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ECONOMICS - BANKING

Banking

- What bank does
- How it does
- Capital formation- capital accumulation of capital stock such as equipment, tools assets
- Money multiplier say if the reserve % is 10 the banks are able to land 10 times more than the deposit

Core Banking Solution

- Core banking is when customer can access and can perform basic transactions from any of the branch of that Bank where he is maintaining the account.
- Core Banking is generally associated with retail Banking
- It is through ATMs, Internet Banking, mobile banking and branches
- Core banking became possible with the advent of computer and telecommunication technology that allowed information to be shared between bank branches quickly and efficiently

Small Finance Banks

- Small finance banks are a type of niche banks in India.
- A small finance bank can provide basic banking service of acceptance of deposits and lending too.
- Non-Banking Financial Companies, Microfinance Institutions and Local Area Banks can apply to become small finance banks.
- 75% of its net credits should be in priority sector lending
- They can be owned and promoted by individuals, corporate, trusts or even societies.
- The firms must have a capital of at least 100 Cr.
- They are regulated by RBI

Microfinance

- It is a provision of financial services to low income groups of a society who lack access to bank and related services
- It is aimed to assist the self employed who traditionally lack access to banking system
- It is mainly aimed to reduce the unemployment and poverty of the country
- Microfinance can be in the form of loans, insurance and saving deposits
- Both banks and non-banking financial corporations offer microfinance in India.
- There are more than 50 Microfinance Institutions in India

Repo rate

- Repo rate is short form of Repurchase Rate. Repo Rate is the rate at which RBI lends money to commercial banks.
- The RBI increased the Repo Rate on August 1st 2018 from 6.25% to 6.50%.

Reverse Repo Rate

- Reverse repo rate is the rate of interest offered by RBI, when banks deposit their surplus funds with the RBI for short periods.
- When banks have surplus funds but have no lending or investment options, they deposit such funds with RBI. Banks earn interest on such funds.

Statutory Liquidity Ratio SLR

- Statutory Liquidity Ratio is the reserve requirement that the commercial banks in India are required to maintain in the form of cash, gold reserves, government approved securities before providing credit to the customers.

Cash Reserve Ratio CRR

- CRR is a cash reserve ratio.
- Under CRR a certain percentage of the total bank deposits has to be kept in the current account with RBI which means banks do not have access to that much amount for any economic activity or commercial activity.

Marginal Standing Facility Rate

- Marginal Standing Facility Rate is the rate at which RBI lends funds overnight to scheduled banks, against government securities. RBI introduced this borrowing scheme to regulate short-term asset liability mismatch in a more effective manner.

Repo Rate Vs. Marginal Standing Facility Rate

- MSF is 1% more than Repo Rate
- Repo rate is applied to loans given to banks who are applying to meet their short-term financial needs. While, MSF is meant for lending overnight to banks
- Repo rate is the rate at which money is lent by RBI to commercial banks, while MSF is a rate at which RBI lends money to scheduled banks
- Lending at repo rates involve selling of bank's securities as collateral to RBI along with a repurchase agreement. Loans given at MSF rates involve providing government securities as collateral.
- Under MSF banks are allowed to use the securities that come under SLR in the process of availing loans from RBI

Scheduled Bank

- Scheduled Banks refers to those Banks which have been included in the Second Schedule of RBI Act, 1934.
- RBI approves and includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6)(a) of the said Act.
- Banks not under this Schedule are called Non-Scheduled Banks.
- Every Schedule Bank enjoys two types of principal facilities. It becomes eligible for debts/loans at the Bank Rate from RBI, and it automatically acquires the membership of clearing house.

Commercial Bank

- A commercial bank is an institution that provides services such as accepting deposits, providing business loans, and offering basic investment products.
- The main function of commercial bank is to accept deposit from the public for the purpose of lending money to the borrowers
- There are three types of Commercial Banks- public sector, private sector and foreign.
- Credit creation is the most important function of commercial banks.
- Commercial banks provides loans and advances of various forms, including an overdraft facility, cash credit, bill discounting and money at call services.

Demand Deposit with Banks

- A demand deposit is funds held in an account
- The amount can be withdrawn at any time without prior notice
- Amounts in savings and current accounts are known as demand deposits because they can be withdrawn any time.

Co-operative Banks

- Such banks are registered under the Cooperative Societies Act.
- Ex. The New India Cooperative Bank, Cosmos Co-op Bank, Saraswat Co-operative Bank Ltd., Janata Sahakari Bank Ltd., Abhudaya Cooperative Bank Ltd.
- Co-operative banks main objective is to provide financial assistance to economically weaker sections of the society.
- These banks are governed by regulations like Banking Regulations Act, 1949 and Banking Laws Cooperative Societies Act, 1965.
- These banks operate both in urban and rural areas.

Non Banking Financial Institution (NBFC)

- A non banking financial institution is a financial institution that does not have full banking license.
- NBFC is not supervised by a national or international banking regulatory agency.
- NBFC is registered under the Companies Act.
- NBFC do the business of loans acquisition of shares, stocks bonds hire purchase insurance business etc.
- NBFCs are many types: Asset Finance Company, Investment Company, Infrastructure Finance Company
- NBFC can not issue Cheques and demand drafts like banks
- In India NBFCs are regulated by RBI

Open Market Operation

- It is an activity by Central Bank (RBI)
- This gives / takes away liquidity in/away the market
- The Central Bank buys or sells government bonds in the open market
- The Central Bank sells g-secs to suck out liquidity
- The Central Bank buys g-secs to infuse liquidity
- Liquidity in the market has bearing on both interest rates and inflation rates

Payment Bank

- On 23rd September 2013, Committee on Comprehensive Financial Services for Small Businesses and Low Income households, headed by Nachiket Mor was formed by the RBI
- On 7th Jan 2014 ,the committee submitted final report. It recommended the formation of a new category of bank called payments bank.
- New type of banks which are expected to reach customers mainly through their mobiles phones .
- They cannot offer loans
  Can raise deposit upto 1 lakh

Permanent Account Number (PAN)

- PAN is a 10 digit unique alphanumeric number issued by the Income-tax Department.
- PAN is issued in the form of a laminated plastic card, commonly called as PAN Card.
- Out of the first five characters, the first three characters represent the alphabetic series running from AAA to ZZZ.
- The fourth character of PAN represent the status of the PAN holder. P: Individual, C: Company, H: Hindu Undivided Family etc.
- Fifth character of PAN represent the first character of the PAN holders last name.
- Next four characters are sequential numbers running from 0001 to 9999.
- The tenth character is an alphabetic check digit.
- A person cannot hold more than one PAN.

Magnetic Ink Character Recognition Code (MICR)

- MICR code is to facilitate and make cheque processing more efficient.
- MICR is a 9 digit code
- The first three digits represent the city code where the bank branch is located
- The next three digits give the bank code
- Last three digits indicate the code of the bank branch
- Every branch of a bank has a specific MICR code
- IFSC is used for on line transaction and MICR is used for cheques

Indian Financial System Code (IFSC CODE)

- IFSC is 11 digit alphanumeric code
- It is allotted by the RBI to all banks and its branches
- The first four characters indicate the name of the bank
- 5^{th} digit is generally 0
- Last six digits represent bank branch location
- It helps in elimination of errors while transferring money

Jan Dhan Yojana

- It is a financial inclusion programme of Government of India
- Its aim is to expand and make affordable access to financial services such as accounts, remittances, credit, insurance and pensions
- launched in 2014
- It is run by Department of Financial Services, Ministry of Finance
- 1.5 crore bank accounts were opened on first day
- By June 2018, over 31 crore bank accounts were opened and over ₹ 792 billion were deposited under the scheme

Merger of SBI

- After the merger the SBI has become a lender of global proportions with an asset base of ₹ 32 trillion.
  SBI has become now among top 50 Banks of the World.
  Banks merged:-

- State Bank of Bikaner and Jaipur State Bank of Mysore
  State Bank of Travancore
  State Bank of Hyderabad

- State Bank of Patiala Bhartiya Mahila Bank

- Bank now has 23,899 branches Employee 2.71 Lakhs Customer base 37 Crore
  ATMs 59000

Commercial Paper (CP)

- Short-term and unsecured promissory notes issued by corporations with very high credit rating.
- CP is an unsecured, short-term debt instrument.
- It is for meeting short-term liabilities.
- The rate of interest is lower as compared to that offered by banks.

Treasury Bills

- They are same as CP. Treasury Bills are issued by the government for financing its working capital needs

CIBIL

- Credit Information Bureau (India). It maintains the record of all credit-related activity of individuals and companies including loans and credit cards.
- CIBIL issues CIR Credit Information Report.

Actuary

- An actuary is a business professional who deals with the measurement and management of risk and uncertainty for financial investments, insurance policies, and any other ventures involving a measure of uncertainty.

Bank Ombudsman

- Bank Ombudsman is the authority to look into complaints against Banks in the main areas of
- Collection of cheque / bills, issue of demand drafts
- non-adherence to prescribed hours of working, failure to honour guarantee/letter of credit commitments, operations in deposit accounts and also loans and advances where banks flout directions/ instructions of RBI..
- The scheme covers all scheduled banks, the RRBs and co-operative banks.

Collateral

- A specific asset pledged against possible default on a loan

Credit Rating

- An assessment of the likely hood of an individual or business being able to meet the financial obligations.

American Depository Receipts (ADR)

- ADR were introduced in 1927
- Though traded on US Stock Exchanges, they are issued by a non-US company.
- Each ADR represents equity ownership of a specific number of shares (one or more) in the non-US company
- All gains i.e. dividend income and capital gains are denominated in US dollars.
- US banks purchased shares from non-US company in bulk and bundled these in to groups and reissued them as tradable securities on American stock exchanges.

Arbitrage

- Buying a financial instrument in one market in order to sell the same instrument at a higher price in another market.

Cooperative Bank

- An association of persons who collectively own and operate a bank for the benefit of consumers.
- Ex. Saraswat Co-operative Bank, Abhyudaya Co-operative Bank

De-mat Account

- Paper shares are converted into electronic form shares. It is called Dematerialization of shares.
- These shares are kept in dematerialization

Endorsement

- When a negotiable instrument contains, on back of the instrument an endorsement, signed by the holder or payee of an order instrument, transferring the title to the other person, it is called endorsement.

Amortization

- The process of reducing debt through regular installment payments of principal and interest that will result in the payoff of a loan at its maturity.

Foreign Banks

- Banks incorporated outside India and regulated by the Reserve Bank of India.
- Ex. HSBC, Citi Bank, Standard Chartered Bank

Indemnity Bonds

- Indemnity is a bond where the indemnifier undertakes to reimburse the beneficiary from any loss arising due to his actions or third party actions.

Law of Limitation

- Limitation Act of 1963 fixes the limitation period of debts and obligations including banks loans and advances. If the period fixed for particular debt or loan expires, one cannot file a suit for its recovery, but it bars the remedy but does not extinguish the right.

LIBOR

- The London Interbank Offered Rate is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other Banks in the London Wholesale money market.

Mortgage

- Transfer of an interest in specific immovable for the purpose of offering a security for taking a loan or advance from another.

Notary Public

- A Lawyer who is authorized by Government to certify copies of documents.

Provisioning

- Provisioning is made for the likely loss in the profit and loss account while finalizing accounts of banks.

Underwriting

- Is an agreement by the underwriter to buy on a fixed date and at a fixed date and at a fixed rate, the unsubscribed portion of shares or debentures. Underwriter gets commission for this agreement.

Credit Rating Agencies

- The Big Three credit rating agencies controlling approximately 95% of the rating business.

  - Moody's Investors Service

  - Standard & Poor's

  - Fitch Ratings

ICRA Limited

- ICRA is an Indian independent and professional investment information and credit rating agency.
- It was established in 1991, and was originally named Investment Information and Credit Rating Agency of India Limited (ICRA India).

Rs. (₹) Symbol

- The Indian Rs Symbol is the currency sign for the Indian Rupee, the official currency of India. Designed by D Uday Kumar, it was presented to the public by the GOI in July 2010, following its selection through an OPEN Competition among Indian residents.

Coins

- Coins can be issued up to the denomination of ₹1000 as per the Coinage Act 1906.

High Denomination Notes

- In 1954, high denomination notes ₹1000 5000 and 10000 were introduced

Bank Board Bureau. (BBB)

- Chief Vinod Rai
- Has suggested a road map to wriggle out of the NPA problem being faced by banks
- BBB will be a super authority Autonomous body of eminent professionals and officials for public sector banks. It will replace the Appointments Board of Government.
- The Board was suggested by INDRADHANUSH MISSION to revamp the PSBs. August 2015

BBB

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- Give recommendations for appointments of full-time Directors as well as Non-Executive Chairman of PSBs.
- Advise on raising funds
- NPAs tackling
- Restructure the business strategy of PSBs. Mergers of Banks

Off Balance Sheet

- An Off-Balance Sheet means an asset or debt or financing activity that is not reflected on a company's balance sheet.
- Companies who wish to keep their debt to equity ratio low may resort to OBS especially if the inclusion of a large expenditure will give them a negative debt to equity ratio.

Hedge Funds

- Hedge funds are like mutual funds in some ways. Investment professionals in a hedge fund pool in money from investors to be managed-exactly like the mutual funds do. And, subject to some minor restrictions, investors in hedge funds can withdraw their money as they can in a mutual fund.
- While hedge funds focus on absolute returns mutual funds focus on relative returns, i.e. they aim for returns which are higher than their bench mark.

Hedge Funds

- Hedge funds can invest in any asset class-stocks, bonds, commodities, real estate, private partnerships-or exotic debt products like packaged sub-prime mortgages.
- Mutual funds work within a risk controlled and compliance framework set up by the regulator. Hence very risky assets are prohibited.
- Hedge funds can borrow to bet bigger and enhance returns. Mutual funds can borrow too within SEBI guidelines.
- Hedge funds are for those who are already rich.
- Hedge funds are virtually unregulated.

Demonetization

- 99% of the demonetized notes were deposited back.
- Notes worth ₹15.28 lakh crore came back into banking system.
- Notes worth ₹15.44 lakh crore was in circulation on Nov. 8, 2016
- Notes withdrawn from system accounted for 86% of cash in circulation.
- ₹7,965 crore cost of printing new notes during the period July 2016-June 2017
- Estimate was ₹3 Lakh crore notes will not come back.
- Over 2 lakh crore black money reached banks.
- Currency in circulation declined by about ₹ 899,700 crore decline in 9% CRR.
- Notes in circulation as on June 30, 2017, 15.06 lakh crore
- Notes issued declined by 11.79% as on now on June 30 2017 was 17077.16 billion
- Notes in circulation on 8th Nov.- there were 1,716.50 crore pieces of ₹500 and 685.80 crore of ₹1000 notes

SWIFT

- The Society for Worldwide Interbank Financial Telecommunication.
- SWIFT provides a net work that enables financial institutions worldwide to send and receive information about financial transactions in secure, standardized and reliable environment.

Floating Rate

- A floating interest rate, also known as a variable or adjustable rate, refers to any type of debt instrument, such as a loan, bond, mortgage, or credit, that does not have a fixed rate of interest over the life of the instrument.
- Floating rate moves up and down with the rest of the market or along with an index.
- With increase in market rate the rate of debt also rises.
- Floating interest rates typically change based on a reference rate (a benchmark of any financial factor, such as the Consumer Price Index)

Floating Rate

- One of the most common reference rates to use as the basis for applying floating rates is the London Inter Bank Offered Rate (LIBOR)- the rate at which large banks lend to each other.
- A customer borrows $25000 from a bank, the terms of the loan are (six-month) LIBOR + 3.5%. At the time of issuing the loan, the LIBOR rate is 2.5%. For the first six months, the borrower pays the bank 6% annual interest: in this simplified case $750 for six months. At the end of first six months the LIBOR rate has risen to 4% the client will pay 7.5% ($937.5) for the second half year. At the beginning of second year, the LIBOR rate has now fallen to 1.5% and the borrowing costs are $625 for the following six months.

Star Series Notes

- The RBI has adopted the star series numbering system for replacement of defectively printed bank notes.
- The fresh banknote packets issued by the RBI at present are serially numbered from 1 to 100. Each banknote bears a distinctive serial number along with a prefix.
- At present, defectively printed banknotes in any packet are replaced at the note printing presses with a good note bearing the same number in order to maintain the sequential numbering of banknotes in the packet
- This procedure involves additional time/cost and manual intervention.
- Star banknotes are similar to the existing banknotes but would have an additional character viz. STAR in the number panel in the space between the prefix and the number.
- Star Series will not have sequentially numbered serials in a bundle of 100 notes.
- Such star series notes were inserted replacing the defective notes in the bundles containing 100 numbers serialized notes.

HDFC Systemic Important

- The RBI has listed HDFC Bank as a Domestic Systemically Important Bank. (DSIB) under the bucketing structure identified last year.
- SBI and ICICI banks were identified as DSIBs under the RBI rules in 2015.
- The RBI had issued the framework for dealing with domestic systemically important banks (D-SIBs) on July 22,2014.
- The D-SIB framework requires the RBI to disclose the names of banks designated as D-SIBs every year in August.

HDFC

- TBTF= Too Big To Fail. Large Banks Govt Supports.
- This perception of TBTF creates an expectation of government support for these banks at the time of distress. Due to this perception, these banks enjoy certain advantages in the funding markets. However the perceived expectation of government support amplifies risk-taking, reduces market discipline, creates competitive distortions, and increases the probability of distress in the future. These considerations require that SIBs should be subjected to additional policy measures to deal with the systemic risks and moral hazards issues posed by them.
- HDFC Bank's total balance sheet size as of June 30, 2017 was ₹ 8,95,653 Cr. as against ₹ 7,55,631 Cr. as of June 30,2016. The bank's deposits as of June 30,2017 were ₹ 6,71,376 Cr. an increase of 17% over June 30,2016.

- Thank You