UNIT I
INDIAN BANKING SYSTEMS

BANKING SYSTEM IN INDIA

- In India the banks and banking have been divided in different groups. Each group has their own benefits and limitations in their operations. They have their own dedicated target market. Some are concentrated their work in rural sector while others in both rural as well as urban. Most of them are only catering in cities and major towns.

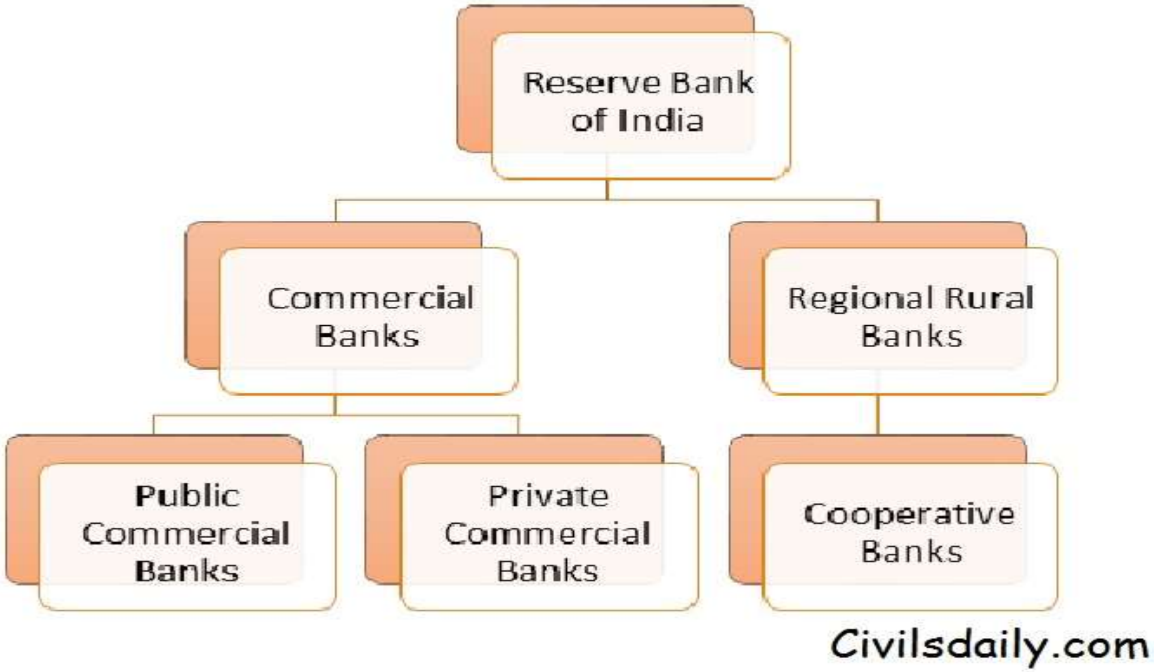
Definition of a Bank

- A bank is a financial institution which performs the deposit and lending function. A bank allows a person with excess money (Saver) to deposit his money in the bank and earns an interest rate. Similarly, the bank lends to a person who needs money (investor/borrower) at an interest rate. Thus, the banks act as an intermediary between the saver and the borrower.
- The bank usually takes a deposit from the public at a much lower rate called deposit rate and lends the money to the borrower at a higher interest rate called lending rate.
- The difference between the deposit and lending rate is called ‘net interest spread’, and the interest spread constitutes the banks income.

FUNCTIONS OF THE BANK

- *Financial Intermediation*
-
- *The process of taking funds from the depositor and then lending them out to a borrower is known as Financial Intermediation. Through the process of Financial Intermediation, banks transform assets into liabilities. Thus, promoting economic growth by channelling funds from those who have surplus money to those who do not have desired money to carry out productive investment.*
-
- *The bank also acts as a risk mitigator by allowing savers to deposit their money safely (reducing the risk of theft, robbery) and also earns interest on the same deposit. Bank provides services like saving account deposits and demand deposits which allow savers to withdraw money on an immediate basis thus, providing liquidity (which is as good as holding cash) with security.*

TYPES


Reserve Bank of India
Commercial Banks
Regional Rural Banks
Public Commercial Banks
Private Commercial Banks
Cooperative Banks
Civilsdaily.com

Types of Banks in India

- Central Bank.
- Cooperative Banks.
- Commercial Banks.
- Regional Rural Banks (RRB)
- Local Area Banks (LAB)
- Specialized Banks.
- Small Finance Banks.
- Payments Banks.

Central Banking

- ***The Reserve Bank of India (RBI) is India's central bank, also known as the banker's bank. The RBI controls the monetary and other banking policies of the Indian government. The Reserve Bank of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934.***

Central Board of Directors

Governor

↓

Deputy Governors

↓

Executive Directors

↓

Principal Chief General Managers

↓

Chief General Managers

↓

General Managers

↓

Deputy General Managers

↓

Asstt. General Managers

↓

Managers

↓

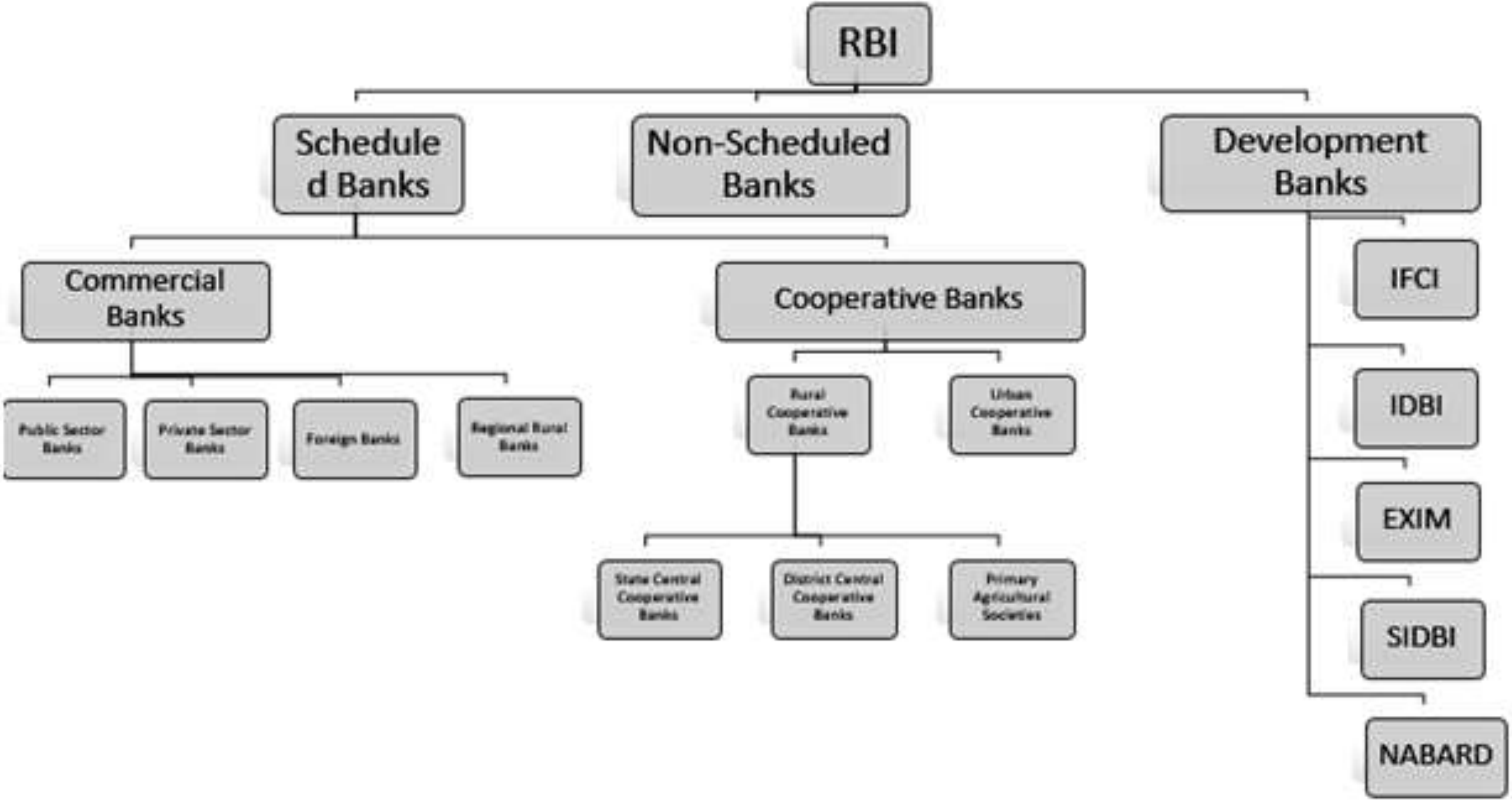
Asstt. Managers

↓

Support Staff

Structure of the Indian Banking System

- Reserve Bank of India is the central bank of the country and regulates the banking system of India. The structure of the banking system of India can be broadly divided into scheduled banks, non-scheduled banks and development banks.
- Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.
- All scheduled banks enjoy the following facilities:
- Such a bank becomes eligible for debts/loans on bank rate from the RBI
- Such a bank automatically acquires the membership of a clearing house.
- All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are **Non-scheduled Banks**. They are not eligible to borrow from the RBI for normal banking purposes except for emergencies.
- Scheduled banks are further divided into commercial and cooperative banks.


RBI
Scheduled Banks
Non-Scheduled Banks
Development Banks
Commercial Banks
Cooperative Banks
Public Sector Banks
Private Sector Banks
Foreign Banks
Regional Rural Banks
Rural Cooperative Banks
Urban Cooperative Banks
State Central Cooperative Banks
District Central Cooperative Banks
Primary Agricultural Societies
IFCI
IDBI
EXIM
SIDBI
NABARD

Rural Finance

- Rural Finance refers to raising and accumulating funds and lending them to rural people, including farmers, to enable them to run their socio-economic activities in the rural areas. Rural finance comprises formal and informal financial institutions, small and large, that provide small-size financial services to the rural poor, as well as larger size financial services to agro-processing and other small and medium rural enterprises. Rural finance also covers a wide array of micro-finance institutions (MFIs), ranging from indigenous rotating savings and credit associations and financial co-operatives to rural banks and agricultural development banks. Rural finance is a vital tool in poverty reduction and rural development. It plays a catalytic role in bringing together the elements of production for increased output and improvement of the recipients' resources and livelihood in rural areas
- Although the supply of finance to rural areas is limited now and there is a general imbalance between supply and demand in rural capital markets at present, buyers and sellers of financial assets did exist in rural economies in the past. The market makers/intermediaries in rural financial markets are rural individuals, households, and farm and non-farm enterprises. Such classification of rural finance markets is based on the specific sources of funds, which vary widely in organisation, management, terms and conditions and lender-borrower relationships.

Acts governing the functioning of Indian banking system

- *The Indian banking sector is regulated by the Reserve Bank of India Act 1934 (RBI Act) and the Banking Regulation Act 1949 (BR Act). The Reserve Bank of India (RBI), India's central bank, issues various guidelines, notifications and policies from time to time to regulate the banking sector. In addition, the Foreign Exchange Management Act 1999 (FEMA) regulates cross-border exchange transactions by Indian entities, including banks*.

Functioning of Indian banking system

- **Primary functions – being primary are also called banking functions.**

- **Secondary Functions**

Accepting Of Deposits

- A very basic yet important function of all the commercial banks is mobilising public funds, providing safe custody of savings and interest on the savings to depositors. Bank accepts different types of deposits from the public such as:
- Saving Deposits: encourages saving habits among the public. It is suitable for salary and wage earners. The rate of interest is low. There is no restriction on the number and amount of withdrawals. The account for saving deposits can be opened in a single name or in joint names. The depositors just need to maintain minimum balance which varies across different banks. Also, Bank provides ATM cum debit card, cheque book, and Internet banking facility. Candidates can know about the Types of Cheques at the linked page.
- Fixed Deposits: Also known as Term Deposits. Money is deposited for a fixed tenure. No withdrawal money during this period allowed. In case depositors withdraw before maturity, banks levy a penalty for premature withdrawal. As a lump-sum amount is paid at one time for a specific period, the rate of interest is high but varies with the period of deposit.
- Current Deposits: They are opened by businessmen. The account holders get an overdraft facility on this account. These deposits act as a short term loan to meet urgent needs. Bank charges a high-interest rate along with the charges for overdraft facility in order to maintain a reserve for unknown demands for the overdraft.
- Recurring Deposits: A certain sum of money is deposited in the bank at a regular interval. Money can be withdrawn only after the expiry of a certain period. A higher rate of interest is paid on recurring deposits as it provides a benefit of compounded rate of interest and enables depositors to collect a big sum of money. This type of account is operated by salaried persons and petty traders.

Secondary Functions of Bank

- **Agency Functions of Bank**
- Banks are the agents for their customers, hence it has to perform various agency functions as mentioned below:
- **Transfer of Funds**: Transfering of funds from one branch/place to another.
- **Periodic Collections**: Collecting dividend, salary, pension, and similar periodic collections on the clients' behalf.
- **Periodic Payments**: Making periodic payments of rents, electricity bills, etc on behalf of the client.
- **Collection of Cheques**: Like collecting money from the bills of exchanges, the bank collects the money of the cheques through the clearing section of its customers.
- **Portfolio Management**: Banks manage the portfolio of their clients. It undertakes the activity to purchase and sell the shares and debentures of the clients and debits or credits the account.
- **Other Agency Functions**: Under this bank act as a representative of its clients for other institutions. It acts as an executor, trustee, administrators, advisers, etc. of the client.
- **Utility Functions of Bank**
- Issuing letters of credit, traveller's cheque, etc.
- Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange dealings
- Underwriting of shares and debentures
- Dealing in foreign exchanges
- Social Welfare programmes
- Project reports
- Standing guarantee on behalf of its customers, etc.


RBI (Reserve Bank Of India)
Schedule Banks
Non-Schedule Banks
Commercial Banks
Co-operative Banks
Public Sector Banks
Private Sector Banks
Foreign Banks
Regional Rural Banks (RRBs)
SBI and Associate Banks
Nationalize Banks
Other Public Sector Banks
State Co-operative Banks
District Co-operative Banks
Other Co-operative Banks

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NEW DELHI - INDIA

R-10

The Reserve Bank of India Act, 1934

(2 of 1934)

as amended by

The Finance Act, 2016

(28 of 2016)

with

- The Reserve Bank of India (Board for Financial Supervision) Regulations, 1994
- The Reserve Bank Commercial Paper Directions, 2012

2016

BARE ACT WITH SHORT NOTES

Price ₹ 100

Universal Law Publishing

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R-10

UNIVERSAL'S
NEW DELHI - INDIA

The Reserve Bank of India Act, 1934

(2 of 1934)

as amended by

The Finance Act, 2018

(13 of 2018)

with

- The Reserve Bank of India (Board for Financial Supervision) Regulations, 1994
- The Reserve Bank Commercial Paper Directions, 2012
- The Specified Bank Notes (Cessation of Liabilities) Act, 2017 (2 of 2017) *as amended by Removal of Difficulties Order, 2018*
- The Specified Bank Notes (Deposit of Confiscated Notes) Rules, 2017
- The Specified Bank Notes (Deposit by Banks, Post Offices and District Central Cooperative Banks) Rules, 2017

BARE ACT
WITH SHORT NOTES

2019

Price ₹ 135

Universal
LexisNexis

Banking Regulation Act 1949

Introduction

- Till 1949, There was no separate Act for Banking in India. So it was controlled by Indian Companies Act 1956.

- The Central Banking Enquiry Committee recommended the need of a separate legislation to control banks due to mushroom growth of banks with inadequate capital, dishonest management, speculative business etc etc..

- Accordingly a bill was introduced in parliament in March 1948.

- It was Passed in parliament in February 1949 and **The Banking Regulation Act** 1949 came to exist from 16th March 1949.

Negotiable Instrument Meaning

In India, the Negotiable Instruments Act, 1881 is responsible for governing NIs. This law defines these instruments and also deals with each type of them individually.

It governs the use of cheques, promissory notes, and bills of exchange. There are other customary payment methods similar to NIs in India (like Hundis) but this law does not cover them.

The Negotiable Instruments Act - 1881

This Act may be called the Negotiable Instruments Act, 1881.

An Act to define and amend the law relating to Promissory Notes, Bills of Exchange and Cheques.

The Negotiable Instruments Act, 1881, consists of a Total of 17 Chapters and 148 sections.

BANKING REGULATION ACT 1949

- **1. Short title, extent and commencement**
- (1) This Act may be called the Banking 2[Regulation] Act, 1949.
- 3[(2) It extends to the whole of India 4[* * *]
- (3) It shall come into force on such date5 as the Central Government may, by notification in the
- Official Gazette, appoint in this behalf.

Rights of Banker

iEduNote.com

1. Rights of General Lien.
2. Rights of The Set-off.
3. Rights of Appropriation.
4. Rights to Charge Interest And Commission.
5. Rights to Close The Account

Obligations of Banker

iEduNote.com

1. The obligation of bankers to honor checks.
2. The obligation of bankers to maintain secrecy.
3. The obligation of bankers to maintain proper records.
4. The obligation of bankers to follow customer’s instructions.
5. The obligation of bankers to give notice before closing the account.

Bank Financial Statements

- Report of Condition – Balance Sheet
- Report of Income – Income Statement
- Sources and Uses of Funds Statement
- Statement of Stockholders' Equity

THANK
you

THANK YOU

FOR TODAY

UNIT II

SOURCES AND MOBILIZATION OF FUNDS

Deposit Mobilization

Deposit Mobilization

Deposit mobilization is a key first step in the financial intermediation process.(The process performed by banks of taking in funds from a depositor and then lending them out to a borrower.

To mobilize the deposits, banks can do several activities. First, making finance activities. Those activities are good in wealth distribution, which can be useful for another party who needs the money.

People also ask
What are the 3 asset liabilities management strategies?

- **Techniques Used for Asset Liability Management**
- GAP = Rate Sensitive Asset – Rate Sensitive Liabilities.
- GAP Ratio = Rate Sensitive Asset/ Rate Sensitive Liabilities.
- Asset Coverage Ratio = ((Total asset- intangible asset) – (current liabilities- short term debt))/total debt.

Asset Liability Management


Get Data
Calculate
Cash Flows
Structure
Portfolios
Evaluate
Revenue
/Risks
Develop
Strategies
Make
Decisions
Monitor
Results
Asset Liability
Management Cycle

Secured Advances

- According to Banking Regulation Act 1949, a secured loan or advance means "**a loan or advance made on the security of assets, the market value of which is not at any time less than the amount of such loan or advances**"

Types of advances provided by banks to it's customers are:

- Cash credit.
- Bank overdraft.
- Loan.
- Discounting of bill of exchange.
- Investment of funds.
- credit creation. Was this answer helpful

Secured advances

- Sec 5 of Banking Regulation Act "secured loan or advance means a loan or advance made on a security of assets the market value of which is not at any time less than the amount of loan or advance".

- Primary security

Deposited by borrower

Ex. Machinery bought on loan

- Collateral security

All others collateral

Secondary or additional

Definition of Endorsement

- When the **maker or holder** of a negotiable instrument signs the same, otherwise than as such maker for the purpose of negotiation, on the **back or face thereof or on a slip** of paper annexed there to, he is said to **endorse** the same, and called the "endorser".

Types of Endorsement

- Blank Endorsement
- Special Endorsement
- Restrictive Endorsement
- Partial Endorsement
- Conditional Endorsement

2)CROSSED CHEQUES

- *If a cheque is crossed by drawing two parallel lines across the face of the cheque, with or without the words and Co or A/c payee only, it is called a crossed cheque.*
- *The crossed cheque cannot be paid on the counter of the drawee bank.*
- *It will be deposited in the account of a person in whose order or favor it is drawn.*

Payment of Cheques- Collection of Cheques

- **The payee receives the payment from the payer (or “payor” if you prefer), which is the person or organization that makes the payment.** Order cheque or bearer cheque: In simple words a cheque which is payable to any person who presents it for payment at the bank counter is called 'Bearer cheque'.

Type of loans

What are the different types of loans?

Loan type	Purpose
1. Personal loan	Funds for a wide array of personal needs and desires
2. Mortgage	Borrow your way to owning a home
3. Student loan	Federal, state or privately-issued debt to cover education costs
4. Auto loan	Finance a new or used car with the help of a lender or dealership
5. Payday loan	Like a short-term cash advance, payday loan involves borrowing against your paycheck instead of the plastic in your wallet
6. Pawn shop loan	Agreeing to a shop owner's terms to pay for various items
7. Small business loan	Funding to get your business off the ground or to make improvements

Major components of a typical loan policy document

- A loan policy must address key credit decision criteria and underwriting factors such as **the purpose of the loan, required financial information, collateral, risk ratings (borrower and facility), pricing, and policy exceptions**.

Loan Agreement

This Loan Agreement (this "Agreement"), is executed as of this [date] day of [month], [year] (the "Effective Date")

by and between

[Borrower's Full Name], located at [Borrower's Complete Address], hereinafter referred to as the "Borrower" which expression unless repugnant to the context shall mean and includes its legal representatives, assignee, nominee(s) and administrator;

and

[Lender's Full Name], located at [Lender's Complete Address], hereinafter referred to as the "Lender" which expression unless repugnant to the context shall mean and includes its legal representatives, assignee, nominee(s) and administrator;

WHEREAS at the request of the Borrower, the Lender has agreed to grant a Loan not exceeding a sum of ________________________________ to the Borrower for a period of ____________________ on terms and conditions hereinafter contained.

The parties agree as follows:

1. **Loan Amount**: The Lender agrees to loan the Borrower the principal sum of _______________________ (the "Loan"), together with interest on the outstanding principal amount of the Loan (the "Principal Balance"), and in accordance with the terms set forth below.

2. **Interest**: The Principal Balance shall bear interest at the rate of _______% per annum, accruing daily. Not withstanding, the total interest charged shall not exceed the maximum amount allowed by law and the Borrower shall not be obligated to pay any interest in excess of such amount.

3. **Repayment of Loan**: The Loan, together with accrued and unpaid interest and all other charges, costs and expenses, is due and payable on or before _______________________the due date__________.

Credit Analysis Process

- The credit analysis process refers to evaluating a borrower’s loan application to determine the financial health of an entity and its ability to generate sufficient cash flows to service the debt. In simple terms, a lender conducts credit analysis on potential borrowers to determine their creditworthiness and the level of credit risk associated with extending credit to them

- **Information collection**

- **Information analysis**

- ***Approval (or rejection) of the loan application***

-

Credit Analysis

Pricing of loans, Customer profitability analysis.

- Questions to ask yourself about your customers. ...
- Step 1: Identify existing channels of customer contact. ...
- Step 2: Define your customer groups. ...
- Step 3: Find the data and establish customer profitability metrics. ...
- Step 4: Putting together your customer profitability analysis.

customer profitability analysis in banks

- Customer Profitability Analysis is a tool from managerial accounting that shifts the focus from product line profitabilityCost of Goods Manufactured (COGM)Cost of Goods Manufactured (COGM) is a term used in managerial accounting that refers to a schedule or statement that shows the total to individual customer

Customer Profitability Analysis – Level 1

	CUSTOMER GROUP			TOTAL
	D	E	F	
ANNUAL SALES ($)	250,000	200,000	300,000	750,000
AVE. VALUE / INVOICE ($)	167	80	120	115
AVE. GP / INVOICE	55	40	30	39.62
AVE. AR ($)	60,000	80,000	85,000	225,000

Customer profitability analysis is a decision tool used to evaluate the profitability of a customer relationship.

- The analysis procedure compels banks to be aware of the full range of services purchased by each customer and to generate meaningful cost estimates for providing each service.
- The applicability of customer profitability analysis has been questioned in recent years with the move toward unbundling services.

Thank You!

UNIT III

INDUSTRIAL AND AGRICULTURAL BANKING SYSTEMS

Development Banks

- Development banks are nothing but financial institutions providing long-term funds for capital-intensive investments for a long period of time. Their lending yields low rates of returns, such as irrigation systems, urban infrastructure, mining, and heavy industries, etc.
- They are also known as development finance institutions (DFI) or long-term lending institutions.
- These banks lend at low and stable interest rates so as to promote long-term investments along with social benefits.
- Development banks are not the same as commercial ones. Instead, development banks mobilize short to medium-term deposits and lend for similar periods of tenure to avoid a maturity mismatch, which causes a bank's solvency and liquidity.


Development Banks in India
Industrial Development Banks
Agricultural Development Banks
Export-Import Development Banks
Housing Development Banks
IFCI
IDBI
SIDBI
NABARD
EXIM
NHB

Investment Institutions

- An investment institution is **a corporation or trust company that manages, sells and markets investment products to the public**. They can be privately or publicly owned

INSTITUTIONAL INVESTORS

MEANING

These are organizations that pool together funds from people and other bigger entities.

IMPORTANCE

- Investor benefits from Economies of Scale
- The investors enjoys higher returns
- They are Prime Source of Capital for Company

LIMITATION

- They buy and sell in bulk and hence can manipulate price of security.
- Few forms of institutional investors can face liquidity

TYPES OF INVESTORS

- Mutual Funds
- Hedge Funds
- Endowment Fund
- Commercial Banks
- Pension Funds
- PE Funds
- Insurance Companies

RETAIL INVESTORS

- Retail investors are individuals investing in the market through traditional means or brokerage firms.
- Institutional investors too invest in similar products, but their volume is significantly higher.

Types of investment products

- There are a number of different investment products that investment companies offer. These include:
- **Cash** investments such as savings accounts, GICs, currency, ad money market funds;
- **Fixed income** investments such as government and corporate bonds, and preferred shares;
- **Equity** investments include common stocks and bonds, and convertible preferred shares;
- **Mutual Funds**: a collective investment vehicle that consist of a variety of investments.

State Level Institutions

- *The State level institutions comprise State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs). Other financial institutions include Export Credit Guarantee Corporation of India (ECGC) Ltd. And Deposit Insurance and Credit Guarantee Corporation (DICGC).*

State Level Institutions

- Directorate of Industries (DIs)
- District Industries Centres (DICs)
- State Financial Corporations (SFCs)
- State Industrial
- Development/Investment Corporation (SIDCs/SIICs)
- State Small Industrial Development Corporations (SSIDCs)

specialized financial institutions

- The special purpose finance institutions, IRBI provides finance for rehabilitation of sick units, which show signs of recovery.
- EXIM Bank provides finance and other related services for import and export of goods and for export project. It functions as a coordinating agency in export finance.
- ECGC provides the credit insurance cover against the commercial and other risks inherent in the exports

Role Of Specialized Financial Institution

- SFIs Are Institution Set Up Mainly By The Government For Providing Medium And Long Term Financial Assistances To Industry
- As These Institutions Provide Developmental Finance, That Is Finance For Investment In Fixed Assets They Are Also Known As Development Bank Or Development Financial Institution
- These Institution Receive Funds For Their Financing Operations Primarily From The Government Or Other Public Institutions
- These Institution Also Raise Funds From The Capital Market

Special Financial Services

Pension Services:

- Individual Retirement Account (IRA): Tax-deferred pension fund with which wage earners supplement other retirement funds
- Keogh Plan: Tax-deferred pension plan for the self-employed

Trust Services: Bank management of an individual's investments, payments, or estate


Retail Banking
Commercial Banking
Private Banking Institutions
Investment Banking
Specialized Institutions
Central Banks

International Finance Institutions

- An **international financial institution (IFI)** is a financial institution that has been established (or chartered) by more than one country, and hence is subject to international law. Its owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs. The best known IFIs were established after World War II to assist in the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial system.

International Financial Institutions

- Membership organizations made up of signatory nations.
- Focus on two broad areas:
  - The international financial system's policy framework, function and stability
  - Economic development
- Most capital is "callable", i.e., not paid-in by member states
- Many of the funds used by the banks are borrowed in international capital markets

ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS ON ECONOMY:

INTERNATIONAL FINANCIAL INSTITUTIONS:

- International financial institutions (IFIs) are financial institutions that have been established by more than one country, and hence are subjects of international laws. Th eir owners or shareholders are generally national govern ments, although other international institutions and oth er organizations occasionally figure as shareholders. The most prominent IFIs are creations of multiple nations, al though some bilateral financial institutions exist and are

Meaning of International Finance?

- What is International Finance?
  - A study of the institutions, policies, and practices that govern
    - global financial management and/or
    - financial aspects of global business
- Multinational Financial Management?
- Multinational/Transnational Corporation


Financial Institutions
Financial Markets
COMPONENTS OF FINANCIAL SYSTEM
Financial Services
Financial Instruments

Domestic Financial Management and International Financial Management

Considerations in International Financial Management

- Need to consider the effect of exchange rates when operating in more than one currency
- Must consider the political risk associated with actions of foreign governments
- More financing opportunities when you consider the international capital markets, which may reduce the firm's cost of capital

IBRD

- The International Bank of Reconstruction and Development (IBRD) is a development bank administered by the World Bank. The IBRD offers financial products and policy advice to countries aiming to reduce poverty and promote sustainable development. The International Bank of Reconstruction and Development is a cooperative owned by 189 member countries

IBRD Objectives

3. To promote private foreign investment by means of guarantees of participation.
4. Finance for productive purposes out of its own capital funds raised by it and other resources.
5. To promote the long range balanced growth of international trade.

The Role of the IBRD

- The International Bank for Reconstruction and Development was designed chiefly to supply the capital needed for post-war reconstruction and long term development projects.
- Although the IMF and IBRD institutions are explicitly separate in terms of charter, funding and staff, membership in the IMF is a prerequisite for membership in the IBRD.

IBRD purpose

- The International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income countries and creditworthy poorer countries by promoting sustainable development through
- loans,
- guarantees,
- risk management products,
- analytical and advisory services.

International Finance Corporation

The International Finance Corporation (IFC) is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C. In the United States.

- It was established in 1956, as the private-sector arm of the World Bank Group, to advance economic development by investing in for-profit and commercial projects for poverty reduction and promoting development.[2][3][4] The IFC's stated aim is to create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private-sector entities, and creating jobs and delivering necessary services to those who are poverty stricken or otherwise vulnerable.[5]
- Since 2009, the IFC has focused on a set of development goals that its projects are expected to target.

IDA

- The **International Development Association** (**IDA**) (French: *Association internationale de développement*) is an international financial institution which offers concessional loans and grants to the world's poorest developing countries. The IDA is a member of the World Bank Group and is headquartered in Washington, D.C. in the United States. It was established in 1960 to complement the existing International Bank for Reconstruction and Development by lending to developing countries which suffer from the lowest gross national income, from troubled creditworthiness, or from the lowest per capita income. Together, the International Development Association and International Bank for Reconstruction and Development are collectively generally known as the World Bank, as they follow the same executive leadership and operate with the same staff.

NABARD

- NABARD - **National Bank For Agriculture And Rural Development.**
- **National Bank for Agriculture and Rural Development** (**NABARD**) is an apex regulatory body for overall regulation of regional rural banks and apex cooperative banks in India. It is under the jurisdiction of Ministry of Finance, Government of India.[5] The bank has been entrusted with "matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India". NABARD is active in developing and implementing financial inclusion.

NHB

- **National Housing Bank (NHB)**, is the apex regulatory body for overall regulation and licensing of housing finance companies in India. It is under the jurisdiction of Ministry of Finance , Government of India.[3][4] It was set up on 9 July 1988 under the National Housing Bank Act, 1987. NHB is the apex financial institution for housing. NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith. The Finance Act, 2019 has amended the National Housing Bank Act, 1987. The amendment confers the powers of regulation of Housing Finance Companies (HFCs) to the Reserve Bank of India.


Promotes self-sufficiency and entrepreneurship
Collateral-free loan
High interest rate
Micro Finance Firm
Disburse quick loans
Small loan amount
Harsh repayment provisions

Thank You!

UNIT IV

CREDIT MONITORING AND RISK MANAGEMENT

WHAT IS CREDIT MONITORING?

- Credit Monitoring can be defined as a **supervision** of a loan account on an **ongoing basis** keeping a continuous watch / vigil over the functioning of a borrowers unit to confirm that **the account conform to the various assumptions** made at the time of sanction.
- In other words credit monitoring is to maintain asset quality of the Bank.

Signals of borrowers

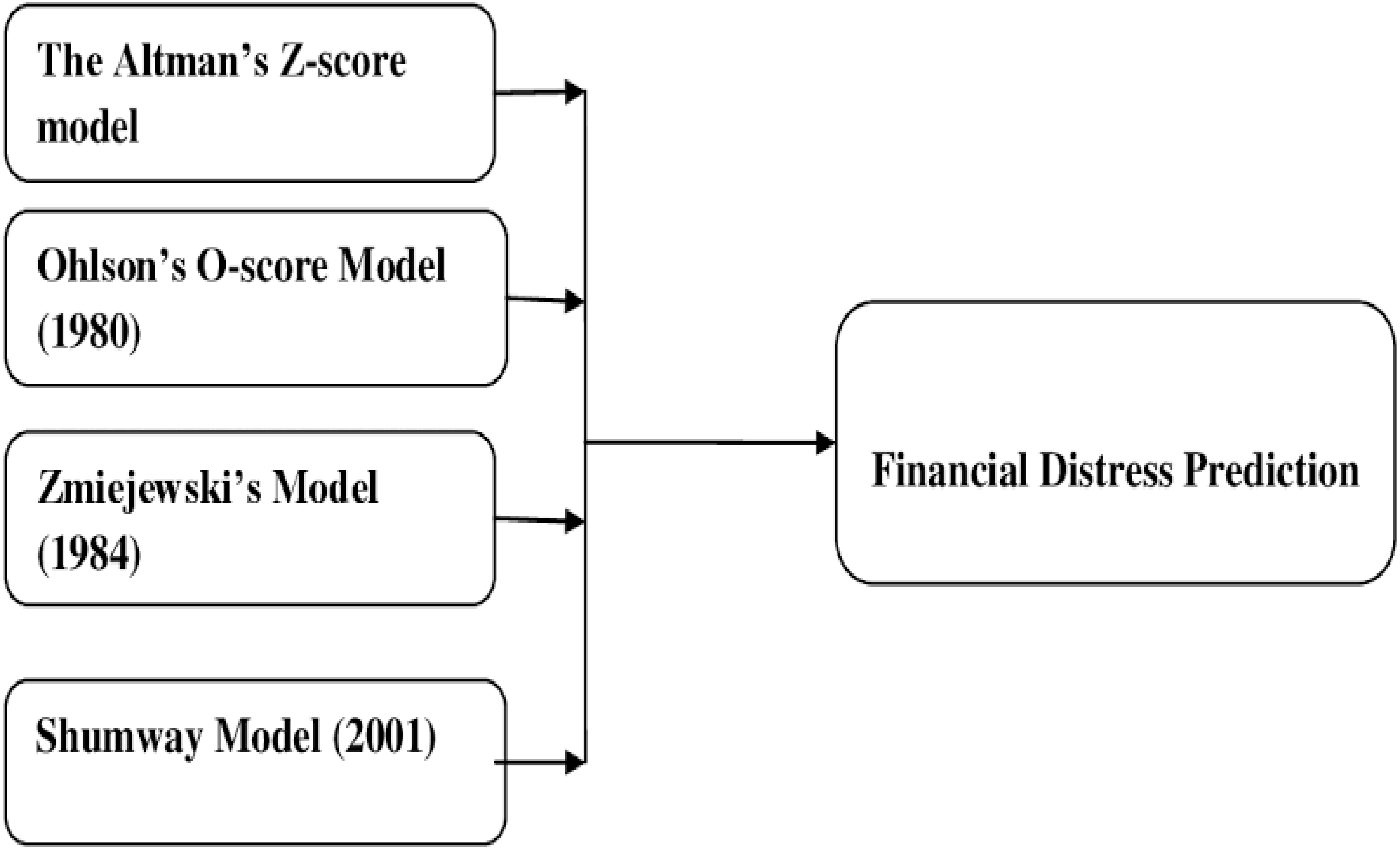
- Signs of financial distress
- Cash flows.
- Falling margins and poor profits.
- Poor sales growth or decline in revenues.
- Extended payment days.
- Defaulting on payments.
- Increase in interest payments.
- Relationship with the bank.
- Difficulty in raising capital.

financial sickness

- Industrial sickness is defined all over the world as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial

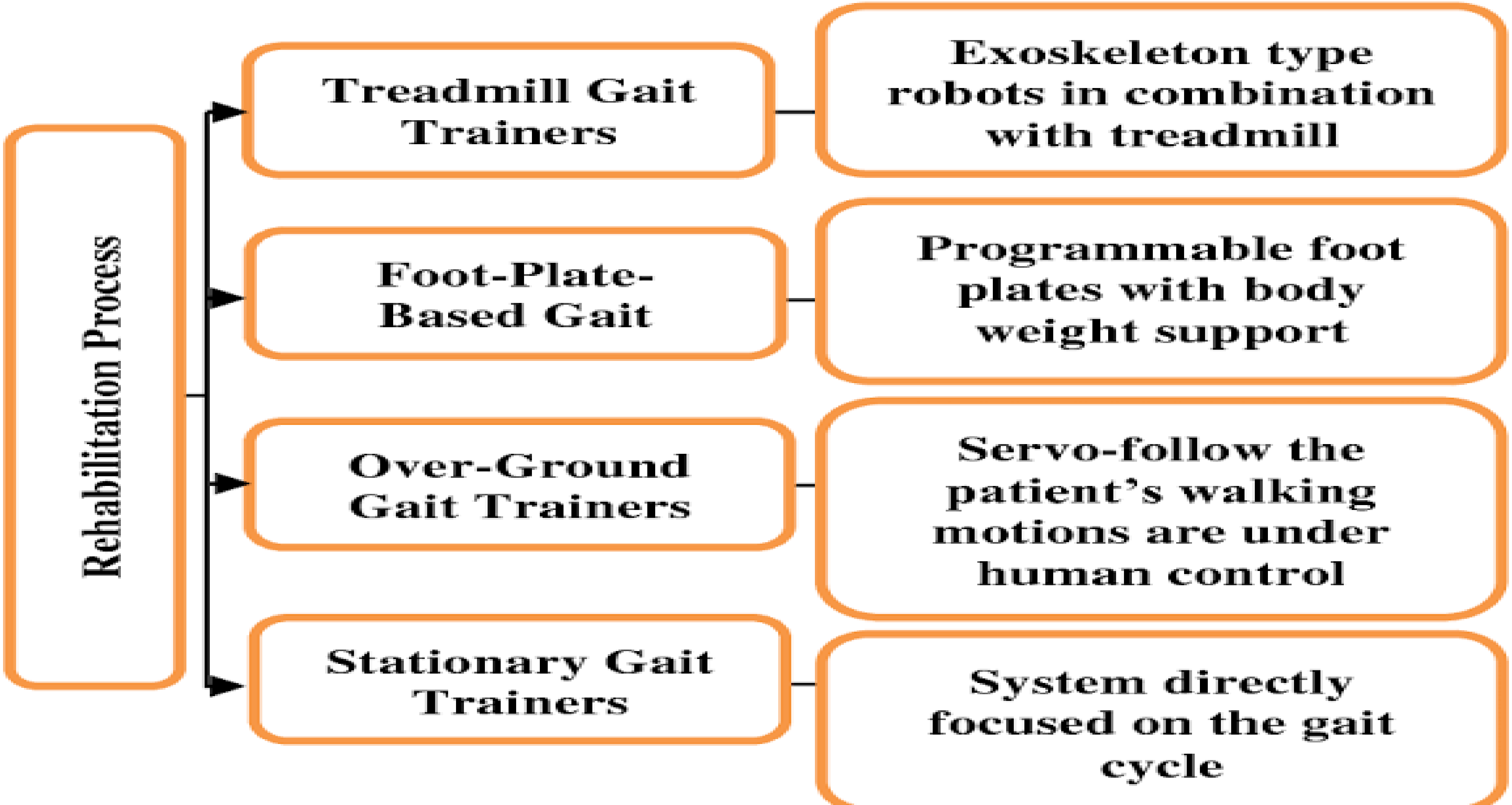
Financial distress prediction models

- There are several models of measuring tools to predict financial distress such as **Altman Model, Springate, Fulmer, Taffler, Grover, Ohlson and Zmijewski**.


The Altman's Z-score model
Ohlson's O-score Model (1980)
Zmiejewski's Model (1984)
Shumway Model (2001)
Financial Distress Prediction

Rehabilitation process

- Rehabilitation is the process of **helping an individual achieve the highest level of function, independence, and quality of life possible**. Rehabilitation does not reverse or undo the damage caused by disease or trauma, but rather helps restore the individual to optimal health, functioning, and well-being.


Rehabilitation Process
Treadmill Gait Trainers
Exoskeleton type robots in combination with treadmill
Foot-Plate-Based Gait
Programmable foot plates with body weight support
Over-Ground Gait Trainers
Servo-follow the patient's walking motions are under human control
Stationary Gait Trainers
System directly focused on the gait cycle

Risk management

- **Risk management** is the identification, evaluation, and prioritization of risks (defined in ISO 31000 as *the effect of uncertainty on objectives*) followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events[1] or to maximize the realization of opportunities.
- Risks can come from various sources including uncertainty in international markets, threats from project failures (at any phase in design, development, production, or sustaining of life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters, deliberate attack from an adversary, or events of uncertain or unpredictable root-cause.

RISK MANAGEMENT PROCESS


What to Know About Interest Rates
An interest rate is the percentage of principal charged by the lender for the use of its money
The interest rate will tell you what you pay each month, as opposed to the APR, which tells you the total cost over the life of the loan
$ $ $
the balance

What is liquidity?

- *liquidity* means how much money the firm has to spend and invest.
- The higher the liquidity, the more cash or 'near cash' available in the firm in comparison to the demands that there are on this cash.
- 'near cash' are assets of the firm that are nearly as good as cash – debtors who are likely to pay debts soon, or stock that is likely to be sold.

Meaning of forex

foreign exchange market is a place where foreign money are bought and sold. It is a institutional arrangement for buying and selling of foreign currencies. Exporter sell the Foreign currencies and importers buy them.

What is Credit?

- **Credit** means that someone will loan you money in exchange for your promise to repay it, usually with interest.

- Reminder: **Interest** is the amount you pay to use someone else's money.

- The money that someone is willing to loan you is called the **Principle**.

Meaning of Marketing

Market is a place where sellers and buyers come together to enter into buying and selling transaction.

Marketing is a concept compared to market. It is an organized trading process. It includes sales and various activities for exchange of goods and service

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SOLVENCY RISK

- Solvency risk is the risk of being unable to absorb losses, generated by all types of risks, with the available capital. It differs from bankruptcy risk resulting from defaulting on debt obligations, and inability to raise funds for meeting such obligations. Solvency relates to the net worth of a bank and its capital base.
- The basic principle of "capital adequacy," promoted by regulators, is to define the minimum capital that allows a bank to sustain the potential losses arising from all risks and complying with an acceptable solvency level. When using economic measures of potential losses, the capital buffer sets the default probability of the bank, or the probability that potential losses exceed the capital base. Solvency risk is impaired by incurred losses and resulted in major capital injections by governments in the financial crisis.

OPERATIONAL RISK

- Operational risks result from malfunctions of the information system, reporting systems, internal risks monitoring rules, and internal procedures designed to take timely corrective actions, or the compliance with the internal risk policy rules. The New Basel Accord of January 2007 defines operational risk as "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events."
-
- In the absence of an efficient tracking and reporting of risks, some important risks remain ignored, do not trigger any corrective action, and can result in disastrous consequences. In essence, operational risk is an "event risk." There is a wide range of events that potentially trigger losses. The very first step for addressing operational risk is to set up a common classification of events that should serve as a receptacle for data-gathering processes on event frequencies and costs. Such taxonomy is still flexible and industry standards are emerging. What follows is a tentative classification

risk measurement process and mitigation

- **The risk mitigation step involves development of mitigation plans designed to manage, eliminate, or reduce risk to an acceptable level**. Once a plan is implemented, it is continually monitored to assess its efficacy with the intent of revising the course-of-action if needed.

Basic understanding of NPAs and ALM

- **Nonperforming assets** (NPAs) are recorded on a bank's balance sheet after a prolonged period of non-payment by the borrower. NPAs place financial burden on the lender; a significant number of NPAs over a period of time may indicate to regulators that the financial fitness of the bank is in jeopardy.

ratio analysis

- Ratio analysis is **a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement**. Ratio analysis is a cornerstone of fundamental equity analysis.

CAMELS Ratings

- CAMELS" ratios are calculated in order to focus on financial performance. **The CAMELS stands for Capital adequacy, Asset quality, Management, Earning and Liquidity and Sensitivity**. In this study some important ratios are chosen and calculated to evaluate bank's performance.

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CAMELS' ANALYSIS IN BANKING INDUSTRY

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KEYWORDS: CAMELS model, **C**apital adequacy, **A**sset quality, **M**anagement, **E**arning and **L**iquidity and **S**ensitivity, Average of industry.

ABSTRACT
"CAMELS" model as a tool is very effective, efficient and accurate to be used as a performance evaluator in banking industries and to anticipate the future and relative risk. "CAMELS" ratios are calculated in order to focus on financial performance. The CAMELS stands for **C**apital adequacy, **A**sset quality, **M**anagement, **E**arning and **L**iquidity and **S**ensitivity.

In this study some important ratios are chosen and calculated to evaluate bank's performance. Data which is used in this study is gathered from annual financial reports of an Iranian bank**.** Then data is compared with other bank's ratios and reports. Certainly, the trends of calculations and relevant figures show important points for managers and also, CAMELS rating can be an efficient tool to manage and control and decide in management accounting view.

INTRODUCTION
Bank is very old institution that is contributing toward the development of any economy and it's treated as an important service industry in modern world. Nowadays the function of bank is not limited to within the same geographical limit of any country. It is an important source of financing for most businesses (Nimalathasan, 2008). Also, bank is a financial institution that require fund to carry out business. Fund may come from deposit and non deposit such as capital (Al Mamun, 2013). Bank need to find best way to manage resources and assess its activities and decisions of consumption of resources. Simply stated much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Hempel et al., 1996).

Generally financial performance of banks and other financial institution measured by using combination of financial ratio analysis., benchmarking, measuring performance against budget or mix of these methodologies (Avkiran, 1995). In simple accounting terms, performance to banks refers to the capacity in generating sustainable profitability (Rozanni & A. Rahman, 2013). Banks need a way to evaluate performance and consider some important financial ratios and find the strengths and weaknesses.

Traditional method of applying financial ratios to evaluate bank's state of performance has been long practiced, with practitioners using CAMELS rating to measure their banks' performance. CAMELS bank rating is used by bank's management to evaluate financial health and performance (Rozanni & A. Rahman, 2013).


THANK YOU

UNIT V

VIRTUAL BANKING

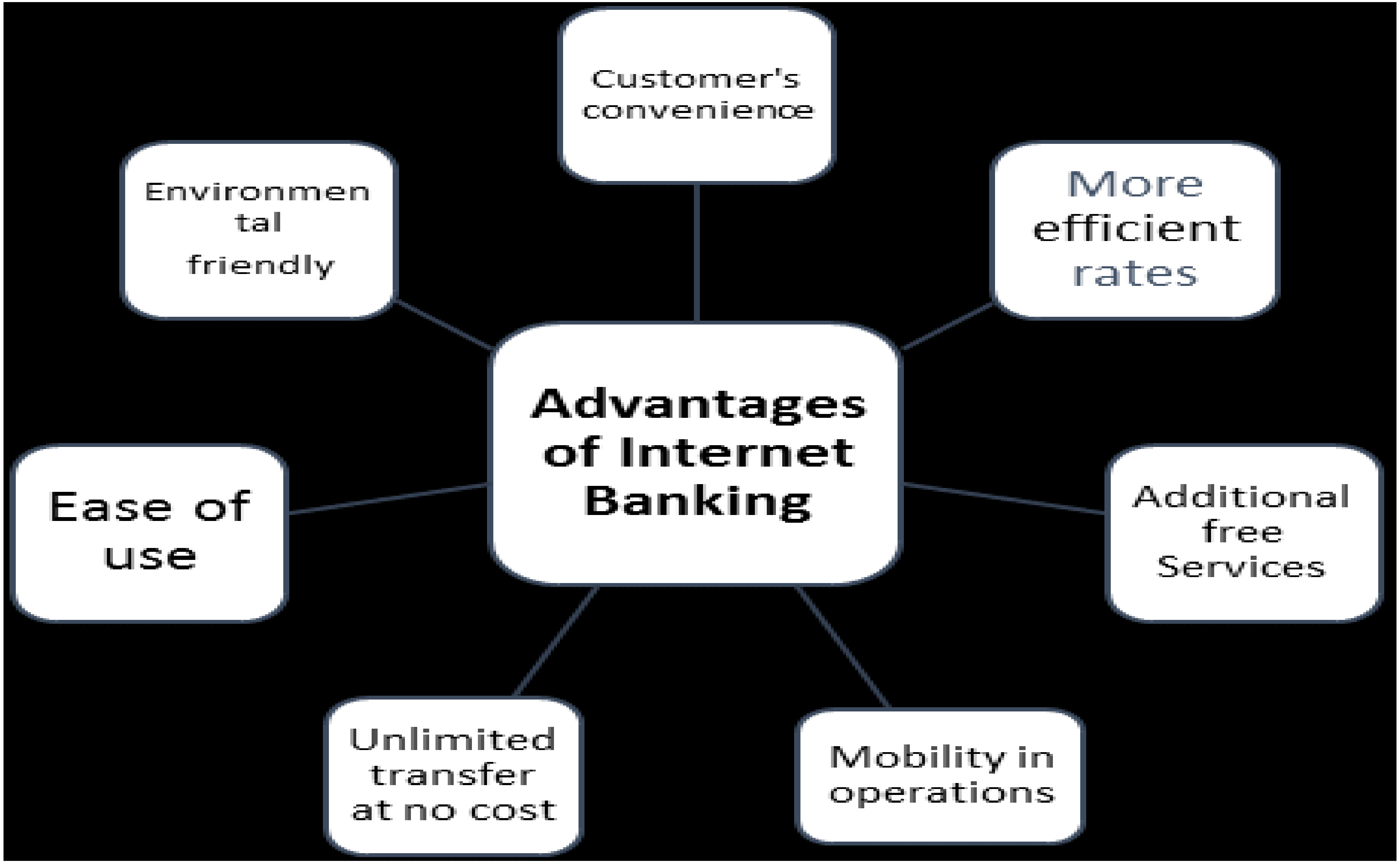
Electronic Banking

- electronic banking, Use of computers and telecommunications to enable banking transactions to be done by telephone or computer rather than through human interaction. Its features include electronic funds transfer for retail purchases, automatic teller machines (ATMs), and automatic payroll deposits and bill payments.

Electronic Banking

advantages

- Pay bills online.
- Transfer money.
- Deposit cheques online.
- Lower your overhead fees.
- Technology disruptions.
- Lack of a personal relationship.
- Privacy and security concerns.
- Limited services.


Customer's convenience
Environmental friendly
More efficient rates
Advantages of Internet Banking
Ease of use
Additional free Services
Unlimited transfer at no cost
Mobility in operations

Plastic money

- Cards are increasingly being used in place of actual cash. Plastic money refers to these cards. Debit and credit cards represent plastic money. Plastic money has made it easier for us to carry out transactions in our daily lives.


VISA
VISA
VISA
MasterCard

E-money

- Electronic money (e-money) is broadly defined as an electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. The device acts as a prepaid bearer instrument which does not necessarily involve bank accounts in transactions.


E-MONEY
PROS & CONS
E-Money Is Secure: Service providers must adhere to elaborate KYC and AML processes.
E-Money Requires High Security: Compliance to KYC/AML is effortful.
E-Money Is Fast: E-money transactions take only an instant or at most several minutes.
E-Money Is Not Available Everywhere: It depends on infrastructure + power.
E-Money Is Convenient: You enter your payment data once and can pay everywhere.
EVERYTHING YOU NEED TO KNOW ABOUT E-MONEY ON:
TRIMPLEMENT.COM/BLOG/WHAT-IS-EMONEY

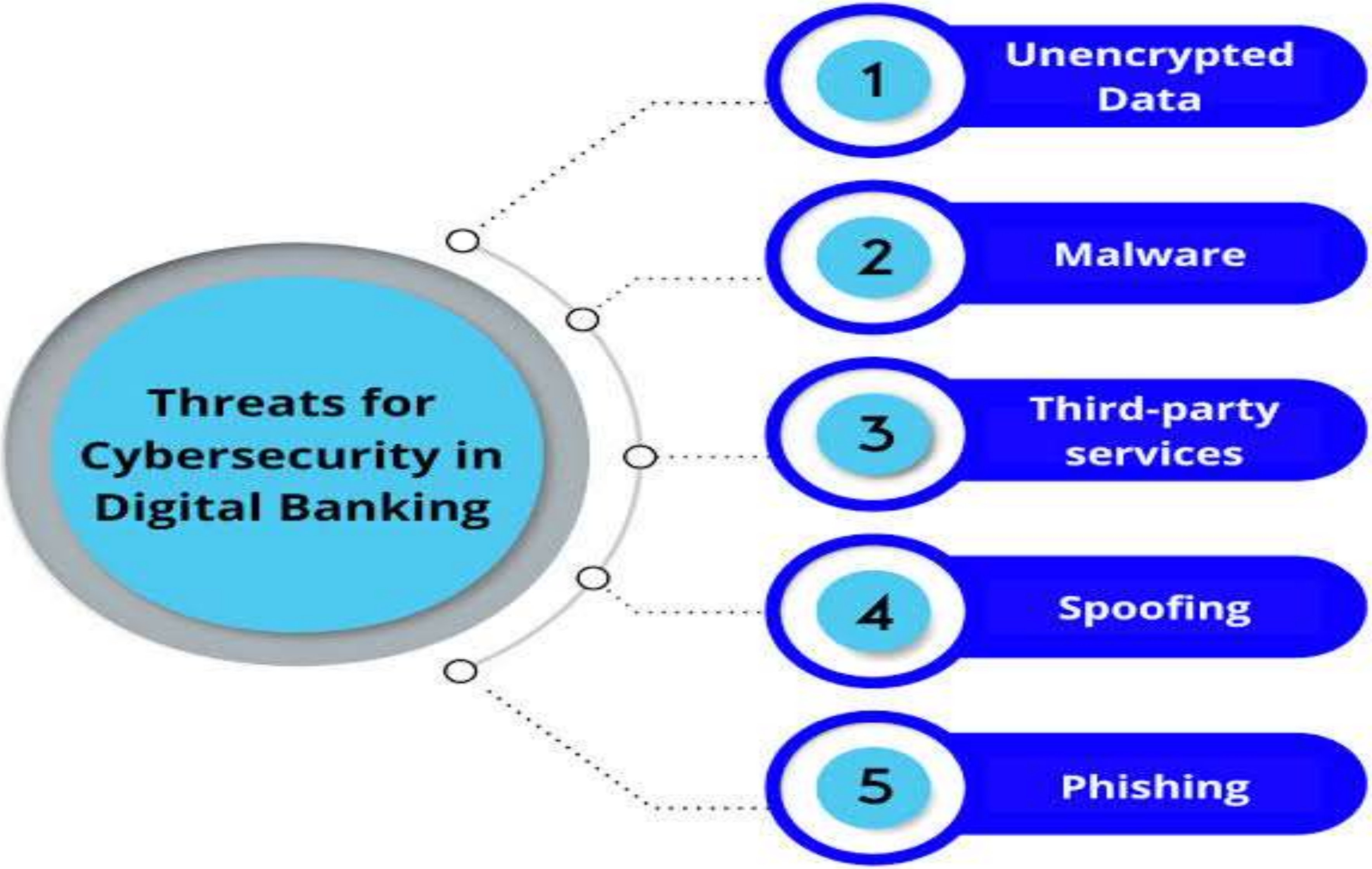
Forecasting of cash demand at ATMS

- To facilitate the cash demand forecasts, the ATM centers are 1) clustered into groups of ATM centers with similar day-of-the week cash withdrawal patterns followed by 2) a clusterwise prediction of the daily cash demands


Over 3000 ATM Machines
The same amount of Models
Each model runs for 10 seconds, all models will take 8.33 hours to run
The report generation is daily per ATM or per region/bank
All combined adds to the computational load

Security threats in e banking

- A newer type of cyber security threat is spoofing – where hackers will find a way to impersonate a banking website's URL with a website that looks and functions exactly the same. When a user enters his or her login information, that information is then stolen by hackers to be used later.


Threats for Cybersecurity in Digital Banking
1
Unencrypted Data
2
Malware
3
Third-party services
4
Spoofing
5
Phishing

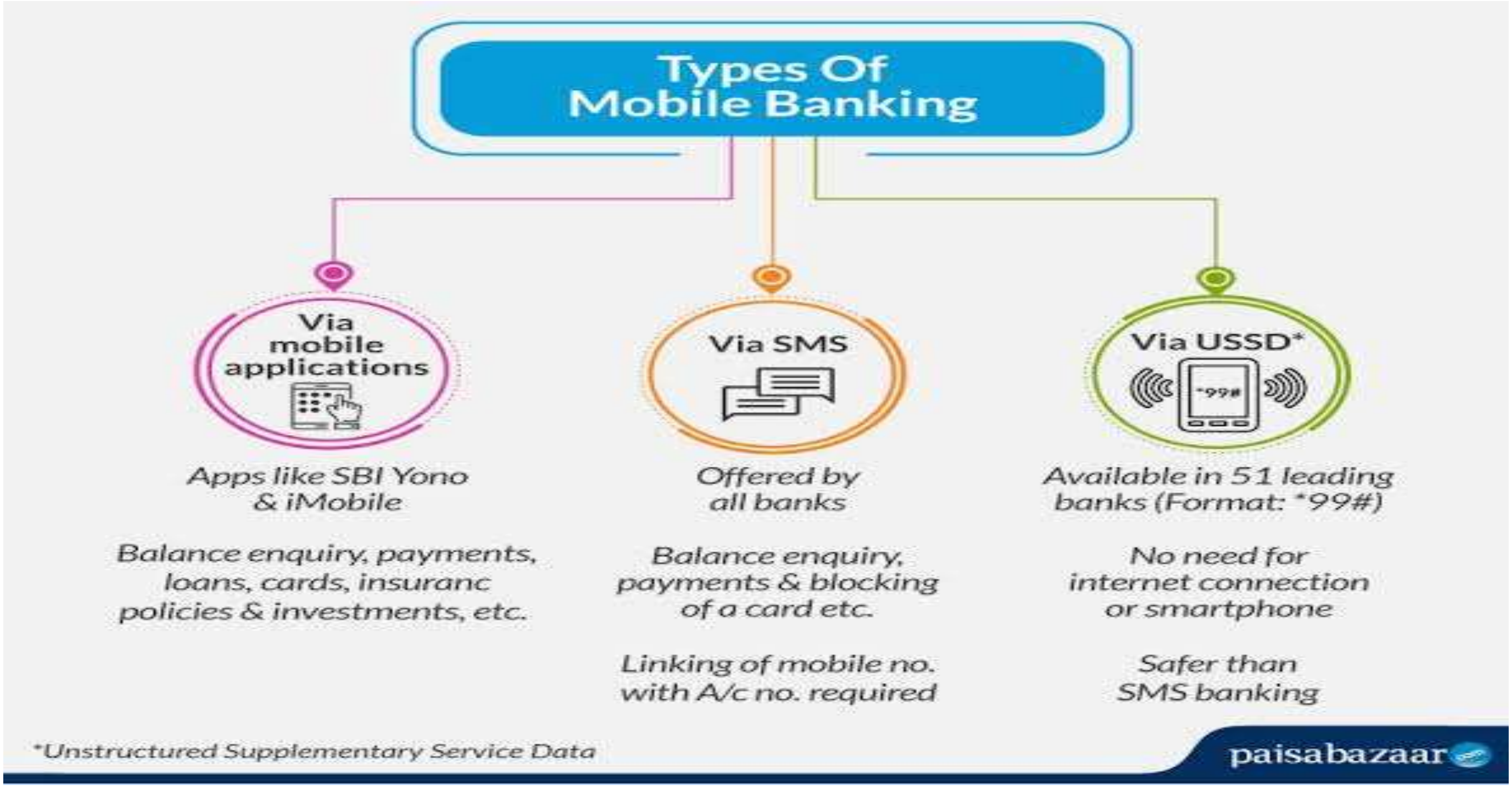
RBI initiatives

- The RBI acts as a regulator and supervisor of the overall financial system. This injects public confidence into the national financial system, protects interest rates, and provides positive banking alternatives to the public. Finally, the RBI acts as the issuer of national currency.


Supervisor of Financial System
Foreign Exchange Management
Banker to Govt
Role of RBI
Monetary Policy
Banker's Bank
Issuer of Currency

Mobile banking

- Mobile banking is the act of making financial transactions on a mobile device (cell phone, tablet, etc.). This activity can be as simple as a bank sending fraud or usage activity to a client's cell phone or as complex as a client paying bills or sending money abroad.

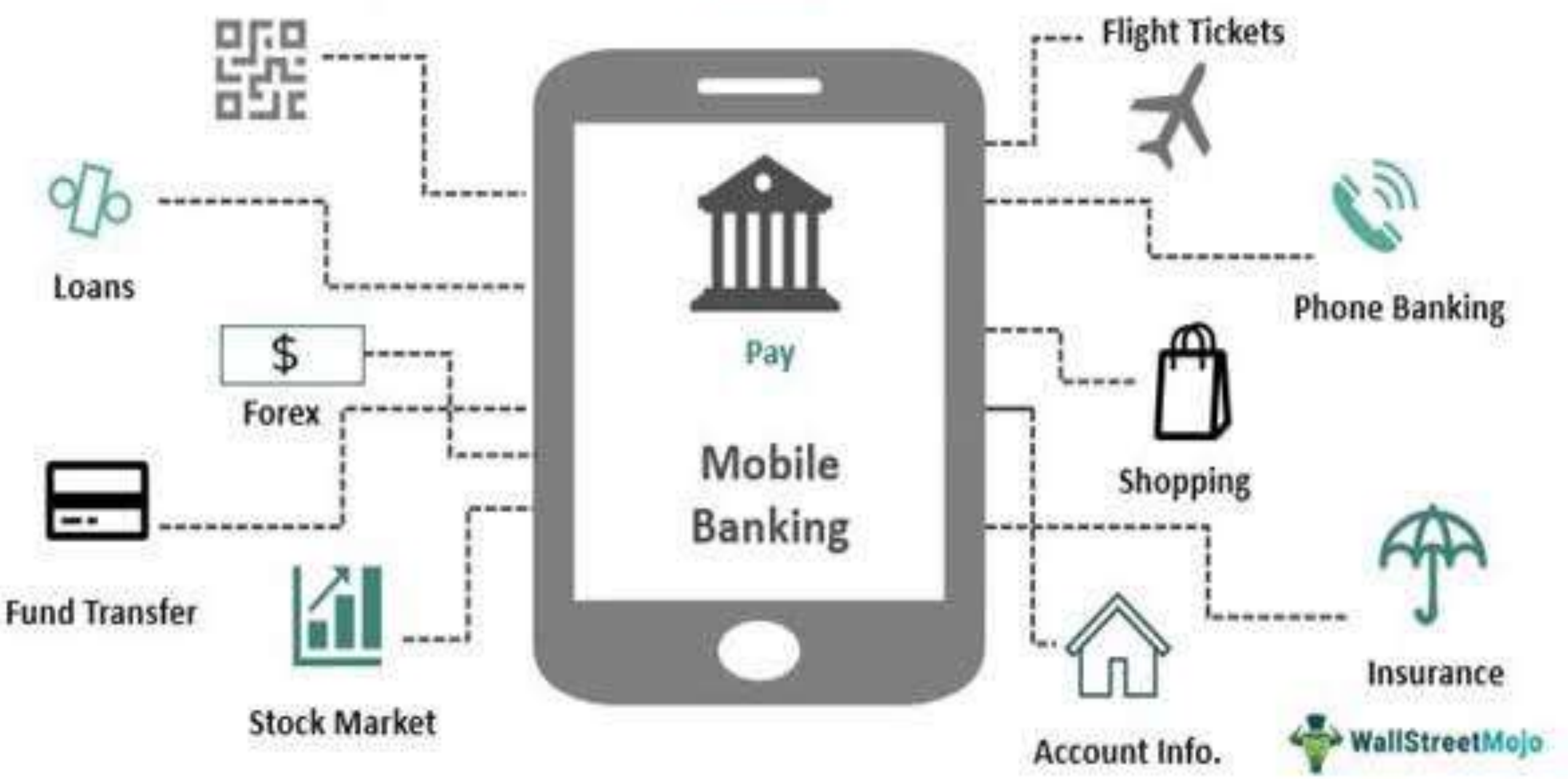

Types Of
Mobile Banking
Via mobile applications
Via SMS
Via USSD*
*99#
Apps like SBI Yono & iMobile
Balance enquiry, payments, loans, cards, insuranc policies & investments, etc.
Offered by all banks
Balance enquiry, payments & blocking of a card etc.
Linking of mobile no. with A/c no. required
Available in 51 leading banks (Format: *99#)
No need for internet connection or smartphone
Safer than SMS banking
*Unstructured Supplementary Service Data
paisabazaar

Mobile banking service

- Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet.

Mobile Banking

Mobile banking is a facility that enables access to banking services through mobile devices.



Challenge for mobile banking solution

- there is also risk with virus and malware attack it may access your account information such as username, password and other information like in computer system there is also risk on virus and malware attack on mobile banking services some malicious code are written to defect mobile banking like Zeus has used for .

Banking Industry Challenges

Several banks have adopted digital transformation across the whole value chain, but how much of it is purposeful and strategic?

SMS banking

- SMS banking' is a form of mobile banking. It is a facility used by some banks or other financial institutions to send messages (also called notifications or alerts) to customers' mobile phones using SMS messaging, or a service provided by them which enables customers to perform some financial transactions using SMS.


sms
SMS BANKING

Typical push and pull service offered under mobile banking

- Push messages mean when the bank initiates a communication, often reminding about payment or notification about a withdrawal. OTP or One-Time Password is also a type of push message that falls within the periphery of mobile banking. Pull messages are those messages that are initiated by the customer.

Quality of service in SMS banking

- Quality of service means "the range of intangible activities offered by banks to achieve customer satisfaction and meet their expectations." Degree of consistency in service performance and submission of the first time correctly. The speed of response of service providers to the demands and needs of customers.


LOREM
IPSUM
Thank You.