

MODULE-D



BANKING OPERATION

Accounting and Finance

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JAIIB/DBF Paper 2- Accounting & Finance for Bankers

Module D- Banking Operation

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Unit 1- Banking Operations

Function of a Bank

Banking as defined by Section 5 of the Banking Regulation Act means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft and order or otherwise.

In addition to banking business, a bank is permitted **under Section 6 of the Banking Regulation Act, 1949** to engage in certain classes of business which are incidental to the business of Banking. Section 8 of the Act ibid prohibits a bank from buying, selling or dealing in goods except in connection with the realization of a security held by it or in connection with the business of collection with the business of collection or negotiating bills of exchange.

Some of the main functions of modern commercial banks are:

- Accepting deposit
 1. Demand Deposits – withdrawable on demand
 2. Current Account
 3. Savings Deposits
 4. Term Deposits – Received for a fixed period
- Granting loans and advances
 1. Overdraft
 2. Cash Credit:
 3. Discounting of Bills
 4. Loans and Advances
- Dealing in securities, on its own account or on behalf of its customers.
- Opening letters of credit/ issuing guarantees.
- Dealing of foreign exchange.
- Remittances: Through demand drafts, RTGS, NEFT, etc.
- Locker Facility
- Traveller's Cheques
- Letter of Credit



- Collection of Statistics
- Underwriting Securities
- Gift Cheques
- Acting as Referee
- Foreign Exchange Business
- Derivatives
- Prepaid payment instruments

Para Banking Activities

- Mutual Fund Business
- Money Market Mutual Funds
- Cheque Writing Facility for Investors of Mutual Funds/Money Market Mutual Funds
- Primary Dealership Business
- Underwriting Activities
- Equipment Leasing, Hire Purchase Business and Factoring Services
- Investment in Venture Capital Funds
- Sponsors to Infrastructure Debt Funds
- Insurance Business
- Pension Fund Management
- Referral Services
- Trading on/Membership of SEBI approved Stock Exchanges
- Portfolio Management Services

Outsourcing of Services by Banks

The 'Outsourcing' may be defined as a bank's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the bank itself, now or in the future. "Continuing basis" would include agreements for a limited period.

Scope of RBI Guidelines includes:

- Activities that should not be outsourced



- Bank's role and regulatory and supervisory requirements
- Risk management practices for outsourced financial services
- Role of Board of directors and senior management
- Evaluation of risk
- Evaluation the capability of the services provider
- Outsourcing agreement
- Confidentiality and security
- Responsibility of DSA/DMA/Recovery agents
- Monitoring of Outsourced activities
- Redressal of grievances related to outsourced services
- Reporting of transactions to financial Intelligence Unit
- Off-shore outsourcing of financial services

Front office and Bank office in a Bank

The terms "Front office" and "Bank office" come from the building layout of early companies where the front office would contain the sales and other customer-facing staff and the bank office would be those manufacturing or developing the products or involved in administration but without being seen by customers.

Banking operations Manual

The Banking operation Manual is prepared with a view to provide a ready guide to the officers and staff of the **Bank-in day to day banking operations**. The manual is prepared based on the extant banking law practices and is an attempt to provide guidance to the front office functionaries in the Banking operations of the Bank.

A banking operations manual helps you get the very best out of each employee. It also helps to ensure that each one knows not only their duties but also the policies, products and how to do things the right way.

Unit 2-Operational Aspects of KYC/Customer Service

Know Your Customers (KYC) Norms

RBI has issued instructions to all banks to implement certain procedural norms on KYC. Failure attracts levy of penalty and of penalty has been levied, the same is to be disclosed in the notes to accounts. It is, therefore, necessary that framework relating to "**Know Your Customer' and Anti- Money** Laundering measures is formulated and put in place by very bank.

- Customer Acceptance Policy



- Customer Identification Procedures
- Monitoring of Transactions
- Risk management

Note: Reserve Bank of India has issued guidelines to banks under **Section 35A of the Banking Regulation Act, 1949 and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.**

Features to be verified and documents required to be obtained from customers

Features	Documents
<p>Accounts of individuals</p> <p>o Legal name and any other names used</p> <p>o Correct permanent address</p>	<p>(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving License (v) *Job Card issued by NREGA duly signed by an officer of the State Govt (vi) The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number (vii) Identity card (subject to the bank's satisfaction) (viii) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank.</p> <p>(i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) (any one document which provides customer information to the satisfaction of the bank will suffice)</p>



<p>Accounts of companies</p> <p>o Name of the company</p> <p>o Principal place of business</p> <p>o Mailing address of the company</p> <p>o Telephone/Fax Number</p>	<p>(i) Certificate of incorporation and Memorandum & Articles of Association (ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Copy of the telephone bill</p>
<p>Accounts of partnership firms</p> <p>o Legal name</p> <p>o Address</p> <p>o Names of all partners and their addresses</p> <p>o Telephone numbers of the firm and partners</p>	<p>(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm/partners</p>
<p>Accounts of trusts & foundations</p> <p>o Names of trustees, settlors, beneficiaries and signatories</p> <p>o Names and addresses of the founder, the managers/directors and the beneficiaries</p> <p>o Telephone/fax numbers</p>	<p>(i) Certificate of registration, if registered (ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders/managers/ directors and their addresses</p> <p>(iv) Resolution of the managing body of the foundation/association</p>



	(v) Telephone bill
Accounts of Proprietorship Concerns Proof of the name, address and activity of the concern	<p>Registration certificate (in the case of a registered concern)</p> <ul style="list-style-type: none">• Certificate/licence issued by the Municipal authorities under Shop & Establishment Act,• Sales and income tax returns• CST/VAT certificate• Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities• Licence issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, registration/licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority/ Department, etc. Banks may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of the bank



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	<p>account. etc.</p> <ul style="list-style-type: none">• The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax Authorities.• Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern. Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.
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Norms for Periodical Updation of KYC

Bank would need to continue to carry out on-going due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the client, his business and risk profile and, wherever necessary, the source of funds.

Full KYC exercise will be required to be done at least every two years for high risk individuals and entities.

Full KYC exercise will be required to be done at least every 10yrs for low risk and at least every 8 yrs for medium risk individuals and entities.

Fresh photographs will be obtained from minor customer on becoming major.

Recent simplified KYC measures by RBI

(1) Single document for proof of identity and proof of address



Officially valid documents (OVDs) for KYC purpose include: Passport, driving licence, voters' ID card, PAN card, Aadhaar letter issued by UIDAI and Job Card issued by NREGA signed by a State Government official.

To further ease the process, the information containing personal details like name, address, age, gender, etc., and photographs made available from UIDAI as a result of e-KYC process can also be treated as an 'Officially Valid Document'.

(2) No separate proof of address is required for current address

Since migrant workers, transferred employees, etc., often face difficulties while submitting a proof of current address for opening a bank account, such customers can submit only one proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation. If the current address is different from the address mentioned on the proof of address submitted by the customer, a simple declaration by her/him about her/his current address would be sufficient.

(3) No separate KYC documentation is required while transferring accounts from one branch to another of the same bank

Once KYC is done by one branch of the bank, it is valid for transfer of the account to any other branch of the same bank. The customer would be allowed to transfer her/his account from one branch to another branch without restrictions and on the basis of declaration of his/her local address for communication.

(4) Small Accounts

Those persons who do not have any of the 'officially valid documents' can open 'small accounts' with banks. A 'small account' can be opened on the basis of a self-attested photograph and putting her/his signature or thumb print in the presence of an official of the bank. These small accounts would be valid normally for a period of twelve months. Thereafter, such accounts would be allowed to continue for a further period of twelve more months, if the account holder provides a document showing that she/he has applied for any of the officially valid document, within twelve months of opening the small account.

(5) Relaxation regarding officially valid documents (OVDs) for low risk customers

If a person does not have any of the 'officially valid documents' mentioned above, but if is categorised as 'low risk' by the banks, then she/he can open a bank account by submitting any one of the following documents:

- identity card with applicant's photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;
- letter issued by a gazetted officer, with a duly attested photograph of the person.

(6) Periodic updation of KYC



Time intervals for periodic updation of KYC for existing low/medium and high risk customers have been increased from 5/2 yrs to 10/8/2 yrs, respectively.

(7) Other relaxations

- KYC verification of all the members of Self Help Groups (SHGs) is not required while opening the savings bank account of the SHG and KYC verification of only the officials of the SHGs would suffice. No separate KYC verification is needed at the time of credit linking the SHG.
- Foreign students have been allowed a time of one month for furnishing the proof of local address.
- In case a customer categorised as low risk is unable to submit the KYC documents due to genuine reasons, she/he may submit the documents to the bank within a period of six months from the date of opening account.

Operational Procedure to be followed by banks for e-KYC exercise

The e-KYC service of the UIDAI is to be leveraged by banks through a secured network. Any bank willing to use the UIDAI e-KYC service is required to sign an agreement with the UIDAI. The process flow to be followed is as follows:

(1) Sign KYC User Agency (KUA) agreement with UIDAI to enable the bank to specifically access e-KYC service.

(2) Banks to deploy hardware and software for deployment of e-KYC service across various delivery channels. These should be Standardisation Testing and Quality Certification (STQC) Institute, Department of Electronics & Information Technology, Government of India certified biometric scanners at bank branches/ micro ATMs/ BC points as per UIDAI standards.

(3) Develop a software application to enable use of e-KYC across various Customer Service Points (CSP) (including bank branch, BCs etc.) as per UIDAI defined Application Programming Interface (API) protocols. For this purpose banks will have to develop their own software under the broad guidelines of UIDAI. Therefore, the software may differ from bank to bank.

(4) Define a procedure for obtaining customer authorization to UIDAI for sharing e-KYC data with the bank. This authorization can be in physical (by way of a written explicit consent authorising UIDAI to share his/her Aadhaar data with the bank/BC for the purpose of opening bank account) /electronic form as defined by UIDAI from time to time.

(5) Sample process flow would be as follows:



- Customer walks into CSP of a bank with his/her 12-digit Aadhaar number and explicit consent and requests to open a bank account with Aadhaar based e-KYC.
- Bank representative manning the CSP enters the number into bank's e-KYC application software.
- The customer inputs his/her biometrics via a UIDAI compliant biometric reader (e.g. fingerprints on a biometric reader).
- The software application captures the Aadhaar number along with biometric data, encrypts this data and sends it to UIDAI's Central Identities Data Repository (CIDR).
- The Aadhaar KYC service authenticates customer data. If the Aadhaar number does not match with the biometrics, UIDAI server responds with an error with various reason codes depending on type of error (as defined by UIDAI).
- If the Aadhaar number matches with the biometrics, UIDAI responds with digitally signed and encrypted demographic information [Name, year/date of birth, Gender, Address, Phone and email (if available)] and photograph. This information is captured by bank's e-KYC application and processed as needed.
- Bank's servers auto populate the demographic data and photograph in relevant fields. It also records the full audit trail of e-KYC viz. source of information, digital signatures, reference number, original request generation number, machine ID for device used to generate the request, date and time stamp with full trail of message routing, UIDAI encryption date and time stamp, bank's decryption date and time stamp, etc.
- The photograph and demographics of the customer can be seen on the screen of computer at bank branches or on a hand held device of BCs for reference.
- The customer can open bank account subject to satisfying other account opening requirements.

Customer Service in Banks

(i) Service at the counters

- Business hours/working hours
- Display of time norms
- Uninterrupted Service
- Guidance to Customers
- Provision of ramps at Automated Teller Machines (ATMs)/Branches

Non-voucher generating transactions

- Issue of pass books/statement of accounts
- Issue of cheque books



- Delivery of term deposit receipts/drafts
- Acceptance of share application forms
- Acceptance of clearing cheques
- Acceptance of bills for collection

Voucher generating transactions

- Issue of term deposit receipts
- Acceptance of cheques for locker rent due
- Issue of travellers cheques
- Issue of gift cheques
- Acceptance of individual cheques for transfer credit

(ii) Identity Badges

(iii) Complaint Box and Book

(iv) Advisory Services on deposit schemes

(v) Brochures/pamphlets for guidance of customers

(vi) Banking facilities to the visually challenged

(vii) Fair Practice code- Display of Bank/Service charges

(viii) Cheque Drop facility and the Facility for Acknowledgement of cheques

(ix) Infrastructure provision

(x) Customer education

(xi) Term Deposit Maturity Intimation in Advance

Banking Codes and Standards Board of India (BCSBI)

In November 2003, Reserve Bank of India (RBI) constituted the Committee on Procedures and Performance Audit of Public Services under the Chairmanship of Shri S.S. **Tarapore** (former Deputy Governor) to address the issues relating to availability of adequate banking services to the common person. The Committee recommended setting up of the Banking Codes and Standards Board of India (BCSBI). BCSBI was set up to ensure that the common person as a consumer of financial services from the banking Industry is in no way at a disadvantageous position and really gets what he/she has been promised.

The main objectives of the BCSBI are

- To plan, evolve, prepare, develop, promote and publish comprehensive Codes and Standards for banks, for providing for fair treatment to their customers.



- To function as an independent and autonomous body to monitor, and to ensure that the Codes and Standards adopted by banks are adhered to, in letter and spirit, while delivering services to their customers.
- BCSBI monitors the implementation of the Codes through the following methods:
- Obtains from member banks an Annual Statement of Compliance (ASC)
- Visits branches to find out the status of ground-level implementation of Codes
- Studies complaints received from customers and orders / awards issued by Banking Ombudsmen / Appellate Authority to find out whether there is any system-wide deficiency
- Organizes an annual Conference with Principal Code Compliance Officers of the Member banks to discuss implementation issues.

BCSBI also

- Undertakes campaigns and initiatives to spread awareness of the Codes amongst customers and banks
- Provides faculty support to training establishments of banks
- Participates in on-location workshops held by / for member banks to increase coverage
- associates with customer awareness programmes conducted by Banking Ombudsmen
- provides credit counselling services in Mumbai
- publishes quarterly newsletter entitled 'Customer Matters', containing matters of interest to customers

Unit 3- Operational Aspects of Accounting Entries

Transactions

In the case of the latter, **also called "Transfer transactions"** one or both of the accounts concerned may be of the customers or the internal accounts of the bank.

Types of Transactions

Transactions in a bank rate are of two types

- Cash
- Non-cash

Vouchers

Both debit and credit operations on all accounts, either by customer or by the bank itself, are made by means of vouchers.



There are two kinds of vouchers

- Debit vouchers
- Credit Vouchers

Note: Which contains both debit and credit to different accounts. For the sake of convenience, the latter kind of vouchers may be called **“Composite vouchers”**.

The debit vouchers are, broadly the following:

- Cheques issued by the customers.
- Cheques/Pay orders issued by the bank
- Withdrawal forms received from the savings bank account holders.
- Drafts issued by other branches of the bank payable at the branch.
- Drafts issued by other banks on the branch, in terms of an approved arrangement between the two banks.
- Dividend/interest warrants issued by the bank's customers and payable by the branch in terms of an approved arrangement.
- Travellers' cheques issued by any branch of the bank which are presented to the branch for payment.
- Drafts/pay orders issued by the branch itself which are cancelled at the request of the customer and amount is refunded to him.
- Instruments like traveler's cheques/gift cheques, etc, of other banks which are paid by the branch in term of an approved arrangement.
- Letter of authority signed by the customers, containing standing instructions.
- Debit vouchers prepared by the branch on its printed stationery which are authorized by a designated official of the bank and may also carry authority from the customers in some cases if the debit is to his account at the branch.
- In respect of realisation of collection instrument sent to other branches of the bank, a debit advice (which may be known by different names in different banks) prepared by the other branch may itself act as a debit voucher.
- Term deposit receipts presented for payment, renewal or premature closure.

The credit vouchers which are also of many kinds broadly encompass the following:

- Pay-in-slip filled by the customers (depositors as well as borrowers) for deposit of amounts in their accounts. Generally, the pay-in-slip are in a standard format adopted by the bank but there may be cases of a special kind of pay-in-slip in respect of some customers pursuant to a formal agreement between the bank and the customer.
- Applications for issue of term deposits, demand drafts, RTGS/NEFT, banker's cheques, pay orders, gift cheques, traveller's cheques and other similar instrument. Some of these applications may be made on behalf of the branch itself for the payments it has to make.



- Challans for deposits into the accounts of Central/State Government, e.g. on account of direct/indirect taxes or under schemes like public provident fund etc.
- Credit voucher prepared by the branch on its printed stationery which are authorized by an official of the bank. Normally, these vouchers are signed on behalf of the branch only but these may be some instance where the customer concerned also signs on the voucher as evidence that the transaction actually pertains to him. **Example are:** Deposit of locker charges (credit to an income account of the bank), deposit of money with the bank for purchase of non-judicial stamps required for execution of documents in favour of the bank etc.
- On payment of collection instruments from other branches of the bank, a credit advice (which may be known by different names in different banks) or a copy of the collection schedule received from the other branch may itself be treated as a credit voucher.

Unit 4- Operational Aspects of Cash/Clearing

Implementation of Cheque Truncation system (CTS)

What is Cheque Truncation?

Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point by the presenting bank en-route to the paying bank branch. In its place an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across bank branches, other than in exceptional circumstances for clearing purposes. **This effectively eliminates the associated cost of movement of the physical cheques, reduces the time** required for their collection and brings elegance to the entire activity of cheque processing.

What is the status of CTS implementation in the country?

CTS has been implemented in New Delhi, Chennai and Mumbai with effect from February 1, 2008, September 24, 2011 and April 27, 2013 respectively. After migration of the entire cheque volume from MICR system to CTS, the traditional MICR-based cheque processing has been discontinued across the country.

What is the new approach to CTS implementation in the country?

The new approach envisioned as part of the national roll-out is the grid-based approach. Under this approach the entire cheque volume in the country which was earlier cleared through **66 MICR Cheque Processing locations** is consolidated into the three grids in New Delhi, Chennai and Mumbai.

CTS-2010 standard



Accordingly, certain benchmarks towards achieving standardisation of cheques issued by banks across the country have been prescribed like – quality of paper, watermark, bank's logo in invisible ink, void pantograph, etc., and standardisation of field placements on cheques. The benchmark prescriptions are collectively known as "CTS-2010 standard".

RBI Guidelines on collection of Cheques

Local Cheques

- Local cheques are payable within the jurisdiction of the clearing house and will be presented through the clearing system prevailing at the centre. Credit arising out of local cheques shall be given to the customer's account as indicated in the Cheque Collection Policy (CCP) of the concerned collecting bank.
- Notwithstanding to the CCP of concerned collecting bank, ideally, in respect of local clearing, banks shall permit usage of the shadow credit afforded to the customers' accounts immediately after closure of the relative return clearing on the next working day or maximum within an hour of commencement of business on the third working day from the day of presentation in clearing, subject to usual safeguards.
- Under grid-based Cheque Truncation System clearing, all cheques drawn on bank branches falling within in the grid jurisdiction are treated and cleared as local cheques. The grid clearing allows banks to present/ receive cheques to/ from multiple cities to a single clearing house through their service branches in the grid location.
- If there is any delay in credit, beyond the period specified above, customer is entitled to receive compensation at the rate specified in the CCP of the concerned collecting bank. In case, no rate is specified in the CCP for delay in realisation of local cheques, compensation at savings bank interest rate has to be paid for the corresponding period of delay.

Outstation Cheques

Maximum timeframe for collection of cheques drawn on state capitals/major cities/other locations are 7/10/14 days respectively.

If there is any delay in collection beyond this period, customer is entitled to receive compensation at the rate specified in the Cheque Collection Policy (CCP) of the concerned bank. In case the rate is not specified in the CCP, interest rate on Fixed Deposits for the



corresponding maturity to be paid. Banks' cheque collection policy also indicates the limit up to which outstation cheques are given immediate/instant credit.

What happens if cheques / instruments are lost in transit / in clearing process?

If cheques are lost in transit or in the clearing process or at the paying bank's branch under physical instrument delivery clearing, the bank should immediately bring the same to the notice of the presenting customer (beneficiary)'s notice so that the customer can inform the drawer to record stop payment and can also take care that other cheques issued anticipating the credit arising out of the lost cheque are not dishonoured due to non-credit of the amount of the lost cheques / instruments.

It may however be noted that the probability of losing the physical instrument in the hands of paying bank is remote in the locations covered by CTS as clearing is undertaken on the basis of images. If the instrument is lost after lodging with the collecting bank but before truncating the same for sending through image based clearing, the presenting bank should follow the procedure indicated above.

The customer is entitled to be reimbursed by banks for related expenses for obtaining duplicate instruments and also interest for reasonable delays in obtaining the same.

Cash and Its Custody

(1) General

The cash and small coin balances must be kept in the string room in the joint custody of the Head Cashier/cashier and authorized supervising official.

(2) Strong Room/ Safe

The strong room or Safe must be under the the double lock of the cashier and the supervising official in charge of cash.

(3) Cash Balance of the Bank

The bulk of the cash balance should always be in the strong room/ safe under joint custody. While the remainder (Cashier hand balance) which will be kept as low as conveniently possible, will be left with the Head Cashier/ Cashier during the day for the day's transactions.

(4) Checking of Cash Balance

Before taking notes and coins into "Joint Custody", the supervising official will :

- Personally count all notes of denominations above Rs. 10.
- Count all other notes on the "clip system".
- Have all bags of coins weighed in his presence.



- Take and count few pieces and leave the reminder to be counted in his presence on the “clip system”.
- Invariably check the entire Head Cashier’s/Cashier’s hand balance of loose notes.
- Assure that Head Cashier’s/Cashier’s hand balance are kept in the cash box and locked in his presence.

(5) Shortage or Excess in Cash

- Any shortage in the cash balance should be recovered on the same day from the Head Cashier/Cashier.
- Failing recovery on the same day, the amount of shortage should be debited to Suspense Account taking the signatures of the members responsible under report to the Head Office.
- Head Cashier/Cashier is responsible for any shortage either in Hand or Vault Balance.
- Cashiers signed the Denomination Slips will be responsible for any shortage in book of notes.
- Any excess in the Cash Balance must be credited to Sundry Creditors Account on the same day.

(6) Remittance of Cash

When remittances of currency notes are sent from one office to another, following instructions must be strictly complied with :

- Should not be allowed to be carried without and armed guard.
- Always entrusted to an authorised employee with experienced subordinate staff and armed guard.
- Night journeys and unusual halts at junctions should be avoided.
- Remittance box should always be conveyed in the van provided.
- The box should be securely chained and locked.
- A register should be maintained to record all cash remittances.

(7) Insurance



All cash remittance in transit are covered under the Blanket Insurance Policy obtained by the Bank.

(8) Custody of Keys:

Particulars of all Important keys, including those of the Head Cashier/ Cashier, must be entered in the Key Register. The Register Should show what originals and duplicates exists and where they are to be found and must be initialed by every incoming Manager.

(9) Security Measures

The security Measures as advised by the Head Office in respect of security guards deployed and use of alarm system etc.

Clearing Operations

Pre-requisites for sending cheques for clearing

- All the instruments presented through the clearing should bear the “Clearing” stamp with Bank and Branch and date.
- Bank crossing stamp with MICR code.
- Verify the name of the payee and on pay-in-slip which should be one and the same.
- Verify the amount on the cheque and on pay-in-slip which should be one and the same.
- Cheques with a/c payee crossing must be collected to the payee a/c only.
- Send the unpaid Return Cheques through the branch courier to reach the clearing branch before stipulated time.
- Inward clearing cheques
- Outward clearing cheques
- High Value clearing
- Electronic Clearing System (ECS)
- Clearing House Account Reconciliation
- Balancing of Clearing House Account

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Unit 5-Operational Aspects of Deposit Accounts

Features of Deposit Accounts

Current Account



This account is meant for Individual or Institutions having large number of transactions, mainly for meeting their day to day business and operational requirement for parking their operational fund balance.

- Current Accounts (C/As) under type of can be opened by individuals, partnership firms, private and public limited companies, HUFs, societies, trusts, clubs, associations, Govt Departments etc.
- **A current account cannot be opened by:**
 1. Minors. However accounts of minors to be operated by the natural guardian may be opened.
 2. Purdanashin Women
 3. Illiterate persons
 4. Blind Persons
- No interest is payable on credit balances in Current Accounts.
- The customers may receive the statements of account according to the frequency desired by them.
- Cheque books are issued to all Current Account holders and all withdrawals should be made only through issue of cheques.
- There is no restriction on the number of transactions in the account holder at any one time.
- All withdrawals by the current holder, including request for RTGS/NEFT/Draft, must be through cheques only!
- As per RBI directive, the applicant for Current Account should declare in the account opening form or separately that he/they is/are not enjoying any credit facility with any Bank and if he/they does/do enjoy any credit facility, he/they should declare full particulars thereof indicating the name of the Bank/branch concerned.

Savings Accounts

Saving Bank accounts are meant for individuals operating singly or jointly with other individuals. Sometimes such accounts are opened in the names of institutions which are specifically approved by the RBI for maintaining saving bank accounts with banks.

Eligibility to open accounts:

- Individual is single name.
- Two or more persons in joint names.



- Associations, club or similar other Non-trading institutions provided their by-law/rules are found acceptable and strictly adhered to. They must also be eligible as per the guidelines of RBI.
- Minor above 10 years can open and operate Saving bank account.
- A bank should not open more than one Saving bank account for the same person in his individual name.

Saving Deposit account cannot be opened by banks in the name of:

- Government Departments
- Bodies depending upon budgetary allocations for performance of their functions.
- Municipal corporations or Municipal committees
- Panchayat samitis
- State Housing Boards
- Water and Sewerage/ Drainage Boards
- State Text Book Publishing Corporations
- Societies
- Metropolitan Development Authority
- State/ District Level Housing Co-op Societies etc.

Saving Deposit account cannot be apply by banks in the name of:

- Khadi and Village Industries Boards.
- Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in State or a Union Territory.
- Companies governed by the Companies Act, 1956 which have been licensed by the Central Government under Section 25 of the said Act, or under the corresponding provision in the Indian Companies Act, 1913 and permitted, not to add to their names the words “Limited” or the words “Private Limited”.
- Agriculture Produce Industries Borads.

The main objective of saving account is to promote savings.

- There is no restriction on the number and amount of deposits. However, in India, mandatory PAN (Permanent Account Number) details are required to be furnished for doing cash transactions exceeding ₹50,000.
- Withdrawals are allowed subject to certain restrictions.
- The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
- The rate of interest payable is very nominal on saving accounts. At present it is between 4% to 6% p.a in India.
- Saving account is of continuing nature. There is no maximum period of holding.
- A minimum amount has to be kept on saving account to keep it functioning.



- No loan facility is provided against saving account.
- Electronic clearing System (ECS) or E-Banking are available to pay electricity bill, telephone bill and other routine household expenses.
- Generally, equated monthly installments (EMI) for housing loan, personal loan, car loan, etc., are paid (routed) through saving bank account.

Unclaimed Deposits and Inoperative/ Dormant Accounts

- In view of the increase in the amount of unclaimed deposits with banks year after year and the inherent risk associated with such deposits, it is felt that banks should play a more pro-active role in finding the whereabouts of the account holders whose accounts have remained inoperative. Keeping these factors in view, Banks may follow the instructions detailed below while dealing with inoperative/dormant accounts:
- Further, the segregation of the inoperative accounts is from the point of view of reducing risk of frauds etc. However, the customer should not be inconvenienced in any way, just because his account has been rendered inoperative.
- Operation in such accounts may be allowed after due diligence as per risk category of the customer. Due diligence would mean ensuring genuineness of the transaction, verification of the signature and identity etc.
- There should not be any charge for activation of inoperative account.
- Banks are also advised to ensure that the amounts lying in inoperative accounts ledger are properly audited by the internal auditors/statutory auditors of the bank.
- Interest on savings bank accounts should be credited on regular basis whether the account is operative or not. If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest.
- Banks should carry out an annual review of accounts in which there are no operations for more than one year. The banks may approach the customers and inform them in writing that there has been no operation in their accounts and ascertain the reasons for the same.
- If the letters are returned undelivered, they may immediately be put on enquiry to find out the whereabouts of customers or their legal heirs in case they are deceased.
- In case the whereabouts of the customers are not traceable, banks should consider contacting the persons who had introduced the account holder. They could also consider contacting the employer/or any other person whose details are available with them. They could also consider contacting the account holder telephonically in case his telephone number / Cell number has been furnished to the bank. In case of Non Resident accounts, the bank may also contact the account holders through email and obtain their confirmation of the details of the account.
- A savings as well as current account should be treated as inoperative/dormant if there are no transactions in the account for over a period of two years.



- In case any reply is given by the account holder giving the reasons for not operating the account, banks should continue classifying the same as an operative account for one more year within which period the account holder may be requested to operate the account. However, in case the account holder still does not operate the same during the extended period, banks should classify the same as inoperative account after the expiry of the extended period.
- For the purpose of classifying an account as 'inoperative' both the type of transactions i.e. debit as well as credit transactions induced at the instance of customers as well as third party should be considered. However, the service charges levied by the bank or interest credited by the bank should not be considered. Interest on Fixed Deposit account is credited in the Savings Bank accounts as per the mandate of the customer, the same could be treated as a customer induced transaction and the account should be treated as operative account as long as the interest on Fixed Deposit account is credited to the Savings Bank account.

Basic Savings Bank Deposit Account (BSBDA)

Basic Saving Bank Deposit account is made available by banks to facilitate financial inclusion of persons of lower economic standing and enable them to get access to banking facilities. The earlier **“No Frills” account** have been converted to Basic Saving bank deposit account (BSBDA), under instructions from RBI.

- The BSBDA should be considered a normal banking service available to all.
- This account shall not have the requirement of any minimum balance.
- The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments;
- While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals;
- Facility of ATM card or ATM-cum-Debit Card;
- The above facilities will be provided without any charges. Further, no charge will be levied for non-operation/activation of in-operative ‘Basic Savings Bank Deposit Account’.
- Banks would be free to evolve other requirements including pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.
- The BSBDA would be subject to RBI instructions on Know Your Customer (KYC) / Anti-Money Laundering (AML) for opening of bank accounts issued from time to time.



- If such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'Small Account' and would be subject to conditions stipulated for such accounts.
- Holders of BSBDA will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a BSBDA.

Operational Instructions in Joint Account

- **Joint Account Without Survivorship Clause:** This Account is to be operated jointly by all the Account holders. In the event of death of one of the account holders, operations in this account should be stopped and the balance in this account is payable to the survivors and the legal heirs of the deceased party.
- **Joint or Survivor with Survivorship:** This account is to be operated jointly by all the account holders. In the event of death of one of the account holders, the survivor/s can be allowed to continue to operate the account or the balance in the account can be paid to survivor/s.
- **Either or Survivor:** This is the most common type of joint account and is applicable between any two individuals. **For example**, if a husband and wife have a joint account with 'either or survivor' clause, either of them can operate the account. In the case of the death of one of the depositors, the other can continue, and receives the final balance in the account along with all interests (as applicable at the time of closure). If there is a nominee for the account, the conditions will be the same and the nominee gets access to the funds on the death of both the account holders.
- **Anyone or Survivor:** This type of account holds true when more than two individuals start an account jointly. Here, any of the depositors can operate the account at any time. In case any of the depositors expire, the others can continue the account. If required, the final balance along with interest will be paid to any of the survivor/s as requested.

Opening and Operating of Accounting Under Different Categories

How to open a minor savings account

- **According to Indian Majority Act, a Minor is one who has not completed 18 years of age**, but in the case of a Minor whose guardian is appointed by the court, the **Minority status continue up to of 21 years**.
- An account opening form needs to be filled with the minor as the first holder and parent/guardian as the joint holder.



- Birth certificate of the child needs to be submitted to verify the age of the minor as well as his relationship with the parent/guardian.
- Pan Card details of the parent/guardian are required. Also, the parent/guardian should have an account in the bank where they wish to open the minor's account.
- A separate form needs to be filled by the parent/guardian with all the necessary details.
- Address proof for the minor (such as the minor's name which reflects on the ration card) is mandatory.
- The signature of the parent/guardian is also registered for all future account transactions.
- Photographs of the parent/guardian should be attached to the account opening form. Some banks even require the minor's photograph.

Accounts of illiterate persons:

Once again I will like to remind the bankers that the illiterate person is competent to contract like any other person. However, he may contest subsequently that his consent was obtained by misrepresentation and thereby try to avoid the contract. Therefore, banks should get the same witnessed to the effect that the terms and condition of the bank were explained to the illiterate person in his own language and he signed the form after understanding in their presence. Normally cheque book is not issued to illiterate depositor. However cheque book can be issued for making statutory payments post dated cheques for repayment of installments of loan. In such cases, the cheques will be crossed account payee and thumb impression of the illiterate depositor will be verified on such cheques at the of issue of cheque book by competent authority of the bank.

Accounts of Blind Persons:

You need to remember that a blind person is fully competent to enter into a contract like any other person. However, due to his physical disability, there can be a situation where he contests subsequently that the facts were misrepresented to him and thereby try to avoid the contract. Therefore, signature or thumb impression of the blind person should be attested by an independent witness to the effect that all terms and conditions were properly explained to the blind person in his presence. Moreover, cash deposit and withdrawal by blind person should be handled by the officer of the bank. Cheque book can be issued only if the blind person can sign consistently.

Accounts of Pardanashin ladies:

Let us first understand who is a Pardanashin lady?

A pardanashin lady is one who remain in complete seclusion and does not transact with people other than members of her family. Though Pardanashin lady is legally competent to enter into a contract, she may be able to avoid it on the pretext of undue influence and the onus of proving of influence is on the bank. Therefore, bank should take extra care



in this regards. Signature of pardanashin lady should be attested by her guardian if she is unmarried and by her husband if she is married. The signature may be attested by any other member of the family also. If she is illiterate she will not be issued cheque book and for every payment she will have to give the discharge in the presence of an independent witness. However, in case of literate Woman, cheque book will be issued and payment will be made on the basis of recorded signatures.

Nomination

Salient features

- Nomination facilitates faster and easier release of funds/articles without insistence on Succession Certificate/Probate of Will.
- Nomination facility is available to accountholders operating current accounts, savings bank accounts and all types of term deposit accounts, safe deposit lockers or safe custody of articles.
- Nomination facility is intended for individuals only.
- Nomination can be made in favour of one person only. It can be made in existing or new accounts and can be cancelled or changed subsequently by the depositors.
- Nomination cannot be made in accounts where deposits are held in a representative capacity e.g. trust accounts etc. and in accounts of partnership firms, H.U.F., companies, associations, clubs etc.
- In case of a joint account of individuals, nomination should be made by all depositors jointly.
- In case of minor's account whether self operated or otherwise, nomination should be made by a person lawfully entitled to act on behalf of the minor.
- 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. Date of birth of minor be obtained and noted.
- A nomination will continue to be in force even on renewal of term deposit, unless specifically cancelled or changed.
- Name of existing nominee in respect of specific Term Deposit Receipt will not be added for subsequent deposit receipts. Separate nomination will be obtained for each deposit receipt.
- Nomination facility is available for savings bank accounts opened for credit of pension. However, Banking Companies (Nomination) Rules,1985 are distinct from the Arrears of Pension (Nomination) Rules,1983 and the nomination exercised by the pensioner under the latter rules for receipt of arrears of pension will not be valid for the purpose of deposit accounts held by the pensioners with banks, for which a separate nomination is necessary in terms of the Banking



Companies (Nomination) Rules, 1985 in case a pensioner desires to avail of nomination facility.

- A non-resident can be nominated as a nominee in a resident account. In case of non-resident nominees, the amount entitled to him from the account(s)/deposit(s) of a deceased person, will be credited to his NRO account.

Unit 6- Operational Aspects of Loan Accounts

Operational Terms/ Aspects Common in loan Functions

- Types of Borrowers
 1. **An individual**
 2. **Sole Proprietary Firm**
 3. **Partnership firm and joint venture**
 4. **HUF**
 5. **Companies**
 6. **Statutory Corporations**
 7. **Trusts and Co-Op societies**
- Funded and Non-Funded Credit Facilities
 - Term Loans
 - Demand Loans
 - Bills Purchased
 - Bills Discounted
 - End use of funds
 - Primary Securities
 - Collateral Securities
 - Personal Security of Guarantor
 - Fixed Charges
 - Floating Charges
 - Margin
 - Priority Sector
- 1. **Agricultural Financial**
- 2. **Finance to micro and small enterprises**
- 3. **Housing Finance (loans upto 20 lakhs to individual, loans upto Rs 1 lakh for rural /semi urban and Rs. 2 lakhs for urban areas)**
- 4. **Educational loans (upto Rs 10 lacs for studies in India and Rs 20 lakhs for studies abroad)**
- 5. **Export credit**
- 6. **Retail trade**



- Refinance
- Credit Risk Management
- Credit Exposure Norms
- Base Rate System of Interest on Advances
- Fixed/Floating Rate of Interest on Loans
- Penal Rate of Interest
- Security
- Documents of Title of Goods
- Banker's General Lien
- Negative Lien
- Restrictions on Advances
- Rehabilitation and Recovery
- Fair Practices code: The guidelines issued by RBI on fair practices code for lending are required to be compulsorily followed by all banks in India. The operating staff should be aware of these guidelines. **These guidelines pertain to:**

1. **Application for loans and their processing**
2. **Loan appraisal and terms/conditions'**
3. **Disbursements of loans**
4. **Post disbursement supervision**
5. **General guidelines relating to discrimination based on sex, caste and religion, harassment in recovery, transfer/ takeover of account etc.**

Operational Process of Loans in the Banks

- Receipt of Loan Application
- Assessment of viability and credit worthiness
- Sanction
- Disbursement
- Monitoring and supervision
- Inspections
- Review of the conduct of the account
- Renewal of advances
- Methods of Assessment of loans

Assessment of working CMA formats

Under the Credit Monitoring Arrangement (CMA), banks have been permitted for sanctioning credit proposals (of large borrowers) after detailed analysis of the past performance. There is another requirement for the Banks. They need to submit the large credit proposals to the Reserve Bank of India for post-sanction scrutiny. These proposals involve working capital limits of Rupees 500 lakhs (5 crores) and above and/or term loan in excess of Rupees 200 lakhs (2 crores).



CMA covers the following statements

- Particulars of current & proposed limits
- Operating statement
- Analysis of Balance sheet
- Comparative statement of Current Asset & Current liabilities
- Calculation of Maximum Permissible Bank Finance (MPBF)
- Fund flow statement

Operating Manual for Loans and Advances

The operations Manual of a bank is intended to provide guidelines to the operating staff on the above mentioned areas and any other areas considered relevant by the bank. The operational guidelines regarding loans and advances, contained in a bank's operational manual, are based primarily on-

- Principles of credit
- Bank's loan policy
- Regulatory and legal framework

Samples Operating instructions

Advance against Goods and Warehouse Receipts

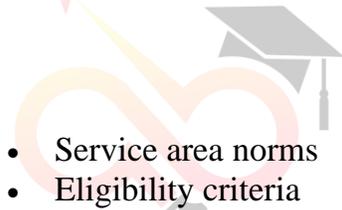
- Documentation
- Margin
- Valuation
- Marketability
- Go down Board
- Insurance
- Godowns in a Pledge Account
- Pledging of Stocks
- Storage of goods pledged in the godowns where goods not pledged are also stored
- Delivery of stocks pledged
- Submission of stock statements in Hypothecation accounts
- Goods hypothecated in the godowns where goods not hypothecated are also lying
- Staff accountability
- Charges for inspection of Godowns/Assets/Securities etc.
- Godown charges
- Selective credit control
- Advances against warehouse receipts

Operational aspects of few common loan products



Gold Loans

- Must be covered under policy framed by Bank's Board
- Prohibited from granting any advance against bullion/primary gold
- End use of the funds to be ensured
- Ownership of the ornaments to be ensured
- Valuation of gold ornaments to be done
- Prefer hallmarked jewellery
- Purpose of loan can be for both Agriculture and non-agriculture purposes
- Loan to Value (LTV) to be maintained (Max. 75 % of value of gold ornaments)
- Maximum amount of loan should be within board approved limit
- Record of security
- Custody of ornaments
- Repayment should not be more than 12 months (other than agriculture)
- Return of ornaments on repayment
- Delivery to third parties
- Default
- Insurance
- Verification



Educational Loans

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- Service area norms
- Eligibility criteria
- Student eligibility
- Expenses considered for loan
- Quantum of finance
- Margin: No margin may be **insisted upon Rs 4 lakhs**. However, for loan of higher amounts, the margin requirement may be **5% for inland studies and 15% for studies abroad**.
- Security: No security must be insisted upon for loans **upto Rs 4lakhs**.
- Documentation
- Sanction
- Disbursement
- Repayment
- Follow up
- Processing charges
- Capability certificate

Home Loans

- Valuation of property
- Eligibility



- Loan to Vale (LTV) ratio:
 1. **Upto Rs 20 lakhs; 90%**
 2. **Above Rs 20 lakhs and Upto Rs 75 lakhs; 80%**
 3. **Above Rs 75 lakhs; 75%**
- Interest rate
- Security
- Insurance
- Disbursal – for purchase of constructed property/built up property
- Disbursal – for building construction
- Repayment
- No Foreclosure charges/Prepayment penalty for floating rate individual borrowers

Vehicle Loans

- Purpose of Auto Loan – New/used Car, MUVs, SUVs, Two wheelers
- Eligibility
- Documents required to be submitted
- Loan Tenure: **Maximum 84 months**
- Loan to Vale (LTV) ratio:
 1. **Upto Rs 10lakhs: Maximum Permissible LTV ratio is 85% of “on road Price” of the car**
 2. **Above Rs 10lakhs: Maximum permissible LTV ratio is 80% of “ on road price’ of the car**
- Interest rate – Fixed/Floating
- Calculation of interest
- Penal interest
- Bounced cheque/ECS or SI dishonorurs
- Intimation of change in base rate
- Repayment
- Security
- Insurance
- Prepayment penalty is waived
- Inspection
- Fees and charges
- Disbursement

Others Point



- **KYC:** All loans should be sanctioned only after completion of KYC verification by the branch.
- **CIBIL Disclosure:** The Borrowers should agree and give consent for disclosure by the Bank of all or any
 1. Information and data relating to the Borrowers
 2. Information or data relating to any credit facility availed or/to be availed by the borrowers and default, if any, committed by the borrowers in discharge of his/their such obligation as the Bank may deem appropriate and necessary, to disclose and furnish to Credit Information Bureau (India) Ltd. (CIBIL), and other agency authorized in this behalf by RBI.
- **Default:** Default is failure to meet the legal obligations of a loan, for example when a home buyer fails to make a mortgage payment, or when a corporation or government fails to pay a bond which has reached maturity.
- **Time taken for disposal of application:** The loan applications with complete information and required documents should be disposed by the branch within the

Unit 7- Operational Aspects of CBS Environment

Core Banking Solution

Core Banking Solution (CBS) is networking of bank branches, which allows customers to manage their accounts, and use various banking facilities from any part of the world. In simple term, there is no need to visit your own branch to do banking transactions. You can do it from any location, any time.

Function of CBS

- Opening new Account
- Recording of transactions
- Passbook maintenance
- Interest calculations on loans and deposits,
- Processing cash deposits and withdrawals,
- Processing cash deposits and cheques,
- Maintaining records of all the transactions,
- Customer relationship management activities
- Managing customer accounts

Customers find core banking advantageous since



The entire range of banking products including savings, deposit accounts etc are available from any location

- Accessibility through multiple channels, including mobile banking and web
- Accurate, timely and actionable information about customer relations
- Single view between bank and customers
- Redefining the concept of 'anywhere, anytime' banking.

Need for CBS

- To enhance efficiency and effectiveness
- To increase customer satisfaction and convenience
- To enhance bank's competitiveness
- To simplify processes for the staff
- To make available more time for branch staff to focus on sales and marketing
- To meet the compliance requirements
- To meet the intense competition
- To meet the demands of customers who have become more demanding and less loyal.

Unit 8- Back Office Operations/Handling of Unreconciled Entries in Banks

Back Office

Back office carry out various functions to support the front office activities. In Specialised functions like Treasury operations and Forex, the bank offices perform the mainstream role of directly supporting the trading room or front office by controlling confirmations and settlement transactions.

- **Book keeping and accounting** – Transaction processing, maintenance of General Ledger and other book of accounts, balancing of branch accounts, reconciliation of entries and sub-systems, preparation of financial statements.
- **Deposits** – Calculation and posting of interest, service charges, remainders for renewals of term deposits, nature of operation of account-single/joint etc.



- **Loans** – processing end-to-end loan originations, calculation of EMI, calculation and posting of interest, penal interest, processing fee, commission, charges, risk management
- **Regulatory compliance** – Identifying KYC gaps, customer grievance redressal system etc.
- **e-Banking** – handling transactions through internet, mobile banking or ATMs, card based payments etc.
- **Other functions** – Clearing, collection, remittances etc.

Reconciliation functions in Banks

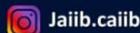
- Reconciliation of accounts for payments involving intermediaries
- Reconciliation of accounts for with correspondent banks
- Reconciliation of bank accounts with RBI and other banks and institutions
- Reconciliation of Inter branch entries
- Reconciliation of Inter branch entries and sub-systems





JAIIB Online Mock test with Explanation

JAIIB/DBF Paper	Mock
<p>JAIIB/DBF Paper-I (Principle and Practices of Banking) Online Mock Tests</p> <p>Visit-test.ambitiousbaba.com</p> 	<ul style="list-style-type: none"> • Unit wise Mock- 450questions • Module Wise Mock- 250 Questions • Full length Mock 5- 600 Questions (Each Mock 120 Q) • Case Study Mock • Memory based Mock <p>Total- 1500+ Questions</p>
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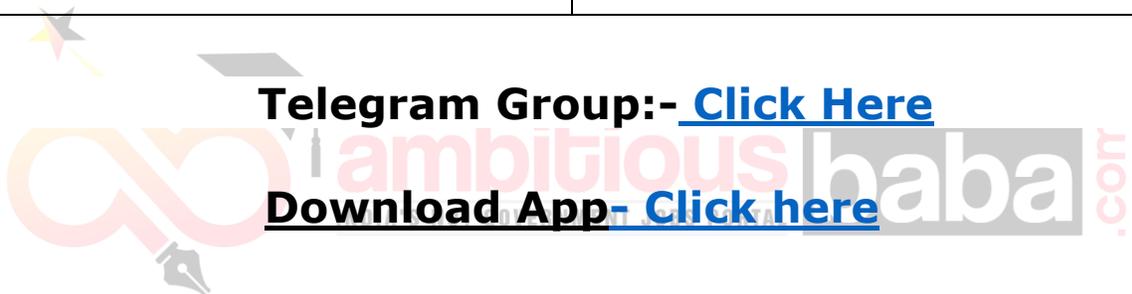
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