

## **Banking – Module**

Traditionally banks in India have four types of deposit accounts, namely Current Accounts, Saving Banking Accounts, Recurring Deposits and, Fixed Deposits. However, in recent years, due to ever increasing competition, some banks have introduced new products, which combine the features of above two or more types of deposit accounts. These are known by different names in different banks, e.g 2-in-1 deposits, Smart Deposits, Power Saving Deposits, Automatic Sweep Deposits etc. However, these have not been very popular among the public.

### **What is a Current Account ? Who uses current accounts? Current Accounts in Banks**

Current Accounts are basically meant for businessmen and are never used for the purpose of investment or savings. These deposits are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day. Most of the current account are opened in the names of firm / company accounts. Cheque book facility is provided and the account holder can deposit all types of the cheques and drafts in their name or endorsed in their favour by third parties. No interest is paid by banks on these accounts. On the other hand, banks charges certain service charges, on such accounts.

### **Features of Current Accounts :**

(a) The main objective of Current Account holders in opening these account is to enable them (mostly businessmen) to conduct their business transactions smoothly.

(b) There are no restrictions on the number of times deposit in cash / cheque can be made or the amount of such deposits;

(c) Usually banks do not have any interest on such current accounts. However, in recent times some banks have introduced special current accounts where interest (as per banks' own guidelines) is paid

(d) The current accounts do not have any fixed maturity as these are on continuous basis accounts

### **What is a Savings Bank Account ? Who uses Saving Bank Accounts ?**

These deposits accounts are one of the most popular deposits for individual accounts. These accounts not only provide cheque facility but also have lot of flexibility for deposits and withdrawal of funds from the account. Most of the banks have rules for the maximum number of withdrawals in a period and the maximum amount of withdrawal, but hardly any bank enforces these. However, banks have every right to enforce such restrictions if it is felt that the account is being misused as a current account. Till 24/10/2011, the interest on Saving Bank Accounts was regulated by RBI and it was fixed at 4.00% on daily balance basis. However, wef 25th October, 2011, RBI has deregulated Saving Fund account interest rates and now banks are free to decide the same within certain conditions imposed by RBI. Under directions of RBI, now banks are also required to open no frill accounts (this term is used for accounts which do not have any minimum balance requirements). Although Public Sector Banks still pay only 4% rate of interest, some private banks like Kotak Bank and Yes Bank pay between 6% and 7% on such deposits. From the FY 2012-13, interest earned upto Rs 10,000 in a financial year on Saving Bank accounts is exempted from tax.

## **What are Recurring Deposit Accounts ? Who use Recurring Deposit Accounts ? or RD accounts**

These are popularly known as RD accounts and are special kind of Term Deposits and are suitable for people who do not have lump sum amount of savings, but are ready to save a small amount every month. Normally, such deposits earn interest on the amount already deposited (through monthly installments) at the same rates as are applicable for Fixed Deposits / Term Deposits. These are best if you wish to create a fund for your child's education or marriage of your daughter or buy a car without loans or save for the future.

Under these type of deposits, the person has to usually deposit a fixed amount of money every month (usually a minimum of Rs,100/- p.m.). Any default in payment within the month attracts a small penalty. However, some Banks besides offering a fixed installment RD, have also introduced a flexible / variable RD. Under these flexible RDs the person is allowed to deposit even higher amount of installments, with an upper limit fixed for the same e.g. 10 times of the minimum amount agreed upon.

These accounts can be funded by giving Standing Instructions by which bank withdraws a fixed amount on a fixed date of the month from the saving bank of the customer (as per his mandate), and the same is credited to RD account.

Recurring Deposit accounts are normally allowed for maturities ranging from 6 months to 120 months. A Pass book is usually issued wherein the person can get the entries for all the deposits made by him / her and the interest earned. Banks also indicate the maturity value of the RD assuming that the monthly instalments will be paid regularly on due dates. In case instalment is delayed, the interest payable in the account will be reduced and some

**nominal penalty charged for default in regular payments. Premature withdrawal of accumulated amount permitted is usually allowed (however, penalty may be imposed for early withdrawals). These accounts can be opened in single or joint names. Nomination facility is also available.**

## **What are Fixed Deposit Accounts in India or Term Deposits**

All Banks in India (including SBI, PNB, BoB, BoI, Canara Bank, ICICI Bank, Yes Bank etc.) offer fixed deposits schemes with a wide range of tenures for periods from 7 days to 10 years. These are also popularly known as FD accounts. However, in some other countries these are known as "Term Deposits" or even called "Bond". The term "fixed" in Fixed Deposits (FD) denotes the period of maturity or tenor. Therefore, the depositors are supposed to continue such Fixed Deposits for the length of time for which the depositor decides to keep the money with the bank. However, in case of need, the depositor can ask for closing (or breaking) the fixed deposit prematurely by paying a penalty (usually of 1%, but some banks either charge less or no penalty). (Some banks introduced variable interest fixed deposits. The rate of interest on such deposits keeps on varying with the prevalent market rates i.e. it will go up if market interest rates goes and it will come down if the market rates fall. However, such type of fixed deposits have not been popular till date).

The rate of interest for Fixed Deposits differs from bank to bank (unlike earlier when the same were regulated by RBI and all banks used to have the same interest rate structure. The present trends indicate that private sector and foreign banks offer higher rate of interest.

The earlier trend that private sector and foreign banks offer higher rate of interest is no more valid these days. However, now a days small banks are forced to offer higher rate of interest to attract more deposits. Usually a bank FD is paid in lump sum on the date of maturity. However, most of the banks have also facility to pay/ credit interest in saving account at the end of every quarter. If one desires to get interest paid every month, then the interest paid will be at a marginal discounted rate. In the changed computerized

environment, now the Interest payable on Fixed Deposit can also be easily transferred on due dates to Savings Bank or Current Account of the customer.

## **BANK DEPOSITS VS. OTHER INVESTMENTS**

Are Bank Deposits Superior to other Investments? What deposits are safe?

| <b>BANK DEPOSITS</b>  | <b>OTHER INVESTMENTS</b>   |
|---|--|
| Bank deposits are one of the safest investments and risk of default is minimal  | Investments in equities, company deposits, debentures, mutual funds etc. is more risky. However, investments in RBI Bonds, Government Securities are even more safe.   |
| Banks deposits give an almost assured, fixed and uninterrupted returns  | The returns from equities, mutual funds is not assured. The company deposits and debentures may stop servicing of interest any time due to losses. However, investments in RBI bonds, PPF, Government securities give assured returns. |
| It is easy to choose a deposit scheme at a Bank as they are simple and can be understood by a layman  | The investments in equities and mutual funds is much more complicated and complex for a layman.  |
| There are no rebates available under Income Tax for deposits in Banks, except under special schemes now floated by Banks for availing the income tax rebates. | Deposits in schemes like NSC, PPF, Infrastructure allows rebates in Income Tax.  |
| Bank deposits give lower rate of returns  | Company Deposits, debentures, equities can give higher returns, but have higher degree of risk.  |

## What is RTGS ?

The full form of RTGS is "Real Time Gross Settlement". RTGS can be defined as "as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting")

## What do you mean by Real Time? What is the Meaning of Gross Settlement"?

Here the words 'Real Time' refers to the process of instructions that are executed at the time they are received, rather than at some later time. On the other hand "Gross Settlement" means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). The settlement of funds actually takes place in the books of RBI and thus the payments are considered as final and irrevocable.

## What is NEFT ?

The full form of NEFT is "National Electronic Funds Transfer (NEFT)". The NEFT is a nation wide payment system facilitating one-to-one funds transfer. Under this system, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the system.

## RTGS Vs NEFT :

Thus, we can say that both RTGS and NEFT are schemes started by RBI for the benefit of the customers which allow accounts holders in the banks to electronically transfer the funds intra-bank. In the case of RTGS, settlement is on 'Real Time' basis whereas in case of NEFT the settlement is on batch basis and net basis. There are some other rules, regulations and differences, which we will be discussing below:-

## What are the minimum and maximum amount of remittance under RTGS and NEFT :

|                                   | RTGS             | NEFT |
|-----------------------------------|------------------|------|
| Minimum Amount :<br>minimum limit | RS 2 lakhs       | No   |
| Maximum Amount :<br>upper ceiling | No upper ceiling | No   |

(However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances and remittances to Nepal.)

## What are the operating hours of RTGS and NEFT ?

RBI has prescribed the following operating hours for NEFT : Presently, NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays.



**RBI has prescribed the following operating hours for RTGS :** The RTGS service window for customer's transactions is available from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 13.30 hours on Saturdays for settlement at the RBI end.

However, remember that the timings of both RTGS and NEFT at the bank can vary depending on the customer timings of the bank branches.

Moreover, normally, banks close their own window for accepting the transactions, about 15 minutes before the above time as to allow them to put the transaction in the system so that it reaches by the upper time limit at the RBI window. Thus, for each bank / branch the above timings may sometimes vary.

**What are the processing / service Charges for RTGS and NEFT transactions :**

RTGS : (a) Inward Transactions : Free, no charge to be levied;

(b) Outward Transactions: Rs 2 lakh to Rs 5 lakh - Not exceeding Rs 30 per transaction; Above Rs 5 lakh - not exceeding Rs 55 transactions;

NEFT :

**Transactions at destination bank branches (for credit to beneficiary accounts) - Free, no charges to be levied from beneficiary**

**Transactions at originating bank branches – charges applicable for the remitter**

**Transactions up to Rs 10,000 : not exceeding Rs 2.50 (+ Service Tax)**

**Transactions above Rs 10,000 up to Rs 1 lakh: not exceeding Rs 5 (+ Service Tax)**

**Transactions above Rs 1 lakh and up to Rs 2 lakhs: not exceeding Rs 15 (+ Service Tax)**

**Transactions above Rs 2 lakhs: not exceeding Rs 25 (+ Service Tax)**

How Much Time it takes to transfer the funds through RTGS? I do not see that transfer takes place on real time basis?

In terms of the procedure as laid down by RBI, the beneficiary branches are expected to receive the funds on real time basis i.e. as soon as funds are transferred by the remitting bank. However, there are delays due to processing at the remitting and receiving bank. RBI has allowed the beneficiary banks to credit the beneficiary's account within two hours of receiving the funds transfer message. Thus, we do not see the transfers on real time basis and there are some delays. It is hoped that slowly this time will get reduced as more and bank and branches improve their internal transfer system.

**What is Bank Rate ? (For Non Bankers) :** This is the rate at which central bank (RBI) lends money to other banks or financial institutions. If the bank rate goes up, long-term interest rates also tend to move up, and vice-versa. Thus, it can be said that in case bank rate is hiked, in all likelihood banks will hike their own lending rates to ensure that they continue to make profit.

**What is CRR?** The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with its gazette notification. Consequent upon amendment to sub-Section 42(1), the Reserve Bank, having regard to the needs of securing the monetary stability in the country, RBI can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate. [Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe CRR for scheduled banks between 3 per cent and 20 per cent of total of their demand and time liabilities].

RBI uses CRR either to drain excess liquidity or to release funds needed for the growth of the economy from time to time. Increase in CRR means that banks have less funds available and money is sucked out of circulation. Thus we can say that this serves dual purposes i.e. (a) ensures that a portion of bank deposits is kept with RBI and is totally risk-free, (b) enables RBI to control liquidity in the system, and thereby, inflation by tying the hands of the banks in lending money.

**What is CRR (For Non Bankers):** CRR means Cash Reserve Ratio. Banks in India are required to hold a certain proportion of their deposits in the form of cash. However, actually Banks don't hold these as cash with themselves, but deposit such case with Reserve Bank of India (RBI) / currency chests, which is considered as equivalent to holding cash with RBI. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI and is known as the CRR or Cash Reserve Ratio. Thus, When a bank's deposits increase by Rs100, and if the cash reserve ratio is 6%, the banks will have to hold additional Rs 6 with RBI and Bank will be able to use only Rs 94 for investments and lending / credit purpose. Therefore, higher the ratio (i.e. CRR), the lower is the amount that banks will be able to use for lending and investment. This power of RBI to reduce the lendable amount by increasing the CRR, makes it an instrument in the hands of a central bank through which it can control the amount that banks lend. Thus, it is a tool used by RBI to control liquidity in the banking system.

**What is SLR ? (For Non Bankers) :** SLR stands for Statutory Liquidity Ratio. This term is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities. Thus, we can say that it is ratio of cash and some other approved securities to liabilities (deposits) It regulates the credit growth in India.

### **What are Repo rate and Reverse Repo rate?**

**Repo (Repurchase) rate is the rate at which the RBI lends short-term money to the banks against securities. When the repo rate increases borrowing from RBI becomes more expensive. Therefore, we can say that in case, RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate; similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate**

**Reverse Repo rate is the rate at which banks park their short-term excess liquidity with the RBI. The banks use this tool when they feel that they are stuck with excess funds and are not able to invest anywhere for reasonable returns. An increase in the reverse repo rate means that the RBI is ready to borrow money from the banks at a higher rate of interest. As a result, banks would prefer to keep more and more surplus funds with RBI.**

**Thus, we can conclude that Repo Rate signifies the rate at which liquidity is injected in the banking system by RBI, whereas Reverse repo rate signifies the rate at which the central bank absorbs liquidity from the banks**

## **Background to NPA :**

In the wake of the financial reforms undertaken by the Government of India based on the Narasimhan Committee report I and II, prudential norms were introduced by Reserve Bank of India to address the credit monitoring process being adopted and pursued by the banks and financial institutions. To strengthen further the recovery of dues by banks and financial institutions, Government of India promulgated The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

## **What are NPAs ? Which Accounts Are Classified as NPA ? When An Account is Termed as Non Performing Asset ?**

An account is declared as NPA based on the recovery of installments and interest on loans and advances and other aspects as per RBI norms. The updated norms to declare the account as NPA are as follows as per RBI guidelines:-

1. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.
- 2.
3. A non performing asset (NPA) is a loan or an advance where;
  - (i) Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
  - (ii) The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC), if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.
  - (iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
  - (iv) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
  - (v) The instalment of principal or interest thereon remains overdue for one

Crop season for long duration crops,

- (vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
- (vii) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

# **Credit Information Bureau (India) Limited (CIBIL)**

## **What is CIBIL ? What are its aims?**

**CIBIL is the repository of information which is pooled in from all Banks and lending Institutions operating in India. CIBIL have a database size of over 17 crore consumer records and over 65 lacs company records contributed by our over 500 Members. The Credit Information Companies (Regulation) Act, 2005, and various Rules and Regulations issued by Reserve Bank of India has empowered CIBIL or (Credit Information Bureau (India) Ltd to collect the data from various types of credit grantors (i.e. lenders). and then share the same within the group. The legislation has enabled banks to submit data to CIBIL without obtaining borrower consent This has enabled CIBIL to tracks repayment history of bank customers loans, credit cards and further banking finances.**

**CIBIL's aim is to fulfill the need of credit granting institutions for comprehensive credit information by collecting, collating and disseminating credit information pertaining to both commercial and consumer borrowers, to a closed user group of Members. Banks, Financial Institutions, Non Banking Financial Companies, Housing Finance Companies and Credit Card Companies use CIBIL's services. Data sharing is based on the Principle of Reciprocity, which means that only Members who have submitted all their credit data, may access Credit Information Reports from CIBIL. The relationship between CIBIL and its Members is that of close interdependence.**

## **How Does CIBIL operates?**

**For credit grantors to gain a complete picture of the payment history of a credit applicant, they must be able to gain access to the applicant's complete credit record that may be spread over different institutions. CIBIL collects company and consumer credit-related data and collates such data to create and distribute credit reports to Members.**

**Thus, we can say that CIBIL collects commercial and consumer credit-related data and collates such data to create and distribute credit reports to Members. (A Credit Information Report (CIR) is a factual record of a borrower's credit payment history compiled from information received from different credit grantors. Its purpose is to help credit grantors make informed lending decisions - quickly and objectively).**

### How Can I purchase my own Report :

There is a procedure for purchase of one's own CIBIL report so that before you apply for loan, you are aware of the same . You can visit the following link to buy the report from

CIBIL : <http://www.cibil.com/credit-score>

AND <https://www.cibil.com/online/manageCustomerDetails.do?action=showAddPaymentPage>

### Does Banks report the names of all customers' to CIBIL?

Only the names of the borrowers i.e. those customers who have availed of a loan or a credit card from a CIBIL member, are reported to CIBIL. Details of liability accounts such as savings, fixed deposits and recurring deposits are not sent to CIBIL.

### If a loan is denied to a customer by one bank on the grounds of the CIBIL report, will it be denied by other banks too?

Approval or rejection of a credit application depends on the bank's policies. Rejection by one bank on the grounds of the CIBIL report might not imply rejection by another bank.

### How Does a Score Is Related to Loan Appraisal :

- A strong credit history & a higher score will get you better credit terms - better loan amounts & attractive rates of interest.
- 
- If you have defaulted on any payment, then your credit history will be impacted and it may limit your ability to get a new credit product, or sustain the current product

### Books for Banking

- ' Books for JAIIB Exams
- ' Books for CAIIB Exams
- ' Books Published by Indian Institute of Bank Finance for Bankers
- ' Books for CWE conducted by IBPS for the post of Probationary officers in banks
- ' Books for CWE conducted by IBPS for Specialist Officers - IT officers, Agriculture Officers in banks
- ' Books For CWE conducted by IBPS for the posts of Clerks in banks
- ' Books Relating to Treasury Management

For reference please refer

<http://www.allbankingsolutions.com/>



#### **A) FINANCIAL INSTITUTIONS**

- **Export-Import Bank of India**
- **Haryana State Cooperative Apex Bank Limited (HARCOBank)**
- **Industrial Development Bank of India (IDBI)**
- **Industrial Investment Bank of India Ltd.(IIBI)**
- **National Bank for Agriculture and Rural Development (NABARD)**
- **North Eastern Development Finance Corporation (NEDFI)**
- **SBI Capital Markets Limited**
- **Small Industries Development Bank of India**

#### **B) TRAINING / RESEARCH INSTITUTES (Relating to Banks etc.):**

- **Bankers Training College**
- **Institute for Development and Research in Banking Technology (IDRBT)**
- **North Eastern Institute of Bank Management**
- **Indira Gandhi Institute of Development Research**

#### **C) INSURANCE COMPANIES ETC.**

- **Life Insurance Corporation of India (LIC)**
- **National Insurance Company Limited (NICL)**
- **Oriental Insurance Company Limited (OICL)**

#### **D) INDIAN NEWSPAPERS :**

- **Economic Times**
- **Business Standard**
- **Financial Express**

#### **E) WORLD WIDE LINKS**

- **Bank for International Settlements, Basle**
- **Centre for Central Banking Studies, London**
- **Economic Development Institute, Washington**
- **European Central Bank**
- **European Monetary Institute, Frankfurt**
- **International Monetary Fund**
- **International Swaps and Derivatives Association**
- **The World Bank**



## Define Pledge, Hypothecation and Mortgage.

(1) **Pledge** is used when the lender (pledgee) takes actual possession of assets (i.e. certificates, goods ). Such securities or goods are movable securities. In this case the pledgor retains the possession of the goods until the pledgor (i.e. borrower) repays the entire debt amount. In case there is default by the borrower, the pledgor has a right to sell the goods in his possession and adjust its proceeds towards the amount due (i.e. principal and interest amount). Some examples of pledge are Gold /Jewellery Loans, Advance against goods,/stock, Advances against National Saving Certificates etc.

(2) **Hypothecation** is used for creating charge against the security of movable assets, but here the possession of the security remains with the borrower itself. Thus, in case of default by the borrower, the lender (i.e. to whom the goods / security has been hypothecated) will have to first take possession of the security and then sell the same. The best example of this type of arrangement are Car Loans. In this case Car / Vehicle remains with the borrower but the same is hypothecated to the bank / financier. In case the borrower, defaults, banks take possession of the vehicle after giving notice and then sell the same and credit the proceeds to the loan account. Other examples of these hypothecation are loans against stock and debtors. [Sometimes, borrowers cheat the banker by partly selling goods hypothecated to bank and not keeping the desired amount of stock of goods. In such cases, if bank feels that borrower is trying to cheat, then it can convert hypothecation to pledge i.e. it takes over possession of the goods and keeps the same under lock and key of the bank].

**(3) Mortgage :** is used for creating charge against immovable property which includes land, buildings or anything that is attached to the earth or permanently fastened to anything attached to the earth (However, it does not include growing crops or grass as they can be easily detached from the earth). The best example when mortgage is created is when someone takes a Housing Loan / Home Loan. In this case house is mortgaged in favour of the bank / financier but remains in possession of the borrower, which he uses for himself or even may give on rent.

### Difference Between Pledge, Hypothecation and Mortgage at a Glance:

|                             | Pledge  | Hypothecation                                      | Mortgage                      |
|-----------------------------|---|--|-------------------------------|
| Type of Security            | Movable   | Movable  | Immovable                     |
| Possession of the security  | Remains with lender (pledgee)   | Remains with Borrower                              | Usually Remains with Borrower |
| Examples of Loan where used | Gold Loan, Advance against NSCs, Adv against goods (also given under hypothecation) | Car / Vehicle Loans, Adv against stock and debtors | Housing Loans                 |

### Pledge, Hypothecation and Mortgage Under Indian Law

**Pledge :** Section 172 of the Indian Contract Act defines pledge as "The bailment of goods as a security for the payment of a debt or performance of a promise" The bailor in this case is called a Pawnor and the bailee is called Pawnee

To create a valid pledge in the eyes of Law, the three important points needs to be noted : (a) Delivery of Possession : As in bailment, in pledge too delivery of possession is required. For exmample, in Revenue Authority vs Sundarsanam Pictures, AIR 1968, it was held NOT to be pledge because the film producer borrowed a sum of money from a financier and agreed to deliver the final prints of the film when ready. Thus, there was no delivery of the goods at the time of agreement; (b) Delivery is in return of a loan or promise to perform something. Therefore, if your friend gives you his Motor-cycle to go to college, it is not pledge but can be called simple bailment; (c) It should be in pursuance of a contract : The delivery must be done under a contract (oral or written). However, it is not necessary that delivery and loan take place at the same time. Delivery can be made even after the loan is received.

**Hypothecation:** was not defined under Indian Law for long time and was used more on the basis of practice. However, now under the Secruitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, hypothecation is defined as "a charge in or upon any movable property, existing or future, created by a borrower in favour of a secured creditor without delivery of possession of the movable property to such creditor, as a security for financial assistance, and includes floating charge and crystallization into fixed charge on movable property". .

**Mortgage :** is defined in Section 58 of the "Transfer of Property Act 1882". It is the transfer of an interest in specific immovable property for the purpose of securing payment of money advanced by way of loan.

## What is an Assignment ?

There is another term (i.e. Assignment) which is sometimes confused with above terms. An assignment constitutes an action taken with a contract. Assignment occurs when the owner of a contract, known as the assignor, gives a contract to another party, known as the assignee. The assignee assumes all responsibilities and benefits of the contract. When it comes to loans, assignment can relate to life insurance policies and mortgage contract from one party to another. Mortgages and other contracts sometimes contain provisions limiting or stipulating conditions for assignment.

One example of assignment is 'transfer by the holder of a life insurance policy (the assignor) of the benefits or proceeds of the policy to a lender (the assignee), as a collateral for a loan'. In such case in the event of the death of the assignor, the assignee is paid first and the balance (if any) is paid to the policy's beneficiary. However, insurance policies other than life insurance, may not be used for this purpose.

## What is full form of GAAR ? or What is GAAR ?

The full form of GAAR is : General Anti-Avoidance Rules

## What is GAAR in simple terms ?

Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax. Such rules in simple terms are known as " General Anti Avoidance Rules " or GAAR. Thus GAAR is a set of general rules enacted so as to check the tax avoidance.

## Why News for GAAR has been prominent in India in recent times ?

News for GAAR has been in prominence in last few years as Indian Government has taken initiative to introduce GAAR or General Anti Avoidance Rules with a view to increase tax collections.

## Background for GAAR :

Lord Tomlin has well said "Every man is entitled to order his affairs so that tax attaching under the appropriate Acts is less than it otherwise would be" (IRC v Duke of Westminster). People adopt various methods so that they can reduce their total tax liability.

The methods adopted to reduce their tax liability can be broadly put into four categories : "Tax Evasion"; "Tax Avoidance", "Tax Mitigation" and "Tax Planning". The difference between these four methods some times

becomes blurred owing to the perception of the tax authorities and / or tax payer.

### What is Difference between GAAR and SAAR ?

Anti Avoidance Rules are broadly divided into two categories namely "General" and "Specific". Thus, legislation dealing with "General" rules are termed as GAAR, whereas legislation dealing with "Speicific avoidnace are termed as "SAAR"

In India till recently SAAR was in vogue i.e. laws were amended to plug specific loopholes as and when they were noticed or were misused enmasse. However, now Indian tax authorities wants to move towards GAAR but are facing severe opposition as tax payers fear that these will be misused by tax authorities by giving arbitrary and wide interpretations. We can say SAAR being more specific provide certainty to taxpayers where as GAAR being general in nature can be misused and is subject to arbitrary interpretation by tax authorities.

### GAAR Definition :

GAAR is a concept which generally empowers the Revenue Authorities in a country to deny the tax benefits of transactions or arrangments which do not have any commercial substance or consideration other than achieving the tax benefit. Whenever revenue authorities question such transactions, there is a conflict with the tax payers. Thus, different countries started making rules so that tax can not be avoided by such transactions. Australia introduced such rules way back in 1981. Later on countries like Germany,



France, Canada, New Zealand, South Africa etc too opted for GAAR. However, countries like USA and UK have adopted a cautious approach and have not been aggressive in this regard.

Thus, in nutshell we can say that GAAR usually consists of a set of broad rules which are based on general principles to check the potential avoidance of the tax in general, in a form which can not be predicted and thus can not be provided at the time when it is legislated.

### GAAR in India (Chronology of GAAR controversy in India)

In India, the real discussions on GAAR came to light with the release of draft Direct Taxes Code Bill (popularly known as DTC 2009) on 12th August 2009. It contained the provisions for GAAR. Later on the revised Discussion Paper was released in June 2010, followed by tabling in the Parliament on 30th August, 2010, a formal Bill to enact the law known as the Direct Taxes Code 2010. The same was to be made applicable wef 1st April, 2012. However, owing to negative publicity and pressures from various groups, GAAR was postponed to at least 2013, and was likely to be introduced alongwith the Direct Tax Code (DTC) from 1st April 2013. Moreover, an Expert Committee has been set by Prime Minister (Manmohan Singh) in July 2012 to vet and rework the GAAR guidelines issued in June 2012. The latest reports (September 2012) indicates, it may not be implemented even for 3 years i.e. this will be postponed for 3 years (2016-17).

Two Examples to Understand GAAR provisions : (Source GAAR Committee)

#### **Example 1:**

##### **Facts:**

A business sets up an undertaking in an under developed area by putting in substantial investment of capital, carries out manufacturing activities therein and claims a tax deduction

on sale of such production/manufacturing. Is GAAR applicable in such a case ?

**Interpretation:**

There is an arrangement and one of the main purposes is a tax benefit. However, this is a case of tax mitigation where the tax payer is taking advantage of a fiscal incentive offered to him by submitting to the conditions and economic consequences of the provisions in the legislation e.g., setting up the business only in the under developed area. Revenue would not invoke GAAR as regards this arrangement.

**Example 2:**

**Facts:**

A business sets up a factory for manufacturing in an under developed tax exempt area. It then diverts its production from other connected manufacturing units and shows the same as manufactured in the tax exempt unit (while doing only process of packaging there). Is GAAR applicable in such a case ?

**Interpretation:**

There is an arrangement and there is a tax benefit, the main purpose or one of the main purposes of this arrangement is to obtain a tax benefit. The transaction lacks commercial substance and there is misuse of the tax provisions. Revenue would invoke GAAR as regards this arrangement.

## **Mutual Funds**

### **What are Mutual Funds? Define Mutual Fund / Definition of Mutual Funds ( MF ) in India**

**Mutual funds are in the form of Trust (usually called Asset Management Company) that manages the pool of money collected from various investors for investment in various classes of assets to achieve certain financial goals. We can say that Mutual Fund is trusts which pool the savings of large number of investors and then reinvests those funds for earning profits and then distribute the dividend among the investors. In return for such services, Asset Management Companies charge small fees. Every Mutual Fund / launches different schemes, each with a specific objective. Investors who share the same objectives invests in that particular Scheme. Each Mutual Fund Scheme is managed by a Fund Manager with the help of his team of professionals (One Fund Manager may be managing more than one scheme also).**

### **Where does Mutual Funds usually invest their funds :**

**The Mutual Funds usually invest their funds in equities, bonds, debentures, call money etc., depending on the objectives and terms of scheme floated by MF. Now a days there are MF which even invest in gold or other asset classes.**

### **What is NAV ? Define NAV :**

**NAV means Net Asset Value. The investments made by a Mutual Fund are marked to market on daily basis. In other words, we can say that current market value of such investments is calculated on daily basis. NAV is arrived at after deducting all liabilities**

(except unit capital) of the fund from the realisable value of all assets and dividing by number of units outstanding. Therefore, NAV on a particular day reflects the realisable value that the investor will get for each unit if the scheme is liquidated on that date. This NAV keeps on changing with the changes in the market rates of equity and bond markets.

Therefore, the investments in Mutual Funds is not risk free, but a good managed Fund can give you regular and higher returns than when you can get from fixed deposits of a bank etc.

### WHAT ARE VARIOUS TYPES OF MUTUAL FUNDS :

A common man is so much confused about the various kinds of Mutual Funds that he is afraid of investing in these funds as he can not differentiate between various types of Mutual Funds with fancy names. Mutual Funds can be classified into various categories under the following heads:-

**(A) ACCORDING TO TYPE OF INVESTMENTS :-** While launching a new scheme, every Mutual Fund is supposed to declare in the prospectus the kind of instruments in which it will make investments of the funds collected under that scheme. Thus, the various kinds of Mutual Fund schemes as categorized according to the type of investments are as follows :-

- (a) EQUITY FUNDS / SCHEMES
- (b) DEBT FUNDS / SCHEMES (also called Income Funds)
- (c) DIVERSIFIED FUNDS / SCHEMES (Also called Balanced Funds)
- (d) GILT FUNDS / SCHEMES
- (e) MONEY MARKET FUNDS / SCHEMES
- (f) SECTOR SPECIFIC FUNDS

## (g) INDEX FUNDS

**B) ACCORDING TO THE TIME OF CLOSURE OF THE SCHEME :** While launching new schemes, Mutual Funds also declare whether this will be an open ended scheme (i.e. there is no specific date when the scheme will be closed) or there is a closing date when finally the scheme will be wind up. Thus, according to the time of closure schemes are classified as follows :-

(a) OPEN ENDED SCHEMES

(b) CLOSE ENDED SCHEMES

Open ended funds are allowed to issue and redeem units any time during the life of the scheme, but close ended funds can not issue new units except in case of bonus or rights issue. Therefore, unit capital of open ended funds can fluctuate on daily basis (as new investors may purchase fresh units), but that is not the case for close ended schemes. In other words we can say that new investors can join the scheme by directly applying to the mutual fund at applicable net asset value related prices in case of open ended schemes but not in case of close ended schemes. In case of close ended schemes, new investors can buy the units only from secondary markets.

**C) ACCORDING TO TAX INCENTIVE SCHEMES :** Mutual Funds are also allowed to float some tax saving schemes. Therefore, sometimes the schemes are classified according to this also:-

(a) TAX SAVING FUNDS

(b) NOT TAX SAVING FUNDS / OTHER FUNDS

**(D) ACCORDING TO THE TIME OF PAYOUT :** Sometimes Mutual Fund schemes are classified according to the periodicity of the pay outs (i.e. dividend etc.). The categories are as follows :-

- (a) Dividend Paying Schemes
- (b) Reinvestment Schemes

The mutual fund schemes come with various combinations of the above categories. Therefore, we can have an Equity Fund which is open ended and is dividend paying plan. Before you invest, you must find out what kind of the scheme you are being asked to invest. You should choose a scheme as per your risk capacity and the regularity at which you wish to have the dividends from such schemes

### **How Does a Mutual Fund Scheme Different from a Portfolio Management Scheme ?**

In case of Mutual Fund schemes, the funds of large number of investors is pooled to form a common investible corpus and the gains / losses are same for all the investors during that given peirod of time. On the other hand, in case of Portfolio Management Scheme, the funds of a particular investor remain identifiable and gains and losses for that portfolio are attributable

to him only. Each investor's funds are invested in a separate portfolio and there is no pooling of funds.

### Are MFs suitable for Small Investors or Big investors ? Why Should I Invest in a Mutual Fund when I can Invest Directly in the Same Instruments

We have already mentioned that like all other investments in equities and debts, the investments in Mutual funds also carry risk. However, investments through Mutual Funds is considered better due to the following reasons :-

- (a) Your investments will be managed by professional finance managers who are in a better position to assess the risk profile of the investments;
- 
- (b) In case you are a small investor, then your investment cannot be spread into equity shares of various good companies due to high price of such shares. Mutual Funds are in a much better position to effectively spread your investments across various sectors and among several products available in the market. This is called risk diversification and can effectively shield the steep slide in the value of your investments.

- 

Thus, we can say that Mutual funds are better options for investments as they offer regular investors a chance to diversify their portfolios, which is something they may not be able to do if they decide to make direct investments in stock market or bond market. These are particularly good for small investors who have limited funds and are not aware of the intricacies of stock markets. For example, if you want to build a diversified portfolio of 20 scrips, you would probably need Rs 2,00,000 to get started (assuming that you make minimum

investment of Rs 10000 per scrip). However, you can invest in some of the diversified Mutual Fund schemes for an low as Rs.10,000/-

### What are risks by investing funds in Mutual Funds :

We are aware that investments in stock market are risky as the value of our investments goes up or down with the change in prices of the stocks where we have invested. Therefore, the biggest risk for an investor in Mutual Funds is the market risk. However, different Schemes of Mutual Funds have different risk profile, for example, the Debt Schemes are far less risk than the equity funds. Similarly, Balance Funds are likely to be more risky than Debt Schemes, but less risky than the equity schemes.

### What is the difference between Mutual Funds and Hedge Funds :

Hedge Funds are the investment portfolios which are aggressively managed and uses advanced investment strategies, such as leveraged, long, short and derivative positions in both domestic and international markets with a goal of generating high returns . In case of Hedged Funds, the number of investors is usually small and minimum investment required is large. Moreover, they are more risky and generally the investor is not allowed to withdraw funds before a fixed tenure.

### Some other important Terms Used in Mutual Funds

**Sale Price** : It is the price you pay when you invest in a scheme and is also



called "Offer Price". It may include a sales load.

**Repurchase Price** : - It is the price at which a Mutual Funds repurchases its units and it may include a back-end load. This is also called Bid Price.

**Redemption Price** : It is the price at which open-ended schemes repurchase their units and close-ended schemes redeem their units on maturity. Such prices are NAV related.

**Sales Load / Front End Load** : It is a charge collected by a scheme when it sells the units. Also called, 'Front-end' load. Schemes which do not charge a load at the time of entry are called 'No Load' schemes.

**Repurchase / 'Back-end' Load** : It is a charge collected by a Mutual Funds when it buys back / Repurchases the units from the unit holders.

## **Insurance**

### **Q1. What is Insurance:**

Insurance is a contract between the insurer and the insured wherein against receipt of certain amount, called premium, the insurer agrees to make good any financial loss that may be suffered by the insured, due to the operation of an insured peril on the subject matter of insurance.

### **Q.2 : Why People Opt for Insurance?**

The Life is full of uncertainties.. People opt for insurance purely for the reasons of uncertainties in life. Insurance gives the insured a kind of peace of mind as he is assured to making up the loss in the event of such uncertainties in life happen.

### **Q.3 How does Insurance work?**

Insurance is a technique wherein a number of people, who are exposed to similar risk, participate in the scheme and contribute in the shape of periodic premiums. Such premiums are received by the insurer who is able to pay out of the premiums received by him, for the losses of some of those who have participated in the scheme.

Thus it is wonderful technique of spreading and transfer or risks.

### **Q.4 : What kind of Insurance Are Available in India :**

Insurance business is divided into four classes , namely :

- 1) Life Insurance. Popular Products in Life insurance are Endowment Assurance (Participating), and Money Back (Participating). More than 80% of the life insurance business is from these products
- 2) Fire Insurance 3) Marine Insurance and 4) Miscellaneous Insurance. Fire and Miscellaneous insurance businesses are predominant. Motor Vehicle insurance is compulsory.

Life Insurers transact life insurance business; General Insurers transact the rest i.e. Fire Insurance, Marine Insurance and Miscellaneous Insurance.

### **Q. 5 : What are the Primary Legislations for Insurance in India:**

In India Insurance is a federal subject. The primary legislations that deals with insurance business in India are:

Insurance Act, 1938, and Insurance Regulatory & Development Authority Act, 1999.

### **Q. 6: What are Consumer Protections Available in India :**

Insurance Industry has Ombudsmen in 12 cities. Each Ombudsman is empowered to redress customer grievances in respect of insurance contracts on personal lines where the insured amount is less than Rs. 20 lakhs, in accordance with the Ombudsman Scheme. Addresses can be obtained from the offices of LIC and other insurers.

## **Basel Norms – An overview**

### **What are the objectives / aims of the Basel III measures ?**

#### **Basel 3 measures aim to:**

- 
- → improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- → improve risk management and governance
- → strengthen banks' transparency and disclosures.

Thus we can say that Basel III guidelines are aimed at to improve the ability of banks to withstand periods of economic and financial stress as the new guidelines are more stringent than the earlier requirements for capital and liquidity in the banking sector.

### **How Does Basel III Requirements Will Affect Indian Banks :**

The Basel III which is to be implemented by banks in India as per the guidelines issued by RBI from time to time, will be challenging task not only for the banks but also for GOI. It is estimated that Indian banks will be required to raise Rs 6,00,000 crores in external capital in next nine years or so i.e. by 2020 (The estimates vary from organisation to organisation). Expansion of capital to this extent will affect the returns on the equity of these banks specially public sector banks. However, only consolation for Indian banks is the fact that historically they have maintained their core and overall capital well in excess of the regulatory minimum.

## **What are Three Pillars of Basel II Norms or What are the changes in Three Pillars of Basel iii Accord ?**

### **Basel III: Three Pillars Still Standing :**

**Any one who has ever heard about Basel I and II, is most likely must have heard about Three Pillars of Basel. Three Pillar of Basel still stand under Basel 3.**

**Basel III has essentially been designed to address the weaknesses that become too obvious during the 2008 financial crisis world faced. The intent of the Basel Committee seems to prepare the banking industry for any future economic downturns.. The framework enhances bank-specific measures and includes macro-prudential regulations to help create a more stable banking sector.**

**The basic structure of Basel III remains unchanged with three mutually reinforcing pillars.**

**Pillar 1 : Minimum Regulatory Capital Requirements based on Risk Weighted Assets (RWAs) : Maintaining capital calculated through credit, market and operational risk areas.**

**Pillar 2 : Supervisory Review Process : Regulating tools and frameworks for dealing with peripheral risks that banks face.**

**Pillar 3: Market Discipline : Increasing the disclosures that banks must provide to increase the transparency of banks**

## **What is Commercial Paper ? Define Commercial Paper ? or What is the meaning of Commercial Paper in India ?**

Commercial Paper (CP) is an "unsecured money market instrument issued in the form of a promissory note". These are not usually backed by any form of collaterals and is allowed to be issued only by corporate with high quality debt ratings. Commercial Paper were introduced in India in 1990 with a view to enable high rated corporate borrowers to raise short term resources by this additional type of instrument which was till that time was not available in India.

## **Who are Eligible to Issue Commercial Paper (CP) in India ? :**

Companies, PDs and FIs are permitted to raise short term resources through CP.

A company would be eligible to issue CP provided:

- i. (i) the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs.4 crore;
- ii. (ii) the company has been sanctioned working capital limit by bank/s or FIs; and
- iii. (iii) the borrowal account of the company is classified as a Standard Asset by the financing bank/institution.

## **Who Are Eligible To Invest in CP ? :**

- a. Individuals, banks, other corporate bodies (registered or incorporated in India) and unincorporated bodies, Non-Resident Indians and Foreign Institutional Investors (FIIs) shall be eligible to invest in CP.

FIIs shall be eligible to invest in CPs subject to

- (i) such conditions as may be set for them by Securities Exchange Board of India (SEBI) and
- (ii) compliance with the provisions of the Foreign Exchange Management Act, 1999, the Foreign Exchange (Deposit) Regulations, 2000 and the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, as amended from time to time

## What are the rating requirement for issuance of Commercial Paper?

Eligible participants/issuers shall obtain credit rating for issuance of CP from any one of the SEBI registered CRAs. The minimum credit rating shall be 'A3' as per rating symbol and definition prescribed by SEBI. The issuers shall ensure at the time of issuance of the CP that the rating so obtained is current and has not fallen due for review.

### Other Guidelines for Issue of CPs :

a. CP shall be issued as a 'stand alone' product. Further, it would not be obligatory in any manner on the part of the banks and FIs to provide stand-by facility to the issuers of CP.

b. Banks and FIs may, based on their commercial judgement, subject to the prudential norms as applicable to them, with the specific approval of their respective Boards, choose to provide stand-by assistance/credit, back-stop facility etc. by way of credit enhancement for a CP issue.

c. Non-bank entities (including corporates) may provide unconditional and irrevocable guarantee for credit enhancement for CP issue provided:

- i. (i) the issuer fulfils the eligibility criteria prescribed for issuance of CP;
- ii. (ii) the guarantor has a credit rating at least one notch higher than the issuer given by an approved CRA; and
- iii. (iii) the offer document for CP properly discloses the net worth of the guarantor company, the names of the companies to which the guarantor has issued similar guarantees, the extent of the guarantees offered by the guarantor company, and the conditions under which the guarantee will be invoked.

d. The aggregate amount of CP that can be issued by an issuer shall at all times be within the limit as approved by its Board of Directors or the quantum indicated by the CRA for the specified rating, whichever is lower.

e. Banks and FIs shall have the flexibility to fix working capital limits, duly taking into account the resource pattern of company's financing, including CP.

f. An issue of CP by an FI shall be within the overall umbrella limit prescribed in the Master Circular on Resource Raising Norms for FIs, issued by the Reserve Bank of India, Department of Banking Operations and Development, as prescribed/ updated from time-to-time.

g. The total amount of CP proposed to be issued should be raised within a period of two weeks from the date on which the issuer opens the issue for subscription. CP may be issued on a single date or in parts on different dates provided that in the latter case, each CP shall have the same maturity date.

**h. Every issue of CP, and every renewal of a CP, shall be treated as a fresh issue.**

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### **Form and Mode of Issuance of Commercial Papers**

- a. **CP shall be issued in the form of a promissory note (as specified in these Directions) and held in physical form or in a dematerialized form through any of the depositories approved by and registered with SEBI, provided that all RBI regulated entities can deal in and hold CP only in dematerialised form through such depositories.**
- b. **Fresh investments by all RBI-regulated entities shall be only in dematerialised form.**
- c. **CP shall be issued at a discount to face value as may be determined by the issuer.**
- d. **No issuer shall have the issue of CP underwritten or co-accepted.**
- e. **Options (call/put) are not permitted on CP.**

**What is the minimum and maximum period for which Commercial Paper can be issued? In what denominations Commercial Paper can be issued?**

- a. **CP shall be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue. The maturity date of the CP shall not go beyond the date up to which the credit rating of the issuer is valid.**
- a. **CP shall be issued in denominations of Rs 5 lakh and multiples thereof. The amount invested by a single investor should not be less than Rs.5 lakh (face value).**

### **Prcedure for Issuance of Commercial Papers :**

- a. **Every issuer must appoint an IPA for issuance of CP.**
- b. **The issuer should disclose to the potential investors, its latest financial position as per the standard market practice.**
- c. **After the exchange of confirmation of the deal between the investor and the issuer, the issuer shall arrange for crediting the CP to the Demat account of the investor with the depository through the IPA.**

- d. The issuer shall give to the investor a copy of IPA certificate to the effect that the issuer has a valid agreement with the IPA and documents are in order.

#### **Procedure for Investment / Redemption :-**

- a. The investor in CP (primary subscriber) shall pay the discounted value of the CP to the account of the issuer through the IPA.
- b. The investor holding the CP in physical form shall, on maturity, present the instrument for payment to the issuer through the IPA.
- c. The holder of a CP in dematerialised form shall get the CP redeemed and receive payment through the IPA.

#### **Documentation Procedures :-**

- a. Standardised procedures and documentation for CPs are prescribed in consultation with Fixed Income Money Market and Derivatives Association of India (FIMMDA) in consonance with international best practices.
- b. Issuers /IPAs shall follow the operational guidelines issued by FIMMDA, from time to time, with the approval of RBI.

#### **Trading and Settlement of CP**

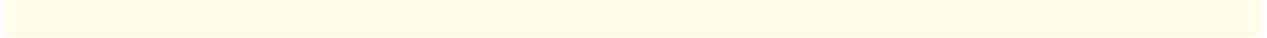
- a.
- b. All OTC trades in CP shall be reported within 15 minutes of the trade to FIMMDA reporting platform.
- c. OTC trades in CP shall be settled through the clearing house of the National Stock Exchange (NSE), i.e., the National Securities Clearing Corporation Limited (NSCCL) and the clearing house of the Bombay Stock Exchange (BSE), i.e., Indian Clearing Corporation Limited (ICCL), as per the norms specified by NSCCL and ICCL from time to time.
- d. The settlement cycle for OTC trades in CP shall either be T+0 or T+1.

#### **What is Procedure for Buyback of CP:**

- a. Issuers may buyback the CP, issued by them to the investors, before maturity.
- b. Buyback of CP shall be through the secondary market and at prevailing market price.
- c. The CP shall not be bought back before a minimum period of 7 days from the date of issue.
- d. Issuer shall intimate the IPA of the buyback undertaken.



e. **Buyback of CPs should be undertaken after taking approval from the Board of Directors.**



## ASSET RECONSTRUCTION COMPANY LIMITED

The word asset reconstruction company is a typical used in India. Globally the equivalent phrase used is "asset management companies".

### Why ARC :

In last 15 years or so the a number of economies around the world have witnessed the problem of non performing assets. A high level of NPAs in the banking system can severely affect the economy in many ways. The high level of NPAs leads to diversion of banking resources towards resolution of this problems. This causes an opportunity loss for more productive use of resources. The banks tend to become risk averse in making new loans, particularly to small and medium sized companies. Thus, large scale NPAs when left unattended, cause continued economic and financial degradation of the country. The realization of these problems has lead to greater attention to resolve the NPAs. ARCs have been used world-wide, particularly in Asia, to resolve bad-loan problems. However, these had a varying degree of success in different countries. ARCs focus on NPAs and allows the banking system to act as "clean bank".

ARC has been set up to provide a focused approach to Non-Performing Loans resolution issue by:-

- (a) isolating Non Performing Loans (NPLs) from the Financial System (FS),
- (b) freeing the financial system to focus on their core activities and
- (c) Facilitating development of market for distressed assets.

### Functions of ARC :

As per RBI Notification No. DNBS.2/CGM(CSM)-2003, dated April 23, 2003, ARC performs the following functions :-

- (i) Acquisition of financial assets (as defined u/s 2(L) of SRFAESI Act, 2002)
- (ii) Change or take over of Management / Sale or Lease of Business of the Borrower
- (iii) Rescheduling of Debts
- (iv) Enforcement of Security Interest (as per section 13(4) of SRFAESI Act, 2002)
- (v) Settlement of dues payable by the borrower

### How Does ARC actually Works :

ARC functions more or less like a Mutual Fund. It transfers the acquired assets to one or more trusts (set up u/s 7(1) and 7(2) of SRFAESI Act, 2002) at the price at which the financial assets were acquired from the originator (Banks/FIs).

Then, the trusts issues Security Receipts to Qualified Institutional Buyers [as defined u/s 2(u) of SRFAESI Act, 2002]. The trusteeship of such trusts shall vest with the ARC. ARC will get only management fee from the trusts. Any upside in between

acquired price and realized price will be shared with the beneficiary of the trusts (Banks/FIs) and ARC. Any downside in between acquired price and realized price will be borne by the beneficiary of the trusts (Banks/FIs).

**What is ARCIL?**

ARCIL is the first asset reconstruction company (ARC) in the country to commence the business of resolution of non-performing loans (NPLs) acquired from Indian banks and financial institutions. It commenced business consequent to the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Securitisation Act, 2002). As the first ARC, Arcil played a pioneering role in setting standards for the industry in India. It has been spearheading the drive to recreate value out of NPLs and in doing so, it continues to play a proactive role in reenergizing the Indian industry through critical times

## Definition of Wilful Defaulter

| <b>Who is a Wilful Defaulter</b>   | <b>Clarifications on the Points of Wilful Defaulter</b>   |
|--|---|
| <p>A "wilful default" would be deemed to have occurred if <b>any</b> of the following events is noted :</p>  |   |
| <p><b>a) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.</b></p>   |   |
| <p><b>(b) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.</b></p> | <p>Diversion of funds, include any one of the under noted occurrences:</p> <p>(a) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;</p> <p>(b) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;</p> <p>(c) transferring funds to the subsidiaries / Group companies or other corporates by whatever modalities;</p> <p>(d) routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;</p> <p>(e) investment in other companies by way of acquiring equities / debt instruments without approval of lenders;</p> <p>(f) shortfall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.</p> |
| <p><b>(c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has</b></p>  | <p>Siphoning of funds, is construed to occur if any funds borrowed from banks / FIs are utilised for</p>  |

|   |   |
|---|---|
| <p>siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.</p>  | <p>purposes un-related to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgement of the lenders based on objective facts and circumstances of the case.</p> <p>The identification of the wilful default should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions/incidents. The default to be categorised as wilful must be intentional, deliberate and calculated.</p> <p>The identification of the wilful default should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions/incidents. The default to be categorised as wilful must be intentional, deliberate and calculated.</p> |
| <p>(d) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.</p> |   |
|   | <p><b><u>End-use of Funds</u></b></p> <p>In cases of project financing, the banks / FIs seek to ensure end use of funds by, <i>inter alia</i>, obtaining certification from the Chartered Accountants. The banks and FIs, should not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the quality of their</p>   |

|  |  |
|--|--|
|  | <p>loan portfolio.</p> <p>Some of the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds:</p> <p>(a) Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers;</p> <p>(b) Regular inspection of borrowers' assets charged to the lenders as security;</p> <p>(c) Periodical scrutiny of borrowers' books of accounts and the no-lien accounts maintained with other banks;</p> <p>(d) Periodical visits to the assisted units;</p> <p>(e) System of periodical stock audit, in case of working capital finance;</p> <p>(f) Periodical comprehensive management audit of the 'Credit' function of the lenders, so as to identify the systemic-weaknesses in the credit-administration.</p> <p>(It may be kept in mind that this list of measures is only illustrative and by no means exhaustive.)</p> |
|  |  |

**RBI Clarification issued on 9th September, 2014** (Paragraph 2.6 of the circular has been amended and now reads as under :

“While dealing with wilful default of a single borrowing company in a Group, the banks /FIs should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where guarantees furnished by the companies within the Group on behalf of the wilfully defaulting units are not honoured when invoked by the banks /FIs, such Group companies should also be reckoned as wilful defaulters”.

### **Penal Action Against Whom ?**

Keeping in view the present limit of Rs. 25 lakh fixed by the Central Vigilance Commission for reporting of cases of wilful default by the banks/FIs to RBI, any wilful defaulter with an outstanding balance of Rs. 25 lakh or more, would attract the penal measures stipulated by RBI in its circular.

"Banks Must STOP Selling Gold Coins, Mutual Funds, Mediclaim Insurance etc."

Ruling out ban on sale of gold coins by banks, the Reserve Bank of India, asked lenders to refrain from aggressively selling the precious metal. "We do not want banks to aggressively market gold. We do not want that to become a business," RBI Governor D. Subbarao told reporters . In a bid to curb demand for gold, the RBI, imposed restrictions on banks and NBFCs for providing loans against gold coins as well as units of gold ETFs and mutual funds.

Targets are set for branch managers to sell without bothering about black money investment and even allowing investments from loan accounts of borrowers.



We are giving below objective type questions alongwith four choices. You should choose the correct answer and then click on the "Get Answer to Q No. " tab. You will get the correct answer in the last column.

| Q. No | Question   | Choices   |  | Answer |
|-------|--|---|--|--------|
| Q1:   | Bitcoins are increasingly being accepted by legitimate businesses around the world. Which of the following regarding "Bitcoin" is correct?   | <p>(A) Bitcoin is a virtual currency that is unregulated by any central bank or government, but still works for purchasing goods and services from retailers.</p> <p><b>(B) Bitcoin is a virtual currency that is regulated by central bank or government and works for purchasing goods and services from retailers willing to accept it.</b></p> <p>(C) Bitcoins is based on a centralized, peer-to-peer network, i.e., it has a central clearing house.</p> <p>(D) Bitcoin is a virtual currency that is unregulated by any central bank or government, but still works for purchasing goods and services from retailers only if retailers are willing to accept it.</p> |  |        |
| Q2:   | During the global financial crisis, central banks in advanced economies deployed a variety of measures. One among them is "quantitative easing (QE)". Which of the following features are correct regarding QE?  | <p>(A) Quantitative easing is adopted by the government by keeping the money supply in the economy constant.</p> <p><b>(B) Quantitative easing is adopted by the government by increasing the money supply in the economy.</b></p> <p>(C) Quantitative easing is adopted by the government by decreasing the money supply in the economy.</p> <p>(D) The idea behind QE is to encourage savings by individuals and businesses</p>   |  |        |
| Q3:   | Global Finance Magazine in its survey has named which of the following banks as the most safest emerging market banks in Asia  | <p><b>(A) China Development Bank</b></p> <p>(B) Singapore Development Bank</p> <p>(C) Bank of China</p> <p>(D) State Bank of India</p>  |  |        |
| Q4:   | Who has taken over charge as the first woman chairperson of State Bank of India  | <p><b>(A) Arundhuti Bhattacharya</b></p> <p>(B) Usha Anantha Subramanyam</p> <p>(C) Aruna Shukla</p> <p>(D) Usha Thorat</p>   |  |        |
| Q5:   | As per RBIs notification, RBI will shortly issue which denomination Bank notes incorporating Rs. Symbol on the obverse and reverse, without inset letter in both the numbering panels in the Mahatma Gandhi Z series 2005 bearing the signature of Dr. Raghuram G Rajan, Gov RBI and year of | <p><b>(A) Rs. 10 denomination</b></p> <p>(B) Rs 20 denomination</p> <p>(C) Rs. 50 denomination</p> <p>(D) Rs. 100 denomination</p>  |  |        |

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|      | printing '2013' printed on the reverse of the Banknote.   |   |  |  |
| Q6:  | Which of the following banking System is generally referred to involvement of financial intermediaries in aiding credit creation without regulatory oversight.  | (A) Tiered Banking<br>(B) Shadow Banking<br>(C) Multiple banking<br>(D) Universal banking   |  |  |
| Q7:  | With an initial capital of Rs _____ crore, Bhartiya Mahila Bank would provide dedicated financial services to women in general and women self help groups   | (A) Rs. 1000 cr<br>(B) Rs. 2000 cr<br>(C) Rs. 2500 cr<br>(D) Rs 500 cr  |  |  |
| Q8:  | "Aapka paisa aapke haath", refers to the _____ under which a modest and cautious beginning has been made on the 1st of January, 2013. Nearly 11 lakh beneficiaries have received the benefit directly into their bank accounts. | (A) Direct Transfer Scheme<br>(B) Direct Benefit Transfer Scheme<br>(C) Direct Bank Transfer Scheme<br>(D) Direct Bank Transfer mode  |  |  |
| Q9:  | The Finance Minister in his Budget speech had announced that SEBI would frame guidelines for "Angel Investor Pools". With regard to the above, which of the following are not correct?  | (A) An Angel Investor can be an individual or a group who provides capital to one or more start up companies<br>(B) They provide capital to one or more start up companies<br>(C) Such investments are characterized by high risk and high return on investments<br>(D) Such investments are characterized by low risk and high return on investments |  |  |
| Q10: | The RBI is planning to introduce polymer or plastic Rs. 10 notes in 5 major places. Which of the following places is not one of these?  | (A) Shimla<br>(B) Kochi<br>(C) Tripura<br>(D) Jaipur  |  |  |
| Q11: | Finance Ministry has asked Reserve Bank of India to allow common ATMs that will be owned and managed by non banking entities hoping to cut transaction cost for banks. Such ATMs are called                                     | (A) White label ATM<br>(B) Off Site ATM<br>(C) On site ATM<br>(D) Third party ATM   |  |  |
| Q12: | The GOI and RBI are making all the effort to provide banking facilities to all the villages in the country, This is a part of their policy of   | (A) Pradhan Mantri Adarsh Gram Yojana<br>(B) Financial inclusion<br>(C) Swabalambhan<br>(D) PURA  |  |  |
| Q13: | The body which regulates Stock Exchanges in India   | (A) CBI<br>(B) CID<br>(C) SEBI<br>(D) NSC   |  |  |
| Q14: | Interest rate payable on saving bank account is   | (A) regulated by RBI<br>(B) regulated by State Govt<br>(C) regulated by Finance Ministry<br>(D) Deregulated   |  |  |
| Q15: | What is core inflation  | (A) It is the inflation rate of a   |  |  |

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|      |   | <p><b>particular basket of commodities</b></p> <p>(B) It is the sudden increase in prices of certain amount of food grains</p> <p>(C) It is caused by supply shocks in certain essential commodities.</p> <p>(D) It is the sudden decrease in supply of all goods and services.</p>  |  |  |
| Q16: | What is the limit in Private Sector Bank for Foreign Direct Investment is   | <p>(A) <b>0.74</b></p> <p>(B) 0.75</p> <p>(C) 0.98</p> <p>(D) 0.51</p>   |  |  |
| Q17: | RBI directed banks not to provide loan to its customers for purchase of   | <p>(A) Silver</p> <p>(B) <b>Gold</b></p> <p>(C) Both Silver and Gold</p> <p>(D) None of these</p>  |  |  |
| Q18: | Decision on annulling the commission of small savings was taken by Govt based on the report of which committee?                               | <p>(A) K C Chakravarty Committee</p> <p>(B) Leeladhar Committee</p> <p>(C) Usha Thorat Committee</p> <p>(D) <b>Shyamala Gopinath Committee</b></p>   |  |  |
| Q19: | Which State Govt in India will introduce a cash compensation policy for housewives with less than Rs. 3 lacs annual income                    | <p>(A) Karnataka</p> <p>(B) <b>Goa</b></p> <p>(C) Maharashtra</p> <p>(D) Delhi</p>   |  |  |
| Q20: | The Union Finance Minister has launched the IRDA's Insurance Repository System (IRS). Which of the following is not correct about IRS         | <p>(A) <b>Insurance Repository is authorized only to maintain the policies in physical form</b></p> <p>(B) Insurance Repository provide a service record of all insurance policies.</p> <p>(C) The repository acts as a single stop for several policy service requirements.</p> <p>(D) The repository will issue a unique code number to all policy holders</p> |  |  |
| Q21: | Insurance Repository is formed and registered under   | <p>(A) <b>Companies Act 1956</b></p> <p>(B) IRDA Act 1999</p> <p>(C) Partnership Act 1932</p> <p>(D) None of these</p>   |  |  |
| Q22: | Which one of the following entity is not authorised to open e-insurance accounts?   | <p>(A) Central Insurance Repository Limited</p> <p>(B) SHCIL Projects Limited</p> <p>(C) NSDL Database Management Limited</p> <p>(D) <b>Kotak Insurance Repository Limited</b></p>   |  |  |
| Q23: | How many entities are authorised to open e-insurance accounts?  | <p>(A) 4</p> <p>(B) <b>5</b></p> <p>(C) 6</p> <p>(D) 7</p>   |  |  |
| Q24: | Which banking is a genre of financial services, that shuns the very idea of interest rates and is founded on the principles of profit sharing | <p>(A) <b>Islamic Banking</b></p> <p>(B) Land Development Banking</p> <p>(C) Consumer Banking</p> <p>(D) Exchange Banking</p>  |  |  |
| Q25: | It now becomes the first state to start a Sharia-based NBFC. Which of the following state has been  | <p>(A) <b>Kerala</b></p> <p>(B) Tamil Nadu</p> <p>(C) Andhra Pradesh</p>   |  |  |

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|  | allowed by RBI to start Sharia based NBFC? | (D) Karnataka |  |  |
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| Q. No | Question   | Choices  |  | Answer |
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| Q26:  | Which of the following banks has issued Multi Currency World Travel Card?  | (A) Karur Vysya Bank<br>(B) Union Bank of India<br>(C) <b>Kotak Mahindra Bank</b><br>(D) Bank of Baroda  |  |        |
| Q27:  | Which of the following is not correct regarding the Rajiv Gandhi Equity Savings Scheme.  | (A) Those investors whose annual taxable income is below Rs. 10 lacs are eligible under the scheme.<br>(B) The maximum investment permissible under the scheme is Rs. 50,000.<br>(C) It is a tax savings scheme which gives tax benefit for new investors.<br>(D) <b>The scheme aims to promote debt culture in India.</b> |  |        |
| Q28:  | According to Pension Fund Regulatory and Development Authority which Bank has been appointed as the new National Pension System Trustee Bank with effect from July 1, 2013.  | (A) State Bank of India<br>(B) <b>Axis Bank</b><br>(C) ICICI Bank<br>(D) Punjab National Bank  |  |        |
| Q29:  | The Ministry of Rural Development, GOI has launched which of the following by restructuring Swarnajayanti Gram Swarozgar Yojana replacing the existing SGSY scheme, effective from April 1, 2013.  | (A) <b>National Rural Livelihood Mission (NRLM)</b><br>(B) National Rural Lifecare Mission<br>(C) National Livelihood Mission<br>(D) All India Rural Livelihood Mission  |  |        |
| Q30:  | RBI has now decided that banks may also use the ratings of the _____ for the purpose of risk weighting their claims for capital adequacy purposes in addition to the existing five domestic credit rating agencies.  | (A) Standard & Poor<br>(B) <b>SME Rating Agency of India Ltd</b><br>(C) Moodys Investor Service.<br>(D) None of the above  |  |        |
| Q31:  | To increase investment in infrastructure, _____ funds is proposed to be encouraged. These funds will raise resources and, through take-out finance, credit enhancement and other innovative means, provide long-term low-cost debt for infrastructure projects | (A) Infrastructure Equity Funds<br>(B) <b>Infrastructure Debt Funds (IDF).</b><br>(C) Infrastructure Mutual Fund<br>(D) Infrastructure Benefit Fund  |  |        |
| Q32:  | Which one of the following is not the characteristics of Direct Bank?  | (A) It is a bank without a branch network<br>(B) It offers its services remotely.  |  |        |

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|      |   | (C) It uses online banking, telephone banking and provide access via ATM.<br>(D) It uses only online banking.   |  |  |
| Q33: | "Own your NPA" campaign is launched by which bank to speedily recover NPAs of the bank?   | (A) IDBI Bank<br>(B) ICICI Bank<br>(C) HDFC Bank<br>(D) Karur Vysya Bank  |  |  |
| Q34: | In the wake of Sarada scam and growing proliferation of deposit taking companies in rural Bengal, the proposed Safe Savings Scheme will be managed by             | (A) WBIDFC<br>(B) ITC<br>(C) West Bengal Finance Ministry<br>(D) IDFC   |  |  |
| Q35: | Who is heading the committee that is entrusted with the task of scrutinizing application for new bank licenses?   | (A) Usha Thorat<br>(B) Bimal Jalan<br>(C) Raghuram Rajan<br>(D) V Damodaran   |  |  |
| Q36: | Who is the chairman of the expert committee which is entrusted with the task of examining the current monetary policy network with a view to strengthen the same? | (A) Dr. Gangadhar Dharba<br>(B) Dr. P J Nayak<br>(C) Dr. Urjit Patel<br>(D) Dr K C Chakraborty  |  |  |
| Q37: | The new RTGS System operationalised with effect from October 19, 2013 is based on which standard messaging formats?   | (A) ISO 2002<br>(B) ISO 20022<br>(C) ISO 2022<br>(D) ISO 22200  |  |  |
| Q38: | The forensic audit of which bank ordered by the Reserve Bank of India is a first in the country's banking history?  | (A) United Bank of India<br>(B) Allahabad Bank<br>(C) State Bank of India<br>(D) Union Bank of India  |  |  |
| Q39: | Which one of the following is not correct regarding domestic systemically important banks?  | (A) These banks are being called "too large to fail".<br>(B) whose failure can impact the functioning of the financial system and harm the economy<br>(C) Such banks will have a higher capital requirement.<br>(D) The names of the banks classified as D-SIBs will be disclosed in the month of March every year starting from 2015 |  |  |
| Q40: | Which of the following indicators are selected by RBI to mark DSIB  | (A) Size<br>(B) Complexity<br>(C) Interconnectedness<br>(D) All the above   |  |  |
| Q41: | RBI has mandated that the banks intending to enter insurance broking  | (A) NPAs, of not more than 3% of their loans.<br>(B) should have a minimum net worth of Rs 500 crore<br>(C) should have capital adequacy ratio of 10%<br>(D) All the above  |  |  |
| Q42: | Which of the following norms has been issued by RBI regarding credit card accounts  | (A) credit card account will be treated as non-performing asset if the minimum amount due, as   |  |  |

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|      |  | <p>mentioned in the statement, is not paid fully within 90 days</p> <p>(B) credit card account will be treated as non-performing asset if the minimum amount due, as mentioned in the statement, is not paid fully within 120 days</p> <p>(C) credit card account will be treated as non-performing asset if the minimum amount due, as mentioned in the statement, is not paid fully within 60 days</p> <p>(D) Credit card accounts cannot be treated as NPA accounts.</p> |  |  |
| Q43: | According to Fortune Magazine, has been named as the "Most Powerful Business Woman "in India for the 3rd consecutive year?   | <p>(A) Renu Sud Karnad</p> <p>(B) <b>Chanda Kochar</b></p> <p>(C) Vinita Bali</p> <p>(D) Ranjana Kumari</p>   |  |  |
| Q44: | Which of the following is/are called Bretton Woods institution?  | <p>(A) <b>International Monetary Fund</b></p> <p>(B) World Trade Organisation</p> <p>(C) United Nations</p> <p>(D) Asian Development Bank</p>   |  |  |
| Q45: | "India's International Bank" is the tagline of which bank?   | <p>(A) SBI</p> <p>(B) PNB</p> <p>(C) Bank of India</p> <p>(D) <b>Bank of Baroda</b></p>   |  |  |
| Q46: | Which of the following regulatory authority has been introduced by the Central Govt. with wide powers to recommend, enforce and monitor the compliance of accounting and auditing standards?   | <p>(A) Financial Reporting Authority of India</p> <p>(B) <b>National Financial Reporting Authority</b></p> <p>(C) National Financial Stabilisation Authority</p> <p>(D) None of the above.</p>  |  |  |
| Q47: | Japan will promote _____, a theory which asserts that the advancement of women in the society is directly co-related with its growth rate.   | <p>(A) <b>Womenomics</b></p> <p>(B) Womenpowerment</p> <p>(C) Women Empowerment</p> <p>(D) None of the above.</p>   |  |  |
| Q48: | To provide better security for debit card holders, payment services provider, National Payment Corporation of India has introduced a chip based card that provide protection to banks and their customers against card skimming and counterfeiting frauds. Such cards falls under which brand? | <p>(A) <b>Rupay brand</b></p> <p>(B) Rupaiya Brand</p> <p>(C) Rupee Brand</p> <p>(D) Rupiah Brand</p>   |  |  |
| Q49: | As per Govt. guidelines, banks having total business of Rs. 300000 cr are to have how many EDs?  | <p>(A) Minimum 2</p> <p>(B) 2</p> <p>(C) <b>3</b></p> <p>(D) Maximum 3</p>  |  |  |

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| Q50: | As per Govt. guidelines, banks having total business of Rs. 100000 cr are to have how many EDs? | (A) Minimum 2<br>(B) 2<br>(C) 3<br>(D) Maximum 3 |  |  |
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