

Banking

1. What is Fiscal Policy?

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

2. What is Monetary Policy?

Monetary policy is the process by which monetary authority of a country, generally a central bank controls the supply of money in the economy by its control over interest rates in order to maintain price stability and achieve high economic growth.

3. What is CRR?

Cash Reserve Ratio is a certain percentage of bank deposits which banks are required to keep with RBI in the form of reserves or balances. Higher the CRR with the RBI lower will be the liquidity in the system and vice versa.

4. What is current CRR rate?

As on July 2019, CRR rate is 4%.

5. What is the Maximum possible limit of CRR rate?

RBI is empowered to vary CRR between **15%** and **3%**.

6. What is SLR rate?

SLR or statutory liquidity ratio is the minimum percentage of deposits that a bank has to maintain in form of gold, cash or other approved securities. It is the ratio of liquid assets (cash and approved securities) to the demand and term liabilities / deposits.

7. What is current SLR rate?

As on July 2019, SLR rate is 18.75%.

8. What is the Maximum possible limit of SLR rate?

RBI is empowered to increase SLR rate up to 40%.

9. What is the full form of BSE and NSE?

BSE stands for Bombay Stock Exchange and NSE stands for National Stock Exchange

10. What is BSE Index?

The S&P BSE SENSEX (S&P Bombay Stock Exchange Sensitive Index), also-called the BSE 30 or simply the SENSEX, is a free-float market-weighted stock market index of 30 well-established and financially sound companies listed on Bombay Stock Exchange.

11. What is Bank rate?

Bank rate, also referred to as the discount rate in American English, is the rate of interest which a central bank charges on the loans and advances to a commercial bank. Whenever a bank has a shortage of funds, they can typically borrow from the central bank based on the monetary policy of the country.

12. What is Nifty Index?

The CNX Nifty, also called the Nifty 50 or simply the Nifty, is National Stock Exchange of India's benchmark stock market index for Indian equity market. Nifty is owned and managed by India Index Services and Products (IISL), which is a wholly owned subsidiary of the NSE Strategic Investment Corporation Limited.

13. What is NSDL?

NSDL is National Securities Depository Limited. It is the first and largest electronic securities depository in India, established in August 1996.

14. What is CSDL?

CSDL or Central Depository Services Limited is the second Indian central securities depository based in Mumbai.

15. Various Policy rates as of July 2019

Policy Repo Rate	5.75%
Reverse Repo Rate	5.50%
Marginal Standing Facility Rate	6.00%
Bank Rate	6.00%

Various Lending / Deposit Rates as of July 2019

Base Rate	8.85% - 9.40%
Savings Deposit Rate	3.50%
MCLR (Overnight)	8.00% - 8.40%
Term Deposit Rate > 1 Year	6.25% - 7.30%

16. What is bank? What are the types of banks?

According to Indian Banking Regulation Act, Banking is defined, as 'Accepting the deposits of money from the public which are repayable on demand for the purpose of lending or investment of the money acquired from the public in the form of deposits'.

In layman terms, Banks are financial institutions that receive deposits and offer loans to common people. They also provide financial services, such as wealth management, currency exchange, and safe deposit boxes. In many countries, Banks are regulated by Ministry of Finance and a central agency, known as the Central Bank. In India, Banking sector is regulated by central Bank, the Reserve Bank of India (RBI). However, in some western countries like Australia, Canada, Colombia, China, France, Ireland, Scotland, Switzerland, and the US, the Banking sector is unregulated and run autonomously. There most common types of banks are commercial banks and investment banks.

17. What is The Insolvency and Bankruptcy Code, 2016 (IBC) and what are its salient features?

The Insolvency and Bankruptcy Code, 2016 (IBC) is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy. The Insolvency and Bankruptcy Code, 2015 was introduced in Lok Sabha in December 2015. It was passed by Lok Sabha on 5 May 2016 and by Rajya Sabha on 11 May 2016. The bankruptcy code is a one stop solution for resolving insolvencies which previously was a long process that did not offer an economically viable arrangement. The code aims to protect the interests of small investors and make the process of doing business less cumbersome.

Salient Features

Insolvency Resolution: The Code outlines separate insolvency resolution processes for individuals, companies and partnership firms. The process may be initiated by either the debtor or the creditors. A maximum time limit, for completion of the insolvency resolution process, has been set for corporates and individuals. For companies, the process will have to be completed in 180 days, which may be extended by 90 days, if a majority of the creditors agree. For startups (other than partnership firms), small companies and other companies (with asset less than Rs. 1 crore), resolution process would be completed within 90 days of initiation of request which may be extended by 45 days.

Insolvency Regulator: The Code establishes the Insolvency and Bankruptcy Board of India, to oversee the insolvency proceedings in the country and regulate the entities registered under it. The Board will have 10 members, including representatives from the Ministries of Finance and Law, and the Reserve Bank of India. **Insolvency professionals:** The insolvency process will be managed by licensed professionals. These professionals will also control the assets of the debtor during the insolvency process.

Bankruptcy and Insolvency Adjudicator: The Code proposes two separate tribunals to oversee the process of insolvency resolution, for individuals and companies: (i) the National Company Law Tribunal for Companies and Limited Liability Partnership firms; and (ii) the Debt Recovery Tribunal for individuals and partnerships.

18. What is investment banking?

Investment banking manages portfolios of financial assets, commodity and currency, fixed income, corporate finance, corporate advisory services for mergers and acquisitions, debt and equity writing etc.

19. What is a commercial bank?

A Commercial bank is owned by the group of individuals or by a member of Federal Reserve System. The commercial bank offer services to individuals, they are primarily concerned with receiving deposits and lending to business. Such bank earns money by imposing interest on the loan borrowed by the borrower. The money that is deposited by the customer will be used by the bank to give business loan, auto loan, mortgages and home repair loans. They mobilize small savings and promote the growth of trade and

commerce. There are several types of deposits and offer loans offered by commercial banks. Most of the banks we come across are commercial banks. Instances of commercial banks are SBI, HDFC, YES Bank and more.

20. What are the types of Commercial Banks?

a) *Retail or consumer banking*

It is a small to mid-sized branch that directly deals with consumer's transaction rather than corporate or other banks

b) *Corporate or business banking*

Corporate banking deals with cash management, underwriting, financing and issuing of stocks and bonds

c) *Securities and Investment banking*

Investment banking manages portfolios of financial assets, commodity and currency, fixed income, corporate finance, corporate advisory services for mergers and acquisitions, debt and equity writing etc.

d) *Non-traditional options*

There are many non-bank entities that offer financial services like that of the bank. The entities include credit card companies, credit card report agencies and credit card issuers.

21. What are the services offered by commercial banks?

Services provided by commercial banks are:

- **Savings Deposits:** A savings account is a basic type of bank account that allows you to deposit money, keep it safe, and withdraw funds, all while earning interest. Savings accounts offered by most banks. The money deposited in savings account is referred to as savings deposit. A customer can withdraw cash or transfer funds through his account to pay by cheque, debit card, or an electronic funds transfer. The cash withdrawals from savings account can be made at an ATM or with your bank's tellers.
- **Current Deposits** - A current account being a zero-account, is generally associated with huge transactions on a regular basis. They do not carry a limit on the number

of transactions which can be made. Current bank accounts are opened by companies, firms, public enterprises, businessmen with higher number of regular transactions with the bank. The current account includes deposits, withdrawals, and contra transactions. Such accounts are also called the Demand Deposit Account.

- **Fixed Deposits (FD)** - Fixed Deposit is a lump sum deposit for a fixed tenure at an agreed rate of interest. At the end of the tenure, the return is sum invested plus compound interest. FDs are also called term deposits.
- **Recurring Deposits (RD)** - Fixed Deposit, you put a lump sum in your bank for a fixed tenure at an agreed rate of interest. At the end of the tenure, you receive the amount you have invested plus compound interest.

The various loans and advances offered by commercial banks to the individuals and businessmen are:

- **Cash Credits** - Cash Credit is a type of short-term loan facility in which the withdrawal of money by the company is not restricted to the amount the borrower holds in his cash credit account but up to a predefined limit (specified by the hypothecation of stocks or any other deposit or security held as collateral¹).
- **Bank Overdrafts** - Overdraft means the act of overdrawing money from the bank account. Bank Overdraft is a facility provided by the bank to its customers to withdraw money more than the amount he/she holds in the account.
- **Loans** - an arrangement where bank gives money that is repaid with interest. Loans can be off short term (to be repaid in less than a year) and long term (to be repaid in 5 years or more).
- **Discounting Bills** - is a **discount/fee** which a bank takes from a seller to release funds before the credit period ends. Bill Discounting is mostly applicable in scenarios when a buyer buys goods from the seller and the payment is to be made through letter of credit.

¹ Something pledged as security for repayment of a loan, to be forfeited in the event of a default.

22. What is a consumer bank?

Consumer bank is a new addition in the banking sector; such banks exist only in countries like U.S.A and Germany. Consumer bank provides loans to their customer to buy T.V, Car, furniture etc. and give the option of easy payment through installment.

23. What are the types of accounts in banks?

- a) **Checking Account:** You can access the account as the saving account but, unlike saving account, you cannot earn interest on this account. The benefit of this account is that there is no limit for withdrawal.
- b) **Saving Account:** You can save your money in such account and also earn interest on it. The number of withdrawal is limited and need to maintain the minimum amount of balance in the account to remain active.
- c) **Money Market Account:** This account gives benefits of both saving and checking accounts. You can withdraw the amount and yet you can earn higher interest on it. This account can be opened with a minimum balance.
- d) **CD (Certificate of Deposits) Account:** In such account you have to deposit your money for the fixed period of time (5-7 years), and you will earn the interest on it. The rate of interest is decided by the bank, and you cannot withdraw the funds until the fixed period expires.

24. What are the different ways you can operate your accounts?

You can operate your bank accounts in different ways like:

- a) **Internet banking** - Internet Banking allows the user to conduct financial transactions via the internet. It is also known as online banking or web banking.
- b) **Telephone or Mobile banking** - service provided by a bank or other financial institution, that enables customers to perform over the telephone a range of financial transactions which do not involve cash or Financial instruments (such as cheques), without the need to visit a bank branch or ATM.
- c) **Branch or over the counter service** - refers to banking transaction that you do in the bank (in the branch) via one of the tellers, as opposed to via an ATM or internet banking.

- d) **Automated Teller Machine (ATM)** - An automated teller machine (ATM) is an electronic banking outlet that allows customers to complete basic transactions without the aid of a branch representative or teller. Anyone with a credit card or debit card can access most ATMs. The first ATM appeared in London in 1967.

25. What is a 'Crossed Cheque'?

A crossed cheque indicates the amount should be deposited into the payees account and cannot be cashed by the bank over the counter

26. What is overdraft protection?

Overdraft protection is a service that is provided by a bank to their customer. For instance, if you are holding two accounts, saving and credit account, in the same bank. Now if one of your accounts does not have enough cash to process the cheques, or to cover the purchases. The bank will transfer money from one account to another account, which does not have cash so to prevent check return or to clear your shopping or electricity bills.

27. What is 'Fixed' APR and 'Variable' APR?

'APR' (Annual Percentage Rate) can be 'Fixed' or 'Variable' type. In 'Fixed APR', the interest rate remains same throughout the term of the loan or mortgage, while in 'Variable APR' the interest rate will change without notice, based on the other factors like 'prime rate'.

28. What are the different types of banking applications available in the Industry?

There are many types of banking applications and few are listed below:

- a) **Internet banking:** Internet banking allows the customers and financial institution to conduct final transaction using banks or financial institute website.
- b) **ATM banking (Automated Teller Machine):** It is an electronic banking outlet, which allows customers to complete basic transaction.
- c) **Core banking:** Core banking is a service provided by a networked bank branches. With this, customer can withdraw money from any branch.
- d) **Loan management:** The database collects all the information and keeps the track about the customers who borrows the money.

- e) **Credit management:** Credit management system is a system for handling credit accounts, assessing risks and determining how much credit to offer to the customer.
- f) **Investment management:** It is a process of managing money, including investments, banking, budgeting and taxes.
- g) **Stock market management:** The stock market management is a system that manages financial portfolio like securities and bonds.
- h) **Financial management:** Financial management system is used to govern and keep a record of its income, expense and assets and to keep the accountability of its profit.

29. What is the 'cost of debt'?

When any company borrows funds, from a financial institution (bank) or other resources the interest paid on that amount is known as 'cost of debt'.

30. What is negative Amortization?

When repayment of the loan is less than the loans accumulated interest, then negative Amortization occurs. It will increase the loan amount instead of decreasing it. It is also known as 'deferred interest'.

31. What is the difference between 'Cheque' and 'Demand draft'?

Both are used for the transfer of the amount between two accounts of same banks or different bank. 'Cheque' is issued by an individual who holds the account in a bank, while 'Demand draft' is issued by the bank on request, and will charge you for the service. Also, demand draft cannot be cancelled, while cheques can be cancelled once issued.

32. What is debt-to-Income ratio?

The debt-to-income ratio is calculated by dividing a loan applicant's total debt payment by his gross income.

33. What is adjustment credit?

Adjustment credit is a short-term loan made by the Federal Reserve Bank (U.S) to the commercial bank to maintain reserve requirements and support short term lending, when they are short of cash.

34. What is 'Loan grading'?

The classification of loan based on various risks and parameters like repayment risk, borrower's credit history etc. is known as 'loan grading'. This system places loan on one to six categories, based on the stability and risk associated with the loan.

35. What is 'Credit-Netting'?

A system to reduce the number of credit checks on financial transaction is known as credit-netting. Such agreement occurs normally between large banks and other financial institutions. It places all the future and current transaction into one agreement, removing the need for credit cheques on each transaction.

36. What is 'Credit Check'?

A credit check or a credit report is done by the bank on a basis of an individual's financial credit. It is done in order to make sure that an individual is capable enough of meeting the financial obligation for its business or any other monetary transaction. The credit check is done keeping few aspects in concern like your liabilities, assets, income etc.

37. What is ILOC (Irrevocable Letter Of Credit)?

It is a letter of credit or a contractual agreement between financial institute (Bank) and the party to which the letter is handed. The ILOC letter cannot be cancelled under any circumstance and, guarantees the payment to the party. It requires the bank to pay against the drafts meeting all the terms of ILOC. It is valid upto the stated period of time. For example, if a small business wanted to contract with an overseas supplier for a specified item they would come to an agreement on the terms of the sale like quality standards and pricing, and ask their respective banks to open a letter of credit for the transaction. The buyer's bank would forward the letter of credit to the seller's bank, where the payment terms would be finalized and the shipment would be made.

38. What is the difference between bank guarantee and letter of credit?

There is not much difference between bank guarantee and letter of credit as both take the liability of payment. A bank guarantee contains more risk for a bank than a letter of credit as it is protecting both parties the purchaser and seller.

39. What is cashier's cheque?

A cashier cheque issued by the bank on behalf of the customer and takes the guarantee for the payment. The payment is done from the bank's own funds and signed by the cashier. The cashier cheque is issued when rapid settlement is necessary.

40. What do you mean by co-maker?

A person who signs a note to guarantee the payment of the loan on behalf of the main loan applicant's is known as co-maker or co-signer.

41. What is home equity loan?

Home equity loan, also known as the second mortgage, enables you to borrow money against the value of equity in your home. For example, if the value of the home is Rs 1, 50,000 and you have paid Rs. 50,000. The balance owed on your mortgage is Rs. 1, 00,000. The amount Rs. 50,000 is equity, which is the difference of the actual value of the home and what you owe to the bank. Based on equity the lender will give you a loan. Usually, the applicant will get 85% of the loan on its equity, considering your income and credit score. In this case, you will get 85% of Rs. 50,000, which is Rs. 42,500.

42. What is 'Availability Float'?

Availability Float is a time difference between deposits made, and the funds are actually available in the account. It is time to process a physical cheque into your account.

For example, you have Rs. 20,000 already in your account and a cheque of another Rs. 10,000 dollar is deposited in your account but your account will show balance of Rs. 20,000 instead of Rs. 30,000 till your Rs. 10,000 dollar cheque is cleared this processing time is known as availability float.

43. What do you mean by term 'Loan Maturity' and 'Yield'?

The date on which the principal amount of a loan becomes due and payable is known as 'Loan Maturity'. Yield is commonly referred as the dividend, interest or return the investor receives from a security like stock or bond, interest on fix deposit etc. For example, any investment for Rs10,000 at interest rate of 4.25%, will give you a yield of Rs 425.

44. What is Convertibility Clause?

For certain loan, there is a provision for the borrower to change the interest rate from fixed to variable and vice versa is referred as Convertibility Clause.

45. What is Charge-off?

Charge off is a declaration by a lender to a borrower for non-payment of the remaining amount, when borrower badly falls into debt. The unpaid amount is settled as a bad debt.

46. What are the different types of Loans offered by banks?

The different types of loans offered by banks are:

- a) **Unsecured Personal Loan** - loan that is issued and supported only by the borrower's creditworthiness, rather than by any type of collateral. Typically, borrowers must have high credit scores to be approved for certain unsecured loans
- b) **Secured Personal Loan** - A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan.
- c) **Auto Loans** - An auto loan is a type of secured loan, which means that the car you buy is collateral for the loan. If you fail to make payments on time, a lender might repossess your car and sell it to pay off the loan. Make sure you can afford your monthly payment before buying a car.
- d) **Mortgage Loans** - A mortgage is a loan in which property or real estate is used as collateral. The borrower enters into an agreement with the lender (usually a bank) wherein the borrower receives cash upfront then makes payments over a set time span until he pays back the lender in full.
- e) **Small business Loans** - Small business financing (also referred to as startup financing - especially when referring to an investment in a startup company - or franchise financing) refers to the means by which an aspiring or current business owner obtains money to start a new small business, purchase an existing small business or bring money.

47. What are the different types of 'Fixed Deposits'?

There are two different types of 'Fixed Deposits'

Special Term Deposits: In this type of 'Fixed Deposits', the earned interest on the deposit is added to the principal amount and compounded quarterly. This amount is accumulated and repaid with the principal amount on maturity of the deposit.

Ordinary Term Deposits: In this type of 'Fixed Deposits', the earned credit is credited to the investor's account, once in a quarter. In some cases, interest may be credited on a monthly basis.

The earned interest on fixed deposits is non-taxable. You can also take a loan against your fixed deposit.

48. What are the different types of Loans offered by Commercial Banks?

Start-Up Loans - This type of Loan is offered to borrower to start their business and can be used to build a storefront, to acquire inventory or pay franchise fees to get a business rolling.

Line of Credit - Lines of credit are another type of business loan provided by commercial banks. It is more like a security for your business; the bank allows the customer to withdraw the amount from readily available funds in an adverse time. Customer or Company can pay back over time and withdraw money again without going into the loan process.

Small Business Administration Loans: It is a Federal Agency (U.S) that gives funding to small businesses and entrepreneurs. SBA (Small Business Administration) loans are made through banks, credit unions and other lenders who partners with SBA.

49. What is 'Bill Discount'?

'Bill Discount' is a settlement of the bill, where your electricity bill or gas bill is sold to a bank for early payment at less than the face value and the bank will recover the full amount of the bill from you before bill due date. For example, electricity bill for XYZ is Rs. 1000; the electricity bill company will sell the bill to the bank for 10% to 20% discount to the face value. Here, the bank will buy the electricity bill for \$900 whose face value is Rs. 1000, now the bank will recover, full amount of bill from the customer

i.e Rs. 1000. If the customer fails to pay the bill, the bank will put interest on the outstanding bill and ask the customer for the payment.

50. What is 'Bill Purchase'?

In 'Bill Purchase' the loan will be created for the full value of the draft and the interest will be recovered when the actual payment comes. For example, a 'Sight draft' is presented for which the loan is created for 100% of the draft value. The money is received after 7 days, and then the interest will be recovered for 7 days along with the principal amount.

51. What is 'Cheque Discount'?

Cheque discounting service is offered only by few banks. For instance, if you have a cheque of Rs. 3000 outstation and the cheque will take 7 seven days for clearance, then bank will offer you a service for early payment. The bank can make an early payment, but they will pay only for certain percentage of the actual amount, here they will pay you Rs. 2000 but they will charge interest on it and the remaining Rs. 1000 will be paid, once the outstation cheques get clear.

52. What is the Treasury Stock Method?

The treasury stock method is used to calculate the net increase in shares outstanding if in-the-money options and warrants were to be exercised.

53. Why Should a Company Prefer Equity Finance to Debt Finance?

Equity financing is less risky (you won't have to pay it back). You'll have more cash on hand. You won't have to channel profits into loan repayment. Your equity investors will have a longer term view. Your company will have more credibility. And you might get to tap your investors' network to help you develop the business.

54. What is Accretion and Dilution?

Accretion is asset growth through addition or expansion. Accretion can occur through a company's internal development or by way of mergers and acquisitions. Dilution is a reduction in earnings per share of stock that occurs when additional shares are issued or the stock changes into convertible securities.

55. Define Capital Assets Pricing Method (CAPM)

CAPM is the capital asset pricing model, and it is a model designed to find the expected return on an investment and therefore the appropriate discount rate for a company's cash flows. It provides the required rate of return given the riskiness of the asset.

56. What is Capital Adequacy Ratio? What is Demat Account?

CAR is the proportion of capital to the banks' risk. DEMAT accounts are those in which shares, securities and insurance policies are kept in electronic form.

57. What is Inflation and Deflation?

Inflation: is the increase in the price of goods and services due to more demand and less supply. In inflation, there is more liquidity in market which has to be controlled to reduce the purchasing power of customers.

Deflation: is the decrease in prices of goods and services due to more supply and very less demand. In deflation, there is lack of liquidity in market which results in very weak purchasing power of people.

58. What is The CAD? What is Fiscal Deficit?

CAD or current account deficit is the difference between the imports and exports of a nation in one financial year whereas fiscal deficit is the difference between total revenue and expenditure of a nation.

59. What is the difference between FII and FDI?

FDI or foreign direct investment is an investment that a parent company makes in a foreign country. FII or Foreign Institutional Investor is an investment made by an investor in the markets of a foreign nation. FII can enter the stock market easily and also withdraw from it easily. But FDI cannot enter and exit that easily as FDI only targets a specific sector.

60. What is Banking Ombudsman Scheme?

Banking ombudsman scheme is a scheme to listen to customer's grievances and complaints regarding certain services provided by the bank. It was introduced under the Section 35 A of banking regulation act, 1949 by RBI with effect from 1995 which was later amended and became the banking ombudsman scheme, 2006.

Customer can appeal against the decision of ombudsman to deputy governor of RBI. He is the highest authority of appeal. All banks in India are covered under the scheme.

61. Discuss about NABARD and its functions

NABARD was established by an act of Parliament on 12 July 1976 as National Bank for Agricultural and Rural Development. It is the apex bank to provide rural credit and monitor the RRBs.

The main functions of NABARD are:-

- Provide refinance to Regional rural banks (RRBs) and other banks in rural areas for lending.
- Acts as a subsidiary for RRBs and co-operative banks.

62. What is Brown Label ATM?

It refers to the ATMs where investment, installation and maintenance is by a private operator but the license and branding is by a commercial bank.

63. What is White Label ATM?

It refers to ATMs owned by corporate or private operators seeking to earn a commission by banks for transactions performed by their customers.

For ex:- INDICASH by TATA group.

64. What is Term Repo?

Under term repo, RBI lends to banks through auction of funds. The minimum interest charged has to be above the repo rate and there is no limit for maximum interest rate because auction is made on the rate of interest.

65. What is Marginal Standing Facility (MSF)?

Marginal Standing Facility (MSF) is the rate at which scheduled banks could borrow funds overnight from the Reserve Bank of India (RBI) against approved government securities. In MSF, banks borrow money from RBI for up to 24 hours. MSF is always 1% above the repo rate and banks can draw only up to 25 of their NDTL from RBI.

66. What is Repo Rate and Reverse Repo Rate?

Repo Rate - When RBI provides a loan to the bank for short-term between 1 to 90, RBI takes some interest from the bank which is termed as Repo Rate.

Reverse Repo Rate - When bank deposit its excess money in RBI then RBI provides some interest to that bank. This interest is known as Reverse Repo Rate.

67. What is Financial Inclusion?

Financial inclusion is the pursuit of making financial services accessible at affordable costs to all individuals and businesses, regardless of net worth and size, respectively. Financial inclusion strives to address and proffer solutions to the constraints that exclude people from participating in the financial sector. It is also called inclusive financing.

Financial inclusion is the availability of banking services at an affordable cost in order to include the weaker section of the society in the banking system.

68. What is the difference between Micro Finance and Micro Credit?

Micro credit is giving a small amount of loan to the customers whereas Micro Finance is a wide term. It includes small loan + training on financial matters. In other words, Microfinance= Microcredit + Financial Literacy.

69. What is Priority Sector Credit?

All Indian banks and foreign banks (which have more than 20 branches in India) are required give 40% of their credit to priority sector out of which 18% is for agriculture. In case of Regional Rural Banks, 60% credit is to be given to priority sector.

70. What are the components of the monetary policy of RBI?

The components of monetary policy include CRR, Repo rate, reverse repo rate, SLR, MSF and Bank Rate.

71. What is Para Banking?

Para Banking includes all the services provided by banks apart from day to day banking. For example: Debit cards, Credit cards, Life Insurance products, Cash Management services etc.

72. We hear regularly that all bank branches are turning CBS. What is CBS?

CBS stands for CORE banking solutions under which the branches of the banks are interconnected with each other through intranet with a central database server. The CORE word in CBS stands for Centralized Online Real time Exchange.

73. What is the meaning of “Base Rate”?

Base Rate is the minimum rate of interest which a bank has to charge from its customers and a bank can't sanction loan on a rate below the base rate. Banks may choose any benchmark to decide on the base rate.

The exceptions of base rate are:-

Agriculture loans

Sponsored schemes

Staff loans

Only under the above cases, bank can lend below base rate.

Only under the above cases, bank can lend below base rate.

74. Discuss BSBDA

BSBDA stands for Basic Savings Bank deposit account. BSBDA is the new name for “no-frill accounts” under which anyone can open a bank account with even zero balance in it or “zero balance account”. This BSBDA is aimed at providing banking facilities to weaker section of the society and improve financial inclusion.

75. What are Cooperative Banks?

Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

Example: karimnagar dist co-op bank, Adarsh cooperative bank etc.

76. What are the parts of banks' capital?

Bank has following parts of capital:-

Tier 1 capital: Paid up capital (core capital) + Reserves (owners or promoters' fund)

Tier 2 capital: Secondary Capital (borrowed funds) + general loss reserves + subordinated term debts + undisclosed reserves (can't be maintained in India)

Tier 3 capital: Same as tier 2 capital but with a higher amount in order to face the market risks of the bank.

77. What is Regional Rural Banks?

Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services.

Example of RRB's: Pragathi grameena bank, Rayalaseema grameena bank etc.

78. What do you mean by term "CASA" related to bank?

CASA stands for Current Account Savings Account. The CASA ratio shows how much deposit a bank has in the form of current and saving account deposits in the total deposit. A higher CASA ratio means better operating efficiency of the bank because on current account there is no interest payable whereas on savings account a tiny 3.5% interest is payable by the bank. CASA ratio shows how much of the deposit of the bank comes from the current and savings deposit.

79. What are the various risks that banks face?

There are mainly three types of risks faced by banks:-

Credit Risk: loan or NPA

Market Risk: Money invested in the market

Operational risk: Day-to-Day working risks

80. What are the Non-Performing Assets (NPA) of a company?

A NPA is an obligation payable to the bank which has not been made or the interest and principal amount has not been paid on the due time. NPA is the loan or credit provided by the bank to its customers which could not be recovered in due time. NPA is also known as "bad debts".

81. What is a Non -Banking Financial Company (NBFC)?

A NBFC is a company registered under the Companies act, 1956 which is involved in the business of loans, shares/stocks, etc. Non-banking financial companies are financial institutions that provide banking services, but do not hold a banking license.

These institutions are not allowed to take deposits from the public. NBFCs do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting, and merger activities.