic budgetary resources for channelising funds for planning.

**Unit - 4. Role of Priority Sector and MSME in the Indian Economy**

1. Micro, Small, and Medium Enterprises (MSMEs) are among the country's strongest drivers of economic growth, innovation, and employment. The primary benefit of the MSME sector is its employment potential, at a low capital cost.
2. MSME sector contributes roughly 45 per cent of manufactured production, more than 40 per cent of exports, and more than 28 per cent of GDP, while employing approximately 120 million people.
3. Definition & Role of Priority Sector
   - The current framework of Priority Sector Lending (PSL) dates back to Dec 14, 1967: States in Lok Sabha by Morarji Desai, then Deputy Prime Minister and Minister of Finance, that persistent complaints that several priority sectors, such as agriculture, SSI, & exports, had not received their fair share of bank credit.
   - Banking Laws (Amendment) Bill 1967, tabled in the Lok Sabha on December 23, 1967 introduced Social Control over banks

4. List of Priority Sectors identified in India
   i. Agriculture
   ii. Micro, Small and Medium Enterprises (MSMEs)
   iii. Export Credit
   iv. Education
   v. Housing
   vi. Social Infrastructure
   vii. Renewable Energy
   viii. Others
   ix. Weaker sections
5. Priority Sector Lending Norms

| Categories | Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above | Foreign banks with less than 20 branches | Regional Rural Banks | Small Finance Banks |
|---|---|---|---|---|
| **Total Priority Sector** | **40 per cent** of ANBC or CEOBE whichever is higher | **40 per cent** of ANBC or CEOBE whichever is higher; out of which up to **32%** can be in the form of lending to Exports and not less than **8%** can be to any other priority sector | **75 per cent** of ANBC or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to **15 per cent** of ANBC. | **75 per cent** of ANBC or CEOBE whichever is higher. |

6. Sub-targets for Priority sector

| Categories | Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above | Foreign banks with less than 20 branches | Regional Rural Banks | Small Finance Banks |
|---|---|---|---|---|
| **Agriculture** | **18 per cent** of ANBC or CEOBE, whichever is higher; out of which a target of **10 percent#** is prescribed for Small and Marginal Farmers (SMFs) | Not applicable | **18 per cent** ANBC or CEOBE, Whichever is higher; out of which a target of **10 percent#** is prescribed for SMFs | **18 per cent** of ANBC or CEOBE, whichever is higher; out of which a target of **10 percent#** is prescribed for SMFs |
| **Micro Enterprises** | **7.5 per cent** of ANBC or CEOBE, whichever is higher | Not applicable | **7.5 per cent** of ANBC or CEOBE, whichever is higher | **7.5 per cent** of ANBC or CEOBE, whichever is higher |
| **Advances to Weaker Sections** | **12 percent#** of ANBC or CEOBE, whichever is higher | Not applicable | **15 per cent** of ANBC or CEOBE, whichever is higher | **12 percent#** of ANBC or CEOBE, whichever is higher |
| # Revised targets for SMFs and Weaker Section will be implemented in a phased manner as indicated below | | | | |

7. The priority sector lending targets for the Domestic commercial banks (excluding RRBs & SFBs) & foreign banks with 20 branches and above is 40 per cent of ANBC or CEOBE whichever is higher.
8. The new definition of MSMEs will make it easier for small businesses to expand and flourish. The resulting economies of scale can boost productivity without depriving MSMEs of government benefits such as market support, export promotion, preferential procurement in the public sector.

9. Definitions of MSME – Old Vs New

| | Old Definition | | New Definition |
|---|---|---|---|
| | **Manufacturing** | **Services** | **Manufacturing/Services** |
| **Micro** | Investment in Plant and Machinery: Does not exceed Rs. 25 Lakh. | Investment in Equipment: Does not exceed Rs. 10 Lakh. | Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 1 Crore and turnover does not exceed Rs. 5 crores. |
| **Small** | Investment in Plant and Machinery: More than Rs. 25 lakhs but does not exceed Rs. 5 crores | Investment in Equipment: More than Rs. 10 Lakh but does not exceed Rs. 2 crores | Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 10 crore and turnover does not exceed Rs. 50 crores. |
| **Medium** | Investment in Plant and Machinery: More than Rs. 5 crores but does not exceed Rs. 10 crores. | Investment in Equipment: More than Rs. 2 crores but does not Rs. 5 crores. | Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 50 crore and turnover does not exceed Rs. 250 crores. |

10. As per the latest data there are around 36.1 million MSME units, spread across the country, and MSMEs contribute approximately 6.11 per cent of manufacturing GDP and 24.63 per cent of service GDP.
11. The "Make in India" project is built on four pillars established to boost entrepreneurship in India, not just in manufacturing but also in other sectors. New Processes, New Infrastructure, New Sectors, and New Mind-set are the four pillars.
12. The Start-up India Scheme aims to support individuals or businesses that have recently formed their own start-ups by offering better finance, including tax breaks, and ensuring that the process of establishing a start-up in India is smooth and quick.
13. The Production Linked Incentive Scheme (PLI) is a traditional and widely employed government method for increasing the production of products considered important for job creation, social welfare, and taxation. PLIs are simply financial incentives for enterprises to increase output. Current PLI scheme covers 13 sectors.
14. The PLI scheme would make Indian firms globally competitive, encourage investment in core competencies and cutting-edge technology, assure efficiencies, produce economies of scale, boost exports, and integrate India into the global supply chain.
15. Udyami Mitra Portal is launched by SIDBI, to improve accessibility of credit and handholding services to MSMEs.

16. MSME Sambandh: To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
17. MSME Delayed Payment Portal: This will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/ State Governments.
18. Digital MSME Scheme: It involves usage of Cloud Computing, where MSMEs use the internet to access common as well as tailor-made IT infrastructure.
19. Prime Minister Employment Generation Programme: A credit linked subsidy programme under Ministry of MSME.
20. Scheme of Fund for Regeneration of Traditional Industries (SFURTI): Organises traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
21. A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE): It creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution, etc.
22. National Manufacturing Competitiveness Programme (NMCP): To develop global competitiveness among Indian MSMEs, by improving their processes, designs, technology, and market access.
23. Micro & Small Enterprises Cluster Development Programme (MSE-CDP): Adopts cluster development approach, for enhancing the productivity and competitiveness as well as capacity building of MSEs.
24. Credit Linked Capital Subsidy Scheme (CLCSS): It is operational for upgradation of technology for MSMEs.



www.jaiibcaiibmocktest.com

**Unit - 5. Infrastructure including Social Infrastructure**

1. Infrastructure is the foundation for economic growth, and it encompasses the physical, natural, and organisational structures required for long-term economic development.
2. The source of finance differs greatly between sectors. Some, like railways and nuclear power, are government monopolies. Some industries are dominated by government spending, while others are controlled by Overseas Development Aid (ODA), and yet, others are dominated by private sector investment.
3. National Investment and Infrastructure Fund (NIIF) was introduced by the Government of India, to improve infrastructure finance in the country
4. Hard infrastructure refers to major physical networks such as roads, ports, airports, pipelines, etc., that are required for the operation of a modern industrial nation.
5. Soft infrastructure refers to institutions that are essential to keep the economy running, such as financial, educational, healthcare, and law-enforcement organisations. It is also segregated as physical and social infrastructure.
6. Some of the major infrastructures are
   - Energy Infrastructure
   - Water Management Infrastructure
   - Communications Infrastructure
   - Critical Infrastructure
   - Transport Infrastructure
   - Urban Infrastructure
   - Green Infrastructure
7. Green infrastructure is a concept that highlights the value of natural environment. The life support services provided by a network of natural ecosystems are emphasised.
8. Health, education, water supply, transportation, agriculture and allied activities, infrastructure, irrigation, management of natural resources such as water, forest, land, energy, welfare programmes and services, and so on are all included in the social sector.
9. Positive externalities are associated with social infrastructure. It plays an important role in a country's economic development and wellbeing.
10. Social Sectors include Health, Education, Water supply, Transportation, Agriculture and allied activities, Infrastructure, Irrigation.
11. At the time of independence, its literacy level was barely 17 per cent, with a life expectancy of 32.5 years at birth. The country's literacy rate is now 74.04 per cent, and the average life expectancy is 70 years.
12. Investing in human capital including education, skill development, training, and the provision of healthcare facilities increases labour productivity and societal welfare.
13. ESG (Environmental, Social, and Governance) refers to the three most essential factors which determine the long-term and ethical impact of a business or company investment



www.jaiibcaiibmocktest.com

14. The necessity for a strong and resilient health infrastructure was emphasised during the recent COVID-19 pandemic, which exposed the weaknesses in social infrastructure, across geographies.
15. As per the Economic Survey 2021-22, the healthcare sector's budgeted spending was Rs. 4.7 lakh crore in 2021-22, accounting for roughly 2.1 per cent of GDP and 6.6 per cent of total expenditure.
16. The budgeted spending in the education sector was Rs. 6.97 lakh crore in 2021-22, accounting for almost 3.1 per cent of GDP and 9.7 per cent of total expenditure.
17. The National Education Policy-2022 is built on four pillars: accessibility, equity, quality, and accountability.
18. The primary goal of the Family Welfare programme is to stabilise the population and offer high quality health services, including immunisation of pregnant women and children.
19. Population management is the core and fundamental goal of the family welfare programme.
20. Health infrastructure is an essential metric for assessing a country's healthcare policy and welfare system.

**Unit - 6. Globalisation — Impact on India**

1. The term "globalisation" refers to the increasing interconnectedness of the world's economies, cultures, and inhabitants, as a result of cross-border trade in goods and services, technology, and flows of investment, people, and knowledge.
2. Proponents of globalisation believe that it helps developing countries to catch up to developed ones through increased manufacturing, diversification, economic development, and higher living standards.
3. The advent of globalisation caused significant changes in the Indian economic policies, production, and consumer behaviour.
4. Effects of globalisation in India, include increased per capita income, better employment opportunities, and far more options for customers.
5. The importance of mutual understanding and dialogue among governments, organisations within and across borders, to promote social cohesion, which is a key proposition of fair Globalisation.
6. At the local, national, regional, and global levels, fair globalisation must be supported by the interdependent and mutually reinforcing pillars of economic development, social development, and environmental protection.
7. The process of reducing dependency and integration amongst particular units throughout the world is known as deglobalisation.
8. During economic and geopolitical crises, globalisation has always taken a hit, as WTO regulations allow governments to practise trade protection measures to preserve national interests, within specific limits.
9. Protectionism results a decline in trade, price rise, and a form of subsidy for protected industries.
10. Unprecedented events in the recent years such as Brexit, withdrawal of the US from the Trans-Pacific Partnership, the US-China Trade Disputes, recent COVID-19 Pandemic and the Russia-Ukraine conflict are reasons for call against globalisation.

**Unit - 7. Economic Reforms**

1. Economic reforms aimed at expanding private sector participation in the Indian economy's growth process.
2. Since 1980s, India has seen a number of changes that fit into two categories.
   - The 1980s reforms, influenced by the renowned 'Washington Consensus' doctrine.
   - The reforms that started in the early 1990s in the domains of industry, commerce, investment, and, subsequently, agriculture, were considerably broader in scope.
3. Reasons for the Economic reforms of 1991 are
   - Adverse balance of payments position
   - Poor performance of the public sector
   - Drop in foreign exchange reserves
   - Large government debts
   - Inflationary pressure
   - Stringent conditions laid down by the World Bank and IMF
4. The green revolution and industrial modernisation have transformed India's economy from an economic laggard to one of the world's fastest growing economies.
5. The three main pillars of economic reforms of 1991 were known as LPG (Liberalisation, Globalisation, and Privatisation).
6. Liberalisation was conceived with the idea that regulations imposed on trade agreements must be relaxed in favour for trade to thrive.
7. Privatisation refers to providing the private sector more opportunities to oversee various services while limiting the role of the public sector.
8. Globalisation in the context of economic reforms refers to the integration of the Indian economy with the global economy. It signifies that India's economy will now be more dependent on the global economy and vice versa.
9. Banking sector reforms are aimed at making the Indian financial sector efficient, competitive, and stable.
10. First Phase of Reforms – The Narasimham Committee I (February 1992)
Few of the important reforms that took place in 1992 were:
   - Capital adequacy norms
   - Progressive reduction of Cash Reserve Ratio and Statutory Liquidity Ratio
   - Deregulation of Lending rates
   - Credit delivery
   - Debt Recovery Tribunal (DRT)
   - Strong Supervisory System
   - Entry of New Private Banks
   - Mergers and Amalgamation.
11. Second Phase of Reforms – Narasimham Committee-II
The benefits of the Second Phase of Banking Sector Reforms were:

- Deregulation of Branch Licensing
- Prudential Norms and Disclosure Requirements
- Capital Adequacy

12. Important milestones of banking sector reforms
    - Prudential reforms
    - Supervisory reforms
    - Competition reforms
    - Market reforms
    - Institutional and legal reforms
    - Technology reforms
    - Debt Market Reforms
    - Foreign Exchange Market Reforms
    - Insurance Sector Reforms
    - Capital Market Reforms

13. The most significant reform in the currency market was the transition from a single currency fixed exchange rate system to controlling the level of the rupee against a basket of currencies then to a market-determined floating exchange rate system.

14. The substantial inflow of foreign investment into India in recent years reflects the country's strong economic potential and the execution of important policy reforms.



www.jaiibcaiibmocktest.com

**Unit - 8. Foreign Trade Policy, Foreign Investments and Economic Development**

1. Foreign trade policy refers to the economic policy that governs an economy's export-import activity.
2. Prior to 1991, the Indian economy was protected by high tariffs and taxes. Foreign investment was not permitted in India, in addition to significant quantitative restrictions.
3. In line with the 'Make in India' initiative, the FTP 2015-20 provides a framework for promoting goods and services exports, as well as employment generation and value addition in the economy.
4. The FTP aimed to increase India's merchandise and services exports from $465 billion in 2013-14 to $900 billion by 2019-20.
5. The FTP 2015-20 included two new schemes
    - The 'Merchandise Exports from India Scheme (MEIS)' for exporting defined products to designated destinations
    - The 'Services Exports from India Scheme (SEIS)' for promoting exports of designated services
6. Salient features of FTP 2015–20
    - Simplification & Merger of Reward Schemes
        - Earlier there were five different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agricultural Infrastructure Incentive Scrip, Vishesh Krishi Gram Udyog Yojana - VKGUY) for rewarding merchandise exports, with different kinds of duty scrips with varying conditions attached to their use. All these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS)
        - Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS).
    - Boost to "Make in India"
    - EPCG scheme : Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75% of the normal export obligation. Measures have been taken to give a boost to exports of defense and hi-tech items.
    - E-Commerce : E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).
    - Manufacturers : Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This 'Approved Exporter System' will help manufacturer exporters considerably in getting fast access to international markets.

- EOU/EHTP/STPI/BTP Schemes : A number of steps have been taken for encouraging manufacturing and exports under 100% EOU/EHTP/STPI/BTP Schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
- Niryat Bandhu Scheme : 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, Niryat Bandhu Scheme' has been galvanised and repositioned to achieve the objectives of 'Skill India'.
- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major objective of new FTP is to move towards paperless working in 24x7 environment.

7. Challenges to Be Addressed In Upcoming FTP
   - India's high export orientation in a few large trading partners and a few products preclude its ability to fully offset any sharp decline in exports.
   - India needs to diversify its trading partners, both export markets and import sources, and find alternate high value products, due to scale, complementary economies and spreading risk. India may explore targeted geographies and product specific strategies.
   - Exploring opportunities in new markets in Africa, South-East Asia and Latin America through strategic investments, where receptiveness towards non- Chinese trading partners is more is important and needs to be explored further.
   - India may aim at diversifying its import suppliers. Products having high import orientation from few countries, especially China need to be diversified. The policy needs to ensure that product or market concentration of India's trade should not go beyond specific levels.
   - Promoting efficacy of States in exports and exploring hitherto unexplored products are added areas to be considered for long long-term export growth.

8. FDI is a key engine of economic growth, assisting in maintaining high growth rates, enhancing productivity, and generate employment. A favourable policy framework and a stable business environment promote FDI inflows.

9. FDI enters the domestic economy through two channels: the RBI's automatic route and the government route.

10. FDI is permitted through the automatic route without prior approval from the Government or the RBI in all activities/sectors specified in the Government of India's consolidated FDI Policy, as amended from time to time.

11. List of Activities for which Automatic Route of RBI is not available
    - Petroleum Refining, Natural Gas / LNG Pipelines
    - Investing companies in Infrastructure & Services Sector
    - Defence and Strategic Industries
    - Atomic Minerals

- Print Media
- Broadcasting
- Postal services
- Courier Services
- Establishment and Operation of satellite
- Development of Integrated Township
- Tea Sector
- Asset Reconstruction Companies

12. Prohibited Sectors/Persons
    - Lottery Business including Government/ private lottery, online lotteries
    - Gambling and betting including casinos.
    - Chit funds
    - Nidhi company
    - Trading in Transferable Development Rights (TDRs)
    - Real Estate Business or Construction of farm houses.
    - Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
    - Activities/sectors not open to private sector investment viz., (i) Atomic energy and (ii) Railway operations
    - Foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for lottery business and gambling and betting activities
13. Foreign investment in activities not covered by the automatic route requires prior government permission. FDI from Pakistan is also placed under government route.
14. There are three types of FDI: Greenfield FDI, Brownfield FDI and Joint Venture
15. Foreign institutional investors are companies based outside India that offer investment proposals in India.
16. FII refers to short-term capital invested in stocks or hedge funds. It is generally volatile, and the possibility of capital flight is always there in the case of an economic slump, political turmoil, or herd behaviour of short-term capital outflow.
17. Economic development is a wider concept than economic growth.
18. To assess economic development, qualitative indicators such as the HDI (Human Development Index), gender-related indexes, Human Poverty Index (HPI), infant mortality, literacy rate, etc., are used

19. Difference between FDI and FII

| BASIS FOR COMPARISON | FDI | FII |
|---|---|---|
| **Meaning** | When a company situated in one country makes an investment in a company situated abroad, it is knownas FDI. | **FII is when foreign companies make investments in the stock market of a country.** |
| **Entry and Exit** | Difficult | **Easy** |
| **What it brings?** | Long term capital | **Long/Short term capital** |
| **Transfer of** | Funds, resources, technology, strategies, know-how etc. | **Funds only.** |
| **Economic Growth** | Yes | **No** |
| **Consequences** | Increase in country's Gross Domestic Product (GDP). | **Increase in capital of the country.** |
| **Target** | Specific Company | **No such target, investment flows into the financial market.** |
| **Control over a company** | **Yes** | **No** |

20. Difference between Economic Development and Economic Growth

| Economic Growth | Economic Development |
|---|---|
| **Definition** | |
| **It refers to the increase in the monetary growth of a nation in a particular period.** | **It refers to the overall development of the quality of life in a nation, which includes economic growth.** |
| **Span of Concept** | |
| **It is a narrower concept than that of economic development.** | **It is a broader concept than that of economicgrowth.** |
| **Scope** | |
| **It is a uni-dimensional approach that deals with the economic growth of a nation.** | **It is a multi-dimensional approach that looks into the income as well as the quality of life of a nation.** |
| **Term** | |
| **Short-term process** | **Long-term process** |
| **Measurement** | |

| Quantitative | Both quantitative and qualitative |
|---|---|
| **Applicable to** | |
| Developed economies | Developing economies |
| **Government Support** | |
| It is an automatic process that may or may not require intervention from the government | It requires intervention from the government as all the developmental policies are formed by thegovernment |
| **Kind of changes expected** | |
| Quantitative changes | Quantitative as well as qualitative changes |
| **Examples** | |
| GDP, GNP, per capita Income | • Human Development Index (HDI)<br>• Human Poverty Index (HPI)<br>• Gini Coefficient<br>• GenderDevelopment Index (GDI)<br>• Balance of trade<br>• Physical Quality of Life Index (PQLI) |

**Unit - 9. International Economic Organizations (World Bank, IMF, etc.)**

1. An international economic organisation is the one that is created by a group of countries to promote economic development and global trade.
2. There are three such organisations : The World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank (WB).
3. The IMF was formed in July 1944, when delegates from 45 countries met in Bretton Woods, New York, to agree on a framework, for international economic cooperation, when 29 countries signed an article of agreement.
4. IMF came into operation on 27th December 1945 and is today an international organization that consists of 190 member countries.
5. IMF is Headquartered at Washington, D.C.,
6. IMF focuses on fostering global monetary cooperation, securing financial stability, facilitating and promoting international trade, employment, and economic growth around the world.
The IMF is a specialized agency of the United Nations.
7. India became a member of IMF on December 27, 1945
8. India is a founding member of the IMF. Finance Minister is the ex-officio Governor on the Board of Governors of the IMF.
9. Functions of IMF
   (a) Surveillance over members' economic policies
   (b) Financing temporary balance of payments needs
   (c) Combating poverty in low-income countries
   (d) Mobilizing external financing
   (e) Strengthening the International Monetary System
   (f) Increasing the global supply of international reserves
   (g) Building capacity through technical assistance and training
   (h) Dissemination of information and research
10. The value of the SDR is based on a basket of five currencies—the US Dollar, the Euro, the Chinese Renminbi, the Japanese Yen, and the British Pound Sterling.
11. India is the IMF's sixth largest quota holding member. India's current IMF quota is SDR 13,114 million, 2.76 per cent. With 132,603 votes, India has 2.63 per cent voting share.
12. The World Bank is the largest development bank in the world. It offers financial solutions and policy assistance to nations, in order to help them eliminate poverty and spread the benefits of sustainable growth to all of their citizens.
13. The World Bank Group (WBG) is a collection of five international institutions: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID).
14. WBG is owned by its member countries, who contribute to its basic share capital and have voting rights, proportionate to their shareholding. Membership confers basic voting rights that

are common for all nations, but there are also additional votes that are contingent on financial contributions to the organisation.
15. Except for ICSID, India is a member of four of the five World Bank Group components.
16. Difference between IMF and World Bank Group

| International Monetary Fund | World Bank Group |
|---|---|
| **Single institution** | Comprises five institutions |
| **Oversees the international monetary system** | Seeks to promote the economic development of the world's poorer countries |
| **Promotes exchange rate and monetary stability in its member countries and globally** | Assists developing countries through long-term financing of development projects and programmes |
| **Assists with BoP bailout funds, by providing short- to medium-term credits** | Encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC). It has insurance and arbitration wings (MIGA and ICSID respectively) |
| **Draws its financial resources principally from the quota subscriptions of its member countries** | IBRD and IFC acquire most of their financial resources by borrowing from the international bond market. IDA gets donations. |

17. India has benefited greatly from its activities in a variety of ways, including cash, guidance, cross country expertise, and so on.
18. WTO was conceived during the eighth GATT cycle (1986–1994), which commenced in Uruguay and finished in Geneva (popularly called as Uruguay round).
19. As of June 2022, the WTO has 164 members. Geneva is the headquarters of the World Trade Organization. The WTO's top decision-making body, the ministerial conference of trade/commerce ministers, meets roughly every two years.
20. India has been a member of the World Trade Organization (WTO) since January 1995 and has also been a member of the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), since July 1948.
21. Functions of WTO

- Administering WTO trade agreements
- Providing forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organisations

22. Regional economic cooperation is one way to accomplish a global economy. It offers a framework that encourages technology and investment.
23. A few examples of regional economic integration are

- European Union
- Eurozone
- The South Asian Association for Regional Cooperation (SAARC)
- The Association of Southeast Asian Nations (ASEAN)
- The Organizations of Petroleum Exporting Countries (OPEC)
- The Group of Seven (G-7)
- The Group of Twenty (G-20)
- The Organization for Economic Co-operation and Development (OECD)
- The North American Free Trade Agreement (NAFTA),
- The Asia-Pacific Economic Cooperation (APEC)
- The Indian Ocean Rim Association for Regional Cooperation (IORARC)
- The Regional Comprehensive Economic Partnership (RCEP)
- Mercosur
- BIMSTEC

www.jaiibcaiibmocktest.com

**Unit - 10. Climate change, Sustainable Development Goals (SDGs)**

1. In September 2015, the United Nations General Assembly announced a set of 17 Sustainable Development Goals (SDGs) and 169 targets, to spur action over the next 15 years.
2. The seventeen (17) Goals agreed under the SDGs are as follows:
    1. No Poverty
    2. Zero Hunger
    3. Good Health and Well-being
    4. Quality Education
    5. Gender Equality
    6. Clean Water and Sanitation
    7. Affordable and Clean Energy
    8. Decent Work and Economic Growth
    9. Industry, Innovation and Infrastructure
    10. Reduced Inequality
    11. Sustainable Cities and Communities
    12. Responsible Consumption and Production
    13. Climate Action
    14. Life Below Water
    15. Life on Land
    16. Peace, Justice and Strong Institutions
    17. Partnerships to achieve the Goal
3. Long-term changes in temperature and weather patterns are referred to as climate change. Climate change threatens economic growth and acts as a poverty multiplier.
4. Sustainable Development Goal 13 is about climate action and is one of the 17 Sustainable Development Goals recognised by the United Nations, in 2015.
5. Some of the global issues highlighted by the UN include promoting child education, democracy, decolonisation, disarmament, human rights, gender equality, peace and security, assisting refugees, raising awareness about climate change, improving healthcare, and promoting international law and justice, among others.
6. India has witnessed considerable progress towards achieving the Sustainable Development Goals of the United Nations.
7. Since 2019, India’s total SDG score has increased from 60 to 66 in 2021, owing to nation-wide improvements in ‘clean water and sanitation’ and ‘affordable and clean energy,’ respectively. Kerala ranks first on the Index, followed by Himachal Pradesh, Tamil Nadu, Andhra Pradesh, and Goa.
8. The Indian government is firmly committed to the 2030 agenda, including the SDGs. Many of the government’s flagship initiatives, including Swachh Bharat, Make in India, Skill India, and Digital India, are key to the SDGs.

9. India is committed to SDG 13, which calls for climate action. India pledged to achieve net-zero emissions by 2070, during the United Nations COP26 summit in Glasgow, in November 2021.

10. India and SDG 13-Climate Action : India has made five 'Panchamrit' commitments to combat climate change.

i. Achieving the target of net zero emissions, by the year 2070
ii. Achieving 500 Giga Watt non-fossil energy capacity, by 2030
iii. Fulfilling 50 per cent of its energy requirements from renewable energy sources, by 2030
iv. India will reduce the total projected carbon emissions by one billion tonnes from now onwards, till 2030
v. By 2030, India will reduce the carbon intensity of its economy, by less than 45 per cent

11. At the COP26 meeting, India also announced 'One Sun, One World, One Grid' (OSOWOG), with the goal of harnessing solar energy and ensuring that generated electricity gets to places that need it the most.

12. The aim of CSR is to voluntarily incorporate economic, social, and environmental obligations into business operations in order to achieve long-term growth and demonstrate a beneficial impact on the environment, employees, consumers, shareholders, and communities.

13. Section 135 of the Companies Act 2013 provides legal support for CSR in India. Both the SDGs and the Indian CSR rule were adopted around the same time and appear to have enormous potential for developing a unified sustainable growth strategy. Schedule VII provides the overall direction for CSR efforts.

14. Several SDGs are associated to Schedule VII activities of the Companies Act of 2013. CSR (Schedule VII of the Companies Act) attempts to eliminate hunger, poverty, and malnutrition.

15. The Indian banking industry has a key role to play in responding to the climate crisis, both in terms of managing the risks that climate change poses to their operations and in funding India's energy transition.

16. Non-compliance with CSR provisions is now "civil wrong," not a crime and shifted such violations to a penalty regime. The penalty, at least Rs. 1 crore for the defaulting company and at least Rs. 2 lakhs for each defaulting officer were introduced in 2020, to replace imprisonment provision of maximum three years for defaulting officers that was brought in 2019.

**Unit - 11. Issues Facing Indian Economy**

1. Post COVID, the pace of economic recovery has moderated and is attributed to global factors. Cost pressures from increasing energy and raw material prices, followed by a drop in demand, due to the advent of a new COVID variety, are undermining manufacturer confidence.
2. According to the IMF's April 2022 World Economic Outlook (WEO), the Indian economy would grow by 8.9 per cent in fiscal year 2022-23, before slowing down to 6.9 per cent in fiscal year 2023-24. World Bank projected 8.7 per cent growth in FY 2022-23 and 6.8 per cent growth in FY 2023-24 in its January 2022 global economic outlook report.
3. As per IMF, India is the world's fastest growing major economy in 2022.
4. Some of India's perplexing economic issues include, weak demand, jobless economic growth, rising COVID infections, with multiple virus mutations, chronic unemployment and under-employment, burgeoning disparities in wealth distribution, poor human capital quality, infrastructure bottlenecks, overdependence on agriculture, rising government debt, urban migration, etc.
5. According to the Planning Commission of India's 2011-12 estimates, 25.7 per cent of the rural population and 13.7 per cent of the urban population were below the poverty line.
6. Jobless growth is an economic phenomenon, in which, the economy grows while maintaining or lowering its employment level. It can be caused by a variety of economic factors, including structural factors, stringent labour laws, and a stronger reliance on capital-intensive industries, particularly in a growing economy.
7. While India has one of the world's fastest growing economies, it also has one of the most unequal societies. Inequality has been steadily increasing over the previous few decades, and it has been especially pronounced after the 1991 economic reforms.
8. As per the World Inequality Report (2022), India is now one of the world's most unequal countries. In India, the top 10 per cent of the population earns 57 per cent of the national income. The very elite top 1 per cent earns 22 per cent of the top 10 per cent.
9. Migration is the movement of people from one location to another in order to take advantage of better economic possibilities in the receiving location. Migration is one of the most devastating repercussions of environmental change on humanity.
10. The pandemic has taken a significant toll on livelihoods and production capabilities, with far-reaching economic and social consequences, and the post-pandemic new normal may be very different from the pre-pandemic situation.
11. The virus has altered the economy's demand dynamics. Supply bottlenecks, reduced workforce participation, and threats from new virus variants have surfaced as risks to the domestic economy.
12. As per the RBI's Report on Currency and Finance 2021-22, it will take India more than 13 years to recover from COVID-19 losses by fiscal year 2034-35.
13. Possible Remedies

- The migration issue will worsen in the coming years, as climate change-related migration flows increase, particularly in middle-income economies like India.
- This is due to the fact that climate change is expected to increase the frequency and intensity of extreme environmental events, such as drought, sea level rise, flooding, and cyclones.
- The migration of people from rural regions to cities is rising. A new middle class is forming, with hopes for better living standards.
- Promoting agriculture and agri-businesses will be extremely beneficial in this regard. A concerted effort is needed in the direction of making farmers get non- farm sector job.

www.jaiibcaiibmocktest.com

## MODULE B – ECONOMIC CONCEPTS RELATED TO BANKING

### Unit - 12. Fundamentals of Economics, Microeconomics, and Macroeconomics and Types of Economies

1) Economics is "The science which studies human behavior as a relationship between ends and scarce means which have alternative uses. "
2) The essence of Economics is to acknowledge the reality of scarcity and then figure out how to organize society in a way which produces the most efficient use of resources.
3) **Adam Smith** is the Father of Modern Economics.
4) **An Enquiry into the Nature and Causes of the Wealth of Nations (published in 1776)** is written by Adam Smith.
5) Economics is the study of **how wealth is produced and consumed.**
6) **Smith's** definition is known as **Wealth Definition**. It gave more importance to wealth than to man for whose use wealth is produced.
**7) Welfare Definition** is coined by **Prof. Alfred Marshal.** He described Economics as **a science of human welfare.**
8) **Scarcity Definition** is coined by **Prof. Lionel Robbins.**
9) Prof. Lionel Robbins defines Economics as study o**f "means" and "Ends".**
    a. Man has **unlimited wants**
    b. The means to satisfy human **wants are limited**
    c. Resources are not only **limited but have alternative uses**
    d. Man has to make a choice.
10) **Adam Smith** is considered to be the **Founder of the field Micro Economics.**
11) **Micro Economics** is concerned with the behaviour of individual entities such as markets, firms, and households.
12) **Macro Economics** is a branch of Economics that deals with the performance, structure and behaviour of a national or regional economy as a whole and concerned with the overall performance of the Economy.
13) Founder of the field of **Macro Economics is John Maynard Kenes.**
**14) John Maynard Kenes** wrote the book **"General Theory of Employment, Interest and Money".**
15) **An analysis of causes of Business cycles** is developed **by Mr. Kenes.**
16) **A market Economy/ Capitalistic Economy** is one in which individuals and private firms make the major decisions about production and consumption. E.g.: United Kingdom.
17) **A Command Economy/Socialistic Economy** is one in which the government makes all important decisions about production and distribution.
18) **Mixed Economy** is where public sector, private sector and joint sector coexist and complement each other. E.g.: India
19) **Laissez – faire Economy** is the extreme case of a Market Economy.

**Unit - 13. Supply and Demand**

**1) Theory of Supply and Demand** shows how consumer preferences determine consumer demand for commodities, while business costs determine the supply of commodities.
2) The relationship that exists between price and quantity bought is called as **the Demand Schedule or the Demand Curve.** The quantity demanded **increases** with the **fall in price.**
3) Quantity and Price are **inversely related.**
4) The graphical representation of the demand schedule is called as the **Demand Curve.**
5) **Law of Downward – sloping demand:** When the Price of a commodity is raised (and other things being constant), buyers tend to buy less of the commodity. Similarly, when the price is lowered, other things being constant, quantity demanded increases.
6) Market Demand curve **obey the Law of Downward- Slopping demand**
7) A Down ward slopping Demand Curve relates Quantity Demanded **to Price**
**8) Factors influences the Demand Curve**
- Average levels of income - The size of market/population
- The prices and availability of related goods - Tastes or Preferences - Special Influences
9) The **Supply Schedule** relates the quantity supplied of a good to its market price, other things being constant.
**10)** Shifts in Supply Means **when changes in factors other than goods own price affect the quantity supplied.**
**11)** The Supply Schedule (or Supply Curve) for a commodity shows the relationship between **its market price and the amount of that commodity those producers is willing to produce and sell, other things being constant.**
12) **Forces behind the supply Curve**:
- Cost of Production - Prices of inputs and technological advances - Government Policy
- Prices of related goods - Special Factors like weather influence on farming and agro-industry
13) Supply increases (or Decreases) when the amount supplied increases (or Decreases) at each **market price.**
14) **Supply and demand interacts** to produce equilibrium price and quantity or market equilibrium.
15) **The Market Equilibrium** comes at that price and quantity where the forces of supply and **demand are in balance.**
16) **At the Equilibrium price**, the amount that buyers want to buy is just equal to the amount that sellers want to sell.
17) **A Market equilibrium** comes at the price at which quantity demanded equals quantity supplied.
18) The Equilibrium Price is also called as the **Market Clearing Price.**

**Unit - 14. Money Supply and Inflation**

1) **Money** is anything which performs the following four functions:
- Medium of Exchange - A measure of value
- A store of value over time - Standard for deferred payments

2) **Medium of Exchange**: Individual goods and services and other physical assets, are "priced" in terms of money and are exchanged using money.

3) **A Measure of Value**: Money is used to measure and record the value of goods or services.

4) **A Store of value over time**: Money can be held over a period of time and used to finance future payments.

5) **Standard for Deferred Payments**: Money is used as an agreed measure of future receipts and payments in contracts.

6) **Money supply** refers to the stock of money in circulation in the economy at a given point of time. This is partly **exogenous (Decided by the Govt and the RBI) and partly endogenous**.

7) There are **four common measures of Money supply**, commonly used in India:
- **Narrow Money (M1)=** Currency with Public Demand Deposits with Banking System + 'Other" Deposits with the RBI
- **M2** = M1+ Savings deposits of Post Office Savings Banks
- **M3** = M1+ Time Deposits with the Banking System
- **M4** = M3+ All Deposits with post office savings banks (Excluding NSCs)

8) **Currency with Public = Currency in circulation - Cash held by banks.**

9) **Demand Deposits** = All liabilities which are payable on demand and they include current Deposits, demand liabilities portion of saving Banks Deposits, margins held Against LC/BG, Balance in OD FDs, Cash Certificates and Cumulative/RDs etc.

10) "**Time Deposits"=** which are payable otherwise than on demand and they include fixed Deposits, Cash Certificates, Cumulative and recurring Deposits, time Liabilities portion of savings bank deposits, etc.

11) **The concept of Inflation refers** to a sustained rise in the general level of prices of goods and services in an economy over a period of time.

12) Inflation leads to fall in **purchasing power.**

13) **Causes of Inflation:**
- Demand-pull inflation
- Cost-Push Inflation

14) Demand – pull Inflation is a rise in general prices caused by increasing aggregate demand for goods and services.

15) **Cost-Push Inflation** is a type of inflation caused by substantial increases in the cost of production of important goods of services, where no suitable alternative is available.

16) Measure of Inflation: - Calculating inflation with Price Indexes

17) Inflation = (Price Index in Current Year–Price index in Base Year) X 100/Price index in Base Year

18) There are 4 Important Price Indexes
- **Wholesale Price Index (WPI)**
- **Food Inflation Index (FII)**
- **Consumer Price Index (CPI)**
- **GDP Deflator**

19) Wholesale Price Index: The WPI reflects the change in the level of prices of a basket of goods at the wholesale level. WPI focuses on the price of goods traded between corporations at the wholesale stage, rather than goods bought by consumers.

20) In India **WPI (Headline Inflation)** is the official inflation index used for policy decisions.

21) **WPI** announced in Monthly frequency.

22) The different components along with their weightage in **Wholesale Price Index (WPI)** as on Jan 2023.

| **Primary Articles** | **22.62** |
|---|---|
| **Fuel, Power, Light & Lubricants** | **13.15** |
| **Manufactured Products** | **64.23** |
| ***Grand Total*** | **100.00** |

23) The Base year for **WPI is 2011-12.**

24) **Consumer Price Index (CPI)**: The CPI reflects the change in the level of prices of a basket of Goods and services purchased/consumed by the households.

25) CPI is **the cost of living index popularly known as Core Inflation.**

26) There are four measures of CPI,

- **The CPI for Industrial Workers (IW) has a broader coverage than the others**
- **The CPIs for Agricultural Labourers (AL),**
- **Rural Labourers (RL)**
- **Urban Non-Manual Employees (UNME).**

27) In the organized sector, CPI-IW is **used as a cost of living index.**

28) Among the four measures of CPI, the CPI **for Industrial Workers (IW) has a broader coverage than the others.**

29) Why do the WPI and the CPIs differ?
**They differ in terms of their weighting pattern. First, food has a larger weight in CPIs - ranging from 46 per cent in CPI-IW to 69 per cent in CPI-AL, whereas it has a weight of only 27 per cent in the WPI. The CPIs are, therefore, more sensitive to changes in prices of food items.**

**30)** CPI in India is released by **Labour Bureau, Ministry of Labour and Employment, Government of India.**

31) **Since 1943 the Central Government** took upon itself the job of compilation and maintenance of Consumer Price Index Numbers in pursuance of the recommendations of the **Rau Court of Enquiry.**

**32)** The Consumer Price Index Numbers for Industrial Workers (CPI-IW) for 50 centers and All-India weighted index on base 1960=100 was started on the basis of the **Weighting Diagram drawn by conducting the Family Living Survey (FLS) in 1958-59.**

33) **GDP Deflator:** it is measure of the level of prices of all new, domestically produced, final Goods and services in an economy.

34) GDP deflator is not **based in a fixed basket of Goods and services**

……………………………………………………………………………………………………………………………………………………

**Unit - 15. Theories of Interest**

1) **Interest** is a payment made by a borrower for the use of a sum of money for a period of time.

2) **Three elements can be distinguished in interest:**
- **Payment for the risk involved in making the loan**
- **Payment for the trouble involved**
- **Pure interest, i.e. a payment for the use of money.**

**3)** J M Keynes in his book **"The General Theory of Employment, Interest and Money"** views that the rate of interest is purely **monetary phenomenon and is determined by Demand for money and supply of money.**

4) J M Keynes theory is known as **"Liquidity Preference Theory"**

5) Rate of interest and bond prices are **inversely related.**

6) Money Demand curve follows from above that quantity of **money demanded increases with the fall in the rate of interest or with the increase in level of nominal income**.

**7)** The rate of interest is determined **by demand for money (Liquidity Preference) and supply of money – JM Kenes.**

**8)** The position of money demand curve depends upon two factors:

**1) The level of nominal income**

**2) The expectation about the changes in bond prices in the future which implies change in rate of interest in future.**

9) IS and LM curves Theory promulgated by **Sir Hon Richard Hicks and Alvin Hansen.**

**10)** The IS curve and the LM curve relate the two variables **a) Income and b) the rate of interest. The intersection point of the two curves is the equilibrium rate of interest.**

11) LM= **Liquidity preference and Money supply equilibrium**. LM curve is derived from **Kenes Liquidity preference theory of interest.**

12) IS = **Classical Theory**

**Unit - 16. Business Cycles**

1) The term Business cycle **refers to economy-wide fluctuations in production or economic activity over several months or years.**

2) Business Cycle is also known as **Economic Cycle.**

3) Business Cycle simply means **the whole course of business activity which passes through the phases of prosperity and depression.**

4) A business Cycle is **not a regular, predictable, or repetitive phenomenon** like the swing of the pendulum of a clock. Its timing is random and, to a large degree, unpredictable.

5) Characteristics **of a Business Cycle**:
i. A business cycle is synchronic
ii. A business cycle show a wave like movement
iii. Cyclical fluctuations are recurring in nature
iv. There can be no indefinite depression or eternal boom period
v. Business cycles are pervasive in their effects. vi. The up and down movements are not symmetrical

6) Phases of Business Cycle:
- Boom
- Recession
- Depression
- Recovery

7) **Boom:**
- During the Boom phase production capacity is fully utilized and also products fetch an above normal price which gives higher profit.
- In Boom period, consumption will be decreased as prices are going up.
- The Demand is more or less stagnant or it even decreases.

8) **Recession:**
- A downward tendency in demand is observed. The supply exceeds demand
- Desire for liquidity increases all around.
- Producers are compelled to reduce price so that they can find money to meet their obligations.
- This Phase of the business cycle is known as the Crisis.

9) **Depression:**
- Underemployment of both men and materials is a characteristic of this phase. General Demand falls faster than production
- Volume of Production will be reduced.
- The demand for the bank credit is at its lowest which results in idle funds.
- The interest rates are decline regime.

10) **Recovery:**
- Depression phase done not continue indefinitely.
- Wages will be paid low.
- Prices are at the lowest, the consumers, who postponed their consumption expecting a still further fall in price, now start consuming.
- As demand increases, the stocks of goods become insufficient.

## Unit - 17. Monetary Policy and Fiscal Policy

### Monetary policy

- Monetary policy is the process by which the government, central bank or monetary authority of a country controls
  - the supply of money
  - availability of money
  - cost of money or rate of interest

, in order to attain a set of objectives oriented towards the growth and stability of the economy.

- Tools of Monetary Policy
  - **Bank rate:** It is the rate of interest which a central bank charge on the loans and advances that it extends to commercial banks and other financial intermediaries.
  - **Marginal Standing Facility (MSF):** It is a facility under which, scheduled commercial banks can borrow additional amount of overnight money from the RBI,

**Bank Rate Vs. MSF**

| Basis of comparison | Bank Rate | MSF Rate |
|---|---|---|
| **Meaning** | Bank Rate is a discount rate at which RBI grants long-term loans to commercial banks | MSF Rate is a rate at which the commercial banks borrow funds overnight from the RBI |
| **Duration** | It is meant for long-term lending | It is meant for overnight lending |
| **Collateral** | The loan can be raised without pledging the securities | The loan is given against security within the limits of SLR and up to a certain percentage of NDTL |
| **Objective** | To manage and control credit supply in the country | To provide funds to the banks overnight, when they face an acute shortage of funds |

**Cash Reserve Ratio (CRR**) refers to the liquid cash that banks have to maintain with the Reserve Bank of India (RBI) as a certain percentage of their net demand and time liabilities.

**Statutory Liquidity Ratio or SLR** refers to the amount that all banks require maintaining in cash or in the form of Gold or approved securities.

**Difference between CRR and SLR**

| Basis of comparison | CRR | SLR |
|---|---|---|
| **Meaning** | CRR is the amount of money that the banks are obligated to park with the central bank, in the form of cash | SLR is the amount of funds which the banks are required to maintain as liquid assets, i.e., cash, gold, approved securities, etc |
| **Regulates** | Monetary stability in the country | Bank's leverage for credit expansion |
| **Use** | To drain out excess money out of the economic system | To ensure the solvency of the commercial bank |
| **Maintenance with** | RBI | Bank itself |
| **Form** | Cash and cash equivalents | Liquid Assets |
| **Return** | Banks don't earn any interest as return on the money kept as CRR | Banks usually earn interest as return on the funds kept as SLR |
| **Calculation** | Net demand and time liabilities | Percentage of total demand and time liabilities |

**Standing Deposit Facility (SDF):** SDF allows the RBI to absorb excess cash from the economy, by sucking liquidity from commercial banks, without giving government securities in return to the lenders.

**Marginal Cost of Funds Based Lending Rate (MCLR):** It has modified the existing base rate system from April 2016 onwards.

- The MCLR shall comprise of:
  - Marginal cost of funds
  - Negative carry on the CRR
  - Operating costs
  - Tenor premium

**External Benchmark based Lending Rate (EBLR):** The RBI has recommended banks to benchmark all new floating rate personal or retail loans (housing, vehicle, etc.) and floating rate loans to Micro and Small Enterprises extended by banks beginning October 1, 2019, to one of the following;

- Reserve Bank of India policy repo rate
- Government of India 3-Months Treasury Bill yield, published by the Financial Benchmarks India Private Ltd (FBIL)
- Government of India 6-Months Treasury Bill yield, published by the FBIL

- Any other benchmark market interest rate, published by the FBIL

**Market Stabilisation Scheme (MSS):** Under this scheme, the government would issue existing instruments, such as, Treasury Bills and/or dated securities by way of auctions under the MSS, in addition to the normal borrowing requirements, for absorbing liquidity from the system.

**Repo (Repurchase) rate** is the rate at which the RBI lends shot-term money to the banks. Reverse Repo rate is the rate at which banks park their short-term excess liquidity with the RBI.

**Tri-Party Repo (TREPS):** TREPS as mentioned earlier is a tripartite repo arrangement between three parties in the Money Market. It is a form of repo contract in which, a third entity (other than the borrower and lender) acts as an intermediary between the two parties to the repo to facilitate services such as collateral selection, payment and settlement, custody, and management all throughout transaction.

**Term Repos:** RBI has introduced term repos (of different tenors, such as, 7/14/28 days), to inject liquidity over a period that is longer than overnight in October 2013.

**Long-Term Repo Operations (LTROs):** RBI introduced Long-Term Repo Operations (LTROs) of one-year and three-year tenors during 2019

**Targeted Long-Term Repo Operations (LTROs):** RBI has also used another unconventional tool i.e., targeted long-term repo operations (TLTROs) to provide liquidity to specific sectors and entities experiencing liquidity stress during 2019

**Special Long-Term Repo Operations (SLTRO):** RBI conducted special three-year long-term repo operations (SLTRO) at repo rate, for the Small Finance Banks (SFBs) to be deployed for fresh lending of up to Rs. 10 lakh per borrower

**Reverse Repo:** Reverse Repo rate is the rate at which banks park their short-term excess liquidity with the RBI.

**Variable Rate Reverse Repo (VRRR):** In VRRR, an amount is determined by the RBI and commercial banks can participate in the auctions and park their money with the central bank, at a variable rate that is expected to be higher than the Fixed Reverse Repo Rate and decided based on market conditions

**Open Market Operations (OMO):** Under the OMO, the RBI buys or sells government bonds in the secondary market.

**Liquidity Adjustment Facility (LAF):** Under LAF, the RBI conducts auctions on all working days, depending on the evolving liquidity conditions. The fixed rate reverse repo and MSF rate form the floor and ceiling, respectively, of the interest rate corridor.

- The Monetary Policy Committee (MPC) is constituted by the Central Government, under Section 45ZB of the Reserve Bank of India Act, 1934

- There are several direct and indirect instruments that are used for implementing monetary policy. These includes
  - Repo Rate
  - Reverse Repo Rate
  - Liquidity Adjustment Facility (LAF)
  - Marginal Standing Facility (MSF)
  - LAF Corridor
  - Bank Rate
  - Cash Reserve Ratio (CRR)
  - Statutory Liquidity Ratio (SLR)
  - Open Market Operations (OMOs)
  - Market Stabilisation Scheme (MSS)
  - Standing Deposit Facility (SDF)

- The MPC is required to meet at least four times in a year
- The quorum for the meeting of the MPC is four members.
- Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.
- On the 14th day, the minutes of the proceedings of the MPC are published

**Fiscal policy**

- Fiscal policy is described as changes in government expenditures and taxes aimed at achieving macroeconomic policy objectives such as growth, employment, investment, and so on.
- Fiscal policy is based on two fundamental instruments
  - Taxation
  - Government expenditure

**Objectives of Fiscal Policy in India**

**Primary objectives**

- Promoting economic growth
- Maintaining price stability in the economy

**Additional objectives**

- Mobilizing resources
- Promoting allocative efficiency
- Reducing inequality in income and wealth
- Promoting private sector investment

**The Fiscal Responsibility and Budget Management (FRBM) Act** was enacted in 2003 by Indian Parliament and was brought into effect on July 5, 2004.

- The main objectives of the FRBM Act were
  - to achieve long-term macro-economic stability, while generating budget surpluses
  - to introduce prudential debt management
  - to introduce transparent fiscal management systems in the country and
  - to remove fiscal impediments and providing a medium-term framework for budgetary implementation.

www.jaiibcaiibmocktest.com

**Unit - 18. System of National Accounts and GDP Concepts**

1) **Gross Domestic Product (GDP):** It is the total market value of all the final goods and services produced within the territorial boundary of a country, using domestic resources, during a given period of time, usually 1 year.

2) **Gross national Income at Market Price =** GDP at Market Price + Taxes less subsidies on production and imports (net receivable from abroad + Compensation of Employees (Net Receivables from abroad) + Property income (Net receivables from abroad)

3) **Gross National Product (GNP) =** GDP + Total Capital gains from overseas investment (-) income earned by foreign nationals domestically

4) According to the National Income Accounting, there are **three ways to complete GDP:**
i. Expenditure wise ii. Income wise iii. Product wise

5) **Expenditure Method : GDP= Consumption + Gross Investment + Government Spending + (Exports- Imports) GDP = C+I+G+(X-M)**
a. Consumption : This included personal expenditures pertaining to food, households, medical expenses, rent, etc
b. Gross Investment : Business Investment as capital which includes construction of a new mine, purchase of machinery and equipment for a factory, purchase of software, expenditure on new houses, buying goods and services but investments on financial products is not included as it falls under savings.
c. Government spending: It is the sum of government expenditures on final goods and services.
d. Exports: This includes all goods and services produced for overseas consumptions.
e. Imports: This includes any goods or services imported for consumption and it should be deducted to prevent from calculating foreign supply as domestic supply.

6) **Income Approach** : GDP from the income is the sum of the following major components:
i. Compensation of employees ii. Property income iii. Production taxes and depreciation on capital

7) **Compensation of Employees**: It represents wages, salaries and other employee supplements

8) **Property Income:** It constitutes corporate profits, proprietor's income, interests and rents

9) GDP at market price measures the value of output at market prices after adjusting for the effect of indirect taxes and subsidies on the prices.

10) Market price is the economic price for **which a good or service is offered in the market place.**

11) **G**DP at factor cost measures the value of **output in terms of the price of factors used in its production.**

12) GDP at factor cost = **GDP at Market Price – (Indirect taxes – Subsidies)**

13) Product Approach
In India we have getting **GDP product wise belongs to 8 sectors.**

14) **Real GDP or GDP at constant price**: It means the value of today's output at yesterday price. Real GDP is calculated by tracking the volume or quantity of production after removing the influence of changing prices or inflation.

15) **Normal GDP or GDP at Current prices**: It represents the total money value of final goods and services produced in a given year, where the values are expressed in terms of the market prices of each year.

16) **Factors of production are** : Land, Labour, Capital and Entrepreneur

www.jaiibcaiibmocktest.com

**Unit - 19. Union Budget**

1) **Net Tax Revenue** = Gross Tax Revenue (-) NCCD transferred to the National Calamity Contingency fund (-) States' share

2) **Total Revenue Receipts** = Net Tax Revenue + Total Non- Tax revenue

3) **Capital Receipts** = Non- debt receipts + Debt Receipts

4) **Total Receipts** = Total Revenue Receipts + Capital Receipts+ Drawdown of Cash Balance

5) **Financing of Fiscal Deficit** : Debt Receipts + Draw-down of cash balance

6) **Non- Plan Expenditure** = Revenue Non- Plan Expenditure + Capital Non-plan Expenditure

7) **Plan Expenditure** = Revenue Expenditure + Capital Expenditure

8) **Total Expenditure** = Total Non-plan Expenditure + Total Plan Expenditure

9) **Revenue Deficit** = Revenue expenditure (-) Revenue receipts

10) **Gross Fiscal Deficit** is the excess of total expenditure including loans, net of recoveries over revenue receipts (including external grants) and non- debt receipts

11) **Net Fiscal deficit** = The gross fiscal deficit (-) interest payments

12) **Net Primary deficit** = Net fiscal deficit (– ) net interest payments

13) **NCCD:** National Council on Crime and Delinquency.



www.jaiibcaiibmocktest.com

## MODULE C – INDIAN FINANCIAL ARCHITECTURE

### Unit - 20. Indian Financial System - An Overview

1. In any economy, there are entities who are savers and there are entities who are the investors.
2. The role of a financial system is to transfer the capital from the savers to the investors.
3. Financial system consists of financial institutions, financial instruments and financial markets.
4. Types of Financial system: Informal financial system, Formal Financial System
5. The informal financial system - lack of regulations, low transaction cost, unstructured procedures, transparency and low default rates

Typical examples:

- Individual money lenders who could be traders, relatives, neighbours, etc.
- Groups of persons who could be operating as associations and funds
- Partnership firms consisting of local brokers, pawnbrokers, and non-bank financial intermediaries such as finance, investment, and chit-fund companies.

6. Formal Financial System - organised, institutional, and regulated system
   - Typical examples : Financial institutions, Financial instruments, Financial markets
7. Financial institutions - Examples of financial institutions are:
   - Financial Regulators
   - Commercial and Cooperative Banks
   - Non-Banking Financial Companies (NBFCs)
   - Development Financial Institutions (DFIs)
   - Insurance companies
   - Insurance brokers
   - Mutual Funds
   - Pension Funds
8. The financial institutions can further be divided into two types:
   - Banking Institutions or Depository Institutions
   - Non-Banking Institutions or Non-Depository Institutions
9. Further, Financial Institutions can be classified into three categories:
   - Regulatory
   - Intermediates
   - Non Intermediates
10. Financial instruments - Financial instruments on the asset side of the balance sheet include:
    - Loans and advances
    - Investments
    - Placements
    - Derivatives

11. Financial instruments on the liabilities side of the balance sheet include:
    - Deposits, Money accepted from customers for remittances, Insurance policies and mutual funds units issued
12. Financial markets - The financial market has four major segments, viz.,
    - Money market, Foreign exchange (forex) market, Capital market and, Insurance market
13. Development of the financial system in India was in four phases
    1. Pre-independence (prior to 1947)
    2. Post-independence (1947 to 1991)
    3. Post-liberalisation (1991 to 2010)
    4. Post-Global Financial Crisis (2010 to present)
14. Based on Narasimham Committee – I (1991) recommendations, the government implemented the following measures
    1. Lowering SLR and CRR
    2. Prudential Norms
    3. Capital Adequacy Norms
    4. Deregulation of Interest Rates
    5. Recovery of Debts
    6. Competition from New Private Sector Banks
    7. Access to Capital Market
    8. Freedom of Operation
    9. Local Area Banks (LABs)
    10. Supervision of Commercial Banks
15. Narasimham Committee – II (1998) submitted the following recommendations
    1. Strengthening of Banks in India
    2. Narrow Banking
    3. Capital Adequacy Ratio
    4. Bank ownership
    5. Review of banking laws
16. Steps towards Liberalisation in Other Sectors
    - Imports delicensed
    - Import duties reduced
    - Production licensing done away with
    - License Raj abolished
    - Trade policy reforms introduced
    - Fiscal reforms introduced
    - Exchange rate unpegged
    - Foreign exchange regulation relaxed (FEMA)
    - FDI norms relaxed
    - Disinvestment of Public Enterprises

**Unit - 21. Indian Banking Structure**

1. Banking is classically defined in the Banking Regulations Act, 1949 (BR Act).
2. As per Section 5(1) (b) of the BR Act, banking is 'the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.'
3. Deposits from customers are of two basic types, viz., demand deposits and time (or, term) deposits
4. Advances that banks extend to their customers can be classified into two broad segments, viz., fund-based facilities and non- fund-based facilities
5. Fund-based facilities : demand loans, overdrafts and cash credits,
6. Non- fund-based facilities : Letters of Credit, Bank Guarantees, Bills Co-Acceptance Facilities
7. Banking in India has its origin in Vedic times, i.e., 2000 to 1400 BC.
8. The reminisce of banking in India can be traced back to the 4th century BC in the 'Kautilya Arthashastra'
9. Establishment of Bank of Hindustan in the year 1770, in Calcutta, marked the starting of the formal Indian financial system.
10. The first 'Presidency Bank'— the Bank of Calcutta —was established in Calcutta on June 2, 1806 with a capital of Rs 50 lakhs
11. Bank of Bengal, Bank of Madras and Bank of Bombay merged to form the Imperial Bank of India in 1921
12. Imperial Bank of India was subsequently converted into the country's first Public Sector Bank, i.e., State Bank of India on 1st July 1955
13. RBI was nationalised on 1st January, 1949, followed by State Bank of India on 1st July, 1955
14. RBI launched the Lead Bank Scheme in December 1969
15. ICICI Bank Ltd was established in Vadodara in June 1994
16. HDFC Bank Ltd was established in August 1994
17. Important legislations affecting the establishment of banking institutions are:
    - The Reserve Bank of India Act, 1934
    - The Banking Regulation Act, 1949
    - The State Bank of India Act, 1955
    - The State Bank of India (Subsidiary Banks) Act, 1959
    - The Deposit Insurance and Credit Guarantee Corporation Act, 1961
    - The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
    - The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
    - The State Banks (Repeal and Amendment) Act, 2018
18. Two types of banks in India – Scheduled Banks and Non-Scheduled Banks
19. Scheduled banks can be further divided into scheduled commercial banks and scheduled cooperative banks.

20. Commercial banks can be classified into 6 categories
- Public Sector Banks
- Private Sector Banks
- Foreign Banks
- Local Area Banks
- Regional Rural Banks
- Differentiated Banks (i.e., Payments Banks and Small Finance Banks)

21. Non-scheduled banks are not eligible to effect borrowing from RBI for their normal operations. They can borrow from RBI only in events of emergencies.
22. They are also not eligible to become members of clearing houses
23. As of 2022, there are 3 Local Area Banks, 11 State Cooperative Banks and 1,477 Urban Cooperative banks which figure in RBI's data as non-scheduled banks.
24. Guidelines for setting up Universal banks in the Private Sector space are:
- Initial minimum paid up capital of Rs 500 crores.
- The bank should maintain a minimum net worth of Rs 500 crores, at all times.
- Resident individuals having 10 years' experience in banking and finance would also be eligible to establish such banks.
- Large industrial houses are not eligible to set up banks, but can invest up to 10% in the banks.
- Foreign shareholding limit would be as per FDI guidelines of Government of India (presently maximum of 74%).
- The business plan submitted by the applicant should be viable and bring out how the bank intends to achieve financial inclusion.
- The bank should have its shares listed on the Stock Exchange, within a period of 6 years, from the time it commences its business.
- The bank should open at least 25% of its branches in unbanked rural areas.
- The bank should achieve its priority sector targets and sub-targets, as applicable to scheduled commercial banks.

25. Foreign banks have three common modes by which they can operate overseas. These are by way of:
- Branches
- Subsidiaries
- Representative Offices

26. The capital requirements of the foreign bank applicant are:
- Minimum paid up capital of Rs 500 crore
- Capital to be brought in upfront capital, by remittance from the parent bank
- The applicant must comply with Basel- III requirements, on a continuous basis
- Minimum CRAR should not be less than 10% for initial three years
- The WOS can raise non-equity rupee resources like domestic banks in India

- Core management functions of the foreign applicant bank cannot be outsourced including to group entities, either in India or overseas.

27. Regional Rural Banks (RRBs) were established in the year 1975, based on the recommendations of Narasimham Committee

28. Objectives of Regional Rural Banks
    - Bridging the credit gaps in rural areas.
    - To develop such measures which could restrict the outflow of rural deposits to urban areas
    - Employment generation activities in rural areas.

29. Authorized share capital of a Regional Rural Bank shall be Rs. 2000 crore

30. Out of the capital issued by a RRB,
50 per cent is to be held by the Central Government
15 per cent by the concerned State Government and
35 per cent by the Sponsor Bank

31. The features of Payment Banks are:
    - They are differentiated banks and not universal banks.
    - These operate on a smaller scale.
    - It needs to have a minimum paid-up capital of Rs. 100 crores.
    - Minimum initial contribution of the promoter of the Payment Bank to the paid-up equity capital is required to be at least be 40% for the first 5 years from the commencement of its business.

32. The activities that can be performed by the Payment Banks are:
    - Payment banks can accept deposits of up to Rs. 2 lakhs per customer. They can accept demand deposits in the form of savings and current accounts.
    - The money received as deposits can be invested in government securities which are eligible for inclusion in Statutory Liquidity Ratio (SLR). This must amount to 75% of the demand deposit balance. The remaining 25% can be placed as deposits with other scheduled commercial banks.
    - Payments banks are permitted to make personal payments and receive cross border remittances on individual accounts.
    - They are permitted to issue debit cards, although not credit cards.
    - They are permitted to handle third party products like distribution of insurance and mutual funds.

33. The activities which cannot be undertaken by the Payment Banks are:
    - Payment banks cannot lend.
    - Payment banks cannot issue credit cards.
    - They cannot accept term deposits or deposits from NRI customers.
    - They cannot set up subsidiaries to undertake non-banking financial activities.

34. The history of Indian cooperative banking started with the passing of the Cooperative Societies Act in 1904

35. Types of Cooperative Banks
   (a) Rural Cooperative Banks
   (b) Urban Cooperative Banks

36. Differences between Cooperative Banks and Commercial Banks
   - Cooperative banks issue shares of unlimited liability, while the commercial banks issue shares of limited liability.
   - In a cooperative bank, one shareholder has only one vote irrespective of the number of shares he / she may hold. In a commercial bank, the voting right of a shareholder is determined by the number of shares he possesses.
   - Cooperative banking in India is federal in structure. Primary Credit Societies are at the lowest rung. Then, there are District Central Cooperative Banks at the district level and State Cooperative Banks at the state level. Commercial banks do not have such a federal structure.

37. Financial technology (also called FinTech) is an industry composed of such companies that use technology to offer financial services.
Examples : digital payment providers (e.g., PayPal), financial infrastructure/connectivity providers (e.g. Plaid), digital insurers (e.g. BIMA, Policy Bazaar), peer-to-peer lending platforms (e.g., Afluenta, Funding Circle, InvesTree).

38. A big tech firm (Techfin) is a large company whose primary activity is digital services. Examples of big techs include online search engines, social media platforms, e-commerce platforms, ride-hailing platforms, and mobile network operators.
Examples : Microsoft, Google, Huawei, Apple, Facebook, WhatsApp, Amazon, Alibaba, Big basket, Flipkart, Airtel, and Reliance JIO,

39. Neobanks or “digital only banks” are not regulated by the RBI. They have tie-up arrangements with the regulated banks to offer services to their customers.

40. Payment eco-system consists of the following options:
   - Cash Transactions
   - Transactions at ATM or at the bank
   - Use of Debit/ Credit cards
   - Bank transfers
   - Direct debit Transfers
   - Mobile payments: e-wallets
   - Unified Payments Interface (UPI)
   - Real Time Gross Settlement System(RTGS)
   - National Electronic Funds Transfer (NEFT)

41. Types of Payment Systems
   - Paper-based Payment System
   - Electronic Payments System
   - Electronic Clearing Service (ECS) Credit
   - Regional ECS (RECS)

- Electronic Clearing Service (ECS) Debit
- Electronic Funds Transfer (EFT)
- National Electronic Funds Transfer (NEFT) System
- Real Time Gross Settlement (RTGS)System
- Clearing Corporation of India Limited (CCIL)

42. Other Payment Systems
    - Pre-paid Payment Systems
    - Mobile Banking System
    - ATMs / Point of Sale (POS) Terminals / Online Transactions
        - Transactions at a bank's own ATM (On-Us transactions) at any location
        - Transactions at any other banks' ATM (Off-Us transactions) at Metro locations
        - Transactions at any other banks' ATM (Off-Us transactions) at non-Metro locations
43. Products of NPCI:
    - RuPay
    - Immediate Payment Service (IMPS)
    - National Automated Clearing House (NACH)
    - Aadhaar Payments Bridge System (APBS)
    - Aadhaar Enabled Payment System (AePS)
    - National Financial Switch (NFS):
    - Unified Payments Interface (UPI):
    - Bharat Bill Payment System (BBPS)
    - National Electronic Toll Collection (NETC)
44. National Asset Reconstruction Company Limited (NARCL). The objective was to construct a 'bad bank' which would house bad loans of Rs. 500 crores and above. It is a collaboration between private and public sector banks (PSBs), but PSBs will maintain 51% ownership in NARCL
45. India Debt Resolution Company Ltd. (IDRCL) whose purpose is to manage the assets of the NARCL. Public FIs and PSBs will hold a 49% stake in IDRCL, and the rest will be with private banks
46. The central bank's digital currency (CBDC), the RBI's digital rupee, was announced in the Union Budget 2022-23. CBDC is a digital representation or token of a nation's legal currency
47. National Bank for Financing Infrastructure and Development (NaBFID) has been set up as a Development Financial Institution (DFI). The government initially holds 100% of the shares in the bank, which may subsequently be reduced to 26%. The NaBFID was set up as a corporate body with an authorised share capital of Rs. 1 lakh crore

## Unit - 22. Banking Laws — Reserve Bank of India Act, 1934 & Banking Regulation Act, 1949

### RBI Act, 1934

1. This Act may be called the Reserve Bank of India Act, 1934.
2. It extends to the whole of India
3. This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates as the [Central Government] may, by notification in the Gazette of India, appoint.

### Some important Sections of RBI Act, 1934

**Sec 2(e) Scheduled Bank-** A schedule bank means a bank whose name is included in the 2nd schedule of RBI Act 1934. For inclusion, a bank should satisfy conditions laid down in sec 42(6). The essential condition of capital is that such banks have paid capital and reserves of not less than Rs.5 lac & further that RBI is satisfied that the affairs will be conducted by the bank in a manner that will not jeopardize the interest of the depositors. Banks which are not included in the 2nd schedule of RBI are called Non schedule Bank.

**Sec 17- Types of Business**

Defines various types of business which RBI may transact which include acceptance of deposit without interest from Central/State Govt, any other person or institution, sale/purchase of foreign exchange, securities, rediscounting of bills/PN, grant loans etc.

**Sec 21- Right to transact Govt. Business**

RBI has the right to transact Govt. business in India i.e. remittance, exchange, keeping deposit free of interest etc.

**Sec 22- Bank Notes**

RBI has the sole right to issue bank notes.

**Sec 23- Issue Department**

Bank notes will be issued by issue deptt. against security consisting of gold coins, bullion, foreign securities & other approved securities.

**Sec 24- Denomination of Notes**

RBI issues all currency notes of denomination 2, 5, 10, 20, 50, 100, 500, 1000, 5000, 10000. It has power to discontinue or non issue of currency note of any denomination. The notes of 2 & 5 are already been discontinued.

**Sec-28- Rules of Refunding value :** RBI can frame rules for refunding value of mutilated , soiled or imperfect notes as a matter of grace.

**Sec 42(1)- Define Cash Reserve Ratio :** Every bank is required to maintain with RBI an average daily balance equal to a percentage of the net demand & time liabilities as stipulated by RBI from time to time. This is known as CRR. There is no minimum or maximum limit for CRR. Further RBI does not pay interest on balance held for CRR purpose. Currently CRR is 7.75%.

**Collecting & Furnishing of Credit Information**

- RBI is empowered to collect information related to borrower & suit filed accounts.
- Borrowers enjoying secured credit limit of Rs.10 lac & above & unsecured limit of Rs.5 lac & above- as on last Friday of April.
- Doubtful, lost & suit filled a/c of o/s balance of Rs.100 lac & above- half yearly, March & September.
- Basic Statistical Return: BSR-1 for borrower a/c of above Rs.2 lac & BSR-2 containing information about deposit with break up into current, saving & time deposits.

**Sec 45-H-T Provision relating to NBFC :** No NBFC shall commence business or carry on business without obtaining a certificate of registration & having net owned fund of Rs.25 lac

**Sec 49-Declaration of Bank rate :** RBI shall declare bank rate from time to time which is the rate at which it buys or rediscount bills of exchange or other commercial paper eligible for purchase under this act.

## THE BANKING REGULATION ACT, 1949

**Preamble of regulatory Act**

- An Act to consolidate and amend the law relating to banking.
- WHEREAS it is expedient to consolidate and amend the law relating to banking .
- The Banking companies act, presently known as banking regulation act was enacted owing to safeguard the interest of depositors, control abuse of power by some bank personnel controlling the banks in particular and to the interest of Indian economy in general.
- The Banking Regulation Act was passed as the Banking Companies Act 1949 and came into force w.e.f 16.3.49. Subsequently it was changed to Banking Regulations Act 1949 wef 01.03.66.
- However, it should be remembered that this act does not supersede the provision of companies act or any other law for the time being in force in respect of banking business.

**Definition of banks**

- In India, the definition of the business of banking has been given in the Banking Regulation Act, (BR Act), 1949. According to Section 5(c) of the BR Act, 'a banking company is a company which transacts the business of banking in India.' Further, Section 5(b) of the BR Act defines banking as, 'accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable, by cheque, draft, order or otherwise.'
- This definition points to the three primary activities of a commercial bank which distinguish it from the other financial institutions. These are: (i) maintaining deposit accounts including current accounts, (ii) issue and pay cheques, and (iii) collect cheques for the bank's customer

**Different provisions of Banking regulations Act**

| S. No. | Parts | Topics | Sections covered |
|---|---|---|---|
| 1. | I | Preliminary | 1 to 5A |
| 2. | II | Business of Banking Companies | 6 to 36 A |
| 3. | IIA | Control over management | 36AA to 36AC |
| 4. | IIB | Prohibition of certain activities in relation to banking Companies | 36AD |
| 5. | IIC | Acquisition of the undertakings of Banking Companies in certain cases | 36AE to 36AJ |
| 6. | III | Suspension of business and winding up of Banking Companies | 36B to 45 |
| 7. | IIIA | Speedy provision for speedy disposal of winding up proceedings | 45A to 45X |
| 8. | IIIB | Provision relating to certain operation of Banking Companies | 45Y to 45ZF |
| 9. | IV | Miscellaneous | 46 to 55A |
| 10. | V | Application of the Act to cooperative Banks | 56 |

**Applicability of the Banking Regulation Act, 1949**

This Act applies to following categories of Banks:

- Nationalized Banks
- Non-Nationalized Banks
- Cooperative Banks

**Business of banking Companies Section 6(1) and 6(2) r.w. 56(b)**

- Borrowing, raising or taking of money
- Giving advance
- Bills business
- L/C , Bank Guarantee, Indemnity
- Foreign exchange
- Providing safe deposit vaults
- Collecting and transmitting money
- Managing, selling and realizing any property that may come into the possession of the bank in satisfaction or part satisfaction of any of its dues
- Acquiring, holding and dealing with any property or any right, title or interest in any such property that may form the security or part of the security for any loans or advances or which may be connected with such security
- Undertaking and executing trusts
- Acquiring, constructing, maintaining and altering of any building for the purpose of the bank
- Acquiring and undertaking the whole or part of the business of any person or bank / company if its nature of business is as per the allowed business for the bank
- Doing all such other things as are incidental or conducive to the promotion or advancement of the business of the bank
- Any other business the Central Govt. may by notification specify as a allowed business
- Banks are prohibited to do any other business

**Use of words bank, banker, banking or banking company**

(1) No company other than a banking company shall use as part of its name 15[or, in connection with its business] any of the words bank, banker or banking and no company shall carry on the business of banking in India unless it uses as part of its name at least one of such words.

(2) No firm, individual or group of individuals shall, for the purpose of carrying on any business, use as part of its or his name any of the words bank, banking or banking company.

**Applicability against other laws**

Provisions of the Banking regulation Act, 1949 are not in substitution of other laws applicable, unless otherwise expressly said (Section 2 sub 56 (b)

**Act is not applicable to**

- Primary Agricultural Society
- Co-operative Land Mortgage Bank
- Any other co-operative society except as provided by Sec. 56(Section 3)

**Banking Policy**

"Banking Policy" means policy specified by RBI from time to time in the interest of
- Banking system
- Monitory stability
- Sound economic growth
- Interest of depositors
- Volume of deposits and other resources of the bank
- Efficient use of the deposits and resources …..Section 5(ca)

**Cash Reserve (CRR) Section 18 r. w. 56 (j)**

- Every bank is required to keep cash reserve, with itself or by way of balance in the current account with RBI or Central / District Co-operative Bank or net balance in all such way, of minimum prescribed % amount of its DTL as of last Friday of fortnight
- A return about this has to be submitted to RBI before 15thof each month about alternate Friday

**SLR (Statutory Liquidity Ratio)**

- Bank shall maintain unencumbered approved securities, valued not exceeding the current market price, or an amount which shall not be less than 24% of the total of its demand and time liabilities (DTL).

**Restrictions on loans and advances**

Notwithstanding anything to the contrary contained in section 77 of the Companies Act, 1956 (1 of 1956), no banking company shall,
(a) grant any loans or advances on the security of its own shares, or
(b) enter into any commitment for granting any loan or advance to or on behalf of
  - any of its directors,
  - any firm in which any of its directors is interested as partner, manager, employee or guarantor, or
  - any company [not being a subsidiary of the banking company or a company registered under section 25 of the Companies Act, 1956 (1 of 1956), or a Government company] of which 61[or the subsidiary or the holding company of which] any of the directors of the banking company is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or
  - any individual in respect of whom any of its directors is a partner or guarantor.

**Licensing of banking companies**

- Save as hereinafter provided, no company shall carry on banking business in India unless it holds a licence issued in that behalf by the Reserve Bank and any such licence may be issued subject of such conditions as the Reserve Bank may think fit to impose.]
- Every banking company in existence on the commencement of this Act, before the expiry of six months from such commencement, and every other company before commencing banking business 69[in India], shall apply in writing to the Reserve Bank for a licence under this section.

**Power to publish information**

The Reserve Bank or the National Bank, or both, if they consider it in the public interest so to do, may publish any information obtained by them under this Act in such consolidated form as they think fit.

**Power of the Reserve Bank to give directions**

Where the Reserve Bank is satisfied that

- in the 134[public interest]; or 135[(aa) in the interest of banking policy; or]
- to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company; or
- to secure the proper management of any banking company generally, it is necessary to issue directions to banking companies generally or to any banking company in particular, it may, from time to time, issue such directions as it deems fit, and the banking companies or the banking company, as the case may be, shall be bound to comply with such directions.

The Reserve Bank may, on representation made to it or on its own motion, modify or cancel any direction issued under sub-section (1), and in so modifying or cancelling any direction may impose such conditions as it thinks fit, subject to which the modification or cancellation shall have effect.

**Amendments of provisions relating to appointments of managing directors, etc., to be subject to previous approval of the Reserve Bank.**

- no amendment of any provision relating to the maximum permissible number of directors .
- no appointment or re-appointment or termination of appointment of a chairman.



www.jaiibcaiibmocktest.com

**Further powers and functions of Reserve Banks.**

1. (a) caution or prohibit banking companies or any banking company in particular against entering into any particular transaction or class of transactions, and generally give advice to any banking company;

(b) on a request by the companies concerned and subject to the provision of section 149[44A], assist, as intermediary or otherwise, in proposals for the amalgamation of such banking companies;
(c) give assistance to any banking company by means of the grant of a loan or advance to it underclause (3) of sub-section (1) of section 18 of the Reserve Bank of India Act, 1934 (2 of 1934);

2. The Reserve Bank shall make an annual report to the Central Government on the trend and progress of banking in the country, with particular reference to its activities under clause (2) of section 17 of the Reserve Bank of India Act, 1934 (2 of 1934), including in such report its suggestions, if any, for the strengthening of banking business throughout the country.

3. The Reserve Bank may appoint such staff at such places as it considers necessary for the scrutiny of the returns, statements and information furnished by banking companies under this Act, and generally to ensure the efficient performance of its functions under this Act.

**Certain provisions of the Act not to apply to certain banking companies.**

1. The provisions of section II, sub-section (1) of section 12, and sections 17, 18, 24 and 25 shall not apply to a banking company—

- which, whether before or after the commencement of the Banking Companies (Amendment) Act, 1959 (33 of 1959), has been refused a licence under section 22, or prohibited from accepting fresh deposits by a compromise, arrangement or scheme sanctioned by a court or by any order made in any proceeding relating to such compromise, arrangement or scheme, or prohibited from accepting deposits by virtue of any alteration made in its memorandum; or
- whose licence has been cancelled under section 22, whether before or after the commencement of the Banking Companies (Amendment) Act, 1959 (33 of 1959).

2. Where the Reserve Bank is satisfied that any such banking company as is referred to in sub-section (1) has repaid, or has made adequate provision for repaying all deposits accepted by the banking company, either in full or to the maximum extent possible, the Reserve Bank may, by notice published in the Official Gazette, notify that the banking company has

ceased to be a banking company within the meaning of this Act, and thereupon all the provisions of this Act applicable to such banking company shall cease to apply to it, except as respects things done or omitted to be done before such notice.]

**Control over Management**

1. 36AA. Power of Reserve Bank to remove managerial and other persons from office.
   - 36AAA. Supersession of Board of directors of a multi-State co-operative bank.
   - 36AAB. Order of winding up of multi-State co-operative bank to be final in certain cases
   - Reimbursement to Deposit Insurance Corporation by liquidator or transferee bank
2. 36AB. Power of Reserve Bank to appoint additional directors,
3. 36AC. Part IIA to override other laws.
4. 36AD. Punishments for certain activities in relation to banking companies.

**Suspension of Business and Winding up of Banking Companies**

1. High Court defined.
2. Suspension of business.
3. Winding up by High Court.
4. Court liquidator.
5. Reserve Bank to be official liquidator.
6. Application of Companies Act to liquidators.

**Sec 5(b) Banking :** Banking means acceptance of deposit for the purpose of lending or investment, the deposit of money from the public, repayable on demand or otherwise & withdrawal by cheque, draft, order or otherwise.

**Sec 5(c) Banking Company :** It means any co. which transacts the business of banking in India.

**Sec 6 Forms of Banking Business :** In addition to the banking business, a banking co may deals in bills of exchange, hundis, PN, issue LC/BG, buying or selling of foreign exchange, safe custody, safe deposit locker, acting as an agent for any Govt. or local authority, undertaking the administration of estate of executor, trustee, leasing, mortgaging etc. or any other form of business which Central Govt. may notify.

**Sec 7 Use of words Bank/Banking/Banking Co. :** A banking co carrying on banking business in India must use the word Bank, Banking, Banker, or Banking Co in its name & no other organisation can use these names.

**Sec 11 Paid up Capital & Reserve requirement**

For Domestic banks-minimum paid up capital & reserve Rs.5 lac.

Foreign bank- Min Rs.15 lac&Min Rs.20 lac if bank has place of business in Mumbai &/or Kolkata

**Capital Structure :** The ratio of authorise, subscribed and paid up capital must be minimum 4:2:1

**Sec 19(2) Holding shares of any Co :** No banking co shall hold shares in any co. whether as pledgee, mortgagee, or absolute owner of an amount exceeding 30% of paid up capital of that co. or 30% of its own paid up capital + reserves whichever is less.

**Sec 20 Restriction on advance against its own shares :** No banking co shall grant loans/advance on the security of its own shares

**Sec 21 Power to control advance :** RBI can restrict the banks from lending against certain notified commodities, maintenance of a min margin, ceiling limit of advance or charging of min rate of interest.

**Sec 21(a) No scrutiny of rate of interest :** A transaction between the banking co and its debtors can not be reopened by any court on the basis of excessive charging of rate of interest.

**Sec 24 Maintenance of SLR :** Banking co is required to maintain at the close of business on any day a certain percentage of its total demand & time liabilities in India in form of cash, gold & unencumbered approved securities. This is SLR. SLR is to be maintained with reference to total demand & time liabilities as on the last Friday of 2nd preceding fortnight. SLR can be max 40%.

**Sec 45(y) Preservation of Bank records :** Guidelines for returning the paid instruments to instrument to customer by keeping a true copy.

**Sec 45(za) Nomination :** For nomination in Deposit a/c

**Sec 45(zc) Nomination :** For nomination in Safe Custody a/c

**Sec 45(ze) Nomination :** For nomination in Locker a/c

**Unit - 23. Development Financial Institutions**

- Development Financial Institutions (DFIs) have played a critical role in the economic development of the country, especially in the period immediately after the country gained independence.
- They bridged the gap required for medium- and long-term funding of industrial units.
- With the onset of liberalisation from the 1990s, the need for Universal Banks arose and many of the DFIs were converted or merged with commercial banks.
- DFIs, viz., IFCI, ICICI, IDBI, SIDBI and Exim Bank have been playing significant role in promoting industrial development in the country.
- Specialised financial institutions like NABARD and NHB have been pursuing various activities for the growth and development of agriculture and rural development and promotion and development of housing sector respectively.
- NaBFID 2021 is the latest addition to the list of DFIs and as per the RBI directions, it shall be regulated and supervised as an All-India Financial Institution (AIFI) by the Reserve Bank, under Sections 45L and 45N of the Reserve Bank of India Act, 1934.
- It shall be the fifth AIFI after EXIM Bank, NABARD, NHB and SIDBI.
- Types of Finance provided are :
  - Medium (1 – 5 years) and
  - Long term ( >5 years).
  - This is an important topic for the IAS Exam.
- Objectives of Development Finance Institutions
  - The prime objective of DFI is the economic development of the country
  - These banks provide financial as well as the technical support to various sectors
  - DFIs do not accept deposits from people
  - They raise funds by borrowing funds from governments and by selling their bonds to the general public
  - It also provides a guarantee to banks on behalf of companies and subscriptions to shares, debentures, etc.
  - Underwriting enables firms to raise funds from the public. Underwriting a financial institution guarantees to purchase a certain percentage of shares of a company that is issuing IPO if it is not subscribed by the Public.
  - They also provide technical assistance like Project Report, Viability study, and consultancy services.
- **Some Important DFIs (Sector Specific)**
- **Industry**
  - IFCI – 1st DFI in India. Industrial Corporation of India was established in 1948.
  - ICICI – Industrial Credit and Investment Corporation of India Limited established in 1955 by an initiative of the World Bank.
    - It established its subsidiary company ICICI Bank limited in 1994.

- In 2002, ICICI limited was merged into ICICI Bank Limited making it the first universal bank of the country.

❖ Universal Bank – Any Financial institution performing the function of Commercial Bank + DFI. It was established in the private sector and is still the Only DFI in the private sector.

❖ IDBI – Industrial Development Bank of India was set up in 1964 under RBI and was granted autonomy in 1976
- It is responsible for ensuring adequate flow of credit to various sectors
- It was converted into a Universal Bank in 2003

❖ IRCI – Industrial Reconstruction Corporation of India was set up in 1971. It was set up to revive weak units and provide financial & technical assistance.

❖ SIDBI – Small Industries development bank of India was established in 1989.
- It Was established as a subsidiary of IDBI
- It was granted autonomy in 1998

➢ Foreign Trade : EXIM Bank – Export-Import Bank was established in January 1982 and is the apex institution in the area of foreign trade investment. Provides technical assistance and loan to exporters

➢ Agriculture Sector

❖ NABARD – National Bank for agriculture and rural development was established in July 1982

❖ It was established on the recommendation of the Shivraman Committee

❖ It is the apex institution in the area of agriculture and rural sectors

❖ It functions as a refinancing institution

➢ Housing : NHB- National Housing Bank was established in 1988. It is the apex institution in Housing Finance

**Unit - 24. Micro Finance Institutions**

- Microfinance consists of micro-savings, micro-credit, micro-insurance and micro-pensions.
- Evolution of microfinance activity can be divided into three phases
- The first phase started in the pre-independence days
- The second phase started in the late 1960s
- The third phase marked the modern microfinance movement (Post 1990s)
- The SHG–Bank Linkage Programme was formally launched by NABARD in 1992
- The global pioneer of microfinance was Professor Muhammad Yunus, who experimented with concept in 1976 and established the Grameen Bank in 1983, in the village of Jobra in Bangladesh
- Delivery of microfinance can be through informal and formal channels
- Informal channels consist of money lenders, mahajans, shroff and land owners
- Formal channels consist of banks, SHGs, JLGs and MFIs.
- SHGs are small informal group of 10-20 individuals
- In hilly tracts and regions and predominantly tribal dominated areas, economically weaker and physically challenged persons, smaller groups of minimum 5 members are also formed into SHGs
- It is preferred that all members are from Below Poverty Line level (BPL).
- There can be up to 20%, or in exceptional cases, up to 30% of the members from Above Poverty Line (APL)
- Microfinance Institutions (MFIs) can be categorised under three types
  - Not for profit MFIs
  - Mutual benefit MFIs
  - For profit MFIs (NBFC-MFIs)
- Bank linkages for SHGs involve, both, opening savings accounts and lending to SHGs
- Customer Due Diligence (CDD) of all the members of SHG are not required while opening the savings bank account of the SHG
- CDD of all the members shall be necessary at the time of credit linking of SHGs
- The SHG–bank borrowing linkage programme operates three models, which are:
  - Model I: NABARD–Bank–SHG
  - Model II: NABARD–Bank–SHG (with NGO as a facilitating agency)
  - Model III: NABARD–Bank–NGO–SHG (with NGO as the financial intermediary)
- A Joint Liability Group (JLG) is a group of 4-10 people of same village/locality who mutually come together to form a group, for the purpose of availing loan from a bank, without any collateral.
- Financing to JLGs by banks are refinanced by NABARD to the full extent of the loans provided by the banks to the JLGs.

- Bank credit extended to registered NBFC-MFIs and other MFIs (Societies, Trusts, etc.) are eligible for categorisation as priority sector lending and RBI has introduced a Fair Practice Code for NBFC-MFIs
- A micro finance loan is defined as a collateral-free loan given to a household, having annual household income up to Rs. 3.00 lakh
- Loan repayment obligation of a household to be limited to a maximum 50 per cent of the monthly household income. The outflows capped at 50 per cent shall include repayments towards all existing loans as well as the loan under consideration.
- Regulatory framework for MFIs were introduced subsequent to the recommendations of the Malegam Committee
- Legal framework consists of bills of 2007 and 2012.

www.jaiibcaiibmocktest.com

**Unit - 25. Non-Banking Financial Companies (NBFCs)**

- NBFC's have been an important contributor to the growth of the economy and have emerged as a suitable alternative for banks in terms of raising funds for businesses.
- They offer credit facilities in remote areas and support those individuals who are often not serviced by the banks.
- Various types of NBFCs are regulated by different Financial Sector Regulators and NBFCs are classified according to their liabilities, activity and size.
- RBI has issued detailed directions on prudential norms to various categories of NBFCs and the applicability of the regulations vary, based on the deposit acceptance or systemic importance of the NBFC.
- Deposit accepting NBFCs have also to comply with the statutory liquidity requirements.
- Banks are permitted to finance NBFCs, both those which have been registered with RBI and those which are exempted from RBI registration.
- RBI has also formulated a Fair Practice Code for NBFCs with a view to facilitating these entities to achieve synchronisation of best practices, while dealing with customers.
- This Code aims to provide valuable inputs to customers and facilitates effective interaction of customers.

**What are NBFCs?**
- A NBFC is a company registered under the Companies Act, engaged in the business of loans, acquisition of financial assets(bonds, shares, debentures etc), insurance business etc.
- NBFCs whose asset size is greater than 500 crore is termed as Systemically important NBFC.
- RBI, IRDA, SEBI etc, are some of the regulators of NBFCs.

**How NBFCs are they different from banks?**
- They do not accept demand deposits
- They are not part of payment and settlement system
- Deposit insurance facility by DICGC is not available

**Banks Vs. Non-Banks**
- Both are Financial Intermediaries
- Banks Can:
  - Maintain Demand Deposits (savings/current (savings/current Accounts) Accounts)
  - Form a Part of Payment and Settlement Mechanism
- Non-banks Can
  - Accept only term Deposits
  - Does not form Part of Payment and Settlement Mechanism

- NBFCs cannot accept demand deposits
- NBFCs cannot issue cheques drawn on itself
- Unlike in case of banks, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs
- NBFCs do not form part of the payment and settlement system

**Types of NBFCs**

- Liabilities Based Classification
- Asset Based Classification

**Liabilities Based Classification**

- NBFCs having public deposits or NBFCs-D
- NBFCs not having public deposits or NBFCs-ND

**Asset Based Classification**

- Asset Finance Company
- Loan Company
- Mortgage Guarantee Company
- Investment Company
- Core Investment Company
- Infrastructure Finance Company
- Micro Finance Company
- Housing Finance Company

**Asset Income Approach**

In order to identify a particular company as an NBFC, consider both, the assets and the income pattern from the last audited balance sheet to decide principal business

*Financial Assets are more than 50 per cent of its Total Assets (netted off by Intangible Assets)*
*AND*
*Income from financial assets should be more than 50 per cent of the gross* income

**Asset Finance Company**

Asset Finance Company (AFC) would be defined as any company which is a financial company carrying on as its principal business the financing of physical assets supporting productive/economic activity.

*60% of Total Assets in Financing Real/Physical Assets &*
*60% of Total Income arises from the aforesaid Assets*

**Investment Company**

Investment Companies (IC) means any company which is a financial institution carrying on as its principal business of acquisition of securities

*50% of Total Assets in Investment Activity &*
*50% of Total Income arises from the aforesaid Assets*

**Loan Company**

Loan Company(LC) means any company which is a financial institution carrying on as its principal business, the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company

*50% of Total Assets in Lending &*
*50% of Total Income arises from the* aforesaid Assets

**Infrastructure Finance Company**

IFC means a non-banking banking finance company which deploys at least 75 per cent of its total assets in infrastructure loans

*Minimum Net Owned Funds – INR 300 Lakhs*
*Acceptance of public deposit not allowed*

**Core Investment Companies**

CIC means an NBFC which carries on the business of acquisition of shares and securities and which satisfies the following

*Not less than 90% of Net Assets should be in the form of Investment in Group Companies*
*AND*
*Not less than 60% of Net Assets are held as equity stake in Group Companies*

**NBFC - MFI**

An NBFC-MFI is defined as a non-deposit deposit taking NBFC that fulfils the following conditions

*Min NOF - 5 Crores*
*AND*
*Not less than* 85% of its net assets are in the nature of "qualifying assets"

**Commencement of Business**

- NBFC must commence its business within 6 months from the date of CoR



www.jaiibcaiibmocktest.com

- If not commenced within 6 months, CoR will stand withdrawn
- No change in control prior to commencement of its business

**Companies exempted from registration under RBI**

- Housing Finance Companies (regulated by National Housing Bank)
- Merchant Banking Companies (regulated by Securities and Exchange Board of India)
- Stock Exchanges (regulated by Securities and Exchange Board of India)
- Companies engaged in the business of stock-broking/sub-broking (regulated by Securities and Exchange Board of India)
- Venture Capital Fund Companies (regulated by Securities and Exchange Board of India)
- Nidhi Companies (regulated by Ministry of Corporate Affairs, Government of India)
- Insurance companies (regulated by Insurance Regulatory and Development Authority)
- Chit Fund Companies (regulated by the respective State Governments)
- Securitisation company or Reconstruction company
- Core Investment Company which is not a Systemically Important Core Investment Company

**NBFCs mandated to register under RBI**

- Asset Finance Company (AFC)
- Investment Company (IC)
- Loan Company (LC)
- Mortgage Guarantee Companies (MGC)
- Non-Banking Financial Company – Factors (NBFC- Factors)
- NBFC-Non-Operative Financial Holding Company (NOFHC)
- Infrastructure Finance Company (IFC)
- Core Investment Company (CIC)
- Infrastructure Debt Fund- Non-Banking Financial Company (IDF-NBFC)
- Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI)

**Unit - 26. Insurance Companies**

- Insurance can be defined as a contract between two parties - the insurer and the insured
- Insurance business commenced in India over 200 years ago, in the year 1818.
- Important developments were the passing of the LIC Act in 1956 and the General Insurance Business Nationalisation Act in 1972.
- Life Insurance Corporation came into existence in the year 1956 with a capital contribution of Rs. 5 crores from the Government of India
- The LIC absorbed 154 Indian, 16 non-Indian insurers and 75 provident societies—245 Indian and foreign insurers, in all.
- The regulatory authority, IRDA was incorporated as a statutory body in April, 2000
- Insurance services add about 7% to the country's GDP
- The insurance industry was first opened to private players and FDI in the year 2000
- Government permits FDI to the extent of 74% in Indian insurance companies
- On 2nd September 2019, the IRDAI issued notification effectively allowing 100% FDI in insurance intermediaries

| Registered Insurers and Reinsurers (as on March 2020) | | | |
|---|---|---|---|
| **Type of Insurer** | **Public Sector** | **Private Sector** | **Total** |
| **Life** | 1 | 23 | 24 |
| **General** | 6 | 21 | 27 |
| **Standalone Health** | - | 6 | 6 |
| **Re-insurers** | 1 | 10 | 11 |
| **Total** | **8** | **60** | **68** |

- Insurance Act, 1938 was enacted with a view to protecting the interest of the insuring public. The act was amended in the years 1950, 1968, 1988 and 1999.
- The important provisions of the Act relate to:
  - Registration
  - Accounts and audit
  - Investments
  - Limitation on management expenses
  - Prohibition of Rebates
  - Powers of Investigation
  - Other Provisions
- General Insurance Business Nationalisation Act, 1972 came into force on 1st January, 1973

- The effectiveness of insurance as a driver of economic development is measured through two parameters, viz., insurance penetration and insurance density, both of which are on the increasing trend in India.
- Insurance intermediaries, who are principally in the form of agents and brokers play an important role in the insurance sector.
- Insurance intermediaries serve as a bridge between consumers and the insurance companies.
- Insurance brokers are licensed by the IRDA and governed by the IRDA (Insurance Brokers) Regulations, 2002
- Individual insurance agents are licensed by the IRDA and governed by the IRDA (licensing of Individual Insurance Agents) Regulations, 2000
- Corporate agents are also licensed by the IRDA and governed by the by the IRDA (Licensing of Corporate Agents) Regulations, 2002
- An Agent represents only one insurance company (one general, one life or both if he is a composite agent, apart from a health insurance company)
- A Broker may deal with more than one life or general or both
- Reinsurance involves transferring some portion of risk by insurers to the reinsurers, enabling the insurance companies to focus on their core business.
- There are also a number of reinsurance companies operating in India, mitigating the risk of insurance companies and the national reinsurance company is GIC.
- At present, the reinsurance market comprises one national reinsurer and 10 other reinsurers, including Foreign Reinsurers' Branches (FRBs) and Lloyd's India.
- IRDA launched the insurance repository system on 16th September 2013
- The introduction of Insurance repository has enhanced the safety for policyholders whereby they can hold their policies in electronic format, as e-Insurance Accounts.
- IRDA has presently licensed five entities to act as insurance repositories
  - NSDL Database Management Ltd
  - Central Insurance Repository Ltd
  - SHCIL Projects Ltd
  - Karvy Insurance Repository Ltd
  - CAMS Repository Services Ltd
- e-IA stands for e-Insurance Account or "electronic insurance account", which maintains the insurance policy documents of policyholders in electronic format
- IRDA allows just one e-Insurance Account per person

## Unit - 27. Indian Financial System — Regulators and Their Roles

- The role of a financial regulator is to ensure orderliness in the financial markets and to protect the interests of the investors.
- Regulators in the Indian Financial System consist of :
  - Reserve Bank of India (RBI)
  - Securities and Exchange Board of India (SEBI)
  - Insurance Regulatory and Development Authority (IRDA)
  - Pension Fund Regulatory and Development Authority (PFRDA).
- RBI is the regulator of banks and has multifarious functions
- SEBI is the regulator for players in the capital market
- IRDA regulates the insurance sectors
- PFRDA regulates the pensions sectors
- The regulators perform their roles and functions as per the powers vested with them, which are dealt with in various provisions of the Acts, under which they have been established.

### Reserve Bank of India (RBI)

- The RBI was established on 1st April 1935, in terms of the Reserve Bank of India Act, 1934.
- RBI served as the central bank, both, for undivided India and Burma (now Myanmar). It served as the central bank for Burma till April, 1947.
- The Central Office of the Reserve Bank was initially established in Kolkata but was permanently moved to Mumbai in 1937
- RBI was nationalised on 1st January, 1949
- The Governor and four Deputy Governors of RBI are appointed by the Union Government
- The control of the RBI vests in the Central Board of Directors, that comprises :
  - The Governor
  - Four Deputy Governors
  - 10 Directors (non-official) nominated by the Union Government from various fields
  - Two government officials
  - 4 others – one each from local board
- Role and Functions of RBI
  - Monetary Authority
  - Issuer of Currency
  - Banker and Debt Manager to Government
  - Banker to Banks
  - Regulator of the Banking System
  - Manager of Foreign Exchange
  - Maintaining Financial Stability
  - Regulator and Supervisor of the Payment and Settlement Systems
  - Developmental Role

- RBI uses Direct as well Indirect Instruments to implement its monetary policy
- Direct Instruments - Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR)
- Indirect Instruments - Liquidity Adjustment Facility (LAF), Repo Rate, Open Market Operations (OMO), Marginal Standing Facility (MSF)/ Standing Deposit Facility (SDF)
- Market Stabilisation Scheme (MSS) was introduced in 2004, for issuing of treasury bills and dated securities for absorbing excess liquidity
- Reserve Bank provides Ways and Means Advances/Overdraft to the State Governments
- The WMA scheme for the State Governments has provision for Special Drawing Facility (SDF) and Normal WMA
- Once the SDF limit is exhausted, the State Government is provided a normal WMA
- The rate of interest on WMA is linked to the Repo Rate
- A State Government account can be in overdraft, for a maximum 14 consecutive working days, within an overall limit of 36 days, in a quarter
- Through Long-Term Repo Operation (LTRO) RBI conducted term repos of one year and three-year tenors, at policy repo rate
- Coins in circulation at present are in denominations of 50 paise, 1, 2, 5 and 10 Rupees
- Notes in circulation are in denominations of Rs 5, 10, 20, 50,100, 200, 500 and 2000
- Coins of any denomination not lower than one rupee are legal tender for any sum not exceeding one thousand rupees
- Fifty paise (half rupee) coins are legal tender for any sum not exceeding ten rupees
- The Rs 5 note was the first paper currency issued by RBI in January 1938
- In 1946, Rs 1,000 and Rs 10,000 notes were demonetized to curb unaccounted money
- Currency notes of Rs 500 and Rs 1,000 were again demonetized on 6th November, 2016
- RBI has the powers to print currency notes of up to Rs 10,000 denomination
- Minting of coins is the responsibility of the Government, and not of the RBI
- Re 1 note had the signature of the Finance Secretary of the Government and not the Governor of RBI
- RBI oversees functioning of the following:
  - Commercial banks
  - Urban co-operative banks
  - Regional Rural Banks (RRBs), District Central Cooperative Banks and State Co-operative Banks
  - Non-Banking Financial Companies (NBFCs)
  - NBFCs with non-financial activities
  - Credit Information Companies (CICs)
- RBI performs various functions such as:
  - licensing,
  - prescribing capital requirements,
  - monitoring corporate governance,
  - setting prudential regulations to ensure solvency and liquidity of banks,

- prescribing lending to certain priority sectors of the economy,
- regulating interest rates in specific areas,
- setting appropriate regulatory norms related to income recognition, asset classification, provisioning, investment valuation, exposure limits, etc

- RBI assumes three broad roles relating to foreign exchange:
  - Regulating transactions related to the external sector and facilitating the development of the foreign exchange market
  - Ensuring smooth conduct and orderly conditions in the domestic foreign exchange market
  - Managing the foreign currency assets and gold reserves of the country
- Reserve Bank set up a dedicated Financial Stability Unit mainly to, put in place a system of continuous monitoring of the macro financial system
- Financial Stability and Development Council (FSDC) to provide a high-level focus to financial stability. The Governor, Reserve Bank, is the ex-officio chairperson of the Sub-Committee of the FSDC
- Some of the institutions established by RBI include:
  - Deposit Insurance and Credit Guarantee Corporation (1962), to provide protection to bank depositors and guarantee cover to credit facilities extended to certain categories of small borrowers
  - Unit Trust of India (1964), the first mutual fund of the country
  - Industrial Development Bank of India (1964), a development finance institution for industry
  - National Bank for Agriculture and Rural Development (1982), for promoting rural and agricultural credit
  - Discount and Finance House of India (1988), a money market intermediary and a primary dealer in government securities
  - National Housing Bank (1989), an apex financial institution for promoting and regulating housing finance
  - Securities and Trading Corporation of India (1994), a primary dealer
- Revised Regulatory Framework for Urban Co-operative Banks (UCBs)
  1. Minimum net worth of `2 crores for Tier 1 UCBs operating in single district and `5 crores for all other UCBs (of all tiers)
  2. The minimum CRAR requirement for Tier 1 banks is retained at 9%.
  3. For Tier 2, Tier 3 and Tier 4 UCBs, minimum CRAR has been revised to 12%. UCBs that do not meet the revised CRAR will have to achieve a CRAR of 10% by the financial year ended March 31, 2024, 11% by March 31, 2025; and 12% by March 31, 2026.
  4. UCBs (All Tiers) are now required to assign risk weights on the Housing Loans on the basis of Loan to Value (LTV) Ratio alone. This will be applicable to all Tiers of UCBs.
  5. Revaluation Reserves will be considered for inclusion in Tier-I capital subject to applicable discount on the lines of scheduled commercial banks.

**Securities and Exchange Board of India (SEBI)**

- SEBI was set up and conferred statutory powers, to regulate the capital market.
- The SEBI functions under the Ministry of Finance
- The SEBI is headed by a chairman, who is supported by 3 full time Members and 4 part time Members.
- The functions of SEBI are as under:

  1. It is duty of the board to protect the interests of investors in securities and to promote the development of and to regulate the securities market
  2. The Board may take measures to undertake inspection of any book, or register or other document or record of any listed public company or a public company (not being intermediaries), which intends to get its securities listed on any recognised stock exchange
  3. The Board shall have the same powers as are vested in a civil court, under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit in respect of the following matters, namely:
     (a) the discovery and production of books of account and other documents, at such a place and time, as may be specified by the board;
     (b) summoning and enforcing the attendance of persons and examining them, on oath;
     (c) inspection of any books, registers and other documents of any person, at any place;
     (d) inspection of any book or register, or other documents or record of the company;
     (e) issuing commissions for the examination of witnesses or documents.
  4. The board may, by an order, for reasons to be recorded in writing, in the interests of investors or the securities market, take any of the following measures, either pending investigation or inquiry or on completion of such investigation or inquiry

**Insurance Regulatory and Development Authority of India (IRDAI)**

- The IRDA was constituted as an autonomous body in April, 2000 to regulate and develop the business of insurance and reinsurance in India
- IRDAI was constituted following the recommendations of the Committee constituted by the Government under the chairmanship of Shri R N Malhotra, the former Governor of RBI
- IRDA is headed by a full time Chairman, who is supported by a Board which consists of five whole time Members and four part time Members, all of whom are appointed by the Government
- Entities Regulated by IRDA

  (a) Life Insurance Companies – Both public and private sector Companies
  (b) General Insurance Companies – Both public and private sector Companies. Among them, there are some standalone Health Insurance Companies which offer health Insurance policies.
  (c) Re-insurance Companies
  (d) Agency Channels
  (e) Intermediaries which include the following:

- Corporate Agents
- Brokers
- Third-Party Administrators
- Surveyors and Loss Assessors.

- IRDAI has issued micro-insurance regulations allowing NGOs, SHGs and other permitted entities to act as agents for Insurance companies in marketing the micro-insurance products

**The Pension Fund Regulatory and Development Authority (PFRDA)**

- The Pension Fund Regulatory and Development Authority was established in the year 2003
- PFRDA comes under the jurisdiction of the Ministry of Finance
- The intermediaries of PFRDA are:
  (a) Central Record Keeping Agency (CRA)
  (b) Pension Fund Managers (PFMs)
  (c) Point of Presence Agencies (PoPs)
  (d) Trustee Bank
  (e) Custodian



www.jaiibcaiibmocktest.com

**Unit - 28. Reforms & Developments in the Banking Sector**

- Reforms and developments in the banking industry include establishment of :
  - The National Bank for Infrastructure and Development
  - The Bad Bank (National Asset Reconstruction Company)
  - EASE Agenda
- After decades of lending to infrastructure through DFIs, the clock has turned back a full circle, with the proposed setting up of NaBFID.
- Components of Infrastructure
  - Construction
  - Electricity generation, transmission and distribution
  - Gas generation and distribution through pipes
  - Water works and supply
  - Non-conventional energy generation and distribution
  - Railway tracks, signalling system and stations
  - Roads and bridges, run-ways and other airport facilities
  - Telephone lines and telecommunications network
  - Pipelines for water, crude oil, slurry, etc.
  - Waterways
  - Port facilities
  - Canal networks for irrigation
  - Sanitation and sewerage
- The channels through which the funds reach the infrastructure sector are:
  - Government,
  - Development Financial Institutions,
  - Commercial Banks,
  - Non-Banking Financial Companies,
  - Insurance Companies & Pension Funds,
  - External Commercial Borrowings, and
  - Foreign Direct Investment (FDI) from abroad.
- Characteristics of Infrastructure Financing
  - Longer Maturity
  - Larger Amounts
  - Higher Risk
  - Fixed and Low (but positive) Real Returns

**National Bank for Financing Infrastructure and Development (NaBFID)**

- NaBFID will be set up as a corporate body with authorised share capital of Rs 1 lakh crore.
- Shares of NaBFID may be held by:
  - central government

- multilateral institutions
- sovereign wealth funds
- pension funds
- insurers
- financial institutions
- banks
- any other institution prescribed by the central government

- Initially, the central government will own 100% shares of the institution which may subsequently be reduced up to 26%.
- The functions of NaBFID include:
  - extending loans and advances for infrastructure projects
  - taking over or refinancing such existing loans
  - attracting investment from private sector investors and institutional investors for infrastructure projects
  - organising and facilitating foreign participation in infrastructure projects
  - facilitating negotiations with various government authorities for dispute resolution in the field of infrastructure financing, and providing consultancy services in infrastructure financing
- NaBFID may also borrow money from:
  - central government
  - Reserve Bank of India (RBI)
  - scheduled commercial banks
  - mutual funds
  - multilateral institutions such as World Bank and Asian Development Bank
- NaBFID will be governed by a Board of Directors. The members of the Board include:
  - the Chairperson appointed by the central government, in consultation with RBI
  - a Managing Director
  - up to three Deputy Managing Directors
  - two directors nominated by the central government
  - up to three directors elected by shareholders
  - a few independent directors (as specified).
- In October 2021, banking veteran Shri K V Kamath has been designated as the first Chairperson of NaBFID.

**National Asset Reconstruction Company (NARCL)**

- NARCL was incorporated as a Company on 7th July, 2021
- The concept of the Bad Bank is to have an National Asset Reconstruction Company (NARCL) coupled with a debt resolution company (India Debt Resolution Co. Ltd – IDRCL).
- The establishment of a Bad Bank (NARCL) is also a significant step being taken in the banking sector in its assault on NPAs.

- While for NARCL, public sector banks will hold 51% of the equity capital, in the case of IDRCL, public sector banks will hold 49% of the capital, the rest will be with private sector lenders. NARCL
- Sale of the bad loans to NARCL will be against 15% cash and balance 85% being in the form of Security Receipts (SRs).
- Initially, the Central government is expected to guarantee the SRs, to the extent of Rs 30,600 crores.
- The Government guarantee will be valid for 5 years.

**Ease of Access and Service Excellence (EASE)**

- EASE is based on recommendations made in the "PSB Manthan" in November 2017.
- Reforms in the Public Sector Banking space are through a sequence of Easy Access and Service Excellence (EASE), the 5th version of which – EASE 5.0 – being launched recently.
- A sequential version of EASE is being rolled out since 2018
  - EASE 1.0 (2018-19)
  - EASE 2.0 (2019-2020)
  - EASE 3.0 (200-2021)
  - EASE 4.0 (2021-2022)
  - EASE 5.0 (2022-2023)
- EASE 1.0 commenced with 6 themes, having a total of 30 action points
- Reform Action Points in EASE 2.0 aimed at making the reforms journey irreversible, strengthening processes and systems, and driving outcomes.
- EASE 3.0 emphasised on the use of digital, analytics&AI, FinTech partnerships across customer service, convenient banking, end-to-end digitalised processes for loan sourcing & processing, analytics-driven risk management as well as decision support systems for HR.
- EASE 4.0 introduced two new themes to deliver on these objectives.
  - New Age 24x7 banking with resilient technology
  - Collaborative banking for synergistic outcomes
- EASE 5.0 'Common reforms agenda' of EASENext programme was launched by FM Smt. Nirmala Sitharaman in June, 2022

## MODULE D – FINANCIAL PRODUCTS AND SERVICES

### Unit - 29. Financial Markets

- A financial market is a place where financial products are bought and sold.
- The financial market in India evolved and grew rapidly as a consequence of the liberalisation measures taken in the 1990s.
- There are different segments in the financial market like money market, debt market, forex market and insurance market.
- The financial market has a number of important functions for the growth of the economy and price discovery is one of its important functions.

- Segments of financial markets
  - Credit market
  - Money market
  - Debt market
  - Foreign exchange (forex) market
  - Derivatives market
  - Capital market
  - Insurance market
  - Mutual Fund Market

- Functions of financial markets:
  - Price Determination
  - Funds Mobilisation
  - Liquidity
  - Risk sharing
  - Easy Access
  - Reduction in transaction costs and provision of the Information
  - Capital Formation

- Factors which determine the levels of price discovery are:
  - Supply and demand
  - Attitudes to risk
  - Volatility
  - Available information
  - Market mechanisms



www.jaiibcaiibmocktest.com

**Unit - 30. Money Markets**

- The money market is a crucial part of the financial system.
- It provides the necessary liquidity for the system to function and is composed of instruments like call and term money, Treasury bills, certificates of deposit, repo and reverse repo, amongst others.
- Typically, money market instruments have maturities not exceeding one year and can be as short of overnight.

| **Prudential limits for outstanding borrowing transactions in Call, Notice and Term Money Markets** | | |
|---|---|---|
| **S No.** | **Participant Category** | **Prudential Limit** |
| 1 | Scheduled Commercial Banks (including Small Finance Banks) | **Call and Notice Money:**<br>(i) 100% of capital funds, on a daily average basis in a reporting fortnight, and<br>(ii) 125% of capital funds on any given day.<br><br>**Term Money:**<br>(i) Internal board approved limit within the prudential limits for inter-bank liabilities. |
| 2 | Payment Banks and Regional Rural Banks | **Call, Notice and Term Money:**<br>(i) 100% of capital funds, on a daily average basis in a reporting fortnight, and<br>(ii) 125% of capital funds on any given day. |
| 3 | Co-operative Banks | **Call, Notice and Term Money:**<br>(i) 2.0% of aggregate deposits as at the end of the previous financial year. |
| 4 | Primary Dealers | **Call and Notice Money:**<br>(i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year on a daily average basis in a reporting fortnight.<br><br>**Term Money:**<br>(i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year. |

- Call money - 1 day
- Notice money - 2 days to 14 days
- Term money - 14 days to one year

- Participants in call/notice money include:
  - Banks
  - Primary Dealers
  - Development Finance Institutions
  - Insurance companies
  - Select mutual funds

**Treasury bills (T Bills)**

- Treasury bills (T Bills) are money market instruments, offered for the purpose of financing short-term debt obligation of the Government of India
- Three types of T bills are issued, namely
  - 91-day Treasury Bills
  - 182-day Treasury Bills
  - 364-day Treasury Bills
- Bids for the auction can be submitted by the participants in electronic format on the Reserve Bank of India's Core Banking Solution (E-Kuber) system
- Settlement takes place on T+1 basis.
- If the day of payment falls on a holiday, the payment is made on the working day following the holiday
- T Bills/ CMBs are issued for a minimum amount of Rs. 10,000 (Rupees Ten Thousand only) and in multiples of Rs. 10,000

**Certificates of deposit (CD)**

- Certificate of deposit is a negotiable money market instrument issued in dematerialised form
- CDs are issued by scheduled commercial banks (including Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)) and select all-India Financial Institutions
- CDs are issued at a discounted price and redeemed at par value
- CDs tenor of issue can range from 7 days to 1 year
- Most CDs are issued by banks for 3, 6 and 12-months' tenors.
- CDs can be issued to individuals (other than minors), corporations, companies, trusts, funds, associations
- The minimum amount of a CD should be 5 lakh and in multiples of 5 lakh thereafter
- Banks are not allowed to grant loans against CDs, unless specifically permitted by the Reserve Bank.
- Buyback of CDs at prevailing market price can be made only 7 days after the date of issue of the CD

**Commercial Paper (CP)**

- Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note
- Companies, including NBFCs and All India Financial Institutions (AIFIs), are eligible to issue CPs
- All residents, and non-residents permitted to invest in CPs
- The minimum credit rating of the participants/issuers shall be 'A3'
- CPs can be issued for maturities between 7 days to 1 year from the date of issue
- CPs are issued at a discount to their face value
- The buyback offer can be made at the prevailing market price only not before 30 days from the date of issue

**Repo**

- Repo is a repurchase agreement, entered into between eligible counterparties for borrowing and lending of funds
- A repo involves selling of a security, with an agreement to repurchase the same, at a future date, at a predetermined price
- The eligible securities for Repo transactions are :
  - Government securities issued by the Central Government or a State Government
  - Listed corporate bonds and debentures
  - Commercial Papers (CPs)
  - Certificate of Deposits (CDs)
  - Units of Debt Exchange Traded Funds (ETFs)
- The eligible participants for Repo transactions are
  - Any regulated entity
  - Any listed corporate
  - Any unlisted company, which has been issued special securities by the Government of India
  - Any All-India Financial Institution (FIs)

**Tri-party Repo**

- It is a repo contract - where a third entity (apart from the borrower and lender) acts as an intermediary between the two parties to the repo, to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction
- The tri-party repo system was introduced by RBI in August 2017.
- The job of the triparty agent is to administer the transaction between the lender and the borrower.
- CCIL and NSE are two approved tri-party agents

**Bills Rediscounting Scheme (BRDS).**

- BRDS is the rediscounting of trade bills, which have already been purchased by/discounted with the bank by the customers.
- The minimum tenor - 15 days
- The maximum tenor - 90 days
- Derivative Usance Promissory Note (DUPN) - Usance Promissory note drawn by the discounting Bank against the underlying Bills

**Long Term Repo Operations (LTRO)**

- The LTRO was introduced by RBI in February 2020. It has dual objectives
- To encourage banks to undertake maturity transformation smoothly and seamlessly, so as to augment credit flows to productive sectors, and,
- To assure banks about the availability of durable liquidity, at reasonable cost, relative to prevailing market conditions.
- Targeted Long-Term Repo Operations are Long-term repo operations (LTROs) conducted by the RBI, to ensure adequate liquidity at the longer period for specific sectors.

www.jaiibcaiibmocktest.com

**Unit - 31. Capital Markets and Stock Exchanges**

1. Capital markets are important avenues for channelling the savings of investors in to the productive sector.
2. Capital can, either be equity capital or debt capital.
3. Sale and purchase of capital market instruments can be through the primary market or the secondary market.
4. Stock exchanges are critical entities in secondary market operations and provide a platform for investors to acquire capital market instruments.
5. Capital market is a market for long term debt and equity shares (both are issued and traded).
6. Two types of capital market are: primary and secondary.
7. In the primary market, securities (shares, bonds, debentures) are offered to the public for subscription, for raising capital or fund.
8. In the secondary market, securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Secondary market comprises equity markets and debt markets.
9. Corporatization is the process of converting the organizational structure of the Stock Exchange from a non-corporate to a corporate structure.
10. Demutualization refers to the transition process of a Stock Exchange from a mutually owned association to a shareholders-owned company.
11. FII can invest up to 49 % in Stock Exchange in India.
12. No single investor can hold shares in an Indian Stock Exchange beyond a limit of 5%.
13. A broker is registered with SEBI and is a member of a recognized Stock Exchange and is permitted to do trading of different Stock Exchanges.
14. Government securities are coupon bearing instruments which are issued by RBI on behalf of Government of India. Government securities have maturity dates ranging from less than 1 year to a max of 30 year.
15. Debentures are bonds issued by a company. It has fixed rate of interest usually payable half-yearly, on specific dates and the principal amount repayable on a particular date on redemption of debenture. It is an unsecured debt.
16. A bond is a negotiable certificate usually unsecured. In coupon bonds, interest are paid bi-annually, in zero-coupon bonds, interest is paid at the maturity.
17. Commercial papers are borrowing of a company from the market. These money market instruments are issued for 90 days.
18. Treasury bills are securities issued by RBI on behalf of Government of India for 91 days.
19. IPO refers to issue of fresh securities by an unlisted company or an offer for sale of its existing securities or both for the first time to the public.
20. FPO refers to issue of fresh securities by an already listed company or an offer for sale to the public through an offer document.

21. Rights Issue is when a listed company issues fresh securities to its existing shareholders as on a recorded date.
22. A private placement is an issue of shares or of convertible security by a company to a select group of persons under section 81 of the Companies Act 1956.
23. Any company making a public issue or a listed company making a RI of a value of more than Rs 50 lacs is required to file a draft offer document with SEBI for its observations. This observation period is only 3 months.
24. DIP stands for Disclosure and Investor Protection guidelines.
25. Offer document means prospectus in case of public issue.
26. Offer document means an offer for sale and letter of offer in case of a RI.
27. Offer documents are filed with Registrar of Companies and Stock Exchanges.
28. A draft offer document means the offer document in a draft stage.
29. The draft offer documents are filed with SEBI.
30. The period of filing draft offer document is at least 21 days prior to that of offer document.
31. RHP (Red Herring Prospectus) is a prospectus which doesn't have details of either price of number of shares being offered or the amount of issue. But the number of shares and the upper and lower price bands are disclosed.
32. In case of FPO, the RHP can be filed with Registrar of Companies without the price band. The price band is notified one day prior to the opening of the issue by way of an advertisement.
33. In book-built issue, price cannot be determined until the bidding process is completed.
34. In a book-built issue allocation, RII: NII: QIP::35: 15: 50 (or may be 60:10:30). RII – Retail Individual Investors. NII – Non-Institutional Investors. QIP – Qualified Institutional Placement.
35. Retail individual investor means an investor who applies or bids for securities of or for a value not more than Rs 1,00,000.
36. A merchant banker possessing a valid SEBI registration in accordance with the SEBI (Merchant Bankers) Regulations, 1992 is eligible to act as a BRLM (Book running Lead Manager).
37. A QIB (Qualified Institutional Buyer) means those investors who have expertise and financial muscle to evaluate and invest in capital market. Examples: mutual fund, scheduled commercial banks, FII registered with SEBI, insurance companies registered with IRDA, PF with a minimum corpus of Rs 25 crore etc.
38. Above mentioned entities are not required to be register with SEBI as QIB.

**Unit - 32. Fixed Income Markets — Debt and Bond Markets**

1. A country's financial development hinges around the existence of deep and liquid government securities market.
2. Besides providing flexibility to the public debt manager to manage borrowing obligations and the maturity profile of public debt while minimising rollover risks, this market also determines risk-free interest rates, leading to price discovery in other segments of the market spectrum such as markets for money market instruments and corporate bonds.
3. Auction of government securities takes place by means of multiple price and uniform price auctions.
4. The fair value of a bond is the sum of the present value of all its future cash flows.
5. Here are 4 theorems for pricing of bonds.
6. FIMMDA is a self-regulatory organisation and supervises operations in the fixed income markets.
7. Retail Direct Scheme (RDS) has been recently launched by RBI for facilitating the participation of retail investors in the fixed income market.
8. Corporate bonds and inter-corporate deposits are also constituents of the debt capital market.
9. Government Securities are issued by the Government for raising a Public loan or as notified in the official Gazette.
10. They Consist of Government Promissory Notes, Bearer Bonds, Stocks or Bond held in Bond Ledger Account.
11. They may be in the form of Treasury Bills or Dated Government Securities.
12. Government Securities are mostly interest bearing dated securities issued by RBI on behalf of the Government of India.
13. GOI uses these funds to meet its expenditure commitments. These securities are generally fixed maturity and fixed coupon securities carrying semi-annual coupon. Since the date of maturity is specified in the securities, these are known as dated Government Securities.
14. Features of Government Securities
    - Issued at face value.
    - No default risk as the securities carry sovereign guarantee.
    - Ample liquidity as the investor can sell the security in the secondary market.
    - Interest payment on a half yearly basis on face value.
    - No tax deducted at source.
    - Can be held in Demat form.
15. Corporate bonds are debt securities issued by private and public corporations.
16. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business. When one buys a corporate bond, one lends money to the "issuer," the company that issued the bond.

17. In exchange, the company promises to return the money, also known as "principal," on a specified maturity date. Until that date, the company usually pays you a stated rate of interest, generally semiannually.
18. While a corporate bond gives an IOU from the company, it does not have an ownership interest in the issuing company, unlike when one purchases the company's equity stock.
19. An interest rate swap (IRS) is a liquid financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another.
20. An interest rate future is a financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. It is a particular type of interest rate derivative.



www.jaiibcaiibmocktest.com

**Unit - 33. Foreign Exchange Markets**

1. The foreign exchange market is deep and wide and the daily turnover presently in the market is approximately USD 6.6 trillion.
2. There are various characteristics of the market and different types of players.
3. The LIBOR, which has been the universal benchmark rate since past number of decades has now been replaced by a number of Alternate Reference Rates like Secured Overseas Financing Rate (SOFR) and Sterling Overnight Index Average (SONIA) Rate.
4. While FEMA is the anchor legislation for forex transactions, FEDAI is an SRO which plays an important role in ensuring orderly conduct of the forex market.
5. The FX-Retail platform is a tool for deepening the forex market by giving individuals direct access to it.
6. ADRs and GDRs are important routes for raising forex capital.
7. LIBOR or ICE LIBOR (previously BBA LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans.
8. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.
9. LIBOR is administered by the ICE Benchmark Administration (IBA), and is based on five currencies: U.S. dollar (USD), Euro (EUR), pound sterling (GBP), Japanese yen (JPY) and Swiss franc (CHF).
10. It serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. There are a total of 35 different LIBOR rates each business day. The most commonly quoted rate is the three-month U.S. dollar rate.
11. The Mumbai Interbank Offered Rate (MIBOR) is calculated everyday by the National Stock Exchange of India (NSEIL) as a weighted average of lending rates of a group of banks, on funds lent to first-class borrowers.
12. It is the interest rate at which banks can borrow funds, in marketable size, from other banks in the Indian interbank market.
13. The MIBOR was launched on June 15, 1998 by the Committee for the Development of the Debt Market, as an overnight rate.
14. The NSEIL launched the 14-day MIBOR on November 10, 1998, and the one month and three month MIBORs on December 1, 1998.
15. Since the launch, MIBOR rates have been used as benchmark rates for the majority of money market deals made in India.

**Unit - 34. Interconnectedness of Markets and Market Dynamics**

- With the development of the economy and with the forces of globalisation setting in, the different financial markets in India are interconnected with each other (or, in other words, integrated) and integrated with markets in other parts of the world, as well.
- Similarly, other countries in the world are connected to one another and the ups and downs in one part of the globe can have a resonating effect on other parts of the globe.
- This is also known as the "coupling" of economies and disturbances when they spread, which can be called as "contagion effect".
- Different levels of Market Integration
  - Domestic financial integration
  - Global financial integration
  - Regional financial integration
- Asian Clearing Union (ACU) is a payment arrangement, whereby the participants settle payments for intra-regional transactions among the participating central banks, on a net multilateral basis
- The ACU was established in December 1974
- The members of the ACU are Bangladesh, Bhutan. India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka
- The interconnectedness of the different markets with each other, for example, the money market, bond market, credit market, capital and forex markets have their own advantages and disadvantages.
- While the financial integration provides several benefits, it also involves various risks.
- The benefits and costs of financial market integration depend on the degree of domestic financial market integration, international financial integration and financial development.
- The benefits and costs of financial integration can be viewed from the perspective of sovereigns, individuals, corporates, and financial institutions.
- In the hierarchy, domestic financial market integration comes first, followed by global and regional integration.
- Contagion is the spread of an economic crisis from one market or region to another and can occur at both a domestic or international level.
- Because the markets are inter-dependent, events in one market can impact other markets.
- The integrated treasury performs not only the traditional roles of forex dealing room and treasury unit but also many other functions
  - Reserve Management and Investment
  - Liquidity and Funds Management
  - Asset Liability Management
  - Risk Management
  - Arbitrage

**Unit - 35. Merchant Banking Services**

- Merchant Banking primarily involves providing financial advice and services to large corporates and wealthy individuals.
- Grindlays Bank formally initiated into the Merchant banking activity in India.
- Merchant banks are different from commercial banks in a number of respects.
- Differences between Merchant Banks and Commercial Banks
  - Merchant Banks are regulated by SEBI, whereas Commercial Banks are governed by RBI regulations
  - Merchant Banks primarily assist in raising equity and equity related finance, whereas Commercial Banks primarily deal with debt and debt related finance;
  - Merchant Banks are management oriented, whereas Commercial Banks are assets oriented
  - Activities of Merchant Banks are project counseling, capital structuring, amalgamations and takeovers, whereas Commercial Banks are mainly financiers;
  - Merchant Bankers mainly undertake fee-based business, whereas Commercial Banks mainly undertake funding business.
- Merchant banks come under the purview of SEBI for their registration and operations.
- Merchant Banks have to obtain the following Licenses from SEBI for initiating Merchant Banking activities:
  - Merchant Banker
  - Banker to the Issue
  - Debenture Trustee
  - Portfolio Management
- There are four categories of merchant bankers, depending on the activities that they can undertake.
  - Category I Merchant Bank: can act as Issue managers - (i) to carry on any activity of the issue management
  - Category II Merchant Bank: can act only as advisor, consultant, co-manager, underwriter, portfolio manager.
  - Category III Merchant Bank: can act as underwriter, advisor, consultant to an issue.
  - Category IV Merchant Bank: Merchant banks follow a code of conduct which has been developed by SEBI.
- Activities of Merchant Banks
  - Issue Management
  - Pre-Issue Functions

    (i) issue through prospectus, offer and private placement

    (ii) marketing and underwriting

    (iii) pricing of issues

- Post-Issue Functions
  (i) Final allotment and/or refund of subscription amount
  (ii) Calculation of underwriters' liability
  (iii) Complying with the necessary statutory requirements
- Lead merchant banker holding a certificate under Category-I shall accept a minimum underwriting obligation of 5% of the total underwriting commitment or Rs.25 lacs, whichever is less
- It is mandatory for the issuers to appoint 'Monitoring Agency', if the issue size is more than Rs.500 crores
- The other services offered by merchant banks are:
  - Corporate Counseling and Advisory
  - Project Counseling
  - Loan Syndication
  - NRI Advisory Services

www.jaiibcaiibmocktest.com

## Unit - 36. Derivatives Market

- A derivative security is a financial contract whose value is derived from the value of something else, such as a stock price, a commodity price, an exchange rate, an interest rate, or even an index of prices.
- They do not have worth of their own and derive their value from the claim they give to their owners to own some other financial assets or security.
- The underlying asset may assume many forms:
  - Commodities including grains, coffee, pulses, etc.
  - Precious metals like gold and silver
  - Natural resources like oil and gas
  - Foreign exchange rates or currencies
  - Bonds of different types, including medium to long-term negotiable debt securities issued by governments, corporates, etc.
  - Shares and share warrants of companies, traded on recognised stock exchanges
  - Stock Indexes
  - Short term securities such as T-bills
  - Over-the-Counter (OTC) money market products, such as loans or deposits
- The derivatives market is very large and highly leveraged
- Derivatives can be exchange traded or issued over the counter (OTC).

- There are three types of participants in the derivatives market
  - Hedgers
  - Speculators
  - Arbitrageurs

- Functions of Derivatives
  - Price Discovery
  - Transfer of Risk
  - Hedging Price Risk
  - Lower Transaction Cost
  - Provide Access to Unavailable Assets and Markets
  - Higher Leverage

- Types of derivatives
  - Financial derivatives
  - Commodity derivatives



www.jaiibcaiibmocktest.com

- Financial derivatives
  - Exchange Traded
    - Futures
    - Currency
    - Options
  - Over the Counter
    - Forward Contracts
    - Swaps
    - Exotics eg., caps, collars, etc
    - Futures
    - Interest Rate
      - ✓ Currency
      - ✓ Interest Rate
      - ✓ Credit Defaullt Swaps

| **Differences between Futures and Forward Contracts** | |
|---|---|
| **Futures** | **Forward Contracts** |
| Standardised amounts | Non-standard amounts |
| Fixed maturities | Flexible maturities |
| Traded on exchanges | Traded OTC |
| Initial margin required, which is marked to market | No margin requirement |
| Traded during exchange hours | Can be traded 24x7 |
| Counterparty unknown | Counterparty in direct contact |

- **Interest Rate Futures (Forward Rate Agreement – FRA)**
  - If a corporate has to borrow, for a period of 3 months, 3 months from now, it is referred to as a 3 × 6 FRA
  - Meaning beginning THREE months from now and ending SIX months from now
  - The convention in FRA markets is to denote the FRAs as 3 × 6, 6 × 9, etc.
  - A 6 × 9 FRA means a corporate seeking protection for a 3 months' borrowing or lending commitment, starting 6 months from today and ending 9 months from today.
  - A 9 × 12 FRA means seeking protection for a 3 months' borrowing or lending commitment starting 9 months from today and ending 12 months from today and so on so forth.

- **Options**

An option is a contract which gives the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific (strike) price, on or before, a specified time (expiration date).



www.jaiibcaiibmocktest.com

- Some terminologies associated with options transactions are as follows:
  - Underlying: The specific security/asset/index on which, an options contract is based (e.g., a foreign currency).
  - Option Premium
  - Strike Price or Exercise Price
  - Expiry date
  - Call option: It is an option that gives the buyer of the option the right to BUY the underlying asset, at the strike price, on or before the expiry date.
  - Put option: It is an option that gives the buyer of the option the right to SELL the underlying asset, at the strike price, on or before the expiry date.
  - Open Interest: The total number of options contracts outstanding in the market at any given point of time.
  - Option Holder: is the one who buys an option which can be a call or a put option.
  - American Option: It is the one, which can be exercised by the buyer on or before the expiration date
  - European Option: It is the one, which can be exercised by the buyer on the expiration day only, and not any time before that.

| **Differences between Call and Put Options** | | |
|---|---|---|
| | **Call Options** | **Put Options** |
| **Option buyer or option holder** | Buys the right to buy the underlying asset at the specified price. | Buys the right to sell the underlying asset at the specified price. |
| **Option seller or option writer** | Has the obligation to sell the underlying asset (to the option holder) at the specified price. | Has the obligation to buy the underlying asset (from the option holder) at the specified price. |

- **Swaps**
- A swap refers to an exchange of one financial instrument for another between the parties concerned.
- There are three types of swaps
  - Currency swaps
  - Interest rate swaps
  - Credit default swaps
- The Credit Default Swap is a tool which provides insurance cover to an investor or lender against default by a reference entity.
- Derivative transactions are documented using the ISDA master agreement along with its schedules.

**Unit - 37. Factoring, Forfaiting and Trade Receivables Discounting System (TReDS)**

- Factoring and forfaiting are tools for financing of receivables and management of the receivables' portfolio.
- Whilst factoring is short-term finance and often with recourse, forfaiting is for financing medium term receivables and generally without recourse.
- Factoring is a service that is connected with the financing and collection of account receivables in domestic and international trade.
- Forfaiting is a means of finance (credit) an exporter of goods avails from an intermediary called the forfaiter against the export receivables but without the obligation to repay the credit. It is used in international trade.
- There are two types of factoring services
    - Recourse factoring (with recourse)
    - Non-recourse factoring (without recourse)
- Under domestic factoring, receivables arising only out of domestic (inland) trade are considered for factoring.
- The maximum credit period normally permitted under factoring is 150 days - inclusive of a maximum grace period of 60 days.
- In international factoring, there are usually two factors. The export factor, The import factor
- International factoring is of four types, namely :
    - Two factor system
    - Single factor system
    - Direct Export Factoring System
    - Direct Import Factoring System

| Bills Discounting Vs Factoring | |
|---|---|
| **Bills Discounting** | **Factoring** |
| • Requires strong balance sheet and collaterals<br>• Always with recourse<br>• Collection is job of exporter<br>• Financing is transaction based<br>• It is only a mode of financing<br>• There is no assignment of debt | • Can be done with weak balance sheet, no collateral provided the receivables are of good quality<br>• Can be without recourse<br>• Collection is job of factor<br>• Financing is based on accounts receivable ledger<br>• It consists of complete receivables management, including MIS, collection, and even credit insurance<br>• It involves assignment of debt |

- Finance charge is computed on the pre-payment outstanding in exporter's account, at monthly intervals.
- Service Fee : ranges from 0.1% to 0.3% on the total value of invoices factored/collected by the Banks

- **Forfaiting**
  - Forfaiting can be defined as financing exports by discounting export receivables, evidenced by bills of exchange or promissory notes, carrying medium to long-term maturities, on fixed rate basis
  - When an exporter transfers his right to receive payment in favour of the forfaiter, the transaction is called forfaiting.
  - Thus, forfaiting is a method of discounting of international trade receivables on a 'without recourse' basis.
  - Forfaiting is used for international trade transactions.
  - 'Forfait' is derived from the French word 'forfeit', which means surrendering of rights.
  - All forfaiting transactions have a minimum transaction size, normally in the range of US$ 250,000.
  - Exim Bank and AD Category – I Banks (on Non-recourse basis only) are permitted to handle forfaiting transactions.
  - Commitment fees ; 0.5% and 1.5% per annum of the unutilised amount to be forfaited

- **Trade Receivables Discounting System (TReDS)**
  - TReDS is a type of factoring which has been introduced in India for financing of receivables for MSMEs and suitable guidelines have been issued by RBI, for the benefit of MSMEs.
  - Direct participants in TReDS are:
    - MSME sellers
    - Corporate and other buyers
    - Government Departments
    - PSUs
    - Financiers (both banks and NBFC factors)
  - In instances where the buyer-corporate initiates a transaction, it is an example of reverse factoring.

**Unit - 38. Venture Capital**

- Venture Capital may be broadly defined as long-term investment in business, which has potential for significant growth and financial returns.
- This is usually provided in the form of equity apart from conditional loans and conventional loans.
- Bhatt Committee recommended the creation of venture capital in India in 1972
- A brief description of some of the venture capital funds which have been established are as follows:
  - Risk Capital Foundation : The Industrial Finance Corporation of India (IFCI) - 1975
  - Seed Capital Scheme: IDBI - 1976
  - PACT: ICICI aided by USAID - Initial grant of USD 10 million
  - Government fund: IDBI - 1986
  - Technology Development and Information Company of India Ltd. (TDICI): ICICI - 1988
  - Risk Capital and Technology Finance Corporation Ltd. (RCTFC): IFCI - 1988
- The Indian start up ecosystem has got a total of USD 17.2 billion investment from Venture capital firms, during January-July 2021 period
- Venture Capitalists are thus not financiers only, but also bear the risk as well.
- Venture capital consists of early stage and later stage financing.
- Early-Stage Financing includes:
  - Seed capital stage
  - Start-up stage
  - Second round financing.
- Later Stage Financing includes:
  - Expansion Finance
  - Replacement Finance
  - Turn- Around
  - Buyout Deals
- There are six steps in the process by which, venture capital financing takes place and the modes of VC financing can be through, either, equity or debt.
  - Deal origination
  - Screening
  - Evaluation
  - Deal negotiation
  - Post investment activity
  - Exit plan

- EXIT ROUTES FOR VENTURE CAPITAL FINANCE
  - Initial Public Offering
  - Buy back of Shares by the Promoters

- Sale of Enterprise to another Company
- Sale to New Venture Capitalist
- Self-liquidating Process
- Liquidation of the Investee Company

www.jaiibcaiibmocktest.com

**Unit - 39. Lease Finance and Hire Purchase**

- Business enterprises need capital assets like plant, machinery, building, land, transportation equipment, etc., in order to produce goods and services.
- These can be acquired either using capital funds (equity) or borrowings from various sources (debt).
- Funding could also be a mixture of both equity and debt.
- There are two other methods of acquiring capital assets – lease financing and hire purchase.
- Both these methods of financing purchase of assets have been prevalent in India for a number of decades, although at a level lower than in some of the countries in the West.
- There are different types of leases and advantages in, both, leasing and hire-purchase.
- Both leasing and hire purchase are governed by the certain laws of the country.
- Leasing activity was initiated in India in the year 1973

**Leasing**

- Types of Leasing
    - Finance Lease
    - Operating Lease

| Finance Lease and Operating Lease – Differences | | |
|---|---|---|
| | **Finance Lease** | **Operating Lease** |
| Duration | Finance Lease is generally for the whole useful life of the asset. | Operating Lease is generally for a shorter duration. |
| Revocation | Finance lease contract cannot be revoked | Operating-lease contract is revocable |
| Maintenance | In Finance Lease, all the cost relating to maintenance, taxes and insurance are to be borne by the lessee | In Operating Lease, all such expenses are borne by the lessor |
| Obsolescence risk | The Lessee has to bear the risk of obsolescence | The Lessor has to bear the risk of obsolescence |
| Option of purchase | A Finance Lease contract provides for the option to purchase the asset at the end of the contract | No such option is available in an Operating-lease contract |

- While there is no separate statute in India to govern the contracts of leasing, which is akin to a contract of bailment, the provisions of the Indian Contract Act apply to it.
- Since equipment lease transactions fall in the category of a bailment contract, the obligations of the lessor and the lessee are similar to those of the bailor and the bailee unless expressly specified otherwise in the lease agreement.
- Types of lease finance arrangements are:
  (i) Close- and Open-ended Lease
  (ii) Up-front and Back-end Lease
  (iii) Percentage Lease
  (iv) Cross-border Lease
- Lease Financing can be of three different types, depending upon how the lessee acquires the asset.
  (a) Direct Lease
  (b) Leveraged Lease
  (c) Sale and Lease Back
- Advantages of Lease Finance
  (i) Regular income
  (ii) High profitability
  (iii) Growth and expansion
  (iv) Tax benefit
  (v) Economical

**Hire purchase**

- Hire purchase agreement is not a contract of sale, but a contract of bailment.
- Hire purchase finance organisations in India are controlled by the Hire Purchase Act, 1972.
- Under hire purchase arrangement, goods are let on hire, the hirer (user) is allowed to pay the purchase price in instalments and enjoys an option to purchase the goods, after all the instalments have been paid.
- Development of Hire-purchase took two forms: consumer durables and automobiles.
- Hire purchase transaction has two basic elements which are governed by the Indian Contract Act, 1872 and Sale of Goods Act, 1930:
  - Bailment
  - Sale

**Differences between Lease Finance and Hire Purchase**

| | **Lease Finance** | **Hire Purchase** |
|---|---|---|
| Meaning | A lease transaction is a commercial arrangement, whereby, an equipment owner or a manufacturer conveys to the equipment user, the right to use the equipment in return for a rental. | Hire purchase is a type of instalment credit under which, the hire purchaser agrees to take the goods on hire, at a stated rental, which is inclusive of the repayment of the principal, as well as interest, with an option to purchase. |
| Option to user | Except the financial Lease, no option is provided to the lessee (user) to purchase the goods. | The hire purchaser becomes the owner of the asset after paying the last instalment. |
| Nature of payment | Lease rentals paid by the lessee are entirely the revenue expenditure of the lessee. | Only the interest element included in the hire-purchase instalments are in the nature of revenue expenditure. |
| Who can claim depreciation | Lessor can claim for depreciation | Hire purchaser can claim for depreciation |
| Tax benefit | In a Lease agreement, the Lessor can claim depreciation and the lessee can claim maintenance and rentals from taxable income as expense. | A hire purchaser can claim depreciation and interest payment from the taxable income, whereas the seller can claim for the interest on the borrowed fund for purchasing the assets. |

**Unit - 40. Credit Rating and Credit Scoring**

- Credit rating is an analysis of the credit risks associated with a financial instrument or a business entity.
- It is a risk grade given to a particular entity, based on its credentials and the extent to which the financial statements of the entity are sound, in terms of borrowing and lending that has been done in the past.
- A credit rating agency is a private company that looks at the credit worthiness of a large-scale borrower, such as a company or country. Credit rating has a number of characteristics and benefits to the borrowing company, as well as to the investor/lender.
- The first industrial country to be rated was France, by S&P, in the year 1959
- Currently, three rating agencies dominate the international scene.
- They are Moody's Investors Service, Standard & Poor's Global Ratings and Fitch
- The Credit Rating Information Services of India Limited (CRISIL) initiated the concept of credit rating in India
- Credit rating is conveyed by means of standardised symbols, accompanied by a detailed report and, sometimes, with outlook also. CRAs are registered with SEBI as well as supervised by it.

**Characteristics of credit rating are:**
1. Assessment of issuer's capacity to repay
2. Based on data
3. Expressed in symbols
4. Carried out by experts
5. Guidance about investment not recommendation

**Benefits of credit rating**
**Benefits to the Investors**
1. Assessment of risk
2. Information at low cost
3. Advantage of continuous monitoring
4. Provides the investors a choice of Investment

**Benefits to the Issuer**
1. Ease in borrowing
2. Borrowing at cheaper rates
3. Facilitates growth
4. Recognition of lesser-known companies
5. Imposes financial discipline on borrowers
6. Greater information disclosure:

**Factors considered while rating Companies/Instruments**

1. Issuer's ability to service its debt
2. Market position of the company
3. Quality of management
4. Industry risks
5. Regulatory environment
6. Other factors

**Presently, in India, there are seven CRAs which have been approved by SEBI. These are:**

1. CRISIL Ratings Limited
2. India Ratings and Research Pvt. Ltd. (Ind-Ra, formerly Fitch Ratings India Pvt. Ltd.)
3. ICRA Limited
4. CARE Ratings Ltd.
5. Brickwork Ratings India Pvt. Ltd.
6. Infomerics Valuation and Rating Pvt. Ltd.
7. Acuite Ratings & Research Limited

**Credit Rating Symbols**

**High Investment Grades**

**AAA:** Triple A denotes highest safety in terms of timely payment of interest and principal
**AA:** Double A denotes high safety in terms of timely payment of interest and principal
**A:** denotes adequate safety in terms of timely payment of interest and principal
**BBB:** Triple B denotes moderate safety in terms of timely payment of interest and principal

**Speculative Grades**

**BB:** Double B denotes inadequate safety in terms of timely payment of interest and principal
**B:** Denotes high risk. Adverse changes could lead to inability or unwillingness to make timely payment.
**C:** Denotes substantial risk. Issue rated is vulnerable to default.
**D:** Denotes default in terms of timely payment of interest and principal.

**Ratings Outlook**

The rating outlooks assigned by CRAs generally fall into four categories: Stable, Positive, Negative, No Outlook

**CREDIT INFORMATION COMPANIES (CICs) IN INDIA**

- TransUnion CIBIL
- Experian
- Equifax
- CRIF High Mark Credit Information Services

**TransUnion CIBIL**

- CIBIL is the first entrant in the country
- CIBIL was incorporated in August 2000 based on the recommendations made by the Siddiqui Committee
- It commenced commercial bureau operations in May 2004
- The CIBIL credit score varies from 300 to 900
- Generally, the loan providers prefer a credit score of more than 700
- A CIBIL score of 900 is the least risky, while a score of 300 is extremely risky.

- While credit rating is for corporates, credit scoring, which is done on the basis of records with Credit Information Companies, is for individuals.
- Like credit rating, credit scoring is also conveyed in the form of standardised numbers, which can be easily understood by all stake holders.
- Credit scores range from 300 to 900 – with 900 being the best score and 300 being the worst
- Nearly 90% of all loans sanctioned are those with credit scores of 700 and above
- A typical credit report has six sections
    - Credit score
    - Personal information
    - Contact information
    - Employment information
    - Account information
    - Enquiry information

**Differences between credit ratings and credit scores**

| Credit Rating | Credit Scores |
|---|---|
| These are given by Credit Rating Agencies (CRAs) | These are given by Credit Information Companies (CICs) |
| The rating is normally alphanumeric and may contain a plus or minus sign to denote the outlook for the future. For example, Credit Rating Baa3 with negative outlook | The scoring is by means of a three-digit number, ranging from 300 to 900 |
| Credit Rating is for large corporates and governments and their entities | Credit scoring is for individuals and small business entities |

**Unit - 41. Mutual Funds**

1. Mutual fund is a mechanism for pooling resources from the public by issuing units to them and investing the funds in securities.
2. Mutual fund set up in the form of a trust and is registered with SEBI.
3. Mutual funds perform an important role of financial intermediary, by mopping up savings from investors and channelling them towards productive investments.
4. They also form a dependable avenue for those investors who want to invest in the capital market, but keep away from it, due to lack of expertise.
5. A mutual fund is set up in the form of a trust, which has sponsors, trustees, Asset Management Companies (AMCs) and custodians.
6. There are a number of ways in which mutual funds are classified, including nature of investments that they make, by organisational structure of funds, management portfolio and investment objective.
7. There are various risks that mutual funds are exposed to and the risks in the relevant schemes are depicted by using a Riskometer.
8. Unit holders refer to investor in mutual fund.
9. NAV denotes performance of a particular scheme of a mutual fund.
10. NAV per unit is the market value of securities of a scheme, less the expenses incurred on the scheme divided by the total number of units of the scheme on any particular date.
11. The scheme that is available for subscription and repurchase on a continuous basis is known as open ended scheme/plan.
12. The scheme that is available for subscription only during a specified period at the time of launch of the scheme is a close ended scheme. It has a maturity period 3-10 years.
13. Growth scheme aka equity oriented scheme invest in equities (higher risks).
14. Income scheme/debt oriented scheme invest in fixed income securities such as bonds, government securities, corporate debentures and money market instruments.
15. Balanced plan invest both in equities and fixed income securities (debt instruments) in 40-60%.
16. Money market or liquid fund invest in (safer short-term instruments) treasury bills, certificates of deposit, commercial paper and interbank call money, government securities, etc.
17. Gilt fund invest in government securities.
18. Repurchase or redemption price is the price or NAV at which an open-ended scheme purchases or redeems its units from the unit holders.

**Unit - 42. Insurance Products**

- Insurance is a contract between two parties, where one promises the other to indemnify or make good any financial loss suffered by the latter (the insured), in consideration for an amount received by way of 'premium'.
- There are a number of principles that govern the various products of insurance.
  - Principle of Utmost Good Faith
  - Principle of Insurable Interest
  - Principle of Indemnity
  - Principle of Subrogation
  - Principle of Contribution
  - Principle of Proximate Cause
- Insurance products can be, broadly, classified as life and non-life.
- Types of insurance business
  - life insurance
  - health insurance
  - travel insurance
  - motor insurance
  - property insurance
  - fire insurance
  - burglary insurance
  - marine cargo insurance

- Life insurance benefit patterns fit into one or a combination of the following three classes:
  - Term life insurance
  - Whole life insurance
  - Endowment insurance

  - Money Back Plans or Cash Back Plans
  - Annuity (Pension) Plans
  - Immediate Annuity
  - Deferred Annuity
  - Unit Linked Insurance Policy
  - Paid-up Value

- Insurance Based Social Security Schemes
  - Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY)
  - Prime Minister Suraksha Bima Yojana (PMSBY)

- Group insurance is a plan of insurance which provides life cover to a number of persons, under a single policy called the 'Master Policy'.
- Non-life, or general insurance includes fire insurance, burglary insurance, travel insurance, motor insurance and marine insurance.

- The bancassurance model, under which banks also sell insurance as third-party products, is popular in India, as also in other parts of the world.
- Internationally, four models of Bancassurance are in vogue. They are:
  - Corporate agency model or distribution alliance model.
  - Joint venture model, where an insurance company and a bank share the equity capital of their joint venture, subject to local government regulations.
  - Merger between a bank and an insurer.
  - Build or buy own insurance operation

- The Government has instituted the insurance Ombudsman Scheme to regress complaints of up to Rs 30 lakhs.
- The salient features of the Insurance Ombudsman (IO) Scheme are furnished below:
  - To whom complaint to be lodged?
  - Territorial jurisdiction
  - Who can approach Ombudsman?
  - Meaning of insurance on personal lines
  - How to lodge the complaint?
  - Time limit for approaching Ombudsman
  - Maximum limit up to which compensation can be awarded
  - Any complainant
  - Time period for disposal of the complaint by Ombudsman:
  - Fees

**Unit - 43. Pension Products**

- Pensions may be considered the other side of life insurance.
- While life insurance protects the individual from the financial consequences of premature death, pensions address the risk of living too long so that one's resources are inadequate to support one's standard of living.
- By investing a certain amount regularly towards a pension product, the individual will build up a considerable sum in a phase-by-phase manner.
- A Pension provides a monthly income to the people during their unproductive years
- Pension is necessary for the following reasons:
  - Decreased income earning potential, with increase in age,
  - The rise of nuclear family,
  - Migration of earning members,
  - Rise in cost of living,
  - Increased longevity, and
  - Dignified life in the old age due to less financial dependence

**Two stages of operation of pension products:**

- Accumulation stage: When one pays a specific amount regularly until the person's retirement.
- Vesting stage: Once the individual retires, he gets a steady flow of income for the rest of his life.

**Different types of Pension schemes that are prevalent in India**

- Employees Provident Fund Scheme (EPF)
- Provident Fund Scheme (PPF)
- Insurance Annuity Schemes
- National Pension Scheme (NPS)
- Atal Pension Yojana (APY)

**Employees Provident Fund Scheme (EPF)**

The EPFO operates the following three major schemes:

- Employees' Pension Scheme (EPS),
- Employees' Deposit Linked Insurance Scheme (EDLIS) and
- Employees' Provident Fund Scheme (EPF).

**EPFO's functioning includes:**

- Enforcement of the Act across the country
- Maintenance of individual accounts
- Settlement of claims
- Investment of funds

- Ensuring prompt pension payment
- Updating records

**Benefits of EPF**

- High Interest
- Exemption from Tax
- Low Risk
- Life Insurance
- Hassle-free

**Provident Fund Scheme (PPF)**

- The lock-in period is 15 years for a PPF
- One can extend their investment in PPF for another five years
- PPF contributions are eligible for a tax deduction
- Investments up to Rs 1,50,000, can be claimed for tax deduction under Section 80C of the Income Tax Act
- The minimum investment into a PPF account each year is Rs 500 and the maximum investment is Rs 1,50,000
- The interest is compounded annually
- NRIs and HUFs are not eligible to open a PPF account

**Insurance Annuity Schemes**

Annuities are of two broad types-

- Immediate Annuity - Immediate Annuity begins at once
- Deferred Annuity - Annuity payments to the annuitant commence at some specified time or specified age of the annuitant

**National Pension Scheme (NPS)**

- This pension programme is open to employees from the public, private and even the unorganised sectors
- Employees of the armed forces are, however, excluded
- After retirement, the subscribers can take out a certain percentage (up to 60%) of the corpus
- The subscriber will receive the remaining amount, as a monthly pension, during the post-retirement period
- The scheme has tax benefits, under Section 80C and Section 80CCD of the Income Tax Act
- NPS offers two types of accounts, namely Tier-I and Tier-II
- Tier-I account is the pension account having restricted withdrawals

- Tier-II account is a voluntary account, which offers liquidity of investments and withdrawals.

**Withdrawal/Exit from NPS Tier-I Account is subject to the following conditions:**

- Partial Withdrawal - after completion of 5 (Five) years, subscriber can withdraw 25% of his/her own contributions for specific reasons viz., illness, disability, education or marriage of children, purchasing property, starting a new venture. A subscriber can partially withdraw up to a maximum of 3 times during his/her entire tenure in NPS.
- Premature Withdrawal - after completion of 10 years or upon completion of 03 years if subscriber has joined NPS after 60 years of age; subscriber can withdraw maximum 20% of the corpus as lumpsum and minimum 80% of the corpus has to be utilised for purchasing an annuity plan for receiving the pension. If the accumulated corpus is less than Rs 2.5 lakh, the entire corpus is paid as lumpsum to the subscriber.
- Normal Withdrawal – on completion of 60 years of age, subscriber can withdraw maximum 60% of the corpus as lumpsum and minimum 40% of the corpus has to be utilized for purchasing an annuity plan for receiving the pension. If the accumulated corpus is less than Rs 5 lakhs, the entire corpus is paid as lumpsum to the subscriber.

**Atal Pension Yojana (APY)**

- Atal Pension Yojana (APY) is a pension scheme launched by Government of India, which is focused on the unorganised sector workers
- Under the APY, minimum guaranteed pension of Rs. 1,000 or Rs. 2,000 or Rs. 3,000 or Rs. 4,000 or Rs. 5,000 per month will start after attaining the age of 60 years
- The age of the subscriber should be between 18 and up to 40 years
- From October 1, 2022, any citizen who is or has been an income-tax payer, shall not be eligible to join APY
- A subscriber can open only one APY account
- Multiple APY accounts are not permitted
- Voluntary exit under APY before 60 years of age is permitted
- Under Section 80CCD (1) of the Income Tax Act, investment in APY up to Rs 1.5 lakhs, qualifies for income tax deduction

**Benefits under APY Scheme upon exit on attaining 60 years**

- Guaranteed minimum pension amount
- Guaranteed minimum pension amount to the spouse
- Return of the pension wealth to the nominee of the subscriber

**Unit - 44. Para Banking and Financial Services Provided by Banks**

- In addition to normal banking activities like accepting of deposits and lending/investing the deposits, banks are also permitted to conduct a number of other activities which are called para banking and Financial Services activities.
- These include, inter alia, activities like investment in venture capital funds, sponsoring IDFs, extending lease and equipment finance, primary dealer business, underwriting of market securities, insurance, mutual fund and referral business, etc.
- There are different rules and regulations that govern each of these types of para-banking activities, including disclosure of the earnings on this portfolio.

**Para-Banking and Financial Services Undertaken by a Bank**

- Sponsoring of an Infrastructure Debt Fund
- Equipment Leasing and Hire Purchase Business
- Factoring Services
- Primary Dealership Business
- Underwriting Activities
- Mutual Fund Business
- Insurance Business
- Pension Fund Management by Banks
- Investment Advisory Services
- Portfolio Management Services
- Agency Business by Banks
- Referral Services
- Retailing of Government Securities
- Membership of SEBI approved Stock Exchanges
- Broking services for Commodity Derivatives Segment
- Banks' investment in Venture Capital funds
- Cheque Writing Facility for Investors of Money Market Mutual Funds
- Safety Net Services

- Investment by a bank in a subsidiary or in financial services company, not being a subsidiary or a nonfinancial services company, shall be subject to laid down conditions
- Banks are required to take prior approval of RBI before making investment in a subsidiary and a financial services company that is not a subsidiary
- A parent/sponsor bank shall maintain an "arm's length" relationship with the subsidiary sponsored by it

## Unit - 45. Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

### Real Estate Investment Trusts (REITs)

- REITs are stock market listed investments that allow investors exposure to real estate, without having to purchase or manage properties by themselves.
- REITs were first introduced in India by the Securities and Exchange Board of India (SEBI), in 2007
- When a Real Estate Company decides to form a Real Estate Investment Trust, it becomes the Sponsor for the REIT and appoints a Trustee

### Benefits to the Sponsor

- Monetise revenue-generating real estate and infrastructure assets
- Lower the cost of capital, by tapping the right set of long-term investors (pension funds)
- Enjoy favourable tax treatment, including exemption from dividend distribution tax and relaxation of capital gains tax
- Have diverse sources of funding
- Once listed, provide regular source of capital to the sector.

### Benefits to the Investor

- Invest in real estate or infrastructure, without actually owning the asset
- Benefit from favourable tax norms (tax-exempt dividend income; no capital gains tax, if units are held for more than three years and sold through stock exchange; and withholding tax at 5 per cent for interest income to non-residential unit holders).

### Five different types of REITs are:

- Retail REITs
- Residential REITs
- Healthcare REITs
- Office REITs
- Mortgage REITs

### Based on the types of funding that they provide, REITs can be of three different types, viz.,

- Equity REITs
- Mortgage REITs
- Hybrid REITs

### Advantages of investing in REITs

- Diversification
- Small Initial Investment
- Professional Management

- Regular Income Generation
- Capital Gains

**Disadvantages in investing in REITs**

- Limited Options
- Low Liquidity

**Advantages of Investing in REITs compared to Directly Investing in Real Estate**

- Investing in REITs is not as capital intensive as a direct investment in properties
- It is easier to invest in REITs, than in real estate
- Compared to direct investment in real estate, REITs have lower liquidity risk
- REITs are regulated by SEBI and, hence, the chances of fraud are low
- REITs are transparent as they disclose their capital portfolio semi-annually

**Important regulations governing functioning of REITs are:**

- Structure of investment trust
- Stipulations to ensure transparency
- Distribution requirements
- Leverage restrictions
- Investment regulations

**Infrastructure Investment Trusts (InvITs)**

- InvITs are listed investments that allow investors to become stake holders in the infrastructure development activity of the nation.
- These instruments are regulated by SEBI and there are different types of REITs and InvITs.
- The organisation structure of REITs and InvITs are quite similar and there are various types of these trusts, based on the sectors in which their funds are invested.
- The trusts and investors of the trusts are benefitted from a number of types of taxation rules, which increases the attractiveness of these funds.

**The sectors that are included in infrastructure are:**

- Roads
- Ports
- Power
- Railways
- Airports
- Telecommunication
- Energy
- Coal, petroleum and cement production

- InvITs have a 3-tier management structure, consisting of Sponsor, Manager and Trustee
- An InvIT can have a maximum of 3 sponsors
- An InvIT Sponsors are mandatorily required to hold a minimum 15 per cent stake in the Trust for at least 3 years, after the formation of the trust
- An InvIT has two types of managers – an investment manager and a project manager
- Key responsibilities of a trustee include holding the assets of an InvIT in trusteeship to safeguard the interests of the unit holders
- The total Assets Under Management (AUM) across eight active InvITs is around Rs 1.4 lakh crores

- InvITs can be divided into 5 types depending on the types of infrastructure they own or operate:
  1. Energy such a power generation and distribution
  2. Transport & Logistics, such as roads and highways
  3. Communications, such as optical fibre networks and telecom towers
  4. Social and Commercial Infrastructure, such as parks
  5. Water and Sanitation such as irrigation networks

**Advantages derived by setting up InvITs**

- Diversification
- Regular Income
- Professional Management
- Capital Gains
- Reduction in minimum subscription

# ALL THE VERY BEST FOR YOUR EXAMS

# SHORT NOTES FOR JAIIB INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Though we had taken enough care to go through the notes provided here, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. Creation of these short notes is the efforts of so many persons. First of all we thank all of them for their valuable contribution. We request everyone to go through the Macmillan book and update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information).

**Dr. K Murugan, DMS, MBA (Finance), MBA (HR), MCA, MSc (IT), CAIIB**