ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR
JAIIB
RETAIL BANKING &
WEALTH MANAGEMENT

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

Retail Banking & Wealth Management

Index

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: RETAIL BANKING

Retail Banking : Introduction
Characteristics of Retail Banking; Advantages of Retail Banking; Constraints in Retail Banking; Evolution of Retail Banking; Prerequisite for Success of Retail Banking; Challenges for Retail Banking; Future of Retail Banking

Retail Banking: Role within the Bank Operations
Business Models

Applicability of Retail Banking Concepts and Distinction between Retail and Corporate/ Wholesale Banking
Applicability of Retail Banking Concepts; Distinction between Retail and Corporate/Wholesale Banking

Branch Profitability
Banking System: An Introduction; Banking in India; What is Profitability; What is Profit; Gross Profit, Operating Profit and Net Profit; Profit and Profitability in the context of Banking; Traditional Measures of Profitability; The ROA (Return on Asset); Return on Equity (ROE) for Banks; Branch Operating Efficiency; Strategies for Improving Efficiencies of Banking Operations; Factors Affecting Profitability of Banks in India; Profitability Analysis of Bank Branches; Steps to Improve Branch Profitability; Essential Factors to Make Continuous Improvement in Profitability

MODULE B: RETAIL PRODUCTS AND RECOVERY

Customer Requirements
Maslow's Theory and Customer Requirements; Customer Requirements about Service Quality; Service Quality

Product Development Process
Product Development Process; Product Life Cycle; Product Lines of a Banker; Deposit Products or Liability Products; Credit Products or Asset Products; Other Products and Services; Other Fee Based Services — Distribution of third party products; New Product Development; Stages in New Product Development; Constraints in New Product Development; Product Management; Product Policy

Credit Scoring
What is a Credit Score?; Evolution of Credit Scoring; What's a Good Credit Score?; Credit Scoring Model; Managing the Credit Score; Positive Side of Credit Score; Warning Signs in Credit Score; Credit Information Companies in India; Issues in Credit Scoring; Mistakes in Credit Scoring; Troubleshooting Credit Score

Important Retail Liability Products
Demand Deposits : An Introduction; Current Deposit: An Introduction; Main features of Current Deposit Account; Advantage of Current Deposit Account; Documents required for opening various types of Current Accounts; Opening of Current Account; Operational Instructions in Current Account; Transfer of Accounts; Inoperative Accounts; Closure of Current Account; Savings Bank Account: An Introduction; Advantages and Importance of Savings Bank Deposits to Customers; Who Can Open a Savings Bank Account?; Deregulation of interest in Savings Deposit Account; Maintenance of Balance in Savings Bank Account and Interest Payment; Restrictions on Transactions in SB Account; Services offered in Savings Bank Accounts; Time Deposit — An Introduction; Periodicity of Time Deposit; Operational instructions; Interest on Fixed Deposit; Term Deposit accounts of minors; Premature Payment of FD; Operational Issues of FD; Advances Against Bank's own Time Deposit Receipts; Renewal of FD; Recent Rule of RBI on overdue FD; Form 15 G/ 15 H; Deposit of TDS to Income Tax Department by Banks; 2 in 1 Account; Recurring Deposit (RD)

Important Retail Asset Products
Home Loans; Housing Loan under Prime Minister's Awas Yojana (PMAY); Home Improvement Loans; Home Decor Loans; Auto Vehicle Loans; Personal Loans; Educational Loans; Other Retail Loans; Processing of Retail Loans

Credit and Debit Cards
Credit Cards; Charge Cards; Pre-paid Cards; Debit Cards; Co-branded Cards; Contactless Cards

Remittance Products
Electronic Payment Systems; National Electronic Funds Transfer (HEFT); Real Time Gross Settlement (RTGS); Electronic Clearing Services (ECS); National Automated Clearing House (NACH) System; Aadhaar enabled Payment System (AePS); Bharat Bill Payment System (B BPS); Benchmarking India's Payment System

Digitisation of Retail Banking Products
Technology in Retail Banking; Technology Processes in Retail Banking; Some Important User Friendly Features; Customer Analytics; Institute for Development and Research on Banking Technologies (IDRBT); Indian Financial Network (INFINET); Structured Financial Messaging System (SFMS); National Financial Switch (NFS); Indian Banking Community Cloud (IBCC); Wealth Management Solutions; Digital Lending

Role of Al and Technology in Retail Banking
Dimensions of Banking Technology; Banking Today; Relationship between Banking and Technology; Evolution of Banking Technology; A New Era in Banking; Evolution of Banking Technology in India; Challenges towards adoption of Technology by Indian Banks; Technology in Retail Banking; Benefits of Technology in Retail Banking; Artificial Intelligence (Al); Difference between Artificial Intelligence (AI) and Automation; Evolution of Artificial Intelligence; Artificial Intelligence Industry in India; Artificial Intelligence in Indian Banking Industry; Indian Banks and the Technology; Why Al in Banking Industry?; Benefits of Artificial Intelligence Technology in Banking and Finance; Artificial Intelligence in Retail Banking; Artificial Intelligence in Retail Banking in India; The Challenges Facing India's AI Development; Benefits of AI in Retail Banking

Recovery of Retail Loans
Repayment in Retail Loans; Default and Re-scheduling in Retail Loans; Monitoring of Loan Accounts; Classification of Irregular Loan Accounts; Recovery Policy of Banks; Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act); Debt Recovery Tribunal (DRT); Recovery through Lok Adalat; Engaging Direct Recovery Agents

Management Information Systems
The main elements of MIS; Role of Management Information Systems; Role of MIS in Improving decision making; Role of MIS in Banking Industry; Designing MIS for a Bank; Issues Related to Management Information System (MIS); Suggestions for Solution to MIS related Issues

Securitization
Securitization of Assets

MODULE C: SUPPORT SERVICES — MARKETING OF BANKING SERVICES/PRODUCTS

Marketing: An Introduction
Marketing in Retail Banking; Marketing Mix in Retail Banking

Delivery Channels in Retail Banking
Channel Experience; Physical/Direct Channels — Branch; Automated Teller Machines; Point of Sale Terminal; Mobile Banking; Internet Banking; Customer's Liability on Unauthorized Electronic Transactions

Delivery Models
Delivery Models; Internal Customers — Staff at the Branch Level; Dedicated Marketing Managers; Direct Selling Agents (DSAs); Tie-up with Institutions/OEMs/Dealers, etc.

Customer Relationship Management in Retail Banking
Customer Relationship Management in Retail Banking; Why CRM?; Implementation Aspects of CRM in Banks; Implementation Process of CRM in Banks; Implementation Stages in CRM; Benefits of CRM; Impact of CRM on Customer Satisfaction

Service Standards for Retail Banking
Members of BCSBI; Main Aims and Objects; Code of Banks' Commitment; Code of Banks Commitment to Micro and Small Enterprises; Function of BCSBI; Code Compliance Rating; Customer Grievances Handling Mechanism; General Information

Marketing Information Systems- A Longitudinal Analysis
Functions of MKIS; Components of MKIS; The MKIS Model; Observations; Usage of Computers in MKIS; Supports for Marketing Management; Supports for Marketing Mix Decisions; Use of Decision Models; Performance of MKIS; Recommendations; Advantages of MKIS

MODULE D: WEALTH MANAGEMENT

Importance of Wealth Management
Wealth Management — Broad View; Wealth Management Business Structures; Wealth management process; Wealth Management Products and Services; Alternative asset; Bond; Insurance; Mutual fund; Real estate Service; Retirement Planning; Strategic Business Strategy; Will Writing; Private Wealth Management; Personal Financial Planning; Wealth Management Assessment; Private Banking; Benefits of Wealth management; Importance of Wealth Management

Investment Management

Element of Investment; Basics of Investment Management; Steps in Investment Management; Investment Banking; Services being offered by Full-service Investment Banks; Investment Bank Organizational Structure; Investment Management Vs Investment Banking; Portfolio Management; Objectives of Portfolio Management; Key Elements of Portfolio Management; Portfolio Management Vs Investment Banking; Role of Portfolio Manager; Portfolio Management Service Vs Mutual Funds (MFs); Types of Portfolio Management Services; Steps of the Portfolio Management Process; Adv of Portfolio Management Services; Disadvantages of PMS; Recent developments in the Portfolio Management Services area in India

Tax Planning

Classification of Tax Structure in India; Financial Year; Assessment Year; Previous Year; Concept of Previous Year & Financial Year vis-a-vis Assessment Year; Residential Status for Income Tax; A few important terms in Income Tax; Heads of Income for computation of the total income; Income Tax Slab rate for FY 2021-22 (AY 2022-23); Conditions for opting New Tax Regime; Example for Old Tax Regime Vs New Tax Regime & which is better; Income Tax Slabs for non-individual entities; Investment Products for Tax Savings; Estate Planning-Tax Planning through Wills/ Trusts; Capital Gains Tax

Other Financial Services provided by Banks

Distribution of Third Party Products in Retail Banking; Mutual Fund Business; Insurance Business; Some Social Security Insurance Schemes; Cross Selling; Depository Services by Banks; Portfolio Management Services; Factoring; Other Agency Business by Banks

ADDITIONAL READING MATERIAL ON HOME LOANS

Lender's Appraisal Procedure - Appraisal Procedures; Application Form; Documents to be Submitted for Availing a Home Loan; Application Received through Agent; Appraisal of Loan Request; Other Relevant Issues at Pre-sanction Stage; Documentation; Mortgage; Registration of Documents; Detection of Forged and Fabricated Title Deeds; Other Securities; Registration of Charges with CERSAI on Security Internet; Monitoring; Closure of Account; Home Loan Frauds

Housing Finance and Tax Planning - Tax Benefits in Respect of Housing Finance

Mortgage Advice - Development of "Home Information Packs"; Time Value of Money-interest and Annuities; Capital Gains; Loan Calculator and Loan Amortization Schedule

Valuation of Real Property - Who does Valuation? Land with Building; Life of Structures; Sinking Fund; Reverse Mortgage

RETAIL BANKING & WEALTH MANAGEMENT

MODULE A – RETAIL BANKING

Unit - 1. Retail Banking: Introduction

- Banking services offered to a large group of individual customers is referred to as 'Retail Banking'.
- The delivery model of retail banking is both physical and remote through branches and also through remote channels like ATMs, Internet Banking and Mobile Banking.
- Unlike wholesale banking, retail banking focuses strictly on consumer markets.
- Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses.
- Pure retail banking is generally conceived to be the provision of mass market banking services to private individuals.
- Attractive interest spreads since spreads are wide, since customers are too fragmented to bargain effectively; Credit risk tends to be well diversified, as loan amounts are relatively small.
- There is less volatility in demand and credit cycle than from large corporates.
- Higher delinquencies especially in unsecured retail loans and credit card receivables.
- In some banks retail banking was christened as consumer banking as the focus was towards individual consumers.
- Capgemini, ING and the European Financial Management & Marketing Association (EFMA) have studied the global Retail Banking market with the aim of providing insights to financial services community through the World Retail Banking Report(WRBR).

Retail Banking has many advantages as a business segment for banks:

- Risk is less as client base is large.
- Income is relatively more as spreads are more.
- Customer loyalty will be strong.
- Stable model with less volatility in business as the client base is very large.
- Higher potential for cross selling.

But it has its own disadvantages also:

- Huge clientele requires more efforts for monitoring and tracking.
- Cost of servicing will be relatively high.
- Delinquencies relatively higher in unsecured retail loans like Personal Loans and Credit Card Receivables.

Globally the retail banking space had a great growth trajectory and the emergence of the new remote channels have changed the distribution paradigm of banks. Alternate channels have gained prominence to meet the growing customer demands.

- The performance of banks in retail banking across the globe had a stable growth. The potential for retail banking based on customer segments and household incomes looks highly promising. The growth potential in Asia and South Pacific is very attractive and the numbers are expected to grow in the near future.

Retail Banking as a concept in India has been initiated by foreign banks/new generation banks and nurtured by the PSBs and other private sector banks. It grew by a compounded annual growth rate between 2021 and 2022 and expected to grow further in the coming years. The penetration level of retail banking in India is still very low as compared to the other Asian countries like China, Malaysia, Thailand, etc.

It's been more than one and half year since the coronavirus first made its presence. Lot has changed in these past seventeen months. And, one thing that is quite evident is life has never been the same since then.

Based on research and findings, here are a few pandemic-sparked retail banking trends worth keeping an eye on for 2021 and beyond. They are,

- Blooming of Digital Banking
- Rapid Adaptation of Blockchain by Retail Bankers
- Artificial Intelligence, Machine Learning, Virtual Reality and Data Science in Banking
- Cyber Security to be a top priority
- Payment Innovations
- Rise of Big Tech in Banking Industry

Unit - 2. Retail Banking: Role within the Bank Operations

- Business models are adopted by banks keeping in mind their overall business strategy, projections for future, business mix and corporate objectives.
- The business models for retail banking adopted by banks vary among the public sector, private sector and foreign banks.
- The main approaches are as follows:
  - Strategic Business Unit (SBU) Approach,
  - Departmental Approach,
  - Integrated Approach (part of the overall business plan)
- Banks generally structure their retail banking models mainly on a positioning platform and to be the best/top three among the peer group players or across players.
- Strategies are based on the positioning objectives and vary from bank to bank depending on the importance attached to the business model.
- It is used as a barometer for all decisions that impact the marketing strategy of the bank.
- Foreign Banks normally do not go by positioning objectives.
- Rather strategy plays a big role in foreign banks.
- Foreign banks had in the past have existed when their business objectives have not been met.
- A classic example is BNP Paribas existing in the late 1990s.
- Citibank is the recent example of exiting retail business in India.

Unit - 3. Applicability of Retail Banking Concepts and Distinction between Retail and Corporate/Wholesale Banking

- The most common strategies are end to end outsourcing, predominant outsourcing, partial outsourcing and in house sourcing.
- Regulatory prescriptions are one of the major determinants of outsourcing or lack of it in these banks.
- In some foreign banks, both front and back end operations are outsourced and in some banks, the back end operations are outsourced while the front end operations like sourcing of HNI clients are done through captive resources.

The implementation models in retail banking are mainly built under the following broad classifications:

- Horizontally Organised Model
- Vertically Organised Model
- Predominantly Vertically Organised Model
- Predominantly Horizontally Organised Model

- The horizontal or vertical model depends on the level of customer information available in a single platform in the data base side for offering multiple products/services across assets, liabilities and other services.
- Horizontally organized model is a modular structure using different process models for different products, offering end-to-end solutions product wise.
- Vertically organized model provides functionality across products with customer data base orientation and centralized customer data base is used across products.
- Predominantly horizontally organized model is mostly product oriented with common customer information for some products.
- In predominantly vertically organized model, common information is available for most of the products.
- In most of the PSBs, horizontally organised model is the standard norm. New private sector banks generally follow a vertically organised model.

- Sustainable Retail Banking Business models of the future: In light of the current challenges, retail banks need to focus on their strengths.
- There are two core strengths that define a bank's retail business model:
- First, a clear customer centricity and second, a strong value chain focus.
- Retail Banking Solutions are offered by banks by extending different retail asset products, retail liability products and plethora of other services covering the entire financial services and investment services and requirements of customers.
- Banks implement these services mainly through their technology initiatives.

- All banks have implemented their core banking solutions to offer their customers borderless banking and end-to-end solutions for total banking experience with virtual presence of the customer.
- As a part of overall segmentation game plan of the bank, branches are classified as Resource Centres, Profit Centres, Priority Centres and General Centres to have a clear business focus.
- This concept is an effective business model for PSBs with large network and useful for focused strategies and already getting implemented in public sector banks.
- Liability products are offered to retail banking customers basically under three spaces - Savings Accounts, Current Accounts and Term Deposit Accounts. Product differentiation among these accounts is best achieved by adding different value propositions. (from a plain vanilla account to a value enriched account.)
- Retail asset financing is a major component of retail banking model of banks.
- Mostly all PSBs are in the credit card business since it is a big volume game and needs process efficiencies.
- In the development process, geography is not given importance but type of branch and centre and business potential are given due importance.
- The common form of process models are Centralised Retail Assets Processing Centres where all the retail loans sourced at the branches and marketing team are processed at a single point and assets are financed through that centre or processing alone done at the centre and financing done at the branches.
- Opening of account, issue of Pass Book, Cheque Book, ATM Card/Debit Card, PIN Mailers for the Cards are the stages in the tangibilisation process.(Centralized Processing)
- Process time is a major differentiator in the efficacy of retail banking operations. Process Time is business sensitive and customer sensitive.
- Standalone pricing for different products and services is the basic structure.
- Regarding Price Structuring quantum and volumes are two important determinants.
- This structuring is a cross selling strategy to entice the customer to avail more products so that profitability per customer is enhanced.
- The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models.
- As discussed elsewhere, retail banking is different from corporate banking.
- In retail banking the impact of NPA will be less whereas in corporate banking, the NPA impact will be higher.
- Likewise, the cost of deposits will be relatively less than corporate banking as the customer base is large in retail banking and hence pressure for finer rates will be less.

Unit - 4. Branch Profitability

- Banking System is a hub of a strong economy and needs to be both stable and profitable.
- Commercial Banks act as a bridge between the depositors and the borrowers to meet requirement of employing and deploying funds.
- An entity that transacts with the funds of the depositors, is exposed to various risks.
- Responding to the need to meet the competitive global environment,
- India, in the nineties opened its economy, largely by ending the Licence Raj and the permit system.
- As of today, Indian Banking System consists of 12 Public Sector Banks, 21 Private Sector Banks, 45 Foreign Banks, 53 Scheduled Urban Cooperative banks, 1470 non-scheduled Urban Cooperative Banks, 43 Regional Rural Banks and around 96,000 Rural Cooperative banks in addition to Cooperative Credit Institutions.
- According to the Reserve Bank of India (RBI), the banking sector in India is sound, adequately capitalized and well-regulated with High Quality Liquidity Assets (HQLA) and SLR investments as it is much better when compared to other economies of the world.
- On the other hand, the quality of assets remains a matter of concern.
- Profitability is a measure of an organization's profit relative to its expenses.
- It compares how much profit a company makes compared with its overall revenue and costs.
- Profit and profitability are not the same, although the two terms are used interchangeably.
- While profit is an absolute amount, profitability is a relative one. Profitability is a measurement of efficiency.

- Profits can be measured as a Return on Assets and as a Return on Equity.
- Because of leverage, banks earn a much larger return on equity than they do on assets.
- Banks increase profits by using leverage.
- When a bank increases its liabilities to pay for assets, it is using leverage, otherwise a bank's profit would be limited by the fees that it can charge and its interest rate spread.
- Branch level profitability differs from bank to bank, branch to branch, time to time depending on banks' goals and objective.
- Accordingly, there is no step(s) as such which may suit and effective to all the branches.
- However, broadly, the strategies like the following can help the branches focus on generating income and maximizing overall branch profitability.
  - Focus on balancing profit
  - Growth and risk
  - Assessing the strategic fit and unique role for each branch in the network
  - Analysis of the current customer base for each branch
  - Identification of best new prospect (potential customers) opportunities
  - Proper analysis of the competition

- Setting specific goals by branch for business and consumer markets
- Execution of effective marketing campaigns to drive customer origination
- Retention and expansion
- Redefining the bank model of the future
- Relentless focus on NPA reduction
- More quality loans
- Focus on non-interest income
- Low cost deposit
- Holding minimum cash balance
- Cost management
- Good customer relationship
- Courteous behaviour by Branch Head
- Finally instilling a culture that values efficiency

- Improving profitability is not one time task rather it is a continuous process throughout the day and throughout the year.
- Improved branch profitability can help to reduce costs, increase turnover and productivity, and help the officials to plan for change and growth.

MODULE B – RETAIL PRODUCTS AND RECOVERY

Unit - 5. Customer Requirements

The basic segmentation of customers based on their income levels is presented below.

Income Levels (Rs. Lakhs p.a.)	Customer Segment
2-10	Mass Market
10-50	Mass Affluent
50-400	Super Affluent
400-4,000	HNW
4000-120,000	Super HNW
Above 120,000	Ultra HNW

The fundamental assumptions about customers for building retail banking products and services

- Customers are different and so are their expectations.
- Needs of the customers are different.
- Each customer will have different sets of need for financial services.
- The requirements of customers for financial services will be unique.
- Customers can be broadly grouped together based on their need pyramids.
- Customers can be grouped together based on their income, age, geography, profession, employment, vocation gender and family size.
- Product and services can be developed for a single or a combination of the above elements to satisfy most of the needs.
- Products and services can be structured on a niche basis within one or any of the above elements.

Maslow's Theory and Customer Requirements

Maslow has defined five needs of individuals in their various stages of life

Need Level Matching Banking	Investment and Insurance Products
Physiological Needs	Core Savings Accounts Personal Accident Cover Housing Loans
Security/Safety Needs	Recurring, Fixed Deposit Products. Life Insurance Products: Endowment Products with low premium, long tenor and high maturity amounts. Tax Planning Banking, Insurance and Mutual Fund Products

Social Needs	Consumer Loans Personal Loans Home Loans Car Loans Loans for Professional Development for Doctors, Engineers, Lawyers, Chartered Accountants, Management Consultants, Architects etc., Insurance Cover tagged to above loans. Retail Gold Coins. Health Policies for self and family. Investment Products like Mutual Fund Schemes. Systematic Investment Plans of Mutual Funds. Unit Linked Insurance Products.
Esteem Needs	Special Term Deposit Products. Term Insurance Products. Second Housing Loans/ Home Improvement/ Home Decor Loans.
Self Actualization Needs	Pensioners Loans Retirement Solutions in Banking & Pension Plans in Insurance Senior Citizens Term Deposit Products

Expectations from the customers about the service quality of the bank basically depend on the following factors:

Tangibility in services	Physical side of the service
Reliability	Sticking to agreed terms and promises.
Responsiveness	Willingness to help and extend prompt service.
Assurance	Competence, Courtesy, Credibility and Security.
Empathy	Understanding the service expectations from the customers' point of view.
Value Customer, his business and time	Welcome and greet the customer, Respect his/her time
Provide solutions not excuses	Take actions, Provide solution, Suggest alternative(s)
Understand Customer queries and concern	Listen, See the issue/problem from his/her point of view, Acknowledge his/her feelings

Service quality and delivery parameters for savings accounts

1. Touch point Experience: Overall Measures – At an overall level, the PSBs are comparable to the Private Sector Banks average across touch points.
2. Branch-Layout and Cash transactions: Performance across parameters above Private Sector Banks average.
3. Savings Account: No serious concerns on savings account; Parameters at or above par visà-vis private banks.
4. Branch Non-Cash Transactions: Scores on most parameters at par with Private Bank'saverage.
5. Communication: Communication channels available along with information flow to customer meets average expectations.
6. Problem Incidence/Recurrence: Very low problem incidence just like the industry.
7. Key Performance Indicator – Savings Account Activation Time - Account activation within 3-day window similar to industry average.
8. Key Performance Indicator – Welcome Kit Receipt Time: Close to 90 percent receives welcome kit within 14 days.
9. Customer Mind space (Image Map) – The PSU Bank differentiated on problem resolution & delivering on promise, amongst its customers.

Measures needed to enhance service quality

1. Banks need to focus on strengthening its performance across all parameters.
2. Banks need to have range of product features to make them more customer friendly.
3. Proactive customer communication from the bank needs to have a systemic approach.
4. Customer-friendly modules on branch network, new products and services.
5. Banks need to reorient its employees towards this key aspect of customer experience through proper training and feedback process.

Customers' requirement from Banks

i. Right product mix to satisfy different customer segments.
ii. Right channel mix (both direct channels and e channels).
iii. Structured process time across products and adherence to the time prescriptions.
iv. Delivery of the promises with regard to products/services and channels.
v. Satisfactory service experience from the delivery channels and the service personnel.
vi. Effective communication about the different products and services.
vii. Transparent dealings and service charges.
viii. Good ambience.
ix. Effective and time bound grievance redressal mechanism

Unit - 6. Product Development Process

- Product is the fulcrum on which the entire retail banking revolves.

- Product is "Anything that has the capacity to provide the satisfaction, use and return desired by the customer".

- The first stage is the 'introduction' stage when the product is introduced. The sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it.

- In the 'growth' stage, which is the second stage in the product life cycle, the sales volume of the product picks up and the product is likely to break even and start generating profits for the organisation.

- In the third stage which is the 'maturity' stage, there is more growth and sales volume peaks. Here there is a wide customer base which will result in maximisation of sales with inflow of business and profits.

- In the fourth stage, which is the 'staleness' stage or 'saturation' stage, because of competition and better products available from the competitors, staleness will creep in, which will result in saturation of sales.

- The final stage of the product life cycle called as 'decline stage'. In this stage, the product becomes less attractive for the consumers due to various reasons and results in drop in sales volume and profits.

- Augmented products are products which are developed from formal products by combining two core products and adding value to the product in terms of benefits and comforts to the customer.

The marketer should develop a product policy which involves the following concepts:

- Appraisal of the product line and individual products
- Decisions on product differentiation
- Product positioning
- Brand decisions
- Decisions on packaging
- New Product Development

Products can be broadly classified into following:

- Deposit Products or Liability Products
- Asset Products or Retail Credit Products
- Other Products and Services.

- The Generic Product - the core product.
- The Expected Product - adding additional features.
- The Augmented Product- adding value in addition to features.
- The Potential Product - futuristic features in anticipation.

- In the liability side, Banks offer different retail products like Demand Deposits, Time Deposits with different variations with regard to product features and duration.

- In the asset side banks offer mainly Home Loans, Auto Loans, Personal Loans and credit lines against credit card receivables.

Unit - 7. Credit Scoring

The types of risks and the triggers in risk analysis are mentioned below:

- Credit Risk – Customer fails to pay
- Business Risk – Losing money due to wrong strategy
- Market Risk – Change in market prices
- Operating Risk – Processing failures and frauds

- A credit score is the statistical analysis of a person's past credit dealings and represents his or her Credit discipline
- Cibil-TransUnion model gives scores ranging from 300 to 900.
- Some bank may perceive 700 as a good score and another may not.
- Thus, in India, different banks will rank different scores as good.
- Still, any score over 700 may be considered good by banks

Credit Information Companies (CICs) typically build scores using three historical data files

- Defaults on previous credit transactions.
- Payment behaviour/Payment history
- Previous searches/inquiries

Credit Scoring Models are based on the following details of applicants:

- Family Size
- Income Levels
- Occupation/Business
- Repayment History on earlier loans

Factors leading to favourable credit score

- On time loan EMI payments.
- Regular payment of credit card bills.
- Paying credit card bills in full rather than paying minimum due amount every time.
- Avoiding over-leveraging.
- Maintaining strong financial records.
- Too many forms of credit (such as unsecured personal loans) among family members.
- Proper utilization of approved credit limit.
- Ensuring banks and other financial institutions, you're dealing with, record and submit positive information to CICs.
- Requesting and maintaining a copy personally rather than through financial institutions.

Factors leading to negative credit score

- Too many credit report enquiries by banks and other institutions.
- Cheque bounces/dishonours.
- Irregular loan repayments.
- Defaulting on credit card bills/making late payments or consistent part payments.
- Too much unsecured credit such as multiple personal loans.
- Multiple applications for unsecured loan getting rejected.
- Defaulting as a guarantor.
- High utilization of approved credit limit or overshooting the limit.
- Non-payment of utility bills may also have negative bearing on credit score. Utility companies report delinquent account to CICs very fast.
- Errors in record by banks and other finance institutions.

Advantages of maintaining high credit scores

- Easy availability of credit such as loans. According to the official CIBIL website, about 90% of loan applicants with CIBIL score greater than 700 are approved for loans.
- Quick processing of loan and credit card applications.
- Ability to negotiate interest rates, owing to your strong financial standing.
- Though not guaranteed, the possibility of negotiating or waiving processing fees as well as choosing prepayment options.

The most common mistakes in credit score will be due to the following;

- Confusion of names
- Human Input Error
- Identity Theft

Unit - 8. Important Retail Liability Products

- In simple language, the banking that takes place between our personal bank and us is nothing but retail banking.
- Retail banking helps us to meet our day to day needs by services like debit cards, credit cards, online withdrawals, deposits, loans and many other benefits.
- Intermediation is the primary function of banks and mobilisation of deposit is the first step to intermediation.
- They accept deposit from public and lend it to the enterprise class engaged in productive activities.
- Therefore, the deposited money is the banks liability as interest is paid on that sum to the depositor.
- On the other hand, the loaned out money becomes the asset for the bank and earns interest.

- Banks accept various types of deposits viz. Demand Deposit (Current and Savings), Term Deposit (Fixed deposit and Recurring Deposit).
- Banks are the only financial intermediaries that are permitted to accept Demand Deposits which can be withdrawn by the customer at any time on demand.
- Such deposits are repayable on demand; therefore, they are called Demand Deposits.

Current Deposit account

- Current Deposit account is opened by businessmen who have a higher number of regular transactions with the bank.
- It includes deposits, withdrawals, and contra transactions.
- Current deposits are vital deposit component of banks as it is almost no cost deposit for the bank.
- The minimum balance required to be maintained in Current Account is comparatively higher than that of Savings Account because of higher transaction cost involved in Current Accounts due to unlimited transactions being allowed in Current Accounts.
- In current accounts where there are no operations continuously for two years, should be treated as inoperative accounts.

Main Features of Current Deposit Account

- Current deposit accounts are meant to run a business.
- It is a non-interest bearing bank account.
- It needs a higher minimum balance to be maintained as compared to the savings account.
- Penalty is charged if minimum balance is not maintained in the current account.
- It charges interest on the short-term funds/overdraft borrowed from the bank.

- It is of a continuing nature as there is no fixed period to hold a current account.
- It does not promote saving habits with its account holders.
- Banker requires KYC (Know your Customers) norms to be completed before opening a current account.
- The main objective of current bank account is to enable the businessmen to conduct their business transactions smoothly.
- There is no restriction on the number and amount of deposits.
- There is also no restriction on the number and amount of withdrawals made, as long as the current account holder has funds in his bank account.
- Generally, bank does not pay any interest on current account.

Operational Instructions in Current Account

(i) Accounts of Individuals: The column meant for "Operational Instructions" in Account Opening form should be crossed as a precaution to prevent its subsequent misuse while opening current Account in the name of individual(s).

(ii) Joint Accounts: "Account will be generally operated upon by and the balance / securities, if any, will be payable/deliverable to:

- Either or Survivor
- Any one, or survivor
- Former and survivor
- Any two, three etc. jointly or survivors jointly or the last survivor
- The operational instructions must be authenticated by all the joint account holders.

(iii) Sole proprietorship firm: The operational instructions should be,
"The account will be operated upon by Shri .... as the Sole Proprietor in the name of the firm/on behalf of the firm."

Cheque(s) to be signed in the name and style as

For and On Behalf of
(Firm's name)

(Signature)
Sole Proprietor

(iv) Partnership Firm: "The account will be operated upon by any one of the partners singly or any two or more partners jointly in the name of the firm/on behalf of the said firm."

Cheque(s) to be signed with stamp in the name and style as

For and On Behalf of
(Firm's name)

(Signature)
Partner (s)

(v) Limited Company: The operational instructions should be as per board resolution given at the time of account opening.

Cheque(s) to be signed with stamp in the name and style as

For and On Behalf of
(Company's name)

(Signature)
Directors (s)/ Authorised Signatory

SB accounts

- Individuals can open SB Account singly or Jointly.
- RBI prohibits banks from opening of SB accounts of business entities
- RBI has allowed certain Government Departments and non-profit-organisations to open SB Accounts
- Savings BMaximum balance to the credit of such account should not exceed at any time 1,00,000/-.ank account in the sole name of 'minor' to be operated by the minor can be opened provided the minor is 10 years of age or above
- Maximum balance to the credit of such account should not exceed at any time 1,00,000/-.
- However, for accounts of minors of 14 years and above, there is no limit of maximum balance.
- No overdraft should be granted in Savings Bank accounts of minors held either singly or jointly with guardian/s.
- Savings bank accounts of illiterate individuals who are otherwise capable of entering into a contract can be opened
- For withdrawals, the illiterate person should come to the branch personally and affix his/her thumb impression in the presence of an officer
- No cheque book facility should be extended in account of an illiterate person.
- Joint account of an illiterate can be opened with a literate close relative i.e. father, son, husband, wife, mother and daughter but not two cousins
- There is no any legal bar in opening savings bank accounts of blind persons by the banks as usual

Advantages and Importance of Savings Bank Deposits to Customers

- Saving account encourages savings habit among salary earners and others who have fixed income.
- It enables the depositor to earn income by way of saving bank interest.
- Saving account helps the depositor to make payment by way of issuing cheques.
- It shows income of a salaried and other person earned during the year.
- Saving account passbook acts as an identity and residential proof of the account holder.
- It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.
- It helps to do online shopping via facility like internet banking.
- It aids to keep records of all online transactions carried on by the account holder.
- It provides immediate funds as and when required through ATM.
- Enables digital transaction 24*7*365 in 'AAA'mode of bankin

- "Know Your Customer" (KYC) guidelines should be followed in respect of opening of accounts and monitoring of newly opened accounts.
- CASA deposits of all banks and these, i.e. Current Accounts Savings Accounts (CASA) Deposits are very importantperformance indicators for the Banks.
- The rates of interest paid to the customers by the bank on CASA Deposits are very low i.e. NIL interest on Current Accounts and less rate of interest on Savings Accounts.
- This brings down the overall cost of funds of the bank and gives them a lot of flexibility to give credit/loans at lower rates and still earn a good Net Interest Margin (NIM) and profitability.
- In deposit accounts where there are no operations continuously for two years, should be treated as inoperative accounts.
- Previously interest rate on Savings Bank Deposit was being regulated by RBI.
- However, w.e.f. 25th October, 2011, RBI deregulated interest rate to be paid by the banks on domestic SB Deposit vide circular No. DBOD.Dir.BC.42/13.03.00/ 2011-12 dated October 25,2011.
- Banks generally impose a limit on the number of withdrawals that can be made from the SB Account which varies from bank to bank.
- Most of the banks insist on monthly average balance (MAV) to be maintained in the account failing which penalty is charged.
- Banks pay interest on Savings Account balance on daily product basis normally at quarterly intervals.
- Mostly banks insist on monthly average balance (MAV) to be maintained in the account failing which penalty is charged.

Time Deposit

- A time deposit receipt is not a negotiable instrument and, therefore, cannot be transferred by endorsement by a depositor in favour of another.
- Interest on FDs is paid at quarterly intervals.
- The customer can choose to have the interest reinvested in the FD account.
- In this case, the deposit is called the Cumulative FD or compound interest deposit.
- For such deposits, the interest is paid with the invested amount on maturity of the deposit at the end of the term.
- If the customer instructs that the interest to be paid every quarter/month, it is credited to their Savings Account or sent to them by cheque.
- This is called Simple FD.
- Fixed deposit can be accepted by banks minimum for 7 days and maximum for 120 months (10 years).
- Recently banks have come up with value added SB/current accounts and FD linked accounts.
- They represent combination of two schemes, mostly a running account like SB Account or Current Account which offer flexibility of using the balance in FD accounts at the time of need.
- Recurring deposit (RD) accounts help customers with regular income to save a fixed amount every month and at the same time earn interest at the rate applicable to FDs.

- Balances in savings/current accounts which are not operated for 10 years, or term deposits not claimed within 10 years from date of maturity are classified as “Unclaimed Deposits”

Unit - 9. Important Retail Asset Products

- In the retail asset side, the important products offered by banks are Home Loans, Educational Loans, Personal Loans and other retail loans developed for specific customer segments.
- Each loan is designed for a specific purpose and need and structured in such a way that the needs and requirements of different customers are taken care of.

Home Loans

- To purchase/construct house/flat.
- To renovate/extend/repair existing house/flat.
- To purchase a plot of land for construction of house.
- To acquire household articles along with the house/flat – for furnishing the house/flat.
- Mortgage/Equitable Mortgage on land/flat/house
- Repayment (can be customized) : Highly flexible – maximum 30 years including moratorium period is considered by banks.
- Maximum moratorium period of 18 months in case of construction and 3 months in case of purchase is allowed generally by banks

Auto/Vehicle Loans

- Purchase of two/four wheeler vehicles
- Banks generally adopt a model involving the manufacturer, dealer and the financier (bank)
- Hypothecation of vehicle to be purchased out of Bank finance. Charge to be registered with RTO.
- Repayment For Individuals – for new vehicles : 4 wheelers – Max. 7 years, 2 wheelers – max. 5 to 6 years, generally.
- For Corporate/Firms, etc. – Max. 5 years, generally.
- For Second Hand vehicles – Max. 3 years

Personal Loans

- Personal Loans are basically unsecured in nature and are backed by personal enterprise/guarantees only
- Marriage expenses of self, children or a dependent.
- Medical Expenses incurred/to be incurred for self, spouse, children, other dependents.
- For education of self/spouse/children.
- For repairs/renovation/extension of existing flat/ house building.
- For meeting social and financial commitments,
- Purchase of consumer durables, etc.
- Any other personal expenses of bonafide nature as approved by the Bank.

Educational Loans

- Education is the important tool for empowering youth
- To realize this, a simple and hassle free model educational loan scheme was framed by IBA to make available educational loans to all the eligible students.
- To provide need based finance to meet the expenses for pursuing higher studies to eligible students
  - Maximum upto 10 Lakh – Studies in India
  - Maximum upto 20 Lakh – Studies abroad
  - Margin : Upto 4 Lakh Nil, Above 4 Lakh – Studies in India 5%, Studies abroad 15%
  - Loan upto 7.5 lakhs is eligible for the Credit Guarantee coverage
- **Security :**
  - Upto 4 Lakh No security; Parents to be joint borrower(s)
  - Above 4 Lakh upto 7.5 Lakh – besides the parent(s) as co-borrower, collateral security in the form of suitable third party guarantee will be taken.
  - Above 7.5 Lakh – Parent(s) to be joint borrower(s) & Tangible collateral security acceptable to the bank
- **Repayment Holiday/Moratorium:** Course period + 1 year
- **Insurance :** Mandatory to arrange for life insurance policy on the students availing Educational Loan- discretion of individual banks

Eligible expenses for loan

- Fee payable to college/school/hostel - Fees as approved. Reasonable for lodging/boarding
- Examination/Library/Lab. fee - Actual
- Travel expenses/passage money for studies abroad - One way (outward)
- Insurance premium for student borrower - Actual
- Caution deposit, Building fund/refundable deposit - Not to exceed 10% of the total tuition fees.
- Purchase of books/equipment/instruments/ uniforms (a)
- Purchase of computer at reasonable cost (b)
- Any other expense – viz., study tours, project work, thesis, etc. (c)
- (a)+(b)+(c) - A realistic assessment may be made by the banks and then fix a maximum of 20% of the total tuition fees

- Banks process and sanction retail loans in two different ways.
- They sanction retail loans on a standalone basis (through the branches) or through a centralised model (through retail loan processing hubs/centres).
- Each model has its own advantages as well as disadvantages.
- In the branch model, personal touch is more, in the centralised model, more professional approach is followed.

- Standalone model for retail loan processing refers to processing of retail loans independently at the branch level, based on the discretionary powers
- Centralised Model for retail loans processing refers to processing of loans at a centralised place depending upon the geography of branches. Banks adopt different centralised models for processing of retail loans. Some of the names, Banks give to these retail loans processing centres are :
  - Retail Loan Factory
  - Retail Loan Hub
  - Retail Loan Processing Centres
  - Retail Asset Processing Centres
  - Retail Loan Branches

- The introduction of RLPCs has definitely helped banks to improve the quality of appraisal and also has reduced the gaps and deficiencies in the documentation side.

Unit - 10. Credit and Debit Cards

Credit Cards

- Credit Card is plastic money with pre-set limits based on the credit score of the customer and can be used across merchant establishments for payment of purchases and in ATMs for withdrawal of cash.
- The operational process of a credit card starts from the card issue, matures into card usage and closes with the payment of credit card dues.

In the case of a credit card, parties to the 'complete cycle of transaction' are five in number.

- The Customer (cardholder)
- The Retailer
- The Acquiring bank
- The Clearing Network
- The Issuing bank

- Banks issue different types of cards with targeted volumes and business objectives after proper screening of applicants, arriving at the credit score and issuing the relevant card matching the credit score with fixing of appropriate limit.
- The card issue will be justified if only the card is used frequently upto the limit made available.
- Payments made by the customers for credit card usage are the deciders for revenue generation.
- The payment may be made one time or in installments subject to the minimum payment due every month.
- More the credit limit is used; more will be the revenue but is subject to payment without defaults and delinquencies.

- Banks issue different types of cards like Classic, Silver, Gold, Platinum, Titanium, etc., in collaboration with card issuers like Visa, Master Card and RuPay and they mainly do it in two ways; proprietary cards and co-branded cards.
- While proprietary cards are issued by banks generally, co-branded cards are issued with specific tie ups with other institutions like petroleum companies, travel companies, retail stores with the objective of focused marketing and extra benefits to the card user for using the facilities of the tied up institutions.

- NPCI offers 'RuPay Credit card', 'RuPay Debit card', 'RuPay Prepaid card' & ''RuPay Global card'
- The variants of RuPay Credit card are:
    - 'RuPay Select'

- 'RuPay Platinum'
- 'RuPay Classic'

- RuPay is the first of its kind global payment network of India with wide acceptance at ATMs, POS devices and e-commerce websites across India.

- Banks advise the credit card users about the terms and conditions of the credit card usage and the standard terms used in the payment mechanisms.
- These terms like Annual Fee, Minimum Payment Due, Credit Limit, EMI Payments, Interest and method of interest calculation, Penalties, etc., have their own implications in the credit card payments.

Eligibility for credit card

- At least 18 years of age
- Compliance of KYC norms
- A regular source of income to repay one's credit card bills (whether salaried or self-employed)
- A good credit history

Charges

i. Finance Charges

Illustration

- Balance outstanding as on the statement date – 20,000
- Balance is not paid on the due date.
- Interest – 3.5% per month
- Daily Interest Charge for the above balance is
- = 20,000 × (3.5% × 12 months)/365 = 23.01
- Total interest payable by the next statement cycle (after 30 days)
- = 23.01 × 30 = 690.41 + Tax

ii. Minimum Amount Due

- 5% of the statement outstanding, or
- Sum total of all installments billed, interest, fees, other charges, amount that is over limit and 1% of the principal, or
- 250/- in case of default or if the statement balance is less than 250/-, the entire outstanding amount has to be paid.

iii. Maximum Interest Free Period

The period depends on the type of card and may vary from 20 days to 50 days depending on the card issuer

iv. Annualised Percentage Rate (APR)

Illustration

- Monthly retail interest of 3.1% p.m. is annualised to arrive at an APR of 37.20%
- Cash Transactions will attract an interest rate of 3.49% and APR of 41.88%.
- The interest rate for retail transactions is variable and will vary between 2.49% p.m. (APR of 29.88%) and 3.49% p.m. (APR of 41.88%).
- In case of EMI Cards, monthly interest rate of 2% is annualised (APR of 24%) on transactions greater than ₹2,000/-.

v. Other Charges & Penalties

- Cash Advance Transaction Fee - 2.5% (Min. 300) of the cash amount
- Card Replacement (lost/stolen/re-issue/any other) - 100/250 depending on the card
- Overdue Penalty/Late Payment Fee - 15% of Total Amount Due (Min. 350, Max. 750)
- Over Limit Penalty - 600/-
- Cheque Return/Dishonour Fee - 500/-

BharatQR

- Bharat QR is integrated with BHIM QR/UPI (Unified Payment Interface) credentials from September 2017.
- It is used for P2P or P2M transactions using Virtual Payment Address (VPA).
- Parties of QR code Payment System
  - Acquirer- merchant on-boarding, merchant management, and mobile app solutions
  - Issuer- consumer on-boarding and consumer mobile app solutions
  - Transaction processing Engine (NPCI) - end transaction routing engine.

Features of Bharat QR code transactions

- Low-cost infrastructure
- Remote management of merchant and customers
- Interoperable QR code
- Push based transaction
- No need to store any charge slip copy by merchant
- Instant payment notification to merchant and consumer
- Transaction history is available in the app
- Non disclosure of card details by consumer to merchant

Debit Cards

- The characteristics of Debit Cards differ vastly from Credit Cards.
- Credit Cards define the concept of “Buy Now, Pay Later” but Debit Cards explain the concept of “Buy Now and Pay Now”.

- The important aspect of Debit Card is that at the point of purchase itself, the payment is made directly from their account balances.
- The details of the account are embedded in the debit card and can be used at both merchant locations through a PoS Machine for purchases made and also in ATMs for withdrawal of cash.
- Debit Cards are issued when account is opened with the bank and had become an essential value addition for Savings Bank Account and a part of the core product.

Other Cards

- A charge card allows customers to defer the costs of purchases made on the card until the end of the payment cycle
- Prepaid Cards offer a service to the unbanked audience and act as an extension of the card market
- Other pre-paid debit cards are issued both in rupees for various domestic purposes and forex cards with pre denominated forex loaded in the cards for travellers going abroad.
- Prepaid cards are issued by the banks/non-banks against the value paid in advance by the cardholder and stored in such cards which can be issued as smart cards or chip cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.
- As per extant instructions, the maximum value that can be stored in any prepaid Payment card (issued by banks and authorized non-bank entities) at any point of time is ₹1,00,000/-.
- Prepaid Payment Instrument (PPI) facilitate purchase of goods and services, including financial services, remittance facilities, etc., against the value stored on such instruments
- PPIs are classified under three types viz.
    - Closed System PPIs
    - Semiclosed System PPIs
    - Open System PPIs

Unit - 11. Remittance Products

- Remittance products have evolved over a period from physical movement of remittance instruments to instant electronic transfer of remittances across the country and globe.
- Cheques, Demand Drafts, Bank Orders, Telegraphic Transfers are some of the earliest remittance products that constituted the core remittance mechanism across banks.
- But the invasion of technology in banking has permeated into the remittances space also.
- Technology brought about a paradigm change in the whole remittance space with newer, speedier and innovative remittance product in banking without physical presence of the remitter, abolishing the time zones and geographic boundaries.
- Most of the new generation remittance products are relevant in retail banking.

National Electronic Funds Transfer (NEFT)

- NEFT is a nation-wide payment system facilitating one-to-one funds transfer.
- NEFT operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches.
- For Non-Bank account holders, cash remittances will be restricted to a maximum of less than 50,000/- per transaction.
- The NEFT system also facilitates one-way cross-border transfer of funds from India to Nepal. This is known as the Indo-Nepal Remittance Facility Scheme
- Maximum amount per transaction is limited to below 50,000/- for remittances to Nepal under the Indo-Nepal Remittance Facility Scheme.
- Online NEFT transactions can be performed 24*7, 365 days
- There are 48 half-hourly batches every day.
- The settlement of the first batch will commence at 12.30 a.m (after midnight) and the last batch will end at 12.00 a.m. (midnight) hours
- The transactions are settled in B+2 timings and hence the beneficiary can expect to get credit for the NEFT transactions within two business hours

Charges for NEFT (No charges for NEFT transactions initiated online via internet/ mobile banking portals by Savings Account holders)

- Inward transactions at destination bank branches (for credit to beneficiary accounts)
  - Free, no charges to be levied on beneficiaries
- Outward transactions at originating bank branches – charges applicable to the remitter
  - For transactions up to 10,000 : not exceeding 2.50 (+ Applicable GST)
  - For transactions above 10,000 up to 1 lakh: not exceeding 5 (+ Applicable GST)
  - For transactions above 1 lakh and up to 2 lakh: not exceeding 15 (+ Applicable GST)
  - For transactions above 2 lakh: not exceeding 25 (+ Applicable GST)

Real Time Gross Settlement System (RTGS)

- Retail electronic and card based payments registered a quantum jump mainly due to introduction of RTGS (Real Time Gross Settlement) and NEFT (National Electronic Funds Transfer).
- The concept of electronic remittance mechanism is picking up fast over the past two years and this trend offers potential to package a remittance product as a add on in their retail banking package to the customers.
- Real Time Gross Settlement System (RTGS) has drastically changed the complexion of the remittances scenario in financial services.
- This global practice was introduced in India for changing the model of remittances and to bring in efficiency in settlement of transactions on a real time basis.
- The impact and growth of RTGS in the past two years are demonstrated the effectiveness of the product.
- The impact and growth of RTGS in the past two years is an indication of the acceptance and growth of the product as an effective and speedy remittance tool, though it is skewed more on the corporate and interbank side than on the retail side.
- RTGS as a funds transfer mechanism has revolutionised the concept of remittances though it is more relevant for big ticket transactions and applicable in a limited way for retail banking.
- The minimum amount to be remitted through RTGS is 2 lakh. There is no upper ceiling for RTGS transactions.
- W.e.f. 14th Dec.2020, RBI has made available RTGS services 24*7* 365 days.
- W.e.f.01.07.2019, RBI has waived the processing charges levied by it for RTGS transactions. Banks may pass on the benefit to customers.

Service charges levied by the banks

- Inward transaction: Free, no charge to be levied
- Outward transaction:
  - 2/- lac to 5/- lac :- not exceeding 24.50/- (exclusive of taxes, if any)
  - Above 5/- lac: not exceeding 49.50 (exclusive of taxes, if any)

Electronic Clearing Services (ECS)

- Electronic Clearing Services (ECS) is another payment mechanism in which the payments are authorized for a specific period and amount through a mandate to the beneficiary.
- ECS is a convenient and flexible payment option for both the parties concerned, i.e., the issuer and the beneficiary.
- National Automated Clearing House (NACH) has taken place of ECS on May 1, 2016.
- NACH, which was initially available on bank working days, is now made available on all days of the week beginning August 1, 2021, in order to improve client convenience and leverage the 24x7 availability of RTGS.

- National Payments Corporation of India (NPCI) has implemented "National Automated Clearing House (NACH)" for Banks, Financial Institutions, Corporate and Government, a web based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature.
- Mobile banking has revolutionized the payment system by the introduction of mobile application based payment services such as UPI service and BHIM.

There are three broad categories of ECS Schemes

- Local ECS is operating at 81 centres/locations across the country
- Regional ECS (RECS) is operating at 9 centres/locations at various parts of the country
- National ECS (NECS) is the centralized version of ECS

Aadhar Enabled Payment System (AePS)

- Aadhar Enabled Payment System (AePS) allows online interoperable financial transaction at PoS (Point of Sale/ Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.
- Services Offered by AePS
  - Cash Withdrawal
  - Cash Deposit
  - Balance Enquiry
  - Aadhaar to Aadhaar Fund Transfer
  - Mini Statement

Unit - 12. Digitisation of Retail Banking Products

- Technology is the foundation on which the retail banking edifice is built across the globe.
- Technology is the enabler for building and translating a customer data base into retail banking business.
- Banks adopt different technology platforms in line with the global trends.
- New generation private sector banks were started with technology advantage of a single server environment.
- PSB banks also have re-engineered their technology initiatives and started implementing core banking solutions networking the customers and accounts in a single platform.
- Most of the PSBs have completed the core banking solutions process while in a few banks the level of implementation is in various advanced stages.
- There are basically four approaches followed by retail banks in integrating technology with retail banking processes. They are:
  - Horizontally Organised Model where individual process platform supports one product only. The sub data in the model are not shared with other products and product platform.
  - Vertically Organised Model where functionality is provided across all products. In this model, customer information is centralised. Centralised customer information builds common origination and servicing processes across all its retail banking products.
  - Predominantly Horizontally Organised Model with some modularization within a product oriented feedback. Customer data integration is available to a certain extent for other products.
  - Predominantly Vertically Organised Model is a hybrid model that offers common information for most of the related services. The basic information is available across products for common services to the various products.

- Technology initiatives were adopted by banks in different ways.
- Some banks had implemented through in house resources for development and implementation while some other banks had done it through outsourced vendors.
- Some banks followed a blend of proprietary as well as outsourced model.
- Scalability and Sustainability are the main issues in all these models.

- The models outsourced as well as in-house developed offer various customer analytics solutions for the banks to help them in customer identification, need mapping and offering the right products and services.

- Banking industry is in the path of growth leveraging Information Technology in a big way in all its strategic, functional and operational processes and applications.

IDRBT conceptualized, designed and developed IT products viz.

- Indian Financial Network (INFINET)
- Structured Financial Messaging System (SFMS)
- National Financial Switch (NFS)
- Indian Banking Community Cloud (IBCC)

These are extensively used in banking particularly in retail segment.

Indian Financial Network (INFINET)

- Funds transfer under NEFT and RTGS is being done through INFINET.
- The advantages of INFINET being:
  - Banking and Financial services independent of their location.
  - Extended banking business reach and hours as well as increased business volume and better fund utilisation, thereby facilitating reduced operational cost.
  - Increased security.
  - Reduction/elimination of payment risks.
  - Efficient Housekeeping.
  - Improvement in decision making process.
  - Innovative customer-oriented delivery mechanisms.

Structured Financial Messaging System (SFMS)

- Structured Financial Messaging System (SFMS) is a secure messaging standard developed to serve as a platform for intra-bank and inter-bank applications.
- It is an Indian standard similar to Society for World- wide Interbank Financial Telecommunications (SWIFT)
- The inter-bank messaging part is used for applications like Electronic Funds Transfer (EFT), Real Time Gross Settlements System (RTGS), Delivery Versus Payments (DVP), Centralised Funds Management System (CFMS), etc.

National Financial Switch (NFS)

- NFS ATM network, was launched by IDRBT on August 27, 2004.
- This was taken over by National Payments Corporation of India on December 14, 2009
- As on 30th April, 2022, there were 1212 members that include 112 Direct member banks, 1053 Sub member banks, 43 RRBs and 4 WLAOs using NFS network connected to 2.58 lac ATMs
- Each member joining the NFS network would have to pay a one-time subscription fee of 3,00,000(three lakh) plus applicable taxes
- In the NFS sponsorship model, the sponsor bank will have to pay a one-time fee of 6,00,000 (six lakh) plus applicable taxes

Services offered by NFS

- Cash Withdrawal
- Balance Enquiry
- PIN Change and Mini Statement
- Interoperable Cash Deposit (ICD)
- Mobile Banking Registration (MBR)
- Card-to-Card Fund Transfer (C2C)
- Cheque Book Request (CBR)
- Statement Request (SR)
- Aadhar Number Seeding (ANS)

Indian Banking Community Cloud (IBCC)

- IDRBT has setup a pilot approach to building Community Cloud for the Indian Banks to provide Infrastructure as a Service.
- Cloud computing technology provides three fundamental services
  - **Software as a service (SaaS):** SaaS is an "on-demand software" service where the required software is provided to the end users as an application to run on their systems through Internet.
  - **Platform as a Service (PaaS):** In PaaS, a computing environment is provided as a service to the customers to build their own applications that run on the provider's infrastructure.
  - **Infrastructure as a Service (IaaS):** A pool of equipment including servers, storage systems, network, data centres, etc., provided as a service to the customers where providers can handle customers' application workloads is referred as IaaS.

Unit - 13. Role of Al and Technology in Retail Banking

- The term "Banking Technology" refers to the use of sophisticated information and communication technologies together with computer science to enable banks to offer better services to its customers in a secure, reliable, and affordable manner, and sustain competitive advantage over other banks.
- Banking Technology is not a single, stand-alone discipline, but a confluence of several disparate fields such as finance (subsuming risk management), information technology, communication technology, computer science and marketing science.
- Technology is used to interchange information and communication technology together with computer science.
- Information technology has not only helped banks to deliver robust and reliable services to their customers at a lower cost, but also helped banks make better decisions.
- There have been a lot of advancements in the banking sector in the last over 50 years or so.
- The first most notable technological advancement in the financial industry was the advent of the credit card in 1950.
- In 1950, Dinner's Club introduced the first universal credit card, a portable payment solution that could be used at numerous member establishments.
- During 1960s, the world was introduced to the first ATM.
- In the 1980s, with digital technology well underway, the "term 'online' which referred to the use of a terminal, keyboard and TV to access the banking system using a phone line" gained popularity.
- As online banking gained momentum, the first commercially available computer tablet, manufactured by Samsung in 1989, brought a new wave of convenience in retail banking.
- The early 2000s, with the advent of wireless technology and the wide adoption of smartphones, brought the next major shift in the financial industry—mobile banking.
- About seven years later in 2011, Google introduced Google Wallet, a mobile payment technology meant to rival credit cards.
- Heading the charge in 2015, "Bank of America introduced fingerprint authentication and Touch ID," making it easier and safer for people to log into their mobile banking apps.
- It's now easier than ever before for financial institutions to access and act on their wealth of data to help customers make well-informed financial decisions.
- Once Indian IT services companies started booming, it was just a matter of time before Indian banks whole heartedly embraced technology.
- As banks adopt more technology, two things stand out-using less paper and doing transactions wirelessly.
- However, there appears to be a lot of challenges towards adoption of technology in banking in India.
- Commercial Banks in India are now becoming a one-stop Supermarket.

- Technology is the enabler for building and translating a customer data base into retail banking business.
- The implementation of core banking has directly increased the chances of availability of customer data base across products and has increased the scope for cross selling and up selling.
- Artificial Intelligence or AI refers to software technologies that make a robot or computer to act and think like a human.
- Artificial intelligence (AI), from time to time also called machine intelligence is simulation of human intelligence in machines.
- Artificial intelligence consists of generally two fundamental ideas.
- First it involves studying human brains like how their thought process works and secondly it helps representing those processes through machine learning.
- AI is the simulation of human intelligence which helps to build smarter machines capable of doing human work in a smart way.
- Banking sector is becoming one of the fast adopters of AI and just like other segments, banks are exploring and implementing the technology in various ways.

Why AI in Banking Industry?

- Enormous challenges in the banking sector.
- Thrust for a process-driven operation.
- Initiate self-service in the branches.
- Customer desire to deliver different personalized solutions.
- Build functional efficiencies.
- Escalating the productivity of employees.
- To support focus on productivity and efficiency.
- Visualization to extend human function with the use of robotics tools.
- To minimize the chances of fraud and scam.
- Manage an immense volume of data at record speed and gain valuable insights.
- To carry out effective decision-making.

Benefits of Artificial Intelligence Technology in Banking And Finance

- Personalized Financial Services
- Smart Wallets
- Underwriting
- Voice Assisted Banking
- Data-driven AI applications for lending decisions
- Customer support
- Digitalization instead of branch lines
- Blockchain hastening payments

Unit - 14. Recovery of Retail Loans

Repayment in Retail Loans

Holiday period/Moratorium period

A moratorium period/holiday period is a time allowed for the borrowers, during the loan term, when they are not required to make any principal repayment.

Types of monthly installments

- **Bullet payment**: In this case, the loan amount with interest is paid in a single payment at the end of the loan period.
- **Fixed instalment loan**: This payment is in equal monthly instalments.
- **Equated Monthly Installments (EMI):** Recoveries are effected in retail loans by Equated Monthly Installments or simply EMIs.

- Recovery is one of the most important elements of retail banking which decides its success as a segment.
- Since, retail asset base is well spread out with a large number of customers, monitoring and follow up of all the retail assets for proper servicing is a must for retail bankers to keep the asset book healthy.

- Credit monitoring process is a scientific as well as an essential tool for maintaining the quality of retail assets.
- As discussed above it has to do designed in such a way that it addresses both genuine defaulters as well as wilful defaulters.

Genuine Defaults

- In genuine defaults, the customers fail to repay the EMIs due to personal setbacks, job losses, unforeseen medical expenses, etc., in case of borrowers having a steady salary income.

Wilful Defaults

- Default in payment/repayment obligations to the lender even when the unit has capacity to honour the obligations.
- Default in meeting payment/repayment obligations to the lender and has diverted the funds for other purposes not in terms of sanction.
- Default in meeting its payment/repayment obligations to the lender and has siphoned off the funds and the funds are not available with the unit in the form of other assets.

- Defaulted in meeting its payment/repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank/lender.

Diversion of funds

- Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction.
- Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned.
- Transferring borrowed funds to the subsidiaries/Group companies or other corporates by whatever modalities.
- Routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender.
- Investment in other companies by way of acquiring equities/debt instruments without approval of lenders.
- Shortfall in deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for.

Siphoning of Funds

- The term 'siphoning of funds' should be construed to occur if any funds borrowed from banks are utilised for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender.

A retail asset becomes non-performing when it ceases to generate income for the bank. A nonperforming asset (NPA) is a loan or an advance where:

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan
- The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC) for a period of more than 90 day
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

Asset Classification

- Substandard Assets
- Doubtful Assets
- Loss Assets

- **Substandard asset:** A sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months.

- **Doubtful Assets**: An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months.
  - **Doubtful-I**: An asset which has remained in Doubtful category up to 12 months
  - **Doubtful- II**: An asset which has remained in doubtful category for more than 12 months and up to three years.
  - **Doubtful- III:** An asset in Doubtful category for more than three years.

- **Loss Assets:** An asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Provisioning Norms
Sub-Standard (Secured) - 15%
Sub-Standard (Unsecured) - 25% (other than infrastructure loans)
Sub-Standard (Unsecured) - 20% (infrastructure loans)

Doubtful-I (Secured) - 25%
Doubtful-I (Unsecured) - 100%
Doubtful-II (Secured) - 40%
Doubtful-II (Unsecured) - 100%
Doubtful-III (Secured) - 100%
Doubtful-III (Unsecured) - 100%

Loss - 100%

- The recovery processes are well defined in banks with step by step approach for following up the accounts in different stages of recovery.
- Recovery Policies are implemented by banks in a professional way for effective recovery of dues and overdues and non-performing assets that may erupt due to genuine defaults as well as wilful defaults.
- Recovery process is a scientific as well as an essential tool for maintaining the quality of retail assets.
  - Giving Notice to Borrowers
  - Repossession of Security
  - Valuation And Sale of Proerty
  - Opportunity for the Borrower to Take Back the Security

The major features of recovery policy by banks are summarized below:
- The debt collection policy of the bank is built around dignity and respect to customers.
- The repayment schedule for any loan sanctioned by the bank will be fixed taking into account paying capacity and cash flow pattern of the borrower.

- The bank will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or payments through any other mode of repayment will be appropriated against interest and principal due from the customers.

The bank would expect the customers to adhere to the repayment schedule agreed to.

- The Bank Security Repossession Policy aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property.
- Debt Recovery Tribunals (DRTs) are constituted across the country for settlement of dues of financial institutions. DRTs can appoint Receivers, Commissioners, pass ex-parte orders, ad- interim orders, interim orders apart from powers to Review its own decision and hear appeals against orders passed by the Recovery Officers of the Tribunal.
- By initiating SARFAESI action security assets can be enforced without intervention of court.
- Recovery of NPAs through the award of Lok Adalat is the easiest, cheapest and fastest mode.
- One-time Settlement (OTS) can be put through Lok Adalat, so that in case of default in payment as per OTS, the award could be executed by the Court, as in the case of execution of a decree.

SARFAESI ACT

- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was put in place to allow banks and FIs to take possession of securities and sell them.
- The act envisaged the formation of asset reconstruction companies (ARCs)/Securitisation Companies (SCs).
- The Act provides alternative methods for recovery of NPAs, namely:
  - Securitisation
  - Asset Reconstruction

Debt Recovery Tribunals (DRTs)

- DRTs are governed by provisions of the Recovery of Debt Due to Banks and Financial Institutions Act, 1993, also popularly called as the RDB Act.
- Each Debt Recovery Tribunal is presided over by a Presiding Officer.
- The Presiding Officer is generally a judge of the rank of Dist. & Sessions Judge.
- The Presiding Officer of a Debt Recovery Tribunal is the sole judicial authority to hear and pass any judicial order.
- Each Debt Recovery Tribunal has two Recovery Officers.
- DRTs can appoint Receivers, Commissioners, pass ex-parte orders, ad-interim orders, interim orders apart from powers to Review its own decision and hear appeals against orders passed by the Recovery Officers of the Tribunal.

Recovery Agents

- PSBs administer recovery management through their own staff in case of retail loans, private and foreign banks outsource their recovery process and entrust the same to Recovery Agents for end to end recovery management when the accounts become delinquent.
- Reserve Bank has requested the Indian Banks' Association to formulate, in consultation with Indian Institute of Banking and Finance (IIBF), a certificate course for Direct Recovery Agents with minimum 100 hours of training.
- Once the above course is introduced by IIBF, banks should ensure that over a period of one year all their Recovery Agents undergo the above training and obtain the certificate from the above institute.

Taking Possession of Property Mortgaged/Hypothecated to Banks

The terms and conditions of the contract should be strictly in terms of the Recovery Policy and should contain provisions regarding :

- notice period before taking possession
- circumstances under which the notice period can be waived
- the procedure for taking possession of the security
- a provision regarding final chance to be given to the borrower for repayment of loan before the sale/ auction of the property
- the procedure for giving repossession to the borrower
- the procedure for sale/auction of the property.

Banks are encouraged to use the forum of Lok Adalats for recovery of personal loans, credit card loans or housing loans upto Rs. 20 lakhs.

Unit - 15. Management Information Systems

Management Information System (MIS) consists of three words,

- Management
- Information
- System

Main Elements of MIS

- An integrated system to give service to many users.
- The computer system linking some of information software via a database.
- User-machine interface responding to the temporary and immediate searches.
- Presenting the information to all management level.
- Supporting the operation and decision making.

- Broadly speaking, two main roles are played by MIS in decision making by the managers.
- First it helps the managers to take decision based on the information being prepared.
- Second when the decision making and decisions are fixed and only the input data change, it acts as a suitable repeat to support different types of managerial decisions.
- It is inherent to state that decision making is an integral part of any business.
- MIS provides a fitting platform for good decision making.
- Essentially, without the established systems of getting information in MIS, it would be extremely difficult for organizations to make their decisions.

The major drawbacks and the reasons of failure and using MIS in public organizations

Humanistic factors

- The lack of understanding of the needs of the users by designers (the lack of correct definition of the needs and their analysis).
- The lack of information of the managers and users as they don't know exactly what they want and what their information needs are.
- The lack of participation of the managers and users in system design.
- The lack of understanding of the managers of software and information systems.
- The lack of accuracy in the data collected.

Environmental factors

- The lack of procedures and methodology and stages of creating the system.
- The lack of suitable consultants for designing the system and software.
- The lack of evaluation of environmental aspects in management information systems.
- The lack of serious consideration and adequate investment in this regard.

Organizational factors

- The lack of good conditions for participation and collaboration of the managers, users and system directors.
- The lack of existing systems and methods analysis before the system design.
- The lack of evaluation of the existing power.
- Bad condition of educating the specialized forces.
- Unsuitable implementation of the system.
- Inadequate education of the users.
- Inadequate and incomplete documentation.

- The unique service in banking mostly means solving the customers' problems in the financial matters, and the single most widely used measure of quick service is the elapsed time of transaction execution.
- Points to be taken care of while designing an MIS will differ from bank to bank depending upon goals and objectives, quality of staff, technological development, customer segmentation and so many factors.
- The factors affecting existing issues related to MIS may be broadly divided into humanistic, environmental and organizational factors.
- The basic nature, constitution, culture, goals and objectives differ from organization to organization.
- Accordingly, the MIS related issues are different for each organization and it is too difficult to frame and provide common solutions which may be found suitable for every organization.

Unit - 16. Securitization

- Securitization is the process of converting and breaking definable asset classes into tradable units and selling to others through a mechanism called as Special Purpose Vehicle (SPV).
- Through the securitization process, the assets are removed from the balance sheet and the funds generated through securitization can be ploughed back for further asset expansion.
- Performing assets and Non-performing assets are securitised.
- But only eligible assets can be securitised - eligibility criteria prescribed by RBI.
- In case of securitization of performing assets Minimum holding period and minimum retention requirements are also prescribed.

- As per the guidelines of RBI, banks shall, with the approval of their Board, identify and list internally the specific financial assets identified for sale to other institutions, including ARCs, at least once in a year, preferably at the beginning of the year.
- The assets identified for exit shall be listed for the purpose of sale. Banks may offer the assets for sale to ARCs and other banks/NBFCs/FIs, etc.
- Participation of more buyers will result in better price discovery.
- With effect from April 1, 2017, where the investment by a bank in SRs backed by stressed assets sold by it, under an asset securitization, is more than 50 percent of SRs backed by its sold assets and issued under that securitization, need to keep provision on the assets.
- With effect from April 1, 2018, the above threshold of 50 percent will stand reduced to 10 percent.

- Indian Banks Association (IBA), have re-floated an old idea of creating a 'bad bank'. The Economic Survey 2017, suggested Public Sector Asset Rehabilitation Agency or PARA, to buy out the NPAs of high value from Indian banks.
- A bad bank is technically an asset reconstruction company that buys bad loans(NPAs) from the commercial banks at a discount and tries to recover the money from the defaulter by providing a systematic solution over a period of time.
- The idea of a bad bank seeks to reduce the NPAs in the banking sector and then revive lending and credit growth. NARCL is new bad bank.
- IDRCL will professionally manage the assets acquired by NARCL for resolution.

Advantages of Securitization

- With its support, banks can keep loans off their balance sheet, thus reducing need for additional capital
- It is an alternative form to banks and financial institutions of funding risk transfer and capital market development
- It helps reduce lending concentration and improve liquidity

- Supports attainment of funds at lower costs since these are isolated from potential bankruptcy risk of originator
- Provides better matching of assets and liabilities and development of long-term debt market
- Provides diversified pool of uniform assets to banks and financial institutions
- Supports converting non-liquid loans or assets into liquid assets or marketable securities.
- Facilitates transfer of funds from less efficient debt market to more efficient capital market through securitization.

Assets Eligible for Securitization

Subject to this condition, all on-balance sheet standard assets, except the following, will be eligible for securitization by the originators

- Revolving credit facilities (e.g. 2 Cash Credit accounts, Credit Card receivables, etc.)
- Assets purchased from other entities
- Securitization exposures (e.g., Mortgage-backed/asset-backed securities)
- Loans with bullet repayment of both principal and interest*

Securitization and concept of Bad Bank in India

IBA have re-floated an old idea of creating a 'bad bank'. A bad bank is technically an asset reconstruction company that buys bad loans(NPAs) from the commercial banks at a discount and tries to recover the money from the defaulter by providing a systematic solution over a period of time.

Rationale of Bad Bank

- Easing Provisioning Requirement
- Re-assuring Trust
- Concerns About IBC Code

National Asset Reconstruction Company Limited (NARCL)

NARCL (Bad Bank) has incorporated in July 2021 with authorized capital of 2750 Crore and paid up capital of 1409.05 Crore.

RBI has given license to NARCL on 4th October, 2021 under section 3 of SARFAESI Act 2002.

Public Sector Banks will have 51% shareholding in the company and balance by other financial institutions and investors.

India Debt Resolution Company Limited (IDRCL)

IDRCL has been incorporated on 3rd September, 2021 with authorized capital of 50Cr and paid-up capital 20 Cr.

State owned Banks will have 49% stake and balance with private sector lenders.

MODULE C – SUPPORT SERVICES-MARKETING OF BANKING SERVICES/PRODUCTS

Unit 17. Marketing: An Introduction

- The success of retail banking depends on effective marketing of the retail products and services.
- Customers are different and their needs are different but at the same time, as customers are grouped together into definite segment buckets, reaching them with relevant products and services is a must.

Customer is the centre of attraction in retail banking and marketing and all the activities have to be focussed towards

- Identifying the customers' needs,
- Developing appropriate products to satisfy their needs,
- Providing them with efficient delivery channels for availing the products.
- Making them avail the products continuously.

The process of marketing comprises different stages.

- Marketing Analysis
- Marketing Planning
- Marketing implementation
- Marketing control

Fundamental ingredients of an effective marketing mix in retail banking

- Product
- Price
- Promotion
- Place
- People
- Process
- Physical evidence

The right mix will deliver the right results. The success of the seven Ps and the marketing strategies are measured only by the responses from the customers from the point of view of need satisfaction.

Unit 18. Delivery Channels in Retail Banking

- Customer satisfaction has to happen through different channels and choices are to be offered to customers to experience the optimum channel mix for maximum satisfaction.
- Direct channels may be the best fit for a conservative customer whereas young and tech savvy customers may opt for remote channels.

- Channels are the medium through which retail banking products and services are delivered to the customers.
- Delivery Channels are basically of two types, Physical Channels and Remote Channels.
- Branches and Extension Counters are referred to us Physical Channels.
- Remote Channels also called as Electronic Channels are designed to serve customers outside the branch and includes ATMs, Internet Banking and Mobile Banking.
- Each of the channels has their own strengths and weaknesses.
- While branches give the personal touch to the service process, remote channels give the freedom to avail the services at their convenience.

- Procedures are fixed and processes are defined for availing the services through the above channels.
- ATMs help the customers to avail the services any time for withdrawing cash as well as to deposit cash and cheques.
- ATMs are installed by banks in the branch premises as well as in off branch locations convenient to the customers.
- All the ATMs of different banks are now connected and customers can access their accounts from any bank's ATM and withdraw cash upto a prescribed frequency free of cost.
- In Internet Banking, customers can do the transactions like debits, credits, fund transfers and bill payment services, etc.
- In Mobile Banking also, from their mobile phones, customers can do their transactions like Balance Enquiry, Funds Transfer, etc.
- Channels enhance the customer experience of the banking services and the satisfaction levels depend on how the customers' expectations are met by the banks.
- For achieving this, banks should develop and adopt the right channel mix through proper customer profiling.

Delivery channels, both physical and remote, play a crucial role in the delivery paradigm but delivery effectiveness in physical channels is determined more by the persons who are delivering the services.

- In electronic channels, like ATM, Net Banking and Mobile Banking, human intervention is not there and the delivery requested is met through the machines or on line solutions.

- But in case of physical channels like Branches, Direct Marketing, etc., the individuals involved in the service delivery process are very important for the success of the customer relationship and loyalty factors.

The channels through which retail banking services are offered are illustrated below:

Branch

- The transactions carried out in the branch premises infuse a sense of confidence in the minds of the customers that they are not only physically involved in the transactions but also feel the service experience at the branch.
- Though customers have accepted the electronic channels of delivery in retail banking with both hands, they still want to transact personally at the branch for their banking requirements. To put it short, they want a human intervention for their services than simply go through on-line or mechanical interventions like ATMs and Internet and Mobile Banking.
- Branch layout may be broadly defined as the system of locating the various service facilities within the Branch in order to deliver the most convenient service to the customers.
- "Personal Banking Branches" enhance the delivery effectiveness of services by prescribing TAT (Turn Around Time) for different retail loans. Only the formalities for opening the accounts are completed at the branch level and opening of accounts, issue of Pass Book/Cheque.
- Book, Debit Card, PIN etc are carried out through a centralised back-office mechanism.
- The areas of operations of Extension Counters were restricted to a closed group like Courts, Educational Institutions like Schools and Colleges or a specific company in their premises.

Electronic/Remote Delivery Channels

Automated Teller Machines (ATMs)

There are basically two types of ATMs to deliver services to retail customers.

- On Site ATMs and
- Off Site ATMs.

- On Site ATMs are intended to offer the facility of Cash Withdrawals, Cash Remittances, Balance Enquiry etc., at the branch premises itself.
- Off Site ATMs are designed to be situated away from the branches at convenient and busy locations to enable the customers to access it for their different needs but not necessarily from the branch.
- "National Financial Switch" was initiated for ATM operations.

- ATMS are always complaint prone because of the break downs and cash out situations.
- These two faults would result in reputation risk for the bank and may result in customer switching also.

Point Of Sale Terminal (POS)

Point of Sale terminals are the enablers of payment of credit and debit cards in merchant establishments. Whenever a customer makes a purchase in a merchant establishment.
Reserve Bank of India (RBI) allowed cash to be withdrawn from any merchant establishment with a POS terminal. The RBI has, however, put ceiling on withdrawal of cash at merchant outlets using debit cards.

Mobile Banking

Globally, mobile banking initiatives were stared by Wachovia in 2005 and the full fledged mobile browser in 2007. Banking can be done at your finger tips and right in the place where you are. It is convenient, simple and readily accessible.

Internet Banking

Internet banking would have great implications on

- Internet commerce
- New types of electronic retail payments
- Electronic retail banking
- The movement more generally of retail financial services to electronic delivery, including insurance, discount brokerages, and mutual funds

Unit - 19. Delivery Models

Delivery channels, both physical and remote, play a crucial role in the delivery paradigm but delivery effectiveness in physical channels is determined more by the persons who are delivering the services.

- In electronic channels, like ATM, Net Banking and Mobile Banking, human intervention is not there and the delivery requested is met through the machines or on line solutions.
- But in cases of physical channels like Branches, Direct Marketing, etc., the individuals involved in the service delivery process are very important for the success of the customer relationship and loyalty factors.
- The three important human interventions in physical channels are:
  - Internal Customer – Staff of the Branch,
  - Specialised Marketing Personnel, and
  - Direct Selling Associates (DSAs).

- Staff of the branch is the first point of contact in the retail banking experience of customers and customers' service expectations are to be met primarily through effective and efficient service delivery.
- For efficient service delivery, staff should possess the following characteristics and traits.
  - Understanding the customer, his income level, his financial profile, his needs, his requirements of financial products and his life stage.
  - Cross selling the right products to match their requirements.
  - Post sales service follow up for customer satisfaction.

Dedicated Marketing Managers

- Specialised Marketing Managers support retail banking initiative through customer sourcing and their need identification and serving them end to end for making them to avail the products and services.
- In private banks, the specialised marketing managers do the customer sourcing and after completing the need of verification and after obtaining the documents and verification of the same, they forward it to the process team to complete the process.
- But in some public sector banks, marketing managers posted for retail banking do end-to-end servicing for retail products and retail assets.
  - Dedicated Marketing Managers were appointed in addition to existing internal human resources.
  - These specialist Marketing Managers (MBAs in Marketing) were young and energetic and recruited from the campuses of management Schools.
  - Some banks appointed them in Junior Management and some other banks in middle management.

Direct Selling Agents (DSAs)

- Direct Selling Associates (DSAs) are effective intermediaries between the banks and customers for sourcing and completing the initial formalities.
- But there are cases of DSAs working for business maximisation with focus on revenue than customer satisfaction.
- Though the job is done professionally mostly, many cases of mis-selling were also reported.
- This was more pronounced in credit card sales and resultant delinquencies. Because of this, there are chances of reputation risk for the bank.
    - DSAs are agencies appointed by banks to source business for them on a fee basis.
    - DSAs are primarily engaged in sourcing Credit Cards and Retail Loans.
    - The employees of the DSAs missell credit card products and make the customers fall into a debt trap by misusing the cards.
    - Same is the case with misselling of retail loans and in this space, the pricing for the loans are not explained clearly.
    - Ultimately this will result in dissatisfaction for the customers and reputation risk for the bank.
- Reputation Risk is always a threatening factor in the DSA model

Banks enter into tie ups with the following agencies for extending different types of loans.

- Tie up with Builders as a preferred financier for extending Home Loans to prospective buyers.
- Tie ups with auto dealers is another method adopted by banks for expanding retail credit.
- Sanctioning of Personal Loans under tie up with different institutions is another model adopted by banks to expand retail loans.
- Even educational loans are disbursed on a tie up basis. Banks set up special counters during the admission season in reputed educational institutions and offer education loans based on merit.

- It is time for banks and financial institutions to respond to the changing behavior of customers, delivering products, services and financial education through both physical and digital channels.
- Integrating and optimizing this channel delivery can bring value to the customers as well as the banking organization.
- Accordingly, the delivery model Retail Banking in banks and financial institutions, especially regarding distribution, must change to serve digitally empowered consumers by building a strong digital banking model

Unit - 20. Customer Relationship Management in Retail Banking

There are three elements in CRM viz.

- Customer
- Relationship
- Management

- Bank has to manage the customer by offering the right product/s matching the needs of the customer.
- Relationship with the customer means that the service quality of the bank should match the customer expectations in total and result in total satisfaction of the customer.
- Customer Relationship Management (CRM) is basically having a 360 degree view of the customers and their profile, dynamically tracking their requirements, offering matching products and services, cross selling relevant products to his changing needs and keeping him happy for ever.
- The objectives of a good CRM are aimed at to build long term profitable relationships with specific customers.
- Offer optimal products and services on a dynamic basis and achieve life time value from customers.
- The purpose of CRM is to increase the share of wallet of the customer with the banks' services and increase the per customer profitability of banks.
- CRM is not just an option for the banks but a compulsion to achieve business synergies and optimization of resources.

Customer optimisation is the essence of CRM and can be addressed through three dimensions viz.

- Acquisition of New Customers who are immediately profitable to the bank.
- Retention of Existing Customers who are most profitable and valuable to the Bank for the longest duration.
- Expansion of the customer relationship with the bank encouraging more purchases and shifting the less profitable customers to lower - cost delivery channels.

Needs for banks for implementation of a CRM program :

- Need to increase operational efficiencies
- Need to derive more value from employees.
- Increasing Competition in retail banking.
- Rising NPAs.
- Increasing Importance of Fee Based Income.
- Delivery Channel Efficacy
- Application of Technology

- The objectives of a good CRM are aimed at to build long term profitable relationships with specific customers through a better understanding of the customers in order to develop close relationships offer optimal products and services on a dynamic basis and achieve life time value from customers.
- This would be achieved by systematic and technology oriented processes and models.

- The purpose of CRM is to increase the share of wallet of the customer with the banks' services and increase the per-customer profitability of banks.
- Different stages are involved in CRM initiatives of banks.
- CRM is a useful tool for a more calibrated approach to customer segmentation and design and offer more relevant products and services for the targeted segments.

- Customer relationship management (CRM) is used to manage and analyse customer interactions and data throughout the customer lifecycle, with the goal of improving business relationships with customers, assisting in customer retention driving sales growth.

- CRM has emerged as a popular business strategy in today's competitive environment.
- It is a discipline that enables the banks to identify and target their most profitable customers.
- It involves new and advance marketing strategies that not only retain the existing customers but also acquire new customers.
- It has been found as a unique technique which can bring remarkable changes in total output of banks.

Implementation Process of CRM in Banks

- Business Processes
- Information Processes
- Information Systems
- Internal Organisational Culture

Implementation Stages in CRM

- Identification of Customers
- Classification of Customers
- Interaction With the most Valued Customers
- Customisation of Bank's Products and Services for Different Customer Segments

Unit - 21. Service Standards for Retail Banking

- Banking Codes and Standards Board of India (BCSBI) prescribed the various compliance requirements for the promises made by the banks for offering services to retail banking customers and they have codified the promises into a document.
- This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with individual customers.
- The Code does not replace or supersede regulatory or supervisory instructions of the Reserve Bank of India (RBI) and banks will comply with such instructions/directions issued by RBI from time to time.
- Provisions of the Code may set higher standards than what is indicated in the regulatory instructions and such higher standards will prevail as the Code represents best practices voluntarily agreed to by the Member banks as their commitment to customer.
- In the Code, 'customer' denotes the customer and 'we', the bank the customer deals with.

The Code has been developed to:

- Promote good and fair banking practices by setting minimum standards in dealing with customer.
- Increase transparency so that customer can have a better understanding of what customer can reasonably expect of the services.
- Encourage market forces, through competition, to achieve higher operating standards.
- Promote a fair and cordial relationship between customer and customer's bank.
- Foster confidence in the banking system.

BCSBI has spelt out various commitments regarding the various services as below:

1. Objectives of the Code
2. Application of Code
3. Key Commitments
4. Our key commitments to you
5. Information - Transparency
6. General
7. Do Not Call Service
8. Interest rates
9. Tariff schedule
10. Terms and conditions
11. Advertising, Marketing and Sales
12. Privacy and Confidentiality
13. Credit Reference Agencies
14. Collection of dues
15. Security Repossession Policy

16. Complaints, Grievances and Feedback
17. Internal Procedures
16. Banking Ombudsman Service
17. Products and Services
18. Deposit Accounts
19. Clearing Cycle/Collection Services
20. Cash transactions
21. Stop Payment Facility
22. Cheques/Debit instructions issued by you
23. Branch closure/shifting
24. Settlement of claims in respect of Deceased Account Holders
25. Safe Deposit Lockers
26. Foreign Exchange Services
27. Remittances within India
28. Lending
29. Guarantee
30. General Information
31. Credit Card
32. Insurance
33. Mobile Banking
34. Credit Counselling Facility
35. Getting Records
36. Protecting Your Accounts
37. Secure and Reliable Banking and Payment Systems
38. Keeping Us Up To Date
39. Checking your account
40. Taking care
41. Internet banking
42. Cancelling payments
43. Liability for losses

- As per Annual Report of RBI dated 25th August 2020, Reserve Bank of India (RBI) has decided to dissolve the Banking Codes and Standards Board of India (BCSBI).
- The Reserve Bank has since set up CEPD (Consumer Education and Protection Department), issued the Charter of Customer Rights (CoCR), and considerably strengthened the Ombudsman mechanism to enhance consumer protection.
- Consumer Education and Protection Department (CEPD) acts as a single nodal point for receipt and disposal of all external complaints on deficiency of services provided by RBI and RBI related entities.

Unit - 22. Marketing Information Systems-A Longitudinal Analysis

- The marketing functions require, on a continuous basis, relevant information about various aspects, including the marketing environment, the consumers, the competitors, various intermediaries and the firm's market position.
- For collecting, collating, evaluating, analysing, storing and disseminating the required information, a marketing information system is required, which is well-coordinated, computer_based master plan for managing the flow of information analysed, using the analytical tools.
- The need for MKIS has become more acute due to the increased complexity of marketing activity, information explosion need to bridge the communication gap between the producer and the consumer as also several intermediaries and the importance of prompt decisions to ensure an effective marketing endeavour.
- MIS encompasses the information on market forces, the information on the firm's market behaviour and the internal information of the firm.
- To be effective, MIS comprises four component subsystems namely internal records system, marketing intelligence, marketing research and marketing management and science system.

Functions of MKIS

- Collecting and assembling data
- Processing of data
- Analysing the data
- Storage of data
- Dissemination of information

COMPONENTS OF MKIS

- Internal records system
- Market intelligence system
- Marketing research system
- Marketing management and science system

A good MKIS should satisfy certain basic requirements

- Unified and centralised system
- Support system to marketing decision-makers
- Matching with the level of progress of the organization
- Cost-effective in maintaining
- Selective in information processing
- Provide information regularly and quickly

- A good MIS is a unified and centralised system, which is selective in information processing and provides information regularly and quickly.
- It helps in systematizing the information processing and integrating the information obtained from various sources, validating its accuracy and consistency.
- It provides tailor-made information to the decision-makers to meet their specific requirements.

MODULE D – WEALTH MANAGEMENT

Unit - 23. Importance of Wealth Management

- A professional service provided by wealth managers which includes investment planning, accounting, tax planning, estate planning or retirement planning, portfolio and financial services management provided to business owners or a corporate or an individual for one set fee is called wealth management.
- Wealth management is not only about investments and savings.
- It is far more wider term that encompasses all the aspects of a person's and the family's financial life.

Important aspects of wealth management

- Understanding Investment needs
- Products and Services
- Advisory Services
- Estate Planning

Wealth Management Process

- Assessing the current financial situation of the client
- Identifying financial goals
- Designing a customized solution to achieve the goals
- Implementing the financial strategies into the plan
- Monitoring the results and reviewing the plans

Wealth management deals in

- Asset Allocation management
- Tactical Management
- Diversified Management

Important wealth management products and services

- Alternative Asset
- Bonds, Corporate Fixed Deposits, Fixed Maturity Plan & Debentures
- Insurance
- Mutual Funds
- Systematic Investment Plan
- Portfolio Management Services
- Real Estate Services
- Retirement planning

- Strategic Business Strategy
- Will Writing

- Retirement planning requires a 360-degree approach which begins with understanding clients, their needs, risk appetite & various life-stage goals, to draw up their asset allocation plan and monitoring it on a continuing basis.
- Wealth Managers also support the persons in the optimization of their assets projects by helping them to manage their taxation and savings and by advising them on their investments and in terms of asset restructure or arbitrage.
- A Will is a legal declaration of a person, withrespect to his properties and assets, which he desires to be carried into effect after his death.

- Financial planning, portfolio management and other aggregated financial services entailed within investment advisory practices for private individuals is known as Private Wealth Management.
- A Personal financial planning is a complete and systematic process which entails finance managers, his team who assess the client's portfolio or his financial status, then they come up with a financial plan that is solely based on the desired goals of the client, the potential of finance planner and the assessment of the client's net worth.
- To accomplish a successful private wealth management, financial assessment becomes ubiquitous and it is essential to attain the desired goals.
- Setting some primary financial objectives or goals is really important, because only our goals keep us moving in the right direction.
- The services of private wealth management services can be rendered by either larger corporate entities, independent financial advisers or multi-licensed portfolio managers.
- The latter on normally prioritizes the high-net-worth private clients.

- Private banking involves providing banking, investment, tax management, and other financial services to high-net-worth individuals (HNWIs).
- Private banking is the bank that provides customized financial solutions to high net worth individuals or those who belong to higher income class.
- When it comes to finance, everyone has but one goal; to be financially well-off.
- But getting to a space of financial comfort is a long journey; it takes patience, perseverance and a lot of discipline and wise investments to get there.
- Unless one has a financial strategy in place, it becomes extremely difficult to set and meet realistic goals.

- Without properly managing our finances we shall be cast into a world of trouble for ourselves as also our loved ones. Wealth Management plays a major role in handling financial matters.

- The advisory of wealth management helps the person in creating a financial plan through which he can utilize his assets in such a way that almost all the financial objectives are met.

- Wealth management helps in implementing the plan into action and also monitors its progress periodically.

- It also helps in making the strategies that ensure the achievement of financial goals and objectives to a larger extent as also financial security of the loved ones after the death of the individual.

Unit - 24. Investment Management

- Once saving is given some one i.e. individuals or institutions in the expectation or with the aim of earning income or capital appreciation becomes investment.

Main elements of Investment

- Return
- Risk
- Safety
- Liquidity

Steps in Investment Management

- Deciding investment goals
- Analysis of Securities
- Construction of portfolio
- Evaluating performance of Portfolio
- Revision of portfolio

- Investment banking is a specific division of banking or financial institution that serves Governments, corporations, and institutions by providing underwriting (capital raising) and mergers and acquisitions (M&A) advisory services.
- There can sometimes be confusion between an Investment Bank and the Investment Banking Division (IBD) of a bank.

Full service investment banks offer a wide range of services that include

- Underwriting
- Mergers & Acquisitions (M&A)
- Sales & Trading
- Equity Research
- Asset Management
- Commercial banking
- Retail banking

Investment banks are split up into three main offices

- Front Office
- Middle Office
- Back Office

Roles and responsibilities of Investment managers

- Financial statement analysis
- Portfolio allocation such as a proper mix of bonds and stocks
- Equity research and buy and sell recommendations
- Financial planning and advising
- Estate and retirement planning as well as asset distribution

- The investment banking division of a bank provides only the underwriting and M&A advisory services.
- In a layman's language, the art of managing an individual's investment is called as portfolio management.
- Portfolio management is the art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution.
- An individual who understands the client's financial needs and designs a suitable investment plan as per his income and risk taking abilities is called a portfolio manager.

Main objectives of portfolio management

- Capital appreciation
- Maximising returns on investment
- To improve the overall proficiency of the portfolio
- Risk optimization
- Allocating resources optimally
- Ensuring flexibility of portfolio
- Protecting earnings against market risks

Main steps of the Portfolio Management Process

- Identification of objectives
- Estimating the capital market
- Decisions about asset allocation
- Formulating suitable portfolio strategies
- Selecting of profitable, Investment and securities
- Implementing portfolio
- Evaluating and revising the portfolio
- Rebalancing the composition of the portfolio

Main advantages of Portfolio Management Services

- Professional Management
- Continuous Monitoring
- Risk Control

- Hassle Free Operation
- Flexibility
- Transparency
- Customised advice.

- Portfolio Management Services (PMS) give select clients the benefit of tailor made investment advice designed to achieve his financial objectives. Main disadvantages of PMS are Higher Capital Investment, Higher Costs, and No Performance Guarantee.
- Mutual Funds entertain any amount of capital.
- However, Portfolio Management Services demand a capital investment which must be over the minimum limit of 50/- Lakh as per Securities and Exchange Board of India (SEBI) guidelines.

Types of Portfolio Management Services

- Active Portfolio Management
- Passive Portfolio Management
- Discretionary Portfolio Management
- Non-discretionary Portfolio Management

Unit - 25. Tax Planning (Update yourself with latest information)

- In simple terms, Financial Year is the year in which the income is earned and assessment year is the year in which the income is assessed to tax and all taxes are paid & tax returns filed.
- Assessment year is the year just succeeding the Financial Year.
- The current financial year is generally known as assessment year of the previous financial year.
- In simple language, for the purpose of income tax or income tax return, terms financial year and previous year are used interchangeably.
- For the purposes of this Act, "previous year" means the financial year immediately preceding the assessment year.
- From the tax perspective, a Financial year is the year in which a person earns an income.
- Assessment year is the year followed by the financial year in which the evaluation of the previous year's income is done, tax is paid on the same and ITR is filed.

The difference between Financial year and Assessment year

Financial Year	Assessment Year
The financial year is the time period where income is earned.	The assessment year that follows is the financial year and the period in which tax returns are filed.
The financial year is when salaried professionals, businessman and senior citizens earn their money.	While AY is the time when the income that was earned in the financial year gets evaluated.
Taxation and evaluation are carried out in the AY for the income that has been earned in the financial year	Income Tax Return Forms are specialized forms for the evaluation and taxation of FY income.
Income is always earned in the period known as the financial year it cannot be taxed prior to being earned.	After money has been earned by an individual it will be evaluated for the purpose of taxation in the latter, that is the AY.

Heads of Income for the Computation of the Total Income

- Income from salary
- Income from house property/ Rental Income
- Profits and gains of business or profession
- Capital gains
- Income from other sources

- Taxation is the means by which a government or the taxing authority imposes or levies a tax on its citizens and business entities.
- The tax structure in India is classified into two main categories, Direct Tax and Indirect Tax.
- With the implementation of goods and services tax (GST) regime from 01 July 2017, it has replaced all forms of indirect tax imposed on goods and services by the state and central governments.

- Heads of income for the computation of the total income are Income from salary, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
- In Budget 2021, it has been proposed to exempt the senior citizens from filing income tax returns if pension income and interest income are their only annual income source.
- Section 194P has been newly inserted to enforce the banks to deduct tax on senior citizens more than 75 years of age who have a pension and interest income from the bank.
- Indian Income tax levies tax on individual taxpayers on the basis of a slab system.
- Individuals with Net taxable income less than or equal to 5 Lakh will be eligible for tax rebate u/s 87A i.e. tax liability will be nil of such individual in both – New and old/existing tax regimes.
- The Finance Minister introduced new tax regime in Union Budget, 2020 wherein there is an option for individuals and HUF (Hindu Undivided Family) to pay taxes at lower rates without claiming deductions under various sections.
- The taxpayer opting for concessional rates in the New Tax regime will have to forgo certain exemptions and deductions available in the existing old tax regime.
- The tax rates in the New tax regime is the same for all categories of Individuals, i.e. Individuals & HUF upto 60 years of age, Senior citizens above 60 years upto 80 years, and Super senior citizens above 80 years.
- Hence no increased basic exemption limit benefit will be available to senior and super senior citizens in the New Tax regime.

Income tax slab rate FY 2021-22 (AY 2022-23): Applicable for New Tax Regime (Update yourself)

Income Tax Slab	**New Regime Income Tax Slab Rates FY 2021-22 (Applicable for All Individuals & HUF)**
0.0 – 2.5 Lakhs	NIL
2.5 lakhs- 3.00 Lakhs	5% (tax rebate u/s 87a is available)
3.00 lakhs – 5.00 Lakhs	5%
5.00 lakhs- 7.5 Lakhs	10%
7.5 lakhs – 10.00 Lakhs	15%
10.00 lakhs – 2.50 Lakhs	20%
> 15 Lakhs	30%

- The new tax regime can largely benefit middle class taxpayers who have a taxable income upto 15 Lakh.
- Old regime is a better option for high income earners.
- It is advisable to do a comparative evaluation and analysis under both regimes and then choose the most beneficial one as it may vary from person to person

List of Exemptions and deductions which are "not allowed" under New Tax Rate regime:

- Leave travel Allowance (LTA)
- House Rent Allowance (HRA)
- Conveyance allowance
- Daily expenses in the course of employment
- Relocation allowance
- Helper allowance
- Children education allowance
- Other special allowances [Section 10(14)]
- Standard Deduction on Salary
- Professional tax
- Interest on housing loan (Section 24)
- Deduction under Chapter VI-A deduction (80C,80D, 80E and so on) (Except Section 80 CCD (2))

List of deductions "allowed" under new Tax rate regime

- Transport allowance for specially abled people
- Conveyance allowance for expenditure incurred for travelling to work
- Investment in Notified Pension Scheme under section 80CCD (2)
- Deduction for employment of new employees under section 80JJAA
- Depreciation u/s 32 of the Income-tax act except additional depreciation
- Any allowance for travelling for employment or on transfer

Section 80C-Deductions on Investments

- Public Provident Fund
- Unit Linked Insurance Plans
- Tax Saving Fixed Deposit
- Employee Provident Fund
- National Saving Certificate
- Tax Saving Mutual Funds
- Post Office Tax Saving Schemes
- Life Insurance Premium
- Sukanya Samriddhi Yojana (SSY)
- Pradhan Mantri Vaya Vandhana Yojana (PMVVY)

- Senior Citizen Saving Scheme (SCSS)
- Equity Linked Savings Scheme (ELSS)

Capital Gains Tax

(i) short-term capital gains tax (STCG)

- An asset held for a period less of 36 months or less is termed as short term capital asset.
- In case of immovable properties, the applicable period to be considered as short term capital asset is 24 months

(ii) long-term capital gains tax (LTCG).

- All those assets which are held for period more than that applicable period for STCG as mentioned above will be classified under long term capital asset.

Few Important Terms

- **Full Value Consideration**: The consideration amount received or to be received by the seller as a result of transfer of capital assets.
- **Cost of Acquisition**: The cost at which the asset was acquired by the seller.
- **Cost of Improvement**: All expenses of capital nature incurred by the seller by making additions or alterations to the capital asset.
- **Indexed Cost of Acquisition/ Improvement**: The cost of acquisition and improvement is indexed by applying CII (cost inflation index) in order to adjust for inflation over the years of holding the asset.

Calculation Formula:

Short Term Capital Gain	*(Full value consideration) – (Expenses incurred for such transfer) – (Cost of acquisition) – (Cost of improvement)*
Long-term capital Gain	*(Full value consideration) – (Expenses incurred for such transfer) – (Indexed cost of acquisition) – (Indexed cost of improvement)*
Indexed cost of acquisition	*(Cost of acquisition) x (CII of the year in which the asset is transferred) / (CII of the year in which the asset was first held by the seller or FY 2001-02, whichever is later)*
Indexed cost of improvement	*(Cost of improvement) x (CII of the year in which the asset is transferred) / CII (year of asset improvement)*

Unit - 26. Other Financial Services Provided by Banks

- The distribution of third party products has emerged as a key driver of revenue for the foreign banks and new generation private sector banks.
- Public sector banks also have entered distribution of third party products in a very aggressive way and converting their huge branch network into distribution channels for augmenting fee based income.
- This concept of selling products other than banking products is called "Para Banking". Reserve Bank of India has given directions to banks for doing miscellaneous services.

Banks as a part of their distribution of third party products strategies mainly focus on the following products and market the same to their captive customers through their network of branches.

- Marketing of life insurance products of life insurance companies.
- Marketing of non-life Insurance products of general insurance companies.
- Marketing of health insurance schemes of standalone health insurance companies.
- Distribution of mutual fund schemes of various mutual fund houses.
- Offering of Demat Services.
- Offering of Broking Services.
- Portfolio Management Services.
- Offering other agency business such as promoting Atal Pension Yojana, Sale of Sovereign gold bonds, India Gold Bonds, etc.

Mutual Funds

Salient Features of Mutual Funds

- Professional Management
- Diversification
- Economies of Scale
- Liquidity
- Simplicity
- Choice of Schemes
- Tax benefits

At the fundamental level, there are three varieties of mutual funds:

- Equity funds (stocks)
- Fixed-income funds (bonds)
- Money market funds

Mutual Funds can also be classified as

- Open-ended Funds
- Closed-ended Funds

Categorization of mutual fund schemes

- Equity Schemes
- Debt Schemes
- Hybrid Schemes
- Solution Oriented Schemes
- Other Scheme

Insurance Business

Different types of Insurance policies

- Health Insurance
- Life Insurance
- Asset Insurance

Present players in Health Insurance Industry

- Standalone health insurance companies
- Health Insurance from General insurance companies
- Health Insurance from Life Insurance Companies.

Life Insurance products

- Endowment policies
- Term Insurance Policies
- Money back policies
- Pension plans

- Distribution of insurance products happens both in the life and non-life space.
- Insurance marketing by banks are attempted by banks through Corporate Agency.
- Banks market direct policies or regular policies to the customers on an individual basis and also group policies.
- In group policies, the bank is the purchaser of the policy for clearly defined group of account holders and there should not be any violation of group definition.
- Likewise single premium policies result in lower revenue whereas regular premium policies return better revenues for the bank as corporate agent.
- Marketing of Non-Life insurance business is another revenue earner for the bank.
- In addition, banks also offer group health insurance products at attractive premium rates and other features.

Social Security Insurance Schemes

1. Pradhan Mantri Jeevan Jyoti Bima Yojana – PMJJBY

- **Scope of coverage:** Age group of 18 to 50 years
- **Enrolment period**: Cover period 1st June to 31st May
- **Benefits:** 2 lakh is payable on member's death due to any cause
- **Premium:** 436/- per annum per member
- **Termination of assurance**

  a. On attaining age 55 years

  b. Closure of account with the bank or insufficiency of balance to keep the insurance in force

Appropriation of Premium:

- Insurance Premium to LIC/insurance company: 395/- per annum per member
- Reimbursement of Expenses to BC/Micro/Corporate/Agent: 30/- per annum per member
- Reimbursement of Administrative expenses to participating Bank: 11/- per annum per member

2. Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- **Scope of coverage**: Age group of 18 to 70 years
- **Enrolment period**: Cover period 1st June to 31st May
- **Benefits:**

  1. Death - 2 lakh

  2. Total and irrecoverable loss of both eyes or loss of use of both hands or feet or loss of sight of one eye and loss of use of hand or foot - 2 lakh

  3. Total and irrecoverable loss of sight of one eye or loss of use of one hand or foot - 1 lakh
- **Premium:** 20/- per annum per member
- **Termination of assurance**

  a. On attaining age 70 years

  b. Closure of account with the bank or insufficiency of balance to keep the insurance in force

Appropriation of Premium:

- Insurance Premium payable to Insurance Company: Rs. 20/- per annum per member
- Commission payable to Business Correspondents, agents, etc. by the insurer: Re.1/- per member (for new enrolments only).
- Administrative expenses payable to participating Bank by insurer: Re.1/- per annum per member

Depository Services

- Demat account is one of the very important components of the retail banking bouquet offered by banks.
- It provides the customer additional convenience for dealing with his securities in a hassle free manner.
- Almost all the banks offer Demat Account facility to their customers.
- Additionally, some banks offer the provision of trading facility also under tie-up with brokers.
- Dematerialisation is the process of converting physical shares (share certificates) into an electronic form.
- Shares once converted into dematerialised form are held in a Demat account.

Portfolio Management Service (PMS)

- Portfolio Management services is offered to high net worth individuals to cater to the entire spectrum of wealth in a professional way.
- The model will be implemented in different ways to suit the needs of the wealth management and private banking customers.

- Sovereign Gold Bonds (SGBs) are government securities denominated in grams of gold.
- They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank of India on behalf of Government of India.

Wealth Management – Indian Scenario

Following are some of the banks that focus on the wealth management space in India:

- Citi Bank, BNP Paribas, Societi Genarale, Standard Chartered Bank, Deutche Bank
- ICICI Bank, Axis Bank, HDFC Bank, Kotak Mahindra Bank
- State Bank of India and BOB amongst PSBs
- NBFCs like IIFL Wealth, Edelweiss Wealth

Advantages for Customers

- Helpful in Tax Planning
- Helpful in Selection of Investment Strategy
- Helpful in Estate Management
- Helpful in forward planning

Banks cross sell fee based products to their liability and asset customers to augment their revenue streams and improve the per customer profitability.
Cross selling improves brand loyalty of the customers.

ADDITIONAL READING MATERIAL ON HOME LOANS

Unit - 27. Lender's Appraisal Procedure

- The Loan process begins with receipt of application form along with the required documents giving information about applicant, employment, loan amount, sources of finance, property details, etc.
- Then the bank undertakes the appraisal of the proposal.
- It comprises the validation of the information submitted by the applicant.

Three major phases of loan origination are :

- Information acquisition
- Credit appraisal and sanction
- Disbursement

Appraisal Procedures

The appraisal process begins with an application form which normally contains.

- Personal Information
- Employment Information
- Loan Information
- Financial Information
- Existing Property Details
- Property Details
- LIC Policy Details
- General Details
- Appraisal

Agreements/letters/application/forms required for the appraisal process:

- Housing Loan application.
- Appraisal form.
- Term Loan agreement for Home Finance.
- Guarantee Agreement (if required).
- Arrangement letter (Terms and conditions for Housing Finance).
- Equitable Mortgage intent letter.
- Equitable Mortgage confirmation letter.
- Letter of undertaking (where finance is availed for purchase of plot).
- Letter to be addressed by the borrower to his/her employer.

- An undertaking letter from the borrower that the construction will be carried out only as per the plan approved (in case of construction only).
- Letter to be addressed by the borrower's employer to the bank. Letter when the applicant himself/herself is the drawing officer.
- Mortgage Deed (in case of Registered Mortgage)
- Mortgage Confirmation Letter.
- Documents in connection with pledge of other securities, wherever applicable.

Documents relating to the house property

- Sale deeds through which the applicant has acquired title to the property/Agreement of Sale along with patta
- If parent sale deed is not available, patta is a must.
- Encumbrance Certificate for 13 years showing nil encumbrances.
- Approved Building Plan.
- Parent Documents of 30 years.
- Legal opinion from the Bank's advocate certifying clear title to the property.
- Letter of Allotment from Housing Board/Society.
- Copy of approved plan.
- License/Permit for construction.
- Estimate/Valuation Report from approved valuers.
- Search Report from the records of the Registrar under whose jurisdiction the property is located
- Non-encumbrance certificate for 13 years to be obtained by the Bank's advocate.
- Registration Receipt.
- NOC from builder/seller.
- Payment Receipts.
- Possession Certificate (where applicable).
- NOC under the provisions of ULC Regulation Act, 1976 in original, wherever applicable.
- Copy of relative order, in case of conversion of agricultural lands to homestead land.
- Certificate from the Bank/Govt. approved architect/structural engineer regarding the condition of the house/flat, in the case of purchase of old property.

Appraisal form for a Home Loan

- Eligible loan amount
- Service Eligibility
- Age Eligibility
- Legal Opinion
- Valuation Details
- Inspection Details
- Rate of Interest

- Security Details
- Repayment Details
- Other Charges
- Litigation Details, if any
- Relaxation/Concession, if any
- Disbursement details

- The house/flat should be insured against the risk of fire/ riots/ earthquakes/ lightning/ floods etc.
- A repayment holiday may be allowed for a home loan when the construction is undertaken by a reputed builder, a Government agency etc. and the borrower makes payments in stages over the construction period. The moratorium will be upto 18 months after the first disbursement of the loan or two months after completion of construction.
- The interest payable over the period of the loan is calculated and added to the loan amount to arrive at the total payable amount. This amount, divided by the total number of monthly instalments is called the Equated Monthly Instalment (EMI).
- Until final disbursement and repayment commences, the borrower pays interest on the portion of the loan disbursed. This interest is called pre-EMI interest. Pre-EMI interest is payable every month from the date of each disbursement up to the date of commencement of EMI.
- In a floating rate interest home loan, the total dues to the lender will change when the rate of interest is changed. The lender does not usually change the EMI amount. The number of installments is increased or reduced depending upon the change in the total dues.
- Check-off facility - An appropriately worded irrevocable authority for making salary deductions and remittance to the lender should be taken from the borrower.
- In order to ensure prompt repayment of home loans, lending banks obtain post-dated cheques towards Equated Monthly Instalments (EMI)
- After sanction of the loan the documentation work is initiated and completed.
- The mortgage formalities are completed.
- The mortgage may be of two types, viz., registered (simple) mortgage or by deposit of title deeds.

Registered or Simple Mortgage

- The Deed of Mortgage is required to be registered with the concerned sub-Registrar/Registrar of assurances.
- By paying applicable stamp duty and registration charges
- Within whose jurisdiction the whole or some portion of the property to which the document relates is situated
- Within four months from its date of execution

- Registered mortgage involves preparation of mortgage deed duly witnessed by two witnesses, payment of ad valorem stamp duty and registration of deed.

Mortgage by Deposit of Title Deeds.

The essential requisites of a "Mortgage by Deposit of Title Deeds" are:

- There must be a debt, existing or future.
- There must be a deposit of documents of title to immovable property.
- The deposit must be made in one of the notified towns.
- The deposit must be made by the mortgagor or his agent with the mortgagee or his agent.
- The deposit must be made with an intent to create a security for the debt.
- Letter of intent should be obtained. Necessary entry should be made in the document register.

➢ Issues relating to the right of foreclosure and priority of charges are settled and accordingly mentioned in the mortgage deed.

Right of Foreclosure

- On default by a mortgagor, in case of mortgage by conditional sale the mortgagee has the right to sue for a decree from the court to the effect that the former be debarred forever to get back the mortgaged property. Such a right is called Right of Foreclosure, which is provided for under section 67 of Transfer of Property Act.
- A suit for foreclosure must be filed within 30 years from the day the mortgage money becomes due.

Priority of Charge

- Where a mortgagor creates more than one equitable mortgage over the same property in favour of two financing institutions, the institution in whose favour the mortgage is created first, has priority of charge.
- Where a mortgagor has created separate registered mortgages over the same property in favour of two or more financing institutions, the priority of charge will be determined with reference to the date of the execution of the deeds which has been duly registered within four months of execution (not the date of registration).
- Where a mortgagor gives the same property in equitable mortgage to one financing institution and in registered mortgage to another financing institution, the priority of charge will be determined with reference to the date of deposit of title deeds in equitable mortgage and the date of execution of registered mortgage deed. An equitable mortgage in no way gives inferior rights compared to a registered mortgage.

- Where immovable property (of which land is the main constituent) is taken as security (primary or collateral) either by way of registered mortgage or equitable mortgage, the following aspects should be looked into:
  - Tenure
  - Valuation
  - Title of land

- The documents such as sale deed are required to be registered with respective State Government authorities.
- The knowledge of formalities of registration, stamp duty computation and payment of registration fee, etc. is needed to each home loan advisor and keeping note of changes in this field will be helpful.

Post Sanction Activities

- Monitoring
- Inspection
- Recovery

- The lender also gives due importance to monitoring of the loan accounts.
- Monitoring relates to post- sanction activities, dealing with proper documentation, disbursement, ensuring end use of funds, periodical inspection, follow-up of recovery, restructuring of loan if needed, etc.
- On repayment of the loan amount along with interest the loan account is closed and the charge created in favour of the lender is vacated and documents of title to the property are returned to the borrower.

Restructuring

Circumstances when a restructure may be considered:

- Unforeseen event/major illness/social functions requiring significant outlay of funds in the family of the borrower or any other circumstance that affect the repayment capacity.
- In case of salaried class, borrowers who are on "loss of pay" due to lock out/strike/disciplinary action/delayed payment of salary by employer
- Delayed completion of housing project.
- Death/Disability of the borrower.

- However, willful defaulters should not be covered under restructuring programs.
- The credit rating should be reviewed annually.

Unit - 28. Housing Finance and Tax Planning

- In respect of Loan taken for Purchase/Construction of a Residential Unit, the borrower can avail benefit of payment of interest as well as repayment of principal.
- The tax rate would vary from year to year depending upon the Union Budget announcements.
- Home Loan Tax Benefits
  - Tax deduction on payment of home loan interest – section 24
  - Tax deduction on principal repayment of housing loan – section 80C
  - Tax deduction for first time home buyer – section 80EE
- Interest on housing loan can be claimed as a deduction from income from property, salary, business/ profession, capital gains upto a maximum of Rs. 2,00.000 under section 24(b) of the Income-tax Act, 1961 every year subject to fulfilment of the following conditions.
  - Loan has been taken on or after 1st April 1999.
  - Loan is for purchase or construction of a residential property or as re-finance (takeover) of the principal amount outstanding under a loan taken earlier for purchase or construction of a residential property. However, in case of loan for construction, the construction should get completed within 5 Years of raising the Loan. Deduction can be claimed only from the financial year when the purchase/construction is completed.
  - If any of the first 2 Conditions mentioned above is not satisfied, i.e., loan was taken before 1st April 1999 &/or loan is for repairs/renovation/reconstruction, deduction of only upto a maximum of Rs. 30000 every year can be claimed.
  - In case the Loan is for repairs/renovation/reconstruction, deduction on account of interest on that loan can be claimed only if the property is self-occupied or if the owner is not able to occupy the property only because of his employment/business/profession at another place
- As regards principal repayment, maximum of 1,50,000 can be claimed as a deduction from the gross total Income only by an Individual/HUF borrower under section 80C of the Income Tax Act, 1961.
- The deduction under section 80EE is also available on the interest paid on the home loan by taxpayer or assessee.
  - But this deduction is only available to first time home buyers.
  - The quantum of deduction is 50,000 for interest paid on the home loan.
  - This deduction is available over and above the deduction of section 24 and section 80C which are 2,00,000 and 1,50,000 respectively

Unit - 29. Mortgage Advice

- There is no licensing requirement for carrying out the profession of mortgage broker or mortgage advisor or home loan advisor.
- The concept of "home information pack" is new to our country.
- It is already introduced in UK from 1st August 2007.
- This pack contains important information about the property, condition and thus assists the buyers and sellers of property in concluding the deal.
- For home loan advisors, knowledge about time value of money and methods of computation of future value of investment, present value of maturity and future value of annuity, etc. will help to answer any queries of client.

Time Value of Money - Interest and Annuities

- Re. 1 received today is worth more than Re. 1 receivable at some future date, because Re. 1 received today could be earning interest in the intervening period. This is the concept of the time value of money.
- The process of converting future sums into their present equivalents is known as discounting, which is simply the opposite of compounding.

What if interest is paid more frequently?

- Annually = P(1 + r) = Annual compounding
- Quarterly = P(l + r/4)^4 = Quarterly compounding
- Monthly = P(l+r/l2)^12 = Monthly compounding

The Rule of 72, 115 and 144

- Even by applying rule of 72, 115 and 144, anyone can find out in how many months the amount will almost double, triple and becomes four times.
- For this, divide the number 72, 115, 144 by given percentage, you get the answer.
- For example, if the rate of interest is 12% divide 72 by 12, you get answer as 6. So at 12% rate, the amount will be almost double within 6 years.
- Similarly divide 115 by 12, and 144 by 12, you will get the period during which your principal amount will be almost triple and four times respectively.

Future Value of Money

For finding out future value (FV). we must use compounding formula which is given

$$FV = PV(1 + r)^n$$

Where PV means present value, r means rate of interest and n means period or term.

Example:
If Rs. 100000 is invested for a period of 5 years at interest at 10% p.a. find the maturity sum i.e. future value

Solution
The formula for finding FV is
FV = PV(1 + r)^n
= 100000(1 +0.10)^5
= 100000(1.10)^5
= 100000(1.61)
= 1610000
So the maturity sum will be Rs. 1,61,000

Future value of annuities
Annuities are essentially series of fixed payments required from you or paid to you at a specified frequency over the course of a fixed period of time.

Ordinary Annuity : Payments are made/received at the end of each period.

F = A [(1+i)^n-1] / i or FV = Annuity x CV factor

Where,
F = future value of an annuity
A = annuity
i = interest rate
n = term

Annuity Due : Payments are made/received at the beginning of each period.

F = A [(1+i)^n - 1] / i x (1+i)

Where,
F = future value of an annuity
A = annuity
i = interest rate
n = term

Example :
Future value of annuity due of Rs. 1000 for a period of 5 years at interest rate of 5% would be

FV (Annuity Due) = A [(1+i)^n - 1] / i x (1+i)
= 1000[(l+0.05)^5 - 1)] / (0.05) x (1+0.05)

= 1000 x 5.525 x 1.05
= Rs 5801.91

Present Value
Present value is nothing but the reverse of future value. The formula :

PV = FV + (1 +r)n or PV = FV x PV factor

Where,
PV means present value
1 means one rupee
r means rate of interest
n means period or term
FV means future value

Example:
If Rs. 161000 is the maturity value(future value) of investment, invested for a period of 5 years at interest at 10% p.a. find the amount invested (present value).

Solution:
The formula for finding PV is
PV = FV/(1 + r)n
= 161000/(1 +0.10)^5
= 161000/(1.61)
= 100000
So the present value will be Rs. 100,000

Capital Gains
- The capital gain refers to profit on sale of capital assets. Land, building, securities, units of mutual funds are all capital assets.
- There is provision of enhancing value of cost of acquisition by applying cost inflation index (CII) factor taking into consideration CII for the year of purchase and year of sale.
- The general rate of long term capital gain tax is 20%.

The following assets are, however, excluded from the definition of capital assets :
- Stock-in-trade, stores, raw material
- Personal effects (excluding Jewellery)
- Agricultural land outside the limit of municipality or notified area.

Types of Capital Assets

Short-term capital assets

Short term capital asset means a capital asset held for less than 36 months immediately prior to the date of transfer. However in following cases, asset held for less than 12 months is treated as short term capital asset :

- Equity or pref. shares (quoted as well as unquoted)
- Debentures/Govt. securities listed in a recognized stock exchange.
- Units of UTI/Mutual fund specified under section 1()(23D)
- Zero coupon bonds (whether quoted or not)

Long-term capital assets

Long term capital asset means a capital asset held for more than 36 months immediately prior to the date of transfer. However in following cases, asset held for more than 12 months is treated as long term capital asset:

- Equity or pref. shares (quoted as well as unquoted)
- Debentures/Govt. securities listed in a recognized stock exchange.
- Units of UTI/Mutual fund specified under section 10(23D)
- Zero coupon bonds (whether quoted or not)

- The knowledge about the equated monthly instalment and amortization schedule is important for taking home loan decisions.
- The use of EXCEL Program helps to find out EMI quickly.

Unit - 30. Valuation of Real Property

- Valuation means assessment of the worth of an asset or property.
- It is distinct from cost, which refers to the actual amount spent in producing an asset.
- Cost is related to the past while value refers to the future.
- Valuation of real property is a specialized area.
- The Income-tax Department grants registration to valuers u/s 34AB of the Wealth Tax Act, 1957, on the basis of their technical background and experience. For the purpose, the Deptt. has classified valuers under separate categories those for
  - Immovable property
  - Agricultural land
  - Plant & machinery
  - Jewellery

- Valuation calls for technical knowledge related to structural design, construction materials, architectural aspects etc. as well as cost of construction based on estimate of items of work, quantity of materials & rates, labour rates, cost of electrical fittings, plumbing and water supply and many other costs associated with building construction.
- It also requires knowledge of various sanctions and approvals required from civic authorities and the rules pertaining to permissible FSI, parking facilities, provision of lifts, etc.
- Further, it calls for familiarity with incidence of taxes and levies, statutes and legal provisions such as the Apartments Act, Stamp duty, Registration fees and the documentation for transfer of clear and marketable title to the purchaser.
- The valuer must also keep track of the demand and supply conditions, which influence market value such as changes in interest rates on housing loans, high/low disposable income, increase/decrease in rentals, Development Plan for the City, etc.

Broadly, valuation is done by
  - Comparative method
  - Rent capitalization method
  - Profits capitalization method
  - Replacement cost method
  - Development method.

- Valuation tables are available and facilitate determination of capitalized value for different interest rates and number of years.
- Tables are also available for dual rates of interest – one for rental income and the other for sinking fund.

Sinking Fund

The fund set aside for the purpose of recovering the original capital is called sinking fund. The amount to be regularly set aside out of annual income to create the sinking fund depends on the compound interest it is supposed to earn over the life of the structure.

Depreciation

- Depreciation means loss in value. A building also loses value due to obsolescence.
- The normal life of buildings (CPWD manual) is 75 years for RCC framed structure, 55 years for Load bearing wall structure and 30 years for semi-permanent structure. Salvage value is the estimated cost of material when the structure is demolished at the end of its life.
- It is normally taken as 10% of the actual cost of building.
- Depreciation is usually charged by Straight Line method or Written Down Value method.
- There are several methods for valuation of real property and though valuation in not entirely a mathematical exercise, some of these make use of mathematical tables.
- There are several methods to calculate depreciation but the following two methods are usually adopted :

Straight Line Method

In this method, the depreciation is allocated uniformly over the life of the property and is generally adopted for tax purposes and preparing financial statements. The annual depreciation is given by:

D = (C-S) / n

Where,

D is annual depreciation

C is original cost,

S is salvage value (value that property may fetch at the end of useful life)

n is life of building in years

Written Down Value (WDV) Method or Declining Balance Method

In this method, it is assumed that the property will lose value by a constant percentage of its value at the beginning of the year. Thus, the amount of depreciation goes on reducing every year because while depreciation is charged at fixed percentage, the capital value of asset decreases by depreciation charged every year. The formula for WDV is:

WDV = C(1-p)^n

Where,

C being original cost

n being life in years

p being the percentage at which depreciation is charged

Reverse Mortgage Loan (RML) – Salient features

- The scheme was introduced in India in 2007 and made applicable with effect from April 01, 2008.
- Reverse Mortgage Loan (RML) is a Scheme developed by the National Housing Bank (NHB) to help Senior Citizens (persons above the age of 60 years)
- To avail periodical payments from a lender against the mortgage of his/her house while remaining the owner and occupant of the house
- The borrowers are not required to service the loan during their lifetime
- So, they do not make monthly repayments of principal and interest to the lender.
- The maximum monthly payments under RML have been capped at 50,000/-
- The maximum lump-sum payment shall be restricted to 50% of the total eligible amount of loan subject to a cap of 15 Lakh, to be used for medical treatment for self, spouse and dependents,
- The maximum period of the loan is 20 years

Eligibility criteria for RML

- Indian Citizen above 60 years of age.
- Married couples will be eligible as joint borrowers for joint assistance.
- Should be the owner of a residential property (house or flat) located in India
- The residential property should be free from any encumbrances.
- The residual life of the property should be at least 20 years.
- The prospective borrower(s) should use that residential property as permanent primary residence.
- Commercial property is not eligible for availing RML.

Formula to Calculate the Periodic Payments under RML

Instalment Amount = (PV*LTVR*I((1+I)^n−1)

Where, PV = Property Value;
LTVR = LTV Ratio;
n = No. of Instalment Payments;
I = the value of I will depend on Disbursement Frequency selected

ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR JAIIB RETAIL BANKING & WEALTH MANAGEMENT

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