ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR
JAIIB
PRINCIPLES & PRACTICES OF BANKING

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

Principles & Practices of Banking

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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: GENERAL BANKING OPERATIONS

Banker-Customer Relationship
Requirements to be Called a Bank, Banker-Customer Relationship, Bank as a Trustee, Bailee-Bailor Relationship, Agent-Principal Relationship, Lessor and Lessee, Indemnifier and Indemnified, Different Deposit Products or Services, Services to Customers and Investors

AML-KYC Guidelines
Money Laundering & Financing of Terrorism Risks, AML Framework in India, Know Your Customer Policy, Organisational Set-up for AML, Obligations under PMLA, Risk Management, Obligations under International Agreements, FATF identified Jurisdictions, Correspondent Banks, Reporting Under FATCAI CRS, Reporting Obligations, Implications of Non-compliance of PMLA Obligations, Secrecy Obligations

Operational Aspects of KYC
Know Your Customers (KYC) Norms, Wire Transfers, Other Operations - Regulations, Central KYC Records Registry (CKYCR), Monitoring of Transactions

Opening Accounts of various Types of Customers
Personal Accounts, Accounts of Other Customers, Norms for Opening Current Accounts, Obtaining Photographs of Account Holders, Legal Entity Identifier

Operational Aspects of Deposit Accounts
Salient Feature of Deposit Accounts, Interest on Deposit Accounts, Prohibitions & Exemptions, Inoperative Accounts & Unclaimed Deposits, Operational Instructions in Joint Accounts,

Nomination Facility, Other Operational Guidelines, Attachment Orders, Procedure for Submission of Records to Statutory Authorities

Operational Aspects of Handling Clearing/Collection/Cash
Cheque Truncation System (CTS), RBI Guidelines on Collection of Instruments, Cash and its Custody, Security Arrangements at Branches and ATMs

Banker's Special Relationship
Mandate — Definition, Power of Attorney (POA) — Definition, Banker's Lien, Right of Set-off, Right of Appropriation

Foreign Exchange Remittance Facilities for Individuals
Evolution of FEMA, Definitions, Bringing in and Taking out Foreign Exchange, Inward Remittances, Outward Remittances, Indo - Nepal Remittance Scheme

Operational Aspects of NRI Business
Permitted Accounts in India for NRIs and PIOs, Accounts in India of Foreign Nationals Visiting India, Special Non-Resident Rupee Account — SNRR Account, Remittance of Assets Held by NRIs/PIOs, Acquisition and Transfer of Immovable Property in India by a Non-Resident Indian (NRI), Creation of Charge on Immovable Property in India, Repatriation of Income and Sale Proceeds of Assets Held Abroad by NRIs, Investments by NRIs/PIOs

Foreign Currency Accounts for Residents and Other Aspects
Types of Accounts Permitted, Foreign Currency Denominated Accounts in India, Permitted Foreign Currency Accounts Outside India, Remittance of Assets by Foreign Nationals not Being PIOs, Modes of Acquiring Property Outside India by a Resident, Foreign Contribution (Regulation) Act 2010

Cash Management Services and Its Importance
Developments in CMS, Importance of Cash Management System, Types of Cash Management Services, Challenges and Issues

Payment and Collection of Cheques and Other Negotiable Instruments
Negotiable Instruments Act, Payment of a Cheque, Payment in due course — Section 10, Liability of the Paying Bank — Section 31, Collection of Cheques — Duties of a Collecting Bank, Endorsement of Cheques, Crossing of Cheques, Forged Instruments, Bouncing (Dishonour) of Cheques, Cheque Truncation System

Responsibility of Paying Bank

Negotiable Instruments Act and Paying Banks, Liability of Paying Banker when Customer's Signature on the Cheque is Forged, Payment to be in Due Course for Bank to Seek Protection, Payment in Good Faith without Negligence o f an Instrument on which Alteration is not Apparent, Payment by Bank Under Mistake Whether Recoverable, Cheque Truncation

Responsibility of Collecting Bank

Statutory Protection to Collecting Bank, Duties of the Collecting Bank

Ancillary Services

Remittances: Introduction, Demand Drafts (DD) and Banker's Cheques (BC), Mail Transfer (MT), Telegraphic Transfer (TT), National Electronic Funds Transfer System (NEFT), Real Time Gross Settlement System (RTGS), Electronic Benefit Transfer (EBT) Scheme, Mobile Banking in India, Electronic/Digital Payments, Safe Deposit Lockers, Portfolio Management Services, Merchant Banking, Government Business, Levying of Service Charges

Financial Inclusion & Financial Literacy

Financial Inclusion by Extension of Banking Services, Use of Mobiles/Tablets in Financial Inclusion Drive, Financial Literacy, Rural Self Employment Training Institutes (RSETI)

Customer Service Guidelines

Customer Service in Banks, Policy for General Management of the Branches, ATM Operations, Security Issues and Risk Mitigation Measures, Service at the Counters, Information to the Customers, Special Arrangements at Branches, Other Provisions

Duties & Rights of a Banker and Customer Rights

Duty of Secrecy & Confidentiality, Duty of Reasonable Care, Garnishee or Attachment Order, Bank's Rights, Customer Awareness, BCSBI, Obligations on the Customer

Grievance Redressal & RBI Integrated Ombudsman Scheme 2021

Model Policy on Grievance Redressal, Internal Machinery to Handle Customer Complaints/Grievances, The RBI - Integrated Ombudsman Scheme

The Consumer Protection Act. 2019: Preamble, Extent and Definitions

Purpose of The Act, Preamble and Extent, Act not Overriding on Any Other Law, Salient New Aspects of CPA 2019, Definitions, Various Fora, Consumer Protection Councils, Central Consumer Protection Authority, Consumer Disputes Redressal Commissions, Jurisdictions of Commissions, Complaints to District Commissions, Complaints to State Commissions/National Commission, Appeals Against Orders of District/ State Commission, Other Aspects, Mediation Process, Product Liability, Unfair Contracts, Data Protection, The CPA 2019 and Banking Services

The Right to Information Act, 2005
Applicability, Definitions, Right to Information, Obligations of Public Authorities, Designation of Public Information Officers, Procedure for Obtaining Information, Disposal of Request, Appeal, Orders in Appeal, Central Information Commission, State Information Commission, Penalties, Act to Have Overriding Effect

MODULE B: FUNCTIONS OF BANKS

Principles of Lending. Different Type. of Borrowers, and Types of Credit Facilities
Principles of Lending, Types of Borrowers, Types of Credit Facilities, Fund Based Working Capital Facilities, Term/Demand Loans, Non-fund Based Facilities, Other Credit Facilities

Appraisal and Assessment of Credit Facilities
Credit Appraisal, Credit Appraisal techniques, Methods of Assessment of Loans, Assessment of Working Capital, Assessment of Term Loan

Operational Aspects of Loan Accounts
Interest Rates on Loans, Credit Management, Credit Monitoring, Common Operational Terms/Aspects in Loan Functions, Operational Process of Handling Loans, Accounting Aspects of Loan Products, Basic Operating Instructions on Loan Products, Operating Manual for Loans and Advances, Sample Operating Instructions, Operational Aspects of a Few Common Loan Products, Guidelines on Recovery Agents Engaged by Banks, Fair Practices Code for Lenders

Types of Collaterals and Their Characteristics
Effectiveness of Securities, What are 'Secured Loans' and 'Unsecured Loans'?, Types of Securities, Land and Buildings, Goods, Documents of Title to Goods, Advances against Life Insurance Policies, Advance Against Shares, Advance Against Debentures, Loan against Book Debts, Loan against Term Deposits, Loan against Gold Ornaments, Supply Bills, Vehicle Finance

Different Modes of Charging Securities
Meaning and Essentials of a Contract, Contract of Agency, Contract of Bailment, Types of Charges, Registration of Charges

Documentation
Different Types of Documents, Documentation Procedure

Non-Performing Assets! Stressed Assets
Definition, Income Recognition, Computation of Gross Advances, Gross NPA, Net Advances, and Net NPA, Asset Classification, Provisioning Norms, Writing Off of NPAs, NPA Management —

Requirement of Effective Mechanism and Granular Data, Framework for Resolution of Stressed Assets, Prudential Norms Applicable to Restructuring , Other Aspects

Important laws relating to Recovery of Dues
Introduction to Recovery of Debts and Bankruptcy Act, 1993 (DRB), Introduction to SARFAESI Act, Introduction to The Insolvency and Bankruptcy Code, 513, Introduction To The Legal Services Authorities Act, 513, Introduction To The Law of Limitation

Contracts of Indemnity
Contract of Indemnity Defined, Distinctive Features of Indemnity Contract and Guarantee, Rights of an Indemnity Holder, Implied Indemnity, Enforceability of Contract of Indemnity, Scope and Application of Indemnity Contracts to Banks

Contracts of Guarantee & Bank Guarantee
Parties to the Contract, Basic Principles of Contract to be Complied, Consideration, The Liability of the Surety, Continuing Guarantee, Revocation of a Continuing Guarantee, Death of Surety, Variance in Terms of the Contract, Discharge of Principal Debtor, Forbearance to Sue, Surety can Claim His Dues from the Principal Debtor, Security, Implied Promise by the Principal Debtor to Indemnify the Surety, Misrepresentation Made by the Creditor, Co-sureties for the Same Debt, Release of One Co-surety does not Discharge Other, Bank Guarantees, Various Types of Bank Guarantees, Banker's Duty to Honour Guarantee, Issuance of Bank Guarantee — Precautions to be Taken, Payment Under Bank Guarantee — Precautions to be Taken

Letters of Credit
Letters of Credit — General Consideration, Parties to a Letter of Credit, Types of Letters of Credit, Documents Under a Letter of Credit, Uniform Customs and Practices for Documentary Credits — UCPDC 600, Payment Under Letter of Credit — Banks Obligation Primary

Deferred Payment Guarantee
Purpose of Deferred Payment Guarantee, Method of Payment

Law Relating to Bill Finance
Class of Bills and Laws Governing Bills, Classification of Bills, Various Types of Bill Finance, Bill Finance and Legal Position of a Banker

Personal Finance
Credit Card, Home Loans, Personal Loans, Consumer Loans

Priority Sector Advances
Applicability, Targets/Sub-Targets for Priority Sector, Categories of Priority Sector, Non-Achievement of Priority Sector Targets, Common guidelines for Priority Sector Loans, Other Modes of Lending to Priority Sectors, Other Aspects Related to Priority Sector Lending

Agricultural Finance
Short-Term Loans, Mediwn/Long-Term Loans, Crop Loan, Revised Scheme for Issue of Kisan Credit Card (KCC), Selected Activities Under Agricultural Financing, Minimum Support Prices Scheme, Prime Minister Fasal Bima Yojana (PMFBY)

Finance to MFIs/Co-Lending Arrangements With NBFCs
Background, Bank Borrowings - Source Of Finance for NBFCS, Bank Finance to NBFCS, Bank Loans to NBFCS for On-Lending, Bank Loans to NBFCS-MFIs, NBFC-MFI — Channelising Agent for Special Government Schemes, Co-Lending by Banks and NBFCS to Priority Sector, Framework for Scale Based Regulation (SBR) for Non-Banking Financial Companies

Micro, Small and Medium Enterprises in India
Aim of MSMEs, Micro, Small and Medium Enterprises Development (MSMED) Act, 667, Policy Package for MSMEs — Credit/Finance, Measures for Promotion, Development and Enhancement of Competitiveness of Micro, Small and Medium Enterprises, Delayed Payments, Trade Receivables Discounting System (TReDS), Performance and Credit Rating Scheme, Credit Guarantee Fund Scheme for Micro and Small Enterprises, Cluster Based Approach in Financing MSMEs, Common Guidelines / Instructions for Lending to MSME Sector

Government Sponsored Schemes
Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM), Pradhan Mantri Jan Dhan Yojana (PMJDY), MUDRA Loans, Khadi Village Industries Commission (KVIC)

Self-Help Groups
SHG Definition, Need for SHGs, Forming SHGs, SHGs Under DAY-NRLM/ DAY-NULM Schemes, SHG-Bank Linkage Programme

MODULE C: BANKING TECHNOLOGY

Essentials of Bank Computerisation
Bank Computerisation, Networking Technologies in Banks, Uninterrupted Power System (UPS), Core Banking, Data Warehousing and Data Mining

Operational Aspects of CBS Environment

Functions Performed by CBS, Flow of Transactions in CBS, The Accounting of Transactions in CBS, End of Day (EOD) And Begin of Day (BOD) Operations, End of Day (EOD) Operations, Password Control, Parameter/Master File, Logical Access Control, Operational Aspects of Security Control in CBS, Role and Responsibilities of the Bank Under CBS

Alternate Delivery Channels - Digital Banking

Alternate Delivery Channels, Automated Teller Machines (ATMs), Electromagnetic Cards, Electronic Banking, Customer Protection-Limiting Liability of Customers in Unauthorised Electronic Banking Transactions, Harmonization of Turn Around Time (TAT) and Customer Compensation for Failed Transactions Using Authorised Payment Systems

Data Communication Network and EFT Systems

Data Communications Networks, Network Scenario in India: Major Networks, Emerging Trends in Communications Networks for Banking, Evolution of EFT Systems, Structured Message Transfer System Using SWIFT, Automated Clearing Systems, Two-Level Funds Transfer System, Emergence of Electronic Payment Systems in India

Digital Payment Systems - NPCI

Electronic Clearing Systems in India, National Payment Corporation of India (NPCI), Digital Initiatives by the Government of India

Impact of Technology Adoption and Trends in Banking Technology

Trends in Technology Developments, Role and Uses of Technology Upgradation, Global Trends in Banking Systems, Impact of Information Technology on Banks, Some emerging technology trends in Banking

Security Considerations and Mitigation Measures in Banks

Risk Concern Areas, Different Types of Threats, Control Mechanism, Computer Audit, Information System Audit (IS Audit), Information System Security (IS Security), Modus Operandi of Online Frauds and Cyber Security Awareness, IT Resources Evaluation Requirements, Disaster Recovery Management Objective, Legal Framework for Electronic Transactions Information Technology Act, a Gopalakrishana Committee Report, Cyber Security Framework in Banks, Integrated Ombudsman Scheme, 2021 by RBI

Operational Aspects of Cyber Crimes/Fraud Risk Management in Cyber Tech

Fraud vs Crime, Phases of an Effective Incident Response Plan

Technology Trends in Banking, e-RIPI, Fintech - RegTech, SupTech, Hashtag Banking etc.
e-RUPI, Fintech/Reg Tech/Sup Tech, Social Media Banking, Flashtag Banking, Account Aggregators, Open Banking

MODULE D: ETHICS IN BANKS AND FINANCIAL INSTITUTIONS

Ethics, Business Ethics & Banking: An Integrated Perspective
Values and Ethics, Ethics and Business Values, Business Ethics — Definition, Principles and Practice, An Ethical Crisis: Is Business Ethics an Oxymoron?, Ethical Foundation of Banking: Finance Depends on Trust, Ethical Foundation of Being a Professional, Banking Ethics in Global Context: Enron and Its Lesson, Global Financial Crisis, Ethics in Indian Context: Satyam and Its Lessons, An Indian Bank Case Study

Ethics at the Individual Level
Values, Norms, Beliefs and Their Role, Core Values: The Value of a Value, Morality and Personal Values, Value — Conflicts: How Should I Live?, Personal Ethics and Business Ethics: Individual Integrity and Responsibility, The Golden Rule, Understanding Right and Wrong: Doing the Right Thing, Ethical Reasoning and Real-World Application. Ethical Dilemmas: Resolving Ethical Dilemmas, A Framework of Ethical Decision-Making.

Ethical Dimensions: Employees
Abuse of Official Position: Insider Trading, Proprietary Data, Bribes, etc., Obligations to Third Parties, Job Discrimination, Sexual Harassment, Managing Conflict of Interests, Fair Accounting Practices: Related Party Transactions, HRM Ethics, Principles of Representation and Work Environment, Employees as Ethics Ambassadors & Managers as Ethical Leaders

Work Ethics and the Workplace
What Is Work Ethics? Something Bigger Than the Self, Ethical Behaviour at The Workplace: Benefits, Recognising Ethical Workplaces, Unethical Behaviours: Causes and Remedies, Conducting Personal Business During Office Time, Taking Credit for Others' Work, Ethical Lapses and Organizational Culture, Ethics of a Banker, Whistleblowing in Banks, Whistleblowing Law in India

Banking Ethics: Changing Dynamics
Ethics and Technology, Data Security and Privacy, Intellectual Property Rights, Patents and Proprietary Rights, Ethics of Information Security

Principles & Practices of Banking

MODULE A – GENERAL BANKING OPERATIONS

Unit - 1. Banker-Customer Relationship

1. The term 'Banking' has been comprehensively defined under BR Act.
2. The banker is engaged in the business of accepting the deposits from the public and utilizing such deposits for lending or investment.
3. The Act specifies the criteria to be fulfilled for being termed as 'Bank'.
4. The term 'customer' of a bank is not defined by law.
5. Ordinarily, a person who has an account in a bank is considered as a customer.
6. For the purpose of KYC policy, a 'Customer' is defined as a person or entity that maintains an account and/or has a business relationship with the bank.
7. Banks are also authorised to carry out other transactions as provided under Sec. 6 of BR Act.
8. These services provided by banks to customers give rise to certain relationship between them.
9. The general view is that the banker's relationship with the depositor is that of a debtor and a creditor.
10. Other relationships are of: creditor - debtor, bailee - bailor, and trustee - beneficiary.
11. Deposits are either demand deposits or time deposits.
12. Demand deposits are made up of current accounts and saving accounts, while time deposits include fixed deposits, short-term deposits, recurring deposits, MIDS/QIDS/reinvestment deposits, etc.
13. Other services provided by banks are merchant banking, lease financing, plastic money like credit or debit cards, etc.
14. Remittance services have been a major activity of banks since their inception.
15. New-age remittance products are NEFT, RTGS, IMPS, and AEPS that are available on 24 x 7 basis.
16. Banks also administer and manage accounts under certain Government Schemes, especially those under Small Savings Schemes.
17. Banks also support Central Government measures to mobilise stock of gold with public through various schemes.
18. Banks are offering third party financial products like insurance products, mutual funds, stock trading account, demat account, and three-in-one accounts.
19. Banks also offer safe custody services and safe deposit vaults for safekeeping of valuable articles and documents.
20. Banks also act as escrow agent (for funds and documents), trustee for assets, executors for estate.

21. A firm consisting of not more than 10 partners or a company incorporated under Indian Companies Act 1956 can be a bank.
22. The relationship between customer and bank, when the customer deposits money with the bank, is a lender and a borrower and thus a creditor and a debtor.
23. The relationship between customer and bank, when the bank lends money to the customer, is a borrower and lender and thus a debtor and a creditor.
24. The relationship between customer and bank, when a customer deposits certain valuables, bonds, securities etc, with the bank for safe custody, is bailor-bailee and thus customer and trustee.
25. The relationship between customer and bank, when one party promises to save the other from loss caused to the other by the conduct of promisor, is indemnifier and indemnified (or indemnity holder).
26. Merchant bankers are financial intermediaries because they transfer capital from investor or bond subscriber (owner of capital) to government or corporate (user).
27. Lease financing means leasing out the capital purchase of assets to another company against monthly rents for asset's consumption or use.

Banker Customer Relationship Summarised

Transaction	Bank	Customer
Deposit in the bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe custody	Bailee	Bailor
Locker	Lessor	Lessee
Collection of Cheque	Agent	Principal
Purchase of a draft	Debtor	Creditor
Payee of a draft	Trustee	Beneficiary
Pledge	Pawner (Pledgee)	Pawnee (Pledger)
Mortgage	Mortgagee	Mortgagor
Standing instruction	Agent	Principal
Sale/purchase of securities on behalf of a customer	Agent	Principal
Money deposited but instructions not given for its disposal	Trustee	Beneficiary
Articles left by mistake	Trustee	Beneficiary
Shares given for sale	Agent	Principal
Hypothecation	Hypothecatee	Hypothecator

Unit - 2. AML- KYC Guidelines

- **Money laundering (ML)** is a process whereby the origin of funds generated from criminal activities (drug trafficking, gun smuggling, corruption etc.) is concealed and these funds are infused in the financial system appearing as if these originated from legitimate sources
- Banks are exposed to abuse of their services by criminals for the purpose of Money Laundering, Financing of Terrorism, and Financial Crimes.
- Stages of Money Laundering
  - Placement
  - Layering
  - Integration
- Stages of Financing of Terrorism
  - Raising
  - Moving
  - Storing
  - Using
- Objectives of Prevention of Money Laundering
  - To prevent criminal elements from using the financial system for money laundering activities.
  - To prevent spread of criminal activities in society.
  - To safeguard the economy from financial crimes.
  - To prevent terrorists from gaining access to financial resources.
- The criminals have organised themselves in groups engaged in criminal activities (Organised Criminal Groups) and those engaged in money laundering (Professional Money Laundering Groups).
- In India, PMLA pertains to money laundering crime. UAPA has been amended to cover terrorism and terrorism financing crimes.
- FIU-Ind has been set up for collecting, analyzing and disseminating information about suspicious financial transactions to the law enforcement agencies.
- ED is responsible for investigation and prosecution of criminals, and Special Courts adjudicate on the money laundering related cases.
- Punishment for money laundering offence, which is rigorous imprisonment for not less than 3 years but up to 7 years and fine as per the gravity of the offence.
- In cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act the imprisonment may extend up to maximum 10 years.
- All financial sector businesses and certain non-financial sector businesses are required to comply with the obligations under PMLA.
- These pertain to customer identification, due diligence, reporting of specified transactions (including suspicious transactions) to FIU-Ind, and maintaining records.

- Measures to Mitigate Money Laundering Risk
  - To know/understand the customers and their financial dealings better
  - To detect and report suspicious activities to FIU-Ind as per the laid down procedures
  - To comply with applicable laws and regulatory guidelines
  - To adequately train the staff in KYC/AML procedures
- The reports to FIU-Ind are Cash Transaction Reports(CTR), Cross Border Wire Transfer Report (CBWTR), Non-Profit Organisation Transaction Report (NTR), Counterfeit Currency Report (CCR), and Suspicious Transactions Report (STR).
- Banks need to assess at least once a year ML/FT risks from various sources, undertake risk categorisation of customers, products/ services, delivery channels, regions/ countries of operations and transactions handled, and adopt risk based approach in both customer due diligence and transaction monitoring.
- Banks need to exercise appropriate diligence in handling transactions or customers connected with FATF identified high risk and weak countries.
- Banks also need to conduct adequate due diligence when providing or availing correspondent banking services with banks in other countries.
- The key elements of KYC Policy are:
  - Customer Acceptance Policy
  - Customer Identification Procedures
  - Risk Management
  - Monitoring of Transactions
- Banks must designate following functionaries for meeting PMLA obligations
  - Designated Director
  - Principal Officer
  - AML Team
- The Foreign Account Tax Compliance Act (FATCA) is tax information reporting regime, which requires Financial Institutions (FIs) to identify their U.S. accounts and report them periodically to the U.S. Internal Revenue Service (IRS) or in case of Inter-Governmental agreement(IGA), to appropriate government authority (any other foreign country (for CRS)).
- Reports which are required to be furnished to FIU-IND by Banks

Monthly Reports

S No	Report	Nature of Transactions
1	Cash Transactions Report (CTR)	(a) Cash transactions of 10 lakh or more or equivalent (b) Series of cash transactions in a month integrally connected to each other (i.e. all deposits or all withdrawals taken separately) aggregating 10 lakh or more or equivalent
2	Cross Border Wire Transfer Report (CBWTR)	Cross border wire transfers of more than 5 lakh or equivalent where either the origin or destination of fund is in India

3	Non-Profit Organisation Report (NTR)	Receipts by non-profit organisations of more than 10 lakh or equivalent
4	Counterfeit Currency Report (CCR)	All counterfeit currency notes received

Suspicious Transactions Report (STR)

- Banks are required to report to FIU-IND any suspicious transaction noticed by them, within 7 days of establishing suspicion.
- A transaction is considered as suspicious if to a person acting in good faith, it appears to satisfy any of the following:
  - A reasonable doubt that it may involve proceeds of an offence specified in the Schedule to PMLA, i.e. likely to be for money laundering.
  - (ii) Appears to be made in circumstances of unusual or unjustified complexity.
  - (iii) Appears to have no economic rationale or bonafide purpose.
  - (iv) A reasonable doubt that it may involve financing of the activities relating to terrorism

Implications of Non-Compliance of PMLA Obligations

- Issue a written warning.
- Direct to take specific remedial measures and to submit the action taken report on these.
- Impose monetary penalty with a minimum of 10,000/- to maximum of 1 lakh per violation.

Each day of delay in submission of some information or a transaction or a report or in rectification of information/ report is reckoned as one violation.

Unit - 3. Operational Aspects of KYC

KYC Norms

The objective of KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. Banks should frame their KYC policies incorporating the following four key elements:

a. Customer Acceptance Policy
b. Customer Identification Procedures
c. Monitoring of Transactions
d. Risk management

Periodical updation of KYC

KYC is required to be done at least every two years for high risk customers, at least every eight years for medium risk customers and ten years for low risk customers. This exercise would involve all formalities normally taken at the time of opening the account.

If there is no change in status with respect to the identity (change in name, etc.) and/or address, such customers who are categorised as 'low risk' by the banks may now submit a self-certification to that effect at the time of periodic updation.

In case of change of address of such 'low risk' customers, they could merely forward a certified copy of the document (proof of address) by mail/post, etc. Physical presence of such low risk customer is not required at the time of periodic updation.

Recent simplified KYC measures by RBI

Measures taken for simplification:

1. Single document for proof of identity and proof of address
Officially valid documents (OVDs) for KYC purpose include: Passport, driving licence, voters' ID card, PAN card, Aadhaar letter issued by UIDAI and Job Card issued by NREGA signed by a State Government official.

To further ease the process, the information containing personal details like name, address, age, gender, etc., and photographs made available from UIDAI as a result of e-KYC process can also be treated as an 'Officially Valid Document'.

2. No separate proof of address is required for current address

Since migrant workers, transferred employees, etc., often face difficulties while submitting a proof of current address for opening a bank account, such customers can submit only one proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation. If the current address is different from the address mentioned on the proof of address submitted by the customer, a simple declaration by her/him about her/his current address would be sufficient.

3. No separate KYC documentation is required while transferring accounts from one branch to another of the same bank

Once KYC is done by one branch of the bank, it is valid for transfer of the account to any other branch of the same bank. The customer would be allowed to transfer her/his account from one branch to another branch without restrictions and on the basis of declaration of his/her local address for communication.

4. Small Accounts

Those persons who do not have any of the 'officially valid documents' can open 'small accounts' with banks. A 'small account' can be opened on the basis of a self-attested photograph and putting her/his signature or thumb print in the presence of an official of the bank. These small accounts would be valid normally for a period of twelve months. Thereafter, such accounts would be allowed to continue for a further period of twelve more months, if the account holder provides a document showing that she/he has applied for any of the officially valid document, within twelve months of opening the small account.

5. Relaxation regarding officially valid documents (OVDs) for low risk customers

If a person does not have any of the 'officially valid documents' mentioned above, but if is categorised as 'low risk' by the banks, then she/he can open a bank account by submitting any one of the following documents:

(a) identity card with applicant's photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;

(b) letter issued by a gazetted officer, with a duly attested photograph of the person.

6. Other relaxations

KYC verification of all the members of Self Help Groups (SHGs) is not required while opening the savings bank account of the SHG and KYC verification of only the officials of the SHGs would suffice. No separate KYC verification is needed at the time of credit linking the SHG.

Foreign students have been allowed a time of one month for furnishing the proof of local address.

In case a customer categorised as low risk is unable to submit the KYC documents due to genuine reasons, she/he may submit the documents to the bank within a period of six months from the date of opening account.

Physical Aadhaar card/letter issued by UIDAI containing details of name, address and Aadhaar number received through post would continue to be accepted as an 'Officially Valid Document'.

Operational Procedure to be followed by banks for e-KYC exercise

The e-KYC service of the UIDAI is be leveraged by banks through a secured network. Any bank willing to use the UIDAI e-KYC service is required to sign an agreement with the UIDAI. The process flow to be followed is as follows:

1. Sign KYC User Agency (KUA) agreement with UIDAI to enable the bank to specifically access e-KYC service.

2. Banks to deploy hardware and software for deployment of e-KYC service across various delivery channels. These should be Standardisation Testing and Quality Certification (STQC) Institute, Department of Electronics & Information Technology, Government of India certified biometric scanners at bank branches/ micro ATMs/ BC points as per UIDAI standards.

3. Develop a software application to enable use of e-KYC across various Customer Service Points (CSP) (including bank branch, BCs etc.) as per UIDAI defined Application Programming Interface (API) protocols. For this purpose banks will have to develop their own software under the broad guidelines of UIDAI. Therefore, the software may differ from bank to bank.

4. Define a procedure for obtaining customer authorization to UIDAI for sharing e-KYC data with the bank. This authorization can be in physical (by way of a written explicit consent authorising UIDAI to share his/her Aadhaar data with the bank/BC for the purpose of opening bank account) /electronic form as defined by UIDAI from time to time.

The following non-cash transactions should be undertaken by banks during the extended hours, i.e., up to one hour before the close of working hours:

Non-voucher generating transactions

a. Issue of pass books/statement of accounts
b. Issue of cheque books
c. Delivery of term deposit receipts/drafts
d. Acceptance of share application forms
e. Acceptance of clearing cheques
f. Acceptance of bills for collection

Voucher generating transactions

a. Issue of term deposit receipts
b. Acceptance of cheques for locker rent due
c. Issue of travellers cheques
d. Issue of gift cheques
e. Acceptance of individual cheques for transfer credit

Banking Codes and Standards Board of India (BCSBI)

In November 2003, Reserve Bank of India (RBI) constituted the Committee on Procedures and Performance Audit of Public Services under the Chairmanship of Shri S.S.Tarapore (former Deputy Governor) to address the issues relating to availability of adequate banking services to the common person. The Committee recommended setting up of the Banking Codes and Standards Board of India (BCSBI). BCSBI was set up to ensure that the common person as a consumer of financial services from the banking Industry is in no way at a disadvantageous position and really gets what he/she has been promised.

The main objectives of the BCSBI are

- To plan, evolve, prepare, develop, promote and publish comprehensive Codes and Standards for banks, for providing for fair treatment to their customers.
- To function as an independent and autonomous body to monitor, and to ensure that the Codes and Standards adopted by banks are adhered to, in letter and spirit, while delivering services to their customers.

BCSBI monitors the implementation of the Codes through the following methods:

a. Obtains from member banks an Annual Statement of Compliance (ASC)
b. Visits branches to find out the status of ground-level implementation of Codes
c. Studies complaints received from customers and orders / awards issued by Banking Ombudsmen / Appellate Authority to find out whether there is any system-wide deficiency
d. Organizes an annual Conference with Principal Code Compliance Officers of the Member banks to discuss implementation issues.

BCSBI also

a. Undertakes campaigns and initiatives to spread awareness of the Codes amongst customers and banks
b. Provides faculty support to training establishments of banks
c. Participates in on-location workshops held by / for member banks to increase coverage
d. associates with customer awareness programmes conducted by Banking Ombudsmen
e. provides credit counselling services in Mumbai
f. publishes quarterly newsletter entitled 'Customer Matters', containing matters of interest to customers

- Customer Acceptance Policy of banks should include prescriptions for prohibited categories of customers/transactions.
- Banks can engage services of third party for carrying out customer identification. Certain online processes have been permitted for customer identification of individuals, viz. e-KYC authentication (of UIDAI), Digital-KYC, and V-CIP.
- Banks are required to provide KYC records of customers with account based relationship, both individuals and legal entities, to CERSAI that has been designated as CKYCR.
- This system obviates the need for the customer to produce documents to different financial institutions as CKYC Identifier facilitates obtaining copies of documents already submitted.
- Banks are required to have adequate arrangements for monitoring of transactions for detection of suspicious transactions and reporting these to FIU-Ind.
- The decision for filing STR is taken by the Principal Officer.
- Banks are required to maintain records of transactions for five years from the date of transactions, and KYC documents, business correspondence, customer related information, etc. for five years from the end of relationship.

Unit - 4. Opening Accounts of Various Types of Customers

1. Banks open accounts of individuals, institutions, co-operative societies, trusts and government departments.
2. They also open accounts for certain special types of customers like minors, HUFs, joint accounts for two or more individuals, etc.
3. Indian Majority Act 1875 defines the age of majority to be 18 years.
4. Section 26 of the NI Act provides that a minor may draw, endorse, deliver and negotiate a negotiable instrument and as such, a minor can draw a cheque. The minor's age should be above 13 years and should be literate. No overdraft is allowed in these accounts.
5. Two minors cannot open a joint account.
6. In an HUF, the members of a family are called coparceners and the eldest coparceners is called Karta (Manager), the Karta operates the account.
7. All the adult members have to sign account opening form while opening HUF account.
8. Registration of a partnership is optional (except in states of Gujarat and Maharashtra where it is compulsory).
9. When there is an addition into the partnership, the old account can be continued if the balance is in credit, else old account should be closed and a new one should be opened. This process avoids Clayton's Rule.
10. Death of a partner dissolves the partnership firm.
11. A public limited company – minimum 7 members, maximum unlimited members. Minimum paid up capital of Rs 5 Lakh.
12. A private limited company – minimum 2 members, maximum 200 members. For banking business maximum number is 20. Minimum paid up capital of Rs 1 Lakh.
13. A government company – minimum 51% of the shares are held by the government.
14. Internal rules of a company are mentioned in articles.
15. Certain key aspects regarding operations of accounts are:
    - ❖ Accounts of minors aged above 10 years can be operated by them.
    - ❖ Joint accounts with different operational instructions, viz., either or survivor, former or survivor, jointly.
    - ❖ Accounts of HUF with Karta operating the account, and on the death of the Karta, the next in line is considered as Karta of the HUF.
    - ❖ Partnership accounts become inoperative and are closed on admission/retirement/death of any partner.
    - ❖ Current accounts have been put under a new regime. Opening current accounts of any person has been restricted depending on the extent and nature of credit facilities.
    - ❖ LEI has been made mandatory for the legal entities for certain types of transactions, including NEFT and RTGS of Rs.50 crore and above, and for borrowers with credit facility of `5 crore and above from banks/FIs, as per prescribed time schedule.

Unit - 5. Operational Aspects of Deposit Accounts

Current Accounts

Current Account is an account in which there is no limit on the no. of transactions that can be done in a day and are therefore also referred to as Transactional Accounts. These type of accounts are held neither for the purpose of Investment nor for the purpose of Savings but only for the convenience of the business as these accounts are the most liquid type of accounts.

Banks don't pay any interest on the amount lying in these accounts and in some cases also charge a small fee for the services they provide. These types of Bank Accounts are usually opened by businesses as there no. of transactions are on the higher side.

a. Current Accounts (C/As) can be opened by individuals, partnership firms, private and public limited companies, HUFs, societies, trusts, clubs, associations, Govt Departments etc.
b. No interest is payable on credit balances in Current Accounts.
c. The customers may receive the statements of account according to the frequency desired by them.
d. Cheque books are issued to all Current Account holders and all withdrawals should be made only through issue of cheques.
e. As per RBI directive, the applicant for Current Account should declare in the account opening form or separately that he/they is/are not enjoying any credit facility with any Bank and if he/they does/do enjoy any credit facility, he/they should declare full particulars thereof indicating the name of the Bank/branch concerned.

Main Features of Savings Bank Account

a. There is no restriction on the number and amount of deposits.
b. However, mandatory PAN details are required for doing cash transactions exceeding Rs.50,000.
c. Withdrawals are allowed subject to certain restrictions.
d. The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
e. Saving account is of continuing nature. There is no maximum period of holding.
f. A minimum amount has to be kept on saving account to keep it functioning.
g. No loan facility is provided against saving account.
h. Electronic clearing System (ECS)/E-Banking/Net Banking/Mobile Banking facilities are available.

Eligibility to open Savings Bank Accounts

a. Individuals
b. Two or more persons in joint names
c. Associations or clubs if eligible as per RBI guidelines
d. Minor above 10 year
e. A bank should not open more than one SB account for the same person in his individual name
f. If joint accounts, operating instructions and survivorship should be obtained

Prohibited to open Savings Bank Account

a. Government Departments
b. Municipal corporations
c. Municipal Committees
d. Panchayat Samitis
e. State Housing Boards
f. Water and Sewerage/Drainage Boards
g. State Text BookPublishing Corporations
h. Societies
i. Metropolital Development Authority
j. State/District level Housing Co.op Socieities
k. Any trading business or professional concern
l. Political Party

The above prohibition will not apply in case they are eligible as per RBI guidelines.

Basic Savings Bank Deposit Account (BSBDA)

Banks are advised to offer a 'Basic Savings Bank Deposit Account' which will offer following minimum common facilities to all their customers:

a. The BSBAD should be considered a normal banking service available to all.
b. This account shall not have the requirement of any minimum balance.
c. The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments;
d. While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals;
e. Facility of ATM card or ATM-cum-Debit Card;

f. The above facilities will be provided without any charges. Further, no charge will be levied for non-operation/activation of in-operative 'Basic Savings Bank Deposit Account'.
g. Banks would be free to evolve other requirements including pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.
h. The BSBDA would be subject to RBI instructions on Know Your Customer (KYC) / Anti-Money Laundering (AML) for opening of bank accounts issued from time to time.
i. If such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'Small Account' and would be subject to conditions stipulated for such accounts.
j. Holders of BSBDA will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a BSBDA.
k. The existing basic banking 'no-frills' accounts should be converted to BSBDA.

Photographs of Account Holders

a. The banks should obtain photographs of the depositors/account holders who are authorised to operate the accounts at the time of opening of all new accounts. The customers' photographs should be recent and the cost of photographs to be affixed on the account opening forms may be borne by the customers.
b. Only one set of photographs need be obtained and separate photographs should not be obtained for each category of deposit. The applications for different types of deposit accounts should be properly referenced.
c. Photographs of persons authorised to operate the deposit accounts viz. S.B. and Current accounts should be obtained. In case of other deposits viz. Fixed, Recurring, Cumulative etc. photographs of all depositors in whose names the deposit receipt stands may be obtained, except in the case of deposits in the name of minor, where guardians' photographs could be obtained.
d. The banks should also obtain photographs of 'Pardanashin' women.
e. The banks should also obtain photographs of Non-Resident (External) (NRE), Non-Resident Ordinary (Rupee) (NRO), Foreign Currency Non-Resident (FCNR) account holders.

Accounts with survivor/ nominee clause

In the case of deposit accounts where the depositor had utilised the nomination facility and made a valid nomination or where the account was opened with the survivorship clause ("either or survivor", or "anyone or survivor", or "former or survivor" or "latter or survivor"), the payment of the balance in the deposit account to the survivor(s)/nominee of a deceased deposit account holder represents a valid discharge of the bank's liability provided:

a. The bank has exercised due care and caution in establishing the identity of the survivor(s)/nominee and the fact of death of the account holder, through appropriate documentary evidence;
b. There is no order from the competent court restraining the bank from making the payment from the account of the deceased

c. It has been made clear to the survivor(s)/nominee that he would be receiving the payment from the bank as a trustee of the legal heirs of the deceased depositor, i.e., such payment to him shall not affect the right or claim which any person may have against the survivor(s)/nominee to whom the payment is made.

It may be noted that since payment made to the survivor(s)/nominee, subject to the foregoing conditions, would constitute a full discharge of the bank's liability. Therefore, while making payment to the survivor(s)/nominee of the deceased depositor, the banks are advised to desist from insisting on production of succession certificate, letter of administration or probate, etc., or obtain any bond of indemnity or surety from the survivor(s)/nominee, irrespective of the amount standing to the credit of the deceased account holder.

Accounts without the survivor/nominee clause
In case where the deceased depositor had not made any nomination or for the accounts other than those styled as "either or survivor" (such as single or jointly operated accounts), banks are advised to adopt a simplified procedure for repayment to legal heir(s) of the depositor keeping in view the imperative need to avoid inconvenience and undue hardship to the common person. In this context, banks may, keeping in view their risk management systems, fix a minimum threshold limit, for the balance in the account of the deceased depositors, up to which claims in respect of the deceased depositors could be settled without insisting on production of any documentation other than a letter of indemnity.

Operating Instructions on Joint Accounts
Banks should encourage the opening of joint accounts on terms such as, payable to
(a) Either or Survivor
(b) Former or Survivor
(c) Later or Survivor
(d) Anyone or Survivors, or Survivor

Safe custody of articles:-
a. Nomination can be made in favour of one individual only.

b. Where the nominee is a minor, the customer shall, while making the nomination, appoint another individual not being a minor, to receive the articles on behalf of the nominee, in the event of the death of the customer during the minority of the nominee.
c. Nomination facilities are available only in case of individual depositors and not in respect of persons jointly depositing articles for safe custody.

Safe deposit lockers:-

a. In case of a sole hirer of a safe deposit locker, nomination can be made in favour of only one individual.
b. Where the safe deposit locker is hired from the bank by two or more individuals, nomination can be made in favour of one or more persons.
c. Where the safe deposit locker is hired in the name of a minor, the nomination shall be made by a person lawfully entitled to act on behalf of the minor.

A minor can be appointed as a nominee for delivering contents of a hired locker. Section 45 ZE of the Banking Regulation Act, 1949 does not preclude a minor from being a nominee, for obtaining delivery of the contents of a locker. However, the bank in such cases, when the contents of a locker are sought to be removed on behalf of the minor nominee, hand over the articles to a person who, in law is competent to receive the articles on behalf of the minor.

- Banks also raise deposits through CDs. These are transferable deposits and are traded in secondary market. These are not subject to the interest norms applicable to bank deposits.
- Banks have freedom to fix the tenor, interest rate, and mode of interest payment for various products, subject to certain norms laid down by the RBI.
- No interest can be paid on CA. Interest rate on other types of deposits should be transparent, applied uniformly for the deposits of same category, varied only based on the amount and tenor, and not be a matter of negotiation with a customer.
- Interest is to be computed on quarterly basis. There are prohibitions in connection with incentives for raising deposits.
- Inoperative accounts and unclaimed deposits are potentially of high risk of being used by criminals or withdrawn fraudulently by fraudsters.
- Proactive measures are to be taken by banks to contact the respective customers to get the accounts reactivated, and payment of unclaimed deposits.
- For use of huge amount of unclaimed deposits lying with banks unclaimed for over ten years a 'Depositor Awareness and Education Fund (DEAF) has been created by RBI.
- In case of subsequent claims made by any depositor, the amount is withdrawn from DEAF to settle the dues to the depositor.
- Banks also need to take steps for weeding accounts that pose high frauds risk, and that are lying dormant not being used by the customer and are not remunerative to the bank.

- Deposits or accounts of individuals are often made in joint names of two or more individuals, with different modes of operations viz. Jointly without survivorship clause, Jointly or Survivors, Either or Survivor, Anyone or Survivors, Former or Survivor, First named or Survivors, etc.
- Nomination facility is available for bank accounts, safe custody facility, and safe deposit lockers.
- Orders which are issued by the courts, for recovery of certain debts, payable by the bank's customer on behalf of the creditor, are called garnishee orders.
- When similar orders are issued by the revenue authorities, viz., income tax or commercial tax authorities, they are called attachment orders.
- Banks are required to observe certain precautions while dealing with the garnishee/ attachment orders.
- Law enforcement authorities/ Courts may call for certain records/ information under the powers vested in them. Such requisitions should be promptly complied with.

Unit - 6. Operational Aspects of Handling Clearing/Collection/Cash

- In banking operations two activities have a substantial share. These activities are handling of cash and handling of cheques/ payment instruments.
- Both these activities directly relate to receipt and payment of funds and hence require utmost care in their execution.
- For cash payment and acceptance banks also use ATMs and CDMs.
- Clearing is an important activity of payment systems using cheques, demand drafts, pay order, etc.
- Manual clearing system was replaced by MICR based clearing.
- This has been replaced by Cheque Truncation System clearing.
- This system brought about a fundamental difference that the paper instruments are not sent to the drawee bank, but held at the collecting bank.

Implementation of CTS

Cheque Truncation System (CTS) - Assures certain common minimum security features in cheques printed, issued and handled by banks and customers uniformly across the banking industry.

Accordingly, certain benchmarks towards achieving standardisation of cheques issued by banks across the country have been prescribed like – quality of paper, watermark, bank's logo in invisible ink, void pantograph, etc., and standardisation of field placements on cheques. The benchmark prescriptions are collectively known as "CTS-2010 standard".

All banks providing cheque facility to their customers have been advised to issue only 'CTS-2010' standard cheques. Cheques not complying with CTS-2010 standards will be cleared at less frequent intervals i.e. weekly once from November 1, 2014 onwards.

Cheque collection policies

Local Cheques
Local cheques are payable within the jurisdiction of the clearing house and will be presented through the clearing system prevailing at the centre. Credit arising out of local cheques shall be given to the customer's account as indicated in the Cheque Collection Policy (CCP) of the concerned collecting bank. Notwithstanding to the CCP, ideally, in respect of local clearing, banks shall permit usage of the shadow credit afforded to the customers' accounts immediately after closure of the relative return clearing on the next working day or maximum within an hour of commencement of business on the third working day from the day of presentation in clearing, subject to usual safeguards.

Outstation Cheques

Maximum timeframe for collection of cheques drawn on state capitals/major cities/other locations are 7/10/14 days respectively.

If cheques/instruments lost in transit/in clearing process

If cheques are lost in transit or in the clearing process or at the paying bank's branch under physical instrument delivery clearing, the bank should immediately bring the same to the notice of the presenting customer (beneficiary)'s notice so that the customer can inform the drawer to record stop payment and can also take care that other cheques issued anticipating the credit arising out of the lost cheque are not dishonoured due to non-credit of the amount of the lost cheques / instruments.

In CTS, if the instrument is lost after lodging with the collecting bank but before truncating the same for sending through image based clearing, the presenting bank should follow the procedure indicated above.

The customer is entitled to be reimbursed by banks for related expenses for obtaining duplicate instruments and also interest for reasonable delays in obtaining the same.

Cash and its custody

- Adequate and timely replenishment of cash at ATMs is very critical for maintaining proper customer service.
- This activity poses certain operational risk related to security, accuracy, and cash balances in ATMs.
- Security policy regarding staff or agencies handling cash replenishment should have measures for their screening, rotation, monitoring measures, and internal control systems.
- Handling of cash at branches, especially currency chest branches, requires dealing with bulk cash.
- Cash operations and management processes are designed aiming at ensuring accuracy in counting of currency notes, as also for prevention of pilfering of cash.
- There is a system of joint custody of cash by cashiers and accounts managers.
- Safety measures are also necessary while making cash remittances.

  a. Cash and small coin balances must be kept in the strong room in the joint custody.
  b. No member of staff other than cashier/teller should receive money over the counter.
  c. Strong Room and safe must be under the double lock of the Cashier and Supervising Official.
  d. Bulk of Cash balances should always be in the strong room/safe in the joint custody. Cashier Hand balance will be kept as low as possible.

Checking of Cash Balance

Before taking notes and coins into "Joint Custody", the supervising official will :

a. Personally count all notes of denominations above Rs. 10.
b. Count all other notes on the "clip system".
c. Have all bags of coins weighed in his presence.
d. Take and count few pieces and leave the reminder to be counted in his presence on the "clip system".
e. Invariably check the entire Head Cashier's/Cashier's hand balance of loose notes.
f. Assure that Head Cashier's/Cashier's hand balance are kept in the cash box and locked in his presence.

- At the close of working day, verify that the "Joint Custody balance" corresponds exactly with the entries in the Cash Balance Book.
- Before the safe is closed, the supervising official, Head Cashier and Cashier should check the bundles and verify the same with the Reserve Cash Register.

Shortage or Excess in Cash

a. Any shortage in the cash balance should be recovered on the same day from the Head Cashier/Cashier.
b. Failing recovery on the same day, the amount of shortage should be debited to Suspense Account taking the signatures of the members responsible under report to the Head Office.
c. Head Cashier/Cashier is responsible for any shortage either in Hand or Vault Balance.
d. Cashiers signed the Denomination Slips will be responsible for any shortage in book of notes.
e. Any excess in the Cash Balance must be credited to Sundry Creditors Account on the same day.

Remittance of Cash

When remittances of currency notes are sent from one office to another, following instructions must be strictly complied with :

a. Should not be allowed to be carried without armed guard.
b. Always entrusted to an authorised employee with experienced subordinate staff and armed guard.
c. Night journeys and unusual halts at junctions should be avoided.
d. Remittance box should always be conveyed in the van provided.
e. The box should be securely chained and locked.
f. A register should be maintained to record all cash remittances.

Clearing Operation

- Collection of cheques, demand drafts requires systematic and careful handling of these instruments and related accounting.
- Banks have cheque collection policies that have provisions for compensating customers for loss to them arising out of delays in crediting the proceeds to their accounts, and from loss of instruments tendered by them.

Prerequisites for sending cheques for clearing

a. All the instruments presented through the clearing should bear the "Clearing" stamp with Bank and Branch and date.
b. Bank crossing stamp with MICR code.
c. Verify the name of the payee and on pay-in-slip which should be one and the same.
d. Verify the amount on the cheque and on pay-in-slip which should be one and the same.
e. Cheques with a/c payee crossing must be collected to the payee a/c only.
f. Send the unpaid Return Cheques through the branch courier to reach the clearing branch before stipulated time.

Follow all the specified instructions for :

a. Inward clearing cheques
b. Outward clearing cheques
c. High Value clearing
d. Electronic Clearing System (ECS)
e. Clearing House Account Reconciliation
f. Balancing of Clearing House Account

Unit - 7. Banker's Special Relationship

1. There are various rights of a banker vested by the laws of the country.
2. Along with the rights, there are certain obligations too which a banker is required to fulfill.
3. Such rights and obligations under the special relationship are mandates and power of attorney.
4. Account holder is authorised to operate the account through a third person through a mandate or a power of attorney.
5. Lien means right of the creditor to retain possession of goods/ securities owned by the debtor till the debt is paid.
6. Lien is of two types: (a) general lien and (b) particular lien.
7. The right to combine several accounts of a customer is known as the right of set- off.
8. The banker and the customer have rights of appropriation with regard to the amount deposited by a customer for payment of debt.
9. A mandate (an unstamped agreement) is an authority given by the account holder in favour of a third person to do certain acts on his behalf.
10. Institutions cannot issue mandate, instead they issue a power of attorney.
11. Power of Attorney is a legal document (as it is a stamped document and is executed in the presence of a notary public/magistrate of a court/authorized government official) executed by one person called donor (principal) in favor of another person called donee agent to act on behalf of the former, as per the authority given in the document.
12. Donor means the person who issues Power of Attorney and donee means the person to whom Power of Attorney is given.
13. General/universal power of attorney is issued for acting in more than one transaction while special/limited Power of Attorney is issued for only one transaction.
14. Garnishee order is an order of the court obtained by a judgement creditor attaching the funds belonging to a judgement debtor (customer) in the hands of his debtors, including a bank, who is called a garnishee, advising not to release the money until directed by the court to do so.
15. Cheques presented after service of the garnishee order should be returned with the “refer to drawer” remark.
16. Preliminary proceedings of a court are called garnishee order nisi.
17. Subsequent proceedings of a court are called garnishee absolute.
18. When a bank has a prior right to set-off, the bank is not bound by the garnishee order.
19. When a lien is marked on fixed deposit receipts, it cannot be attached by a garnishee order.
20. Any excess over the lien is attachable by the garnishee order.
21. Orders received from the court for recovery of certain debts are called garnishee order.
22. Orders received from the revenue authorities (income tax/sale tax authority) are called attachment order.

23. Credits received after garnishee orders are not attachable because debts due or accruing at the time of receipt of order are only attachable.
24. In "Joint Accounts" with "Either or Survivor" clause, "Garnishee Order" if in a single name, cannot be attached.
25. In "Joint Accounts" with "Former or Survivor" clause, "Garnishee Order" if in a single name, can be attached.
26. The personal accounts of a partner can be attached with garnishee order for the firm's debt.
27. The trust's account cannot be attached garnishee order.
28. When a customer has more than 1 account and one is in credit and other is in debit, then the garnishee order can be attached only if the net result is in credit.
29. A lien is a right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid.
30. The banker's lien is an implied (understood) pledge (promise/guarantee).
31. In case of lien, the bank can sell the goods and securities in case the debt is not paid under section 171 of the Indian Contract Act 1872.
32. Lien cannot apply in safe deposit locker.
33. Set-off means adjusting debit balance in one account with an account having credit balance of the same customer.
34. A deceased credit account and a customer debit account cannot be combined.

Unit - 8. Foreign Exchange Remittance Facilities for Individuals

- Various countries are at different levels of development and the availability of foreign exchange with various countries varies widely. Hence the need to manage foreign exchange resources prudently.
- Keeping in view the changed economic environment, the FEMA replaced FERA effective from June 1, 2000.
- This act made the offences related to foreign exchange as civil offences as against criminal offences under the FERA
- Under FEMA certain types of transactions are freely permitted, certain others are permitted with restrictions whereas there are few types of transactions that are prohibited.
- Bringing foreign exchange into India in any form is freely permitted, for bonafide purposes, and is required to be declared.
- Payment in cash in Indian Rupees for foreign currency notes and/ or travellers' cheques purchased is permitted, with following ceilings per transaction:
  - From resident persons: USD1,000 or equivalent
  - From Foreign visitors/ Non-Resident Indians: USD3,000 or equivalent
- Taking foreign exchange out of India, except that purchased from an AP, is prohibited unless it is covered by a general or special permission of the RBI.
- In following cases unspent rupees can be converted to foreign currency without an enchashment certificate:
  - Amount up to Rs.10,000/- (out of converted foreign exchange)
  - Foreign tourists (not NRIs) may be permitted to reconvert rupees withdrawn from ATM upto Rs.50,000/-
- Various remittance modes that are permitted include bank wire transfers, bank money orders, foreign currency cheques, foreign currency drafts, remittance cards, and direct deposit ACH transfers. Such remittances should however be for bonafide purposes.
- Release of foreign exchange to persons resident in India for various current account transactions is governed by Foreign Exchange Management (Current Account Transactions) Rules, 2000, and categorized in three categories
  - Prohibited transactions (Schedule I)
  - Transactions requiring permission from the Central Govt. (Schedule II)
  - Transactions permitted with AD permission upto specified limits, and with RBI permission beyond that (Schedule III).
- In order to provide adequate foreign exchange facilities, RBI has granted licenses to certain entities to function as AD Cat-II, who can undertake a range of non-trade current account transactions.
- Foreign exchange drawal for a visit to Nepal or Bhutan, or for a transaction with a person resident in Nepal or Bhutan is not permitted. Such transactions can be undertaken in Indian Rupee.

- Approved Remittance Methods to India
  - Bank Wire Transfer
  - Bank Money Orders
  - Foreign Currency Cheques
  - Foreign Currency Drafts
  - Remittance Cards
  - Direct Deposit/ACH Transfer
- FEMA does not specify any limit for money being brought into India
- Drawal of foreign exchange by any person for the following purpose is prohibited:
  - a transaction specified in the Schedule I; or
  - a travel to Nepal and/or Bhutan; or
  - a transaction with a person resident in Nepal or Bhutan. This may be permitted by RBI by special or general order, with such conditions as considered necessary.

Liberalised Remittance Scheme (LRS)

- Liberalised Remittance Scheme (LRS) introduced in 2004
- It is available to resident individuals, including minors.
- It is not available to corporates, partnership firms, HUF, Trusts, etc.
- Maximum amount permitted in a financial year (April to March) is USD 250,000 per head.
- There is no restriction on the number of transactions.
- Release exceeding the limit requires prior permission RBI.
- Can be used for any permitted current account or capital account transaction
- Remittance for margins or margin calls to overseas exchanges/ counterparty are not allowed.
- Cannot be used to give a gift to another resident individual by remitting funds to the latter's foreign currency account overseas.
- All other transactions not permissible under FEMA are not allowed.
- For individuals under LRS general permission for specified current account and capital account transactions within a ceiling of aggregate USD 250,000 per financial year has been granted. This Scheme has subsumed the previous purpose-wise threshold limits specified under Schedule III.
- A resident individual may remit up to USD 250,000 in one FY as gift to a person residing outside India or as donation to an organization outside India.
- A person going abroad for employment can draw foreign exchange up to USD 250,000 per FY.
- A person wanting to emigrate can draw foreign exchange from an AD up to the amount prescribed by the country of emigration or USD 250,000.
- A resident individual can remit up to USD 250,000 per FY for maintenance of close relatives (Companies Act, 2013) abroad.

- For business trips to foreign countries, resident individuals can avail of foreign exchange up to USD 250,000 in a FY irrespective of the number of visits.
- Permitted up to an amount of USD 2,50,000 or its equivalent per FY without insisting on any estimate from a hospital/ doctor.
- ADs may release foreign exchange up to USD 2,50,000 to resident individuals for studies abroad without insisting on any estimate from the foreign University.

- A resident individual may surrender received/ realised/ unspent/ unused foreign exchange to an AP within a period of 180 days.
- AP should not refuse to purchase foreign exchange, even if surrendered after the prescribed 180 days merely on the ground that the prescribed period has expired.
- A returning traveller is permitted to retain, foreign currency, travellers' cheques and currency notes up to USD 2000 and foreign coins without any ceiling beyond 180 days, and utilize it for his subsequent visit abroad.

Indo Nepal Remittance Scheme-Salient Features

- For remittances to Nepal a special Indo-Nepal Remittance Scheme is in operation for the benefit of Nepalese population working in India. This facilitates remittances from India to Nepal through NEFT system.
- The target group is the migrant Nepalese working in India who make remittances to their families.
- The system was launched with only one way remittances from India to Nepal.
- A ceiling of INR Rs.2,00,000 is fixed per remittance.
- The ceiling of Rs. 50,000 per remittance with a maximum of 12 remittances in a year applies for such remittances.
- The remittances from India are in Indian Rupees, and the payment to the beneficiaries, is in Nepalese Rupees.
- Banks can provide this facility to both account-holders as well as non-account holders.
- A non-account holder has to produce identification documents like Passport/ PAN/ Driving License/Telephone Bill/ Certificate of identification issued by employer in India with details and photograph, etc.

Unit - 9. Operational Aspects of NRI Business

- FEMA Regulations govern the maintenance of deposits between a person resident in India and a person resident outside India.
- Special types of accounts have been permitted to be maintained in India by NRIs and PIOs, NRE account, FCNR(B) account, NRO account.
- NRO account can be opened for foreign nationals of non-Indian origin visiting India for various purposes.
- Loans can be granted in India by the AD against NRE deposits, but lien is not allowed on NRE SB. There is no monetary limit on the loan amount.
- ADs may allow their branches/ correspondents outside India to lend against NRE deposits in India.
- NRIs and PIOs are permitted to maintain accounts in Foreign Currency with ADs in India under FCNR(B) Scheme. Tenor of Deposit: Minimum one year and maximum five years
- Non-Resident (Ordinary) Account Scheme – NRO account : Any person resident outside India
- The funds in this account should be received from overseas through banking channel or from sale proceeds of foreign currency brought in India.
- AD banks can issue International Credit Cards (ICC) to NRIs/ PIOs, and the transactions may be settled by inward remittance or from the cardholder's FCNR (B) / NRE / NRO Accounts.
- NRO (current/ savings) account can be opened for foreign nationals of non-Indian origin visiting India with funds remitted from outside India through banking channel or by sale of foreign exchange brought by him to India.
- Special Non-Resident Rupee Accounts (SNRR) are permitted for foreign nationals or entities that have business relationships with individuals and entities in India.
- NRIs/ PIOs, can remit up to USD 1 mn per FY from NRO deposits and assets acquired from parents/relatives.
- With prior RBI approval remittances beyond this ceiling can be made in respect of assets acquired by way of inheritance/ legacy.
- All remittances outside India should be made after obtaining required certificates stipulated in the Income Tax provisions.
- NRIs/ PIOs/ OCIs are permitted to purchase immovable property (other than agricultural land/ plantation property/ farm house) in India, and acquire immovable property by way of gift (other than agricultural land/ plantation property/ farm house) and inheritance from relatives.
- Payments for transfer of property should be made out of funds received in India through banking channels or by debit to NRE/ FCNR (B)/NRO account of the NRI/ OCI.
- Citizens (natural persons or legal entities), except OCIs, of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan, Macau, Hong Kong and Democratic People's

Republic of Korea need prior RBI permission to acquire or transfer immovable property in India, except on lease of not more than five years.

- Resident outside India may invest in an Indian company either as Foreign Direct Investment or as Foreign Portfolio Investment.
- There are restrictions on repatriation outside India of the sale proceeds of immovable property held by non-residents in India, and requires prior RBI approval.
- A person resident in India, can hold, own, transfer or invest outside India foreign currency, foreign security or any immovable property acquired when outside India or inherited from a person outside India.
- Residents outside India, both individuals and entities, are permitted to make investments in India, subject to certain restrictions and prohibitions. For NRIs/ PIOs/ OCIs there are certain specific provisions also.
- Sectors Prohibited for Investments by NRIs/OCIs, except where indicated otherwise
  - Lottery Business including Government/private lottery, online lotteries.
  - Gambling and betting including casinos.
  - Chit funds (except NRIs/ OCIs on non-repatriation basis).
  - 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.

Unit - 10. Foreign Currency Accounts for Residents and Other Aspects

- Opening, holding and maintaining foreign currency accounts by a person resident in India is regulated under FEMA.
- As a step for moving towards capital account convertibility FEMA regulations have been modified to permit residents to maintain accounts denominated in Foreign Currency in India.
  - Exchange Earner's Foreign Currency (EEFC) Account - EEFC Account
  - Resident Foreign Currency (RFC) Account - RFC Account
  - Resident Foreign Currency (Domestic) Account – RFC (D) Account
  - Diamond Dollar Account (DDA) Scheme – DDA Account
- Maintaining foreign currency denominated account in India has also been permitted for persons in specific categories, like Indian agent of shipping or airline companies incorporated outside India, Ship-manning/crew managing agencies in India, Project offices of foreign companies, Organisers of international Seminars, Conferences, Conventions, etc.,
- Residents in India are also permitted to maintain foreign currency accounts outside India for specific purposes for meeting their normal business and incidental transactions.
- Conditions for Foreign Currency Accounts
  - For EEFC, RFC(D), DDA Accounts: The sum total of the accruals during a calendar month should be converted into Rupees on or before the last day of the succeeding calendar month after adjusting for utilization for approved purposes or forward commitments.
  - For EEFC and RFC (D) Accounts: Balances may be credited to NRE/ FCNR (B) Accounts, consequent upon change of status to non- resident.
- Other Specific Categories Permitted to Maintain Foreign Currency Accounts
  - Indian agent of shipping or airline companies incorporated outside India
  - Ship-manning/ crew managing agencies in India
  - Project offices of foreign companies
  - Organisers of international Seminars, Conferences, Conventions, etc.
  - Exporters of specified goods or services on deferred payment terms
  - Units located in a Special Economic Zone (SEZ)
  - An Indian company receiving foreign investment under FDI route
  - Re-insurance and Composite Insurance Brokers Registered with IRDA
- A foreign national, not being a PIO, is allowed to remit assets outside India if the person has retired from employment in India, and in certain other specified situations.
- A resident is permitted to acquire or hold property outside India in specified situations like property acquired when the person was resident outside India, property inherited/ received as a gift from such a person, purchased out of funds in RFC account, jointly with a person resident outside India.

- Acceptance of contribution from foreign sources and foreign hospitality by certain types of organisations like non-government organisations, political organisations, media houses, etc. are regulated under FCRA 2010.
- Certain persons are totally barred from accepting any foreign contribution, viz.
  - Candidate for election
  - Persons engaged in newspaper publishing, Public servant, Judge, etc.
  - Political party or office bearers thereof
  - Organisations of a political nature as may be specified
  - Associations or companies engaged in the production or broadcast of audio news or audio visual news or current affairs programmes
- Restrictions on Acceptance of Foreign Hospitality
  - A member of a Legislature
  - An office-bearer of a political party
  - A Judge
  - A Government servant
  - An employee of any corporation or any other body owned or controlled by the Government.
- Accepting foreign contribution by a person having a definite cultural, economic, educational, religious or social programme requires registration or prior permission of the Govt. of India.
- The contribution can be received in a FCRA account to be opened in the New Delhi Main Branch of SBI.
- There are restrictions on transfer and utilization of the funds received in this account.
- The bank shall report to the Central Government within 48 hours any transaction in respect of receipt or utilisation of any foreign contribution by any person.
- The reporting requirements are in respect of every receipt, irrespective of the amount of receipt.

Unit - 11. Cash Management Services and its Importance

1. Cash management is a broad term that refers to the collection, concentration, and disbursement of cash.
2. It encompasses a company's level of liquidity, its management of cash balance, and its short-term investment strategies
3. Good cash management requires meeting company's future cash needs from the future cash sources.
4. With changes due to deregulation and new technology banks have shifted their sales mix toward noninterest income from fee-based financial services.
5. Various payment system initiatives of RBI have enabled banks to evolve cash management services.
6. Banks in India offer wide-ranging cash management services to their corporate clients.
7. Considering the focus of businesses on reducing finance costs, cash management services need to devise innovative methods and means to improve the efficiency of cash management for the corporate customer.
8. Cash management services need to be secured, reliable and timely.
9. The objective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.
10. In India, the cash management business primarily involves collections and payments services.
11. Products Offered by Banks Under Collections (Paper and Electronic)
    - Local cheque collections
    - High value (0 Day clearing)
    - Magnetic ink character recognition (MICR)
    - Outstation cheque collections
    - Cheques drawn on branch locations
    - Cheques drawn on correspondent bank locations
    - Cheques drawn on coordinator locations
    - House cheque collections
    - Outside network cheque collections
    - Cash collections
    - ECS-Debit
    - Post dated cheque collection
    - Invoice collections
    - Capital market collections
    - Products Offered by Banks Under Payments (Paper and Electronic)
    - Demand drafts/banker's cheques
    - Customer cheques
    - Locally payable

- Payable at par
- RTGS/NEFT/ECS
- Cash disbursement
- Payments within bank
- Capital market payments

12. In a dynamic economy, markets need to play a key role in guiding the development of infrastructure, including mechanisms like payments systems.
13. This means that innovation and competition will be central to the future development of the payments system - as they are in other areas of the economy.
14. Efficient cash management is a must to support an institution's growth, and therefore, adopting the best cash management practices is necessary.

Unit - 12. Payment and Collection of Cheques and Other Negotiable Instruments

1. NI Act discusses about negotiable instruments, their payment, collection, dishonour, and rights and duties of collecting bankers.
2. Underlying the banker-customer relationship is the contractual obligation on the part of the banker to honour the customer's cheque when presented subject to meeting certain conditions.
3. A banker, if he collects a cheque for a customer having no title or defective title to the instrument is said to have committed conversion.
4. A bank which has in good faith and without negligence received payment of a cheque, crossed generally or specially to itself for a customer shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment.
5. A cheque may be crossed with general crossing or special crossing.
6. A cheque may be endorsed in a variety of ways by writing on the cheque. Banks get certain protection under NI Act subject to satisfying certain conditions and making payment in due course.
7. Dishonour of cheque issued towards amount due, for want of sufficient funds is a puncishabel offence under NI Act.
8. In Sans recourse endorsement, liability of the endorser is excluded.
9. In facultative endorsement, the notice of dishonour is waived.
10. The 3 negotiable instruments are promissory notes, bills of exchange and cheque.
11. A paying banker is protected under NI Act in the following cases:
    a. Forged endorsement in an
        - order cheque under section 85 (1)
        - bearer cheque under section 85 (2)
        - draft under section 85 (A)

    b. Material alteration in a cheque under section 89

    c. Payment of a crossed cheque under section 128

Unit - 13. Responsibility of Paying Bank

- The NI Act lays down the law relating to the payment of a customer's cheque and the protection that is available to a banker making payment of a cheque in due course.
- Sec. 10, 85, 85A, 89 and 128 of the Act deal with the protection available to a banker
- Sec. 31 lays down the condition when a bank has to make payment on a cheque drawn by the customer.
- The banker on making the payment in due course is entitled to seek protection provided the cheque has not been altered or the alteration, if any, is not apparent.
- Sec. 128 lays down the criteria for payment in due course of crossed cheques
- When the customer's signature on the cheque is forged there is no mandate to the bank to pay. As such a banker is not entitled to debit the customer's account on such forged cheque
- In a joint account if one of the signatures is forged then there is no mandate and banker cannot make payment
- The banker does not get protection, if the signature of the drawer is forged.
- Sec. 89 gives protection to the paying banker of a cheque which has been materially altered but does not appear to have been so altered and otherwise in due course.
- Sect. 10 defines payment in due course to mean payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment.
- Sec. 31 obliges the drawee bank having sufficient funds of the drawer in its hands properly applicable to the payment of such cheque to make payment when duly required to do so.

Unit - 14. Responsibility of Collecting Bank

- There are no specific provisions on duties of a collecting banker.

- Sec. 131 grants protection to a collecting banker. This is applicable to both cheques and drafts. The protection under Sec. 131 is subject to satisfying following conditions:
  - The collecting banker acts in good faith.
  - It acts without negligence.
  - It receives payment for a customer.
  - The cheque is crossed generally or specially to the collecting bank.
  - It verifies the prima facie genuineness of the cheque for collecting payment under CTS clearing.
  - It looks for any fraud, forgery or tampering that can be verified with due diligence and ordinary care, and is apparent on the face of the cheque to be truncated.

- **Duties of a collecting bank are:**
  - Duty to Open the Account with References and Sufficient Documentary Proof
  - Duty to Confirm the Reference where the Referee is not known or has given Reference in Absentia
  - Duty to follow the KYC Norms under Prevention of Money Laundering Act/ Rules and KYC Directions of RBI
  - Duty to Ensure Crossing and Special Crossing
  - Duty to Verify the Instruments for any Apparent Defect in the Instruments
  - Duty to take into Account the State of Customer's Account

- The collecting bank has to make necessary enquiries before any third party cheques, are collected on behalf of its customer.

- In determining negligence of a bank, the manner in which it has opened the account and handled the cheques collected is looked into by Courts.

Unit - 15. Ancillary Services

1. Banks are providing various ancillary services to the customers like Remittance facilities, convenience Banking through mobile and internet, Handling Government collection & payments, providing supportive platform through Electronic Benefit transfer for various Government schemes.
2. The conventional modes of remittance of funds are Demand Draft, Banker's Cheque, Mail Transfer, and Telegraphic Transfer.
3. Due to the technological advancements, the new system of remittances such RTGS, National Electronic Fund Transfer (NEFT) has replaced the conventional mode to a large extent.
4. Payments in welfare schemes introduced by the Central/State Govts. are being made directly either in kind/cash or through indirect subsidies like the PDS.
5. The success of any Welfare Scheme/State Benefit Transfers must ensure timely disbursal of the benefits without any leakages.
6. EBT is one of the products offered under Financial Inclusion, which facilitates payments to reach the intended beneficiaries through bank accounts.
7. The principal objective of Direct Benefit Transfer Scheme (DBTS) is to facilitate direct credit of payments due, in right accounts and in time.
8. Digital payment systems have gained wide popularity and acceptance, especially for retail payments due to their ease of execution, availability on 24 x 7 basis, instantaneous transfers and interoperability.
9. These services are IMPS, BBPS and AePS.
10. Safe Deposit Locker facility enables customers to keep their valuables/documents etc., safe in a specially designed locker on payment of prescribed rentals.
11. Banks need to take due care and caution for safeguarding the safe deposit vaults, and are liable for any loss to the customer due to their negligence in providing access to third parties, or frauds by their staff.
12. Nomination facility is available in respect of safe deposit lockers, apart from joint holdings with survivorship clause.
13. Portfolio means a basket of investments or securities in a combined form of Debt and equity securities.
14. Portfolio management deals with management of a combination of securities to get the most efficient portfolio in terms of risk, return and liquidity.
15. Banks provides merchant banking facilities "Management and Underwriting of new issues, Syndication of Credit and Provision of Advisory Services to Corporate Clients on fund raising and other financial aspects like Payment of Interest/Dividend Warrants/Refund Order and Bridge Loan against issue of equity.
16. Banks undertake variety of work on behalf of Government of India for collection of Govt. receipts and arrange payments under various initiatives of Government.

17. Banks also sell on commission basis Govt. of India securities for retail investors, like Relief Bonds, and Savings Bonds.
18. Banks have freedom to levy service charges as per their individual policy.
19. However, the charges should be reasonable and should be related to the costs attributable to the service rendered.
20. The charges should be notified to the customer before they avail any service, and any changes in charges should also be informed at the earliest.
21. For outward RTGS and NEFT remittances, the charges should be within the ceilings prescribed by RBI, and there should be no charges for inward RTGS/ NEFT.
22. Banks also provide a variety of other services or products as listed below.
    - Forex service: You can buy the foreign exchange for any purpose of expenditures like travel, buying merchandise etc. and sell the same to the bank when you earn or receive from abroad . Of course, these forex transactions are subject to the rules and regulations prevailing in a country and they are provided by only those bank branches which are approved by the Banking Authority or Regulator for this purpose.
    - Custodial Service: You can keep your valuables like jewels, documents, etc. under this service which is commonly known as Locker facility (Safe Deposit Vaults in banking parlance. The bank will collect a nominal fee for the service.
    - Gold sale: You can buy pure gold for self-consumption or for trading by the jewelry businesses. Here also, only a few selected branches of banks or banks are allowed to provide this. The products usually range from a coin to a 100 gm biscuit or bar.
    - Investment service: Invest your money in the mutual funds run by the banks. The service comes as Portfolio service (the decision to maximize the returns on your money is left with the banker or portfolio manager) and as Stand-alone product where the decision to get maximum returns is borne by you. Both have the plus and minus but these products are offered to suit the convenience of the investors. Portfolio means a basket of investments and securities in a combined form. Debt securities will yield interest income and equity investment will yield dividend income. Portfolio management means management of a combination of securities to get the most efficient portfolio.
    - Insurance sale: A range of insurance products covering the risk of life, health, assets like vehicle, credit and debit cards, travel etc. are offered by almost all the banks by themselves or in collaboration with the leading insurer companies, which again may be local or multinational entities.
    - Card services: Primarily intended for safety and convenience purpose but now, has become a payment mode and a symbol of economic status. The card products usually are called as Debit card, Credit card.

Unit - 16. Financial Inclusion & Financial Literacy

- Financial Inclusion is provision of affordable financial services, to those who tend to be excluded.
- RBI has decided to enable the banks to use the services of NGOs, micro-finance institutions (MFIs) and other Civil society organisations (CSOs) as intermediaries in providing the financial and banking services through use of BF/BC models.

Business Facilitator Model: Eligible Entities and Scope of Activities

Eligible Entities

- Non- Government Organisations (NGOs)/ Self-Help Groups (SHGs)
- Farmers' Clubs, Cooperatives
- Community-based organisations
- IT enabled rural outlets of corporate entities
- Post offices
- Insurance agents
- Well functioning Panchayats
- Village Knowledge Centres
- Agri Clinics
- Agri Business Centers
- Krishi Vigyan Kendras
- Khadi and Village Industries Commission (KVIC)/Khadi and Village Industries Board (KVIB) units

Scope of Activities

- Identification of borrowers and fitment of activities
- Collection and preliminary processing of loan applications including verification of primary information/data
- Creating awareness about savings and other products
- Education and advice on managing money and debt counselling
- Processing and submission of applications to banks
- Promotion and nurturing self-help groups/joint liability groups
- Post-sanction monitoring
- Monitoring and hand holding of self-help groups/joint liability groups/credit groups/others
- Follow-up for recovery

Business Correspondent Model: Eligible Entities and Scope of Activities

Eligible Entities

- Individuals
- NGOs/Micro-Finance Institutions (MFIs)
- Cooperative societies
- Post Offices
- Companies registered under the Indian Companies Act, 1956
- Commercial banks (excluding RRBs) are permitted to appoint non-deposit taking registered NBFCs (NBFC-ND) as BCs.

Scope of Activities

- Identification of borrowers
- Collection and preliminary processing of loan applications including verification of primary information/data
- Creating awareness about savings and other products
- Education and advice on managing money and debt counselling
- Processing and submission of applications to banks
- Promotion and nurturing self-help groups/joint liability groups
- Post-sanction monitoring
- Monitoring and hand holding of self-help groups/joint liability groups/credit groups/others
- Follow-up for recovery
- Disbursal of small value credit
- Recovery of principal/collection of interest
- Collection of small value deposits
- Sale of micro insurance/mutual fund products/pension products/other third party products
- Receipt and delivery of small value remittances/other payment instruments
- Distribution of banknotes and coins

Payment Banks

Scope of activities of PBs

- Accepting demand deposits - Upto maximum balance of 2 lakh per customer
- Issue of ATM/debit cards
- PPIs
- Internet banking services
- Payments and remittance services
- BC of another bank

- Distribution of simple financial products (MFs, Insurance)
- Utility bill payments etc.

- One of the objectives is to promote financial literacy through the provision of financial education.
- The delivery of financial education in villages encompasses three key themes: building skills, increasing knowledge and developing understanding and within each of these an individual's confidence should also be developed.
- 'Project Financial Literacy' aims to disseminate information regarding the central bank and general banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

Initiatives taken by Reserve Bank of India towards Financial Literacy

- National Centre for Financial Education
- Centres for Financial Literacy (CFLs)

Rural Self Employment Training Institutes (RSETI)

- With a view to provide employment opportunities in the organised as well as unorganised sector, the Ministry of Rural Development (MoRD) launched a national scheme called RSETI under which one time grant is given to the lead bank in every district for setting up training institute to train the rural youth in vocational programmes.
- Each RSETI offers 30 to 40 skill development Programmes in a financial year in various avenues.
- National Centre for Financial Education has developed several modules for financial literacy. Centres for Financial Literacy have been set up at block levels.
- Besides, several banks have set up Financial Literacy Centres for promoting financial literacy.

Unit - 17. Customer Service Guidelines

- Customer service is the act of taking care of the needs of a person by providing and delivering the service in a professional manner – promptly and politely.
- It relates to the service provided to customers before, during and after a relationship is established.

Customer Service: Organisational Framework at Banks

- Customer Service Committee of the Board
- Standing Committee on Customer Service
- Branch Level Customer Service Committees
- Nodal department / official for customer service

Board Approved Policies on Customer Service

- Comprehensive Deposit Policy
- Cheque Collection Policy
- Customer Compensation Policy
- Customer Grievance Redressal Policy

Customer service related aspects of ATM operations

- Free transactions at ATMs
  - Customers are eligible for five free transactions (inclusive of financial and non-financial transactions) every month from their own bank ATMs.
  - They are also eligible for free transactions (inclusive of financial and non-financial transactions) from other bank ATMs viz. three transactions in metro centres and five transactions in non-metro centres.
- Transactions at ATM
  - To eliminate this risk of certain type of card readers which facilitate multiple transactions the process should require pin validation for every transaction through ATM.
- Lodging of ATM related Complaints
- Measures to enhance efficiency in ATM operations
- Scheme of Penalty for non-replenishment of ATMs
  - Cash-out at any ATM of more than ten hours in a month attracts a flat penalty of 10,000/- per ATM.
- Disputes regarding ATM failed transactions
- Reconciliation of transactions at ATMs failure - Time limit
  - Wrongful debit on account of ATM transactions should be resolved within T+5 working days of receipt of customer complaint

- In case of delay the card issuing bank must compensate the customer @ 100/- per day of delay.
- This amount shall be credited to the customer's account automatically without any claim from the customer.

Limiting Liability of Customers in Unauthorised Electronic Banking Transactions

Type of Account	Maximum liability (in Rs)
BSBD Accounts	5,000
❖ All other SB accounts ❖ Pre-paid Payment Instruments and Gift Cards ❖ Current/ Cash Credit/ Overdraft Accounts of MSMEs ❖ Current Accounts/ Cash Credit/ Overdraft Accounts of Individuals with annual average balance (during 365 days preceding the incidence of fraud)/limit up to Rs.25 lakh ❖ Credit cards with limit up to Rs.5 lakh	10,000
❖ All other Current/ Cash Credit/ Overdraft Accounts ❖ Credit cards with limit above Rs.5 lakh	25,000

- Meeting the legitimate aspirations of its customers enables the bank to maintain its image, create confidence and attract funds comparatively at low cost in a competitive environment.
- Customer service is a challenging issue in any service industry as there are many intangibles that define a customer's satisfaction or otherwise with a particular bank / branch / product or process.
- RBI has prescribed certain institutional set up to be in place in banks for monitoring customer service related aspects
  - Customer Service Committee of the Board
  - Standing Committee on Customer Service,
  - Branch Level Customer Service Committees
  - Nodal department / official for customer service.
- Banks are required to have certain specific policies related to customer service
  - Comprehensive Deposit Policy
  - Cheque Collection Policy
  - Customer Compensation Policy
  - Customer Grievance Redressal Policy
- Customer service norms cover wide range of aspects viz. the physical facilities at branches, delivery standards and charges for basic banking services, security issues in digital transactions, information and customer awareness about basic common services.

Information to the Customers

- Display of information by banks – Comprehensive Notice Board
- Booklets/Brochures
- Display on Website
- Other Modes of Display
- Information relating to Interest Rates and Service Charges
- Information in the public domain
- Timelines for Credit Decisions
- Service Charges
- Customer education

Special Arrangements at Branches

- Provision of ramps at ATMs/ branches
- Facility to sick/ old /incapacitated account holders
- Providing banking facilities to Visually Impaired Persons
- Talking ATMs with Braille keypads - Persons with visual impairment
- Opening/ operating bank accounts of Persons with Autism, Cerebral Palsy, Mental Retardation, Mental Illness and Mental Disabilities

Other Provisions

- Rights of Transgender Persons – Changes in bank forms/applications etc.
- Acknowledgement by banks at the time of submission of Form 15-G / 15-H
- Timely issue of TDS Certificate to Customers
- Acceptance of cash over the counter
- Erroneous Debits arising on fraudulent or other transactions
- Co-ordination with officers of Central Board of Direct Taxes
- Clean Overdrafts for small amounts
- Rounding off of transactions

Unit - 18. Duties & Rights of a Banker and Customer Rights

- Banks have certain basic duties towards customers
  - Duty of secrecy and confidentiality
  - Duty of reasonable care
  - Dealing with Garnishee or Attachment Orders.

- While duty of secrecy and confidentiality is paramount, there are exceptions when banks have to share information.
- A bank would be protected only if it discloses the affairs of the customers under certain legally permissible compulsions or circumstances as follows:
  (a) Where disclosure is under compulsion of law
    - Banker's Books Evidence Act, 1891
    - Summons by Civil/ Criminal Courts
    - Income Tax Act, 1961
    - Other Acts link Companies Act, 2013, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, and Gift Tax Act.

  (b) Where there is duty to the public to disclose
  (c) Where interest of bank requires disclosure
  (d) Where the disclosure is made with the express or implied consent of the customer

- Bank's relationship with the customer may be of an agent/ bailee/ trustee depending on the services availed. This enjoins upon a bank to exercise reasonable care in handling the affairs of the bank.
- Banks receive garnishee orders from the courts or attachment orders from various legal authorities for freezing or for making payments out of the funds of their customers that is in their possession. Banks need to comply with such orders.
- Banks also have certain general rights of a bailee and specific rights of banker. These are – Right of lien (General lien, and Particular lien), Right of set off, Right of appropriation of accounts, Right to charge interest or commission, and Termination of relationship. Banks should take care the customers are aware of the duties and rights of banks.

Termination of Bank-Customer Relationship
- Voluntary termination
- Termination by law
  - Death of customer
  - Bankruptcy of a customer/liquidation of a Company
  - Garnishee Order
  - Insanity of the customer

Banking Codes and Standards Board of India (BCSBI)

- BCSBI was set up for setting up codes and standards that banking industry would follow on voluntary basis.
- BCSBI had formulated two Codes - Code of Bank's Commitment to Customers, and Code of Bank's Commitment to Micro and Small Enterprises.
- While BCSBI is now not operational, the Codes of BCSBI are still relevant and the RBI monitors compliance of these.

- Every member bank is required to:
  - Have a help desk/helpline at the branch.
  - Have a code compliance officer at each controlling office above the level of the branch.
  - Display, at each branch, name and contact number of the code compliance officer.
  - Display name and address of the Ombudsman.

- Customers also have certain obligations when they use banking services.
  - To provide the required documents and information, including personal information for KYC.
  - To keep the pass book, the cheque book, and the debit card safely.
  - To keep confidential the User ID and password for access to various channels.
  - To inform promptly the bank about any unauthorized transaction noticed in the account.
  - Not to allow any third party to use own bank account for its transactions.
  - Not to provide any personal or account related information, including User ID password, OTP, etc. to any one purporting to call on behalf of the bank.
  - Not to click on any link received through emails, sms, etc. for accessing the bank's website.
  - To sign all cheques or forms or letters to the bank as per the specimen signature provided to the bank.
  - To use non-home branches only for the permitted transactions, and when it becomes essential.
  - To register one's own mobile number and email ID with the bank to get instant alerts
  - Not to store important banking data in mobile, email or in the purse/ wallet.
  - To use only verified, secure and trusted websites for online banking transactions.
  - To use debit cards or credit cards only at authorised ATMs, or merchant establishments,
  - To change one's online banking password and PIN regularly.
  - To request to block one's ATM Card, Debit Card, Credit Card, Prepaid Card if lost / stolen.

Unit - 19. Grievance Redressal & RBI Integrated Ombudsman Scheme 2021

- When a person feels aggrieved about the product or services rendered by a bank, or due to certain procedures and system, it is a grievance.
- It is necessary that the grievance is redressed immediately.
- Every bank needs Grievance Redressal Policy that lays down the principles to deal with the customer complaints.
- In 2019, Reserve Bank also introduced the Complaint Management System (CMSavailable 24x7 for customers to lodge their complaints with the Banking Ombudsman (BO).

The Model Policy on Grievance Redressal is based on the under-noted principles:

- Customers will be treated fairly at all times.
- Complaints raised by customers will be dealt with courtesy and in time.
- Customers will be informed of avenues to escalate their complaints/ grievances within the organization and their rights to alternative remedy, if not fully satisfied.
- Bank will treat all complaints efficiently and fairly
- Employees will work in good faith and without prejudice to the interests of the customer.

- A structured redressal system should function at Branches/Regional Offices/Zonal Offices/Head Office.
- Banks need to take measures like information to customers, providing complaints-cum-suggestions box and register/ book, complaint through website, etc.
- Banks are required to disclose in their Annual Reports granular information on complaints received for the current and preceding years.
- Banks are required to appoint a Principal Nodal Officer under the Ombudsman Scheme, not below the rank of a General Manager
- All scheduled commercial banks with more than 10 outlets (except RRBs) have appointed Chief Customer Service Officers, as per RBI instructions, who act as the Internal Ombudsman for their banks.

RBI – Integrated Ombudsman Scheme, 2021

- RBI – Integrated Ombudsman Scheme, 2021 covers all the entities regulated by the RBI.
- Under the revised system, the customer needs to submit complaints to a Central Receipt and Processing Centre at Chandigarh that will forward these to the concerned Ombudsman.
- A person having a grievance may file a complaint with CRPC through:
  - Online portal (cms.rbi.org.in); or
  - Electronic mode (e.g. e-mail); or
  - Physical mode (by post/ courier or hand delivery)

- Based on a preliminary scrutiny the CRPC determines the validity of the complaint:
  - Complaints not valid
  - Complaints not maintainable
  - Valid and Maintainable Complaints

Resolution at the Ombudsman Office

- Agreement through Facilitation
- Agreement through Mediation and Conciliation
- Passing an Award

A complaint is deemed to be resolved when:

- it has been settled by the regulated entity with the complainant; or
- the complainant has agreed in writing or otherwise (which may be recorded) that the manner and the extent of resolution of the grievance is satisfactory; or
- the complainant has withdrawn the complaint voluntarily.

Following ceilings apply to payments by the regulated entity to the complainant:

- Actual amount involved in the dispute - without any ceiling
- Compensation for consequential loss (directly out of the act or omission of the bank) - to the extent of actual loss, with ceiling of 20 lakh
- Compensation for loss of time, expenses incurred, harassment and mental anguish suffered - up to the ceiling of 1 lakh

- Ombudsman may reject complaints if not found to be appropriate or if the complainant is found to be not pursuing the complaint further.

Grounds for non-maintainability of a Complaint

- commercial judgment/commercial decision of a Regulated Entity
- a dispute between a vendor and a Regulated Entity in an outsourcing contract
- a grievance not addressed to the Ombudsman directly
- general grievances against Management or Executives of a Regulated Entity
- a dispute in an action in compliance with orders of a statutory or law enforcing authority
- a service not within the regulatory purview of RBI
- a dispute between Regulated Entities
- a dispute involving the employee-employer relationship of a Regulated Entity

- An Appeal against an Award can be made by the complainant or the Regulated Entity.
- Ombudsman furnishes information about the matters handled by them annually to the RBI.
- RBI based on this information brings out an Annual Report on Ombudsman Scheme.

Unit - 20. The Consumer Protection Act, 2019: Preamble, Extent and Definitions

- CPA, 1986 has been enacted for the settlement of consumer disputes.
- The Act is social welfare benefit oriented legislation.
- It is for speedy disposal of the redressal of consumer disputes.
- The provisions of the Act were not overriding on any other law.
- CPA, 2019 replacing CPA, 1986 seeks to facilitate the requirements of the growing consumer market in India and to address the myriad and constantly emerging vulnerabilities of the consumer.
- The CPA 2019 extends to the whole of India including the Union Territory of Jammu & Kashmir.

Salient new aspects included in the CPA 2019

- Defines specifically 'Consumer Rights'
- Adds feature of 'Unfair contract'
- Introduces 'Product liability action'
- Defines 'Design' and includes related aspects
- Includes 'e-Commerce' and 'Electronic service provider'
- Includes 'Advertising' and 'Endorsement'
- Adds the 'Express warranty' parameter
- Distinguishes: Manufacturer, Product manufacturer, Product seller, Product service provider

Consumer rights includes:

- the right to be protected against the marketing of goods, products or services which are hazardous to life and property
- the right to be informed about the quality, quantity, potency, purity, standard and price of goods, products or services, as the case may be, so as to protect the consumer against unfair trade practices
- the right to be assured, wherever possible, access to a variety of goods, products or services at competitive prices
- the right to be heard and to be assured that consumer's interests will receive due consideration at appropriate fora
- the right to seek redressal against unfair trade practice or restrictive trade practices or unscrupulous exploitation of consumers
- the right to consumer awareness

- Banking services are covered under the Act, however, certain aspects that would essentially pertain to the commercial and business decision of banks cannot be a ground for complaint.
- For instance, security stipulated for a loan facility, quantum of loan sanctioned, etc.

Several fora are established under the Act. These include:

1. Consumer Protection Councils

- They render advice on promotion and protection of consumer rights under the Act.
  - **Central Consumer Protection Council (Central Council) - CPC** can have maximum 36 members
  - **State Consumer Protection Councils (State Council) - SPC** has members (maximum 10) and Minister-in-Charge of the Consumer Affairs, State Govt. as Chairperson. It meets as and when necessary, but at least two meetings every year.
  - **District Consumer Protection Councils (District Council)** - It is chaired by the District Collector. It meets as and when necessary, at least two meetings every year.

2. Central Consumer Protection Authority

- It is an authority to regulate matters relating to violation of rights of consumers.

Functions of CCPA

- To protect, promote and enforce the rights of consumers as a class;
- To prevent violation of consumers rights under the Act;
- To prevent unfair trade practices;
- To ensure no false or misleading advertisement is made;
- To ensure no person publishes false or misleading advertisement.

Powers of CCPA

- Power to Conduct Inquiry
- Power to Order Recall of Goods
- Power to Order Discontinuing Advertisement
- Power of Search and Seizure

3. Consumer Disputes Redressal Commissions

- These are at all three levels viz. the Central, the State and the District levels
- These handle the consumer complaints filed under the Act.
- The jurisdiction of these Commissions depend on the value and place.
- A Commission can award compensation, replacement of goods etc.
- An appeal can be made against the Order of a Commission to the appellate body.

District Consumer Disputes Redressal Commission -

- Entertain complaints where the value of the goods or services paid as consideration does not exceed 50 lakh.
- A complaint shall be instituted in a District Commission within the local limits

State Consumer Disputes Redressal Commission

- To entertain following matters:
  - Complaints where the value of the goods or services paid as consideration exceeds 50 lakh but does not exceed 2 crore
  - Complaints against unfair contracts, where the value of goods or services paid as consideration does not exceed 10 crore.
- Appeals against the orders of any District Commission within the State

National Consumer Disputes Redressal Commission

- Complaints against unfair contracts, where the value of goods or services paid as consideration exceeds 10 Crore

- Some of the common areas of deficiency of services that may be raised before the Commissions are:
  - Refund of deposits
  - Wrongful dishonor of Cheque
  - Wrongful dishonor of Bank Draft
  - Non-credit of cheque tendered
  - Default by the Business Correspondent
  - Non-issue of receipt and not crediting the amount
  - Not crediting public issue subscription to the Issuer's account

4. Consumer Mediation Cells

These are attached to each of the Redressal Commissions and the Regional Benches. These Cells try to get the disputes settled through mediation.

- The CPA 2019 also provides for an alternative mechanism of redressal namely through mediation, for which Mediation Cells are attached to each Commission.
- CPA 2019 has brought in the concept of Product Liability Action, which is in the nature of class suit.
- The liabilities of the product manufacturers, product service providers and product sellers have been laid down distinctly. Another new aspect is that of 'Unfair Contracts'.

Unit - 21. The Right to Information Act, 2005

- The Right to Information Act, 2005 secures access to information under the control of public authorities to the citizens.
- The Act aims at promoting transparency and accountability in the working of every public authority and containing corruption.
- The Chief Public Information Officers and Central Assistant Public Information Officers are appointed by the public authorities.

Disposal of Request

(a) Norms for Disposal

- Time limit: The PIO shall either provide the information or reject the request within 30 days of the receipt. If it concerns the life or liberty of a person, it shall be provided within 48 hours of the receipt. Failure to decide within the specified period, is deemed as refusal.
- Intimation for additional fee: Where a decision is taken to provide the information on payment of any further fee representing the cost of providing the information, the PIO shall send a suitable intimation to the person making the request.
- Access to disabled: Where access to the record or a part thereof is to be provided to a person sensorily disabled, the PIO shall provide assistance to enable access.
- Additional fee for printed or electronic form: Where information is given in printed or any electronic format, further reasonable fee is charged, except from the persons who are of below poverty line, at the following rates:
    - 2 for each page in A-4/ A-3 size paper created or copied
    - actual charge or cost price of a copy in larger size paper
    - actual cost or price for samples or models
    - inspection of records, no fee for the first hour, and 5 for each fifteen minutes or fraction thereof thereafter
- Delay in providing information: The information will be provided free of charge, if delyed.
- Rejection of request: If rejected the PIO shall inform the reasons, the period within which an appeal may be preferred; and the particulars of the appellate authority.
- Form of information: Information shall ordinarily be provided in the form sought, unless it needs disproportionate resources or is detrimental to safety/ preservation of the record.
- Partial Information: If allowing partial access, the PIO shall inform the applicant:
    - only part record (after severance of the information which is exempt) is being provided
    - the reasons for the decision

    - the name and designation of the person decided
    - rights with respect to review of the decision regarding non-disclosure, fee, and form.
  - Payment of fees: The application shall be accompanied by a fee of Rs. 10, paid in cash against receipt or by demand draft or a banker's cheque or by Indian Postal Order.

(b) Transfer of the request - within 5 days of receipt

(c) Third Party information - Where a Central Public Information Officer considers disclosing any information or record or part thereof which relates to or has been supplied by a third party and has been treated as confidential by that third party, it shall decide after consulting it.

(d) Rejection of the request - The request for Information may be rejected where it would involve an infringement of copyright subsisting in a person other than the State, and the applicant be informed the reasons and the particulars of the appellate authority and the period within which to appeal.

(e) Information exempt from disclosure

- disclosure expressly forbidden by law or may constitute contempt of court
- disclosure would cause a breach of privilege of Parliament or of the State Legislature
- relating to commercial confidence, trade secrets or intellectual property
- available to a person in his fiduciary relationship
- ireceived in confidence from foreign Government
- disclosure would endanger the life or physical safety of any person
- would impede the process of investigation or apprehension or prosecution of offenders
- cabinet papers (including records of deliberations of the Council of Ministers, Secretaries and other officers)

- The Central Government constitutes the Central Information Commission and the State Government, the State information commission.

The Central Information Commission:

- It consists of the Chief Information Commissioner and Central Information Commissioners, not exceeding ten
- The Chief Information Commissioner and Central Information Commissioners shall hold office for 3 years or the tenure as prescribed by the Central Government or up to the age of 65 years, whichever is earlier, and shall not be eligible for reappointment
- The headquarters of the Central Information Commission shall be at Delhi

- The Central Information Commission may impose a penalty of 250 for each day till the information is furnished subject to a maximum of 25,000, after giving to the parties an opportunity to be heard

The State Information Commission

- It consists of the State Chief Information Commissioner and State Information Commissioners, not exceeding ten.
- The State Chief Information Commissioner and State Information Commissioners shall hold office for 3 years or the tenure as prescribed by the Central Government or up to the age of 65 years, whichever is earlier, and shall not be eligible for reappointment

- RTI Act is applicable to banks and other institutions also owned and controlled by the Government.
- RTI provides for exemption from disclosure of information including commercial confidence trade secrets.
- The exemption is available to the banks if the disclosure of information is likely to harm the competitive position of the bank itself.

MODULE B – FUNCTIONS OF BANKS

Unit - 22. Principles of Lending, Different Types of Borrowers, and Types of Credit Facilities

- The business of lending is not without certain inherent risks, especially because lending banks depend largely on the borrowed funds.
- The cardinal principles of lending are:
  - Safety;
  - Liquidity;
  - Profitability
  - Purpose;
  - Diversification of Risks
  - Security
- Borrowers are broadly classified in the following categories: individuals, partnership firms, Hindu Undivided Family, companies, statutory corporations, trusts and co-operative societies.
- The laws applicable to all these different kinds of borrowers are different.
- Individuals are governed by the Indian Contract Act, partnership firms by the Indian Partnership Act, Hindu Undivided Family by the customary law pertaining to Hindus, companies by the Companies Act, statutory corporations by the Acts that created them, trusts by the Indian Trusts Act, Public Trusts Act, Religious and Charitable Endowments Act, Wakf Act and co-operative societies by the Co-operative Societies Act or the Societies Registration Act.
- The term working capital denotes the requirement of funds money by a business enterprise for its day-to-day financing of: purchase a raw materials, stores and spares; payment of wages to employees; payment of other expenses towards energy, fuel and water consumption, statutory dues, rates and taxes carriage expenses, other expenses required to be incurred in connection with the production, selling and administration etc.
- Working capital means the sum total of inventory, receivables and other current assets held by a business entity.
- Working capital is computed by the banks through the concept of operating cycle, i.e., the time taken by a business entity to get the money released from the raw materials, semi-finished goods, receivables, etc.
- A firm should have adequate working capital, i.e. as much as needed by the firm. It should neither be excessive nor inadequate. Both situations are dangerous.
- Excessive working capital means the firm has idle funds, which earn no profits for the firm.
- Inadequate working capital means the firm does not have sufficient funds for running its operations, which ultimately results in production interruptions leading to reduced profitability which may even lead to losses.

- A business enterprise also needs funds for acquisition of capital goods.
- These are typically funded from long term sources.
- Term loans are granted by banks and financial institutions to facilitate businesses to acquire capital goods.
- Term loans are loans which are repayable after one year and up to 10 years. Short term loan = 1-3 years, medium term loans = 3-7 years, long term loans = 7-10 years
- Credit facilities are mainly classified into: Fund based facilities and Non-fund based facilities.
- Fund based facilities, among other things, include: Cash credits/Overdrafts, Bill finance, Term loans and Non fund based facilities, among other things, include: Bank guarantee, and Letter of credit facility.
- Under customary law of bankers, interest can be charged on the temporary overdrafts granted.
- As per rule, in the Clayton's case each credit discharges the earliest of the debit entries.
- Difference between term loan and working capital is that term loans are repayable in quarterly or half yearly installments whereas working capital is generally availed in cash credit hypothecation accounts with frequent drawings and is payable on demand.
- For an assessment of the working capital needs of a borrower who requires fund based limits in excess of Rs 10 crore, the cash budget system (instead of cash flow statement) should be used.
- Cash flow system deals with both cash and non-cash funds, while the cash budget system deals with cash transactions only.
- The ceiling for banks in providing advances/loans to borrowers is 15% of the capital funds in case of a single borrower and 40% in case of group borrowers.

Unit - 23. Appraisal and Assessment of Credit Facilities

- Credit appraisal is a process of critical evaluation of a loan request by a prospective borrower.
- An appraisal is undertaken for ensuring that a credit is good.
- It measures the risk inherent in the proposal and comes to judgment to sanction or reject the proposal based on the assessment of the information, the applicant and the project.
- Verification and validation are necessary to check out the facts.
- Credit risk rating or credit rating is one of the credit appraisal tools.
- There are seven aspects (7 C's) for ascertaining - Creditworthiness, Character, Capacity, Capital, Collateral, Conditions, and Cash flows.
- Assessment of loans for different purposes is done in different manner as the factors affecting these differ in several respects.

Credit appraisal process

- Borrower identification and verification
- Assessing the business of the borrower
- Understanding the credit requirement
- Due diligence report
- Selecting the appropriate exposure/scheme
- Finalising the terms and conditions

Four cardinal parameters of lending

- Evaluation of creditworthiness of the borrower
- Considering the purpose of the loan
- Verifying the cash flows and source of repayment
- Assessing the security/collateral security

The capital required for a business enterprise can be classified under two main categories viz.

- Fixed Capital
- Working Capital

There are two concepts of working capital

- Gross working capital
- Net working capital

Components of Working Capital

- Raw material
- Stock in process
- Finished goods in stores and in transit

- Other consumable stores
- v. Receivables or sundry debtors
- vi. Other expenses

- Banks try to fund the gap or extend need based financial assistance.
- Banks may adopt one of the following four methods for assessment of working capital requirements of their clients
  - Turnover Method
  - Operating Cycle Method
  - Maximum Permissible Bank Finance (MPBF) Method (Projected Net Working Capital)
  - Cash Budget Method.

The non-fund based limits are normally of two types:

- Bank guarantees
- Letters of credit

Bank Guarantees (BG)

- Permanent Guarantees
- Business Activity Related Guarantees
- Guarantees for Export Quota
- Guarantees for Tax Liabilities
- Guarantees for Import of Capital Goods
- Guarantees for Advance Payments

- A term loan is granted for the purpose of acquisition of capital asset.
- Normally the term loans are repayable in instalments over a period ranging from 3 to 10 years.
- The credit risk, therefore, is greater in case of term loan than in case of working capital finance.
- Assessment of project cost requires estimating the cost of acquisition of capital assets, cost of construction of building, and any other related expenditure.
- To assess the debt servicing capacity the amount of cash surplus expected over the tenor of various long term loans is required to be estimated. Debt Service Coverage Ratio (DSCR) is the principal parameter to assess the debt servicing capacity.

Unit - 24. Operational Aspects of Loan Accounts

Credit Management

- Credit management is the management of the credit portfolio of banks and financial institutions.
- It includes pre-sanction appraisal, sanction, documentation, disbursement and post-lending supervision and control.
- Broadly credit management comprises following areas - Capital adequacy norms; Risk management, including asset liability management (ALM); Exposure norms; Risk pricing policy and credit risk rating;
- Asset classification, income recognition and provisioning norms; appraisal, credit decision-making and loan review mechanism.
- Exposure includes credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments).
- RBI has prescribed prudential ceilings for exposures to a single counterparty; to a group of connected counterparties; to a single NBFC; group of connected NBFCs etc.
- Besides, banks have been advised to fix their own prudential ceilings for exposures to specific sectors; and to Real Estate.

Credit Monitoring

- Credit monitoring can be defined as a continuous supervision process enabling the bank to ensure the quality of loan assets.
- Credit monitoring seeks to ensure that the funds are utilised for the sanctioned purposes and also compliance with the sanction terms and conditions.
- It comprises primarily monitoring transactions in the account; study of stock statements; and analyzing periodic statements on performance parameters.
- RBI has created central repository of large credits across banks viz. CRILC.

Interest rates on loans

- RBI regulations for interest rates on advances have over the period undergone several changes.
- The internal benchmark initially was PLR that was replaced by the Base Rate System and further by the MCLR.
- The interest rate for an individual loan would be arrived at by considering tenor spread based on the period of loan and the credit risk premium to be worked out for each loan limit.
- All floating rate rupee loans sanctioned and renewed w.e.f. April 1, 2016 were priced with reference to the MCLR.
- All new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans extended by banks to MSEs from October 01, 2019 and floating rate loans to Medium

Enterprises from April 01, 2020 shall be benchmarked to one of the specified external benchmark rates.

- For other floating rate loans also banks are free to adopt external benchmark.
- Certain categories of loans are exempted from external benchmark linkage regime.

Operational Aspects of Loans

- The procedures involved in handling loans are peculiar to each lending bank.
- However, the following steps are part of the processes in all banks – Receipt of loan applications; Assessment of viability and credit worthiness; Loan sanction; Disbursement; Monitoring and supervision.
- Working capital facilities (say cash credit or overdraft) work like revolving credit as these have regular credits and debits.
- Term loan type facilities are disbursed in one go or in few tranches within a limited period and are repaid in installments over a period of time or one-time bullet payment at the end of the tenor.
- Where a facility is given against security of stocks of goods, the processes connected with handling of goods, inspection, storage, etc. are required to be followed. Certain loan products, like Gold Loans, Vehicle Loans, and
- Educational Loans, require certain specific procedures to be followed.
- Banks engage recovery agents for follow-up and recovery of loans from customers who have defaulted.
- RBI has issued guidelines to be adopted by banks in respect of engagement of recovery agents.
- RBI has also issue guidelines for formulating and adopting Fair Practices Code for Lenders by banks.

Types of Borrowers

a. An individual
b. Sole Proprietary Firm
c. Partnership firm and joint venture
d. HUF
e. Companies
f. Statutory Corporations
g. Trusts and Co-Op societies

Go through these following terms in details

a. Funded and Non-Funded Credit Facilities
b. Term Loans
c. Demand Loans
d. Bills Purchased

e. Bills Discounted
f. End use of funds
g. Primary Securities
h. Collateral Securities
i. Personal Security of Guarantor
j. Fixed Charges
k. Floating Charges
l. Margin
m. Credit Risk Management
n. Credit Exposure Norms
o. Base Rate System of Interest on Advances
p. Fixed/Floating Rate of Interest on Loans
q. Penal Rate of Interest
r. Security
s. Documents of Title of Goods
t. Banker's General Lien
u. Negative Lien
v. Restrictions on Advances
w. Rehabilitation
x. Recovery
y. Fair Practice Code

Operational Process of Loans in the Banks

a. Receipt of Loan Application
b. Assessment of viability and credit worthiness
c. Sanction
d. Disbursement
e. Monitoring and supervision
f. Inspections
g. Review of the conduct of the account
h. Renewal of advances

Operating instructions – Advance against Goods and Warehouse Receipts

Go through these following operating instructions in details with book

a. Documentation
b. Margin
c. Valuation
d. Marketability
e. Godown Board
f. Insurance

g. Pledging of Stocks
h. Storage of goods pledged in the godowns where goods not pledged are also stored
i. Delivery of stocks pledged
j. Submission of stock statements in Hypothecation accounts
k. Staff accountability
l. Charges for inspection of Godowns/Assets/Securities etc.
m. Godown charges
n. Selective credit control
o. Advances against warehouse receipts

Operational aspects of few common loan products
Gold Loans

a. Must be covered under policy framed by Bank's Board
b. Prohibited from granting any advance against bullion/primary gold
c. End use of the funds to be ensured
d. Ownership of the ornaments to be ensured
e. Valuation of gold ornaments to be done
f. Prefer hallmarked jewellery
g. Purpose of loan can be for both Agriculture and non-agriculture purposes
h. Loan to Value (LTV) to be maintained (Max. 75 % of value of gold ornaments)
i. Maximum amount of loan should be within board approved limit
j. Record of security
k. Custody of ornaments
l. Repayment should not be more than 12 months (other than agriculture)
m. Return of ornaments on repayment
n. Delivery to third parties should be by a letter of authority from the buyer
o. Default is to be informed to the borrower that the ornaments would be auctioned
p. Should be insured for the approved value
q. Surprise verification of the pockets to be carried out

Educational Loans

a. Service area norms
b. Eligibility criteria
c. Student eligibility
d. Expenses considered for loan
e. Quantum of finance
f. Margin
g. Security
h. Documentation
i. Sanction

j. Disbursement
k. Repayment
l. Follow up
m. Processing charges

Home Loans

1. Valuation of property
2. Eligibility
3. Loan to Vale (LTV) ratio
4. Interest rate
5. Security
6. Insurance
7. Disbursal – for purchase of constructed property/built up property
8. Disbursal – for building construction
9. Repayment
10. No Foreclosure charges/Prepayment penalty for floating rate individual borrowers

Vehicle Loans

a. Purpose of Auto Loan – New/used Car, MUVs, SUVs, Two wheelers
b. Eligibility
c. Documents required to be submitted
d. Loan Tenure
e. Loan to Vale (LTV) ratio
f. Interest rate – Fixed/Floating
g. Repayment
h. Security
i. Insurance
j. Inspection
k. Fees and charges
l. Disbursement

Apart from the above, all the loans sanctioned must comply with :

a. KYC – proper verification of KYC
b. CIBIL disclosure – Borrower should agree and give consent for disclosure by the Bank
c. Default – In case of default, the borrower must be sent with reminders through post, fax, email, SMS
d. Time taken for disposal of allocations – should be disposed within stipulated time

Unit - 25. Types of Collaterals and their Characteristics

1. An unsecured loan is one for which the banker has to rely upon the personal security of the borrower.
2. Secured loans are antithesis to unsecured loans.
3. Various methods of securing a loan are pledge, hypothecation, mortgage and assignment of debts of the borrower.
4. The effectiveness of a security offered to a banker would largely depend on the nature of the security, which includes its marketability, valuation and other economic factors and certain legal aspects, like the borrower's title, existing encumbrance or liability attached to the security.
5. Various kinds of normally acceptable securities include land/real estate, stocks and shares, debentures, goods, life insurance policies, book debts, fixed deposit receipts and supply bills.
6. The securities depending on their nature have various advantages and disadvantages.
7. The banker however, has to verify the worth of the security and its enforceability, before accepting it.
8. Of all the kinds of security, fixed deposit receipt of the bank is the best and most reliable compared to other forms of security.
9. The method of creation of a charge on these securities varies according to the type.
10. The security of goods can be created either by pledging the goods directly or by pledging the title to goods, which in turn is a pledge of the goods or by charge by way of hypothecation.
11. Security is of two types – primary and collateral.
12. Primary security is one that is regarded as the main cover for an advance, generally assets against which advance are made. Ex stocks for cash credits, machinery for term loans.
13. Collateral security is security other than primary security.
14. Mortgage of immovable property is either primary or collateral.
15. When doing mortgage, encumbrance certificate is taken for generally 13 years to check no encumbrance exists on the property.
16. The nature of charge created on lands and buildings is mortgage.
17. The nature of charge created on goods may be pledge or hypothecation.
18. In the case of key cash credit, the nature of charge created is pledge because in this case, the possession of goods is transferred to the banker.
19. In the case of open cash credit, the nature of charge created is hypothecation because in this case, the possession of goods is not transferred to the banker.
20. In both the key cash credit and open cash credit (means in either case of pledge or hypothecation), the title in the goods is not transferred to the bank.
21. The valuation of the stocks is done on the basis of cost price or market price whichever is less.

22. Documents of title to goods means a document used in the ordinary course of business as a proof of possession or control of goods authorising or purporting (claiming) to authorise either by endorsement or delivery (as per section 2(4) of Sales of Goods Act).
23. Goods represented by the documents are transferrable by endorsement and/or delivery of the documents. It looks like negotiable instruments but actually they are quasi-negotiable instruments.
24. Examples of documents of title are bill of lading, dock warrant, warehouse-keepers certificate, railway receipts, delivery orders, etc.
25. LICs are taken either as primary or collateral security.
26. Nomination under the LIC is automatically cancelled in the event of the assignment of the policy.
27. The nature of charge created while making advances against shares is a pledge.
28. Banks provide either demand loan or an over draft against the security of shares.
29. Shares should be in demat form and should be quoted in a recognised stock exchange.
30. Advances are granted against fully paid shares only.
31. No loan can be granted against the security of a private limited company.
32. No banking company can hold shares in any company of an amount exceeding 30 % the paid up share capital of that company or 30 % of its own paid up share capital and reserves whichever is less (BR Act 1949, section 19 (2)).
33. If the securities (of shares, debentures and PSU bonds) are in physical form, loans against to individuals should not exceed the limit of Rs 10 lac per borrower.
34. If the securities (of shares, debentures and PSU bonds) are in demat form, loans against to individuals should not exceed the limit of Rs 20 lac per borrower.
35. ESOP (Employees Stock Option Plan) is a scheme under which banks provide loan to employees for purchasing shares of their own companies.
36. Under ESOP, an employee can purchase to the extent of 90 % of the purchase price of shares or Rs 20 lac, whichever is less.
37. In case of advances against shares, a uniform margin of 50 % shall be applicable on all advances/financing of IPOs/issue of guarantees. And within this margin of 50 %, a minimum cash margin of 25 % shall be maintained in respect of guarantees issued by banks for capital market operations.
38. Banks also give loans under book debts.
39. Book debts mean account receivables (total of debit balance in the purchaser's account).
40. Book debts can be financed by: factoring (lesson 7), forfeiting (outright i.e. complete purchase of book debts, and overdraft and cc against hypothecation of book debts.
41. Age of the book debts should be 3-6 months old, but not later.
42. Margin of 50 % is maintained in book debts.
43. Banks may provide advances against the security of time deposits such as FD or RD.
44. The nature of facility granted against the security of term deposits may either be a loan or an overdraft.

45. The nature of charge created while granting loan against time deposits is a pledge.
46. Normally loans up to 90 % of the deposit amount/accrued value of the deposit is provided.
47. The ROI charged on the loan would be 1 or 2 % above the interest rate offered on the deposits.
48. Loans given to a sole proprietor against deposit in the name of the proprietor concern should NOT be treated as 3rd party loan.
49. Loans given to a partner against deposit in the name of the firm should be treated as 3rd party loan and interest should be charged at the commercial rate.
50. If a company seeks loan against its deposit, a board resolution authorising the company to raise the loan should be obtained. The charge of pledge need not be registered with the ROC.
51. A deposit held under 'Capital Gain Scheme' is not eligible for loan.
52. The nature of charge created under the security of gold ornaments is a pledge.
53. No loan can be given against the security of pure gold.
54. Around 30 % margin is kept on the market value of the ornaments.
55. The nature of charge created under 'Supply Bills' is assignment

Unit - 26. Different Modes of Charging Securities

1. For banking services, law of contract is relevant for various activities, especially lending.
2. Various agreements between a bank and a borrower are governed by the law of contract.
3. In India, the law relating to contracts is governed by the Indian Contract Act, 1872.
4. All the banking services/procedures/transactions, one way or the other, are the offshoots of the contract act.
5. An 'agent', is a person employed to do any act for another person or to represent another person in dealings with some third person.
6. When banks collect various financial instruments for their customers, this law comes into force.
7. A 'bailment' is thedelivery of goods by one person to another for some purpose.
8. Banks' charge over properties confines itself to one or more of the following seven types of charges – Assignment, Lien, Set-off, Hypothecation, Pledge, Mortgage, and Appropriation.
9. Assignment is transfer of a right, property or a debt. The transferor is called assignor and the transferee is called assignee.
10. A borrower may assign the book debt, money due from government department and LIC as security for an advance.
11. Under the provision of the Insurance Act, an LIC is assignable by an endorsement on the back of the policy or by a separate deed of assignment, but notice of such assignment must be given to the insurer by the assignee or assignor.
12. Under section 171 of the Indian Contract Act, lien is the right of the banker to retain (and sell if need arises) possession of goods and securities owned by the debtor until the debt due from the latter is paid.
13. Lien is an implied (understood) pledge.
14. Set-off means adjusting the debit balance in one account of the debtor with the credit balance in another account of the same debtor. It is also applicable in case of partnership accounts.
15. Lien and set-off both cannot be exercised at a time.
16. Hypothecation is a charge created on movable property without delivery of possession of the property.
17. Hypothecation differs from pledge because goods remain in the possession of the borrower in hypothecation.
18. Hypothecation transforms into pledge when the possession of the goods is transferred to the creditor.
19. Hypothecation differs from mortgage because mortgage relates to immovable property but hypothecation relates to movables. Also, in hypothecation, there is only obligation to repay money and no transfer of interest but in mortgage, there is transfer of interest in the property to the creditor.

20. Pledge means bailment of goods for purpose of providing security for payment of debt or performance of a promise (as per section 172 of the Contract Act 1872).
21. In pledge, there is actual or constructive (no physical) delivery of goods to the Pawnee (who takes the goods as security).
22. There are 6 types of mortgage
    - **Simple mortgage** – mortgage is by deposit of title deeds, mortgagee has a right to proceed against the property mortgaged and also personally against the mortgagor
    - **Mortgage by conditional sale** – possession of mortgaged properties is given
    - **Usufructuary mortgage** - possession of mortgaged properties is given
    - **English mortgage** - possession of mortgaged properties is not given
    - **Mortgage by deposit of title deeds** – it is not required to be created by way of a deed and doesn't require registration
    - **Anomalous mortgage** - Mortgage is to be created by way of deed and requires to be registered under the Registration Act.
23. Limitation period for filing a suit for sale of mortgage property is 12 years from the date mortgage debt becomes due.
24. Limitation period for filing a suit for foreclosure of mortgage property is 30 years from the date mortgage debt becomes due.
25. Bankers generally prefer simple mortgage and mortgage by deposit of title deeds.
26. Pledge: When lender possess movable security.
27. Hypothecation: When lender has a charge against movable security, which is not in lender's possession.
28. Mortgage: when lender has a charge against immovable property, not in its possession.
29. Lien: not necessarily the security is in your possession, but we have frozen it for any debit/withdrawal transaction.
30. The Companies Act, 2013 provides that for the purpose of registration under the said Act, it includes specified charges.
31. Under the provisions of the SARFAESI Act, particulars of any charge creating security interest of banks or financial institutions over property can be filed with the Registry (CERSAI).

Unit - 27. Documentation

1. Among the various purposes of taking documents, resorting to legal remedies, in case of necessity, is the prime one.
2. Following various steps namely, selection of correct set of documents, stamping at right point of time, filling in a proper manner, execution, observing the legal formalities, keeping the documents alive always and preserving the documents till the entire dues are recovered, meticulously will help a banker in ensuring error-free documentation.
3. Following types of documents are taken by a bank for a loan
   - ❖ Demand Promissory Notes (DPN)
   - ❖ Bill of Exchange
   - ❖ Agreements
   - ❖ Forms
4. DPN (Demand Promissory Note) is a document which a bank takes when there is no fixed period for the repayment of loan.
5. In DPN, the borrower makes a promise to the banker to repay the loan amount on demand with agreed rate of interest.
6. DPN must be stamped as per Indian Stamps Act.
7. An agreement includes the amount of loan, rate of interest, rate of penal interest, % of margin, period of repayment, rights of the bankers in case of default of loan, details of security/securities charged, etc.
8. The agreement must be stamped.
9. Forms are neither promised nor agreement. They are obtained to specify the intention of the borrower. For ex, when a loan is granted against the security of a FD standing in joint names, one of them gives an authorization to the other to raise a loan on the deposit. Such an authorization is taken in a form.
10. For correct documentation, the steps followed are – selection of correct set of documents, stamping, filling, execution, and legal formalities.
11. The cancellation of adhesive stamp is done as per Section 12 of the Indian Stamp Act.
12. In case of advances to limited companies against its assets, the required forms are to be presented to the Registrar of Companies with the 30 days from the date of execution.
13. In case of creation of registered mortgages, the mortgage deed is presented for registration before the Registrar of Assurances within 4 months from the date of execution of the deed.
14. The documents submitted to the bank don't have perpetual life, the provision of Limitation Act apply to them. The Limitation Act prescribes the period of limitation for different types of documents.
15. The limitation period for a DPN is 3 years from the date of execution. It means if the loan is not repaid within 3 years, the bank has to get fresh documents for extending the period.

16. If the borrower or his duly authorized agent makes any part payment towards the loan before the expiry of period of limitation, then the period of limitation is extended by one more period from the date of such part payment.
17. Securitisation is the process of acquisition of large NPA loan or portfolio of loans such as housing, by Securitisation or Reconstruction Co from a bank or financial institution on mutually agreed terms and conditions.

Unit - 28. Non-Performing Assets/ Stressed Assets

- The policy of income recognition is based on the record of recovery.
- Non-performing assets are classified into three categories based on the period for which they remained in non-performing category.
- Income is not recognised from an NPA on an accrual basis, but is booked as income only when it is actually received.
- The prudent guidelines were first issued by RBI in the year 1991 implemented wef 01.04.1992 on recommendations of Narasimham committee covering, income recognition, asset classification and provisioning.
- Prudential norms prescribed by RBI include norms relating to Accounting, Exposure, and Capital Adequacy.
- When an asset is classified as NPA, any booked income not actually received is reversed.
- Banks are required to make provisions for NPAs in graded manner depending on the extent of tangible security cover and also the age of NPA. Asset classification is borrower wise and not facility wise.
- In case of consortium, the classification for each bank is determined on the basis of the status in that bank.
- Asset classification is applicable to State Government Guaranteed advances also. In case of loans to projects during their implementation asset classification is linked to Date of Commencement of Commercial Operations.
- A framework for resolution of stressed assets has been put in place requiring banks to proactively identify loan accounts showing signs of stress that may eventually lead to the account slipping to non-performing status.
- Loan accounts are thus closely monitored right from the first date of default.
- Accounts are placed under three age-wise categories, viz.
  - SMA-0,
  - SMA-1 and
  - SMA-2

Classification as NPA

Term Loan - If Interest and/ or installment of principal remain overdue for a period of more than 90 days

CC/Overdraft - if *the* account remains 'out of order or the limit is not renewed/reviewed within 180 days from the due date of renewal. Out of order means an account where
(i) the balance is continuously more than the sanctioned limit or drawing power OR
(ii) where as on the date of Balance Sheet, there is no credit in the account continuously for 90 days or credit is less than interest debited OR
(iii) where stock statement not received for 3months or more.

Bills -If the bill remains overdue for a period of more than 90 days from due date of payment

Agricultural accounts – (i) if loan has been granted for short duration crop: interest and/or installment of principal remains overdue for two crop seasons beyond the due date.
(ii) if loan has been granted for long duration crop: interest and/or installment of principal remains overdue for one crop season beyond due date.
Decision about crop duration to be taken by SLBC.
Loan against FD, - Advances against term deposits, NSCs eligible for surrender, IVPs, NSC, KVP, LIP, KVPs and life policies not treated as NPAs provided sufficient margin is available. Advances against gold ornaments, govt securities and all other securities are not covered by this exemption.
Loan guaranteed by Government - Loan guaranteed by Central Govt not treated as NPA for asset classification and provisioning till the Government repudiates its guarantee when invoked. Treated as NPA for income recognition.
Consortium advances - Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks.

Asset Classification
1. Asset Classification to be borrower-wise and not facility-wise
2. Assets classified into Standard, Sub standard, Doubtful, Loss. Except standard all others are NPAs.
3. When an account becomes NPA it is called Sub standard asset.
4. An account remains sub standard up to 12 months from the date of becoming NPA
5. Doubtful Assets : An asset is to be classified as doubtful, if it has remained NPA or sub standard for a period exceeding 12 months.
6. Loss Assets : A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.
7. When an account is classified as Doubtful or Loss without waiting for 12 months: If in an account which was secured in the beginning, the realizable value of tangible security falls below10%of the outstanding, it should be classified loss asset without waiting for 12months
8. If the realizable value of security is 10% or above but below 50% of the outstanding, it should be classified as doubtful irrespective of the period for which it has remained, NPA.

Provisioning Norms
1. Provisioning is made on all types of assets i.e. Standard, Sub standard, Doubtful and loss assets.

2. **Standard Assets :**
a. Direct advance to agriculture or Micro and Small Enterprise (Not medium) : 0.25%of outstanding;
b. Commercial Real Estate: 1%of outstanding;
c. Housing Loans with teaser interest rates: 2%of outstanding; All others: 0.4%of outstanding

d. The provisions on Standard Assets is shown as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.

3. **Sub Standard Assets:**
a. Secured sub standard: 15% of outstanding balance without considering securities available.
b. Unsecured sub standard: if the loan was unsecured from the beginning: 25%of outstanding balance.
c. If unsecured sub standard for infrastructure: 25%of outstanding balance.
d. Unsecured exposure means exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, *ab-initio,* of the outstanding exposure.

4**. Doubtful Assets:**
1. Unsecured portion:100%
2. Secured portion: 25% to 100% depending on the period for which account is doubtful

Age of Doubtful Asset	**Provision as % of secured portion**
Doubtful up to 1 year D1	25% of RVS (Realisable value of security)
Doubtful for more than 1 year to 3 years D2	40% of RVS
Doubtful for more than 3 years; D3	100% of RVS

5. Loss Assets: 100%of the outstanding amount.
6. If loan is guaranteed by ECGC, CGFT or CGFLHS, provision not on guaranteed portion
7. Provision on advance against FD, NSC, LIP, KVP as per their asset classification.
8. Overall provisions: Provisioning coverage ratio, including floating provisions, should not be less than 70 per cent.
9. Provisioning coverage ratio is the ratio of provisioning to gross NPAs.
10. Provision on Standard account to be kept as part of Other Liabilities in Schedule-5 of bank's balance sheet.
11. Provision on Standard accounts to be done on Global balance and for NPA accounts on Gross Balance
12. For Doubtful accounts, provision to be done separately for secured portion and unsecured portion of total balance in the account.
13. In case of standard and sub standard assets, provision is on outstanding balance without bifurcating the balance into secured or unsecured.
14. Floating provisions can be deducted from Gross NPAs or treated as part of Tier Il capital but not both.

Upgradation of Loan Accounts Classified as NPAs

1. if arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account may be classified as 'standard' accounts immediately.
2. Restructured accounts: After one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during 12 months period from the date of starting payment after moratorium period.

- Exemptions from certain RBI and SEBI regulations have been given for restructured advances.
- Where several lenders have financed a borrower that is showing signs of stress, the lenders should enter into Inter-Creditor Agreement for working out a Resolution Plan and implement it.
- As a part of credit management, lenders should carry out their independent and objective credit appraisal in all cases; should carry out sensitivity tests/scenario analysis, especially for infrastructure projects; ascertain the source and quality of equity capital.
- DIN number of directors should be obtained and reported to CRILC.
- Banks are required to report their NPAs covering gross NPAs, net NPAs, gross Advances and net Advances.

Unit - 29. Important Laws Relating to Recovery of Dues

- Due to long pending recovery cases at Civil Courts and High Courts, there was need to have effective laws for recovery of dues by financial institutions.
- Acts most relevant for banks and financial institutions are
  - Recovery of Debts and Bankruptcy Act, 1993;
  - Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
  - Insolvency and Bankruptcy Code, 2016;
  - The Legal Services Authorities Act, 1987.
  - Besides, the Law of Limitation holds a special significance in the context of recovery of dues through legal recourse.

Recovery of Debts and Bankruptcy Act, 1993:

- Under the Act, DRT are established by the Central Government.
- The Appellate Authority for matters decided at the DRT is the DRAT.
- Bank has to file application for recovery of loan taking into consideration jurisdiction and cause of action.
- Other bank or financial institution can join the application.
- DRT issues Recovery Certificates that can be executed like the decrees of Civil Courts.
- Appeal can be filed with DRAT, on depositing 50% of the amount determined due by the DRT.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

- The SARFAESI Act was enacted with an aim to provide a structured platform to the banking sector for managing its mounting NPA stocks. It has provided a mechanism where for specified securities the banks and financial institutions can take possession physical as well as constructive of property and also dispose the property to cash its value.
- For taking possession, help of the Chief Metropolitan Magistrate or District Magistrate can be taken.
- The Act also provides for setting up of Asset Reconstruction Companies (ARC) which acquire NPAs from banks/financial institutions by raising funds from Qualified Buyers by issuance of security receipts (as defined by the Act) representing undivided interest in such financial assets. It enables ARC to take possession of secured assets of the borrowers including right to transfer and realize the secured assets..
- ARCs require registration with RBI and are governed by RBI regulations.
- An ARC has to comply with following two conditions:
  (i) It obtains certification of registration from RBI

(ii) It has Net owned funds (NOF) not less than 100 crore on an ongoing basis.

- The Central Government has set up a 'Central Registry' for registration of following transactions:
    - Securitisation of financial assets,
    - Reconstruction of financial assets, and
    - Creation of security interest under SARFAESI Act.
- There are certain other Acts requiring registration of information and charges. These Acts are:
    - Registration Act, 1908
    - Companies Act, 2013
    - Merchant Shipping Act, 1958
    - Patents Act, 1970
    - Designs Act, 2000
    - Motor Vehicles Act, 1988
- CERSAI was set up under SARFAESI to maintain and operate the Central Registry for and on behalf of the Central Government for various types of transactions/charges that are required to be filed by banks and financial institutions.
- Modification and satisfaction also need noting.

Insolvency and Bankruptcy Code, 2016

- Insolvency and Bankruptcy Code, 2016 (IBC) that has codified various aspects related to commercial debt and payment obligations of individuals and entities in one single enactment.
- IBC is not for recovery proceedings through enforcement of security or court attachment, etc.
- It is essentially for having coordinated independent machinery that will enable arriving at a mutually beneficial course of action to resolve the financial crisis of the debtor through various possible alternatives.
- These could be restructuring, change in management or promoters/ owners, disposal of assets, liquidating the unit, etc.
- The institutional set-up for IBC comprises the following:
    - The Insolvency and Bankruptcy Board of India (IBBI)
    - Resolution Professionals Agencies (RPA)
    - Resolution Professionals/ Resolution Professional Entities (RPs)
    - Adjudicating Authorities – National Company Law Tribunal – for Corporates and Limited Liability Entities/ Debt Recovery Tribunal for Individuals and Partnership Firms
    - Appellate Authorities – National Company Law Appellate Tribunal/ Debt recovery Appellate Tribunal

The Legal Services Authorities Act, 1987

- This Act provided a quasi-judicial forum as a fast-channel for handling disputes among various parties.
- For banks and financial institutions for loans up to ` 20 lakh this channel can be availed.
- Under the law, Lok Adalats have been set up so that the public does not have to spend time and money in merely accessing forum for settling disputes among them.
- The approach followed by Lok Adalats is of resolving the dispute by mutual discussions between the parties, if required through mediation by the professionals.
- They are guided by the principles of justice, equity, fair play and other legal principles.

The Law of Limitation

- The law of limitation is vital in respect of recovery of loans through legal process.
- It is important to file application or complaint for recovery within the limitation period; else the application will not be admitted by the adjudicating authority. It is also important to keep the loan documents current through either taking an acknowledgement or revival letter or periodical repayments from the borrower.
- The Act provides exclusion of certain period while computing the period of limitation.

Unit - 30. Contracts of Indemnity

1. The word indemnity means 'to save from losses'.
2. A Contract of Indemnity is entered into when a party apprehends a loss in a particular contract and wants itself to be covered from the losses it may incur.
3. A contract of indemnity may be express or implied.
4. In a contract of indemnity there are two parties, viz., the indemnifier and the indemnified
5. In an indemnity, the risk is contingent
6. The indemnifier is required to make good the loss as soon as it occurs
7. There are only two parties to a contract of indemnity and as such only one contract
8. An indemnity is for reimbursement of a loss
9. Sec. 124 and 125 of the Indian Contract Act respectively, lay down the laws of indemnity and the rights of indemnity holder.
10. These sections are not exhaustive and the general law of indemnity, which is wider.
11. Banks, in order to isolate themselves from any adverse developments and consequent loss at a later date, obtain indemnity while issuing duplicate demand drafts/Fixed Deposit Receipts, permitting operation in current account of partnership, etc.

Unit - 31. Contracts of Guarantee & Bank Guarantee

- A Contract of Guarantee is a contract to perform the promise or discharge the liability of a third person in case of his default.
- Parties to the Contract
  - Surety - The person who gives the guarantee
  - Principal Debtor - The person in respect of whose default the guarantee is given
  - The person to whom the guarantee is given is called the 'creditor/beneficiary'.
- A guarantee which extends to a series of transactions, is called, a 'continuing guarantee'. This type of guarantee is not limited to only one transaction but to many transactions
- Any guarantee obtained by means of misrepresentation made by the creditor is invalid.
- Banks generally obtain guarantee as a form of collateral for a debt.
- Also, the contract of guarantee is applicable in banking products like performance guarantee, financial guarantee, co-acceptance, etc. All these are examples where a contract of guarantee applies.
- A bank guarantee is a contract by which the bank guarantees a certain sum to a person/entity on the customer failing to fulfil any contractual or legal obligation to the said person/entity.
- The parties to the contract of bank guarantee are:
  - Applicant borrower/The principal debtor: Person at whose request the guarantee is executed.
  - Beneficiary: Person to whom the guarantee is given and who can enforce it in case of default.
  - Guarantor bank: The lending bank who undertakes to discharge the obligations of the applicant in case of his default.
- The Bank's obligation to pay is primary and independent of the underlying contract.
- The only exception for a bank not to make payment under a guarantee is when a fraud exists, which must be proved beyond doubt or special equity is in favour of the debtor.
- While issuing a guarantee a bank has to ensure that, the amount guaranteed and the period of the guarantee is specifically stated in the guarantee.
- The bank while issuing a guarantee should obtain a counter guarantee from its customer and additional security to protect the bank in case it is required to pay under the guarantee.
- The bank while making payment under a guarantee has to ensure that the invocation is proper and that the person invoking the guarantee has the authority to invoke the guarantee.
- Various Types of Bank Guarantees
  - Financial Guarantee
  - Performance Guarantee
  - Deferred Payment Guarantee

Unit - 32. Letters of Credit

- A letter of credit is defined as 'a written instrument issued by a banker at the request of a buyer (applicant) in favour of the seller (beneficiary) undertaking to honour the documents or drafts drawn by the seller in accordance with the terms and conditions specified in the credit, within a specified time'.
- A LC is a device used for effecting payment by bankers for goods supplied or services provided between two parties and is mostly used in foreign trade.
- Parties to a LC transaction.
  - Applicant-Buyer-Importer-Opener
  - Issuing Bank (Opening Bank/ Importer's Bank)
  - Beneficiary-Exporter-Seller
  - Advising Bank (Notifying Bank)
  - Negotiating Bank
  - Confirming Bank
  - Reimbursing Bank

- LCs are classified based on the various terms and conditions they contain.
- Main among them, are -
  - Acceptance Credit - where the payment is made after a certain period
  - Irrevocable Credit - where any alteration of terms or cancellation requires the concurrence of beneficiary
  - Confirmed Credit - where the advising bank adds its own confirmation to the credit while advising the beneficiary
  - With Recourse Credits – where the beneficiary is liable on a bill drawn by him under an LC
  - Without Recourse Credits – where the beneficiary is not liable
  - Transferable Credits - where the beneficiary can transfer his rights to third parties (second beneficiaries)
  - Back-to-Back Credits - where the beneficiary uses the same to open another LC from his (beneficiary's) bank in favour of his supplier
  - Anticipatory Letter of Credit
    - Red Clause letter of credit - authorises an intermediary bank to make an advance to the beneficiary before shipment
    - Green Clause letter of credits - not only permits pre shipment advance but also permits advances to the exporter to cover storage at the port of shipment
  - Revolving Letter of Credit - though the amount is fixed, it can be renewed as soon as the earlier bills have been paid

- There are two basic principles that underline every LC transaction
    - The first one being that in every transaction strict compliance of terms is required
    - The other being the independent nature of LC transaction
- As such, it is necessary to ensure strict compliance of the documents required under an LC.

- Documents Pertaining to LC
    - Bill of Exchange
    - Invoice
    - Transport Documents
    - Bills of Lading
    - Airway Bill
    - Post Parcel Receipt and Courier Receipts
    - Insurance Documents
    - Other documents

Unit - 33. Deferred Payment Guarantee

- 'Deferred Payment Guarantee' under which payments are made on deferred basis
- A deferred payment guarantee (DPG) is an unconditional and irrevocable guarantee given by a bank to a seller/exporter that on his supplying goods to the buyer/importer (who is the bank's customer) on instalment basis the bank would ensure payment on the due dates.
- DPGs are usually insisted upon, when capital goods are imported and the seller/exporter requires an additional assurance that the instalment payment allowed by him to the buyer/importer is met.
- In a contract for import of goods on deferred payment terms, over a period of time (may range from 1 to 7 years), the payment is usually done on the following terms:
    - Advance payment of 10% to 15% of the price of the goods is made by the buyer.
    - Another 10% to 15% is paid on receipt of documents under letter of credit.
    - The balance amount is paid in instalments over 1 to 7 years, secured by a 'Deferred Payment Guarantee'.

Unit - 34. Laws Relating to Bill Finance

- Bill finance is one of the modes of lending by a banker.
- Law relating to bills of exchange is provided in NI Act, 1881.
- The Act defines certain related terms and the types of bills.
- In case of bills the relationship between the parties is that of debtor and creditor.
- Holder in due course becomes the payee of the bill and has rights against the drawee and drawer, both.

Class of Bills

- Clean bills
- Documentary bills
- Bills drawn under credit

- 'Bills' used under bill finance can be classified depending upon the place where drawn, period and their nature as under:

Place	Period	Nature
1. Inland bills	3. Demand bills	5. Clean bills
2. Foreign bills	4. Usance bills	6. Documentary bills

- Basically, a banker offers following types of bill finance.
  - Bill Purchase (B.P.)
  - Bill Discount (B.D.)
  - Advance against Bills for Collection (A.B.C.)

Unit - 35. Personal Finance

- Retail lending in banks has, of late, grown by leaps and bounds.
- Of retail loans extended by banks, home loans and consumer loans form a major percentage.
- Credit cards are a good mode of credit delivery.
- Due to advancement of technology and easy accessibility to credit they have gained wide acceptance in the market.
- Grievance redressal machinery and procedures are put in place by banks.
- Banks are required to advise the customer about the MITC at every stage viz. marketing of cards, application for card, and issuance of cards, as also in case of reminder for overdues.
- With the growth in employment and the per-capita income and savings, the demand for housing has gone up, leading to demand for home loans.
- For home loans, lenders take into account the repayment ability of the borrower, the ability of the borrower to provide the margin money, the title of the property, and its value and condition.
- Banks also extend loans to intermediary housing agencies including housing finance companies.

Housing Loan for Various Purposes

- Acquisition of land
- Construction of Building / Ready-Built House
- Supplementary Finance

Lending To Housing Intermediary Agencies

- Financing of Land Acquisition
- Lending to Housing Finance Institutions
- Lending to Housing Boards and Other Agencies
- Term Loans to Private Builders

- The demand for consumer loans and personal loans is also increasing corresponding to the increase in the living standards of the people. A personal loan or a consumer loan is usually given when the bank is satisfied about the regularity and sustainability of the source of income of the customer.
- These are collateral free loans.

Unit - 36. Priority Sector Advances

- Priority sector lending regime has been put in place to harness bank credit for purposes like agriculture and allied activities, MSME, etc. for development of our economy keeping in view our large population, rural base of the economy, the limited resources available and the competition emerging from the liberalisation of the economy.
- Various features like targets and sub-targets assigned to both domestic and foreign banks under each sector and sub-sector are given below.

Targets /Sub-targets for Priority sector

Categories	Domestic commercial banks (excl. RRBs & SFBs)& foreign banks with 20 branches andabove	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher	40 per cent of ANBC as computed in para 6 below or CEOBE whichever ishigher; out of which up to 32% can be in theform of lending to Exports and not less than 8% can be to any other priority sector	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckonedfor priority sector achievement onlyup to 15 per cent of ANBC.	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher.
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 forSMFs	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, whicheveris higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per centof ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 percent# of ANBC or CEOBE, whicheveris 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				

<table>
<tr><th>Categories</th><th colspan="5">Primary Urban Co-operative Bank</th></tr>
<tr><td rowspan="3">Total Priority Sector</td><td colspan="5">40 per cent of ANBC or CEOBE, whichever is higher, which shall stand increased to 75 per cent of ANBC or CEOBE, whichever is higher, with effect from March 31, 2024. Urban Co-operative Banks (UCBs) shall comply with the stipulated target as per the following milestones:</td></tr>
<tr><td>March 31, 2020</td><td>March 31, 2021</td><td>March 31, 2022</td><td>March 31, 2023</td><td>March 31, 2024</td></tr>
<tr><td>40%</td><td>45%</td><td>50%</td><td>60%</td><td>75%</td></tr>
<tr><td>Micro Enterprises</td><td colspan="5">7.5 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher</td></tr>
<tr><td>Advances to Weaker Sections</td><td colspan="5">12 per cent# of ANBC or credit equivalent amount of Off-BalanceSheet Exposure, whichever is higher.</td></tr>
<tr><td colspan="6"># Revised targets for weaker sections will be implemented in a phased manner as indicated below</td></tr>
</table>

The targets for lending to SMFs and for Weaker Sections shall be revised upwards from FY 2021-22 onwards as follows:

Financial Year	Small and Marginal Farmers target *	Weaker Sections target ^
2020-21	8%	10%
2021-22	9%	11%
2022-23	9.5%	11.5%
2023-24	10%	12%

* Not applicable to UCBs
^ Weaker Sections target for RRBs will continue to be 15% of ANBC or CEOBE, whichever is higher.

Categories of Priority Sector Lending

1. Agriculture

(a) Farm Credit: Loans to individuals and entities engaged in Agriculture and Allied Activities.
(b) Agriculture Infrastructure: Ceiling for sanctioned limit per borrower from the banking system Rs.100 crore.
(c) Ancillary services: Loans for food and agro processing, and other specified purposes.
(d) Specified deposits: with NABARD
(e) Small and Marginal Farmers:
(f) Lending by banks to NBFCs and MFIs for on-lending in agriculture.

2. Micro, Small and Medium Enterprises (MSME)

(a) All bank loans to MSMEs conforming to the specified guidelines.
(b) Factoring transactions on 'with recourse' basis wherever the 'assignor' is a MSME, including those through the Trade Receivables Discounting System (TReDS).
(c) Loans to units in the KVI sector.
(d) Other Finance to MSMEs.

3. Export Credit (Not applicable to RRBs and LLBs)

- Export credit under agriculture and MSME sectors can be classified as PSL in the respective categories viz. agriculture and MSME.
- Export Credit (other than in agriculture and MSME) will be allowed to be classified as priority sector as per the following table.

Domestic Banks / WoS of Foreign Banks/ SFBs/ UCBs	Foreign Banks with 20 branches and above	Foreign Banks with less than 20 branches
Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to Rs. 40 crore per borrower.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or CEOBE whichever is higher.	Export credit up to 32 per cent of ANBC or CEOBE whichever is higher.

- Export credit includes pre-shipment and post-shipment export credit (excluding off-balance sheet items) as defined in Master Circular on Rupee / Foreign Currency Export Credit and Customer Service to Exporters.

4. Education

- Loans to individuals for educational purposes, including vocational courses, not exceeding Rs.20 lakh will be considered as eligible for priority sector classification.
- Loans currently classified as priority sector will continue till maturity.

5. Housing

- Loans to individuals for purchase/ construction/ repairs of a dwelling unit.
- Loans to any governmental agency for construction of dwelling units or for rehabilitation of slum dwellers.
- Loans for affordable housing projects.
- Loans to HFCs.
- Outstanding deposits with NHB.

6. Social Infrastructure

- Loans for schools, drinking water facilities, and sanitation facilities.
- Credit to Micro Finance Institutions (MFIs) for on-lending for similar purposes.

7. Renewable Energy

- Loans for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities.

8. Others

- Loans to individuals and individual members of SHG/JLG.
- Loans to SHG/JLG for meeting

9. Weaker Sections

- Small and marginal farmers
- Artisans, village and cottage industries where individual credit limits do not exceed 1 lakh
- Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
- Scheduled Castes and Scheduled Tribes
- Beneficiaries of Differential Rate of Interest (DRI) scheme
- Self Help Groups
- Distressed farmers indebted to non-institutional lenders
- Distressed persons other than farmers with loan amount not exceeding 1 lakh per borrower to prepay their debt to non-institutional lenders
- Individual women beneficiaries up to 1 lakh per borrower
- Persons with disabilities

- Minority communities as may be notified by Government of India from time to time

Common Guidelines for Priority Sector Loans

- The rate of interest on various priority sector loans will be as per RBI's directives issued.
- No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to 25,000. In the case of SHGs/JLGs, this limit is per member.
- Records of loans - the date of receipt, sanction/ rejection/disbursement with reasons should be maintained and shown to all inspecting agencies.
- An acknowledgement for loan applications should be given, and the bank's decision to be communicated in writing to the applicants within the time limit fixed by the Board.

Unit - 37. Agricultural Finance

- The credit needs of a farmer are met through broad categories of agricultural advances viz. direct finance and indirect finance.
- Based on the period of credit, direct finance is classified as short-term loans and medium/long-term loans.
- Loans repayable up to 18 months are short term loans.
- Medium/long term loans are for more than 36 months.

- All farmers who require loan for their cultivation expenses are eligible to get loan under KCC scheme.
- KCC is valid for a period of 3 years subject to an annual review. Any number of withdrawals and repayments are permitted under this scheme.
- For Marginal Farmers, a flexible limit of `10,000 to `50,000 be provided (as Flexi KCC) based on the land holding and crops grown. The composite KCC limit is fixed for a period of five years.

- Direct finance to agriculture is provided to farmers for short-term purposes like cultivation of crops or for other medium/long-term purposes like, among others, land development or for augmenting water resources.
- A novel offering by banks to farmers for meeting their cultivation needs and other non-farm requirements, including consumption needs is Kisan Credit Card.
- Finance is also provided by banks for undertaking allied activities like dairy development, poultry farming, bee keeping, sericulture, piggeries, pisciculture, sheep/goat rearing, etc.

Margin and Security

- Margin may be decided by banks. No margin is required for loans upto Rs.1.6 lakh
- Security will be as per RBI guidelines, and may be as follows:
  - Against Hypothecation of crops alone: Up to card limit of Rs.1.60 lakh (Rs.3.00 lakh with tie-up for recovery)
  - Collateral security: At the discretion of bank for limits above ` 1.60 lakh (non tie-up) and above 3.00 lakh (with tie-up).
  - To avail the facility of on-line creation of charge on the land records, where available.

- Indirect finance to agriculture includes credit for distribution of fertilisers and other inputs used by farmers in agricultural operations
- The Minimum Support Price (MSP) Scheme is a scheme of the Government of India (GOI) to safeguard the interests of the farmers.

- Under this Scheme the GOI declares the minimum support Prices of various agricultural produces and assures the farmers that their agricultural produce will be purchased at the MSP, thereby preventing its distress sale.
- Crop insurance as a concept for risk management in agriculture has emerged in India.
- All farmers including sharecroppers, tenant farmers growing the notified crops in the notified areas are eligible for coverage under the crop insurance scheme.
- In 2016, the Pradhan Mantri Fasal Bima Yojana (PMFBY) replaced all the prevailing yield insurance schemes in India. It has extended coverage under localized risks, post-harvest losses etc. and aims at adoption of technology for the purpose of yield estimation

Unit - 38. Finance to MFIs/Co-Lending Arrangements with NBFCs

- NBFCs have a competitive edge in their superior understanding of regional dynamics, well-developed collection systems and personalised services in the drive to expand financial inclusion in India.
- Lower transaction costs, quick decision making, customer orientation and prompt provision of services have typically differentiated NBFCs from banks.
- Microfinance is a form of financial service which provides small loans and other financial services to poor and low-income households.
- It is designed to promote financial inclusion which enables the poor and low-income households to come out of poverty, increase their income levels and improve overall living standards.
- Bank borrowings are a major source of funds for NBFCs including NBFC-MFIs. This helps in widening the reach of institutional credit to the sectors and areas that are not fully covered by banks.
- Microfinance provides small loans and other financial services to poor and low-income households.
- Microcredit in India is delivered through various channels viz., (i) SCBs, SFBs,and RRBs, (ii) cooperative banks, (iii) NBFCs, and (iv) MFIs registered as NBFCs, and other forms

NBFC-MFI

- Banks may extend need based working capital facilities as well as term loans to all NBFCs registered with RBI and engaged in infrastructure financing, equipment leasing, hire-purchase, loan, factoring and investment activities.
- Banks can extend loans to NBFCs for the purpose of on-lending to the priority sectors.
- Banks can extend loans to NBFC-MFI for their micro financing activities like in case of other NBFCs.
- NBFC-MFIs are subject to certain prudential norms of Capital Adequacy, Asset Classification, and Provisioning Requirements.
- Financing banks need to look into compliance by the borrowing NBFC-MFI.
- An NBFC-MFI is defined as a non-deposit taking NBFC
- Minimum Net Owned Funds: Minimum 5 crore. (Registered in the North Eastern Region, Minimum 2 crore).
- Qualifying Assets Share: Not less than 85% of net assets to be “qualifying assets.”
- The Fair Practices Code for NBFCs is applicable in addition to the Code for MFIs.

Activities not Eligible for Bank Credit

- Bills discounted/ rediscounted by NBFCs
- Investments of NBFCs both of current and long-term nature, in any company/entity by way of shares, debentures, etc.

- Unsecured loans/inter-corporate deposits by NBFCs to/in any company.
- All types of loans and advances by NBFCs to their subsidiaries, group companies/entities.
- Finance to NBFCs for further lending to individuals for subscribing to IPOs and for purchase of shares from secondary market.

- Interest rate charged to borrowers is subject to pricing norms and transparency of interest rates.
- RBI has replaced the erstwhile scheme for co-origination of loans by banks and NBFCs by a scheme for Co-Lending by Banks and NBFCS. The partner bank and NBFC have to enter into a Master Agreement containing the terms and conditions and the responsibilities of the partners.
- RBI has put in place a regulatory framework for NBFCs, keeping in view of their changing risk profile.
- The SBR framework encompasses different facets of regulation of NBFCs covering capital requirements, governance standards, prudential regulation, etc.

Unit - 39. Micro, Small and Medium Enterprises in India

- The MSMEs fulfil not only the economic objectives but also the social needs.
- However, in view of the intense competition from large enterprises, they need special protection and support from the Government, for their survival and growth.
- This has been provided by the Government and the Reserve bank of India through their various directives, policy prescriptions and guidelines.
- Accordingly, banks have been advised to earmark certain per cent of Net Bank Credit to this sector.

Classification of Enterprises

- a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees
- a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees
- a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

Composite Criteria of Investment and Turnover for Classification

- If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria - investment or turnover, it will cease to exist in that category and be placed in the next higher category; but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover

- The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was enacted in 2006 which has redefined micro, medium and small enterprises in both the manufacturing and services sectors.
- Government of India (GoI), vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified criteria for classifying the enterprises as Micro, Small and Medium enterprises.
- The new criteria came into effect on July 1, 2020.
- The Act has provisions for penalty for delayed payments so as to protect MSMEs.
- If the buyer of the goods fails to make the payment to the supplier within a period of 45 days, the buyer shall be liable to pay compound interest to the supplier on the amount with monthly interest at 3 times of the bank rate.
- All enterprises are required to register online and obtain 'Udyam Registration Certificate'.
- Certified Credit Counsellors (CCC) are institutions or individuals registered with SIDBI who shall assist MSMEs

- MSME SAMADHAAN Scheme: It is a Portal created by Office of DC (MSME), Ministry of MSME where MSEs can file their applications online about delayed payments
- TReDS is an electronic platform for facilitating the financing/ discounting of trade receivables of MSMEs through multiple financiers
- The exemption limit for relief from payment of Central Excise duty was raised to Rs 1 crore.
- A rating scheme has come into being for credit rating of manufacturing MSMEs so as to enable them to access banks for faster and cheaper credit.
- Certain policy packages for the healthy growth of MSME sector were also announcedby the Government and the Reserve Bank.
- Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

- CGTMSE was set up by the Ministry of MSME and SIDBI in August 2000.
- Currently, CGTMSE has following Credit Guarantee Schemes in force:
  - Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I) - single eligible borrower not exceeding Rs.50 lakh (RRBs/FIs/SFBs); and Rs.200 lakh (SCBs, select FIs, NBFCs)
  - Credit Guarantee Fund Scheme for NBFCs (CGS-II) - single eligible borrower up to 200 lakh, For MSE Retail Trade up to 100 lakh is covered
  - Credit Guarantee Scheme for Subordinate Debt (CGSSD)
  - PM Street Vendor’s AtmaNirbhar Nidhi (PM SVANidhi)
  - Credit Guarantee Scheme for Co-Lending (CGSCL) - single eligible borrower (i) not exceeding 200 lakh secured by way of Primary Security, (ii) not exceeding 100 lakh for unsecured credit facility

Credit Facilities Not Covered Under CGTMSE Schemes

- Covered under a scheme by DICGC or RBI, to the extent of cover
- Covered by any other insurance, guarantee or indemnity, to the extent of cover
- To Micro Enterprises up to `10 lakh covered by MUDRA Guarantee Scheme (NCGTC Ltd.)
- Not conforming to or inconsistent with any Govt. law or RBI directives
- Effective interest rate (including the cost of guarantee) not as per RBI/ Trust guidelines
- Granted to any borrower, for whom the lender has invoked the guarantee of the Trust or under any other the scheme, and remains unpaid
- Sanctioned against collateral security and/ or third party guarantee, except Hybrid Security model

Unit - 40. Government Sponsored Schemes

- The erstwhile schemes of financial assistance and other supports to the poor in rural and urban have been replaced by DAY–NRLM and DAY-NULM.
- These programmes are of the GoI administered by States and UTs.
- Under both NRLM and NULM, besides financial assistance other support services are also provided to the identified beneficiaries.
- Both these programmes focus on the family as a unit for the upgrading the livelihood of the poor.
- Interest subsidy/subvention on the loan component have replaced the earlier capital subsidy support.

Deendayal Antyodaya Yojana – National Livelihoods Mission (DAYNRLM)
- Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme was replaced by Deendayal Antyodaya Yojana – National Livelihoods Mission (DAYNRLM) with effect from March 29, 2016

Key Features of DAY-NRLM
- Universal Social Mobilization
- Participatory Identification of Poor (PIP)
- Promotion of Institutions of the Poor
- Strengthening Existing SHGs and Federations
- Training, Capacity building and Skill building
- Revolving Fund and Community Investment Support Fund (C.I.F)
- Universal Financial Inclusion
- Interest Subvention
- Intensive blocks

Financial Assistance to the SHGs
- Revolving Fund (RF) amount per SHG - Minimum 10,000 and maximum 15,000
- Community Investment Support Fund (CIF)
- Interest Subvention

Eligibility Criteria for Loans to SHG
- Active existence for at least 6 months as per its books of account
- Practicing 'Panchasutras' i.e. Regular meetings; Regular savings; Regular inter- loaning; Timely repayment; and Up-to-date books of accounts.
- Qualified as per grading norms fixed by NABARD
- Existing defunct SHGs if revived if active for at least 3 months.

Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAYNULM)

- Swarna Jayanti Shahari Rozgar Yojana (SJSRY) was replaced "Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAYNULM)" in February 2016.
- It supports SHGs of urban poor to access easy credit from bank and avail interest subsidy on SHG loans.

The NULM has following components:

- Social Mobilisation And Institution Development (SM&ID)
- Capacity Building and Training (CB&T)
- Employment through Skills Training and Placement (EST&P)
- Self-Employment Programme (SEP)
- Support to Urban Street Vendors

The proportion of different sub-groups of beneficiaries is set as follows:

- Women beneficiaries – Not less than 30%
- SCs and STs beneficiaries – At least same as their proportion in the city/town population
- Differently abled beneficiaries – 5% with priority to women
- At least 15 percent of physical and financial targets earmarked for minority communities.

Following types of training support are delivered:

- Employment through Skills Training and Placement (ES&TP)
- Entrepreneurship Development Program (EDP)
- Follow-up Entrepreneurial Support to Individual and Group Entrepreneurs

Interest subsidy, over and above 7% rate of interest is given in case of timely repayment of loan. Additional 3% interest subvention is provided to all Women Self Help Groups (WSHGs) who repay their loan in time.

Pradhan Mantri Jan-Dhan Yojana (PMJDY)

- PMJDY is a Government of India initiative under the National Mission for Financial Inclusion.
- In PMJDY assistance is not only for banking account, but also various financial services like, insurance, mutual fund, remittances are provided.

Persons without an OVD could open a 'Small Account'

The benefits are:

- No minimum balance required.
- RuPay Debit card provided.
- Accident Insurance Cover of 1 lakh (2 lakh to accounts opened after 28.8.2018) available with RuPay card.

- Life insurance cover of 30,000/- of the account holder with RuPay debit card.
- Easy Transfer of money across India
- Beneficiaries of Government Schemes get DBT.
- After satisfactory operation of the account for 6 months, overdraft facility.
- Eligible for PMJJBY, PMSBY, APY, MUDRA scheme.

Overdraft Facility in PMJDY Accounts

- **Eligible Individuals**
  - BSBD accounts operated satisfactorily for at least six months
  - OD granted to the earning member, preferably a woman of the family.
  - Regular credits under DBT/ DBTL scheme/other verifiable sources.
  - Account should be seeded with Aadhaar for avoiding duplicate benefit.
  - Account holder should not have any other SB account with any bank.
  - Age of applicant - between 18 years to 65 years.
  - This facility is not available to minors, holders of KCC/ GCC, and more than one family member.
- **Period of Sanction**: 36 Months subject to annual review of account.
- **Loan amount**: Lower of the 4 times of average monthly balance or 50% of credit summations during the preceding 6 months, subject to maximum `10,000/-.
- **Interest rate**: Not exceeding 2% above base rate.
- **Other Conditions**: No processing fee can be charged for this facility.
- **Operational Aspects**: SBOD account will be primary account to receive all subsidies/ benefits

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- Age group 18 to 70 years with a bank account
- Aadhaar would be the primary KYC for the bank account
- The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability.
- The premium of Rs. 20 per annum is to be deducted from the account holder’s bank account through ‘auto-debit’ facility in one installment.

Atal Pension Yojana (APY)

- APY was launched on 09.05.2015 to create a universal social security system for all Indians, especially the poor, the under-privileged and the workers in the unorganised sector
- APY is administered by Pension Fund Regulatory and Development Authority (PFRDA)
- APY was open to all bank account holders in the age group of 18 to 40 years

- From 1st October, 2022 onwards, any citizen who is or has been an income-tax payer, shall not be eligible to join APY.
- Guaranteed minimum monthly pension of Rs. 1000 or Rs. 2000 or Rs. 3000 or Rs. 4000 or Rs. 5000 at the age of 60 years

MUDRA Loans

- In April 2015, MUDRA was set up, and PMMY was launched.
- MUDRA provides refinance to lending agencies that have granted loans under the scheme to eligible enrepreneurs.
- 'MUDRA' card facilitates using cash credit facility.

MUDRA Schemes and Loan Amounts

- Shishu: covering loans upto `50,000/-
- Kishor: covering loans above `50,000/- and upto `5 lakh
- Tarun: covering loans above `5 lakh to `10 lakh

- Banks may ask for margin/ promoters' contribution as per RBI guidelines, except for Shishu loans.
- The refinance assistance from MUDRA is for maximum 36 months

Khadi and Village Industries Commission (KVIC)

- The Khadi and Village Industries Commission (KVIC) is a statutory body
- The broad objectives of the KVIC are:
  - Social objective: Providing employment.
  - Economic objective: Producing saleable articles.
  - Wider objective: Creating self-reliance among poor; Building a strong rural community spirit

Prime Minister's Employment Generation Programme (PMEGP)

- PMEGP a central scheme to generate employment through setting up of new self-employment ventures/projects/micro enterprises is implemented by KVIC
- PMEGP is a capital subsidy linked loan programme aimed at generating employment through setting up of micro enterprises.
- It also provides assistance for upgradation of enterprises set up earlier under PMEGP/MUDRA.

Eligibility Criteria for Beneficiaries

- Age: Minimum 18 years old.
- Income: No income ceiling.

- Education: At least 8th Standard for projects costing above 10 lakh in manufacturing sector, and 5 lakh in business/service sector.
- Nature of Project: Only for new project. Existing units are not eligible.
- Family Criteria: Only one person from a family (i.e. self and spouse) can avail assistance.

Bank Finance

- **Extent of Loan**: (Including capital subsidy) 90% - General category; 95 % - special category.
- **Nature of facility**: For capital expenditure - Term Loan, For working capital - Cash Credit. Composite loan – covering both capital expenditure and working capital.
- **Proportion of Working Capital**: Maximum project cost is 50 lakh (Capital Expenditure and Working Capital)
- **Interest rate and Repayment Schedule**: Banks can charge interest rates as per their policy. Repayment over 3 to 7 years, after an initial moratorium period.
- **Collateral Security**: No collateral security for loans upto 10 lakh.
- **Disposal of Loan Application**: Decision within 30 days of the receipt of application.

Unit - 41. Self-Help Groups

- 'Self-Help Group' (SHG) is a voluntary association of poor formed with the common goal of social and economic empowerment.'
- SHGs help in development of poor through various benefits:
  - Mobilising resources of individual members for collective development
  - Uplifting living conditions of poor
  - Creating savings habit
  - Mobilising individual skills for group's interest
  - Assisting members financially at the time of need
  - Entrepreneurship development
  - Identifying problems, analysing and finding solutions in the group
  - Organise training for skill development

FORMING SHGs

(a) Number of Members: Generally, a SHG may consist of 10 to 20 persons. Else, registration becomes compulsory. In difficult areas like deserts, hills, etc. it may have just 5 members.
(b) Family Income Criteria: Generally, all members should belong to families BPL.
(c) Subsidy Eligibility: Only BPL members will be eligible for subsidy.
(d) Management of Group: BPL families must participate in management and decision making.
(e) Restrictions on Membership: SHG not more than one member from same family.
(f) Code of Conduct: The group should devise Group management norms to bind itself.
(g) Building Corpus: It should build corpus through regular savings contributed by members.
(h) Loans to Members: Corpus fund should be used to advance loans to members.
(i) Bank Account: To have a group's bank account preferably in service area bank branch.
(j) Records: It should maintain simple basic records

SHG-Bank Linkage Programme

(a) Opening of Savings Bank A/c
(b) Lending to SHGs: SHGs may be sanctioned savings linked loans by banks
(c) Interest Rates: The banks can decide the interest rates, as per regulatory guidelines.
(d) Service/Processing Charges: No service/inspection charges up to 25,000 per member
(e) Presence of defaulters in SHGs: If SHG is not in default, some members being defaulter should not detract from financing the SHG.
(f) Capacity building and Training: Banks to organize exclusive short duration programmes for field level functionaries.
(g) Monitoring and Review of SHG Lending: Should be discussed at the SLBC and DCC meetings.
(h) Reporting to CICs: Credit information reporting should be done as prescribed

MODULE C – BANKING TECHNOLOGY

Unit - 42. Essentials of Bank Computerisation

The concept of Bank Computerisation practically started after 1980-81 and more precisely gained pace in the year 1983-84, after setting up a committee in the year 1983 under the chairmanship of the then Deputy Governor of RBI, Dr. C. Rangarajan.

Need for Computerisation

The four major objectives of computerisation in banking are to improve:

(a) Customer service
(b) Housekeeping
(c) Decision-making
(d) Productivity and profitability.

Stand-alone Computer System

The stand-alone computer system is used by only one person at a time.
Stand-alone systems are best suited for the decision-making process, which involves processing and analysis of data.
Today's stand-alone systems are also capable of handling multimedia, high-quality graphics, fax messages, etc.

Multi-user Systems

The multi-user systems are computers on which several people can work at the same time. Mini computers, Main Frame Computers, Micro-computers and the more powerful Super Computers all fall under this category.

Multi-user Computer Networking

a. In such a system computers are based on the centralised processing concept.
b. All information is kept and processed at the main central machines and various terminals are attached to the main computer.
c. The main computer can store a huge amount of information and possesses high-processing speeds enabling a large number of users to be connected to the main central computer.
d. Each user has his/her own terminal.
e. Most of the banking systems are developed using the centralized computing concept.

The advantages of using a centralised data processing system :

(a) availability of corporate level information at one location is possible
(b) cost of acquiring hardware, software and other infrastructure is more profitable than acquiring the same for individual departments
(c) due to the high volume of data processing the computing resources can be fully utilised
(d) technical manpower can also be efficiently managed at a central level
(e) costly resources like leased telephone lines, satellite links, etc., can be shared among the various departments Branch-level Computerisation

Computerisation at the branch level can be used to:

(a) Provide better and speedy customer service
(b) Improve housekeeping services
(c) Analyse the branch-level data for decision making
(d) Generation of various reports.

Total Branch Automation

a. This is a real time online banking.
b. Whenever a transaction is entered through a terminal, the transaction is recorded, verified and authenticated and all corresponding updates are reflected instantly.
c. Various outputs such as ledger extracts, passbooks, vouchers, statements of accounts of customers, etc., are generated online.
d. It is possible to provide the 'single window' transactions concept. That means a customer can approach any counter for completing all his or her transactions.
e. Off-site ATMs are also linked to the branch system to enable the customer to bank anytime/anywhere.
f. Software and hardware requirements depend upon the size of the branch.

Computerisation at Regional/Circle/Zonal Office

RO/ZO acts in between branches and the head office. The most common tasks performed by the regional office/zonal office are:

(a) branch profile
(b) inter-branch reconciliation
(c) credit monitoring
(d) personnel data management, etc.

Computerisation at Head Office Level

The head office of a bank is responsible for bank level planning, and control functions, policy decisions. The head office activities are divided into different functional areas like:

(a) operations
(b) planning
(c) personnel
(d) international business
(e) services, etc.

The computerisation at various functional areas may include application areas:

(a) personnel management and administrative support
(b) funds management
(c) investment portfolio management
(d) branch profiles
(e) credit information system, etc.

Local Area Network (LAN)

a. The computer network that links computers and peripherals within a localised area say, within a building is known as LAN.
b. Generally, LAN will not extend beyond 150 metres. However, it can be up to a maximum spread of 1 km and the number of devices supported may also vary from 2 to as many as 1000.
c. In LANs, each independent system is known as a node and when such nodes are interconnected, it is known as a LAN.
d. Usually, there will be one central node (Server) providing and controlling all the services of the network.
e. The client nodes route their requests to the server and obtain the necessary services.

Topology (Layout)

The way in which the devices are interconnected is known as topology

Bus Topology

a. All devices on the network are connected to a single continuous cable.
b. Transmission from any station travels the length of the bus in both directions and is received by all other stations.
c. The main advantage of bus topology is that it is quite easy to set up.

d. Further, if one station on the LAN fails, it will not affect the rest of the network
e. Data transmission is possible in one direction only
f. The breakdown of any one station on the ring can disable the entire LAN.

Star Topology

a. In a star topology, the central node is often the master.
b. Each of the other nodes is joined to the master by separate links.
c. It cannot handle large traffic as every transaction has to pass through the central node.
d. However, if one node fails, it will not affect the network.

Protocols

a. The protocols are the rules for communication between similar modules of processes, usually in different nodes.
b. Protocols define message formats and the rules for message exchange.
c. It controls priority and sequence of transmission, errors in transmission, and the process of beginning and concluding conversion.
d. The network protocols depend on the adapters. Some of the commonly used types of adapters
are Ethernet and Token-Ring
e. A multiplexer is used to receive signals from several communication lines and pass on to one communication line and vice versa.

Network Operating System:

a. The function of the networking software is to set up some computers as hosts, or servers, and some computers as clients to those hosts.
b. The servers manage the printer sharing, file sharing and communications link sharing to their clients.

The advantages of using LANs in banks are that:

(a) The expensive resources such as computer hardware and software can be shared by several users. This brings down the overall cost of computerisation.
(b) The information stored on the host computer is available to all users of the system. Therefore, there is no necessity of duplication of databases.
(c) Since all the terminals are intelligent terminals, the processing load is shared between the
various machines and there is no overloading on any single machine.

There are also a few shortcomings of a LAN, such as:

(a) Complicated software has to be installed for data management.
(b) Security risks are higher, since each user access the host computer independently.
(c) Maintenance cost of such a system is high, since it has to be done frequently.

Wide Area Network (WAN)

Wide Area Networks (WAN) are defined as a large-scale computer network spread over a span of sizeable geographic area, normally utilising the telecommunication network.

In the banking sector, the WANs are generally used to interconnect branches with the regional offices, and regional/zonal offices to head office, etc.

Uninterrupted Power System (UPS)

Uninterrupted power system provides clean and reliable AC power to the computer systems protecting them from power blackouts, brownouts, swells, sags, surges, and interface.

In case of a power failure, the UPS attached with the file server automatically takes over the power supply to the file server or to the main computer to eliminate the chance of data loss.

Core Banking

In core banking, there is a central database for the bank and transactions are done centrally, online. It offers integrated products and services to customers round the clock.

Business Components

(a) To have retail customer banking modules
(b) Deposits, loans, bills, remittances, locker, clearing, etc.
(c) Trade finance/forex modules
(d) Government business modules
(e) To have corporate finance and service branch modules
(f) To have enhanced MIS modules
(g) To have modules for business intelligence
(h) To integrate with the existing ATMs, tele-banking, debit card, kiosks and other delivery Channels
(i) To have any branch banking, Internet banking and call centre
(j) To interface with existing corporate systems like treasury, IBR, centralised accounting system, HRMS, ALM, credit appraisal and management, credit monitoring and NPA management, etc.
(k) To interface with systems like NDS, SFMS, RTGS, CFMS, etc.

Benefits

(a) Enables the establishment of a reliable centralised data repository for the bank
(b) Facilitates data warehousing and data mining technologies for business intelligence
(c) Easy implementation of integrated customer centric services like online ATMs, telebanking, internet banking, any branch banking, kiosk banking, cash management services, etc.
(d) Enables centralised management information, decision support and executive information systems
(e) Efficient and effective MIS, ALM, risk management, etc., using the central data pool
(f) Enables centralised management and control with centralised data
(g) Standardisation of the branch automation software using a single version. Quick adoption of software changes as changes are done only at the central site
(h) Facilitates business process re-engineering (BPR) to streamline the existing processes
(i) Relieves branches of jobs like data backup, MIS generation, etc.
(j) Requires infrastructure at the central location, backup location and at branches
(k) Servers are not mandatory at branch locations
(1) Attracts higher investment in the beginning
(m) Cost of implementation for further branches and delivery channels relatively cheaper
(n) Core infrastructure can be used for future expansions
(0) No extra cost for implementation of SFMS, RTGS, CFMS, etc.

Unit - 43. Operational Aspects of CBS Environment

Core Banking Solutions (CBS)

- Implementation of CBS in banks has numerous benefits for the banks and their customers.
- New products have been introduced by using the technology.
- Nevertheless, this has also thrown up new challenges in preventing cyber frauds and misuse of the system by unscrupulous persons.
- RBI has issued extensive guidelines to the banks to ensure that proper checks, controls and processes are put in place to prevent/minimise misuse of computerisation.
- Accordingly, each Bank has issued operational guidelines for its staff.
- Day to day verification of exceptional transactions, good password practices, running checks for consistency of data, periodical audits at Branch and Data Centre are some important examples of operational controls in CBS operations.
- Data Centre operations should be carried out with utmost care, as any lapses can cause a huge impact on the entire Bank.
- Day end and Day begin operations involve many time-consuming batch processes, and timely completion of these operations are very important for commencing the branch operations.
- Core Banking is the integrative approach that efficiently unites different banking systems in selling their products and services with the aid of information technology.
- Unison of different banking system facilitates to open up the market thus ideally increases the opportunity for banks to acquire more customers and a better customer retention.
- Core Banking Solutions (CBS) is the process which is completed in a centralized environment i.e. Core Banking Solution under which the information relating to the customer's account i.e. financial dealings, profession, income, family members etc are dealt with.
- These information are stored in the Central Server of the bank that is available to all the networked branches instead of the branch server.
- The word Core in Core Banking Solutions (CBS) stands for Centralized Online Real-time Environment.
- CBS is networking of branches, which enables customers to operate their accounts, and avail banking services from bank on CBS network, regardless of where they maintain their account.
- Thus, CBS is a step towards enhancing customer convenience through "Anywhere and Anytime Banking".

Need for Core Banking Solution

a. Improve operational efficiency - reduce cost of operations
b. Improve customer service
c. Comply with Anti Money Laundering (AML) / Know Your Customer (KYC) requirements

d. Integrate with electronic payment systems

Benefits of CBS

a. Anytime and Anywhere banking (online mediums/SMS)
b. Standardised, simple and automated processes
c. Increase in quality of the service provided to the customers
d. Timely and accurate information for management decision making
e. Strong audit and internal controls
f. Bring down the cost of transaction and thereby improving operational efficiency
g. Paving way for new value added services thereby generating additional revenue for the Department

Functions Performed by CBS

(a) Customer accounts management
(b) Office account management
(c) Loans disbursal and management
(d) Cash deposits and withdrawals
(e) Transactions management (online and History)
(f) Inward/Outward clearing process
(g) Calculation of Interest on Advances and deposits
(h) Charges/Fees Application
(i) Application of minimum balance charges, transaction charges, cheque book charges etc.
(j) Asset Classification and Income recognition, NPA Management
(k) Non-Performing Assets Management (NPA)
(l) Customer relationship management (CRM) activities
(m) Interfaces with payment systems, Regulators, Third-party service providers
(n) Interfaces with Alternate delivery channels
(o) Generation of Reports, multi-currency Balance sheets, P&L statements

Three types of Transactions in CBS

1. Cash,
2. Clearing and
3. Transfer

Typical Operations in CBS

(1) Begin of the day by Data Centre
(2) Transactions input and Authorisation by Branches
(3) Closure of Branch Operations by Branches
(4) End of Day Operations by Data Centre
(5) Reports Checking by Branches

(6) Back up Operations by Data Centre and Branches.
(7) Application of Interest and services charges – Data Centre
(8) Execution of standing instructions by data Centre
(9) Generate various reports, including Exceptional Reports

Functions carried in BOD operations

(a) Starts a new day
(b) Time Deposit processing related to interest and maturity
(c) Standing instructions execution
(d) Value date processing of cheques (Based on the set-up)
(e) Salary Processing
(f) Expiry of Overdraft Limits.

Objectives of CBS

a. To increase the number of customers
b. To provide multiple delivery channels like internet, mobile banking, ATMs, thereby bringing access to financial services to the doorsteps of the customers
c. To enable faster money fund transfers to reach out to more customers
d. To become one stop solution for financial inclusion initiatives of the Government of India

Unit - 44. Alternate Delivery Channels — Digital Banking

- With the development of modern communication facilities, electronic payment systems and channels have grown phenomenally, and electronic or digital banking has become very popular.
- Bank customers can carry out transactions within the bank and outside the bank premises through various alternate delivery channels.
- Interoperable ATMs, which are spread across the country, provide customers with many banking services, including cash payments round the clock.
- Customers need not necessarily visit the bank to do banking transactions as major types of services or provided by Banks through Mobile and Internet.
- As these services are unmanned and of a self-help nature, there are fewer customer footfalls at branches and hence cost of transactions is reduced.
- The latest innovations in Banking technology help the banker to reduce drudgery and at the same time efficiently discharge his functions.
- We have also seen that the various electronic devices help the modern banker to render innovative and novel customer services efficiently.
- These technological aids take care of some of the routine physical tasks and contribute substantially to efficient housekeeping functions and render services that are in tune with the customer needs and satisfaction.
- Policy initiatives of the Reserve Bank and the Government of India helped payment systems in India to take long strides towards digitization and Financial Inclusion.
- The push towards digital infrastructure has been complemented by the greater acceptance of digital modes of transaction among the public. Transactions through the PPI, UPI, IMPS, RTGS and NEFT systems are rising.
- Some noteworthy features of the Indian digital revolution are CTS, IMPS, UPI, POS, etc.
- According to the Report on Benchmarking. India's Payment Systems 2019 by RBI, India has a leading/strong position in terms of several parameters pertaining to the digital transaction, technology infrastructure, and payment and settlement laws and regulations.
- At the same time, there exists a vast potential for growth of digital transactions in India owing to the low per capita quantum currently.
- The Indian payment system is poised to fulfil the goals envisaged in the Reserve Bank's Vision Document 2019-21.

Automated Teller Machines (ATMs)

Automated Teller Machines (ATMs) are primarily used for performing some of the banking functions such as the withdrawal of cash or the deposit of cash/cheque, etc., by using an ATM card.

The committee headed by Dr. C. Rangarajan recommended the setting up of ATMs in India.

Convenience of ATMs

To the Customers:

(a) 24 x 7 access availability
(b) Less time for transactions (less queue)
(c) Privacy in transactions
(d) Any branch/anywhere banking enabled
(e) Acceptability of card across multiple bank ATMs, even foreign tourists can access Maestro/VISA / ATMs

To the Bank:

(a) Cost of setting up ATMs is lower than setting up a branch
(b) Migration of the routine transactions to the ATMs frees the bank staff for more productive work
(c) ATMs serve as the crucial touch point for cross-selling of the bank's products
(d) Enables the bank to display products on the screen and serves as a media for publicity
for the bank
(e) Less hassle in handling cash.

The following components of the ATM provide the customer interface:

(a) Video Display Monitor
(b) Keyboard/Keypad
(c) Touch Screen
(d) Slots: There are slots in the ATM for various purposes as detailed below:
(i) Card Reader (ii) Cash Dispenser
(iii) Envelope Dispenser (iv) Deposit Slot

White Label ATM (WLA)

- Traditionally, Automated Teller Machines (ATMs) have respective bank's logo. So just by looking, this is SBI's ATM, this is ICICI's ATM and so on.
- But White label ATM doesn't have such Bank logo, hence called White label ATMs.
- RBI has given license / permission to non-bank entities to open such ATMs.
- Any non-bank entity with a minimum net worth of Rs.100 crore, can apply for white label ATMs. (not just NBFC, any non-bank entity can apply)
- Tata Communications Payment Solutions Limited =the first company to get RBI's permission to open White label ATMs.
- They started their chain under brandname "Indicash".

- Other White label= Muthoot Finance, Srei Infra., Vakrangee Software, Prizm Payments, AGS. More than 15 companies given such permission.

RuPay

- The Indian market offers huge potential for cards penetration despite the challenges.
- RuPay Cards will address the needs of Indian consumers, merchants and banks.
- The benefits of RuPay debit card are the flexibility of the product platform, high levels of acceptance and the strength of the RuPay brand-all of which will contribute to an increased product experience.

Lower cost and affordability :

- Since the transaction processing will happen domestically, it would lead to lower cost of clearing and settlement for each transaction.
- This will make the transaction cost affordable and will drive usage of cards in the industry.

Customized product offering :

RuPay, being a domestic scheme is committed towards development of customized product and service offerings for Indian consumers.

Protection of information related to Indian consumers :

Transaction and customer data related to RuPay card transactions will reside in India.

Provide electronic product options to untapped/unexplored consumer segment :

- There are under-penetrated/untapped consumers segments in rural areas that do not have access to banking and financial services.
- Right pricing of RuPay products would make the RuPay cards more economically feasible for banks to offer to their customers.
- In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments.

Inter-operability between payment channels and products :

- RuPay card is uniquely positioned to offer complete inter-operability between various payments channels and products.
- NPCI currently offers varied solutions across platforms including ATMs, mobile technology, cheques etc and is extremely well placed in nurturing RuPay cards across these platforms.

Credit Card

- It allows cardholder to pay for goods & services based on the holder's promise to pay for them.

- The issuer of the card creates a revolving account and grants a line of credit to the cardholder, from which the user can borrow money for payment to a merchant or as a cash advance.
- The size of most credit cards is 3 3⁄8 × 2 1⁄8 in (85.60 × 53.98 mm).
- It allows the consumers a continuing balance of debt, subject to interest being charged.

Charge Card

- Transactions are accumulated over a period of time, generally a month and the total amount charged, i.e. debited to the account.
- The credit card holder is given about 25 to 50 days' time to credit his account in case there are insufficient funds in his account at the time of debit.
- Since the transactions are accumulated, it is only charged, i.e. not debited to the account immediately, such cards are called charge cards.

Debit Card

- A debit card (also known as a bank card or check card) is a plastic payment card that provides the cardholder electronic access to their bank account(s).
- Payments using a debit card are immediately transferred from the cardholder's designated bank account

Electronic Purse

Type of smart card which, with an embedded microchip, provides multiple options, such as debit card or credit card type payments.

Smart card

- A smart card is a payment card embedded with a computer chip, essentially functioning like a mini-computer on a card. The memory and the computing power of the chip on the card could transform payments in many ways. The chip, a true technological breakthrough, holds at least 80 times more data than the magnetic stripe on existing credit cards.
- Unlike the magnetic stripe, the chip can process data as well as store it, and because each program on the chip runs on independent software, several different programs can operate on the same card at the same time.
- An added bonus: the smart card is a more secure method of payment that protects the cardholder's account information from fraudulent use.

Electronic Cheque

- The smart card can be used during electronic fund transfer at the point-of-sales (EFTPOS).
- At a retailer's checkout, the card is placed in the reader, where it automatically goes through authentication sequences.

Electronic Cash

- Funds can be loaded into a card for use as cash.
- This electronic cash can then be used for making purchases

Electronic Token

- The principle here is that a prepaid area is set aside to store electronic units of time or electronic tickets, etc., for a specific service or item.
- Magnetic strip cards are often used with public telephones, parking meters and vending machines.

Anytime Banking

- ATMs have eliminated the time limitations of customer service, and offer a host of banking services, including deposits, withdrawals, requisitions, instructions and transfers.
- HSBC Ltd., for instance, has taken the concept of remote banking further by providing a service called Hexagon, which allows the customer to access his accounts from a PC that is installed at his office or at his home - that is desktop banking - for the customer.

Anywhere Banking

With the introduction of ATMs and tele-banking, financial details can be accessed from remote locations and basic transactions can be effected even outside the bank.

Corporate Banking

At present, by utilising remote banking facility, corporate customers will be able to get the following services:

(a) Getting current balance or getting their statement of accounts for any pre-defined period
(b) Ordering cheque books
(c) Ordering intra-bank and inter-bank fund transfers
(d) Instructing stop payments of cheques
(e) International remittances
(f) Opening letter of credits.

Cheque Truncation

- Process of stopping the flow of the physical cheque issued by a drawer to the drawee branch.
- The physical instrument will be truncated at some point en-route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc.

Mobile Banking

- Undertaking banking transactions using mobile phones by bank customers that involve credit/debit to their accounts.
- Only banks which are licensed and supervised in India and have a physical presence in India will be permitted to offer mobile banking services.
- Only banks who have implemented core banking solutions would be permitted to provide mobile banking services.
- The services shall be restricted only to customers of banks and/or holders of debit/credit cards issued as per the extant Reserve Bank of India guidelines.
- Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

Electronic Commerce (E-Commerce)

- E-commerce is a digital parlance.
- E-commerce translates your otherwise intangible benefits.
- Higher degree of personalization, round-the-clock advantage, fast and flexible execution, immediate customer reaction, and reduction in operating cost.
- E-commerce poses new challenges for all market participants.

Neo-Banking

- A Neo-Bank is a digital bank that does not have any branches.
- Neo-Banking is entirely online.
- A broad collection of financial service providers, who primarily target tech-savvy customers, comes under the umbrella of Neo-Banking.
- Neo-Bank is a Fintech firm that provides digital and mobile-first services like payments, debit cards, money transfers, lending, and more.
- Since Neo-Banks don't have physical branches, consumers can create their accounts from their mobile devices from the comfort of their home in a matter of minutes, by accessing the designated mobile application.
- In India, Neo-Banks partner with Banks to provide a gamut of banking services.
- The likes of Jupiter, Fi, Niyo, and RazorpayX are currently working in partnerships with traditional banks

Unit - 45. Data Communication Network and EFT Systems

- The computerisation efforts in the banking industry started in the early eighties.
- Back office functions and batch processes involving voluminous data were the first activities wherein computers found their application.
- The developments in communication technologies and their application in data communication networks have changed the whole concept of information generation and its use for banking services.
- Wire cables, fibre cables and satellites are the major media for data communication. Fibre optics is a fast and reliable terrestrial but costly medium.
- Some of the public sector communication networks like INDONET, INET and NICNET have also not found favour with the banking industry for its financial applications.

- RBI's countrywide communications network INFINET is exclusively for the financial institutions and shall be used as a carrier for NEFT, EDI, interactive transaction-oriented applications, etc.
- Internet is the global network affording newer opportunities to the banks to market their products and services in addition to other wider applications for general users.
- There have been great strides in the field of EFT, and the last three decades have revolutionised the total concept of banking.
- Starting with the computerisation of clearing houses, instant fund transfers have now become possible due to the globally networked systems.
- SWIFT, with its well-standardised and structured message formats, have become the undisputedly most reliable system of message transmission for foreign exchange business.

- CHIPS, CHAPS and CHATS are the automated clearing houses in the USA, UK and Hong Kong, respectively.
- The bulk of the funds transfers is taking place through these clearing houses.
- In India, Electronic payment systems under the supervision of RBI have emerged, evolved and grown in the last two decades in an incredible manner, paving the way for numerous online banking products and payment methods.
- Some of the important electronic clearing systems are NEFT, RTGS, CTS, IMPS, UPI etc.
- The Government of India has been promoting and encouraging electronic payments in the country.
- The government's Digital India campaign envisages creating a 'digitally empowered' economy that is 'Faceless, Paperless, Cashless'.
- National Payment Corporation of India, under the guidance of the Government and RBI, brought a revolution in the retail electronic payment systems, which will be discussed in the ensuing chapter.

Data communication consists of various data communication components. It has three basic components.

Transmission Devices and Interface Equipment
Modem conversion between the digital and analog forms is carried out by an interface device called Modem

Transmission Medium
1. Terrestrial Cables

- **Twisted-wire Pair** - A twisted pair consists of two insulated copper wires
- **Coaxial Cable** - The Coaxial cable consist of an inner copper conductor held in position by circular spacers.
- **Optical Fibre** - Optical fibre has been a technological breakthrough in communications. It supports data rate of 2 giga bits/sec. Fibre Optics provide high quality transmission of signals at very high speeds. Not affected by electromagnetic interference. The transfer of data is through very thin glass or plastic fibres with a beam of light. The light source is the laser beam driven by a high speed high current driver.

2. Microwave System microwave signals may be passed on to the satellite.
3. Communication satellites

- Communication satellites are becoming very popular for data
- Communication between computers. The satellite is fitted with transmitters and receiving antennas called transponders.
- Applications such as electronic mail, distributed processing, Internet are ideally implemented using satellite communication media.

Transmission Processors
Message Switcher is used to store and forward data to large number of terminals over a single communication channel.
Multiplexer send more than one signal simultaneously over a single communication channel.
Front End Processors used to intercept and handle communication activities for the host computer. A device located at the site of the CPU or the host computer. It relives the computer of the communication tasks leaving it free for processing application programs.

Modes Of Transmission
Simplex – transmitting data in only one direction (commercial radio)
Half-Duplex – transmission is both directions, but in only one direction at a time. WALKY TALKY
Full Duplex – Simultaneous two-way transmission. MOBILE

Major Networks

INET
NICNET
INDONET

Emerging Trends in Communication Networks For Banking

- RBI's VSAT Network
- Internet – The connection to the host computer of the ISP is established through the interface protocol software, using following two protocols :
- Serial Line Protocol (SLIP)
- Point to Point Protocol (PPP)

Automated Clearing Systems

- CHIPS - Clearing House Inter-bank Payment System
- CHAPS – Clearing House Automated Payment System
- CHATS – Clearing House Automated Transfer System

Two-Level Funds Transfer System

- Fed Wire
- Bank Wire
- Point of Sale Systems

National Electronic Funds Transfer (NEFT)System

- Amount - There is no minimum or maximum amount to be remitted
- Batches: 48 half-hourly batches every day. The settlement of the first batch will commence after 00:30 hours, and the last batch will end at 00:00 hours
- The settlement of transactions is in batches.
- Normally, the beneficiary should get credit within 2 hours from the time of completion of batch i.e. on B+2 basis on the same day.

Real-Time Gross Settlement (RTGS) System

- The message is passed on by PI to IFTP (Inter – Bank Fund Transfer Processor) which acts as a broker.
- RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.
- This is the fastest possible money transfer system through the banking channel.
- RTGS helps in preventing Systemic and Settlement Risks.
- Minimum amount : Rs 2 lakh; Max : No limit.

Cheque truncation system (CTS)

- Reserve Bank of India decided to introduce Cheque Truncation System (CTS) in India to improve the efficiency of the Cheque Clearing Cycle.
- The images & data of collected instruments captured at presenting bank would travel electronically to the drawee bank for processing on the same day.
- All Clearing locations are of a grid are settled together on a T+1 basis.

Advantages of Cheque truncation system (CTS)

There are many advantages to Customers as well as Banks through the implementation of CTS Clearing

(a) Customer Service

- Extended cut off time for acceptance of Customer Cheques by banks
- Easy retrieval of information
- Reduced timelines for clearing

(b) Operational Benefit

- MICR amount encoding not required
- Reconciliation difference eliminated - MICR and Image data travel together
- No cheques being lost/tampered/pilfered
- No risk of any manipulation of data and image during transit
- CTS 2010 standards leading to enhanced security and automation

(c) Commercial Benefit

- The cost involved in paper movement eliminated
- Grid implementation allows better liquidity management for banks

(d) Fraud Prevention Mechanism Provided

- Manipulation of data and images during transit is prevented by digital signature/encryption.

Unit - 46. Digital Payment Systems — NPCI

Electronic clearing systems in India

1. ECS, 2. NEFT, 3. RTGS, 4. CTS, 5. IMPS, 6. UPI, 7. NACH, 8. Credit Cards, 9. Debit Cards, 10. PPIs, 11. Government Securities Clearing, 12. Forex Clearing

- The National Payments Corporation of India (NPCI) is on a mission to reach out to every Indian through its diverse range of digital payment products such as UPI, BHIM, RuPay, NETC, AePS, BHIM Aadhaar, Bharat BillPay, NFS, NACH, CTS, and IMPS, as well as to facilitate safe and secure digital payments.
- NPCI was founded in December 2008
- NPCI presently have ten core promoter banks (State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank and HSBC)

Payment systems/products managed by NPCI

- National Financial Switch (NFS)
- NACH
- Rupay Cards
- Immediate Payment Service (IMPS)
- Aadhaar Enabled Payment System (AEPS)
- Bharat Interface for Money (BHIM)
- Unified Payments Interface (UPI)
- Bharat Bill Payment System (BBPS)
- Bharat QR
- National Common Mobility Card (NCMC)
- National Electronic Toll Collection (NETC)

- The Indian government initiated the Digital India programme to ensure that all government services are made available online to all of the country's people.
- This goal is reached by the development of online infrastructure, the improvement of internet connectivity, and the empowerment of Indians in technology through digitalization.
- The Digitize India initiative includes efforts to connect rural areas to high-speed internet networks and increase digital literacy among the population.
- The campaign's objective is for inclusive growth to occur across all industries.
- India's dream of Governance to offer mobile phone services and ensure access to online services to all is a reality today.
- India is now a country where technology improves access to education, health care, and agriculture while promoting transparency and accountability.

- Implementing measures such as Aadhaar, UPI, and Digi locker enabled faceless, cashless, and paperless governance, laying the groundwork for a strong, robust, and secure Digital India.

Important initiatives under Digital India

- Aadhar
- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- JAM (Jan Dhan Yojana, Aadhaar, and Mobile Number)
- Digidhan Abhiyaan
- Bharat Broadband Network (BBNL)
- Centre for Excellence for Internet of Things (CoE-IT)
- Indian Computer Emergency Response Team (CERT-IN)
- DigiLocker
- eSign
- Government e Marketplace (GeM)
- MeghRaj

Payments Vision 2025 targets

- More than 3-times increase in the number of digital transactions.
- Increase in PPI transactions by 150%.
- UPI to register an average annualised growth rate of more than 50%. IMPS and NEFT to show proportionate growth.
- Increase in the turnover of payment transactions vis-à-vis GDP to 8%.
- Volume of cheque-based payments to be less than 0.25% of total retail payments.

Unit - 47. Impact of Technology Adoption and Trends in Banking Technology

- Information technology has not only increased the competition among the financial institutions in general and the banks in particular but have also opened new vistas for them to innovate themselves and come up with newer products and services.
- Globally, the trend is towards using information technology for designing customer need-based products and services.
- Information technology has a direct impact on the vital aspects of banks.
- All the major components of a bank, viz., its organisational structure, the customers, the personnel and the data, evolve under the impact of the technology and react to the changes it brings about.
- Information technology has stiffened the competition, and the banks have come out with newer products and service delivery systems.
- Training and retraining of staff and retention of highly specialised staff have become critical factors for banks for the successful utilisation of IT.
- Any technology implemented in a Bank should be secure, affordable and resilient culminating in better customer service and experience.
- Technologies once considered emergent become current technologies.
- For example, after the implementation of Core Banking, which was once emerging technology, banks have various modes of banking like Online Banking, Mobile Banking, Tele Banking, Video banking, SMS banking etc. customized business solutions can be provided by Banks by integrating the futuristic technologies like AR, VR, AI, and Blockchain.
- There are many initiatives from the government and regulators, like extending support to Fintech companies, awards for innovative technologies, establishing a regulatory sandbox. Payment system vison 2019 by Reserve bank of India envisages empowering all Indians with access to a bouquet of e-payment options that is safe, secure, convenient, quick and affordable.
- Any organization adopting new emergent or convergent technology will have in mind many of the considerations like customer centricity, customer retention, decreasing costs, providing a seamless handoff between channels or future-readiness.
- Banks should only stay invested in emerging technologies that are more relevant to them, to remain contemporary, and to be competitive.
- Also, Banks must acquire new personnel with appropriate skill sets or upgrade the skill sets of the existing personnel.
- Emerging technologies are disruptively changing the way we live, work and play. Technologies like blockchain, AI, RPA and VR are being experimented with in some banks.
- Technologies like Blockchain need the participation of organizations to build an ecosystem.
- Also, challenges like the security of distributed data and transaction speeds need to be addressed.

Emerging Technology Trends in Banking

- Artificial Intelligence (AI)
- Robotic process automation (RPA)
- Chatbots
- 5G Network
- Blockchain Technology
- Digital currency/Crypto Currency
- Virtual Reality (VR)/Augmented Reality (AR)
- Wearables
- Digital Lending

- AI and RPA are being tested and implemented by Banks in their own ways.
- However, building common solutions using emerging technologies with Banks as a community through knowledge sharing will yield better results and use of the latest technologies.
- With the necessity to adapt to ever-evolving technologies and shifting global regulatory landscape, technology upgradation and compliance costs are rising.

Unit - 48. Security Considerations and Mitigation Measures in Banks

- Computer installations in banks represent assets valuable to banking operations. Data, hardware, software and manpower are the vital components.
- The technological breakthroughs and their application to banking operations have greatly affected the security considerations.
- To counter the threats to these assets, computer security and control procedures must, therefore, form an integral part of the system of internal controls within a bank.
- Most of the physical, operational and internal controls are designed to prevent events that may threaten banking operations.
- Due to the complex nature of the banking operations, even properly designed security and control systems may fail and leave a bank exposed to losses if the laid down procedures are not followed in practice.
- Therefore, containment controls are designed to detect and limit the effect on the business. Contingency plans are provided to minimise the losses in case the preventive controls fail in preventing the threats.

Different Types of Threats
Accidental Damages

- **Environmental Hazards**
  - Fire
  - Unstabilised power supply
  - Spikes in power and improper grounding (earthling)
  - Excessive humidity, water seepage and floods
  - Radio transmissions affect data transmissions.
- Human Errors and Omissions
- Unreliable Systems

Malicious Damages

- Interruption in Services
- Frauds

- As increasing dependence on information systems is taking place, the need for such systems to be reliable and secure also becomes essential.
- As growing numbers of ordinary citizens use computer and mobile networks for banking, shopping, etc., network security is potentially a massive problem.
- Over the last few years, the need for computer and information system security has become increasingly evident.

- Web sites are being defaced with greater frequency,
- more and more denial-of-service attacks are being reported slowing down or bringing down websites.
- Very sophisticated hacking tools, including Malware, are openly available from the Internet and Dark web to the public for a small price.
- There is increasing damage being caused by malware to critical information system resources.

- It would be helpful if the threat intelligence is democratised and organisations share information about threats and vulnerabilities and implement procedures for rapid and effective cooperation to prevent, detect and respond to security incidents.
- As new threats and vulnerabilities are continuously discovered, there is a strong need for cooperation among organisations and, if necessary, to consider cross-border information sharing.
- A regular programme of audits may help identify lapses before the banking operations are seriously put at risk.
- It requires a proper audit strategy by the banks.
- Banks have been focusing on implementing the latest technology solutions with speed and agility.
- However, they should not forget to assess the risk associated with such adoption.
- Banks must identify and responsibly manage the risks associated with the new technologies adopted as management of tech risk has a positive impact on business revenue.
- Technology risk management should involve strategic business planning, embedding risks and adding value upfront, rather than treating it as a cost.
- Because of the increasing complaints regarding digital transactions, in the interest of conduct of business relating to payment systems, RBI felt it necessary to provide a mechanism of Ombudsman for redressal of complaints against deficiency in services related to digital transactions

Information System Audit (IS Audit)

Controls to be Evaluated in IS Audit

- Deterrent controls
- Preventive controls
- Detective controls
- Corrective controls

Benefits of IS Audit

- It would identify the risks of exposure to an existing computerised environment

- It would deter people/employees/users from indulging in corruption/manipulation of data, frauds, etc.
- IS audit may verify whether the controls are adequate to safeguard the assets of a bank
- It provides to the management reasonable assurance regarding functionality, security and performance of the system
- It indicates the health of an information system
- IS audit reports helps to strengthen the system
- Promote best practices for controls
- Ensure compliance with policies and regulations
- Review IT projects, systems, and technology

Information System Security (IS Security)

The Need for IS Security

- To comply with the law of the land and regulator's guidelines.
- To comply with business policy.
- to protect confidential data of banks and customers
- to ensure business continuity

Controls Required for IS Security

- Identification
- Authentication
- Authorization
- Non-repudiation
- Access control

Cyber security threats to the Banking Industry

- Viruses
- Ransomware
- Malware
- Phishing
- Spear phishing
- Whaling
- Vishing

Safe Online Banking Tips

- Change your password regularly
- Create a strong password
- Do not use public computers to log in
- Do not share your details with anyone

- Disable the remember password option
- Always use licensed software, including anti-virus software
- Disconnect the internet connection when not in use
- Don't click on any link/image/icon in the e-mail from unknown sources
- Type your Internet banking URL
- Monitor your accounts regularly
- Choose an account with two-factor authentication
- Secure your computer and keep it up-to-date
- Always log out when you are done
- Set up account notifications (if available)
- Educate customers on cyber security

Modus Operandi of a Cyber-attacks

- Reconnaissance and Compromise
- Obtain credentials
- Send fraudulent messages
- Hide/cover up evidence

Modus Operandi of Cyberfrauds

- ATM card skimming
- Phishing/Vishing/Smishing Payment Fraud
- Lottery Fraud/Fake Prize Fraud
- Frauds due to using Unknown/Unverified Mobile Apps
- Account takeover Fraud
- Online Marketplaces Fraud
- Card fraud
- Sim Swapping
- Business Email Compromise (BEC)

Tips for Management of Mobiles and Tablet Devices:

- Secure your mobile/tablet by enabling the lock screen and security function, which could be a pattern password or fingerprint screen lock.
- As far as possible, do not save any sensitive personal information or bank account details on your electronic devices.
- Think twice before downloading apps to your mobile or tablet devices. Download mobile apps only from secured and trusted sources.
- Install mobile security and antivirus software only from a trusted security vendor.
- Disable the "Sharing" function on your mobile device when not required.
- Enable the settings to remotely locate and restore factory defaults on your electronic devices.

- Keep your device secure by applying the latest system and antivirus software patches.
- Where ever possible, encrypt the data on the device.
- After changing the settings, create a new password, and add your secondary email account as your alternative address.

- The guideline of Gopalakrishna Committee report on "Working group on information security, electronic banking, technology risk management and cyber frauds" by RBI is divided into nine chapters
  - Chapter 1: IT Governance
  - Chapter 2: Information Security
  - Chapter 3: IT Operations
  - Chapter 4: IT Services Outsourcing
  - Chapter 5: IS Audit
  - Chapter 6: Cyber Fraud
  - Chapter 7: Business Continuity Planning
  - Chapter 8: Customer Education
  - Chapter 9: Legal Issues

Integrated Ombudsman Scheme, 2021 by RBI

The scheme integrates and supersedes the existing three Ombudsman schemes of RBI, namely,

- the Banking Ombudsman Scheme, 2006
- the Ombudsman Scheme for Non-Banking Financial Companies, 2018
- the Ombudsman Scheme for Digital Transactions, 2019

Unit - 49. Operational Aspects of Cyber Crimes/Fraud Risk Management in Cyber Tech

- Cybercrime is defined as any criminal act that involves the use of computers or networks.

Risks for Banks from cyber attacks

- Financial loss
- Critical Data loss/breach,
- loss of productivity due to business disruption,
- Cost of investigation,
- Compensation to customers
- Reputational damage
- Regulatory penalties.
- Costs of recovering from disruptions
- Investment loss

Various Cyber Threats

- Identity Theft
- Data Breach/Theft
- Hacking
- Malware
- Viruses
- Ransomware
- Phishing/Vishing/smishing/Pharming
- Distributed Denial-of-Service (DDoS)
- Cyber Squatting/bullying/warfare

- Adoption of a Cyber Security Framework enables banks to better identify, assess, manage, and reduce their exposures to cyber risks, including those emanating from third-party service providers.
- Applying such cyber risk management methodologies provides a solid foundation for banks' attempts to address cyber security threats and incidents.
- Furthermore, applying such methodologies can aid in the facilitation of supervisory monitoring and the promotion of greater consistency in supervisory assessments across jurisdictions.

Essential mitigation strategies for business continuity:

1. Application whitelisting - to control the execution of unauthorized software
2. Patching applications - to remediate known security vulnerabilities
3. Configuring Microsoft Office macro settings - to block untrusted macros
4. Application hardening - to protect against vulnerable functionality

5. Restricting administrative privileges - to limit powerful access to systems
6. Patching operating systems - to remediate known security vulnerabilities
7. Multifactor authentication - to protect against risky activities and credential theft
8. Daily backups - to maintain the availability of uninfected critical data

Commonly deployed tools/measures by Banks Against Cyber Threats

- SIEM (Security Information and Event Management)
- Vulnerability Assessment/Management
- NBAD (Network behaviour anomaly detection)
- Anti-APT (Anti Advanced persistent Threat)
- Anti-DDoS (Anti Distributed Denial of Service)
- Anti-Phishing, Malware Monitoring
- PIM (Privileged Identity Management)
- FIM (File Integrity Management)
- WAF (Web Application Filtering)
- Cyber Insurance
- Involvement of Top Management
- Staff/customer awareness of cyber security
- Vulnerability/Penetration Testing
- Adopting Best Practices and Frameworks

- Banks have deployed various Hardware and Software based Security mitigation and monitoring tools.
- An indicative but not exhaustive list of requirements to be put in place by banks to achieve baseline cybersecurity/resilience mandated by RBI.
- This may be evaluated periodically to integrate risks that arise due to newer threats, products or processes.
- Important security controls for effective cyber security as may be articulated by CERT-In also may be referred.
- In view of the growing technology adoption and potential threats, Board level involvement and guidance would set the right tone at the top.
- It is important to endeavour to stay ahead of the adversary. Cyber Security Operations Centre should monitor various logs/incidents in real-time/near real-time.
- Proper configuring of hardware devices and software applications is essential to derive optimum protection.
- Staff should be provided with appropriate training, and the security policy of the bank should be communicated to staff periodically.
- Banks need to Set up and Operationalize (C-SOC) as per the RBI guidelines.

Security Information and Event Management (SIEM)

- SIEM is a platform for detecting, analysing, and responding to security threats of the next generation.
- SIEM software can have many features and benefits, including:
  - Consolidation of multiple data points.
  - Custom dashboards and alert workflow management.
  - Integration with other products.

Proactive Capabilities: Preparation, Detection Analysis
Responsive Capabilities: Containment, Eradication, Recovery

- Banks must develop a robust Cyber Incident Response (CIR) plan to stay ahead of the cybersecurity curve.
- Banks must develop a proactive as well as a responsive set of capabilities as part of their incident response plan, which can rapidly adapt and respond to cyber incidents.

Unit - 50. Technology Trends in Banking, e-RUPI, Fintech RegTech, SupTech, Hashtag Banking etc.

- Markets are changing and becoming increasingly reliant on data.
- As a result, huge digital corporations and retail conglomerates operating customer loyalty programmes are gradually replacing traditional financial institutions as the best-positioned institutions to analyse borrowers' credit risks and grant them credit.
- Some of the possible benefits of open banking are improved client experience, additional revenue streams, and a sustainable service model for underdeveloped markets.
- "APIs are garnering fresh attention as a means of improving the delivery of financial services to both retail consumers and commercial customers, thanks to advancements in advanced analytics and the market traction of various nonbank fintech companies.
- The increased sharing of consumer data in open banking opens the door to both promising benefits and catastrophic concerns boost the possibility of positive and negative consequences for consumers.
- Open Banking holds out the prospect of Saving Time and Money. It is possible that open banking will assist lenders in gaining a better understanding of a consumer's financial status and risk level, allowing them to provide more profitable loan terms to that consumer.

e-RUPI

- e-RUPI was launched on 2nd August 2021 by the NPCI
- 'e-RUPI' is a seamless one-time payment mechanism
- e-RUPI is a QR code or an SMS string-based e-Voucher delivered to the beneficiaries' mobile
- The users of the e-voucher can redeem the voucher at the merchants accepting e-RUPI without using a digital payments app, card or internet banking
- Even users without a smartphone can use e-RUPI because of its offline transaction feature.
- e-RUPI can especially be used in remote and rural areas, with a large section of people without smartphones.
- e-RUPI may be issued in two core categories, ie. Person-to-Person (P2P) and Business to Consumer (B2C).
- The e-RUPI can be issued only by banks authorized by the Reserve Bank of India to issue PPIs
- e-RUPI shall be authorized for redemption only to purchase goods and services from a designated merchant, as defined by the Issuer at the time of issuance of e-RUPI
- e-RUPI can not be used for cash out or cashback on redemption
- Up to 10 e-RUPI vouchers can be issued for one programme on a single mobile number/per individual beneficiary
- e-RUPI can be issued upto INR 10,000 per voucher

- No charges are payable by e-RUPI beneficiaries for using e–RUPI

Fintech or Financial technology

- Two critical points that need focus are, improving the accessibility of financial platforms using Fintech and analyzing potential risks that may arise from Fintech adoption.
- Fintech or Financial technology can be described as the use of technology to deliver financial solutions.
- Fintech refers to technologically enabled financial innovations.
- Fintechs include 'start-ups' to 'big-techs,' and established financial institutions.

RegTech or Regulatory Technology

- There is a need for developing a robust new framework by regulators, which promotes innovation and market confidence, supported by the use of regulatory "sandboxes.
- RegTech's genuinely disruptive potential resides in its ability to provide real-time surveillance of financial markets, thereby facilitating a rethinking of how financial regulation is thought about.
- RegTech or regulatory technology refers to technological solutions that streamline and improve regulatory processes
- RegTech is a technology system that assists a bank or any financial institution in managing regulatory compliance
- RegTech can be used for the following broad purposes
  (a) Regulatory Monitoring
  (b) Regulatory Obligations
  (c) Compliance Management
  (d) Execution of Compliance

SupTech or Supervisory technology

- SupTech or Supervisory technology offers technological solutions that assist financial supervisory authorities in managing regulatory compliance
- SupTech provides technological tools to regulatory authorities to improve their supervisory efficiency through automation
- Reserve Bank of India has been using SupTech to collect and analyse data.
- Some examples are
  - Import Data Processing and Monitoring System (IDPMS)
  - Export Data Processing and Monitoing System (EDPMS)
  - Central Repository of Information of Large Credits (CRILC)

MODULE D – ETHICS IN BANKS AND FINANCIAL INSTITUTIONS

Unit - 51. Ethics, Business Ethics & Banking: An Integrated Perspective

Business Value

Business value are an informal term and it explains the core principles or standards that guide the way business is done. Values sum up what your business stands for and what makes it special.

Business ethics

Established principle and standard that guide behaviour in the world of business.

Different Between Business Ethics and Business Values

Business Ethics	Business Values
Ethics refers to the guidelines for conduct, that address questions about morality	Value is defined as the principles and ideals, which help them in making judgment of what is more important
Moral Principle system	Induces thinking
What is morally or incorrect in the given situation?	What we want to be or achieve?
Magnitude of rightness or wrongness of one's options.	It explains the level of significance.

Myths vs Reality

Myth No. 1: Entrepreneurs are Essentially Inventors

Many aspirations die in the bud due to the existence of this perceived prerequisite.
Entrepreneurship is often confused with the invention, where it's taken as a condition to be able to tangibly invent an app, system, product or a new equation in order to create market value. For example, the way Ola/Uber disrupted travel and Airbnb/Oyo Rooms disrupted hotel stays.

Reality: Entrepreneurs are Ideators

Entrepreneurship is a phenomenal journey which is flagged off with something as basic and simple as an idea. Entrepreneurs arise from an existing gap, and the right idea to fill that gap. Once the idea stands out as disruptive, innovation and invention automatically fall in line. Work it up to the top before someone else works on it to build an empire.

Myth No. 2: Entrepreneurs are Mainly Motivated by Money

While money is the big game, it definitely isn't the end game. Money making makes for a very narrow viewpoint for those who certainly wish to establish a business. There are a larger passion and a bigger purpose that every budding entrepreneur holds or must hold onto than just making big bucks.

Reality: Entrepreneurs are Motivated by Passion

Most entrepreneurs believe in taking a risk and living life on the edge. They carry small phones but wider visions, live on bare necessities but live for huger possibilities. For any new business, the first few years are all about reaching a breakeven, profits become a part once execution is patiently handled and aimed for. Passion is the biggest motivation.

Myth No. 3: Entrepreneurs Have to be Risk-takers

A myth almost ingrained in the market almost believed to be a fact. Risk taking is more of an attitude when it comes to entrepreneurship. In the sea of bigger things, risk-taking is only one of the sailing boats. Very often many fierce risk takers fail due to the lack of ability to be risk avengers or that of being on the safe side of the spectrum at all times.

Reality: Entrepreneurs Have to be Challenge-takers

As an entrepreneur, all you need to be is a relentless challenger, which encompasses taking risks as well as avoiding them. To pose your idea as the distinguisher, all that you need is the attitude of a go-getter. The always prepared to face the adversity attitude should always come in play while facing obstacles, financial ups-downs and severe, cut-throat competition. Nothing is as strong as a strong will.

Myth No. 4: Entrepreneurs are Born

Where do we think they plan for the idea, while they develop in the womb? This is one of the biggest scandals of a myth, which makes thousands of people miss the chance of being the next big entrepreneur. Intelligence, high scores, family blood, none of these actually guarantees your ticket to the top.

Reality: Entrepreneurs are Made

Nothing begets dedication, will-power and courage. You aren't born an entrepreneur, you become one. The greatest entrepreneurs come from very average set-ups with almost no fortune in the bloodline. There will never be a shortcut to Hard work.

Business Ethics

Ethics means the set of rules or principles that the organization should follow. While in business ethics refers to a code of conduct that businesses are expected to follow while doing business.

Through ethics, a standard is set for the organization to regulate their behavior. This helps them in distinguishing between the wrong and the right part of the businesses.

Business ethics compromises of all these values and principles and helps in guiding the behavior in the organizations. Businesses should have a balance between the needs of the stakeholders and their desire to make profits. While maintaining these balances, many times businesses require to do tradeoffs. To combat such scenarios, rules and principles are formed in the organization.

This ensures that businesses gain money without affecting the individuals or society as a whole. The ethics involved in the businesses reflect the philosophy of that organization.

Principles of Business Ethics

Integrity
Whenever there is great pressure to do right instead of maximizing profits, this principle is tested. The executives need to demonstrate courage and personal integrity, by doing what-what think is right. These are the principles, which are upright, honorable. They need to fight for their beliefs. For these principles, they will not back down and be hypocritical or experience.

Loyalty
No ethical behavior can be promoted without trust. And for trust, loyalty needs to be demonstrated. The executives need to be worthy of this trust while remaining loyal to the institutions and the person. There should be friendship in the time of adversity and support and devotion for the duty.

Honesty
The ethical executives are honest while dealing with their regular work. They also need to be truthful and do not deliberately deceive or mislead the information to others. There should be an avoidance of the partial truths, overstatements, misrepresentations, etc. Thus, they should not have selective omission by any means possible.

Respect and Concern
These are two necessarily different forms of behavior in the organization. But they go in tandem that is why they have been put under one principle. When the executive is ethical he is compassionate, kind, and caring.

Fairness
The executives need not be just fair in all the dealings, but they also should not exercise the wrong use of their power. They should not try to use over each or other indecent manners to gain any sort of advantage. Also, they should not take undue advantage of anything or other people's mistakes.

Leadership

Any executive, if ethical, should be a leader to others. They should be able to handle the responsibilities. They should be aware of the opportunities due to their position. The executives need to be a proper role model for others.

Ethical Foundation of Banking: Finance Depends on Trust

Need and Important of Ethics in Banking

Bank need to deliver high quality services to its customers, which are driven by high ethical standards and therefore maintain the same in its work culture, management and also with the quality of its employees. Banks can only work well when the public trust them.

Warranting safety of banking activities is certainly a challenging task. It depends heavily both on the economic condition of the country and in the environment of an open economy, the tendencies of development of countries worldwide as well.

Ethics help in dealing with dilemmas

Any banking business however well-placed, at times, it may have to confront moral dilemmas in their regular course of business. Banks have to deal with complex dilemmas in decision making, which is not about distinguishing between right and wrong, but between right versus less right. This, a Bank needs to adhere to a set of strong moral principles, which helps its employees in navigating through the obstacle of ethical choice, while making important decision.

Guards Reputation/ Goodwill

This is a two-pronged process, First, bank's ethical practices aid in safeguarding depositor's interest, thus, maintaining the stability of the system and preserving the reputation of the bank.

Second, Employees adhering to ethical practices prevent the breaches of law and corrupt activities. Besides this, it will also protect stakeholder's interest and enhance the bank's competitiveness and brand image.

Helps avoid risk

A well- defined code of ethics following by the superiors will ensure that the bank at all times maintain high ethical standards and have preventive and corrective measures against unethical practices by any of the staff members.

Principles of ethical banking

Banks are dependent on people to carry out its business who are reflection of the ethical standards of follows. Therefore, it is important for banking professionals to know what is expected from them and also help them to avoid temptations and pressures. Principles of ethics in banking business provide a guideline to the banking professional, which helps them in dealing with ethical issue.

Principle of trust- Trust is the confidence in quality or attribute of a person or a thing. It also includes truth of a statement. It includes both trustfulness and trustworthiness. In business, trust always means trustworthiness- which is established by trustfulness. It inspires customers, investors, regulators and lenders to feel confident in an individual, a product or an organization. The other standard banking code of conduct includes-

- Integrity
- Neutrality
- Reliability
- Transparency

Ethical Foundation of Being a professional

Professionals must possess knowledge of law and comply with all applicable laws and regulations of the government, even in the event of conflict. Professionals should disassociate themselves from violation of laws or rules and regulations.

Professionals must take reasonable care and judgment in maintaining their independence and objectivity in their activities. Accepting gift, benefits, compensation etc.

Professional must not engage in any conduct of dishonesty, deceit, fraud, or an action, which might affect their reputation and integrity.

Professionalism in Banking

The image and reputation of a bank as well as people's confidence in a bank depends heavily on the behaviour of its employees, their ability to interact and show attention to their co-workers and clients.

Unit - 52. Ethics at the Individual Level

Values, Norms, Belief and their Role

Values

Values refer to the important and enduring beliefs or principles, based on which an individual makes judgements in life. It is at the center of our lives which act as a standard of behaviour. They severely affect the emotional state of mind of an individual. They can be personal values, cultural values or corporate values.

Values are forces that cause an individual to behave in a particular manner. It sets our priorities in life, i.e. what we consider in the first place. It is a reason behind the choices we make. It reflects what is more important for us. So, if we are true to our values and make our choices accordingly, then the way we live to express our core values. Moreover, if you understand an individual's values, you can easily identify what is important for them.

Differences between Ethics and Values

The fundamental differences between ethics and value are described in the given below points:

• Ethics refers to the guidelines for conduct, that address question about morality. Value is defined as the principles and ideals, which helps them in making the judgement of what is more important.

• Ethics is a system of moral principles. In contrast to values, which is the stimuli of our thinking.

• Values strongly influence the emotional state of mind. Therefore it acts as a motivator. On the other hand, ethics compels to follow a particular course of action.

• Ethics are consistent, whereas values are different for different persons, i.e. what is important for one person, may not be important for another person.

• Values tell us what we want to do or achieve in our life, whereas ethics helps us in deciding what is morally correct or incorrect, in the given situation.

• Ethics determines, to what extent our options are right or wrong. As opposed to values, which defines our priorities for life.

Norms

Norms are expectations of proper behaviour and not the requirements of that behaviour. Norms are the ways an individual expects all the people to act in a given situation. They are inconsistent but universal. Norms are not published, therefore, may not be obeyed and cannot be made obligatory except by sanctions of a group who use penalties as condemnation or exclusion.

Norms are informal guidelines about pertaining to behaviour and actions, which are considered normal (what is correct and incorrect) social behaviour in a particular group or social unit.

Beliefs

Beliefs in the ethical code are standards of thoughts. Beliefs are criteria of intangible thought that does not necessarily evoke action. It may stimulate or force certain pursuit in the environment that corresponds with one to behave in a certain manner.

Beliefs are among the most primitive and central of mental constructs, and yet there is little agreement as to what they are or how they should be constructed.

Role of Norms, beliefs and values in management

A corporate culture is a set of values, beliefs, norms and goals and ways of solving problems, which is shared by the employees of an organization.

Core Values

Core value are the fundamental beliefs of a person or organization. These guiding principles dictate behavior and can help people understand the different between right and wrong. Core values also help companies to determines if they are on the right path and fulfilling their objectives by creating an unwavering guide.

Every organization must have a set of core values, which are referred to as the Business or Corporate values. The below mentioned are the few of core values practiced by Fortune 500 Companies across the world:

• Customer services
• Employee care'
• Quality
• Ethics
• Integrity
• Growth and stability
• Innovation
• Flexibility
• Social Responsibility

Morality and Personal Values

Morality

Morals are one's guiding principles. Morals are those principles that have internalized automatic response to the situations. They are part of who we are our unique personality. Moral standards are first absorbed as child family friends and various social influences.

Different moral standards emerge from the different value systems which people and society hold. Moral standards include the norms we have about the kinds of actions we believe are morally right and wrong and also the values we place on the kind of objectives we believe are morally good and morally bad.

Personal Values

Individual values- system is like a fingerprint. It is unique in case of each individual. Because it in the form of a combination of different instrument and terminal values. And this combination varies from person to person. Therefore, in the context of an organization when different business managers come across similar ethical dilemma, their interpretation of the situation and responsive actions may differ significantly.

Personal values serve five purposes in organizations

• Values serve as standards of behaviour.
• Guidelines for decision-making and conflict- resolution
• Values affect our thoughts and actions.
• It influences the perception and motivation of employees.
• It also has strong influence on behaviour and attitude.

Personal Ethics and Business Ethics: Individual Integrity and Responsibility

Personal Ethics

Personal ethics is a category of philosophy that determines what an individual believes about morality and right and wrong. This is usually distinguished from business ethics or legal ethics. These branches of ethics come from outside organizations or governments, not the individual's conscience.

Business ethics

Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects. Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities.

Conflict Between Personal ethics and Business Ethics

The organization’s ethics dilemmas are often resolved and decision taken by committees and formal and informal group and not by an individual. Moreover, the decision that are taken are based in business goals and exclude individual goals. Ethical clashes or dilemmas may arise in several situations like:

• The individual ethics may clash with the group ethics predominant in the organization.

• The individual ethics of a single powerful person in the organization may be pre- dominant in the organization. If that individual is ethical and works for the good of all the shareholders, it results in positive outcome but if that person is unethical, it may result in negative impact on the organization.
• In some cases, employees may be taught to ignore an issue, which he or she thinks is unethical.

Individual Integrity and responsibility
Integrity is explained as firm adherence to a code of values. For an individual or for a Business, Integrity is the quality or state of being complete or undivided, In other words, it means being true to our values and ourselves and also keeping our commitment not only towards others but to ourselves also. In the individual value-set, Integrity is the core value, which makes an individual complete or undivided.

Why is it important to restore integrity?- This is mainly because it gives you the ability to powerfully deal with not only specific situation but also in other areas of one's life.

Individual Responsibility
Responsibility is defined as a moral, legal or mental accountability. This makes an individual a cause of doing something with a motive or an agent of some action.
An Individual's responsibility is taking on accountability for our personal situation. Suppose of an organization declares that we are responsible for what we do and what we have, who we are and for all the conversations we have and situation we are in. Therefore, individual responsibility is the commitment one makes to himself for being an agent in the world, i.e. the cause of who we are and what we have.

Ethical Reasoning and Real-world Application
Ethical reasoning is the process recongnizing, which decision requires ethical judgments, determining potential reasonable course of action, finding support for potential course of action, and then selecting the course of action best supported.

General purpose: Firstly, an individual is tying to determine the ethical goals or an objective that he or she is trying to achieve.
Raise questions: The key ethical question person is trying to answer, that is identification of issues he or she facing and then formulating key ethical question embedded in the issues, keeping in mind the relevant point of views.
Use information: One must identify the information, collect all the data and facts, which will enable a person to understand and consider the requirement of evidences or observations relevant to others. Individual's own experiences also helps in developing suitable reasons.

Utilizes concepts: The key ethical concepts and principles that would assist in developing a thought process. Identification of ethical definitions, theories, models etc. that is applicable for reasoning through the issues.
Makes assumption: The main assumptions pre- suppositions used in reasoning in the ethical issue. Assumptions should also be justified for reasoning. Assumptions must also be evaluated from the perspective of understanding the ethical issues along with available alternatives.

Ethics Dilemmas: Resolving Ethical Dilemmas

An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision- making process between two possible options, neither of which is absolutely acceptable from an ethical perspective. Although we face many ethical and moral problems in our life, most of them come with relatively straightforward solutions.

On the other hand, ethical dilemmas are extremely complicated challenges that cannot be easily solved. Therefore, the ability to find the optimal solution for ethical dilemmas is critical to everyone.

Every person can encounter an ethical dilemma in almost every aspect of their life, including personal, social, and professional.

An ethical dilemma exists when one is faced with having to a make choice among following alternatives:
• Significant Value--- Conflicts among differing interests.
• Real alternatives that is equally justifiable.
• Significant consequences on stakeholders in situation.

Resolving Dilemmas
Steps for dealing with ethical dilemma are as follows-
• Acknowledge that there is a moral issue.
• Ascertain the people who will be affected by the decision. Also, determine your role.
• Gather the facts about sequence of occurrence of event. Because the more facts we know, we can better comprehend the situation.
• Ascertain your test for right versus wrong. How would you define the problem, if you ware to stand on the other side of the fence.
• Ascertain the test for right versus right theory, for example trust vs loyalty, justice vs Mercy etc.
• Apply the resolution principle. Work through all three approaches to resolve the dilemma, namely.
• Thinking based on end-do whatever produces the greatest good for maximum people.

- Rule based thinking-follow the rule strictly.
- Care based thinking –treat other with love and compassion. Do to others, what you would like the do to you.
- Your approach must look reasonable and persuasive
- Investigate, if there is any third way out of the situation
- Make decision and take action
- Revisit and reflect on the decision.

A Framework for Ethical Decision- Making

Making good ethical decisions requires a trained sensitivity to ethical issues and a practiced method for exploring the ethical aspects of a decision and weighing the considerations that should impact our choice of a course of action. Having a method for ethical decision making is essential. When practiced regularly, the method becomes so familiar that we work through it automatically without consulting the specific steps. This is one reason why we can sometimes say that we have a "moral intuition" about a certain situation, even when we have not consciously thought through the issue. We are practiced at making ethical judgments, just as we can be practiced at playing the piano, and can sit and play well "without thinking." Nevertheless, it is not always advisable to follow our immediate intuitions, especially in particularly complicated or unfamiliar situations. Here our method for ethical decision making should enable us to recognize these new and unfamiliar situations and to act accordingly.

The more novel and difficult the ethical choice we face, the more we need to rely on discussion and dialogue with others about the dilemma. Only by careful exploration of the problem, aided by the insights and different perspectives of others, can we make good ethical choices in such situations.

Ethical decision-making has involved weighing of four factors as under:

- The desired outcome of a decision.
- The means used to achieve the desired outcome,
- The motivation behind the decision; and
- The possible consequences of decision.

Unit - 53. Ethical Dimensions: Employees

Obligation to Bank: Obligations of Bank

- Obligation to Honour Cheques
- Obligation to Maintain Secrecy
- Obligation to follow all financial instructions of customers
- Obligation to keep records in order
- Obligation to give Notice before closing the account
- Besides the Obligation towards the bank's customers, they also have got the obligation to follow all the laws, guidelines, directives and policies of the regulator- RBI

Right of Bank

For fulfilling the obligations towards the customers, bankers enjoy the following rights:

Right of General Lien: A general lien authorizes a bank to retain and securities till al the bank's claims against the customer are satisfied. A lien is an implied such that if a default is made by the debtor, the bank, by giving a reasonable notice to the borrower, can sell and recover the amount due to it. No other valuables, cash, etc, kept in lockers or fixed deposits etc, should be set off against the claim.

Right to charge interest and commission: Bank has implied right to charge interest on loans and advances and commission on services rendered to the customer.

Closure of Account: The Bank has the right to close a customer's account if it is inoperative for the specified duration, provided it informs in writing to the customer to respond within a stipulated time.

Obligation to Third Parties: Fiduciary Responsibilities

Obligations under the KYC for regulated Entities

As per the Master Direction issued by RBI on February 25, 2016 (which was updated as on April 20, 2018), know as the RBI (KYC) direction 2016 , the following are the directives issued for the Regulated Entities (REs refer to Bank, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers etc).

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, REs, shall at their option, rely on customer due diligence done by a third party, subject to the following conditions:

- Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.
- Adequate steps are taken by REs to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.

• The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act.
• The third party shall not be based in a country or jurisdiction assessed as high risk.
• The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the RE.

REs shall frame a Customer Acceptance Policy.
• No account is opened in anonymous or fictitious/benami name.
• No account is opened where the RE is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
• No transaction or account-based relationship is undertaken without following the CDD procedure.
• The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
• 'Optional'/additional information, is obtained with the explicit consent of the customer after the account is opened.
• REs shall apply the CDD procedure at the UCIC level. Thus, if an existing KYC compliant customer of a RE desires to open another account with the same RE, there shall be no need for a fresh CDD exercise.
• CDD Procedure is followed for all the joint account holders, while opening a joint account.
• Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.
• Suitable system is put in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanctions lists circulated by Reserve Bank of India.

For Non- Banking Financial Companies
Simplified procedure for opening accounts by Non-Banking Finance Companies (NBFCs): In case a person who desires to open an account is not able to produce documents, as specified in Section 16, NBFCs may at their discretion open accounts subject to the following conditions:

(a) The NBFC shall obtain a self-attested photograph from the customer.
(b) The designated officer of the NBFC certifies under his signature that the person opening the account has affixed his signature or thumb impression in his presence.
(c) The account shall remain operational initially for a period of twelve months, within which CDD as per Section 16 shall be carried out.
(d) Balances in all their accounts taken together shall not exceed rupees fifty thousand at any point of time.

(e) The total credit in all the accounts taken together shall not exceed rupees one lakh in a year.
(f) The customer shall be made aware that no further transactions will be permitted until the full KYC procedure is completed in case Directions (d) and (e) above are breached by him.
(h) The customer shall be notified when the balance reaches rupees forty thousand or the total credit in a year reaches rupees eighty thousand that appropriate documents for conducting the KYC must be submitted otherwise the operations in the account shall be stopped when the total balance in all the accounts taken together exceeds the limits prescribed in direction (d) and (e) above.

Abuse of Official Position: Insider Trading, Proprietary Data, Bribes Etc.
Employees are advised to follow Code of Conduct laid down by the Bank. Abuse of official position for personal gains or providing gains to friends, family members and other with selfish motive amounts to violation of employee's to the Bank. Examples of abuse of power can be:

• Bank employee goes for a personal travel and claims reimbursement as official travel
• Showing discrimination to the customers based on their proximity to the employee (his relatives friends, etc, showing special preference)
• Use of official resources for personal use
• False claims beyond the fixed perquisites

Insider Trading
In India, SEBI (Insider Trading) Regulation, 1992 framed under the Section 11 of the SEBI Act, 1992 intends to curb and prevent the menace of insider trading in securities. An insider is a person who is an accepted member of a group or organization who has special knowledge regarding his firm.

Proprietary Data
Proprietary Data refers to the information relating to the intellectual property right and trade secrets of any company. All employees are expected to keep confidentially of the data relating to all stakeholders, customers, vendors, promoters, investors and other who are associated with the Bank.

Bribes
Bribes refers to paying money or gift to a person with a motive of getting some favour done. Bank's Services regulations provide details of dos and don'ts with respect to bribes.

Obligations to third Parties
When the Bank is outsourcing its functions to the Third Parties, it needs to have clear, transparent contracts and agreements with all terms & conditions incorporated. Especially in

service contracts, the service level agreement have to be defined minutely and ensure that the Third party do not cause an inconvenience to the Bank customer.

Job Discrimination

Job discrimination is when an employee is treated badly by a supervisor or boss for something they cannot control, like their age or race. Mistreatment can range from verbal or sexual harassment, withholding benefits, withholding opportunities for advancement, pay, or someone being fired from their job.

Sexual Harassment

Sexual harassment is a type of harassment technique with explicit or implicit sexual overtones, including the unwelcome or inappropriate promise of rewards in exchange for sexual favors. Sexual harassment includes a range of actions from verbal transgressions to sexual abuse or assault. The Guidelines and norms prescribed included the definition of sexual harassment and details as under:

• Physical Contact
• A demand or respect for sexual favours
• Sexually coloured remarks
• Showing pornography
• Any other unwelcome physical, verbal or non-verbal conduct or sexual nature

Managing Conflict of Interests

The Dictionary meaning of conflict of interest is “a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.”

Some examples for conflict of interest are:

• A given bank and its client/ clients
• Among the employees of a bank
• Employee of a bank and a client
• Between a given bank and one or more of its clients
• Provision of bank’s services to two or more clients

HRM Ethics

Human Resource Management (HRM) deals with work force management, manpower planning and other employee related activities in an organization. HRM concerns human issues, especially those related with compensation, development, industrial relations, health and safety issues. However, there are sufficient disagreements in managing HRM issues that stem from various quarters.

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Unit - 54. Work Ethics and the Workplace

What is Work Ethics?

Work ethic is a belief that hard work and diligence have a moral benefit and an inherent ability, virtue or value to strengthen character and individual abilities. It is a set of values centered on importance of work and manifested by determination or desire to work hard. Social ingrainment of this value is considered to enhance character through hard work that is respective to an individual's field of work

Factors of a good work ethics

- **Goal-oriented actions:** It is not about making plans or the next logical steps; it's about getting things done so that the work invested wouldn't be counter-productive.
- **Prioritized focus:** Focusing on qualitative activities that a person is responsible for and in areas where they can make a difference or a high impact based on objectives.
- **Being available and reliable:** Spending time on the work and building oneself up for the task.
- **Conscientiousness:** A desire to do a task well, being vigilant and organized.
- **Creating a rewarding routine/system:** Engaging in tasks that provide strength and energy which can be transferred to your ultimate goals, creating a habit and a habitat for success.
- **Embracing positivism:** Shape a problem with the statement "good, (action) (problem)", e.g. "I'm tired and it is time for a workout" leads to "Good. Workout tired".

Something bigger than the self

There is a hierarchy in which one needs to think about the purpose of one’s life

The hierarchy can be as under:

- Oneself
- Family
- Community
- Religion
- Society at large
- Global causes (Like peace, human right, environment etc)

Ethical Behaviour at the Workplace: Benefit

- Asset Protection and Assurance
- Productivity will increase
- Team Work will develop
- Public Image and Brand Value Increases
- Adaptive to changes
- Decision making and implementing is always easy
- Trouble-free working environment

- There is no one left negative
- Less Legal Issues
- The company will Touch New level of Success

Recognising Ethical Workplaces

The following are some of the ways and means to recognize an ethical workplace:

- Respectful treatment of all categories of customers by the front- office personnel;
- Employees' awareness of the business process and quick and to the point clear answers to queries;
- Giving correct and authentic information to customers on matters like interest rates/premature withdrawals of term deposits, actual eligibility for insurance claim on assets like house/flat etc.
- Guiding a person on a short visit for multi-currency travel card and whether to take fixed exchange rate or to go in for real-time exchange rate;
- Strict adherence to minimal prescribed documentation as prescribed by the regulator/internal management and not insisting for additional documents from the borrower;
- Appropriate attire befitting the profession of the employee, and it should provide comfort to all customers who need to speak to the employee;
- Acceptable body language of the employees at the workplace.
- Fair and appropriate treatment given to all co-employees. Etc, Etc

Unethical Behaviours: Causes and Remedies

Causes

The major causes for unethical behaviour at workplace are as follows:

- Non-availability of code of Ethics Manual
- Lack of fear of Action
- Unrealistic Targets
- Influence of Co-employees
- Unprincipled Leadership
- Means are not appreciated

Remedies

Many of the preventive or remedial measures have already been discussed earlier. The following can be tried some of the remedies to rectify unethical behaviour at workplace.

- Developing Ethics Manual
- Starting Conversations about ethics in the organization
- Nipping of unethical behaviour in the bud
- Frequent utilization of the Manual
- Imitable behavior by the Top Management

- Appreciation and Rewards for ethical behaviour
- Encouragement of counter viewpoints and discussions in meetings
- Care for reputation rather than results

Some of the following situations gives a comprehension about some of the unethical practices at the workplace:

- Abuse of the official email
- Pre-employment Tests
- Personal Habits
- Data Leakage
- Helping Friends in Social Decision

Ethics of a Banker

A Banker can be evaluated for the ethical commitment at three stages of his/her career-

- At the initial stages up to first 5-7 years of taking up banking as career,
- At the middle management stage, typically after 7-15 years into banking sector, and
- At the senior management level, normally after 15 years into banking service.

The following are some of the major ethical qualities expected of a banker throughout his/her career-

- Honesty and Integrity
- Commitment to Customers
- Confidentiality
- Fair treatment
- Transparency
- Duty-Mindedness

Whistleblowing in Banks

In the Indian context, the Government of India had passed a resolution on April 21, 2004 authorizing the Central Vigilance Commission (CVC) as the 'Designated Agency' to receive written complaints or disclosure on any allegation of corruption or of misuse of office and recommend appropriate action. The jurisdiction of the CVC in this regard is restricted to employees of the Central Government or of any corporation established by it or under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government.

As a proactive measure for strengthening financial stability and with a view to enhancing public confidence in the robustness of the financial sector, RBI has formulated a scheme called "Protected Disclosures Scheme for Private Sector and Foreign Banks". The salient features of the Scheme are :

Scope and Coverage

As Public Sector Banks and Reserve Bank of India (since it is an entity established under Central Statute) have already been brought under the purview of Government of India scheme, with a view to avoid duplication, this Scheme would cover all private sector and foreign banks operating in India.

The complaints under the Scheme would cover the areas such as corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with existing rules and regulations such as Reserve Bank of India Act, 1934, Banking Regulation Act 1949, etc. and acts resulting in financial loss / operational risk, loss of reputation, etc. detrimental to depositors' interest / public interest.

- Under the Scheme, employees of the bank concerned (private sector and foreign banks operating in India), customers, stake holders, NGOs and members of public can lodge complaints.
- Anonymous / pseudonymous complaints will not be covered under the Scheme and such complaints will not be entertained.
- Reserve Bank of India (RBI) will be the Nodal Agency to receive complaints under the Scheme. RBI would keep the identity of the complainant secret, except in cases where complaint turns out to be vexatious or frivolous and action has to be initiated against the complainant as mentioned in the below point.
- The institution against which complaint has been made can take action against complainants in cases where motivated / vexatious complaints are made under the Scheme, after being advised by RBI. An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action.
- Final action taken by RBI on the complaint will be intimated to the complainant.

Unit - 55. Banking Ethics: Changing Dynamics

Ethics and Technology

Role of Information Technology in Banking

The banking industry is going through a period of rapid change to meet competition, challenges of technology and the demand of end user. Clearly technology is a key differentiator in the performance of banks. Banks need to look at innovation not just for product but for process also.

Today, technology is not only changing the environment but also the relationship with customers. Technology has not broken barriers but has also brought about superior products and channels. This has brought customer relationship into greater focus. It is also viewed as an instrument of cost reduction and effective communication with people and institutions associated with the banking business. The RBI has assigned priority to the up gradation of technological infrastructure in financial system. Technology has opened new products and services, new market and efficient delivery channels for banking industry. IT also provides the framework for banking industry to meet challenges in the present competitive environment. IT enables to cut the cost of global fund transfer.

Important events in evolution of Information Technology:-

- Introduction of MICR based cheque processing
- Arrival of card based payments
- Introduction of Electronic Clearing Services
- Introduction of RTGS/NEFT
- Introduction of Cheque Truncation System (CTS) or Image-based Clearing System (ICS)
- Introduction of Core Banking Solutions (CBS)
- Introduction of Automated Teller Machine (ATMs)
- Introduction of Phone and Tele Banking
- Introduction of Internet and Mobile Banking

Background

Committees headed by Dr. C. Rangarajan, RBI's Committee on Mechanisation in the Banking Industry (1984) and RBI's Committee on computersation in Bank (1988) laid the foundation for larger-scale introduction of IT in India's Banking Sector. Futher, The Reserve Bank of India Constituted a committee called 'Committee on Technology Issues relating to the Payments system, cheque Clearing and Securities Settlement in the Banking Industry (1994) under the Chairmanship of Shri W S Saraf. This Committee made a number of recommendations that covered payment systems including Establishment of an Electronic Fund Transfer (EFT) system, introduction of Electronic Clearing Service Credit for low value repetitive transactions such as interest, dividend, salary, pension payment and an Electronic Debit Clearing for payments to utility companies. Large scale induction of computers and communication technology in service branches, etc, were also part of the recommendations.

Role of Ethics in Technology

Using theories and methods from multiple domains, techno-ethics provides insights on ethical aspects of technological systems and practices, examines technology-related social policies and interventions, and provides guidelines for how to ethically use new advancements in technology. Techno ethics provides a systems theory and methodology to guide a variety of separate areas of inquiry into human-technological activity and ethics.

Moreover, the field unites both techno centric and bio-centric philosophies, providing "conceptual grounding to clarify the role of technology to those affected by it and to help guide ethical problem solving and decision making in areas of activity that rely on technology." As a bio-techno-centric field, techno ethics "has a relational orientation to both technology and human activity"; it provides "a system of ethical reference that justifies that profound dimension of technology as a central element in the attainment of a 'finalized' perfection of man.'

Ethics address the issues of what is 'right', what is 'just', and what is 'fair'. Ethics describe moral principles influencing conduct; accordingly, the study of ethics focuses on the actions and values of people in society (what people do and how they believe they should act in the world).

Technology is the branch of knowledge that deals with the creation and use of technical means and their interrelation with life, society, and the environment; it may draw upon a variety of fields, including industrial arts, engineering, applied science, and pure science. Technology "is core to human development and a key focus for understanding human life, society and human consciousness."

Data Security and Privacy

With the increased intervention of technology in the banking sector globally, the need for sophisticated laws to protect customer information has gained significant attention. While several countries have enacted comprehensive legislations to protect customer’s sensitive information, some countries are still in the process of introducing legislations to keep up with the changing pace of technology. In India, banks are regulated by the Reserve Bank of India (RBI) and the RBI through various notifications, circulars, directions and guidelines from time to time, obligates banks to maintain customer confidentiality and protect the privacy of customers’ data.

The government of India also introduced the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011 with an aim of creating a robust legislation, which would protect customer's sensitive personal data by only allowing banks to release data when the customer has explicitly consented to such disclosure. The Rules also permit banks to only collect sensitive personal information for lawful purposes connected with the function or activity of banks and when the collection of the information is necessary for such purpose.

Credit Information

However, while providing the necessary protection to customers there is also a need to ensure that banks are not victimized for no fault of theirs by not being able to recover their debts from defaulting customers. To meet this end, the Credit Information Companies Act, 2005 (CIC Act) was introduced in India in 2005. Credit Information Companies (CICs) are independent third party organizations that provide credit information to banks and financial institutions and asses credit worthiness of individuals based on their past repayment and default records. Banks can, through such information, determine whether they should provide credit facilities to the client. A CIC is required to furnish information to its members and has to maintain principles of privacy enumerated under Section 20 of the CIC Act.

Information Utilities

Recently, with the introduction of the Insolvency and Bankruptcy Code, 2016 (the Code), a new concept of the Information Utilities (IU) was brought into the picture and subsequently notified with effect from 1 April 2017. An IUs under the Code is an infrastructure facility which, like the CIC, is to create a financial information database of all entities availing credit in the country with the aim to enable better decision making by creditors and to ensure discipline among debtors. To ensure data privacy, IUs are required to store all the information received in a facility located in India and should have high quality data storage systems to avoid loss/ corruption of data. The information stored with an IU can only be accessed by certain specific categories of persons, which includes inter alia any user who submitted the information, National Company Law Tribunal, insolvency professionals and the Insolvency and Bankruptcy Board of India.

Intellectual Property Right and Patents

Intellectual Property refers to creation of an asset by any individual or anyone using his or her creativity, innovation. Such intellectual property (IP) belongs to that individual and any unathorised use of such IP is strictly under the applicable law of land. Some example of IP is artistic works; and symbols, innovative process, method etc.

Intellectual property included into two categories:

• Intellectual Property includes patents for inventions, trademarks, industrial designs and geographical indications.
• Copyright covers literary works (such as novels, poems and plays), films, music, artistic works (drawing, paintings etc) and architectural design.

What is Patent?
A patent is a form of intellectual property that gives its owner the legal right to exclude others from making, using, selling and importing an invention for a limited period of years (Generally 20 years) , in exchange for publishing an enabling public disclosure of the invention.

Ethics of Information Security
As technology is taking over most of the Banking activities; threats associated with the use of technology also need to be tackled. The IT team of the bank or financial institution in a way becomes the custodian of the information of its customers/dealings/ activities.

The following aspects relating to information security may be worth following by the employees:
• Making the employee (IT and non-IT) be aware of their professional obligations relating to the information security of the bank, customers and other stakeholders.
• Notifying from time to time the existing laws and crimes as and when the cyber laws get amended in the country or internationally (for off-shore transaction).
• Making the bank employees (especially the IT employees) aware of the patterns of IT attacks on bank customers/servers/ other assets like ATMs, etc. and to familiarize the profiles of attackers and patterns of the thefts, modus operandi, if any.

Cyber Threats

Need for cyber Security Awareness
Despite the Indian Banking system having completed its process of computerization and online-ready transactions, a significant proportion of the customers of banks are still not adequately well-versed with the importance of cyber security. Banks are making their sincere efforts to educate and bring in awareness among their customers on the importance of memorizing their passwords. Firstly, setting the password itself is not taken seriously by many customers.

There are four characteristics advised by typical IT personnel of banks while setting a password. The passwords are ideally to be:

• Personal

• Unique
• Secret
• Complex

Cyber Security Framework in Bank

Reserve Bank of India, thought its Notification dated June 2, 2016, advised all commercial banks in India's to have in place a cyber- security policy with the the approval of their Boards. RBI gave about 4 months timeframe to the commercial banks to set up such cyber security policy and give a compliance conformation to the RBI. RBI notification directed the commercial Banks further on this aspect us under:

"In order to address the need for the entire bank to contribution to a cyber-safe environment, the Cyber Security Policy should be distinct and separate from the broader IT policy/ IS security policy so that it can highlight the risk from cyber threats and the measures to address/mitigate these risks.

Banks need to promote the following enabling programs

• Take preventive steps
• Provide guidelines steps
• Engage state- of- the art IT security protection systems
• Build confidence in staff and customers

Digital rights management (DRM)

Digital rights management (DRM) is a systematic approach to copyright protection for digital media. The purpose of DRM is to prevent unauthorized redistribution of digital media and restrict the ways consumers can copy content they've purchased. DRM products were developed in response to the rapid increase in online piracy of commercially marketed material, which proliferated through the widespread use of peer- to-peer file exchange programs. Typically DRM is implemented by embedding code that prevents copying, specifies a time period in which the content can be accessed or limits the number of devices the media can be installed on.

Although digital content is protected by copyright laws, policing the Web and catching law-breakers is very difficult. DRM technology focuses on making it impossible to steal content in the first place, a more efficient approach to the problem than the hit-and-miss strategies aimed at apprehending online poachers after the fact.

ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR
JAIIB
PRINCIPLES & PRACTICES OF BANKING

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