Various Acts

293(1)	Company Act	Borrowing limits of the company
125	Indian Companies Act	Charge created on companies assets have to be registered within 30 days.
11	Indian Contract Act	Lunatics disqualified from contracting
59	Indian Contract Act	Rights of Appropriation is vested with debtor
60	Indian Contract Act	If debtor does not intimate, the right of appropriation is vested with creditor
124	Indian Contract Act	Indemnity
148	Indian Contract Act	Bailee-Bailor
171	Indian Contract Act	Banker an absolute right for General Lien
3	Indian Majority Act	A person attains majority at the age of 18
371	Indian Succession Act	In the absence of will, Legal hairs will have to obtain Succession Certificate from the Court

RBI Act, 1934

Reserve Bank of India, 1934	
Section	Description
3	The reserve Bank was constituted for taking over management of currency from central govt,
3(2)	Body corporate having perpetual succession and a common seal
4	Capital of RBI is Rs.5 crore
7(1)	The Govt. has Power to Issue Directions to the RBI in public interest after consultation with the Governor.
7(2)	general superintendence and direction of the affairs and business of the RBI to **Central Govt.**
8	RBI is headed by **Governor**
8(a)	Govt can appoint 4 Deputy Governors for RBI
8(2)	Govt. may appoint a Deputy Governor of RBI as Chairman of NABARD
17	Businesses which the Reserve Bank may transact
17(1)	Reserve Bank is authorised to accept on money on deposit from the Central/State Govt. local authorities, banks **Without Interest**
	No interest on deposit accounts of Cental and State Govt.
17(4)	Reserve Bank is authorised to grant loans and advances to any scheduled bank, cooperative banks, SFC's repayable on demand or on expiry of fixed periods not exceeding **180 days**
17(4)	against the security of stocks, funds and trustee securities, gold or silver or documents of title to the same, such bills of exchange and promissory notes

17(5)	Loans and advances to Central and State Govt. which are repayable not later than 3 months.
19	**RBI has been prohibited** making loans and advances, drawing and accepting bills payable otherwise than on demand, engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking
20	Requires the Reserve Bank to undertake to :
20	Accept monies,make payments, carry out exchange, remittance and other banking operations of the Central Govt.
20,21,21A	Reserve Bank manags the public debt and issues new loans on behalf of the Central and State Govt. **Banker to Govt.**
22	Sole right to issue bank notes
23	Issue Dept : Issue of bank notes
23	The assets of Issue Dept of Reserve Bank shall not be subject to any liability other than the liabilities of the Issue Dept.
24	Prohibits issuance of bank notes by Reserve Bank for denomination exceeding Rs.10,000
25	The design, form and materialof **bank note**s is approved by Central Govt
27	Prohibits the Reserve Bank from reissuing bank notes which are torn, defaced or excessively soiled
29	No Stamp Duty is payable on the **bank notes** issued by the Reserve Bank
31	Banks are Prohibited from issuing **Demand Drafts** payable to bearer
33	**Assets of Issue Department :** Gold Coin, Gold Bullion, foreign securities and rupee securities
42(1)	Every scheduled bank has to maintain cash reserve with reserve banks: Average daily balance of 3% total of demand and time liabilities
42(2)	Every Scheduled Bank shall submit to Reserve Bank a return at the close of each alternate Friday showing its demand and time liabilities, cash in hand and with other banks, investments etc.
42(6)	Inclusion in and Exclusion from the Second Schedule of a bank
45	Collects credit information from banks
45	calls for returns containing credit information from banks
45-IA	NBFC:obtain a certificate of registration from Reserve Bank
45-IA	NBFC:shall have net owned fund of RS.25 lakhs or such sum not exceeding Rs. 200 lakhs
49	Bank Rate is defined

Banking Regulation Act 1949

The BR Act does not apply to Primary Agricultural Credit Societies

Section	
4 & 53	The Govt. has power to suspend operations BR Act / give exemptions from any of the provisions of the Act on the recommendations of the RBI.
5(a)	**Approved Securities:** In which a trustee may invest money under section 20 of the Indian trusts act, 1882
5(b)	Banking is defined as *the acceptance of deposits of money from the public for the purpose of lending or investment*
5©	A banking company, is a company which transacts business of banking May be constituted under section 3 of companies Act Section 51 of Companies act – foreign company
6	Govt. has also power to notify the other forms of Business permissible apart from banking business. Section 6(1)(0) Discounting of bills, Collection of cheque and bills. Remittances, safe custody of articles, safe custody of articles, hiring safe custody of articles, conducting foreign exchange transactions, conducting (Central/State) government transactions.
7	Every banking company has to use word bank as part of its name, *no other company can use the word bank, banker, banking as part of its name.*
7(1)	Prohibits use of words 'Banker' or 'Banking' or 'Banking Company' by a company other than Banking Company.
7(2)	Prohibits use of such words by individual or group of individuals or a firm.
8	Prohibited Business
9	No banking company shall hold any immoveable property howsoever acquired, except for its own use, for any period exceeding **Seven years**
10	No Banking company shall be managed by Managing Agent
10A	**(28) Board Of Directors:** Qualifications for directors of banking companies. At least 51% of the total number of directors shall be persons who have expertise in accountancy, agriculture and rural economy, banking, cooperation, economics, finance, law etc. Max. period of office for Chairman, Ordinary Director in a banking company is 8 years If Chairman is removed by the order, he has to apply to Central Govt within 30 days.
10B	(29) Whole Time Director / Managing Director
11	If a foreign bank wishes to carry on business in India the aggregate value of PaidUp share capital and reserves shall not be less than at a place other than Bombay /Kolkatta **Rs. 15 lakh** in Bombay / Kolkatta or both **Rs. 20 lakh** **An amount of** 20% of the profit for each year **has to be deposited with RBI.**
11(3)(i)	PAGE(**24**)**:** The aggregate value of paid-up capital and reserves a banking

	company incorporated in India and having place in more than one state but not in Bombay / Kolkatta **Rs. 5 lakhs** and in Bombay / Kolkatta **Rs. 10 lakhs**
12	The minimum ratio between authorised, Subscribed, and paid-up capital of a banking company should be: **4 : 2 : 1**
12(2)	No person holding shares in a banking company shall exercise voting rights on poll in excess of **10%** of the total voting rights of all shareholders of the banking company
12A(1)	RBI may ask a banking company to : *call a general meeting of shareholders and elect fresh directors.*
13	Prohibits banks from making payment of commission, brokerage, discount or remuneration on any shares issued by it in excess of **2.5%** of the paid-up value of such shares.
14A(1)	Prohibits a banking company from **creating floating charge** on the undertaking or any property of the company or any part thereof.
15	Prohibits a banking company from paying any dividend on its shares until all its capitalized expenses have been completely written off
16	Prohibits a person to be appointed as director of more than one banking company
17	Reserve Fund(53) Every banking company incorporated in India is required to transfer each year to a **reserve fund** a sum equivalent to not less than 20% of profit before dividend
18	Every banking company not being scheduled bank, **cash reserve** need not be maintained with the Reserve Bank. It may be with bank itself, or in current account with the Reserve Bank. The balance maintained should not be less than 30% of the demand and time liabilities as on the last Friday of the 2nd Fort Night. **Return of Cash Reserve of Non-scheduled Banks**
19(1)	**Approval of Central Govt.** is required for formation a **subsidiary** for the purpose • carrying on business of banking exclusively outside India • effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private • undertaking and executing trusts
19(2)	No banking company shall hold shares in any company, whether as pledge, mortgagee or absolute owner of an amount exceeding **20%** of the paid-up share capital of that company or **30%** of its own paid-up share capital and reserves, whichever less.
20(1)	Banking Company is prohibited from granting any loan or advance against the security of its own shares.
20A(1)	Banking Company shall not, except with the prior approval of the RBI, remit in whole or in part **any debt due to it by** any of its directors any firm or company in which any of its directors is interested
21	Empowers RBI to **control advances** by banking companies
21A	Transaction between a banking company and its debtor cannot be reopened by

	<u>any court on the ground that rate of interest charged is excessive.</u>
22(1)	Licence from RBI required
22(3)	Adequacy of Capital Structure and earning prospectus
23(b)	Permission to open office **outside India** from RBI
23(1)	Permission for change of premised within the same city, town or village not required
23(4A)	RRB requiring permission of the RBI for **opening a new branch** shall forward its application to RBI through **NABARD**
24	**SLR :** The minimum proportion of liquid assets required to be maintained by banks in India. Every Banking company at the close of business on any day <u>at least 20% of its</u> demand and time liabilities in cash, gold or unencumbered approved securities.
24(2)	**Cental Govt : Maintenance of Assets (13)** **SLR :** amount being not less than **25%** of its demand and time liabilities required to maintain in India in cash, gold or unencumbered approved securities on the <u>*Last Friday of the 2nd preceding fortnight*</u>. It may be increased by the RBI up tp **40%**
24(3)	Return on Liquid Assets
24(5)(b)	If a banking company fails to maintain the SLR the reserve bank may, in respect of such default <u>recover penal interest from the banking company</u>
25	The Assets in India of every banking company at the close of business on the last Friday of every quarter shall: **not be less than 75% of its demand and time liabilities in India**
26	Every banking company to submit an **annual return** to the RBI in respects of <u>all accounts in India which have not been operated upon for 10 years,</u> **Return on Unclaimed Deposits**
27	**Monthly Returns** Banks are required to submit to the Reserve Bank a statement showing their assets and liabilities as of last Friday of every month Reserve Bank is empowered to call for statements and information relating to business or affairs of the banking company RRB required to submit a copy of the monthly statement of assets and liabilities as of last friday of every month to NABARD also.
29	**Govt. : Notification with reference to accounts and balance sheets** Every banking company is required to prepare its final account i.e. P & L account and Balance Sheet in the forms prescribed in <u>the Third schedule of the BR Act.</u>
30	
31 & 32	Banks are required to send **three copies** of their accounts and the balance sheet alongwith the auditor's report to the **ROC(32) and RBI (31)**
33	Foreign Bank Display a copy of its audited balance sheet and P&L account at its principal office as also every branch in India Publish its audited accounts in leading national daily newspaper Obtain permission from the Ministry of External Affairs, GOI for opening any branch in India
35	**Govt.: Power to issue of directions for inspection of bank**

	Conduct **Inspection** of any banking company and its books and accounts Carry out scrutiny of the affairs of any Banking company and its books and accounts Inspection of branches outside India carried out by RBI - 35 (ii) (b)
35A	Power to Regulate banking companies **Banking Ombudsman** is an authority established in 1995.
35(4)	Central Govt. based on the report from RBI • Prohibit the banking company from receiving fresh deposits • Direct the RBI to apply under section 38 for the winding up of the banking company
36	Reserve bank is empowered to Caution or prohibit banking companies against entering into any particular transaction Generally give advise to the banking company Assist, as intermediary or otherwise, in proposals for amalgamation of baning companies
36(2)	Publication released by RBI **Trends and Progress of banking in India**
36AA	(33) RBI is empowered to remove <u>Chairman, director, officer or employee from the office of the banking company</u>
36AB	Reserve Bank is authorised to appoint <u>additional directors</u>
36AE	**Govt: Power to acquire undertakings of banks**
36AF	The central govt. is empowered to make a scheme for any acquired bank in consultation with RBI.
37	The High Court may, on application of the banking company suspend its business The RBI may make an application to the High Court for the winding up of a banking company against which an order under section 37(1) has been passed
38	The high court may order the winding up of the company <u>if the banking company is unable to pay its debts.</u>
39	Reserve Bank, upon an application made by it, May be appointed as official liquidator by the High Court in any winding up proceeding.
44A	(77) : Amalgamation of one banking company to another.
44B	No high court will sanction a compromise or arrangement between a banking company and its creditors **unless it is certified by RBI**
45(1)	RBI apply to govt for an order of moratorium
45	Suspension of Business and amalgamation of banks.
45B	
45Y	**Preservation of Records by a Banking Company (Section 45)** Specifying period for which bank has to preserve the books, accounts, instruments etc are made by Central Govt.
45Y	Following records to be maintained by banks **for 5 Years** Cheque Book Register Vault Register Telegraphic Transfer Confirmations Demand Liability Register Demand Remittances Dispatched Registered Following records to be maintained by banks **for 8 Years**

	All personal ledgers Loans and advance Registers and Ledgers Call, Short/Fixed Deposit Registers, Equitable Mortgage Register Safe custody register, Overdrafts and Loan Register **Paid Cheques**
45ZA	**Nomination :** repayment of deposits
45ZC	**Nomination :** articles kept in safe custody
45ZE	**Nomination :** safety lockers
52	Govt. Rule Making Powers (details to be furnished in various returns, List of debtors to be submitted by official Liquidator)
56	Applicable to Cooperative Banks (licensing and regulation of banking business)
58	Regulation Of Payment Systems

Negotiable Instruments Act

4	Promissory Note
5	Bill of Exchange
6	Cheque
7	
8	Holder
9	Holder In Due Course
10	Payment in Due Course
16	Endorsement in Blank / Full
26	Minor may draw, endorse, deliver and negotiate a N.I. so minor can draw a cheque. *No Overdraft / LOAN can be given to the banker*
31	Liability of the Paying Bank
50	Restrictive Endorsement
52	Conditional Endorsement
52	Sans Recourse
85	Cheque Payable to Order : Paying Bankers' Protection
87	Material Alternation
89	Payment according to apparent tenor thereof at the time of payment and otherwise in due course, shall discharge the person/banker from all liability thereon.
123	General Crossing
124	Special Crossing
125	Crossing of Cheque
130	Not Negotiable Crossing
131	Protection to Banker While collecting cheques
138	Drawer of cheque is liable to be punished if the cheque is bounced for Insufficiency funds, the drawer is punishable with and imprisonment which may extend to one year and or a fine may extend to twice the amount of the cheque or with both.
141	Offences By Company
143	Summary Trial by Court
144	Mode Of Service of Summons
145	Evidence On Affidavit
146	BANKS' SLIP Prima facie evidence
147	Offences to be Compoundable
10/31/ 85/126	Payment Of Cheques
126 to 129	Payment in Due Course of Cross Cheques
131A	Protection to Banker While collecting Drafts
85A	Draft Payable to Order : Paying Bankers' Protection
85A	Drafts Payable to Order

Unit 1: Legal Framework Of Regulation of Banks

RBI Act 1934 : The act deals with the constitution, powers and functions of Reserve Bank. The act does not deal with the regulation of the banking except Section 42 which provides for cash reserves of Scheduled Banks to be kept with bank, with a view to regulating the credit system and ensuring monetary stability.

The Business Of Banking (4)

- **Definition of Banking**
- **Section 49A**
- **Acceptance Of Deposits by Non-Banking Entities**
- **Licence For Banking**
- **Permitted Business**
- **Prohibited Business**

Constitution Of Banks

Bank in India fall under one of the following Categories
Public Sector Banks
Banking Companies
Cooperative Banks

Reserve Bank Of India Act, 1934 (9)

The RBI Act, 1934 was enacted to constitute the RBI.
to regulate the issue of Bank Notes
for keeping reserves for securing the monetary stability in India, and
to operate the currency and credit system of the country to its advantage.

The last major amendment to the Act by the RBI(Amendment) Act, 1997. Recently a provision was inserted by the IT Act, 2000 for enabling the Reserve Bank to make regulations for regulating payment systems of banks and financial institutions

The Act deals with the constitution, powers and functions of the RBI. The act does not directly deal with the regulation of the banking system except for Section 42 and Section 18

The Reserve Bank – Central Bank and Regulator of Banks (11)

- The Reserve Bank is constituted under Section 3 of the RBI, 1934 for taking over the management of currency from the Central Government and carrying the business of Banking in accordance with the provisions of the Act.
- The Reserve Bank is a body corporate having perpetual succession and common seal and shall sue and can be sued by others.

- The bank functions under the general superintendence and directions of central board of directors. The board has to abide by direction given by the cental govt. in a public interest after consultation with the governor of the RBI.
- Section 22 : Licence of banking
- Section 20 : banker to central and state fovt.
- **Bank Regulator :**

Government as a Regulator of Banks

The Reserve Bank is Primary regulator of banks. But the government has also conferred extensive powers under the RBI Act and the BR Act either directly or indirectly over the banks.

The Government holds the entire capital of the Reserve Bank and appoints the Governor and the members of the Central Board and has power to remove them.

Act	Section	
RBI Act	7(1)	Power to issue directions to the RBI in public interest after consultation with the governor
BR Act	4 & 53	Power to suspend operations of the BR Act / to give exemptions from any of the provisions of the Act on the recommendations of the RBI.
BR Act	6(1)(0)	Power to notify other forms of business which bank may undertake.
BR Act	10B	Removal of managerial personnel
BR Act	14A	
BR Act	19	Approval of Central Govt. is required for formation of **subsidiary.**
BR Act	22	Licence for banking
BR Act	24(2)	Notification of banks for the purpose of **Maintenance of assets**
BR Act	29	Notification with reference to accounts and balance sheet
BR Act	35	Issue of directions for inspection of banks
BR Act	36AA	Removal of managerial personnel
BR Act	36AE	Power to acquire undertaking of banks
BR Act	45	Suspension of business and amalgamation of banks
BR Act	52	Rule making powers (details to be furnished in various returns, List of debtors to be submitted by Official Liquidator.

Control Over Cooperative Banks (13)

A cooperative bank is cooperative society engaged in the business of banking.

All cooperative banks operating in one state only are registered with State Cooperative Societies Act concerned. In case of cooperative banks operating in more than one state, the Multi-Unit Cooperative Societies Act, 1986 is applicable.

Section 56 of BR Act: Cooperative banks come under the regulatory powers of the Reserve Bank.

RBI	State Govt
Licensing and regulation of banking business	The formation and management of a cooperative society running banking business are under the control of the State Govt.

In the case of cooperative banks which are registered under **Section 13** of the DICGC (Deposit Insurance and Credit Guarantee Corporation Act), the Reserve Bank has the power to order their winding up.

Regulation By Other Authorities

Section 6 of the BR Act, bank may undertake certain non-banking business in addition to the business of banking. In that case banks may subject to regulatory control of other agencies. (Shares and debentures: SEBI)

- Central Govt can give directions to the Reserve Bank (True)
- All business of banks are regulated by the Reserve Bank (false)
- Central Govt. is **Primary regulator** of banks. (True)
- On cancellation of licence of any bank, an appeal lies to Central Govt. (False)
- Government can exempt a bank from provisions of BR Act on recommendations of RBI.
- Reserve bank is the **Central Bank** of the country**,** and primary regulator for the banking sector. The Government has direct and indirect control over banks.

Unit 2: Control over Organisation of Banks

Which Authority to grant licence for establishing a new Bank in India **– RBI**

The following factors are taken into account while considering an application for starting new bank of India

1. Information about promoters/promoter group
2. Source of funding of the Capital
3. Professional management support
4. Geographical area to be serviced
5. business mix
6. Types of economic activities to be performed
7. Profitability of the operations

Name the authorities which control the functioning of cooperative banks.

Reserve Bank	Branch licensing area of operations, exposure norms, interest rates etc.
State Govt.	Incorporation and registration of Cooperative Banks, Management audit, amalgamation, liquidation / winding up

Branch expansion within the district does not require permission of RBI.

Foreign Banks: Foreign banks are allowed to operate through branches only. A new foreign bank is required to bring in minimum assigned capital of US $ 50 million, minimum capital adequacy ratio 9% on aggregate risk weighted assets of their Indian Operations.

How are Regional Rural Bank formed – Under Section3 of the RRB Act, 1976 a sponsor bank has to apply to the Central Govt. (50:35:15) (Central Govt : Sponsor Bank : State Govt) subscription ratio of the .

Specific permission of RBI is required for closure of branches in Rural Areas.

To accept Non Resident Foreign Currency deposits at specific branches, permission has to be obtained from RBI.

Banks are allowed to Setup Subsidiaries to undertake business authorized under section 6(1) of the BR Act, 1949. Aggregate Investment in all the subsidiaries shall not exceed 20% of the Banks' PaidUp Capital

Three-tiers of Organisational Structure

Branch, LHO/Zonal Office, Head Office

Minimum Paid Up Capital – Capital Requirements (21)

(Section 11 of BR Act, 1949)

Incorporated In India

A	i.	For a banking company incorporated in India having place of business in more than one state	
	ii.	If any such place or place of business is or are situated in the City of Mumbai Or Kolkata or both	
B	ii.	If all places of business in one State but none of which in Mumbai City or Kolkata	
	v.	For principal place of business	

The actual requirement of the Capital is determined by the size of business of each bank. The Present **Minimum Capital Adequacy Ratio (CRAR)** is 9% comprising of Tier I and Tier II capital and unallocated reserves.

Tier I Capital	Tier II Capital
Paid Up Capital, Statutory Reserves, and other disclosed free reserves, if any and Capital Reserves representing surplus arising out of sale proceeds of assets	Undisclosed reserves and cumulative perpetual preference shares Revaluation Reserves General Provisions and Loss Reserves Hybrid Debt Capital Instruments Subordinated Debt

Authorised Capital of each public sector bank cannot be less than Rs. 1500 crores.

To establish a new private sector bank, the **minimum Paid-Up Capital** of Rs. 200 crores.

Foreign Investors are permitted to hold up to 10% of Paid-Up capital of banks established in India.

Shareholders of commercial banks can exercise one vote for every share held by them. However, no person can exercise more than **10% of total voting rights** of shareholders of the bank. The above restriction on voting rights does not apply to GOI in respect of holding of shares.

As far as **Cooperative Bank** is concerned, each share holder can exercise only one vote, irrespective of number of shares held by him.

Unit 3: Regulation of Business of Banking

Chapter 1: Banker – Customer Relationship

Relation	Bank	Customer
Deposit account	Debtor	Creditor
Banks lend a money to Customer	Creditor	Debtor
Safe custody of articles	Bailee	Bailor
Safe deposit locker	Lessor	Lessee
Remittances, Collection Of Cheques, bills etc on behalf of the customers	Agent	Principal
Issue of duplicate draft, FD receipts	Indemnified / Indemnity Holder	Indemnifier

Acceptance of deposits should be for the purpose of lending and investment.
The deposit should be accepted from public
Acceptance of deposit should be in money.
Deposit repayable to depositors on demand or otherwise.
The deposits may be withdrawable by cheque, draft order or otherwise.

Obligation to Pay Cheques (34)

It is a <u>*statutory obligation*</u> of the banker, having sufficient funds of the drawer in his hands properly applicable to the payment cheque duly presented.

Bank's liability for wrongful dishonor of cheque

The above obligation to pay the cheques is not unconditional. The conditions under which banker may ***refuse payment of a cheque***

Funds properly applicable
The cheque is not properly applicable
The cheque has become stale is post-dated.
The cheque is presented at a branch other than one where it is payable.
Cheque is crossed and is presented for cash payment.
Cheque is received after
Drawer signature differs
Amount of the cheque as stated in figures and words differs.

Bank's Obligation to Maintain secrecy of Accounts

Disclosures permitted by Law and Practice

Precautions to be adopted while disclosing the Information.

Furnishing of o Opinion

Chapter 2: Rights of Banker

Lien means right of the creditor to retain possession of goods / securities owned by the debtor till the debt is paid. Lien is of two kinds

Special Lien – Where the rights conferred on the creditor confines to particular goods, it is called Special Lien.

General Lien – When the right applies to all goods it is called general Lien.

Banker's General Lien is not applicable in following

Safe Custody Articles

Documents / Money Deposited for specific purpose

Securities/Valuables left through oversight at the bank's premises

Immature Debts

Stolen goods

Chapter 3: Rights of Set-Off

The right to combine two accounts is known as set-off.
The right of Set-off is Banker’s discretion.

Right Of Set-Off

1. The Same name and the same right
2. Debts due but not future or contingent debts
3. The debts must be a sum certain absolute before exercising the right of Set-Off
4. No agreement to the contrary
5. Banker’s discretion
6. Right of Set-Off and Garnishee Order

Right of Appropriation

While paying in monies a customer has a right to direct his banker that such payment may be appropriated against a particular debt. If it is not made clear by the Customer, in such cases the banker may exercise his right for appropriation and may apply same in payment of any debt.

Rule in Claytons’ Case

The first item on the debit side of the account is discharges or reduced by the first item on the credit side. The credit entries in the account adjust or set-off the debit entries the debit entries in the chronological order.

Chapter 4: Mandates

A **Mandate** is an authority given by the account holder in favour of a third person to do certain acts on his behalf. This is issued by the account holder to his bank.
Salient Features
It is unstamped letter signed by the customer
The signature of the person so authorized should be appended in the letter of mandate.
It is for short and temporary period.
In case of joint account holders – all the partner must signed the mandate.

Power of Attorney is a stamped Document.
There are two types of Power of Attorney

- Special Power of Attorney – It is for a single transaction
- General Power of Attorney – empowers an agent to act in more than one transaction.
- Power of attorney is a stamped document and generally executed in the presence of Notary Public/ Magistrate of a Court of government officials
- The bank should obtain the original power of attorney for perusal and copy of the same is retained for record purposes.
- The power of attorney holder must sign as
  Per Pro-

Attachment Orders

Those issued by the court, called Garnishee orders and
Those issued by Revenue Authorities.

Garnishee Orders

They are issued by a court in favor of judgment of creditors. A garnishee order is issued by two stages
Order Nisi – Freeze or stop all the txns in the debtor account.
Order absolute -

What is Attachable And What is Not?

Amount Specified and Unspecified
Debts due and accruing
Payment of Cheques and Garnishee Order
Right of Set-off and Garnishee Order
Unclear effects, Subsequent Credits and Undrawn overdrafts – <u>Credit into account subsequent to the receipt of the Garnishee Order are not attachable,</u> because the order can attach only debts due or accruing at the time of the receipt of the order by the banker.
Joint Accounts - If the order is issued for the attachment of A's deposits, the deposits held jointly by A and B cannot be attached, if the account is operated

by either or survivor.But if it is former or survivor (and A is the former) and money belongs to clearly to the former alone, then it can be attached even if the attachment order mentions only the 'A' s name only..

Liquidator if the company is in liquidation, the accounts of the liquidator cannot be attached by a fresh garnishee order because money held by the bank was not debts due to the company, but to the liquidator.

Procedure to be followed by the Bank on Receipt of the GARNISHEE ORDER

Banker must freeze the account and advise the court the full details.
All submission to the court should be done through the bank's counsel.
If the order is specific, the amount, in excess can be permitted to be withdrawn.
For handling subsequent credits, it may be preferable to open a new account.

Chapter 5: Banking Operations – Negotiable Instruments

Where a bill of exchange, promissory note or cheque is transferred to any person, the instrument is said to be **negotiated.**

	Cheque	Bill Of Exchange
Drawee	Always drawn on a banker	Not necessarily be drawn on a banker
Pay ability	Payable on Demand	May be payable on demand or may be on future date
Maturity	Grace Period is not allowed	Three days grace period given usuance bill.
Crossing	It can be crossed	Cannot be crossed
Notice Of Dishonor	No notice of dishonor given	Notice of dishonor to be given to the drawer.and other parties entitled to receive the notice.,

Crossing Of Cheques

General Crossing (123)
Not Negotiable Crossing (130)
Special Crossing (124) *where a cheque bears across its face in addition of the name of the banker either with or without the words 'Not Negotiable'*

Holder
Holder in Due Course

Endorsement Of Cheques

1. Endorsement in Blank
2. Endorsement in Full
3. Conditional Endorsement – In normal circumstances endorser binds himself to pay upon no other condition than on dishonor of the instrument on due notice of dishonor to him.
4. Restrictive Endorsement – right of negotiation restricted or excluded by the endorsement. If the instrument is Pay to Mr.M.M. Lal only, then Mr.Lal's right to negotiate is restricted.
5. 'Sans Recourse' Endorsement – Without recourse/liability to me

Chapter 6: Negotiable Instruments: Bankers' Duties and Responsibilities (76)

The duties of Paying Banker as regards crossed cheques – Section 126 to 129.

126	Where a cheque is crossed generally/specially
127	Crossed specially to more than one banker except when crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof.
128	Protection to Paying Banker
129	Crossed generally/specially otherwise to the banker shall be liable to true owner of the cheque for any loss he may sustain.

Section 128: Protection to Paying Banker
Section 131: Protection to Collecting Banker

Paying Banker – Duties and Responsibilities

- Payment Of Cheques
- Precautions to be taken
  1. Open or Crossed Cheques
  2. Payment at the branch where account stands
  3. Mutilated Cheques
  4. Cheque must be drawn in proper form
  5. Post-dated/Stale
  6. Stale Cheque – A cheque in circulation for an unreasonably long period is said to be **stale.**
  7. Amount in words and figures should tally: - if it is stated differently in figures and in words, <u>the amount stated in words shall be the amount ordered to be paid.</u>
  8. Payment within banking hours: **Section 65 of N.I. Act:** Payment of cheques after banking hours are not 'Payment in Due Course' and not eligible for protection under section 10 of the N.I. Act.
  9. Alternation :
  10. Material Alternation : **Section 87 of NI Act**
  11. Computational Balance : 'Effects not cleared, Please present again'
  12. Endorsements
  13. Forged Signature

Payment of Cheques and Protection to the Paying Banker
Section 10, 31, 85,85A, 87, 89, 126 to 130 of N.I. Act

Section		
10	Payment In Due Course	Means payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford reasonable ground for believing that he is entitled to receive payment of the amount mentioned.

Holder For Value – where a banker has parted with funds before collecting the proceeds of the cheque from another banker, the banker is holder for value.

Chapter 7: Dishonor of Cheques (92)

The cheque is considered to have bounced and the drawer is considered to have committed offence. But when the drawer has intimated the payee that he shall not present the said cheque without his prior consent in that event such cases will not fall within the frame of Sections 138 to 147.

Chapter 8: Various Types of Account

Minor

Minor means a person who is below 18 years of age
According to the Indian Contract Act, a minor is under a legal incapacity to enter into a contract and therefore any contract with minor is void. Thus minor has to have a guardian of his person and property.

- Whether a minor can draw a valid cheque – Section 26 of the NI Act provides that minor may draw, endorse, deliver and negotiate a negotiable instrument and so minor can draw a cheque. Ordinarily balances in such accounts are subject to a maximum specified amount and that the age of the minor is above 13 years. *The account can be continued when the minor attains the majority. It is advisable to take a confirmation of balance in the account signed by him immediately on attaining majority*
- Whether he would, on attaining majority be bound by the withdrawals made by him when he was a minor – yes.
- No Loan /Overdraft can be given to minor. This is because, a minor can make others liable on the Negotiable Instrument, but he himself cannot be made liable.

- Even though a minor is not competent to contract, he can be appointed and act as agent for another person competent to contract. That is he can be agent of his father, but he will not be personally liable for what he does on behalf of the major.
- A minor below age of 7 can not open an account independently
- Under Section 30 the Indian Partnership Act, a minor can be admitted to the benefits of the partnership. But the minor is not liable personally for the debts of the firm.

Lunatics

Joint Hindu Family

Joint Account Holders (207)

A joint account is an account opened by two or more persons
Insanity of a joint account holder
Insolvency of the Joint account Holder

Death of a Joint account Holder As the mandate taken for the operation of the account also deals with survivorship, on the death of one of the joint account holders, the survivors are entitled to the whole amount both under the law of devolution applicable to joint owners and by the customer of bankers. *Where the mandate is operation by joint signatures and if one of them dies, the balance is payable (or recoverable from if debit balance) to the survivor and the legal heirs of deceased (or recoverable from estate of deceased in case of debit balance).*

Accounts in the Name of Joint Hindu Families (JHF) The members of the family are called coparceners and the eldest male member is the manager or the **Karta.** When an account in the name of the JHF is opened all the adult coparceners are to sign the Account opening form, even though the Karta would operate on the account.

Accounts in the Name of Partnership Firms (106)

A partner has no authority to give a guarantee on behalf of the firm and if such guarantee is to be given, it should be signed by all partners.

Retirement of Partner

Death of Partner: ***The death of partner has the legal effect of dissolving the firm, as his legal heirs cannot step into his shoes.*** *The surviving partners have the right to carry on the business for the purpose of winding up.*

Any cheque presented for payment should be paid only with the consent of the surviving partners

When the account is in debit balance, the operations should be stopped to fix the liability of the deceased partner.

Insolvency of partner: ***Insolvency of any partner will result will result in the dissolution of the firm.*** A cheque signed by such a partner should not be honored without the confirmation from other partners, who may continue to operate the account for winding up the business**.**

Partnership account and the partner's private account

Position of a Minor: under Section 30 the Indian Partnership act, a minor can be admitted to the benefits of the membership. He can therefore become a partner and act as a agent on behalf of the other partners of the firm. But the minor is not liable personally for the debits of the firm.

Collecting Banker – Duties and Responsibilities (84)

1. Protection available to Collecting Banker
   Holder For Value – banker parted with funds before collecting the proceeds of the cheque.

2. Non-liability of a Banker Receiving Payment of a Cheque
   Requirements of Section 131
   Crossed Cheques – No Statutory protection is extended to cheques which are forged.
   Collection on behalf of Customers –The collection should be done on behalf of its Customer.
   Receive Payment in good faith and without negligence
   Where the endorsement on the cheque or the drafts is fictitious and the collecting bank failed to check it, the collecting bank was not protected under section 131.
   If Collecting Bank does not confirm the endorsement on the reverse of the cheque the drawee bank would not be entitled to any protection.

Chapter 9: Other Account Holders (114) (212)

Memorandum of Association

Memorandum of Association	: lays down the objects of the company and limits the scope of its operations to specific areas
Articles of Association	: internal management of the company
The directors of the company ha	

The directors of the company have to function within limits of the power conferred by the Articles of Association and when they do so, these acts are binding on the company. If the directors acts in excess of the power conferred, but within the purview of MOA, such acts can be ratified by a general meeting of the shareholders. But, if the acts are outside the scope of MOA, they will be ultra virus (ultravires) of the company and will not be binding on the company. The directors will be personally liable for such acts

<u>Accounts can be opened</u> in the name of <u>Limited Companies</u> after getting the following papers.

i. Certified copy of articles of Association – deal with rule and regulations governing the internal management of the company – powers of the directors, officials and shareholders.
ii. Memorandum of association – objects of the company and limits the scope of its operations to specific areas.
iii. Copy of Certificate of Incorporation – Certificate by ROC.
iv. Certificate to commence business
v. Certified copy of the resolution passed by the Board of Directors The account opening form should be signed by the authorized signatory. *<u>Introduction is not necessary for a opening a company account.</u>*

Bank open accounts in the name of <u>clubs and associations</u> on completing the following formalities

- Registration Certificate under the Societies Registration Act, 1960 or under Company Act
- A Certificate copy of by-laws, rules and regulations.
- List of members of the managing committee
- Certified copy of the resolution of the committee to open the account with details of authorized signatories
- *<u>Account must be properly introduced and no loan or temporary overdraft should be granted</u>*.

<u>Accounts of Trusts</u> are also opened after getting the following documents

i. Copy of the Trust Deed
ii. Charitable Trust certificate from Commissioner of Charities should be held if it is charitable trust.
iii. Resolution passed by the trusts to open the account and conduct it by the authorised person
iv. Account is opened in the name of executors and administrators. <u>The account should be properly introduced.</u>

v. The trustee cannot delegate their powers unless otherwise specified in trust-deed.

Accounts in the Name of Executors / Administrators

A copy of the probated bill or the letter of administrator should by obtained, verified

Administrator is a person appointed by the Court to look after the property under Letter of Administration.

A person to whom the execution of a will is entrusted by the deceased (testator) is called the executor of the will.

Liquidator is a person appointed by a Court to wind up the affairs of the Company.

Section 125 of the Companies Act provides that all charges created on company's assets have to be registered with the ROC (except pledge) within 30 days of creation of the charge.

Certificate of Incorporation – issued by ROC

Certificate of Commencement of Business

Issued by ROC
Required for PUBLIC LTD. Companies
Not required for Private Ltd. Companies

Advances to Companies

The purpose of the advance should be within the scope of the MOA of the company

The MOA should empower company to borrow

Section 293 (1)(d) of the companies act provides Board of Directors of the Public Company shall not borrow limits in excess of paid up capital of the company and its free reserves.

Section 125 of the companies act provides that all charges created on a company's assets have to be registered with the ROC within the 30 days of creation of charge.

Accounts in the Name of the TRUSTS

The instrument by which the trust deed is created is called the TRUST DEED

- **i.** Copy of the Trust Deed
- **ii.** The title of the trust account should tally with the provisions of the TRUST DEED.
- **iii.** If the trust deed indicated specific bank, the account should be opened with that bank.
- **iv.** The resolution passed by the trustees should be obtained.
- **v.** The trustees can not delegate the powers unless they are specifically authorized to do so by the trust deed.

Chapter 10: NRI Accounts

Procedure and Practice to Open and Conduct of NRI Accounts

	NRO	NRNR	NRE	FCNR(B)
Opened	Can be opened by all non-resident individual		Only by non – resident individuals of Indian origin, OCBs and Overseas trusts owned directly or indirectly by NRIs	
Where can these accounts be opened	Bank branches authorized to deal in foreign exchange			
Can funds held in these accounts be repatriated	Entire interest earned is eligible for repatriation. Principal amount is not normally repatriable	Interest accrued on NRNR accounts is eligible for repatriation. (Funds non repatriable)	Freely repatriable	Freely repatriable
Are Joint accounts allowed	May be jointly held with residents		Cannot be held jointly with residents but residents holding power of attorney(POA) may operate these accounts for local payments and investments in India (only) permitted by Reserve Bank	
What can be credited to these accounts	Remittance from abroad, income made in India which is of repatriable nature. Legitimate local dues in rupees to the account holder viz. rent of flat, other income of no-repatriation basis can be credited only to NRO accounts.		Remittance from abroad, income made in India which are of repatriable nature	

What can be debited to these accounts.	Allow debits for local payments in rupees including investments provided the account holder taken permission of RBI	Local payments/ disbursements in rupees and repatriable interest accrued on the deposits	Local Payment in rupees Remittances aboard Transfer to NRE/NRNR accounts of the same account holder Investment in shares/securities. For purchase of immovable property
Rates Of Interest	Determine by the Reserve Bank	Banks are free to determine the rate of interest payable on NRNR Deposits	Determine by the Reserve Bank
Conversion of Accounts	When a person resident in India leaves the country for employment etc., abroad his/her accounts are treated as NRO accounts		NRE and FCNR(B) accounts may be converted into Resident Foreign Currency (RFC) accounts. An RFC account is an account opened in foreign currency with BOI. Persons of Indian origin, who have been resident outside India for more than year are eligible to maintain RFC accounts.
Interest on Conversion	Interest is payable at the rate agreed to by the bank		In respect of NRE term deposits, interest is payable at the rate agreed to by the bank
	NO tax exemptions on interest earned on NRO Accounts.	Interest earned on NRNR accounts is free from Income-Tax. One Time Gift is exempted from Income-Tax.	Interest earned on NRE/FCNR (B) exempted from Income-Tax, Wealth-Tax, and Gift-Tax.

Loans and Advances against Security Of Deposits (129)

To Parties outside India: NRIs can avail fund-based and/or non-fund based facilities through the overseas branches/correspondents of authorised dealers. The facility can be granted to or in favor of non-resident depositor or to the third parties at the request of the depositor for bona fide purposes against the *security of funds held in the NRE/FCNR(B)* ***accounts in India.***

To the Account Holder in India

NRE/FCNR/NRNR account holders can themselves take loans/overdrafts.

NRE/FCNR account holders can take loans/overdrafts in India for purposes of making direct investments in India.

NRIs can also take loans against their NRE/FCNR(B) deposits in India for the purpose of acquisition of flats/houses in India for their own residential use subject to certain conditions.

Premature Withdrawal under NRE/FCNR (B) Accounts

Premature withdrawals are permitted subject to prescribed penalties which are usually in the form of interest loss. *When NRE/FCNR (B) deposits are utilised for opening the RFC accounts on the return of the account holder in India no penalties are levied.*

Tax Exemptions

<table>
<tr><th>NRO</th><th>NRNR</th><th>NRE</th><th>FCNR (B)</th></tr>
<tr><td>No Tax exemptions on interest earned</td><td>Free from Income-Tax
Exempt from gift tax for one time gifting</td><td colspan="2">• Interest earned are Exempted from Indian Tax
• Balances held are exempted from Wealth-Tax and gifts made from these accounts to close relatives in India are free of Gift Tax</td></tr>
</table>

Chapter 11: Closure of Accounts

The passbook is record of transactions between the customer and the Bank.

When account is closed by the bank, proper notice should be given to the customer.

Chapter 12: Regulation and Control on Deployment of Funds (144)

- The Present CRR and SLR requirement are <u>3% and 25%</u> respectively.
- New prudential Accounting Norms cover <u>Capital Adequacy, Income Recognition, Asset Classification and Provisioning</u>

Capital Adequacy

Income Recognition and Asset Classification / Provisioning

- No income can be taken to Profit and Loss account if the interest / installment in a borrower account remains unpaid for a period of more than two quarters from the 'past due' date. The account has to be designated as NPA.
- Banks are required to classify accounts according to its performing or non-performing. While interest on performing assets can be taken to P & L, interest on NPA *<u>cannot be taken to P & L</u>*
- Banks has to make provisions for NPA. Longer the NPA, higher the provisioning.

Deregulation of Interest Rates

Post-Reforms Regulation of Banks

On-site Inspections and Off-Site Surveillance

Asset – Liability Management

Prudential Regulatory Measures

An advance is required to be classified as NPA if it is interest / installment is not received for 90 days.

Reserve bank has also laid down Prudential Exposure Limits under which a bank cannot lend in <u>excess of 15% of its paid-up capital and free reserves to a single borrower and 40% to a group of borrowers.</u>

The first Tranche of OSMOS returns

DSB1	Monthly report on Asset Liability and Off Balance Sheet Exposures
DSB2	Quarterly report on Capital Adequacy
DSB3	Quarterly Operating Results
DSB4	Monthly report on Asset Quality
DSB5	Quarterly Report on Large Credits
DSB6	Quarterly Report on Connected Lending
DSB7	Half-Yearly Report on ownership and Control

The Second Tranche of OSMOS returns

DSB 8	Monthly Return on Structural Liquidity
DSB 9	Monthly Report on Interest Rate Sensitivity
DSB 10	Monthly Report on Sensitivity to Interest Rates – Forex
DSB 11	Monthly Report on Maturity and Positio
DSB 12	Quarterly Report on Operations of subsidiaries, Associates, Joint Ventures

Unit 4: Returns, Inspections, Winding Up (154)

CAMEL Model

- Capital Adequacy
- Asset Quality
- Management
- Earning appraisal
- Liquidity and
- Systems and Controls

OSMOS – Off-site Monitoring and Surveillance

RBI ensures that banks operate within set norms by conducting on-site inspections and off-site monitoring.

On-site inspection is followed by Supervisory Letter

Quarterly on-site visits are undertaken in respect of newly licensed banks during first year.

Frequency of First Tranche Returns(March 1996) is monthly / quarterly / half-yearly.

Second Tranche of OSMOS returns cover Liquidity and Interest rate exposures were introduced in July 1999

Under Section 37 of the BR Act, a moratorium order can be issued by the High Court for a maximum total period of Six Months.

When a banking company is placed under moratorium under Section 45 of BR Act, the RBI must prepare a scheme for reconstruction of the company or amalgamation with any other bank.

An order for winding up a banking company can be issued by The High Court.

Unit 5: Banker – Customer Relationship

Indemnifier (Customer) and Indemnified (Bank)
A contract which one promises to other from loss caused to him by the conduct of the promisor himself or the conduct of any person is called a contract of **Indemnity.** (Section 124: Indian Contract Act 1872)

Merchant Banking (178): Merchant Bankers are financial intermediaries. They act as intermediaries of transfer of capital from those who own it (Investor or Bond Subscriber) to those who use it (Corporate or Govts)

Lease Financing (179): This means leasing out the capital purchase of assets (to another company against monthly rents for assets) consumption or use.

Advantages to Lessee	Disadvantages to Lessee
Use of asset without incurring the capital cost thus saving on cost benefit of capital use. As lease rentals are permitted as a permitted business revenue expense they lead to depression in profits and ultimately less taxation on profits. Since there is no capital cost, this does not impact the liability side of the balance sheet too. Creditworthiness of the Lessee is intact if Lessee approaches a financial institution for other credit related facilities	Ownership of the asset is with the Lessor and not Lessee. Since Lessor imposes usage terms and conditions on assets, asset is permitted to be used for agreed business purposes only; this takes away the leverage from Lessee for utilizing the asset for alternative business purposes if any. Possibility of Lessor Owner becoming insolvent or going into liquidation; thus asset may be attached by the creditor's official liquidator. Confiscation/Repossession of asset by Lessor on breach of terms and conditions of use of asset.

Bill Factoring (180): Factoring is an arrangement between a Factor usually a bank/NBFC/bank subsidiary and his client which includes at least 2 of the following services to be provided by the factor:
Finance/Maintenance of Accounts
Collection of Debts
Protection against credit risk.

Bill Finance	Bill Factoring
Provides finance to the entrepreneur	Ideal tool for growth and development of expanding SMESs
Advances are given against Bill of exchange	There is an outright purchase of trade debts after providing for returns.

Registration of charge under section 125 is mandatory.	The factor is the owner of trade debt and no registration is payable
It is individual transaction oriented	Bulk finance against several unpaid trade generated invoices.
Bill financed are on Balance Sheet items and are listed in Current assets in Balance Sheet	Factoring is an off-balance sheet as the client company completes the double entry accounting by crediting the factor for the consideration value.

Advantages of Factoring	Disadvantages of Factoring
The client need not undertaken any responsibility of collecting the dues from the buyer thus saving cost on various fronts like maintaining of sales ledger/supervision etc. Discounted value up to 80% to 85% is available to client on the basis of invoices and balance is paid on realization of receivables Providing expert credit an other business related advise to clients	It may result in over-aggressiveness in the behaviour of the client resulting in over trading or mismanagement. Possible fraudulent act in furnishing the Invoice Companies having large number of debtors for small amounts

Unit 7: Payment and Collection of Cheques and Other Negotiable Instruments (194)

Unit 8: Opening of Accounts of Various Types of Accounts (206)

Minor Accounts
Joint Account Holders
Hindu Undivided Family (HUF)
Partnership Firm A/C Opening
Opening of Accounts of Limited Companies

Public Ltd.	Private Ltd.	Government Companies
Minimum 7 members and max unlimited members Minimum Paid-up Capital of Rs. 5 Lakhs	Minimum 2 members and maximum 50 Minimum Paid-up Share Capital Rs. 1 Lakhs.	Where 51% shares are held by the govt. The word Ltd. Is not required in such companies.

Unit 9: New Age Banking and Special Services Rendered By Banks to Customers.

Securitisation is the process of purchasing or acquiring the secured loans or advances, classified as NPA in the books of originating bank or financial institutions, at a negotiable price.

The **Secured Creditor** can either

- Take up the management of the borrower
- Sale or lease the business of the borrower
- Reschedule the payment of debt.
- Enforce the security interest
- Settle the dues payable or
- Take possession of the secured assets, under the **SRFAEST** Act 2002.

The provisions of SRFAESI Act do not apply when the amount of secured loan does not exceed 1 lakh rupees and unsecured dues 10 lakh rupees.

BANCASSURANCE (224)

Mutual Funds (229)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets or some combination of these investments.

Unit 10: Development Banking and Priority Sector

Priority Sector Lending

Priority Sector: Those activities, which assume national importance and have been assigned priorities for development.

Poverty Line : if family income below Rs. 11,000	Rural Area	Population less than 50,000
Poverty Line : if family income below Rs.11,850	Semi-urban Area	Population less than 1 lakhs
	Small Farmers	Farmers holding wet lands up to 2.5 acres or dry lands up to 5 acres.
	Marginal Farmers	Wet Land 1.25 acres / 2.5 acres dry land.

NABARD established on 12th July 1982 by merging Agriculture Refinance and Development Corporation and Agricultural Credit Department of the RBI.
Weaker Section: All those living below the poverty line of rupees 11,000 in rural areas and Rs.11, 850 in Urban Areas and the semi-urban and deprived class of society like SC/ST.

Targets under Priority Sector Lending (8)

	Priority Sector	Agri	SSI	Weaker Section
Commercial Banks & RRB	40	18		10
Foreign Banks(Any shortfall in the priority sector targets should be placed with SIDBI)	32		12	
Urban Co-operative Banks	60			

Differential Rate of Interest
SLRS
Rural Artisans
SC/STs
Small/marginal Farmers
Land less labourers

The Priority sector has been classified as

Primary Sector: This constitutes agriculture and allied activities - dairy farming, poultry farming, goat rearing, pisciculture etc. Agriculture sector brings 1/3rd income of the national income. Agriculture advances are classified as

Direct Agricultural Advances	Indirect Agricultural advances
The advances given directly to the farmers (Crop Loan, dairy loan, Tractor loan)	The advances given to dealers of fertilizers, seeds , pesticides etc PACS LAMPS Deposit made in RIDF Subscription of bonds issued by NABARD

Secondary Sector: Small sector Industries, Ancillary Industries, Village and Cottage Industries, tiny industries, and small scale service and business enterprises

SSI means industrial unit engaged in manufacturing, processing, preservation of goods, mining or servicing/repairing and whose original cost in Plant and Machinery does not exceed 1 Crore.

Ancillary Industry – Investment in Fixed asset not more than 3 Crores

Tiny Industry – Investment in Plant and Machinery not exceeding 25 Lakhs.

Village & Cottage Industry – total credit requirement does not exceed Rs. 50,000.

SSSBE – Investment in fixed asset excluding land and building of not more than Rs. 5 Lakhs.

Tertiary Sector: In this sector are small road and water supply operator, professional and self employed, retrial trade, small business, education, housing and state sponsored corporations for SC/ST.

Small Road and water transport operator

Small Business / Business Enterprises

Retail Traders

Professional and Self-employed

1	Small Road and Water Transport operator	Vehicle not exceeding 10 There is no limit for loan amount Repayment period should not exceed 5 years.
2	Small Business/ Business Enterprise	Cost of equipment should not exceed 10 Lakhs. Working Capital limit Rs, 5 Lakhs or less Loan may be given for acquiring / repairing business premises, to purchase of machinery, equipments, land, building, furniture etc. Loan for running STD/ISD/PCO, Travel agency,

		mutton shop, fruit vendors etc.
3	Retail Traders	Retail traders dealing in non-essential commodities loan amount is fixed Rs. 2 Lakhs. There is no ceiling for retail traders dealing with essential commodities (Sugar, Kerosene etc.)
4	Professional and Self-employed	The borrowing max limit Rs. 5 lakhs. Out of which working capital limit Rs. 1 lakhs. For medical practitioners setting up practice in rural / Semi-urban areas the limit is Rs. 10 lakhs out of which working capital Rs. 2 lakhs.
5	Educational Loans	Education in India – Rs. 5 lakh – 7.5 lakhs Education abroad - Rs. 10 lakh – 15 lakhs.
6	Housing	<u>Direct advance – Rs. 15 lakhs, Loans upto Rs.</u> 50,000 for repairs Indirect advance – Rs. 5 lakhs.
7	Consumption Loans	General Consumption/Funerals - 150 Birth/Religious ceremonies - 150 Educational Needs - 200 Marriage expenses/Medical expenses - 500 <u>The aggregate amount per family per year should not exceed Rs.1000[Rs.2000 against securities</u>

Agriculture (9)

Direct Finance

- Short Term Loans
- Medium and Long Term Loans

Indirect Finance

Unit 11: Loans and Advances

(270)

Cardinal Principles of Lending

Are Safety, Liquidity, Profitability and diversification of risks, productive purpose and security.

Safety: is the most important principle of good lending. The banker should ensure that the enterprise or business for which loan is sought is sound one and capable of carrying it out successfully.

Liquidity: Liquidity with banker means Cash on Hand, Cash and Bank Balances, Short term current assets to convert into cash.

Profitability: Customer profitability analysis means exercise before opening a new branch

Productive Purposes: Loans for non-productive and speculative purposes cannot be granted.

Diversification of Risks:

Security:

Banker can reduce risk in lending to a borrower by ensuring that there will be no default on account of lack of liquidity and lack of willingness to pay on the part of the borrower.

In Bankers parlance, credit risk in lending refers to default of repayment by a borrower.

Non-Fund Based Limits

Bank Guarantees

Letters Of Credit

Working Capital

1. Gross Working Capital = total assets
2. Net Working Capital = current assets – current liabilities
3. Major Current Assets are Marketable investments and cash/receivables/ inventories
4. The major Sources of Working Capital for investments in current assets are Trade credits, Unsecured Loans, Deposits, Bank borrowing, advance payments, Net Working Capital.
5. Working capital means – requirements for day to day transactions.
6. Working capital needs are estimated by Cash Budget Method.

	Term Loan	Working Capital Finance
1	The term loans are utilized for establishing, expanding or modernizing a manufacturing unit by acquisition of fixed assets.	Working capital finance is for operating purposes resulting in creation of current assets for production and sale of the finished

		goods
2	Term Loans are usually of medium or long term duration and are repayable in quarterly/half yearly installments over an agreed period of time.	The WCF is generally availed of a cash-credit Hypothecation accounts with frequent drawings and repayments within the time fixed and is payable on demand.

Estimation of Working Capital Needs

The Operating Cycle Method:

While assessing working capital requirement creditors will not be set off against stock.

The borrower will submit age-wise list of sundry creditors and sundry debtors as well as stock statement.

Only those debtors will be considered which are outstanding for less than the period specified (up to 180 days) on case to case basis.

Total Outstanding <u>(Creditors – Debtors)</u> ; if debtors are in excess, the bank could consider financing the surplus debtors as per banks policy.

The borrower will have to hypothecate his entire book debts to the bank.

The bank will not finance the borrower's book debts, if creditors exceed debtors.

The Projected Networking Capital

-

The Projected turnover Method the bank as a matter of policy and based on RBI guidelines assess the working capital including village industries, tiny industries with fund based working capital limit up to Rs. 4 crore by the turnover method.

- **20%** of minimum of their projected sales turnover
- Drawing power may be worked out through stock statements, unpaid stocks are not to be financed as it would result in double financing.
- 5% should be contributed by borrowers.

The Cash Budget System: (if fund based limits in excess of Rs. 10 Crore)

Advantages

1. Borrower plans to advance cash requirements.
2. Banker is able to spot danger signal quickly and corrective measures could be taken.
3. Banker can plan his resources to meet credit requirements.

	Cash Budget	Cash Flow
1	It deals with Cash transactions only	It deals with cash and no-cash funds
2	Cash budgets for short periods	Cash flow statement are for quarterly or half yearly.
3	It is projection in the future	It is historical

Credit Management (273)

Credit Management is the management of the credit portfolio of bankers and financial institutions. It includes

i. Capital Adequacy Norms
ii. Risk management including ALM
iii. Exposure norms
iv. Risk pricing policy and credit risk rating
v. Asset Classification, Credit decision-making and loan review mechanism

Credit decisions are affected by Credit Risk/Market Risk / Operational Risk.

Credit Risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counter parties. Such risks are
Principal / Interest amount may not be paid.
Funds may not be forthcoming from clients upon invocation of L/C
Funds/Securities settlement may not be affected in securities trading.

Market Risk is defined as on possibility of loss to a bank caused by changes in market variables –
Liquidity Risk
Interest Risk
Foreign Exchange Rate Risk
Commodity price Risk
Equity Price Risk

The **Operational Risk** arises from human or technical error or acts of commission and commission.
Standard Asset
Sub-standard
Non-performing
Loss making

Exposure ceiling for banks in providing advances / loans to borrowers - 15% of capital funds for single borrower and 40% in a borrower's group.

Non-Performing Assets

A loan is classified as non-performing when the interest and/or installment of principle remain overdue for a period of more than 90 days.

Various Committees on Credit Disbursements (276)

Tandon Committee (1974) - RBI advised all banks in August 1975 to implement the first two methods for borrowers having credit limit in excess of Rs. 10 lakhs.
1st Method: Working Capital Gap = Current Assets – Current Liabilities
Net Working Capital = 25% of Working Capital Gap +75% MPBF

2nd Method: Total current Assets 25% of this be NWC
MPBF = Current assets – 25% of CA – current Liabilities

3rd Method: MPBF = Current assets – Core Assets – NWC 25% - Current Liabilities

Chore Committee (1979)
Laxminarayan Committee (1973)
Nayak Committee
Vaz Committee (1993)
Shetty Committee – For Consortium Advances

Kannan Committee (1997) – To assess the complain received from the mercantile community - the method of Tandon Committee for assessment of inventory and receivable and insistivity for 1.33 current ratio were not providing them enough credit.

Unit 12: Essential of Bank Computerization

Local Area Network

Topology: The way in which the devices are interconnected is known as topology. The method of operation for the transfer of data over networks is called packets switching. The data user wishes to send, commonly referred to as a message is broken down into smaller units called packets. Each packet consists of some data bits and a header containing its destination address. The packets are passed from one packet by switching exchange to another until they reach their destination.

Star Topology	Ring Topology	Bus Topology
Central node is often the master Each of the other nodes are joined to the master by separate links. It one station fails, it will not affect the rest of the network	Devices are connected in a closed loop and information is passed from one node to another in series. Data is transmitted in one direction only. The breakdown of any station on the ring can disable the entire LAN	• All devices are connected to a single continuous cable Transmission from any station travels the length of the bus, in both directions and can be received by all other stations. • It one station fails, it will not affect the rest of the network

Protocols

Unit 13: Payment Systems and Electronic Banking

Unit 14: Data Communication Network and EFT Systems

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

1. Transmission Devices and Interface Equipment

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

2. Transmission Medium

Terrestrial Cables

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

3. **Microwave System** microwave signals may be passed on to the satellite.
4. Transmission Processors

Message Switcher is used to store and forward data to large number of terminals over a single communication channel.

Multiplexer send more than one signal simultaneously over a single communication channel.

Front End Processors used to intercept and handle communication activities for the host computer. A device located at the site of the CPU or the host computer. It relives the computer of the communication tasks leaving it free for processing application programs.

Modes Of Transmission (345)

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

Major Networks

INET

NICNET
INDONET

Emerging Trends in Communication Networks For Banking

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

Automated Clearing Systems

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

Two-Level Funds Transfer System

Fed Wire
Bank Wire
Point of Sale Systems

Real-Time Gross Settlement (RTGS) System

PI – Participant Interface
The message is passed on by PI to IFTP (Inter – Bank Fund Transfer Processor) which acts as a broker.

Unit 15: Role of Technology Up gradation and Its Impact on Banks

Data Warehouse: Data from heterogeneous sources is stored to generate critical information for decision support systems. The main characteristics of the data stored in a Data Warehouse are:

It is Subject-Oriented

It is integrated, and there are no inconsistencies

The data in a Data Warehouse is non-volatile

It is time variant

Data Warehouse can be established even across multiple computer platforms as long as the transaction details are made available to the data warehouse in standardized formats.

Data Mining is a technique to reveal the strategic information hidden in Data Warehouse(s). It helps in exposing the patterns that are critical to business and provide an advantage through insight and knowledge of:

1. Sound predictions of customer behavior
2. Highly targeted market focus
3. Maximized operational effectiveness
4. Optimal return on Investment.

- Establishment of Data Warehouse : **Vasudevan Committee**
- **Data Mining** techniques can be applied in
  Predicting future trends based on information available
  Credit Risk Analysis
  Analyzing demographic information about customers

Banks can use a corporate website for

a. Dissemination of information
b. Financial Advice
c. To highlight non-banking activities
d. A node for commerce
e. Selling financial products
f. Gateway to the internet
g. Account Services

Unit 16: Security Considerations

A typical computerised environment constitutes three independent but separate components Software, Hardware and Data

The **Risks** broadly lead to

Incorrect decision-making leading to setback to business
Interruption in activities due to loss of data, hardware, software, Peopleware.
Violation of Privacy
Direct Financial loss due to computer frauds.

The objective of **Computer Auditing** is:

Assets safeguarding
Preserving data integrity
Achieving system efficiency

Risk prone components in computerised systems

Errors and omissions in data and software
Unauthorised disclosure of confidential information
Computer abuse and mis-utilisation of banks assets

Effective Control Mechanism in computerised environment

Preventive
Detective
Corrective

Scope of **System Audit** is

Review of operations to establish compliance
Review of the adequacy of procedures and controls
Integrity review focused at fraud detection/prevention of IT system

Audit Trail is a chronological record of all events occurring in a system.

Legal Framework for Electronic Transactions

Consequent upon the recognition given to the electronic records, electronic documents and electronic signatures, incidential amendments have also been made in the following acts:

The Indian Penal Code, 1860
The Indian Evidence Act, 1872
The Bankers' Books Evidence Act, 1891
The Reserve Bank Of India Act 1934

Unit 17: Introduction to Marketing and Its Importance (408)

Market

Types of Market

Marketing

Modern Marketing

Marketing Management

Marketing (management) is the process of planning and executing the conception, pricing, promotion and distribution of goods, service, and ideas to create exchanges with target groups that satisfy customer and organisational objectives.

Functions of Marketing Management

Analysis
Planning
Implementation
Control

Characteristics of Services

1. Intangibility
2. Inseparability
3. Heterogeneity
4. Perishability

	Physical Goods	Services
1	Tangible	Intangible
2	Homogeneous	Heterogeneous
3	Production and Distribution are separated from consumption	Production, Distribution and Consumption are simultaneous process
4	A thing	An activity or process
5	Core value produced in factory	Core value produced in buyer-seller interactions
6	Customers do not participate	Customers participate in the production
7	Can be kept in stock	Cannot be kept in stock
8	Transfer of ownership	No Transfer of Ownership

The Servuction process

Marketing of Financial Services

Bank Marketing

Unit 18: Product Planning (434)

A **Product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Product Personality

The Core
The Associated Features
The Brand Name and Logo
The Package and Label

Product Levels

Product Categories

Product Item, Product Line and Product Mix

The Banking Product

Product Planning

The process of product planning consists of determining the strategies in respect of various elements:

- Product Line
- Product Mix
- Branding
- Packaging and New Product Development

Product Life Cycle (442)

Introduction
Growth
Maturity
Decline

New Product Development

The Process of product Development comprises five main stages:
Idea Screening
Concept Testing
Product Development
Test Marketing

Commercial Launch

Diversification

Diversification refers to entering attractive opportunities which are outside the existing businesses of the firm. Three types of diversification

Concentric Diversification
Horizontal Diversification
Conglomerate Diversification

Other Aspects of Product Development

- Branding
  - Line Extension
  - Brand Extension
  - Multibrands
  - New Brands
- Packaging
  1. Primary Package
  2. Secondary Package
  3. Shipping Package
- Labelling

Unit 19: Pricing

Cost Based Pricing	Value Based Pricing	Competition Based Pricing
• Mark up Pricing • Absorption Cost Pricing • Target-return Pricing • Marginal Cost Pricing	• Perceived value pricing • Value Pricing	• Going – Rate Pricing • Auction- Type Pricing English Auctions Dutch Auctions Sealed – bid Auctions • Group Pricing

Pricing Strategies

- Geographical Pricing: different locations, different prices, cost of transportation included.
- Price Discounts and Allowance : Cash Discount, Quantity Discount, Functional Discount, Seasonal Discount
- Psychological Pricing: To many consumers think that higher priced product to be of better quality. By setting the price in particular range sellers can create an impression about the product belongs to the particular class
- Promotional Pricing :
- Discriminatory Pricing: when different prices are changed to different buyers.
- Product-Mix Pricing :
- Market-skimming Pricing: Product is initially priced higher, and over a period of time it is reduced to attract more buyers, with a view to ‘skimming’ the revenues layer to layer from the market.
- Market-penetration Pricing: Setting the price low initially in order to penetrate the market quickly and deeply attracting a large market share.

Unit 20: Distribution

Functions of Distribution Channel

Market Information
Promotion
Contact
Matching
Negotiation
Product Information
Physical Distribution
Financing
Risk Taking

Channel Types

Following factors influenced producers to select the channels for distribution.
Product Characteristics
Market Characteristics
Customer Characteristics
Company Resources
Competition
Product Lines

Channels for Banking Services

The following factors affects the channel decision
Intangibility
Inseparability
Variability
Perishability
Client Relationship

Channels

1. **Branches** are the primary distribution outlets for banking services. These are fixed in location and customer is required to visit the branches.

2. Other Channels
   Tele-banking and Call Centres
   ATMS
   Personal Computer
   Plastic Cards
   Virtual Branches

3. Intermediaries in Banking Services
   Direct Sales Agents
   Automobile Dealers
   Merchant Establishments

Physical Distribution

Unit 21: Promotion

Role of Promotion in MARKETING

Promotion is the exercise of communicating the properties of different elements of marketing mix to the customers with the motto of influencing them. This involves the following aims:

a) Persuasion
b) Inform
c) Reminding
d) Reinforcing

Promotion Mix

The promotion mix comprises the following tools:
Advertising
Sales Promotion
Public Relations
Personal Selling
Direct Marketing

Promotion-mix Strategies

There are two basic promotion-mix strategies
Push Strategy – promotion efforts are directed at the channel members to induce them to purchase the products and sell them to the final customer.
Pull Strategy - promotion efforts are directed to the final consumer to induce them to buy the product

Factors influencing the Promotion Mix

Three major factors affecting the choice of promotion mix are
Type of Product / Market
Buyers' Readiness Stage
Product Life Cycle Stage

Unit 22: Marketing Information System

Need of MIS

a) Complex marketing activity
b) Knowledge / information explosion
c) Communication Gap
d) Prompt Decisions
e) Non-Price Competition

Kind of Information needed

Information about market forces
Information about the bank's market behaviour
Internal Information

Components of MIS

MIS consists of four subsystems, which facilities the entire MIS system.

a) Internal Record System
b) Market Intelligence System
c) Marketing Research System
d) Marketing Management and Science System