SYLLABUS

Class – B.Com Hons 3rd Year
Subject – Banking Law & Practice in India

Unit-I	Principles of Banking: Definition of Bank, Creation of Money: Present Structure of Commercial Banks India. Principles of Management in Banks: Managerial Functions in Bank, Recruitment, Selection, Training, Promotion and Control Staff.
Unit – II	Indian Banking System – Features, Money Lenders, Nationalization of Commercial Banks and its Effects, Classification of Banking Institutions. Reserve Bank of India – Functions, Control of Credit by RBI, Power of RBI.
Unit – III	Management of Deposits and Advances Deposit Mobilization, Classification and Nature of Deposit Accounts, Advances, Lending Practice, Types of Advances. Investment Management: Nature of Bank Investment, Liquidity and Profitability. Cheques, Bills and their Endorsement, Government Securities. Procedure of E – Banking
Unit – IV	Banking Regulation Act 1949 – Important provisions: Restrictions on Advances. Privatization of Banks, Narasimhan Committee Report, Banking Sector Reforms in India.
Unit – V	Management of Finance: Bank Accounts, Records, Reports, Statement of Advances, Appraisal of Loan Application. Development Banking In India – IFCI, IDBI, ICICI, Export Credit and Guarantee Corporation of India.

Unit – 1

DEFINITION OF BANK:

A bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another. In fact, a modem bank performs such a variety of functions that it is difficult to give a precise and general definition of it. It is because of this reason that different economists give different definitions of the bank.

According to Crowther, a bank "collects money from those who have it to spare or who are saving it out of their incomes, and it lends this money to those who require it."

In the words of Kinley, "A bank is an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use."

According to John Paget, "Nobody can be a banker who does not (i) take deposit accounts, (h) take current accounts, (iii) issue and pay cheques, and (iv) collects cheques-crossed and uncrossed-for its customers,"

Prof. Sayers defines the terms bank and banking distinctly. He defines a bank as "an institution whose debts (bank deposits) are widely accepted in settlement of other people's debts to each other."

Again, according to Sayers, "Ordinary banking business consists cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bills of exchange, government bonds, the secured promises of businessmen to repay and so forth".

According to the Indian Companies Act, 1949, banking means "the accepting for the purpose of Indian Companies lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise."

In short, the term bank in the modern times refers to an institution having the following features:

i. It deals with money; it accepts deposits and advances loans.
ii. It also deals with credit; it has the ability to create credit, i.e., the ability to expand its liabilities as a multiple of its reserves.
iii. It is commercial institution; it aims at earning profit.
iv. It is a unique financial institution that creates demand deposits which serve as a medium of exchange and, as a result, the banks manage the payment system of the country.

HISTORY OF BANKING IN INDIA

The Banking system of the country is the base of the economy and economic development of the country. It is the most leading part of the financial sector of the country as it is responsible for more than 70 % of the funds flowing through the financial sector in the country.

The banking system in the country has three primary functions:

- Operations of Payment system
- Depositor and protector of people's savings
- Issue loans to individual and Companies

The Banking system in India can be categorised in two phases

- Pre-Independence Phase (1786-1947)

- Post- Independence Phase (1947 to till date)
  The post-Independence period may further be divided into three phases-

- Pre-nationalisation Period (1947 to 1969)
- Post nationalisation Period (1969 to 1991)
- Liberalisation Period (1991 to till date)

Pre-Independence Phase (1786-1947)
The origin of the Banking system in India can be traced with the foundation of Bank of Calcutta in 1786. The Banking in India originates in the last decade in the 18th century with the foundation of the English Agency houses in Bombay and Calcutta (now Kolkata).

- Three presidency banks **Bank of Bengal, Bank of Bombay** and **Bank of Madras** established in the 19th Century under the charter of the British East India Company.
- In 1935, the presidency banks merge together and formed a new bank named Imperial Bank of India.
- The Imperial Bank of India subsequently named the **State Bank of India.**
- The first Indian-owned Allahabad Bank was set up in 1865 in Allahabad.
- In 1895, the Punjab National Bank was established in 1895.
- The Bank of India founded in 1906 in Mumbai.
- Many more commercial banks such as Canara Bank, Indian Bank, Central Bank of India, Bank of Baroda and Bank of Mysore were established between 1906 and 1913 under Indian ownership.
- The central Bank of India, RBI establish in 1935 on the recommendation of **Hilton-Young Commission.**
  At that time, the Banking system was only covered the urban population and need of rural and agriculture sector was totally neglected.

Post- Independence Phase (1947 to till)
- At the time independence, the entire Banking sector was under private ownership. The rural population of the country had to dependent on small money lenders for their requirements. To solve these issues and better development of the economy the Government t of India nationalised the Reserve Bank of India in 1949.
- **In 1955** the **Imperial Bank of India** was nationalised and named the **State Bank of India.**
- The Banking Regulation Act enacted in 1949.

Nationalisation Period (1969 to 1991)
- In 1969, Government of India nationalised 14 major banks whose national deposits were more than 50 crores.

1. Allahabad Bank
2. Bank of India
3. Punjab National Bank
4. Bank of Baroda
5. Bank of Maharashtra
6. Central Bank of India
7. Canara Bank
8. Dena Bank
9. Indian Overseas Bank
10. Indian Bank
11. United Bank
12. Syndicate Bank
13. Union Bank of India
14. UCO Bank

The Indian Banking system immensely developed after nationalisation but the rural and weaker section of the society was still not covered under the system.

To solve these issues, the **Narasimham Committee** in 1974 recommended the establishment of **Regional Rural Banks (RRB)**. On **2nd October 1975, RRBs were established** with an objective to extend the amount of credit to the rural section of the society.

- **Six more banks** further nationalised in the year 1980. With the second wave of nationalisation, the target of priority sector lending was also raised to 40%.

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Commerce
5. Punjab & Sindh Bank
6. Vijaya Bank

Liberalisation Phase (1990 to till)

In order to improve financial stability and profitability of Public Sector Banks, the Government of India set up a committee under the chairmanship of **Shri. M. Narasimham**. The committee recommended several measures to reform banking system in the country.

- The major thrust of the recommendations was to make banks competitive and strong and conducive to the stability of the financial system.
- The committee suggested for no more nationalisation of banks.
- Foreign banks would be allowed to open offices in India either as branches or as subsidiaries.
- In order to make banks more competitive, the committee suggested that public sector banks and private sector banks should be treated equally by the Government and RBI.
- It was emphasised that banks should be encouraged to abandon the conservative and traditional system of banking and adopt progressive function such as merchant banking and underwriting, retail banking, etc.
- Now, foreign banks and Indian banks permitted to set up joint ventures in these and other newer forms of financial services.
- 10 Privates players got a license from the RBI to entry in the Banking sector. These were Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank and Development Credit Bank.

The Government of India accepted all the major recommendation of the committee.

Recent Development in Indian Banking Sector:

- Kotak Mahindra Bank and Yes Bank got a license from RBI to entry in the system in the year 2003 and 2004.
- In 2014, RBI grants in-principle approval to **IDFC** and **Bandhan Financial Services** to set up banks.

Today, Indian Banking industry is one of the most growing flourishing industries. Banking systems of any country need to be effective, efficient as it plays the active in the economic development of the country.

CREATION OF MONEY

In economics, money creation is the process by which the money supply of a country or a monetary region (such as the Eurozone) is increased. A central bank may introduce new money into the economy (termed 'expansionary monetary policy') by purchasing financial assets or lending money to financial institutions. Commercial bank lending then multiplies this base money through fractional reserve banking, which expands the total of broad money (cash plus demand deposits).

Central banks monitor the amount of money in the economy by measuring monetary aggregates such as M2. The effect of monetary policy on the money supply is indicated by comparing these measurements on various dates.

Money creation by the central bank

Monetary policy regulates a country's money supply, the amount of broad currency in circulation. Almost all modern nations have special institutions (such as the United States Federal Reserve System, the European Central Bank (ECB), and the People's Bank of China) for conducting monetary policy, often acting independently

of the executive. In general, these institutions are called central banks and often have other responsibilities such as supervising the smooth operation of the financial system.
The primary tool of monetary policy is open market operations: the central bank buys and sells financial assets such as treasury bills, government bonds, or foreign currencies. Purchases of these assets result in currency entering market circulation, while sales of these assets remove currency. Usually, open market operations aim for a specific short term interest rate. In other instances, they might instead target a specific exchange rate relative to some foreign currency, the price of gold, or indices such as the Consumer Price Index. For example, the US Federal Reserve may target the federal funds rate, the rate at which member banks lend to one another overnight.
Other monetary policy tools to expand the money supply include decreasing interest rates by fiat; increasing the monetary base; and decreasing reserve requirements. Some other means are: discount window lending (as lender of last resort); moral suasion (cajoling the behavior of certain market players); and "open mouth operations" (publicly asserting future monetary policy). The conduct and effects of monetary policy and the regulation of the banking system are of central concern to monetary economics.

Quantitative easing

Definition: Quantitative easing is an occasionally used monetary policy, which is adopted by the government to increase money supply in the economy in order to further increase lending by commercial banks and spending by consumers. The central bank (Read: The Reserve Bank of India) infuses a pre-determined quantity of money into the economy by buying financial assets from commercial banks and private entities. This leads to an increase in banks' reserves.
Quantitative Easing is mainly an asset purchase or asset swap policy. The purpose is to increase money supply to the banks. A central bank implements quantitative easing by buying specified amounts of **financial assets from commercial banks and other private institutions**, thus increasing the monetary base and lowering the yield on those financial assets. This is distinguished from the more usual policy of buying or selling **short term government bonds** in order to keep interbank interest rates at a specified target value.

Definition :- *QE is an unconventional monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying specified amounts of* ***financial assets from commercial banks and other private institutions****, thus increasing the monetary base, so that the banks have now more money to lend.*

Need for Quantitative Easing

1. When interest rates have been lowered to nearly zero (because of either deflation or extremely low money demand).
2. When a large number of non-performing or defaulted loans prevent further lending (money supply growth) by member banks.
3. When the main systemic risk is a recession or depression.

Problems of Quantitative Easing

1. If the money supply increases too quickly, quantitative easing can lead to higher rates of inflation.
2. Banks may decide to keep funds generated by quantitative easing in reserve rather than lending those funds to individuals and businesses (failing the purpose of QE).
3. Difficult to gauge how much QE is required.
4. Potential to destroy the confidence in an economy.
5. Central bank can lose money.
6. May not work if not implemented aggresevily enough.

Physical currency

In modern economies, relatively little of the supply of broad money is in physical currency. The manufacturing of new physical money is usually the responsibility of the central bank, or sometimes, the government's treasury.

Contrary to popular belief, money creation in a modern economy does not directly involve the manufacturing of new physical money, such as paper currency or metal coins. Instead, when the central bank expands the money supply through open market operations (e.g. by purchasing government bonds), it credits the accounts that commercial banks hold at the central bank (termed high powered money). Commercial banks may draw on these accounts to withdraw physical money from the central bank. Commercial banks may also return soiled or spoiled currency to the central bank in exchange for new currency.

Money creation through the fractional reserve system

Through fractional reserve banking, the modern banking system expands the money supply of a country beyond the amount initially created by the central bank. There are two types of money in a fractional-reserve banking system: currency originally issued by the central bank, and bank deposits at commercial banks:

1. *central bank money* (all money created by the central bank regardless of its form, e.g. banknotes, coins, electronic money)
2. *commercial bank money* (money created in the banking system through borrowing and lending) – sometimes referred to as *checkbook money*

When a commercial bank loan is extended, new commercial bank money is created if the loan proceeds are issued in the form of an increase in a customer's demand deposit account (that is, an increase in the bank's demand deposit liability owed to the customer). As a loan is paid back through reductions in the demand deposit liabilities the bank owes to a customer, that commercial bank money disappears from existence. Because loans are continually being issued in a normally functioning economy, the amount of broad money in the economy remains relatively stable. Because of this money creation process by the commercial banks, the money supply of a country is usually a multiple larger than the money issued by the central bank; that multiple is determined by the reserve requirements or other financial ratios (primarily the capital adequacy ratio that limits the overall credit creation of a bank) set by the relevant banking regulators in the jurisdiction.

Money multiplier

The most common mechanism used to measure this increase in the money supply is typically called the *money multiplier*. It calculates the *maximum* amount of money that an initial deposit can be expanded to with a given reserve ratio – such a factor is called a *multiplier.* As a formula, if the reserve ratio is R, then the money multiplier m is the reciprocal, and is the maximum amount of money commercial banks can legally create for a given quantity of reserves.

In the re-lending model, this is alternatively calculated as a geometric series under repeated lending of a geometrically decreasing quantity of money: reserves lead loans. In endogenous money models, loans lead reserves, and it is not interpreted as a geometric series. In practice, because banks often have access to lines of credit, and the money market, and can use day time loans from central banks, there is often no requirement for a pre-existing deposit for the bank to create a loan and have it paid to another bank.

The money multiplier is of fundamental importance in monetary policy: if banks lend out close to the maximum allowed, then the broad money supply is approximately central bank money times the multiplier, and central banks may finely control broad money supply by controlling central bank money, the money multiplier linking these quantities; this was the case in the United States from 1959 through September 2008.

If, conversely, banks accumulate excess reserves, as occurred in such financial crises as the Great Depression and the Financial crisis of 2007–2008 – in the United States since October 2008, then this equality breaks down, and central bank money creation may not result in commercial bank money creation, instead remaining as unlent (excess) reserves.[11] However, the central bank may shrink commercial bank money by shrinking central bank money, since reserves are required – thus fractional-reserve money creation is likened to a string, since the central bank can always *pull* money out by restricting central bank money, hence reserves, but cannot always *push* money out by expanding central bank money, since this may result in excess reserves, a situation referred to as "pushing on a string".

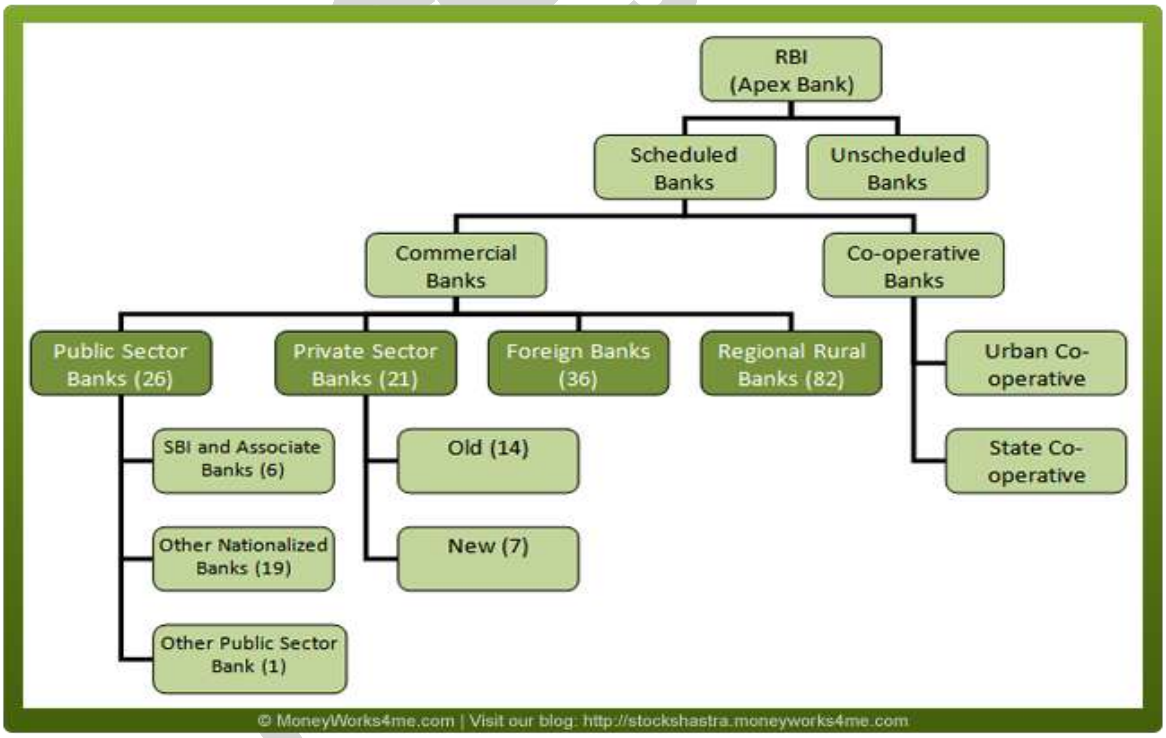
PRESENT STRUCTURE OF COMMERCIAL BANKS IN INDIA

Banking in India in the modern sense originated in the last decades of the 18th century. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct.

The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. For many years the presidency banks acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935.

In 1969 the Indian government nationalised all the major banks that it did not already own and these have remained under government ownership. They are run under a structure know as 'profit-making public sector undertaking' (PSU) and are allowed to compete and operate as commercial banks. The Indian banking sector is made up of four types of banks, as well as the PSUs and the state banks, they have been joined since 1990s by new private commercial banks and a number of foreign banks.

Banking in India was generally fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with things like microfinance.



As per Section 5(b) of the Banking Regulation Act 1949: "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise."

All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks.

Scheduled Commercial Banks in India are categorized into five different groups according to their ownership and / or nature of operation. These bank groups are:
(i) State Bank of India and its Associates,
(ii) Nationalized Banks,
(iii) Regional Rural Banks,
(iv) Foreign Banks and
(v) Other Indian Scheduled Commercial Banks (in the private sector).
(vi) Co-operative Banks

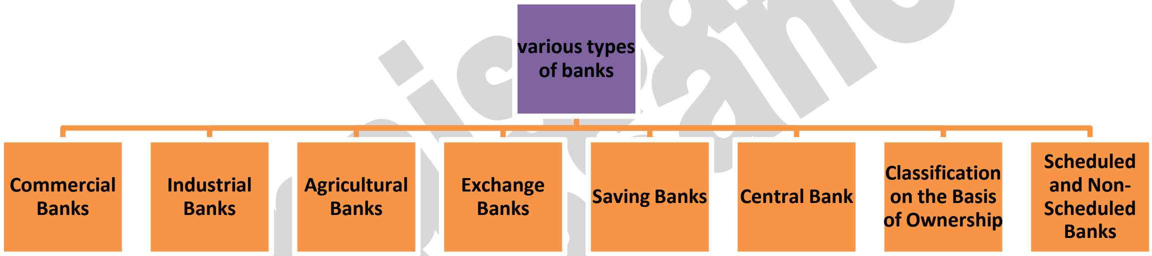
Besides **the Nationalized banks** (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India), the commercial banks comprise foreign and Indian private banks. While the State bank of India and its associates, nationalized banks and Regional Rural Banks are constituted under respective enactments of the Parliament, the private sector banks are banking companies as defined in the Banking Regulation Act. These banks, along with regional rural banks, constitute the public sector (state owned) banking system in India. The Public Sector Banks in India are back bone of the Indian financial system.

The **cooperative credit institutions** are broadly classified into urban credit cooperatives and rural credit cooperatives. Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Co-operative Banks.

Regional Rural Banks (RRB's) are state sponsored, regionally based and rural oriented commercial banks. The Government of India promulgated the Regional Rural Banks Ordinance on 26th September 1975, which was later replaced by the Regional Rural Bank Act 1976. The preamble to the Act states the objective to develop rural economy by providing credit and facilities for the development of agriculture, trade, commerce, industry and other productive activities in the rural areas, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

Different types of bank categorized by functions, ownership and domicile

Banks can be classified into various types on the basis of their functions, ownership, domicile, etc. The following are the various types of banks:



1. Commercial Banks:

The banks, which perform all kinds of banking business and generally finance trade and commerce, are called commercial banks. Since their deposits are for a short period, these banks normally advance short-term loans to the businessmen and traders and avoid medium-term and long-term lending.

However, recently, the commercial banks have also extended their areas of operation to medium-term and long-term finance. Majority of the commercial banks are in the public sector. However, there are certain private sector banks operating as joint stock companies. Hence, the commercial banks are also called joint stock banks.

2. Industrial Banks:

Industrial banks, also known as investment banks, mainly meet the medium-term and long-term financial needs of the industries. Such long-term needs cannot be met by the commercial banks, which generally deal with short-term lending.

The main functions of the industrial banks are:

(a) They accept long-term deposits.

(b) They grant long-term loans to the industrialists to enable them to purchase land, construct factory building, purchase heavy machinery, etc.

(c) They help selling or even underwrite the debentures and shares of industrial firms,

(d) They can also provide information regarding the general economic position of the economy. In India, industrial hanks, like Industrial Development Bank of India, Industrial Finance Corporation of India, Slate Finance Corporations, are playing significant role in the industrial development of the country.

3. Agricultural Banks:

Agricultural credit needs are different from those of industry and trade. Industrial and commercial banks normally do not deal with agricultural finance. The agriculturists require:

(a) short-term credit to buy seeds, fertilizers and other inputs, and

(b) long-term credit to purchase land, to make permanent improvements on land, to purchase agricultural machinery and equipment, etc. In India, agricultural finance is generally provided by co-operative institutions.

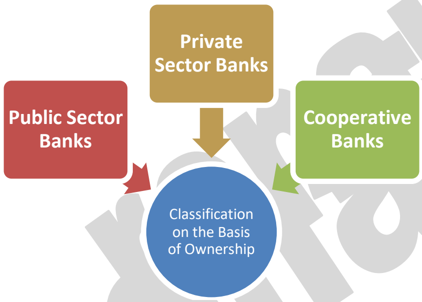
Agricultural co-operatives provide short-term loans and Land Development Banks provide the long-term credit to the agriculturists.

4. Exchange Banks:
Exchange banks deal in foreign exchange and specialise in financing foreign trade. They facilitate international payments through the sale, purchase of bills of exchange, and thus play an important role in promoting foreign trade.

5. Saving Banks:
The main purpose of saving banks is to promote saving habits among the general public and mobilise their small savings. In India, postal saving banks do this job. They open accounts and issue postal cash certificates.

6. Central Bank:
Central bank is the apex institution, which controls, regulates and supervises the monetary and credit system of the country. Important functions of the central bank are:
(a) It has the monopoly of note issue;
(b) It acts as the banker, agent and financial adviser to the state;
(c) It is the custodian of member banks reserves;
(d) It is the custodian of nation's reserves of international currency;
(e) It serves as the lender of the last resort;
(f) It functions as the bank of central clearance, settlement and transfer; and
(g) It acts as the controller of credit. Besides these functions, India's central bank, i.e., the Reserve Bank of India, also performs many developmental functions to promote economic development in the country.

7. Classification on the Basis of Ownership:
On the basis of ownership, banks can be classified into three categories:



(a) Public Sector Banks:
These arc owned and controlled by the government. In India, the nationalized banks and the regional rural banks come under these categories,
(b) Private Sector Banks:
These banks are owned by the private individuals or corporations and not by the government or co-operative societies,
(c) Cooperative Banks:
Cooperative banks are operated on the cooperative lines. In India, cooperative credit institutions are organised under the cooperative societies law and play an important role in meeting financial needs in the rural areas.

8. Classification on the Basis of Domicile:
On the basis of domicile, the banks are divided into two categories:
(a) Domestic Banks:
These are registered and incorporated within the country,
(b) Foreign Banks:
These are foreign in origin and have their head offices in the country of origin.

9. Scheduled and Non-Scheduled Banks:
In India, banks have been broadly classified into scheduled and non-scheduled banks. A Scheduled Bank is that which has been included in the Second Schedule of the Reserve Bank of India Act, 1934 and fulfills the three conditions
(a) it has paid-up capital and reserves of at least Rs. 5 lakhs. It ensures the Reserve Bank that its operations are not detrimental to the interest of the depositors;
(b) It is a corporation or a cooperative society and not a partnership or a single owner firm. The banks which are not included in the Second Schedule of the Reserve Bank of India Act are non-scheduled banks.

PRINCIPLES OF MANAGEMENT IN BANK RECRUITMENT

Recruitment is a process to discover the sources of manpower to meet the requirement of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of efficient personnel.

Recruiting is an ongoing project for any organization. From the moment an employment application is submitted, recruitment software should be there to rank it, match the applicant to job if necessary and place the information in a database that can share the information across different software applications or applicant tracking tasks, including scheduling interviews and sending out letters for every stage of the recruitment process.

Definitions:
It is the process of finding and attracting capable applicants of employment. The process begins when new recruits are sought and ends when their applications are submitted. The result is pool of applicant from which new employees are selected.
- K. ASWATHAPPA.

Recruitment is the process of searching for prospective employees and stimulating them to apply for the jobs in the organization.
- EDWIN. B. FLIPPO

Significance:
The general purpose of recruitment is to provide a pool of potentially qualified job candidates. Specifically, the purpose is to:
1. Determine the present and future requirements of the organization in conjunction with its personal planning and job-analysis activities.
2. Increase the pool of job candidates at minimum cost.
3. Help to increase the success rate of the selection process by reducing the number of visibly under qualified or over qualified job applicants.
4. Help to reduce the probability that job applicants, once recruited and selected, will leave the organization only after a short period of time.
5. Meet the organization's legal and social obligations regarding the composition of its workforce.
6. Begin identifying and preparing potential job applicants who will be appropriate candidates.
7. Increase organizational and individual effectiveness in the short term and long term.
8. Evaluate the effectiveness of various recruiting techniques and sources for all types of job applicants.

Objectives of recruitment:
1. To attract people with multi dimensional skills and experiences that suits the present and future organizational strategies.
2. To induct the outsiders with a new perspective to lead the company
3. To infuse fresh blood at all levels of the organization.

4. To develop an organizational culture that attracts competent people to the company.
5. To devise methodologies for assessing psychological traits.
6. To seek out non-conventional grounds of talent.
7. To design entry pay that competes on quality but not on quantum.
8. To anticipate and find people for positions that does not exist.

Recruitment policy:
The recruitment policy of any organization is derived from the personnel policy of the same organization. It includes:

- Government policies
- Personnel policies of other competing organizations
- Organization's personnel policies
- Recruitment sources
- Recruitment needs
- Recruitment cost
- Selection criteria and preference etc

Sources of recruitment:
The sources of recruitment are broadly divided into internal and external sources.

Internal Sources:

- Present permanent employees
- Present temporary or casual employees
- Retrenched or retired employees
- Dependents of deceased, disabled, present and retired employees.

Why do organizations prefer internal sources?

- It can be used as a technique for motivation.
- Morale of the employees can be improved.
- Suitability of the internal candidates can be judged better than the external candidates as "known devils are better than unknown angels".
- Cost of selection can be minimized.
- Trade unions can be satisfied.
- Stability of the employees can be ensured.

External Sources:
a) **Campus recruitment**:
Different types of organizations like industries, business firms, service organizations ,social organizations can get inexperienced candidates of different types from various educational institutions like colleges and universities. Many companies realize that campus recruitment is one of the best techniques for recruiting new blood. These include

- Short listing the institutes based on the quality of the students intake, faculty facilities and past track record.
- Offering the smart pay rather than high pay package.
- Presenting a clear image of the company and the corporate culture.
- Getting in early. Make an early bird offer.
- Include young line managers and business school and engineering school alumni in the recruiting team.

b) **Private employee agencies**:
Consultants in India perform the recruitment functions on behalf of a client company by charging fee. Line managers are relieved from recruitment functions so that they can concentrate on operational activities. Hence these agencies work effectively in the recruitment of executives.

c) **Public employee exchanges**:
The government set up public employment exchanges in the country to provide information about vacancies to the candidates and to help the organization in finding out suitable candidates.

d) **Professional Organizations:**
These organizations maintain complete bio-data of their members and provide the same to various organizations on requisition. They also act as an exchange between their members and recruiting firms in exchanging information, clarifying doubts etc.

e) **Data banks**:
The management can collect the bio-data of the candidates from different sources like employee exchange, educational training institutes, candidates etc and feed them in the computer. it will become another source and the company can get the particulars as and when it needs to recruit.

f) **Casual applicants**:
Depending upon the image of the organization, its prompt response, participation of the organization in the local activities, level of unemployment. Candidates apply casually for jobs through mail or handover the applications in the personnel department.

g) **Similar organizations**:
Generally experienced candidates are available in organizations producing similar products or are engaged in similar business. The management can get most suitable candidates from this source.

h) **Trade unions**:
Generally unemployed or underemployed persons or employees seeking change in employment put a word to the trade union leaders with a view to getting suitable employment due to latter's intimacy with management. In view of this fact and in order to satisfy the trade union leaders, management enquires trade unions for suitable candidates.

Reasons for external sources:
- Candidates can be selected without any pre-conceived notion or reservations.
- HR mix can be balanced with different background, experience and skill etc.
- Latest knowledge skill, innovative or creative talent can also be flowed in to the organization.
- Long run benefit to the organization in the sense that qualitative human resources can be brought.

Recruitment Techniques:
These are the techniques by which the management contracts prospective employees or provides necessary information or exchanges ideas or stimulates them to apply for jobs. Management uses different types of techniques to stimulate internal and external candidates. Techniques useful to stimulate internal candidates are:
- Promotions
- Transfers

Techniques useful to stimulate external candidates:
- Present employees

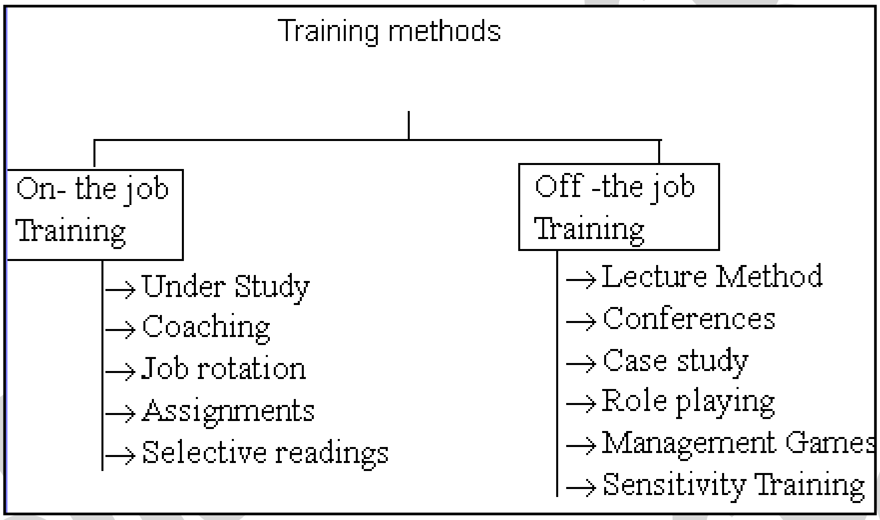
Modern sources and techniques of recruitment:
A number of modern recruitment sources and techniques are being used by the corporate sector in addition to traditional sources and techniques. These techniques include.
a) Walk-in:
The busy organizations and the rapid changing companies do not find time to perform various functions of recruitment. Therefore, they advise the potential candidates to attend for an interview directly and without a prior application on a specified date, time and at a specified place.

b) Consult-in:
The busy and dynamic companies encourage the potential job seekers to approach them personally and consult them regarding the jobs; the companies select the suitable candidates from among such candidates through the selection process.
c) Head Hunting (search consultants):
In this the professional organizations search for the most suitable candidates and advise the company regarding the filling up of the positions.
d) Body Shopping:
The prospective employees contact these organizations to recruit the candidates. These professional and training institutions are called body shoppers and these activities are known as body shopping.
e) Business Alliances:
Business alliances like acquisition, mergers and takeovers help in getting human resources. In addition, the companies do also have alliances in sharing their human resources on ad-hoc basis.
f) Tele-recruitment:
Organizations advertise the job vacancies through the World Wide Web (internet). The job seekers send their applications through e-mail or internet.

TRAINING:
Training is the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. Training has specific goals of improving one's capability, capacity, productivity and performance.

Importance of Training:
1. Increased executive management skills.
2. Development in each executive of a broad background and appreciation of the company's overall operations and objectives.
3. Greater delegation of authority because executives down the like are better qualified and better able to assure increased responsibilities.
4. Creation of a reserve of qualified personnel to replace present incumanets and staff new positions.
5. Improved selection for promotion. .
6. Minimum delay in staffing new positions and minimum a distribution of operations during replacement in incumbents.
7. Provision for the best combination of youth, vigour and experience in top management and increased span of productive life in high level position.
8. Improved executive morale.
9. Attractive t6 the company of ambitious men who wish to move ahead as rapidly as their abilities permit.
10. Increased effectiveness and reduced costs, resulting in greater assurance of continued profitability.

Methods of Training:



A. On- the job training Methods: This type of training is also know as job instruction training. Under on - the job training method, the individual is placed on a regular job and taught the skills necessary to perfrorm that job. The trainee learns under the supervision and guidance of a qualified worker or instructor.

On-the - job training methods include the following:
(i) Under Study :This method makes the trainee an assistant to the current job holder. The trainee learns by experience, observation and imitation. It is a kind of mentoring that to help the employee to learn the skills of superior position.

(ii) Coaching : This method involves training by a superior about the knowledge and skills of a job to the junior or subordinate. The superior points out the mistakes committed by the trainee and make suggestions to improve upon.

(iii) Job rotation : This method involves movement of employees to different types of jobs to gain knowledge and functioning of various jobs within the organisation.Banks and insurance companies follow this approach. This method is also known as position rotation or cross training

(iv) Committee Assignment : In this method a committee consisting of a group of emplyees are given a problem and invited solutions. The employees solve the problem and submit the solution. The object of this method is to develop a team work among the employees.

(v) Selective readings: Selective reading may include professional journals and books. Some business organisations maintain libraries for their executives. This is a good method for assimilating knowledge.

B) Of -the job training Method: In off- the -job training, a trainee has to leave his place of working and devote his entire time for training purpose. During this period, the trainee does not contribute anything to the organization. These methods can be followed either in the organization itself or the trainee may be sent away for training courses organized by specialized institutions.

In our country, there are many organizations which have their own training institutes.

Prominent among them in the private sector are TISCO, Larsen & Tubro, ITC, Hindustan Unilever Ltd etc. And Steel Authority of India Ltd (SAIL), State Trading Corporation (STC), Life Insurance corporation, Coal India etc.in the public sector. Besides, there are special training institutes like Administrative Staff College of India, National Productivity Council, All India Management Association, India Institute of Management etc.

Various methods of off-the job training are as follows:

(i) **Lecture Method** : Special courses and lectures are knowledge based training methods. These courses are organised for a short period. Lectures are supplemented by demonstrations. It also known as class room training.

(ii) Conferences: In order to overcome the limitations of lecture method many organisations have adopted guided-discussion type of conferences in their training programmes. In this method, the participants pool their ideas and experiences and draw conclusions.

(iii) Case Study: Case Study method of training has been developed by Harvard Business School of USA. Cases are widely used in a variety of programmes. This method increases the trainees power of observation. Case studies are generally used for teaching law, marketing, personnel management etc.

(iv) Role Playing: This mehod of training is used for improving human relations and development of leadership qualities. Role playing technique is used in group where various individuals are given roles of different managers. Dialogue spontaneously grows out of the situation. This method helps the trainee to develop insight into his behaviour and deal with others accordingly.

(v) Management Games: Management games are used to stimulate the thinking of people to run an organisation or its department. A game involves the participation of two or more teams depending on the situation. All the teams have to make decisions regarding the operation of their companies in the given situation. Strength and weakness of decisions are analysed in the light of the results.

(vi) Sensitivity Training: Sensitivity training was first used by National Training Laboratories at Bethel, USA. The training group called itself as T- group. Therefore, it is also called as T-Group training. It is a laboratory training method. The trainees can develop tolerance for others views, become less prejudiced, develop understanding for group process and listening skills.

After imparting training to the employees it becomes necessary to evaluate the training programme because organizations spend a sizeable amount on it. It is, therefore, necessary to examine what value is added to the performance by the training so that in future such training programmes may be arranged or abandoned if they fail to pay some benefit.

The effectiveness of the training Programme can by judged on the basis of the following criteria:
(a) Need: After training, the performance is evaluated .If there is positive demonstration from the workers the need is fulfilled. It is to ascertain whether the training has helped in achieving the results
(b) Change in behavior: The training should bring about change in the behavior of the employee as regards his performance of job. He should use the knowledge acquired by him during training for job performance.
(c) Value addition: Value addition is another criterion for assessment of training. It can be visualized through overall performance, change in trainees' personality, socialization, development etc.

PROMOTION

A **promotion** is the advancement of an employee's rank or position in an organizational hierarchy system. Promotion may be an employee's reward for good performance, i.e., positive appraisal. Before a company promotes an employee to a particular position it ensures that the person is able to handle the added responsibilities by screening the employee with interviews and tests and giving them training or on-the-job experience. A promotion can involve advancement in terms of designation, salary and benefits, and in some organizations the type of job activities may change a great deal. The opposite of a promotion is a demotion.

Advantages of Promotion:

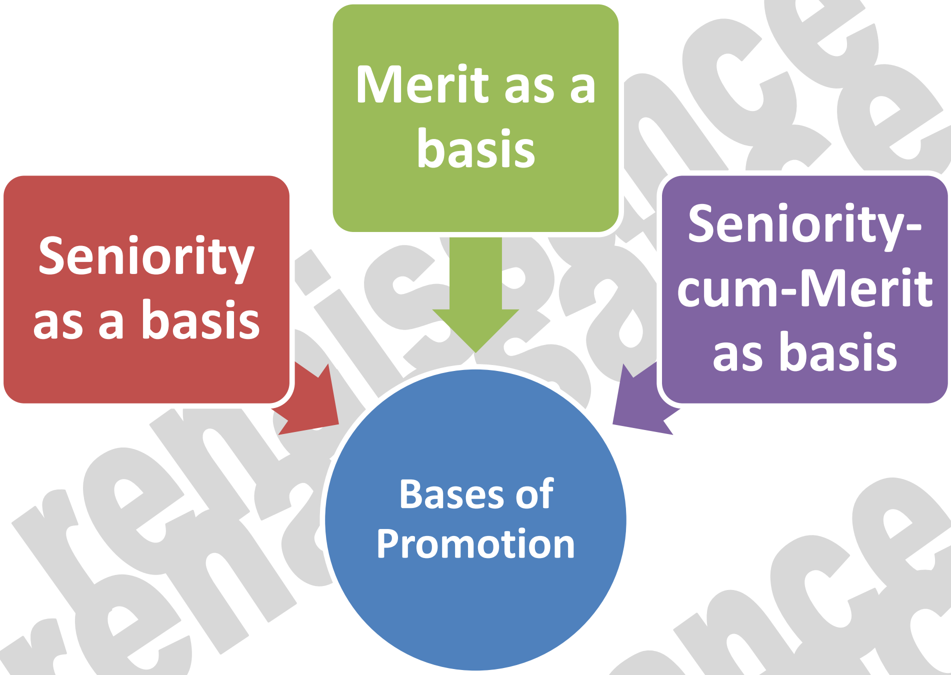
i. It is an important source of internal recruitment.
ii. It motivates employees.
iii. It increases job satisfaction.
iv. It increases morale.
v. It increases loyalty.
vi. It promotes self development of employees.
vii. Reduced training cost.
viii. Better industrial relations.
ix. No induction delay.

Disadvantages of Promotion:

i. Lack of new blood.
ii. Breeds Corruption
iii. Lack of capable or suitable employees.
iv. Not suitable for posts requiring innovative thinking.

Bases of Promotion

Promotion is given on the basis of seniority or merit or a combination of both. Let us discuss each one as a basis of promotion.



Seniority as a basis: It implies relative length of service in the same organization. The advantages of this are: relatively easy to measure, simple to understand and operate, reduces labour turnover and provides sense of satisfaction to senior employees. It has also certain disadvantages: beyond a certain age a person may not learn, performance and potential of an employee is not recognized, it kills ambition and zeal to improve performance.

Merit as a basis: Merit implies the knowledge, skills and performance record of an employee. The advantages are: motivates competent employees to work hard, helps to maintain efficiency by recognizing talent and performance. It also suffers from certain disadvantages like: difficulty in judging merit, merit indicates past achievement, may not denote future potential and old employees feel insecure.

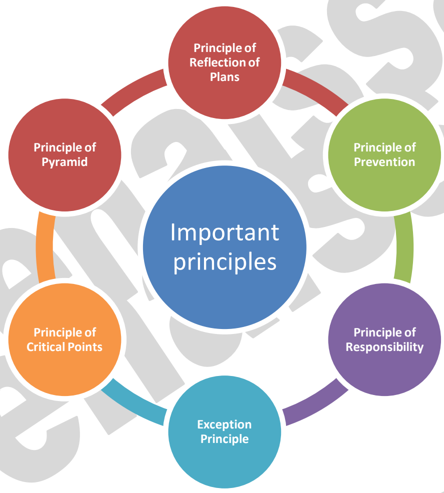
Seniority-cum-Merit as basis: As both seniority and merit as basis suffer from certain limitations, therefore, a sound promotion policy should be based on a combination of both seniority and merit. A proper balance between the two can be maintained by different ways: minimum length of service may be prescribed, relative weightage may be assigned to seniority and merit and employees with a minimum performance record and qualifications are treated eligible for promotion, seniority is used to choose from the eligible candidates.

Merit Vs Seniority

MERIT	**SENIORITY**
Advantages:	
Motivates Employees	It is objective
Adds to job satisfaction.	Simple
Increases loyalty	Favoured by Union
	Increases Loyalty
	Reduces Turnover
Disadvantages	
It is subjective	Promotes Inefficiency
Complicated	Reduces motivation
Scope for Favoritism	Kills initiative and Innovative Thinking
Opposition by Union	Lowers morale of employees

Promotes Industrial Unrest	

CONTROL OF STAFF:-
The setting up of a good control system should be guided by certain important principles.



1. Principle of Reflection of Plans:
The more clear and complete the plans of the organisation and the more contr61s are designed to reflect these plans, the more effectively will controls serve its needs.

2. Principle of Prevention:
The truth of the saying 'Prevention is better than cure' is well-established. In control more attention should be directed to prevention of shortfalls than, remedying them after they occur. Peed forward control is very helpful in this respect.

3. Principle of Responsibility:
Responsibility for control particular measurement of deviations taking corrective action should be given to specific individuals at each stage of the operation.

4. Exception Principle:
The managers should concern themselves with exceptional cases i.e., those where the deviations from standards are very significant. Deviations of a minor mature may be left to subordinates for necessary action.

5. Principle of Critical Points:
All operations have got' certain vulnerable or critical points. It is these which cause most of the troubles - give rise to major deviations. The managers should pay more attention to the guarding of these points.

6. Principle of Pyramid:
Feedback data should first be communicated to the bottom of the pyramid i.e., those supervisors and even operating staff who is at the lowest levels. This will give the employees opportunity to control their own situations, apart from quickening remedial action.

The important provisions:

i. Punctuality
ii. Leave Rules

iii. Trade Union Activities

UNIT-II
INDIAN BANKING SYSTEM

Introduction-

The existing Indian Banking System structure makes progress over several decades, is elaborated and has been providing the credit and banking services needs of Indian economy. Indian Banking System is divided into multiple layers which follows the requirements of different customers and borrowers of the country. The banking structure played a crucial role in the mobilisation of savings and promoting economic development. In the post-financial sector reforms (1991) phase, the performance and strength of the Indian Banking structure improved noticeably. India cannot possess a healthy economy without a strong and productive banking system. The banking system should be hassle free and must be able to meet the new challenges posed by technology and other factors.

SALIENT FEATURES OF INDIAN BANKING SYSTEM

1. Laws governing establishment of banks: Companies Act, 1956; Banking Regulation Act, 1949; Reserve Bank of India Act, 1934; Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970; Central or State Co-operative Acts.
2. Ownership: Public Sector Banks and Private Sector Banks
3. Capital Requirement: Scheduled Bank: Rs. 5.00 Lakhs; Nationalized Banks: Rs. 1500 Crore.
4. Capital Adequacy Norms: 8%
5. Mixed Banking
6. Increased credit to private sector
7. Control over the banks
8. Maintenance of CRR
9. Maintenance of SLR
10. Reserve Bank's Monopoly of Note Issue
11. Uniform Accounting Policy
12. Technology Changes
13. Internet Banking
14. Branch Banking
15. Diversification of Banking Operations
16. Cleaning NPAs
17. Changing trend of the payment system from cash to cashless.
18. UCID Code for bank's customers in India.
19. Implementation of business continuity plan.

Additional Reforms:

20. Prudential Measure
21. Competition Enhancing Measures.
22. Measures enhancing role of market forces.
23. Institutional and legal measures.
24. Supervisory Measures\
25. Technology Related Measures
26. Technological Developments in Scheduled Commercial Banks

Money Lenders

Meaning of Moneylenders:
Moneylenders are those whose primary business is moneylending.

They are classified into two categories:
(a) Professional, and

(b) Non-professional.

The professional moneylenders are those whose primary business is moneylending. On the other hand, the non-professional moneylenders are those who are engaged in some other profession but whose side business is moneylending.

They include landlords, agriculturists, merchants, traders, rich widows, pensioners, advocates, teachers, or any other person who has got surplus money. The professional and non-professional money lenders operate both in rural and urban areas. But this division is not water-tight because an urban merchant may also lend to a farmer whose produce he buys.

Working of Moneylenders:
The functions of moneylenders are:
(1) The main function of moneylenders is to give short-term loans. Loans may be given for consumption purposes, to meet social and religious obligations or the needs of farmers for seeds, cattle, fertilisers, etc.

(2) Loans are generally given on the personal security of borrowers. However, grant of loans on the security of costly things in urban areas and against land or crop in rural areas; is also common.

(3) They have personal contacts with the borrowers who approach them directly and informally,

(4) The moneylenders normally lend their own funds.

(5) The non-professional moneylenders prefer to lend in kind.

(6) Since the moneylenders have a personal knowledge about the creditworthiness of borrowers they adopt rigid or flexible attitude while lending, charging interest, and recovery of loans.

(7) They charge excessively high rates of interest.

(8) The moneylenders in rural areas are quite influential persons who adopt pressure tactics in the recovery of loans, such as forcible occupation of the cultivator's land, caste disapproval, pressure from panchayats, etc.

(9) The moneylenders also resort to some malpractices in rural areas which are: manipulating accounts, deducting interest in advance, demanding presents, exacting free services from the borrower, demanding donations, obtaining thumb impression of borrower on blank paper, non-issue of receipts for payment of interest and principal, keeping the deed of land or house of the borrower as a security, forcing the borrower-farmer to sell his produce in advance at a price lower than the market, etc.

Importance of Moneylenders:
The importance of moneylenders is immense in rural India because of the inadequacy of institutional financing agencies like commercial banks and cooperative banks. They meet the short-term monetary requirements of farmers, landless agricultural workers, marginal farmers, rural artisans, and petty shopkeepers and traders. They give loans for consumption needs, for social and religious ceremonies, and for such productive purposes as seeds, fertilisers, cattle etc.

The professional moneylender is more useful because he also provides articles of daily requirements. There being personal contact with the moneylender, the borrowers approach him directly and informally. Generally they get loans on personal security. As the moneylender is known to every borrower personally, the former is in a position to get the loan easily. A moneylender is often regarded as the friend, guide, and helper of the people in rural areas.

The importance of moneylenders can be assessed from the All India Rural Credit Survey Committee's findings that in 1950-51 professional and agricultural moneylenders accounted for nearly 70 per cent of the total borrowings of cultivators, and only 7.3 per cent was contributed by the organised institutions like commercial banks and cooperatives.

The All India Investment and Rural Debt Survey estimated that in 1960- 61 the moneylenders accounted for 49 per cent of the total borrowings by farmers.

During the British rule in India, a number of Provinces passed Acts in 1938 to restrain some of the objectionable practices of moneylenders, such as provisions for registration, licensing, and regulation of their activities. But these Acts remained on paper.

However, after nationalisation of 14 banks and with branch expansion and opening of rural banks, and strengthening of cooperative banks, the hold of moneylenders on rural credit has become weak.

Nationalization of Commercial Banks and its Effects

Nationalization is a process whereby a national government or State takes over the private industry, organisation or assets into public ownership by an Act or ordinance or some other kind of orders. This strategy has been frequently adopted by socialist governments for transition from capitalism to socialism.
The banking sector in India has been facing extreme changes with the economic growth of the country. In 1948, RBI (Transfer of public ownership) Act was passed to nationalised the Reserve Bank. On Jan 1, 1949, RBI was nationalised. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to act as the principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955.

On 19th July, 1969, 14 major Indian commercial banks of the country were nationalized. In 1980, another six banks were nationalized, and thus raising the number of nationalized banks to20. Seven more banks were nationalized with deposits over 200 Crores. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. Till the year1980 approximately 80% of the banking segment in India was under government's ownership. On the suggestions of Narsimhan Committee, the Banking Regulation Act was amended in 1993 and hence, the gateways for the new private sector banks were opened.

Objectives (Reasons) Behind Nationalisation of Banks in India:-

1. To reduce monopoly practices: Initially, a few leading industrial and "business houses had close association with commercial banks. They exploited the bank resources in such a way that the new business units cannot enter in any line of business in competition with these business houses. Nationalisation of banks, thus, prevents the spread of the monopoly enterprise.

2. Social control was not adequate: The 'social control' measures of the government did not work well. Some banks did not follow the regulations given under social control. Thus, the nationalisation was necessitated by the failure of social control.

3. To reduce misuse of savings of general public: Banks collect savings from the general public. If it is in the hand of private sector, the national interests may be neglected, besides, in Five-Year Plans, the government gives priority to some specified sectors like agriculture, small-industries etc. Thus, nationalisation of banks ensures the availability of resources to the plan-priority sectors.

4. Greater mobilisation of deposits: The public sector banks open branches in rural areas where the private sector has failed. Because of such rapid branch expansion there is possibility to mobilise rural savings

5. Advance loan to agriculture sector: If banks fail to assist the agriculture in many ways, agriculture cannot prosper, that too, a country like India where more than 70% of the population depends upon agriculture. Thus, for providing increased finance to agriculture banks have to be nationalised.

6. Balanced Regional development: In a country, certain areas remained backward for lack of financial resource and credit facilities. Private Banks neglected the backward areas because of poor business potential and profit opportunities. Nationalisation helps to provide bank finance in such a way as to achieve balanced inter-regional development and remove regional disparities.

7. Greater control by the Reserve Bank: In a developing country like India there is need for exercising strict control over credit created by banks. If banks are under the control of the Govt., it becomes easy for the Central Bank to bring about co-ordinated credit control. This necessitated the nationalisation of banks.

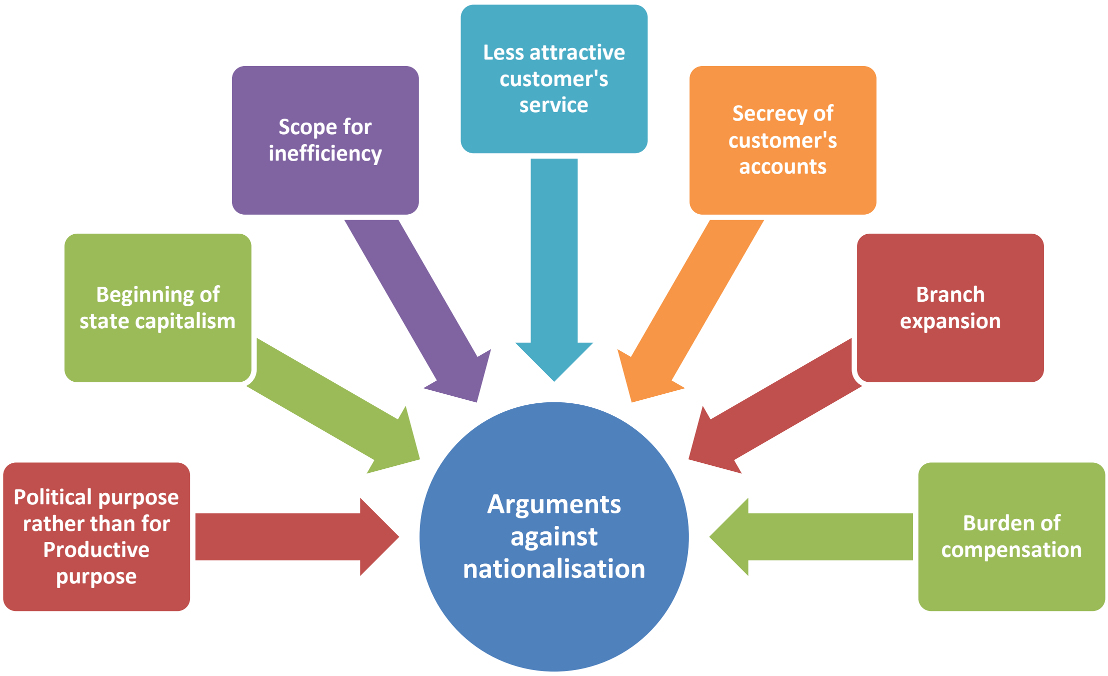
8. Greater Stability of banking structure: Nationalised banks are sure to command more confidence with the customers about the safety of their deposits. Besides this, the planned development of nationalised banks will impart greater stability for the banking structure.
Arguments in favour and against nationalisation of banks

Arguments in favour of nationalisation
1. It would enable the government to obtain all the large profits of the banks as its revenue

2. Nationalization would safeguard interests of public and increase their confidence thereby bringing about a rapid increase in deposits. Thus preventing bank failures
3. It would remove the concentration of economic power in the hands of a few industrialists
4. It would help in stabilizing the price levels by eliminating artificial scarcity of essential goods
5. It would enable the baking sector to diversify its resources for the benefit of the priority sector.
6. Eliminates wasteful competition and raises the efficiency of the working of banks
7. Enables rapid increase in the number of banking offices in rural & semi-urban areas & helped considerably in deposit mobilization to a great extent
8. necessary for the furtherance of socialism and in the interest of community
9. Enables the Reserve Bank to implement its monetary policy more effectively.
10. It would replace the profit motive with service motive
11. It would secure standardization of banking services in the country
12. Would check the incidence of tax evasion and black money

13. Through pubic ownership and control, banks function like other public utility services by catering to the financial need of the common man.
14. Like other countries, India should also get profit by nationalizing her banking industry.
15. Essential for successful planning and all-round progress of the national economy, community development and for the welfare of the people.

Arguments against nationalisation (Criticism):-



1. Political purpose rather than for Productive purpose: The government has acquired the strength of a giant and there is the danger of using the financial resources for political purposes rather than for productive purpose.

2. Beginning of state capitalism: Such a drastic step of nationalisation of about 90% of the banking resources is wholly unnecessary, especially if we take into consideration the enormous powers vested in the Reserve Bank of India for controlling banks' resources. It is considered as the beginning of state capitalism and not socialism in India.

3. Scope for inefficiency: Some are of the opinion that after nationalisation banks will degenerate to the level of agricultural co-operatives, which are known for their inefficiency and corrupt practices.

4.Less attractive customer's service: Inefficiency, indecision, corruption, and lack of responsibility are the evils with which the government undertakings are suffering. A government bank may not care to attach importance to the customer service.

5. Secrecy of customer's accounts: In spite of the assurances given and provisions made in the Act, businessmen still fear about the maintenance of the secrecy of the customer's accounts. As such, they may be forced to withdraw their deposits and go to some bank in the private sector and foreign banks. Thus nationalisation of big Indian banks .will diverts some of the deposits of Indian banks to the foreign banks which is not at all desirable.

6. Branch expansion: To argue that nationalisation will help to facilitate branch expansion to rural areas much more rapidly than the private banks cannot be supported by facts. Weather it is private bank or nationalised bank; it has to go by business principles and satisfy itself that the new branch is economically viable. In other words, branch expansion can be achieved by private banks as well, without nationalisation.

7. Burden of compensation: Nationalisation leads to the payment of heavy compensation to the shareholders. This gives additional financial burden on the government. Moreover, it is also argued that nationalisation will not bring much income to the government.
In spite of these criticisms, we cannot ignore the fact that at present, nationalisation of banks is an accomplished fact. By and large this measure received support from almost all sections of the public. It was welcomed by the middle class people and small industrialists and small traders.

Achievements of Nationalized Banks
A banking revolution occurred in the country during the post-nationalization era. There has been a great change in the thinking and outlook of commercial banks after nationalization. There has been a fundamental change in the lending policies of the nationalized banks. Indian banking has become development-oriented. It has changed from class banking to mass-banking or social banking. This system has improved and progressed appreciably. Various achievements of banks in the post-nationalization period are explained below:

1.Branch Expansion

2. Expansion of Bank Deposits

3. Credit Expansion

4. Investment in Government Securities

5. Advances to Priority Sectors

6. Social Banking - Poverty Alleviation Program

7. Differential Interest Scheme

8. Growing Importance of Small Customers

1.Branch Expansion: Initially, the banks were conservative and opened branches mainly in cities and big towns. Branch expansion gained momentum after nationalization of top commercial banks. This expansion was not only in urban areas but also in rural and village areas.

2. Expansion of Bank Deposits: Since nationalization of banks, there has been a substantial growth in the deposits of commercial banks. Thus bank deposits had increased by 200 times. Development of banking habit among people through publicity led to increase in bank deposits.

3. Credit Expansion: The expansion of bank credit has also been more spectacular in the post-bank nationalization period. At present, banks are also meeting the credit requirements of industry, trade and agriculture on a much larger scale than before.

4. Investment in Government Securities: The nationalized banks are expected to provide finance for economic plans of the country through the purchase of government securities. There has been a significant increase in the investment of the banks in government and other approved securities in recent years.

5. Advances to Priority Sectors: An important change after the nationalization of banks is the expansion of advances to the priority sectors. One of the main objectives of nationalization of banks to extend credit facilities to the borrowers in the so far neglected sectors of the economy. To achieve this, the banks formulated various schemes to provide credit to the small borrowers in the priority sectors, like agriculture, small-scale industry, road and water transport, retail trade and small business. The bank lending to priority sector was, however, not uniform in all states.

6. Social Banking - Poverty Alleviation Program: Commercial banks, especially the nationalized banks have been participating in the poverty alleviation Program launched by the government.

7. Differential Interest Scheme: With a view to provide bank credit to the weaker sections of the society at a concessional rate the government introduced the "Differential interest rates scheme" from April 1972. Under this scheme, the public sector banks have been providing loans at 4% rate of interest to the weaker sections of the society.

8. Growing Importance of Small Customers: The importance of small customers to banks has been growing. Most of the deposits in recent years have come from people with small income. Similarly, commercial banks lending to small customers has assumed greater importance.

9. Diversification in Banking: The changes which have been taking place in India since 1969 have necessitated banking companies to give up their conservative and traditional system of banking and take to new and progressive functions.

10. Globalization: The liberalization of the economy, inflow of considerable foreign investments, frequency in exports etc., have introduced an element of globalization in the Indian banking system.

11. Profit making: After nationalization, banks are making profits in addition to achieving economic and social objectives.

12. Safety: The government has given importance to safety of the banks. The RBI exercises tight control over banks and safeguards depositors interest

13. Advances under self-employment scheme: Public sector banks play a significant role in promoting self employment through advances to unemployed through various schemes of the government like IRDP,JGSY, etc.

Classification of Banking Institutions

Bank is an institution that accepts deposits of money from the public.

Anybody who has account in the bank can withdraw money. Bank also lends money.

Indigenous Banking:

The exact date of existence of indigenous bank is not known. But, it is certain that the old banking system has been functioning for centuries. Some people trace the presence of indigenous banks to the Vedic times of 2000-1400 BC. It has admirably fulfilled the needs of the country in the past.

However, with the coming of the British, its decline started. Despite the fast growth of modern commercial banks, however, the indigenous banks continue to hold a prominent position in the Indian money market even in the present times. It includes shroffs, seths, mahajans, chettis, etc. The indigenous bankers lend money; act as money changers and finance internal trade of India by means of hundis or internal bills of exchange.

Defects:

The main defects of indigenous banking are:

(i) They are unorganised and do not have any contact with other sections of the banking world.

(ii) They combine banking with trading and commission business and thus have introduced trade risks into their banking business.

(iii) They do not distinguish between short term and long term finance and also between the purpose of finance.

(iv) They follow vernacular methods of keeping accounts. They do not give receipts in most cases and interest which they charge is out of proportion to the rate of interest charged by other banking institutions in the country

Suggestions for Improvements:

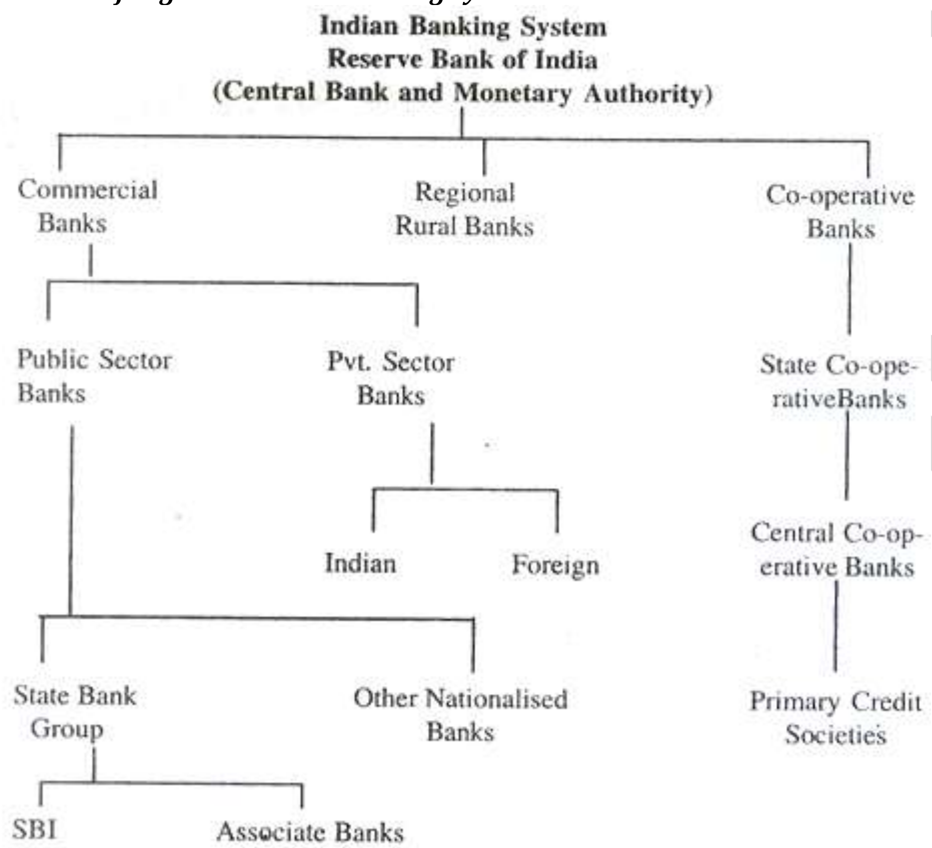
(i) The banking practices need to be upgraded.

(ii) Encouraging them to avail of certain facilities from the banking system, including the RBI.

(iii) These banks should be linked with commercial banks on the basis of certain understanding in the respect of interest charged from the borrowers, the verification of the same by the commercial banks and the passing of the concessions to the priority sectors etc.

(iv) These banks should be encouraged to become corporate bodies rather than continuing as family based enterprises

Structure of Organised Indian Banking System:



STRUCTURE OF INDIAN BANKING SYSTEM

Reserve Bank of India (RBI):

The country had no central bank prior to the establishment of the RBI. The RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

Commercial Banks:

Commercial banks mobilise savings of general public and make them available to large and small industrial and trading units mainly for working capital requirements.

Commercial banks in India are largely Indian-public sector and private sector with a few foreign banks. The public sector banks account for more than 92 percent of the entire banking business in India—occupying a dominant position in the commercial banking. The State Bank of India and its 7 associate banks along with another 19 banks are the public sector banks.

Scheduled and Non-Scheduled Banks:

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs, hey have to satisfy the RBI that their affairs are carried out in the interest of their depositors.

All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

Regional Rural Banks:

The Regional Rural Banks (RRBs) the newest form of banks, came into existence in the middle of 1970s (sponsored by individual nationalised commercial banks) with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of al kinds in rural areas.

The emphasis is on providing such facilities to small and marginal farmers, agricultural labourers, rural artisans and other small entrepreneurs in rural areas.

Other special features of these banks are:

(i) their area of operation is limited to a specified region, comprising one or more districts in any state; (ii) their lending rates cannot be higher than the prevailing lending rates of cooperative credit societies in any particular state; (iii) the paid-up capital of each rural bank is Rs. 25 lakh, 50 percent of which has been contributed by the Central Government, 15 percent by State Government and 35 percent by sponsoring public sector commercial banks which are also responsible for actual setting up of the RRBs.

These banks are helped by higher-level agencies: the sponsoring banks lend them funds and advise and train their senior staff, the NABARD (National Bank for Agriculture and Rural Development) gives them short-term and medium, term loans: the RBI has kept CRR (Cash Reserve Requirements) of them at 3% and SLR (Statutory Liquidity Requirement) at 25% of their total net liabilities, whereas for other commercial banks the required minimum ratios have been varied over time.

Cooperative Banks:

Cooperative banks are so-called because they are organised under the provisions of the Cooperative Credit Societies Act of the states. The major beneficiary of the Cooperative Banking is the agricultural sector in particular and the rural sector in general.

The cooperative credit institutions operating in the country are mainly of two kinds: agricultural (dominant) and non-agricultural. There are two separate cooperative agencies for the provision of agricultural credit: one for short and medium-term credit, and the other for long-term credit. The former has three tier and federal structure.

At the apex is the State Co-operative Bank (SCB) (cooperation being a state subject in India), at the intermediate (district) level are the Central Cooperative Banks (CCBs) and at the village level are Primary Agricultural Credit Societies (PACs).

Long-term agriculture credit is provided by the Land Development Banks. The funds of the RBI meant for the agriculture sector actually pass through SCBs and CCBs. Originally based in rural sector, the cooperative credit movement has now spread to urban areas also and there are many urban cooperative banks coming under SCBs.

The **Reserve Bank of India** (**RBI**) is India's central banking institution, which controls the monetary policy of the Indian rupee. It was established on 1 April 1935 during the British Raj in accordance with the provisions of the Reserve Bank of India Act, 1934. The share capital was divided into shares of 100 each fully paid, which was entirely owned by private shareholders in the beginning. Following India's independence in 1947, the RBI was nationalized in the year 1949.

The RBI plays an important part in the development strategy of the Government of India. It is a member bank of the Asian Clearing Union.

Structure of RBI:-

The Reserve Bank's affairs are governed by a central board of directors. The **Central Board of Directors** is the apex body in the governance structure of the Reserve Bank. There are also four **Local Boards** for the Northern, Southern, Eastern and Western areas of the country which take care of local interests. The central government appoints/nominates directors to the Central Board and members to the Local Boards in accordance with the Reserve Bank of India (RBI) Act. The composition of the Central Board is enshrined under Section 8(1) of the RBI Act, 1934.

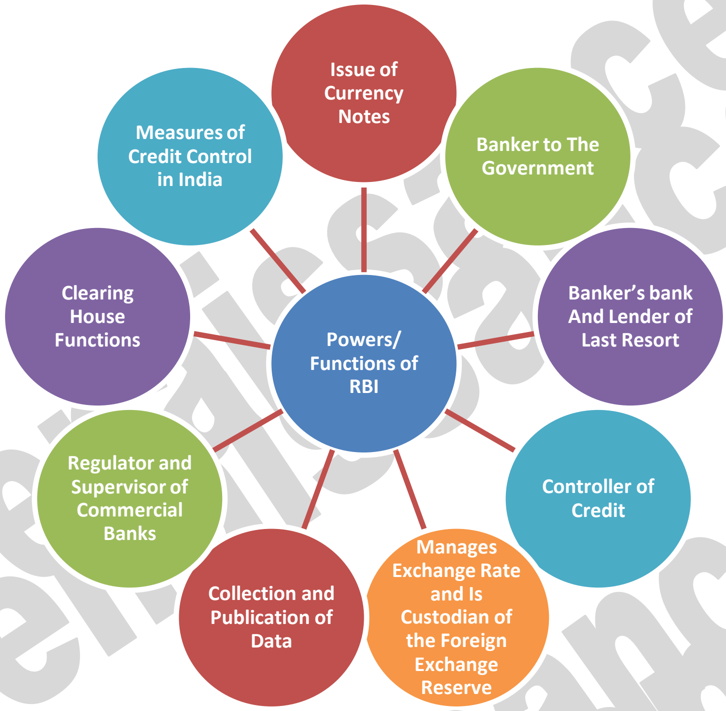
The Central Board consists of:

- The Governor (currently **Mr. Shaktikanta Das**)
- 4 Deputy Governors of the Reserve Bank
- 4 Directors nominated by the central government, one from each of the four Local Boards as constituted under Section 9 of the Act
- 10 Directors nominated by the central government
- 2 government officials nominated by the central government

The Central Board is assisted by three committees:

1. The Committee of the Central Board (**CCB**)
2. The Board for Financial Supervision (**BFS**)
3. The Board for Regulation and Supervision of Payment and Settlement Systems (**BPSS**)

Powers/ Functions of RBI:



1) **Issue of Currency Notes**

- Under section 22 of RBI Act, the bank has the sole right to issue currency notes of all denominations except one-rupee coins and notes.
- The one-rupee notes and coins and small coins are issued by Central Government, and their distribution is undertaken by RBI as the agent of the government.
- The RBI has a separate issue department which is entrusted with the issue of currency notes.

2) **Banker to The Government**

- The RBI acts as a banker agent and adviser to the government. It has an obligation to transact the banking business of Central Government as well as State Governments.
- Example, RBI receives and makes all payments on behalf of the government, remits its funds, buys and sells foreign currencies for it and gives it advice on all banking matters.
- RBI helps the Government – both Central and state – to float new loans and manage public debt.
- On behalf of the central government, it sells treasury bills and thereby provides short-term finance.

3) **Banker's bank And Lender of Last Resort**

- RBI acts as a banker to other banks. It provides financial assistance to scheduled banks and state co-operative banks in the form of rediscounting of eligible bills and loans and advances against approved securities.
- RBI acts as a lender of last resort. It provides funds to the bank when they fail to get it from any other source.
- It also acts as a clearing house. Through RBI, banks make inter-banks payments.

4) **Controller of Credit**

- RBI has the power to control the volume of credit created by banks. The RBI through its various quantitative and qualitative measures regulates the money supply and bank credit in an economy.
- RBI pumps in money during recessions and slowdowns and withdraws money supply during an inflationary period.

5) **Manages Exchange Rate and Is Custodian of the Foreign Exchange Reserve**

- RBI has the responsibility of removing fluctuations from the exchange rate market and maintaining a competitive and stable exchange rate.
- RBI functions as custodian of nations foreign exchange reserves.
- It has to maintain a fair external value of Rupee.
- RBI achieves its objective through appropriate monetary and exchange rate policies.

6) **Collection and Publication of Data**

- The RBI collects and compiles statistical/data information on banking and financial operations, prices, FDIs, FPIs, BOP, Exchange Rate and industries etc., of the economy.
- The Reserve Bank of India publishes a monthly Bulletin/publication for the same.
- It not only provides information but also highlights important studies and investigations conducted by RBI.

7) **Regulator and Supervisor of Commercial Banks**

- The RBI has wide powers to supervise and regulate the commercial and co-operative banks in India.
- RBI issues licenses regulate branch expansion, manages liquidity and Assets, management and methods of working of commercial banks and amalgamation, reconstruction and liquidation of the banks.

8) **Clearing House Functions**

- The RBI acts as a clearing house for all member banks. This avoids unnecessary transfer of funds between the various banks.

9) **Measures of Credit Control in India**

The management of the money supply and credit control is an important function of the Reserve Bank of India. The money supply has an important bearing on the functioning of the economy.

Objectives

The primary objectives of RBI are to supervise and undertake initiatives for the financial sector consisting of commercial banks, financial institutions and non-banking financial companies (NBFCs).

Some key initiatives are:

i. Restructuring bank inspections
ii. Fortifying the role of statutory auditors in the banking system

CONTROL OF CREDIT BY RBI

What is Credit Control: Credit Control is an important tool used by the Reserve Bank of India, a major weapon of the monetary policy used to control the demand and supply of money (liquidity) in the economy. Central Bank administers control over the credit that the commercial banks grant. Such a method is used by RBI to bring "Economic Development with Stability". It means that banks will not only control inflationary trends in the economy but also boost economic growth which would ultimately lead to increase in real national income stability. In view of its functions such as issuing notes and custodian of cash reserves, credit not being controlled by RBI would lead to Social and Economic instability in the country.

- Credit control refers to the regulation of credit by the central bank for achieving the objective of economic growth and development.
- In the modern times, the main function of the central bank is to manage and control and monetary system of the country or the policy of credit expansion and credit contraction is called credit control

Why Credit Control is required: The basic and important needs of Credit Control in the economy are:

- To encourage the overall growth of the "priority sector" i.e. those sectors of the economy which is recognized by the government as "prioritized
- To keep a check over the channelization of credit so that credit is not delivered for undesirable purposes.
- To achieve the objective of controlling "Inflation" as well as "Deflation".
- To boost the economy by facilitating the flow of adequate volume of bank credit to different sectors.

What are the methods of Credit Control?

The various methods employed by the RBI to control credit creation power of the commercial banks can be classified in two groups, viz., quantitative controls and qualitative controls. Quantitative controls are designed to regulate the volume of credit created by the banking system qualitative measures or selective methods are designed to regulate the flow of credit in specific uses.

The two categories are: I. Quantitative or General Methods II. Qualitative or Selective Methods.

Methods of Credit Control

Quantitative or General Methods

1. Bank Rate
2. Open Market Operations
3. Variable Cash Reserve Ratio

Qualitative or Selective Methods

1. Credit Rationing
2. Direct Action
3. Moral Persvasion
4. Publicity
5. Regulation of Consumer's Credit
6. Regulating the Margınal Requirements on Security Loans.

There are two methods that the RBI uses to control the money supply in the economy-

(1) Quantitative Method: By Quantitative Credit Control we mean the control of the total quantity of credit. Different tools used under this method are:

(a) **Bank Rate Policy :** The bank rate is the rate at which the Central Bank of a country is prepared to re-discount the first class securities.

It means the bank is prepared to advance loans on approved securities to its member banks. As the Central Bank is only the lender of the last resort the bank rate is normally higher than the market rate.

Bank Rate also known as the Discount Rate is the official minimum rate at which the Central Bank of the country is ready to rediscount approved bills of exchange or lend on approved securities. When the commercial bank for instance, has lent or invested all its available funds and has little or no cash over and above the prescribed minimum, it may ask the central bank for funds. It may either re-discount some of its bills with the central bank or it may borrow from the central bank against the collateral of its own promissory notes. In either case, the central bank accommodates the commercial bank and increases the latter's cash reserves. This Rate is increased during the times of inflation when the money supply in the economy has to be controlled.

For example: If the Central Bank wants to control credit, it will raise the bank rate. As a result, the market rate and other lending rates in the money-market will go up. Borrowing will be discouraged. The raising of bank rate will lead to contraction of credit.

Similarly, a fall in bank rate mil lowers the lending rates in the money market which in turn will stimulate commercial and industrial activity, for which more credit will be required from the banks. Thus, there will be expansion of the volume of bank Credit.

(b) **Open Market Operations:** Open Market Operations indicate the buying/selling of government securities in the open market to balance the money supply in the economy. During inflation, RBI sells the government securities to the commercial banks and other financial institution. This reduces their cash lending and credit creation capacities. Thus, Inflation can be controlled. During recessions, RBI purchases government securities from commercial banks and other financial institution. This leaves them with more cash balances for lending and increases their credit creation capacities. Thus, recession can be overcome.

(c) **Repo Rates and Reverse Repo Rates:**

Repo rate also known as the benchmark interest rate is the rate at which the RBI lends money to the banks for a short term. When the repo rate increases, borrowing from RBI becomes more expensive. If 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. ***Current repo rate is 5.75%***

Reverse Repo rate is the short term borrowing rate at which RBI borrows money from banks. The Reserve bank uses this tool when it feels there is too much money floating in the banking system. An increase in the reverse repo rate means that the banks will get a higher rate of interest from RBI. As a result, banks prefer to lend their money to RBI which is always safe instead of lending it others (people, companies etc) which is always risky. ***Current repo rate is 5.5%***

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.

(d) **Cash Reserve Ratio:** Banks in India are required to hold a certain proportion of their deposits in the form of cash. However Banks don't hold these as cash with themselves, they deposit such cash(aka currency chests) with Reserve Bank of India , which is considered as equivalent to holding cash with themselves. 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.

When a bank's deposits increase by Rs100, and if the cash reserve ratio is 9%, the banks will have to hold Rs. 9 with RBI and the bank will be able to use only Rs 91 for investments and lending, credit purpose. Therefore, higher the ratio, the lower is the amount that banks will be able to use for lending and investment. This power of Reserve bank of India 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. ***Current CRR is 4%.***

(e) **Statutory Liquidity Ratio:** Every bank is required to maintain at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and

un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). RBI is empowered to increase this ratio up to 40%. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.
Net Demand Liabilities - Bank accounts from which you can withdraw your money at any time like your savings accounts and current account.
Time Liabilities - Bank accounts where you cannot immediately withdraw your money but have to wait for certain period. e.g. Fixed deposit accounts.
Current SLR is 19%.

(f) **Deployment of Credit:** The RBI has taken various measures to deploy credit in different of the economy. The certain percentage of bank credit has been fixed for various sectors like agriculture, export, etc.

(2) Qualitative Method: The qualitative or the selective methods are directed towards the diversion of credit into particular uses or channels in the economy. Their objective is mainly to control and regulate the flow of credit into particular industries or businesses.

The following are the important methods of credit control under selective method:

1. Rationing of Credit.

- 2. Direct Action.
- 3. Moral Persuasion.
- 4. Method of Publicity.

- 5. Regulation of Consumer's Credit

- 6. Regulating the Marginal Requirements on Security Loans.

1. **Rationing of Credit.**

A credit rationing is a measure taken by Central Bank to limit or deny credit based on the investor's credit worthiness. The Central Bank denies the supply of credit when the investor does not have any collateral to pledge against the loan. Credit rationing is imposed when there is a shortage of institutional credit available to the business sector but the institution tries to capture institutional credit by paying a higher interest rate. This is an important method of credit control and this policy has been adopted by a number of countries like Russia and Germany.

- Therefore, an increase in the demand for credit is seen. There are three measures to control the credit rationing situation:
- 1. Firstly, by setting an upper limit to the credit.
- 2. Secondly, by charging higher interest rate on the loan amount
- 3. Thirdly, providing loans to the weaker section at a minimal interest rate

2. **Direct Action:-** Under this method if the Commercial Banks do not follow the policy of the Central Bank, then the Central Bank has the only recourse to direct action. This method can be used to enforce both quantitatively and qualitatively credit controls by the Central Banks. This method is not used in isolation; it is used as a supplement to other methods of credit control.

Direct action may take the form either of a refusal on the part of the Central Bank to re-discount for banks whose credit policy is regarded as being inconsistent with the maintenance of sound credit conditions. Even then the Commercial Banks do not fall in line, the Central Bank has the constitutional power to order for their closure.

This method can be successful only when the Central Bank is powerful enough and has cordial relations with the Commercial Banks. Mostly such circumstances are rare when the Central Bank is forced to resist to such measures.

3. **Moral Persuasion:-** This method is frequently adopted by the Central Bank to exercise control over the Commercial Banks. Under this method Central Bank gives advice, then request and persuasion to the Commercial Banks to co-operate with the Central Bank is implementing its credit policies.

If the Commercial Banks do not follow or do not abide by the advice or request of the Central Bank no gross action is taken against them. The Central Bank merely was its moral influence and pressure with the Commercial Banks to prevail upon them to accept and follow the policies.

4. **Method of Publicity:-** In modern times, Central Bank in order to make their policies successful, take the course of the medium of publicity. A policy can be effectively successful only when an effective public opinion is created in its favour.

Its officials through news-papers, journals, conferences and seminar's present a correct picture of the economic conditions of the country before the public and give a prospective economic policies. In developed countries Commercial Banks automatically change their credit creation policy. But in developing countries Commercial Banks being lured by regional gains. Even the Reserve Bank of India follows this policy.

5.**Regulation of Consumer's Credit:-** Under this method consumers are given credit in a little quantity and this period is fixed for 18 months; consequently credit creation expanded within the limit. This method was originally adopted by the U.S.A. as a protective and defensive measure, there after it has been used and adopted by various other countries.

6.**Regulating the Marginal Requirements on Security Loans:-** Regulation of consumer credit is designed to check the flow of credit for consumer durable goods. This can be done by regulating the total volume of credit that may be extended for purchasing specific durable goods and regulating the number of installments through which such loan can be spread. Central Bank uses this method to restrict or liberalise loan conditions accordingly to stabilise the economy.

Management of Deposits and Advances Deposit Mobilization, Classification and Nature of Deposit Accounts, Advances, Lending Practice, Types of Advances. Investment Management: Nature of Bank Investment, Liquidity and Profitability. Cheques, Bills and their Endorsement, Government Securities. Procedure of E – Banking

UNIT-III
MANAGEMENT OF DEPOSITS

DEPOSITS MOBILIZATION

In India commercial banks promote the habit of thrift and savings among public and mobilize deposits. The deposits of scheduled commercial banks were Rs. 1080 crore in 1947, Rs. 4646 crore in 1969 but it increased to Rs. 605410 crore in 1998 and it has risen further to Rs. 701871 crore as on March 1999.

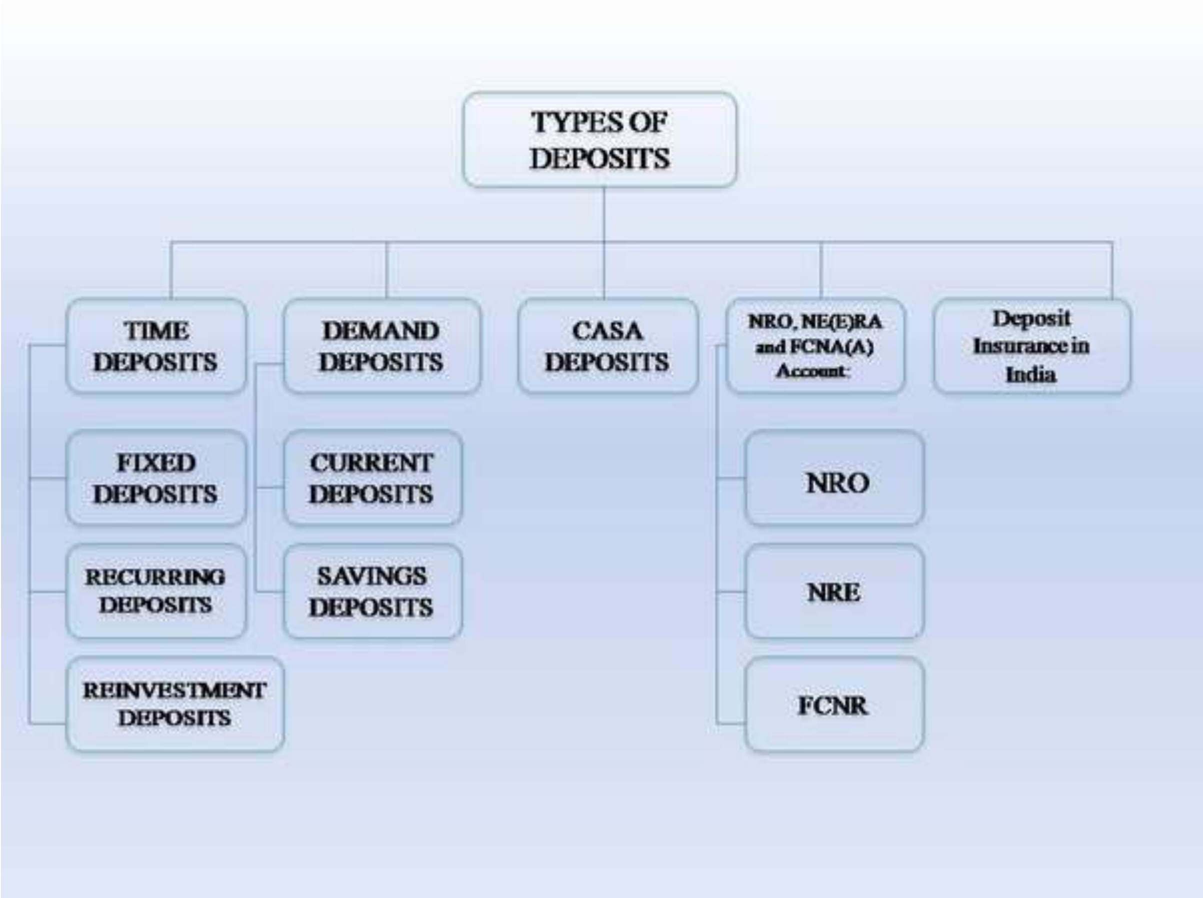
Aggregate deposit of all scheduled commercial banks crossed one million crore rupees mark in 2001. The total deposit amounted to Rs. 11, 31,188 crore as at end March, 2002. The increase in deposits is attributed to the Five Year Plans, policy of the Government, rapid branch expansion and industrialization of our country, etc.

CLASSIFICATION AND NATURE OF DEPOSITS ACCOUNT:-

Money and banking are part of everyday life. Banks offer all sorts of financial products to help you manage your money on a day-to-day basis. The bank is such a place where once we deposit money, it remains safe and also earns an interest over some time. This is known as the deposit and to each deposit, the bank assigns a unique identity which is known as the account. Each deposit corresponds to a unique account and vice versa.

Sometimes we use numbers to uniquely identify an account. This is what we call the account number. It may also be a combination of alphanumeric letters. Bank deposits serve different purposes for different people. Some people cannot save regularly. They deposit money in the bank only when they have extra income. The purpose of deposit then is to keep money safe for future needs. Some may want to deposit money in a bank for as long as possible to earn interest or to accumulate savings with interest so as to buy a flat, or to meet hospital expenses in old age, etc. Some, mostly businessmen, deposit all their income from sales in a bank account and pay all business expenses out of the deposits.

Kinds of Deposits:-



1. **Time Deposits:** When money is deposited with tenure it cannot be withdrawn from the deposit before its tenure ends. This is known as "Time Deposits" or "Term Deposits". The interest rate is generally higher for time deposits of longer tenure. On the basis of their nature, time deposits may be of three types as follows:

· **Fixed deposits**: In this type of time deposit, a fixed rate of interest is paid. These are deposits that are maintained for a fixed term. The time period can be anything from 7 days to 10 years. This is not like a normal operating bank account. Therefore, cheque book facility is not offered. Benefit of term deposits is that the interest rate would be higher. Weakness is that if the investor needs the money earlier, he bears a penalty. He will earn 1% less than what the deposit would otherwise have earned, if it had been placed for the time period for which the
money was left with the bank.

Banks may also offer the facility of loan against fixed deposit. Under this arrangement, a certain percentage of the fixed deposit amount may be made available as a loan, at an interest rate, which would be higher than the term deposit rate. This is an alternative to premature withdrawal.

Unlike interest rate on savings account, the interest in term deposits is de-regulated. Therefore, every bank decides its own interest rate structure. Further, it is normal to offer 0.50% extra interest to senior citizens. For large deposits of above Rs. 1 crore, the bank may be prepared to work out special terms.

The term deposits may also be structured as *recurring* i.e. the depositer would invest a constant amount every month / quarter, for anything from 12 months to 10 years. Benefit of such an account is that the interest rate on the future deposits is frozen at the time the recurring account is opened. Thus, even if interest rates on fixed deposits, in general, were to go down, the recurring deposits would continue to earn the committed rate of interest.

Interest rate in a recurring deposit may be marginally lower than the rate in a non-recurring term deposit for the same time period.

· **Re-investment deposits**: Interest is compounded quarterly and paid on maturity, along with the principal amount of the deposit. In the Flexi Deposits amount in savings deposit accounts beyond a fixed limit is automatically converted into term-deposits.

· **Recurring deposits**: Fixed amount is deposited at regular intervals for a fixed term and the repayment of principal and accumulated interest is made at the end of the term. These deposits are usually targeted at persons who are salaried or receive other regular income. A Recurring Deposit can usually be opened for any period from 6 months to 120 months.

2. Demand deposits: When the funds deposited can be withdrawn by the customer (depositor / account holder) at any time without any advanced notice to banks; it is called demand deposit. One can withdraw the funds from these accounts any time by issuing cheque, using ATM or withdrawal forms at the bank branches.

· **Current Accounts:** In this type of deposit, bank has to pay the money on demand to the depositor. The cost to maintain the accounts is high and banks ask the customers to keep a minimum balance. This is maintained by businesses for their banking needs. It can be opened by anyone, including sole-proprietorships, partnership firms, private limited companies and public limited companies.
The current account comes with a cheque book facility. Normally, there are no restrictions on the number of withdrawals. Subject to credit-worthiness, the bank may provide an overdraft facility i.e. the account holder can withdraw more than the amount available in the current account. Current accounts do not earn an interest. Therefore, it is prudent to leave enough funds in current account to meet the day-to-day business needs, and transfer the rest to a term deposit.
CASA is a term that is often used to denote Current Account and Savings Account. Thus, a bank or a branch may have a CASA promotion week. This means that during the week, the bank would take extra efforts to open new Current Accounts and Savings Accounts.

· **Saving Accounts:** Savings deposits are subject to restrictions on the number of withdrawals as well as on the amounts of withdrawals during any specified period. Further, minimum balances may be prescribed in order to offset the cost of maintaining and servicing such deposits. This is the normal bank account that individuals and Hindu Undivided Families (HUFs) maintain. The account can be opened by individuals who are majors (above 18 years of age), parents / guardians on behalf of minors and Karta of HUFs. Clubs, associations and trusts too can open savings accounts as provided for in their charter. Banks insist on a minimum balance, which may be higher if the account holder wants cheque book facility. The minimum balance requirement tends to be lowest in the case of co-operative banks, followed by public sector banks, private sector Indian banks and foreign banks, in that order.

Banks do impose limits on the number of withdrawals every month / quarter. Further, overdraft facility is not offered on savings account. Traditionally, banks paid an interest on the lowest balance in the bank account between the 10th and the end of the month.

3. CASA Deposit: CASA Deposits refers to Current Account Saving Account Deposits. As an aggregate the CASA deposits are low interest deposits for the Banks compared to other types of the deposits. So banks tend to increase the CASA deposits and for this they offer various services such as salary accounts to companies, and encouraging merchants to open current accounts, and use their cash-management facilities

4. NRO, NE(E)RA and FCNA(A) Account: There are several kinds of accounts available for non resident Indians , Persons of Indian Origin and Overseas Citizens of India. They are as follows:

· **Non Resident Ordinary Accounts: (NRO):** As with a NRE account,
o It can be operated with a cheque, as in the case of any savings bank account.
o It is maintained in rupees with the resulting implications in terms of currency conversion losses for the depositer.

The differences from NRE are:
o The money can come from local sources – not necessarily a foreign remittance or FCNR / NRE account.
o The principal amount is not repatriable, though the interest can be repatriated.
o The bank will deduct tax at source, on the interest earned in the deposit.
o A non-resident can open an NRO account jointly with a resident

· **Non-Resident (External) Rupee Account (NR(E)RA :-** As in the case of FCNR,
o The money has to come through a remittance from abroad, or a transfer from another FCNR / NRE account.
o The principal and interest are freely repatriable.
o Interest earned is exempt from tax in India.

The differences are:
o It can be operated with a cheque, as in the case of any savings bank account.
o It is maintained in rupees. Therefore, a depositor bringing money in another currency will have to first convert them into rupees; and then re-convert them to the currency in which he wants to take the money out. If during the deposit period, the rupee becomes weaker, then that loss is to the account of the depositor.

· **Foreign Currency Non-Resident Account: (FCNR):-** These are maintained in the form of fixed deposits for 1 year to 3 years. Since the account is designated in foreign currency (Pounds, Sterling, US Dollars, Japanese Yen and Euro), the account holder does not incur exchange losses in first converting foreign currency into rupees (while depositing the money) – and then re-converting the rupees into foreign currency (when he wants to take the money back).

The depositer will have to bring in money into the account through a remittance from abroad or through a transfer from another FCNR / NRE account. If the money is not in the designated foreign currency, then he will have to bear the cost of conversion into the designated currency. On maturity, he can freely repatriate the principal and interest (which he will receive in the designated currency that he can convert into any other currency, at his cost). Interest earned on these deposits is exempt from tax in India.

5. Deposit Insurance in India: In India, the bank deposits are covered under the insurance scheme provided by DICGC. When a bank covered by DICGC fails, or undergoes liquidation or is merged with another bank; the DICGC pays the amount due to depositors via the officially appointed liquidator in a time bound manner.
Deposit Insurance and Credit Guarantee Corporation (DICGC) was set up by RBI with the intention of insuring the deposits of individuals. The deposit insurance scheme covers:
• All commercial banks, including branches of foreign banks operating in India, and Regional Rural Banks
• Eligible co-operative banks.
The insurance scheme covers savings account, current account, term deposits and recurring accounts. However, the following deposits are not covered by the scheme:
• Deposit of Central / State Government
• Deposit of foreign governments

• Inter-bank deposits
• Deposits received outside India
In order for depositers in a bank to benefit from the insurance scheme, the bank should have paid DICGC the specified insurance premium (10 paise per annum per Rs. 100 of deposit).

Under the Scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of the deposits held by him in the same right and same capacity in all branches of that bank upto an aggregate monetary ceiling of Rs. 1,00,000/- (Rupees one lakh). Both principal and interest are covered, upto the prescribed ceiling.

Joint Accounts
Two or more individuals may open a joint account. Various options exist for operating the account:
• Jointly by A and B – Both A and B will have to sign for withdrawals and other operations. For example, high value transactions in a partnership firm may require the joint signature of two or more partners.
• Either or Survivor – Either of them can operate the account individually. After the demise of one, the other can operate it as survivor. This is the normal option selected by families.
• Former or Survivor – The first person mentioned as account-holder will operate it during his / her lifetime. Thereafter, the other can operate. This option is often selected by a parent while opening an account with the son / daughter.
• Latter or Survivor - The second person mentioned as account-holder will operate it during his / her lifetime. Thereafter, the other can operate. While opening the account, the operating option needs to be clearly specified.

Nomination
The bank account opening form provides for the account holder to select a nominee. In the event of demise of the account holder, the bank will pay the deposit amount to the nominee, without any legal formalities. The salient provisions regarding nomination facility in bank accounts are as follows:
• Nomination facility is available for all kinds of bank accounts – savings, current and fixed deposit.
• Nomination can be made only in respect of a deposit which is held in the individual capacity of the depositor and not in any representative capacity such as the holder of an office like Director of a Company, Secretary of an Association, partner of a firm and Karta of an HUF.
• In the case of a deposit made in the name of a minor, nomination shall be made by a person lawfully entitled to act on behalf of the minor.
• Nomination can be made in favour of one person only.
• Nomination favouring the minor is permitted on the condition that the account holder, while making the nomination, appoints another individual not being a minor, to receive the amount of the deposit on behalf of the nominee in the event of the death of the depositor during the minority of the nominee.
• Cancellation of, or variation in, the nomination can be made at any time as long as the account is in force. While making nomination, cancellation or variation, witness is required and the request should be signed by all account holders.
• When the nominee makes a claim to the bank account, two documents are normally asked for:
o Proof of death of depositer
o Identity proof of nominee
• Payment to nominee only releases the bank from its obligation on the account. The nominee would receive the money, in trust, for the benefit of the heirs. The legal heirs of the deceased person can claim their share of the deposit proceeds from the nominee.

Closure of Deposit Accounts
This might occur in different ways:
• Account-holder can request closure of the account, and give instructions on how the balance in the deposit should be settled.
• On death of the sole account holder, the account would be closed and balance paid to the nominee. If nominee is not appointed, then bank would pay the legal representative of the account holder.

• On receipt of notice of insanity or insolvency of the sole account holder, the bank will stop operations in the account.
• On receipt of notice of assignment of the bank account, the bank would pay the amount lying in the account to the assignee.
• On receipt of a court order or garnishee order from Income Tax authorities, the bank would stop the transactions in the bank account during the pendency of the order.

MANAGEMENT OF ADVANCES

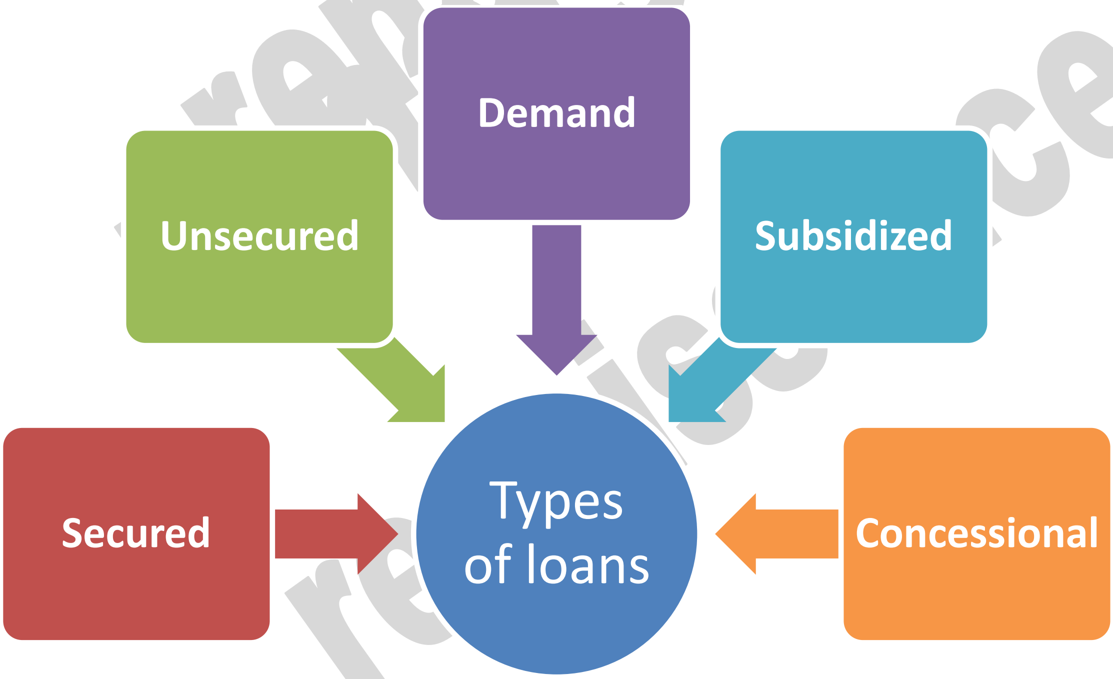
In finance, a **loan** is a debt provided by one entity (organization or individual) to another entity at an interest rate, and evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower.

In a loan, the borrower initially receives or *borrows* an amount of money, called the *principal*, from the lender, and is obligated to *pay back* or *repay* an equal amount of money to the lender at a later time. Typically, the money is paid back in regular *installments*, or partial repayments; in an annuity, each installment is the same amount.

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

Types of loans:-



Secured
A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral.

A mortgage loan is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security — a lien on the title to the house — until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it.

In some instances, a loan taken out to purchase a new or used car may be secured by the car, in much the same way as a mortgage is secured by housing. The duration of the loan period is considerably shorter — often corresponding to the useful life of the car. There are two types of auto loans, direct and indirect. A direct auto loan is where a bank gives the loan directly to a consumer. An indirect auto loan is where a car dealership acts as an intermediary between the bank or financial institution and the consumer.

Unsecured
Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages:

- credit card debt
- personal loans
- bank overdrafts
- credit facilities or lines of credit
- corporate bonds (may be secured or unsecured)
-

The interest rates applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law. In the United Kingdom, when applied to individuals, these may come under the Consumer Credit Act 1974.

Interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible.

Demand
Demand loans are short term loans that are atypical in that they do not have fixed dates for repayment and carry a floating interest rate which varies according to the prime lending rate. They can be "called" for repayment by the lending institution at any time. Demand loans may be unsecured or secured.

Subsidized
A subsidized loan is a loan on which the interest is reduced by an explicit or hidden subsidy. In the context of college loans in the United States, it refers to a loan on which no interest is accrued while a student remains enrolled in education.

Concessional
A concessional loan, sometimes called a "soft loan," is granted on terms substantially more generous than market loans either through below-market interest rates, by grace periods or a combination of both.[3] Such loans may be made by foreign governments to poor countries or may be offered to employees of lending institutions as an employee benefit.

Target markets
Personal or commercial
Loans can also be subcategorized according to whether the debtor is an individual person (consumer) or a business. Common personal loans include mortgage loans, car loans, home equity lines of credit, credit cards,

installment loans and payday loans. The credit score of the borrower is a major component in and underwriting and interest rates (APR) of these loans. The monthly payments of personal loans can be decreased by selecting longer payment terms, but overall interest paid increases as well. For car loans in the U.S., the average term was about 60 months in 2009.

Loans to businesses are similar to the above, but also include commercial mortgages and corporate bonds. Underwriting is not based upon credit score but rather credit rating.

Loan payment
The most typical loan payment type is the fully amortizing payment in which each monthly rate has the same value over time.

The fixed monthly payment **P** for a loan of **L** for **n** months and a monthly interest rate **c** is:

$$P = L \cdot \frac{c\,(1+c)^n}{(1+c)^n - 1}$$

Abuses in lending
Predatory lending is one form of abuse in the granting of loans. It usually involves granting a loan in order to put the borrower in a position that one can gain advantage over him or her. Where the moneylender is not authorized, they could be considered a loan shark.

Usury is a different form of abuse, where the lender charges excessive interest. In different time periods and cultures the acceptable interest rate has varied, from no interest at all to unlimited interest rates. Credit card companies in some countries have been accused by consumer organizations of lending at usurious interest rates and making money out of frivolous "extra charges".
Abuses can also take place in the form of the customer abusing the lender by not repaying the loan or with an intent to defraud the lender.

INVESTMENT MANAGEMENT
Investment management is the professional asset management of various securities (shares, bonds and other securities) and other assets (e.g., real estate) in order to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations, charities, educational establishments etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes e.g. mutual funds or exchange-traded funds).

The term asset management is often used to refer to the investment management of collective investments, while the more generic fund management may refer to all forms of institutional investment as well as investment management for private investors. Investment managers who specialize in *advisory* or *discretionary* management on behalf of (normally wealthy) private investors may often refer to their services as money management or portfolio management often within the context of so-called "private banking".

The provision of investment management services includes elements of financial statement analysis, asset selection, stock selection, plan implementation and ongoing monitoring of investments. Coming under the remit of financial services many of the world's largest companies are at least in part investment managers and employ millions of staff.

Fund manager (or investment adviser in the United States) refers to both a firm that provides investment management services and an individual who directs fund management decisions.

At the heart of the investment management industry are the managers who invest and divest client investments. A certified company investment advisor should conduct an assessment of each client's individual needs and risk profile. The advisor then recommends appropriate investments.

Asset allocation
The different asset class definitions are widely debated, but four common divisions are stocks, bonds, real-estate and commodities. The exercise of allocating funds among these assets (and among individual securities within each asset class) is what investment management firms are paid for. Asset classes exhibit different market dynamics, and different interaction effects; thus, the allocation of money among asset classes will have a significant effect on the performance of the fund. Some research suggests that allocation among asset classes has more predictive power than the choice of individual holdings in determining portfolio return. Arguably, the skill of a successful investment manager resides in constructing the asset allocation, and separately the individual holdings, so as to outperform certain benchmarks (e.g., the peer group of competing funds, bond and stock indices).

Long-term returns
It is important to look at the evidence on the long-term returns to different assets, and to holding period returns (the returns that accrue on average over different lengths of investment). For example, over very long holding periods (e.g. 10+ years) in most countries, equities have generated higher returns than bonds, and bonds have generated higher returns than cash. According to financial theory, this is because equities are riskier (more volatile) than bonds which are themselves more risky than cash.

Diversification
Against the background of the asset allocation, fund managers consider the degree of diversification that makes sense for a given client (given its risk preferences) and construct a list of planned holdings accordingly. The list will indicate what percentage of the fund should be invested in each particular stock or bond. The theory of portfolio diversification was originated by Markowitz (and many others). Effective diversification requires management of the correlation between the asset returns and the liability returns, issues internal to the portfolio (individual holdings volatility), and cross-correlations between the returns.

Investment styles
There are a range of different styles of fund management that the institution can implement. For example, growth, value, growth at a reasonable price (GARP), market neutral, small capitalisation, indexed, etc. Each of these approaches has its distinctive features, adherents and, in any particular financial environment, distinctive risk characteristics. For example, there is evidence that growth styles (buying rapidly growing earnings) are especially effective when the companies able to generate such growth are scarce; conversely, when such growth is plentiful, then there is evidence that value styles tend to outperform the indices particularly successfully.

CHEQUES
A **cheque** (or **check** in American English) is a document that orders a payment of money from a bank account. The person writing the cheque, the *drawer*, has a transaction banking account (often called a current, cheque, chequing or checking account) where their money is held. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the *drawee*, to pay that person or company the amount of money stated.

A cheque is a special type of bill of exchange.
A 'cheque, is a bill of exchange drawn on a specified banker, expressed to be payable only on demand (Sec.6).
Although a cheque is a bill of exchange, yet is have two additional characteristics, namely:
(i) A cheque is always drawn on a specified banker with whom the drawer has deposited the money;
(ii) It is always payable on demand.

Thus all cheques are bills of exchange but all bills of exchange are not cheques.

Crossing of Cheques:

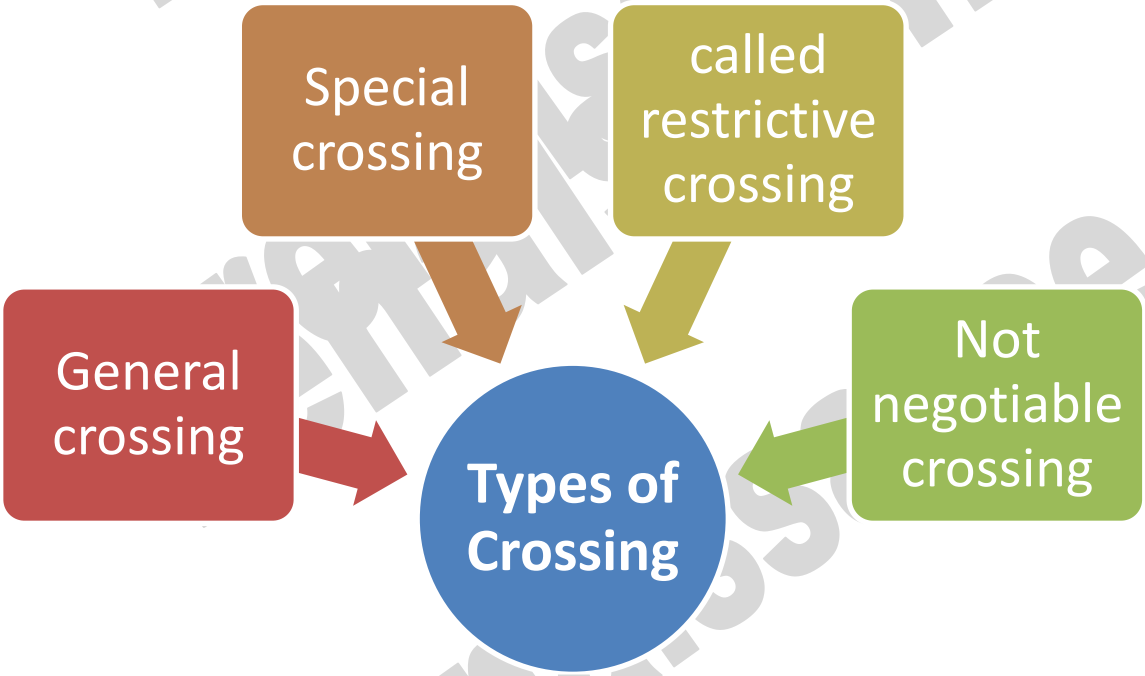
Cheques are of two types, open cheques and crossed cheques. Open cheques are those which are paid over the counter of the bank. In other words, they need not be put through a bank account. Open cheques are liable to great risk in the course of circulation.

They may be either lost or stolen and the finder or thief can get it encased at the bank unless the drawer has in the meantime countermanded payment. With a view to avoiding such risks, and protect the owner of cheque, a system of crossing was introduced.

Crossing is a direction to the banker not to pay the cheque across the counter but to pay to a bank only or to particular bank in an account with the bank. Thus crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker; it can easily be detected to whose use the money is received. Crossing does not, however, affect the negotiability or transferability of a cheque. But where the words 'not negotiable' are added, the cheque is not negotiable. The practice of crossing is confined to cheques only and cannot be extended to any other instrument.

Modes of crossing:
To cross a cheque, two transverse parallel lines are drawn on the left hand corner of the cheque. It is also usual to write the words "& Co", in between these two lines. However, it is not necessary to write these words. A crossing is a direction to the paying banker not to pay the money to the holder at the counter.

Types of Crossing:



1. General Crossing:
In a general crossing, simply two parallel transverse lines, with or without the words 'not negotiable' in between, may be drawn. Such a cheque is crossed generally.
The effect of general crossing is that the payment of the cheque will not be made at the counter, it can be collected only through a banker.

2. Special Crossing:

In a special crossing, the name of a banker with or without the words 'not negotiable' is written on the cheque. Such a cheque is crossed specially to that banker.
It should be noted that two transverse parallel lines are necessary for a general crossing, whereas for a special crossing, no such lines are necessary.
The effect to special crossing is that the paying banker will be the amount of the cheque only through the bank named in the cheque.

3. Restrictive crossing:
Besides the two statutory types of crossing discussed above, there is one more type of crossing namely, restrictive crossing. This type of crossing has been recognised by usage and custom of the trade.
In a restrictive crossing the words 'Account Payee' or Account Payee Only' are added to the general or special crossing.
The effect of restrictive crossing is that the payment of the cheque will be made by the bank to the collecting banker only for the account payee named. If the collecting banker collects the amount for any other person, he will be liable for wrongful conversion of funds.
It should be noted that the duty of the paying banker is only to ensure that the payment is made through the named bank, if there is any. He is not liable, in case the collecting banker collects the cheque for any other person than the account payee. In that case collecting banker will be liable to the true owner.

4. Not negotiable Crossing (Sec. 130):
A person taking is cheque crossed generally or specially, bearing in either case the words 'not negotiable' shall not be able to give a better title to the holder than that of the transferor.
The effect of a not negotiable crossing is that the cheque can be transferred but the transferee will not acquire a better title to the cheque. Thus a cheque is deprived of its essential feature of negotiability.
The objects of "not negotiable" crossing is to protect the drawer against loss or theft in the course of transit.

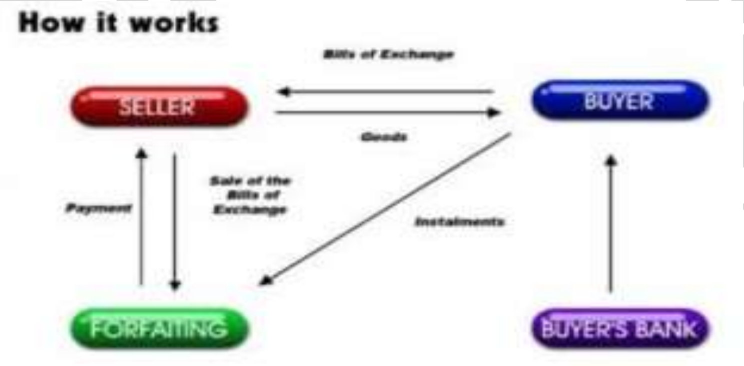
Example:
A cheque was drawn in favour of a firm B & Co. The cheque was crossed 'not negotiable'; one of the partners, A in fraud of his Co-partner B, endorsed the cheque to P who encashed it. Held that B, who under the terms of the partnership agreement was entitled to the cheque could recover the amount from P as A could not transfer better title than he himself had [Fisher v. Roberst]
Who may cross a cheque? As a rule, it is the drawer who can cross a cheque. However, Sec. 125 provides that even a holder can cross the cheque. It further provides that a banker can cross the cheque specially for collecting to another banker as his agent for collection.

Between a Bill of Exchange and a Cheque:
Although a cheque is a bill of exchange and there is too much of similarity between the two, yet there are the following points of difference between a bill and a cheque;

i. A bill of exchange may be drawn on any person. A cheque is always drawn on a specified banker with whom the drawer has deposited money. 'A bill' can be drawn even on a bank.
ii. Certain types of bills of exchange must be accepted before they are presented for payment. In case of a cheque, acceptance is not at all necessary.
iii. A bill of exchange has to be stamped according to the Indian Stamp Act. Stamp is not at all necessary on a cheque.
iv. A bill of exchange may be payable on demand or after a certain period. A cheque is always payable on demand.
v. A bill of exchange cannot be made payable to bearer on demand. A cheque can be made payable on demand.
vi. In a bill three days of grace are allowed to the acceptor for payment. In case of a cheque, no such grace period is allowed and it is payable immediately on demand, of course, during working hours of the bank.
vii. In case a bill of exchange is not presented for payment, the drawer is discharged from his liability. Failure to present the cheque discharges the drawer, only when he has suffered any loss due to the failure of the holder to present the cheque for payment within a reasonable time of its issue. In such a case the loss is limited to the loss suffered by the drawer due to non - presentment.

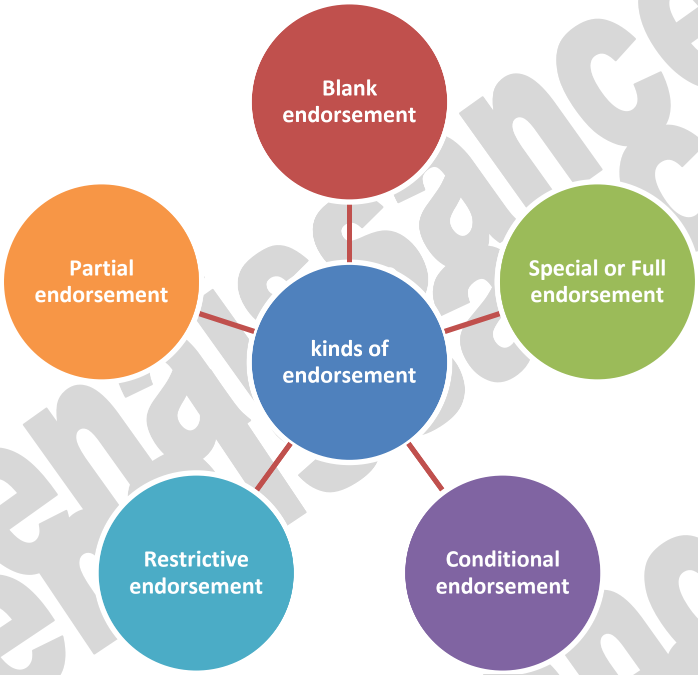
Bank Draft of Demand Draft:
A bank draft or a demand draft, is a bill of exchange drawn by one bank on its own branch or any other bank. The essential features of a bank draft are:
1. It is always drawn by a bank upon its own branch or another bank.
2. It is always payable on demand and it cannot be made payable to bearer.
3. Ordinarily, payment of ^demand draft cannot be stopped or countermanded. It is because of this reason that payment is demanded through a bank draft.

BILLS AND THEIR ENDORSEMENT
A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.
Bills of exchange are similar to checks and promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements. The difference between a promissory note and a bill of exchange is that this product is transferable and can bind one party to pay a third party that was not involved in its creation. If these bills are issued by a bank, they can be referred to as bank drafts. If they are issued by individuals, they can be referred to as trade drafts.



Endorsement:
Endorsement means the signature of the maker/ drawer or a holder of a negotiable instrument, either with or without any writing, for the purpose of negotiation. The endorsement is done by the payee or endorsee, as the case may be by signing on the instrument customarily on its back & where the space is insufficient on a slip of paper annexed thereto called “allonge”.

There are five kinds of endorsement:



1. **Blank endorsement:** If the endorser signs his name only, the endorsement is said to be in blank and it becomes payable to bearer,

2. **Special or Full endorsement:** An endorsement "in full" or a special endorsement is one where the endorser not only puts his signature on the instrument but also writes the name of a person to whom or to whose order the payment is to be made.

3. **Conditional endorsement:** In conditional endorsement the endorser puts his signature under such a writing which makes the transfer of title subject to fulfillment of some conditions of the happening of some events.

4. **Restrictive endorsement:** An endorsement is called restrictive when the endorser restricts or prohibits further negotiation.

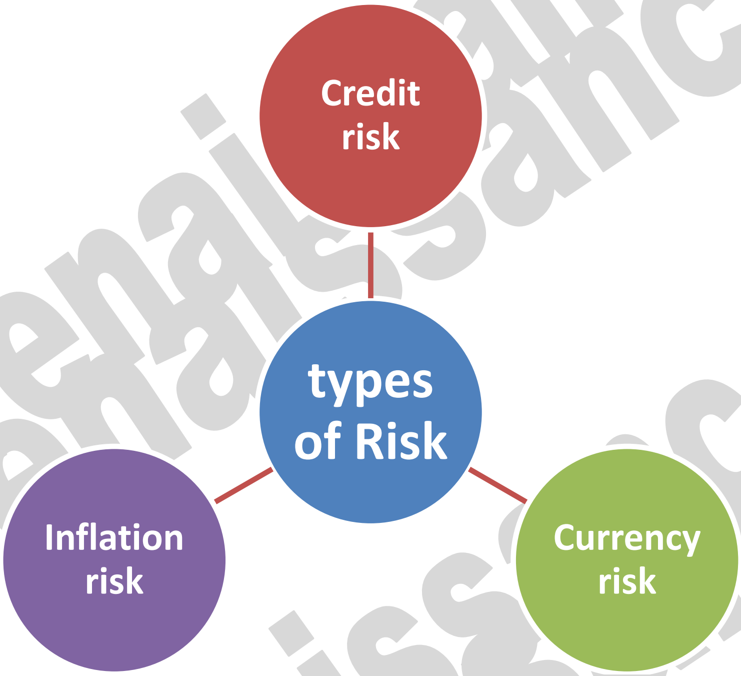
5. **Partial endorsement:** In Partial endorsement only a part of the amount of the bill is transferred or the amount of the bill is transferred to two or more endorsees severally. This does not separate as a negotiation of the instrument. The law lays down that an endorsement must relate to the whole instrument. However, where the amount has been partly paid, a note to that affect may be endorsed on the instrument which may then be negotiated for the balance. This is not done in case of cheques or banker's drafts.

GOVERNMENT SECURITIES

A bond (or debt obligation) issued by a government authority, with a promise of repayment upon maturity that is backed by said government. A government security may be issued by the government itself or by one of the government agencies. These securities are considered low-risk, since they are backed by the taxing power of the government.

A **government bond** is a bond issued by a national government, generally with a promise to pay periodic interest payments and to repay the face value on the maturity date. Government bonds are usually denominated in the country's own currency. Bonds issued by national governments in foreign currencies are normally referred to as "sovereign bonds", although the term sovereign bond may also refer to bonds issued in a country's own currency.

Risks- There are various types of Risk-



Credit risk
Government bonds in a country's own currency are sometimes taken as an approximation of the theoretical risk-free bond, because it is assumed that the government can raise taxes or create additional currency in order to redeem the bond at maturity. There have been instances where a government has defaulted on its domestic currency debt, such as Russia in 1998 (the "ruble crisis") (see national bankruptcy).

Currency risk
Currency risk is the risk that the value of the currency a bond pays out will decline compared to the holder's reference currency. For example, a German investor would consider United States bonds to have more currency risk than German bonds (since the dollar may go down relative to the euro); similarly, a United States investor would consider German bonds to have more currency risk than United States bonds (since the euro may go down relative to the dollar).

Inflation risk
Inflation risk is the risk that the value of the currency a bond pays out will decline over time. Investors expect some amount of inflation, so the risk is that the inflation rate will be higher than expected. Many governments issue inflation-indexed bonds, which protect investors against inflation risk by linking both interest payments and maturity payments to a consumer prices index.

PROCEDURE OF E-BANKING

Online banking (or **Internet banking** or **E-banking**) allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution, which can be a retail bank,virtual bank, credit union or building society.

To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for [telephone banking]. Financial institutions now routinely allocate customers numbers (also under various names), whether or not customers intend to access their online banking facility. Customers numbers are normally not the same as account numbers, because number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

To access online banking, the customer would go to the financial institution's website, and enter the online banking facility using the customer number and password. Some financial institutions have set up additional security steps for access, but there is no consistency to the approach adopted.

Features

Online banking facilities offered by various financial institutions have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories

- A bank customer can perform non-transactional tasks through online banking, including -
    - viewing account balances
    - viewing recent transactions
    - downloading bank statements, for example in PDF format
    - viewing images of paid cheques
    - ordering cheque books
    - download periodic account statements
    - Downloading applications for M-banking, E-banking etc.
- Bank customers can transact banking tasks through online banking, including -
    - Funds transfers between the customer's linked accounts
    - Paying third parties, including bill payments (see, e.g., BPAY) and telegraphic/wire transfers
    - Investment purchase or sale
    - Loan applications and transactions, such as repayments of enrollments
    - Register utility billers and make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process
- the process of banking has become much faster

Some financial institutions offer unique Internet banking services, for example

- Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

Procedure in E-Banking

i. Request for opening new account and opt for Internet Banking facility at the branch.
ii. User-id/passwords would be provided as per the procedure defined above.
iii. Activation of the users would be as per the above procedure.
iv. Login into Internet banking services with a valid User-id & password.
v. Click on the Requests option
vi. Select "Request for Transaction Password"
vii. Submit the details for transaction passwords (like address, user-id etc.)
viii. The transaction password will be created at HO and sent directly on the address mentioned in the request.
ix. On receipt of transaction password, login into the services
x. Select "Request for activation of Transaction password".
xi. Submit the details.

xii. Activation would be done within 24 hours of receiving the request.

Unit – 4

Banking regulation Act, 1949

The Banking Regulation Act, 1949 is one of the important legal frame works. Initially the Act was passed as Banking Companies Act,1949 and it was changed to Banking Regulation Act 1949. Along with the Reserve Bank of India Act 1935, Banking Regulation Act 1949 provides a lot of guidelines to banks covering wide range of areas. Some of the important provisions of the Banking Regulation Act 1949 are listed below.

- The term banking is defined as per Sec 5(i) (b), as acceptance of deposits of money from the public for the purpose of lending and/or investment. Such deposits can be repayable on demand or otherwise and withdraw able by means of cheque, drafts, order or otherwise.
- Sec 5(i)(c) defines a banking company as any company which handles the business of banking.
- Sec 5(i)(f) distinguishes between the demand and time liabilities, as the liabilities which are repayable on demand and time liabilities means which are not demand liabilities.
- Sec 5(i)(h) deals with the meaning of secured loans or advances. Secured loan or advance granted on the security of an asset, the market value of such an asset in not at any time less than the amount of such loan or advances. Whereas unsecured loans are recognized as a loan or advance which is not secured.
- Sec 6(1) deals with the definition of banking business.
- Sec 7 specifies banking companies doing banking business in India should use at least on work bank, banking, banking company in its name.
- Banking Regulation Act through a number of sections restricts or prohibits certain activities for a bank. For example:
  - (i) Trading activities of goods are restricted as per Section 8
  - **(ii)** (ii) Prohibitions: Banks are prohibited to hold any immovable property subject to certain terms and conditions as per Section 9 . Further, a banking company cannot create a charge upon any unpaid capital of the company as per Section 14. Sec 14(A) stipulates that a banking company also cannot create a floating charge on the undertaking or any property of the company without the prior permission of Reserve Bank of India.
- (iii) A bank cannot declare dividend unless all its capitalized expenses are fully written off as per Section 15.

Other important sections of Banking Regulation Act, 1949

- Sections 11 and 12 deals with the Paid up Capital, Reserves and their terms and conditions, Sec 18 specifies the Cash Reserve Ratio to be maintained by Non-scheduled banks and Sec 19 (2) clarifies about the share holding of a banking company.
- No banking company shall hold shares in any company, (either as pledge, or mortgagee or absolute owners of any amount exceeding 30% of its own paid up share capital plus reserves (or) 30% of the paid up share capital of that company whichever is less Section 24 specifies the requirement of maintenance of Statutory Liquidity Ratio (SLR) as a percentage (as advised by Reserve Bank of India from time to time) of the bank's demand and time liabilities in the form of cash, gold, unencumbered securities

PRIVATISATION OF BANKS

Post-independence India had adopted a very conservative economy that was practically shut to the outside world. But as time went by, Indian leaders and economists recognized the need to merge with the global economy. So in 1991, India went through some very major economic reforms. Let us focus on one such aspect of the reforms – privatization in India.

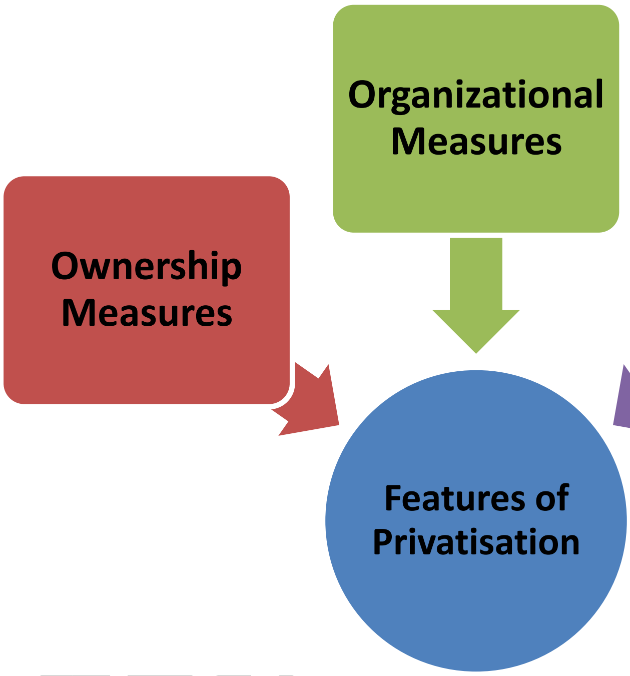
Privatization in India

In 1991 India made some major policy changes in their economic ideologies. There were stagnation and slow growth in the economy.

To tackle these problems the, then Finance Minister Dr. Manmohan Singh introduced some major economic reforms. Now, we call it the liberalization of the Indian Economy and the LPG (Librelisation , Privatisation, Globalisation) reforms.

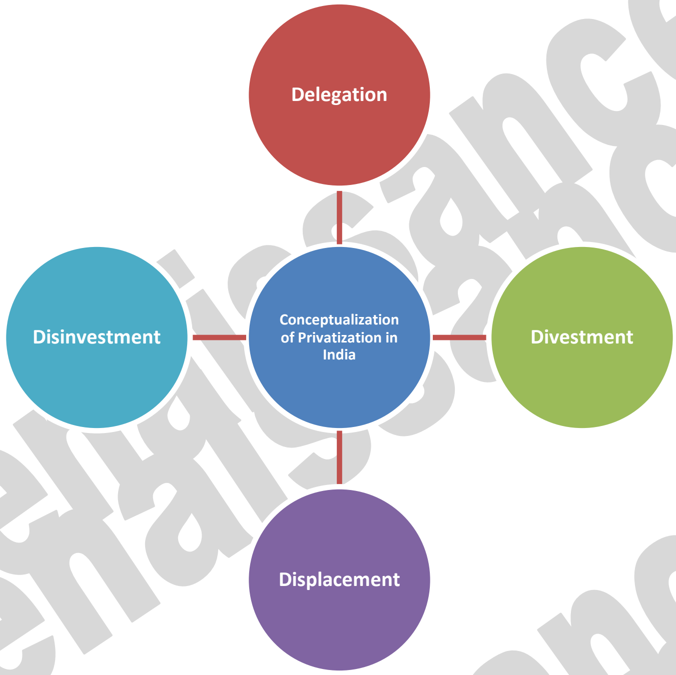
Privatization has a very broad meaning in economics. Everything that ranges from the introduction of private capital to selling government-owned assets to transitioning to a private economy.

As the definition of privatization is so very diverse let us take a look at the three main features of privatization.



1. **Ownership Measures:** The ownership of all public enterprises ultimately shifts to private owners. The denationalization can be complete or partial.
2. **Organizational Measures:** This is where we limit the control of the state in public companies. Some methods include holding company structuring, leasing. restructuring of the enterprises etc.
3. **Operational Measures:** Public organizations and companies were running into huge losses. So the efficiency of these companies was to be increased.

Conceptualization of Privatization in India:-



1] Delegation: Here via a contract or franchise or lease or grant etc. the government keeps the ownership and the responsibility of an enterprise.

But the private company will handle the daily activities and deliver the product or service. The state will remain an active participant in this process.

2] Divestment: The government will sell a majority stake of the enterprise to one or more private companies. It may keep some ownership but will be a minority stakeholder in the enterprise.

3] Displacement: The first step here will be deregulation. This will allow private players to enter the market. And slowly and gradually the private company will displace the public enterprise.

Here the private sector will compete with public companies and ultimately outperform them, causing the public enterprise to be displaced.

4] Disinvestment: Directly selling a portion or whole of a public enterprise to private parties.

Advantages of Privatization

- Private companies always have a better incentive than public companies. The managers and officials of a private company have skin in the game, i.e. their income is related to the performance of the company. In public companies, such an incentive is not present. So privatization usually leads to higher efficiency in the company.
- In a public company, there is a lot of political interference. This may dissuade the company from taking economically beneficial decisions. However, a private company will not let political factors affect their performance.
- In public companies, at times the government can only think about the upcoming elections. So all their goals may be short-term in the process of trying to gain favours of the voting public. But a private company does

not have such restrictions. They have long-term goals and ambitions and steer the company in the right direction.

- Privatization will also increase competition in the market. Consequently, this has proved to be very beneficial to consumers. Healthy competitiveness in an economy will push efficiency and performances.

BANKING REFORMS IN INDIA

An efficient banking structure can promote greater amount of investment which can help to achieve a faster growth of the economy. In India, the year 1991 saw a drastic change in the economic policy of government. Liberalization, privatization, globalization emerged as vital parameters of growth and development. But at that time India was facing macro economic crisis.

1.) The economy was growing at very low rate.

2) There were high non performing assets.

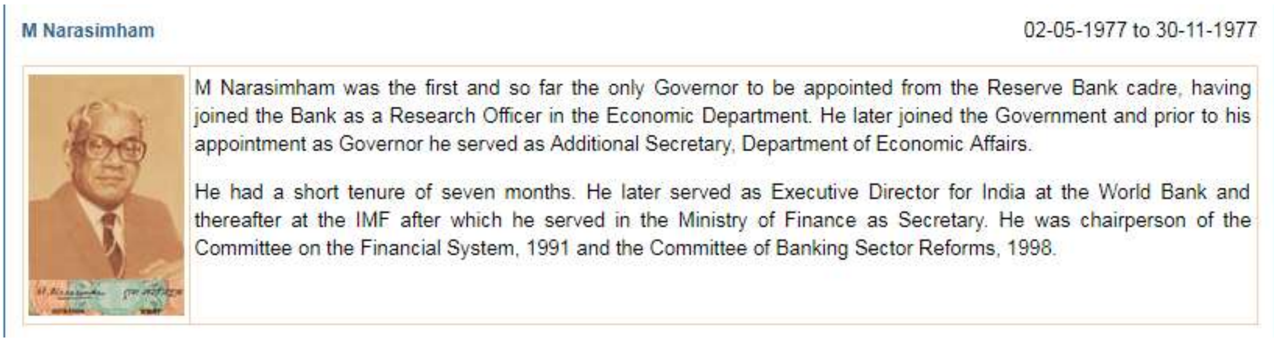
3) The customer service was unsatisfactory.

4) Banking system was not sound enough.

5) Poor financial condition of commercial banks.

6) The banks were lagging behind international standards in terms of computer technology, accounting standards and capital adequacy etc.

So government of India appointed a high level committee headed by Shri M. Narsinham, a former governor of the reserve bank of India. Government of India set up two committees.


M Narasimham 02-05-1977 to 30-11-1977

M Narasimham was the first and so far the only Governor to be appointed from the Reserve Bank cadre, having joined the Bank as a Research Officer in the Economic Department. He later joined the Government and prior to his appointment as Governor he served as Additional Secretary, Department of Economic Affairs.

He had a short tenure of seven months. He later served as Executive Director for India at the World Bank and thereafter at the IMF after which he served in the Ministry of Finance as Secretary. He was chairperson of the Committee on the Financial System, 1991 and the Committee of Banking Sector Reforms, 1998.

1) Narsinham committee on financial sector reform in 1991.

2) Narsinham committee on banking sector reform in 1998.

First Recommendation of Narasimham Committee on Banking Sector Reforms (1991):

A committee was set up by the Government of India in August, 1991 in the chairmanship of Shri. M. Narasimham to look into every aspect of banking and financial system. This committee presented its report in December, 1991.

The main recommendations of this committee for the reform in the banking sector were as follows:

(i) Statutory Liquidity Ratio (SLR) had to reduce gradually to 25 percent. A period of 5 years was recommended for it.

(ii) Similarly, the current rate of Cash Reserve Ratio (CRR) was also supposed to be the highest and a gradual reduction in it was recommended.

(iii) Bringing transparency in the balance sheet of banks.

(iv) Allowing regional rural banks to perform all kinds of banking functions.

(v) Liberalising the current policy of allowing the foreign banks to open their offices and/or branches.

(vi) The direct loan activities of Industrial Development Bank of India (IDBI) should be handed over to another institution and the refinance functions should be left with IDBI.

(vii) Making laws on the basis of international standards for the formation and management of Mutual Funds.

(viii) Making such laws regarding the interest rates that may be appropriate according to the circumstances.

(ix) Achieving 4 percent of Cash Reserve Ratio (CRR) with respect to risk weighted assets by March, 1993 and 8 percent by March, 1896.

(x) Setting up special tribunal for pacing up the process of loan repayment.

(xi) Making proper arrangements for the resolution of complaints of the customers regarding the faults in banking services.

(xii) Setting up proper standards for financial and non-financial institutions.

(xiii) Making the Reserve Bank of India the primary agency so that the double control over the banking system may be ended.

(xiv) Determining rational principles for the management functions of banks and financial institutions.

(xv) Reducing the number of banks by the rearrangement of banking systems. In such a system there should be 3 or 4 banks of international level, 8 to 10 national banks, the branches of which should perform the international level of banking business all over the country. The regional banks should be authorised to operate in specified regions only and the rural banks should operate only in rural areas etc.

Reforms after Recommendations:

The reforms made after the submission of the first report of Narasimham Committee in 1991 are described here:

(i) Statutory Liquidity Ratio was gradually reduced from 38.5 percent in 1992 to 25 percent, which is now 21.25 percent.

(ii) The current Cash Reserve Ratio was reduced in 1999 from 10 percent to 9 percent, which is now 4 percent.

(iii) Bank rate was activated to enable it to tackle the market circumstances.

(iv) To bring transparency in the balance sheet of banks it has been made mandatory from 31st March, 1992 to make profit and loss account, balance sheet in a new format. New format has been given in vertical form in which all information has been written with the help of schedules.

(v) Strong standards were determined for financial institutions and non- banking financial companies.

(vi) To improve the customer oriented services the system of Electronic Fund Transfer was started and acknowledging the importance of computers these were brought into use on proper scale.

(vii) The nationalised banks were authorised to accumulate funds from the capital market by the process of Capital issue but it was confined to a certain limit. According to this limit, the share of the government's ownership was not allowed to be less than 51 percent.

(viii) Six Special Recovery Tribunals were set up to facilitate the process of loan repayment by banks and financial institution. These tribunals are at Kolkata, Jaipur, New Delhi, Chennai, Ahmedabad, and Bengaluru. Besides, there is also an Appellate Tribunal at Mumbai.

(ix) The banks of the private sector were also allowed that they can raise capital up to 20 percent from foreign institutional investors and 40 percent from non-resident Indians.

(x) Banking Ombudsman Scheme was announced in 1995 for speedy solution of lacking in the banking services as complained by customers.

Second Recommendation of Narasimham Committee on Banking Sector Reforms, 1998:

For the observation of the reforms made in the banking sector according to the first report of Narasimham Committee, 1991, the Finance Ministry of the Government of India set up another committee on 26th December, 1997 under the chairmanship of Shri M. Narasimham and named it Banking Sector Reform Committee. This committee submitted its report to the Finance Ministry on 22ndApril, 1998.

The main recommendations of this committee are:

(1) Need of Strengthening the Banking System:

The committee has given many guidelines and directions for strengthening the banking system.

Some examples are:

(i) For capital to risk asset ratio should be increased from 8 percent to 9 percent by 2000 and to 10 percent by 2002 for risky assets.

(ii) The net non-performing assets should be bought below 5 percent by 2000 and below 3 percent by 2002.

(iii) The system of income determination and clarification of assets should be implemented on advances guaranteed by the government in the same way as on the other advances.

(iv) Such advances guaranteed by the government which have been blocked should be marked as non-performing assets.

(v) The committee also suggested that there should be carefulness in merging together of strong and weak banks. There should not be any negative impact on the assets of strong banks due to the effect of merging.

(vi) Two or three Indian banks should be of international standards.

(2) Narrow Banking:

The committee has defined the working those banks as Narrow Banking, which invest their money in risk involving assets and the balance of its demand deposits is in safe liquid assets. The committee has recommended those banks to adopt the concept of narrow banking whose non-performing assets have increased greatly, so that they can re-establish themselves.

(3) Capital Holding:

According to the recommendations of the committee the share of the Reserve Bank of India in shareholding of the nationalised banks and State Bank of India should be brought down to 33 percent.

(4) Reforms in Banking System:

With the objective of reforming the banking system, the committee recommended that:

(i) Maintaining of accounting should be developed by computers.

(ii) There should be an independent 'Loan Monitoring System' to recognise big credit accounts and non-performing assets.

(iii) There should be an extra full time Director for the period of 3 years in the nationalised banks.

(5) Capital Adequacy Ratio (CAR):

The committee has suggested the government to provide the banks chances to strengthen themselves to bear the risks. For this the government should consider to enhance the predetermined Capital Adequacy Ratio.

(6) Evaluation of Bank Acts:

The Committee has recommended amending the Reserve Bank of India Act, Banking Regulation Act, State Bank of India Act etc. after their re-evaluation according to the needs of the present times.

Reforms after Recommendation:

After the Second report of the Narasimham Committee following reforms were made in the banking sector:

(1) Minimum Capital Risk Assets Ratio (CRAR) was increased to 9 percent.

(2) Banks have been allowed to enter capital market and 12 banks have started this work.

(3) Banks have been advised that their assets would be classified as 'Doubtful Assets' which have been in the sub-standard form up to 18 months. Earlier this period was up to 24 months.

(4) Banks have been guide-lined that they should take proper step regarding Non-Performing Assets (NPA) and they should give Risk Management System a proper place.

(5) Banks have been authorised that they can issue bonds to raise their TIER-II Capital. There won't be need of any guarantee from the government for s such bonds.

(6) The Public Sector banks have been allowed to adopt Open Market Campus Recruitment System to recruit capable persons for the Information Technology Risk Management, Treasury Operation etc.

(7) Banks have been suggested that they should make a fresh observation of training in the areas of credit management, treasury management, risk management etc.

(8) The capital was classified into TIER-I, TIER-II and TIER-III to improve Capital Adequacy Ratio (CAR).

(9) The Ombudsman Bill, which had been recommended in the first report itself, was implemented.

(10) Basel-II was implemented according to the Basel Committee Agreement.

Other banking reforms committee are-

Committee	Title
1. A. Ghosh Committee, 1993	Fraud and malpractices in banks
2. Goiporia Committee, 1991	Customer services in banks
3. Narasimham Committee, 1991 and 1998	Financial sector reforms
4. Nayak Committee, 1993	Industrial credit to SSI sector
5. Pendarkar Committee, 1995	Review the system of inspection of commercial and RRB and Urban Cooperative Bank
6. S. S. Tarapore Committee, 1997 and 2006	Capital account convertibility
7. Khan Committee, 1998	Development finance institute
8. Khanna Committee, 2001	Non-performing advance
9. Kamath Committee, 2001	Revised education loan policy
10. Verma Committee, 1999	Restructuring weak public sector banks
11. Verma Committee, 2001	Banking Supervision
12. Mittal Committee, 2001	Internet banking
13. Vepa Kamesam Committee, 2003	Microfinance
14. H. R. Khan Committee, 2005	Rural credit and microfinance
15. S. C. Gupta Committee, 2007	Review legislations on money lending
16. C. P. Swarnkar Committee, 2007	Procedures and processes of agricul-ture loans
17. C. Rangrajan Committee, 2009	Estimation of saving and investment
18. M. Damodaran Committee, 2011	Customer service in banks

Banking sector Reforms in India

1. Motivation to private sector Banks
2. Computerization of Banks
3. Mobile Banking
4. Evening Banks
5. Customer Oriented
6. Less formalities
7. Diversification in banking
8. Training facilities
9. Crop insurance scheme

10. Flexibility for interest ratio

UNIT – V

Finance is the lifeline of any business. However, finances, like most other resources, are always limited. On the other hand, wants are always unlimited. Therefore, it is important for a business or an individual to manage its finances efficiently.

The companies Act, 1956 requires a banking company to maintain at its registered office proper books of account with respect to:

1. All receipts and disbursements of money and the matters in respect of which the receipt and disbursements take bank.
2. The assets and liabilities of the bank.

Where a banking company has a branch office, book of accounts relating to the transactions effected at the branch office be kept at the branch. At an interval of not more than 3 months, summarized accounts shall be sent to the banking company at its registered office.

Books to be maintained by a Bank

1. Cash Book or Register
2. Cash Scroll
3. Payment Book
4. Token Book
5. Supplementary Day Book
6. Ledgers
7. Loans and Advances Register
8. Bills Receivables and Payable Register
9. Transfer Diary/Register
10. Security Register
11. Investment Register
12. Branch Ledger

Statement of Advances:-

Statements of Advances – The Reserve Bank may call for any information every half year regarding the investment of a banking company and the classification of its advances in respect of industry, commerce and agriculture.

Non-Performing Assets

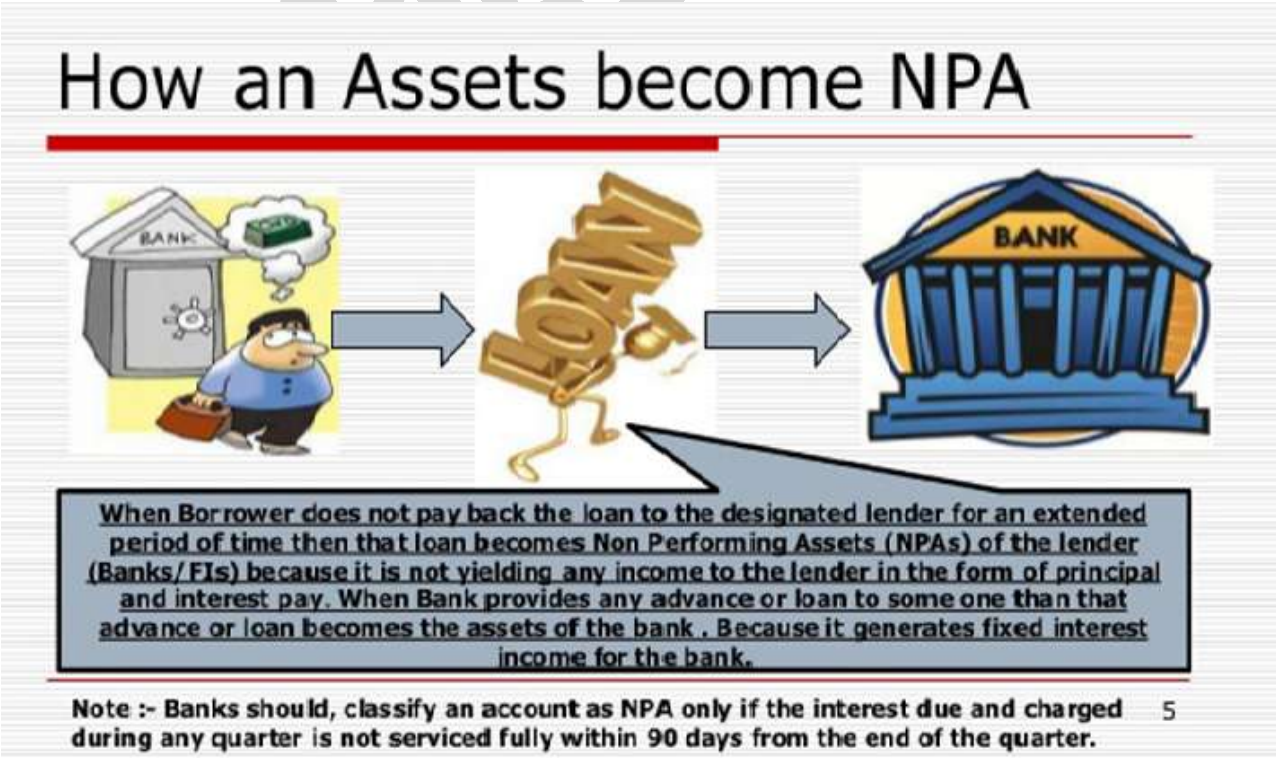
Definition: A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

Description: Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

1. Substandard assets: Assets which has remained NPA for a period less than or equal to 12 months.

2. Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

3. Loss assets: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."



Statement of Non-Performing Assets

According to the Guidelines issued by the Reserve Bank of India w.e.f. March 31, 2004 a non-performing asset means an advance where:

1. Interest and/or installment of principal remain overdue for a period of 180 days in respect of term loan;
2. The account remains out of order for a period of more than 90 days in respect of overdraft/ cash credit (OD/CC). An account shall be treated as 'out of order 'if the outstanding balance remains continuously in excess of the sanctioned limit of overdraft or cash credits.
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest and/or instilment of principal remain overdue for two harvest seasons but for a period not exceeding two half years (Two periods of six months each) in the case of an granted for agricultural purposes; and

5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Appraisal of loan Application

1. Purpose of the loan – A loan may be taken for a productive purpose such as trade and commerce or for a non-productive such as marriage or religious ceremony. Priority should be given to productive purposes over non-productive ones.
2. Security for loan – For safety of the loan it should be adequately secured. A banker should prefer secured loans as against unsecured ones. However, due to social control over the banks, security consideration is not considered an important factor these days.
3. Character – The most important factor to be carefully examines, is the character of the borrower. Character is the sum total of honesty, integrity, creditworthiness, capacity to repay, sense of responsibility, good habits and reputation enjoyed by the customer.
4. Ability to run the enterprise – if the borrower is fully capable of running the enterprise and has necessary skill and experience, his chances of success are high. As such there is little or no risk in granting loans.
5. Adequate capital – An entrepreneur should have an adequate capital of his own. If his capital is inadequate there are greater chances of failure of his business.
6. Soundness of the project – The baker should carefully examine the project report to ascertain its technical feasibility, economic necessity, financial viability and soundness.

Development Banking in India

Industrial finance corporation of India (IFCI)
1. Industrial Development Bank of India (IDBI)
2. Industrial Credit and Investment Corporation of India (ICICI)

Industrial Finance Corporation of India (IFCI)

Government of India set up the Industrial Finance Corporation of India (IFCI) in July 1948 under a special Act. This is the first financial institution set up in India with the main object of making medium and long term credit to industrial needs. Industrial Finance Corporation of India (IFCI) is actually the first financial institute the government established after independence. The main aim of the incorporation of IFCI was to provide long-term finance to the manufacturing and industrial sector of the country.

The Industrial Development Bank of India, Scheduled banks, insurance companies, investment trusts and co-operative banks are the shareholders of IFCI. The Union Government has guaranteed the repayment of capital and the payment of a minimum annual dividend.

The corporation is authorised to issue bonds and debentures in the open market, to borrow foreign currency from the World Bank and other organisations, accept deposits from the public and also borrow from the Reserve Bank.

Functions:

The functions of the IFCI base as follows:

(i) The corporation grants loans and advances to industrial concerns.

(ii) Granting of loans both in rupees and foreign currencies.

(iii) The corporation underwrites the issue of stocks, bonds, shares etc.

(iv) The corporation can grant loans only to public limited companies and co-operatives but not to private limited companies or partnership firms.

Organisation and Management:

The Head Office of the IFCI is in New Delhi. It has also established its Regional offices in Bombay, Chennai, Kolkata, Chandigarh, Hyderabad, Kanpur and Guwahati. The branch office of IFCI is located in Bhopal, Pune, Jaipur, Cochin, Bhubaneswar, Patna, Ahmedabad and Bangalore.

The IFCI is managed by a Board of Directors, headed by a Chairman, who is appointed by the Government of India, in consultation with RBI. The chairman holds his position for a period of 3 years, subject to extension.

Of the 12 directors, 4 are nominated by the IDBI, three of whom are experts in the fields of industry, labour and economics and the fourth is the General Manager of the IDBI. The remaining 8 directors are nominated.

Two directors are nominated for a term of 4 years by each of the following-scheduled banks, co-operative banks, insurance companies and investment companies making up eight directors.

Activities of the IFCI:

The promotional activities of IFCI are explained below:

1. Soft Loan Assistance:

This scheme provides soft loan assistance to existing industries in small and medium sector for developing technology through in-house research and development.

2. Entrepreneur Development:

IFCI provides financial support to EDPs (Entrepreneur Development Programmes) conducted by several agencies all-over India. In co-operation with Entrepreneurship Development Institute of India.

3. Industrial Development in Backward Areas:
IFCI also take measures to promote industrial development in backward areas through a scheme of concessional finance.

4. Subsidised Consultancy:
The IFCI gives subsidised consultancy for,

(i) Small Entrepreneurs for Meeting the Cost of Project.

(ii) Promoting Ancillary Industries

(iii) To do the Market Research.

(iv) Reviving Sick Units.

(v) Implementing Modernisation.

(vi) Controlling Pollution in Factories.

5. Management Development:
To improve the professional management the IFCI sponsored the Management Development Institute in 1973. It established the Development Banking Centre to develop managerial, manpower in industrial concern, commercial and development banks.

Industrial Development Bank of India (IDBI)

IDBI Bank is an Indian government-owned financial service company, formerly known as **Industrial Development Bank of India**, headquartered in Mumbai, India. It was established in 1964 by an Act of Parliament to provide credit and other financial facilities for the development of the fledgling Indian industry. IDBI Bank is on a par with nationalized banks and the SBI Group as far as government ownership is concerned. It is one among the 27 commercial banks owned by the Government of India. IDBI bank is considered as government of India owned bank. It is currently 10th largest development bank in the world in terms of reach. It has an authorised capital of 3000 cr.

History

Industrial Development bank of India (IDBI) was constituted under Industrial Development bank of India Act, 1964 as a Development Financial Institution (DFI) and came into being as on July 01, 1964 as a wholly owned subsidiary of RBI. In 1976, the ownership of IDBI was transferred to the Government of India and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in India. It was regarded as a Public Financial Institution in terms of the provisions of Section 4A of the Companies Act, 1956. It continued to serve as a DFI for 40 years till the year 2004 when it was transformed into a Bank.

Industrial Development Bank of India Limited: In response to the felt need and on commercial prudence, it was decided to transform IDBI into a Bank. For the purpose, Industrial Development bank (transfer of undertaking and Repeal) Act, 2003 [Repeal Act] was passed repealing the Industrial Development Bank of India Act, 1964. In terms of the provisions of the Repeal Act, a new company under the name of Industrial Development Bank of India Limited (IDBI Ltd.) was incorporated as a Govt. Company under the Companies Act, 1956 on September 27, 2004. Thereafter, the undertaking of IDBI was transferred to and vested in IDBI Ltd. with effect from October 01, 2004. In terms of the provisions of the Repeal Act, IDBI Ltd. has been functioning as a Bank in addition to its earlier role of a Financial Institution.

Merger of IDBI Bank Ltd. with IDBI Ltd. : Towards achieving the faster inorganic growth of the Bank, IDBI Bank Ltd., a wholly owned subsidiary of IDBI Ltd. was amalgamated with IDBI Ltd. in terms of the provisions of Section 44A of the Banking Regulation Act, 1949 providing for voluntary amalgamation of two banking companies. The merger became effective from April 02, 2005.

Change of name of IDBI Ltd. to IDBI Bank Ltd.: In order that the name of the Bank truly reflects the functions it is carrying on, the name of the Bank was changed to IDBI Bank Limited and the new name became effective from May 07, 2008 upon issue of the Fresh Certificate of Incorporation by Registrar of Companies, Maharashtra. The Bank has been accordingly functioning in its present name of IDBI Bank Limited.

Narsimham Committee: In order to make the IDBI's coordinating role more effective, the Narsimham Committee (1991) has suggested that the IDBI should give up its direct financing function and perform only promotional apex and refinancing role in respect of other institutions like SFCs and SIDBI. The direct lending function should be entrusted to a separate finance company especially set up for this purpose.

Management

IDBI Bank is a Board-managed organisation. The responsibility for the day-to-day management of operations of the Bank is vested with the Chairman & Managing Director, 2 Deputy Managing Directors and 10 Executive Directors.

Subsidiaries of IDBI Bank

- IDBI Capital Market Services Limited (ICMS)
- IDBI Intech Limited (IIL)
- IDBI Asset Management Limited (IAML)

- IDBI MF Trustee Company Limited (IMTCL)
- DBI Trusteeship Services Ltd (ITSL)

Role of IDBI

As an apex development bank, the IDBI's major role is to co-ordinate the activities of other development banks and term-financing institutions in the capital market of the country.

- Providing technical and administrative assistance for promotion, management and expansion of industry thus performing promotional and development functions.
- **Direct Assistance:** The IDBI grants loans and advances to industrial concerns. The bank guarantees loans raised by industrial concerns in the open market from the State Co-operative Banks, the Scheduled Banks, the Industrial Finance Corporation of India (IFCI) and other 'notified' financial institutions.
- **Indirect Assistance:** Providing refinancing facilities to the IFCI, SFCs and other financial institutions approved by the government. IDBI subscribes to the shares and bonds of the financial institutions and thereby provide supplementary resources.
- Coordinating the activities of financial institutions for the promotion and development of industries.
- IDBI is the leader, coordinator and innovator in the field of industrial financing in our country. Its major activity is confined to financing, developmental, co-ordination and promotional functions.
- Planning, promoting and developing industries with a view to fill the gaps in the industrial structure by conceiving, preparing and floating new projects.

Functions performed by IDBI

- That the IDBI has shown its particular interest in the development of small-scale industries is demonstrated by the setting up of the Small Industries Development Fund (SIDF) in May 1986, the National Equity Fund Scheme (NEFS) in 1988, and the Voluntary Executive Corporation Cell (VECC) for providing support in the nature of equity to tiny and small-scale industries engaged in manufacturing, cost not exceeding Rs. 5 lakhs. The scheme is administrated by the IDBI through nationalised banks.
- The IDBI has also introduced the single window assistance scheme for grant of term-loans and working capital assistance to new, tiny and small-scale enterprises. As per data available, IDBI has extended about one-third of total industrial assistance to small-sector alone.
- The scope of business of the IDBI has also been extended to cover consulting, merchant banking and trusteeship activities.

Industrial Credit and Investment Corporation

History :- The creation of Industrial Credit and Investment Corporation of India (ICICI) is another milestone in the growth of the Indian Capital Market. It was incorporated in the year 1955, as a company registered under the Companies Act. The ICICI was incorporated to finance small scale and medium industries in the private sector.

The IFCI and SFCs confined themselves to lending activity and kept away from underwriting and investing in business though they were authorized to subscribe for the shares and debentures of the companies and to undertake underwriting business. Therefore, a large number of up and coming enterprises faced continuous problems in raising funds in the capital market.

Besides, they were not in a position to secure the desired amount of loan assistance from the financial institutions due to their thin equity base. To encourage industrial development in the private sector, a considerable provision of underwriting facility was considered necessary to accelerate the phase of the industrialization. To fill these gaps, the ICICI was established.

Objectives of the ICICI

The major objective of the ICICI was to meet the needs of the industry for permanent and long term funds in the private sector. In general, the major objectives of the Corporation are:

1. To assist in creation, growth and modernization of business enterprises in the non-public sector.
2. To encourage and promote the involvement of internal and external capital sources, in such enterprises.
3. To motivate pvt ownership of industrial investment and to promote and assist in the expansion of markets.
4. To provide equipment finance.
5. To provide finance for rehabilitation of industrial units.

Financial Assistance of ICICI:

To achieve its objectives, ICICI provides financial assistance in various forms such as:

(i) Long term and medium term loans both in terms of rupee and foreign currency.

(ii) Participating in equity capital and in debentures.

(iii) Underwriting new issues of shares and debentures.

(iv) Guarantee to suppliers of equipment and foreign loaners.

Activities of ICICI:

The activities of ICICI are discussed below:

1. Project Finance:

The project finance is provided to industries for the cost of establishment, modernization or expansion of manufacturing and processing activities in the form of rupee and foreign loans, underwriting, subscription to shares and debentures and guarantees to supply of equipment and foreign donors.

The rupee loan is given for the purchase of equipment and machinery, construction and preliminary expenses. The foreign currency loans are provided for the purchase of imported capital equipment.

2. Leasing:

The leasing operations of the ICICI commenced in 1983. Leasing assistance is given for computerization, modernization/replacement, equipment of energy conservation, export orientation, pollution control etc.

3. Project Advisory Services:

The Project advisory services are provided to the Central and State Governments and public sector and private sector companies. Advice to the governments is provided on policy reforms and on value chain analysis and to private sector companies on strategic management.

4. Facilities for Non-resident Indians:

The information regarding on facilities and incentives given by the Government of India to the non-resident Indians for judicious investing in India are offered.

5. Provision of Foreign Currency Loans:

The ICICI has a provision of foreign currency loans and advances to enable Indian Industrial concerns to secure essential capital goods from foreign countries.

6. Other Institutions Promoted:

(a) ICICI promoted the Housing Development Finance Corporation (HDFC) to provide long-term finance to individuals in middle and lower income groups, co-operations, etc., for the construction and purchase on ownership basis of residential houses all over the country.

(b) Credit Rating Information Services of India Ltd. (CRISIL) set up by ICICI in association with Unit Trust of India (UTI) to provide credit rating services to the corporate sector.

(c) Technology Development and Information Company of India Ltd. (TDICI), promoted by ICICI, to finance the transfer and Up gradation of technology and provide technology information.

(d) Programme for the Advancement of Commercial Technology (PACT) set up with a grant of US $10 million provided by USAID (United States Aid) to assist market-oriented R&D activity, jointly undertaken by Indian and US companies, ICICI has been entrusted with the administration and management of PACT.

(e) Programme for Acceleration of Commercial Energy Research (PACER) funded by USAID with a grant of US $ 20 million to support selected research and technology development proposals in Indian energy sector PACER was also launched by ICICI

Export Credit and Guarantee Corporation of India

The **ECGC Limited** (**Formerly Export Credit Guarantee Corporation of India Ltd**) is a company wholly owned by the Government of India based in Mumbai, Maharashtra.[1] It provides export credit insurance support to Indian exporters and is controlled by the Ministry of Commerce. Government of India had initially set up Export Risks Insurance Corporation (ERIC) in July 1957. It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee Corporation of India in 1983.

Functions

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services as well.
- Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan and advances.

The Corporation has set before itself the following objectives:

1. To encourage and facilitate globalization of India's trade.
2. To assist Indian exporters in managing their credit risks by providing timely information on worthiness of the buyers, bankers and the countries.
3. To protect the Indian exporters against unforeseen losses, which may arise due to failure of the buyer, bank or problems faced by the country of the buyer by providing cost effective credit insurance covers in the form of Policy, Factoring and Investment Insurance Services comparable to similar covers available to exporters in other countries.
4. To facilitate availability of adequate bank finance to the Indian exporters by providing surety insurance covers for bankers at competitive rates.

5. To achieve improved performance in terms of profitability, financial and operational efficiency indicators and achieve optimum return on investment.
6. To develop world class expertise in credit insurance among employees and ensure continuous innovation and achieve the highest customer satisfaction by delivering top quality service.
7. To educate the customers by continuous publicity and effective marketing.