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BANKING AND FINANCIAL AWARENESS CAPSULE

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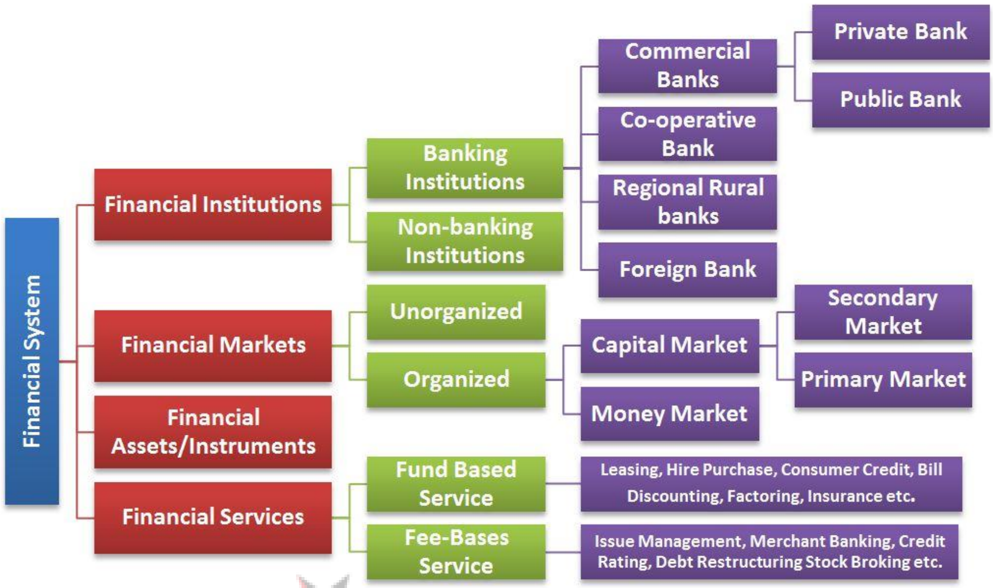
Financial & Banking Awareness (Static Part)

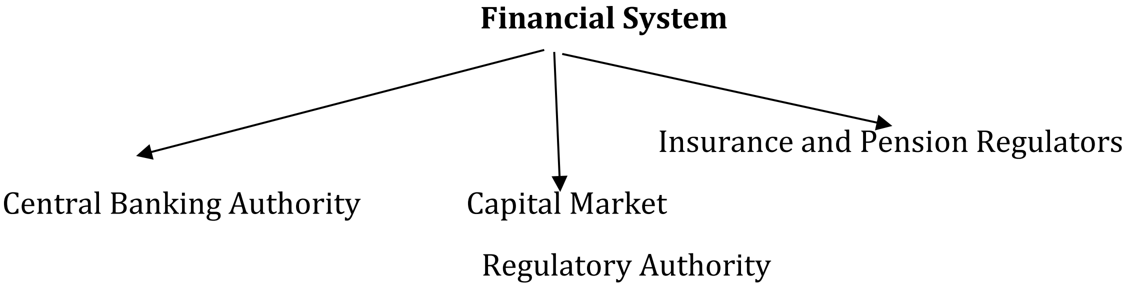
Number of Chapter	Topics Name
Chapter 1	RBI, Subsidiaries of RBI, NABARD, NHB, ECGC
Chapter 2	Banks in India Commercial Bank, Exim Bank of India, Payment Bank, Co-operative Banks, Regional Rural Banks, Small Finance Banks
Chapter 3	Banking Ombudsman, National Income
Chapter 4	Money Market, Capital Market
Chapter 5	Inflation
Chapter 6	Negotiable Instrument, Mutual Fund, Money Laundering
Chapter 7	Types of Cheque & Types of Account
Chapter 8	Types of Payment Cards, Fund transfer service
Chapter 9	Basel I, II and III
Chapter 10	NPA & SARFAESI Act, 2002
Chapter 11	LIBOR & MIBOR, SWIFT Codes for banks
Chapter 12	CIBIL, Priority Sector lending & Banks Merger
Chapter 13	Important Terms
Chapter 14	Micro, Small and Medium Enterprise in India
Chapter 15	Regional Rural Bank (RRB)

Financial Market



Financial system

Financial system a network of financial institutions (**COMMERCIAL BANKS, BUILDING SOCIETIES, etc.)** and markets (**MONEY MARKET, STOCK MARKET),** dealing in a variety of financial instruments **BANK DEPOSITS, STOCKS and SHARES, etc.),** which are engaged in money transmission activities and the provision of **LOAN and CREDIT facilities.** The financial institutions and markets occupy a key position in the economy as intermediaries in channelling savings and other funds to **borrowers and investors**. In doing this one of their main roles is to reconcile the different requirements of savers and borrowers, thereby facilitating a higher level of saving and investment in the economy than would otherwise be the case.



Central Bank (RBI)	Capital Market (SEBI)	Insurance and Pension Regulators (IRDA)

1)Monetary Control 2)Supervision Over Commercial Bank Primary Dealers Financial Institutions Cooperative Banks Clearing and Settlement System 3)Management of Government debt 4) Banker to Government 5) Regulating monetary instruments (CRR, SLR, BANK RATE, REPO RATE, MSF)	1)Equity market and debt market supervision and control 2)Supervision over Stoke exchange Brokers Equity and Debt raiser Investment bankers (Merchant Bankers) Foreign institutional investors Custodians Depositories Mutual Funds Listed companies Service providers to capital Markets like registrars	1)Regulatory framework including rules and regulations for running insurance business 2)Supervising all insurance companies both in general and life insurance business 3)Regulating pricing, investments and cost structure of insurance companies 4)Regulation insurance brokers including agencies both individual and Bank **PENSIONS** 1)Framing rules for pension funds 2)Regulating all pension funds

Chapter 1: RBI, Subsidiaries of RBI, NABARD, NHB, ECGC

Reserve Bank of India (RBI)

History of RBI

- The Reserve Bank of India was established following the **Reserve Bank of India Act of 1934.**
- Though privately owned initially, it was 4uthorized4n in **1949 and since then fully owned by Government of India (GoI).**
- It commenced its operations on **1 April 1935 in accordance with the Reserve Bank of India Act, 1934.**
- The **Hilton-Young Commission**, therefore ended by setting-up of a central bank — called the Reserve Bank of India

Management

- One Governor (5years Term)
- Four Deputy Governors (5years Term)
- Fifteen Directors

Branches and support bodies

- RBI Headquarters in Mumbai
- The RBI has four zonal offices at Chennai, Delhi, Kolkata and Mumbai.
- It has **21 regional offices and 11 sub-offices** throughout India.

Functions of RBI

- The central bank of any country executes many functions such as overseeing monetary policy, issuing currency, managing foreign exchange, working as a bank for government and as a banker of scheduled commercial banks. It also works for overall economic growth of the country.

Subsidiaries of RBI

Fully owned:

- Deposit Insurance and Credit Guarantee Corporation of India (DICGC),
- Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)
- Reserve Bank Information Technology Private Limited (ReBIT)
- Indian Financial Technology and Allied Services (IFTAS)
- Reserve Bank Innovation Hub (RBIH).

Note: **NABARD and NHB** further. Both were the subsidiaries of **RBI before 26 Feb 2019.**

About BRBNMPL

- Bharatiya Reserve Bank Note Mudran Private Limited
- Prints banknotes for Reserve Bank of India (RBI)
- **Established in 1995 to** address the demand for banknotes
- It has two presses in Mysore and Salboni
- Mysore -The machinery at Mysore Site has been supplied by Switzerland.
- Salboni.- The machinery at Salboni has been supplied by Japan.

About DICGC

- DICGC (Deposit Insurance And Credit Guarantee Corporation)
- Established under the **DICGC act 1961, on 15th July 1978**
- All commercial bank including branches of a foreign bank in India, local area bank and RRB are insured by DICGC
- NBFC and primary cooperative society are not insured by RBI
- DICGC insures all types of account i.e. (Current, fixed, saving, recurring)
- The maximum amount **insured by DICGC is 5 lakh**

National Bank for Agriculture and Rural Development (NABARD)

NABARD is a development bank 6uthoriz primarily on the rural sector of the country. It is the apex banking institution to provide finance for Agriculture and rural development.

- **Headquartered**- Mumbai
- **Chairman**:
- NABARD was established on the recommendations of **B.Sivaraman Committee, (by Act 61, 1981 of Parliament) on 12 July 1982** to implement the National Bank for Agriculture and **Rural Development Act 1981**.
- The initial corpus of **NABARD was Rs.100 crores. Consequent** to the revision in the composition of share capital between Government of India and RBI, the paid up capital as on 31 May 2017, stood at Rs.6,700 crore with Government of India holding Rs.6,700 crore (100% share). The authorized share capital is Rs.30,000 crore

National Housing Bank (NHB)

- A Government of India owned entity
- **Founded:** 9 July 1988 (under the National Housing Bank Act, 1987)
- **Headquarters:** New Delhi, India

Aims

- To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and 6uthorized them for housing.
- To make housing credit more affordable.

ECGC (Export Credit Guarantee Corporation of India)

- Type: State-owned enterprise Public
- **Industry:** Insurance
- **Founded**: 30 July 1957
- **Headquarters**: Mumbai, Maharashtra
- It was transformed into **Export Credit and Guarantee Corporation Limited (ECGC) in 1964 a**nd 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.

Reserve Bank Innovation Hub

The Reserve Bank Innovation Hub is a wholly owned subsidiary of the Reserve Bank of India (RBI) set-up to promote and facilitate an environment that accelerates innovation across the financial sector.

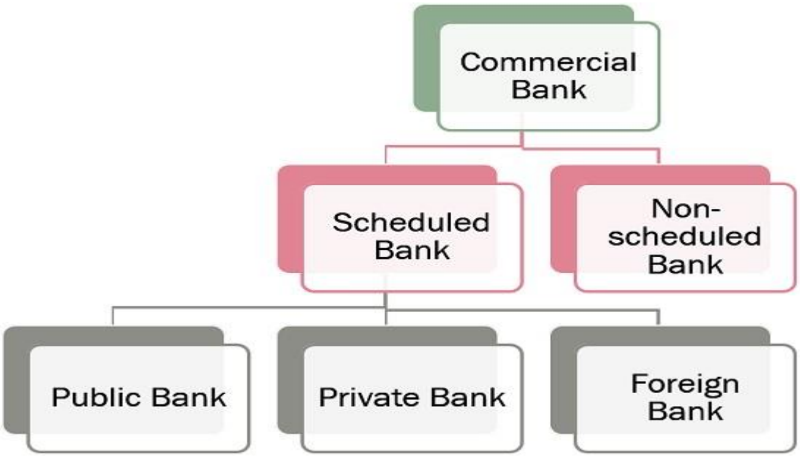
Aims: We aim to foster and evangelize innovation across the financial sector to enable access to suitable, sustainable financial products to a billion Indians in a secure friction-less manner. In addition, RBIH would create internal capabilities by building applied research and expertise in the latest technology. The hub will collaborate with financial sector institutions, policy bodies, the technology industry, and academic institutions and coordinate efforts for exchange of ideas and development of prototypes related to financial innovations.

Chapter 2: Banks in India Commercial Bank, Exim Bank of India, Payment Bank, Co-operative Banks, Regional Rural Banks, Small Finance Banks

Commercial Bank

Functions of Commercial Bank

A commercial bank is a type of bank that provides services such as accepting deposits, making business loans, and offering basic investment products that is operated as a business for profit.



Public Sector Banks– These can be further classified into Nationalized Banks and Non Nationalized banks. These are the banks which are owned and controlled by the government. In these the majority of stake is held by the government. Their main aim is to provide service to the public. These include State Bank of India and its associates, Dena bank, Punjab National Bank, Canara bank, etc.

Private Sector Banks– These are the banks which are owned and controlled by the private individuals. So their main aim is to earn profit like any other businessman does. These include ICICI Bank, HDFC Bank, Axis Bank, Yes Bank, etc

Foreign Banks– These are the banks which are owned and controlled by the foreign companies. They have their headquarters in other countries and open their branches in India. Examples are Citi Bank, HSBC Ltd.

Non-Scheduled Banks– The banks which are not included in the list of the scheduled banks are called the Non- Scheduled Banks. At present there are only 3 such banks in the country. Non- Scheduled Banks have to follow CRR conditions. These banks can have CRR fund with themselves as no compulsion has been made by the RBI to deposit it in the RBI. Non- Scheduled Banks are also not eligible for having loans from the RBI for day to day activities but under the emergency conditions RBI can grant loan to them.

EXIM Bank

Export–Import Bank of India is a finance institution in India, established in 1982 under Export-Import Bank of India Act 1981.

Payments Bank

- **On 23 September 2013, Committee** on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by **Nachiket Mor**, was formed by the RBI. On 7 January 2014, the Nachiket Mor committee submitted its final report. Among its various recommendations, it recommended the formation of a new category of bank called payments bank. On 17 July 2014, the RBI released the draft guidelines for payment banks, seeking comments for interested entities and the general public. On 27 November, RBI released the final guidelines for payment banks.
- In February 2015, RBI released the list of entities which had applied for a payments bank licence. There were **41 applicants.** It was also announced that an external advisory committee (EAC) headed by Nachiket Mor would evaluate the licence applications. On 28 February 2015.
- Payments banks is a new model of banks 8uthorized8n8d by the Reserve Bank of India (RBI). These banks can accept a restricted deposit, which is currently limited to ₹100,000 per customer and may be increased further. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue services like ATM cards, debit cards, net-banking and mobile-banking. **Bharti Airtel set up India's first live payments bank.**
- The RBI will grant full licenses under **Section 22 of the Banking Regulation Act, 1949,** after it is satisfied that the conditions have been fulfilled.

- The minimum capital **requirement is 100 crore.**
- Foreign share holding will be allowed in these banks as per the rules for FDI in private banks in India.
- For the first five years, the stake of the **promoter should remain at least 40%.**

Cooperative banking

- Cooperative banking is retail and commercial banking organized on a cooperative basis. Cooperative banking institutions take deposits and lend money in most parts of the world.

Note: Co-operative banks have more than one head like the RBI, the Registrar of Co-operative Societies (RCS) and NABARD.

Small finance bank

They are established as public limited companies in the **private sector under the Companies Act, 1956.**

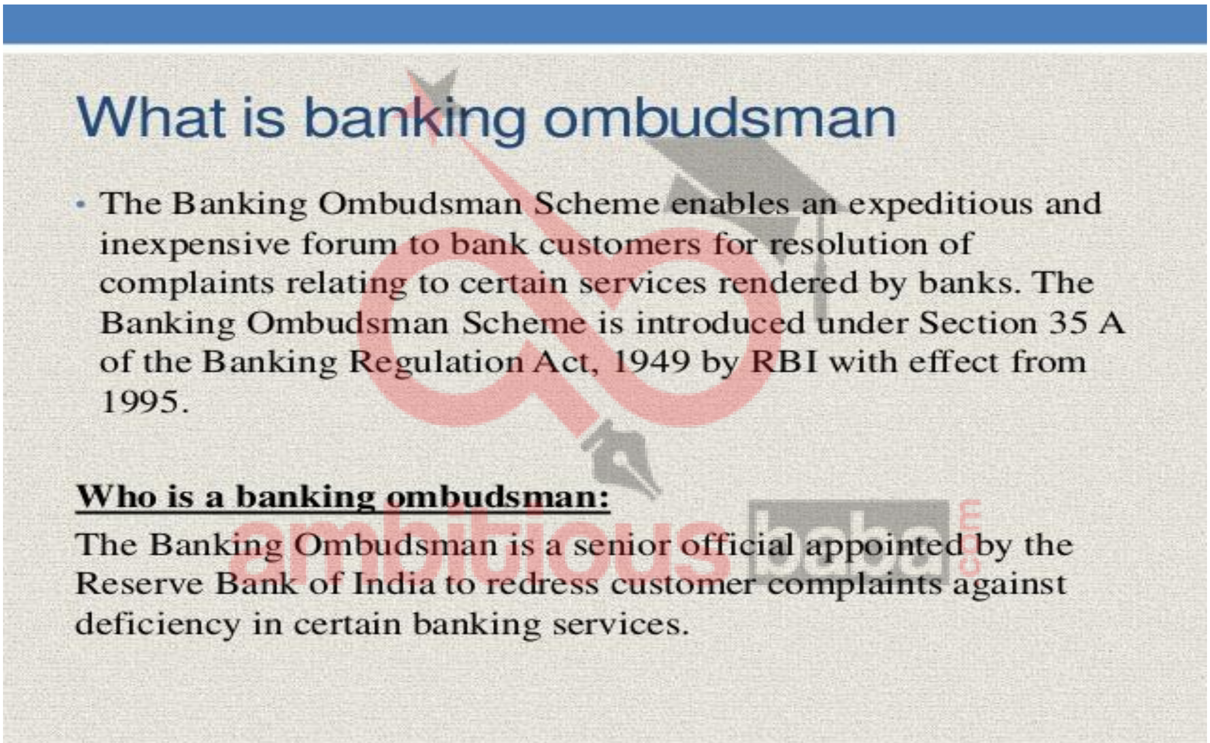
They are governed by the provisions of **Reserve Bank of India Act, 1934, Banking Regulation Act, 1949 and other relevant statutes.**

Important Point

- Existing non-banking financial companies (NBFC), microfinance institutions (MFI) and local area banks (LAB) can apply to become small finance banks.
- They can be promoted either by individuals, corporate, trusts or societies.
- They are established as public limited companies in the private sector under the **Companies Act, 1956.**
- They are governed by the provisions of Reserve Bank of India Act, 1934, Banking Regulation Act, 1949 and other relevant statutes.
- The banks will not be restricted to any region.
- They were set up with the twin objectives of providing an institutional mechanism for promoting rural and semi urban savings and for providing credit for viable economic activities in the local areas.
- **75% of its net credits** should be in priority sector lending and 50% of the loans in its portfolio **must in ₹25 lakh (US$38,000) range.**
- The firms must have a capital of at **least ₹100 crore (US$15 million).**
- The promoters should have 10 years' experience in banking and finance. The promoters stake in the paid-up equity capital will be at least 40% initially but must be brought down to 26% in 12 years. Joint ventures are not permitted. Foreign share holding will be allowed in these banks as per the rules for FDI in private banks in India.

- At net worth of ₹500 crore (US$77 million), listing will be mandatory within three years. Small finance banks having net worth of below ₹500 crore (US$77 million) could also get their shares listed voluntarily.
- They can accept any deposit (savings, current, fixed deposits, recurring deposits) like commercial banks.
- Unlike payment banks, small finance banks will be allowed to lend money also.
- For the **initial 3 years, prior approval** will be required for branch expansion.
- To give the feel of local bank, their area of operation will be restricted.
- They are not allowed to lend the deposited money to big businesses or industries.

Chapter 3: Banking Ombudsman, National Income



Banking Ombudsman Important Point

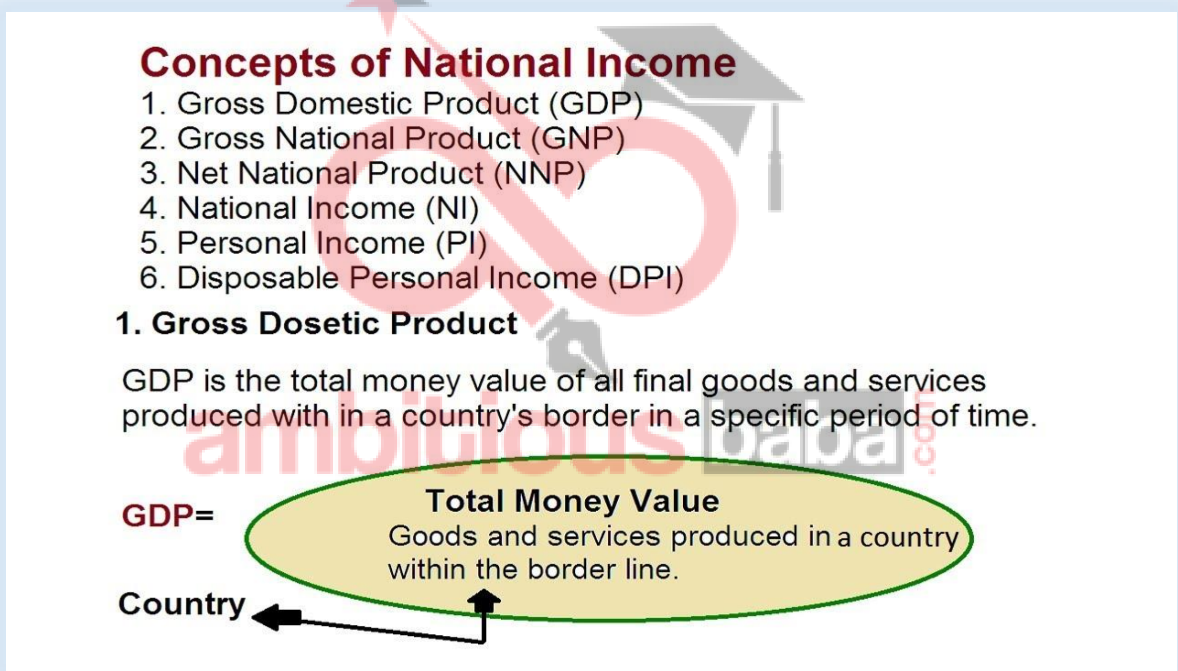
- The **Banking Ombudsman Scheme** was introduced **under Section 35 A** of the **Banking Regulation Act, 1949 by RBI with effect from 1995.**
- The Banking Ombudsman Scheme was first introduced in India in 1995 and it was revised in 2002
- Current Banking **Ombudsman Scheme introduced in 2006**.
- From 2002 until 2006, around 36,000 complaints have been dealt by the Banking Ombudsmen.
- Banking Ombudsman is appointed by Reserve Bank of India.
- There are 21 regional offices of Banking Ombudsmen in India.
- Banking Ombudsman is a senior official **appointed by RBI**

- All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered **under the Banking Ombudsman Scheme.**

Type of complaints resolved by banking ombudsman

- Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills, etc.;
- Non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission for this service;
- Non-acceptance, without sufficient cause, of coins tendered and for charging of commission for this service;
- Non-payment or delay in payment of inward remittances ;
- Failure to issue or delay in issue, of drafts, pay orders or bankers' cheques;
- Non-adherence to prescribed working hours;
- Failure to honour guarantee or letter of credit commitments;

National Income



GDP Gross Domestic Product	GNP Gross National Product	GNI Gross National Income
Value of national output produced in a country. - National income - National output - National expenditure	GNP = GDP + net property income from abroad.	Similar to GNP - Sum value of output by resident producers + net receipts of primary income from abroad + any product taxes (less subsidies) not included in the valuation of output.
Includes income of foreign multinationals	Excludes income earnt by multinational when profit is sent back to other country	A country which earns positive net income on FDI will include in GNI, but not GDP

Chapter 4: Money Market, Capital Market

Financial markets

- Financial markets in every economy have two separate segments.
- Short-term funds are for a period **of 364 days (Money market).**
- Long term funds are for above **364 days (Capital Market).**

Note : Chakravarthy committee (1985) for first time underlined the need of an 12uthorize money market and Vahul Committee (1987) laid the blueprint for that.

Money Market

Instruments of Money Market

- Treasury Bills
- Commercial Paper
- Commercial Bill
- Call Money
- Certificate of Deposits
- Cash Management Bills (CMBs)

Treasury Bills

- Issued by RBI on behalf of govt.
- Govt uses them to meet their short-term liquidity crunch.
- T-bills are sovereign zero risk instruments.
- At present, 3 types of T-bills are there: **91-day, 182-day, 364-day**.
- State govt. cannot issue T-bills.
- They are issued by Market Stabilization Scheme (MSS).

- Available for a **minimum amount of Rs. 25000 or in multiples of that.**

Call Money

- Interbank market where funds are borrowed and **lent for 1 day or less.**
- The money that is lent for one day in this market is known as "**Call Money**", and if it exceeds one day **(but less than 15 days)** it is referred to as "**Notice Money**".
- Duration varying from **1 to 14 days, it is called Call money Market.**
- Mutual funds, scheduled commercial & cooperative banks act as both borrowers and lenders.
- LIC, GIC, NABARD, IDBI act only as lenders.

Certificate of Deposit (CDs)

- Issued by scheduled **commercial banks and other financial institutions.**
- RRBs and local area banks can not issue CDs.
- Issued at a discount to face value, the discount rate is negotiated between issuer and investor.
- Minimum amount to **be Rs. 1 lac.**
- CDs issued by banks have a **maturity period: 15 days to 1 year**.
- CDs issued by selected Fis have **maturity period: 1 year to 3 years.**
- Can be issued to individuals or firms.

Commercial Paper (CP)

- These are unsecured promissory* notes issued by large corporates, primary dealers, satellite dealers and all India Fis.
- Maturity period is **between 7 days up to 1 year** from date of issue.
- Minimum amount to be invested is Rs. **5 lacs or multiples** of that.
- CPs need to have a credit rating from a credit rating agency.

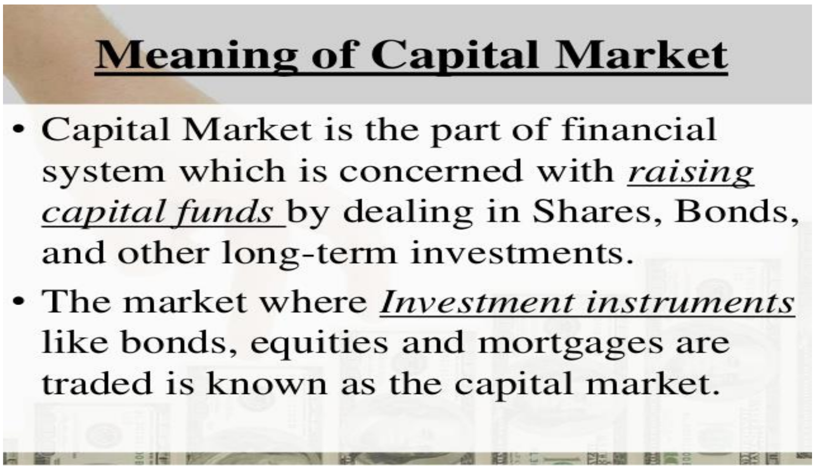
Commercial Bills (CBs)

- Negotiable instruments which are issued by all India Fis, NBFCs, SCBs, Merchant banks & Mutual funds.
- Drawn by seller on the buyer (buyer gives seller), hence also called trade bills.

Cash Management Bills (CMBs)

- It's a comparatively new short-term instrument issued by RBI on behalf of Govt.
- Issued to meet temporary mismatches in cash flow of Govt.
- They resemble T-bills in character but are issued for less than 91 days only.

Capital Market



Capital Market 2 types

- **Primary Market:** Otherwise called as New Issues Market, it is the market for the trading of new securities, for the first time. It embraces both initial public offering and further public offering. In the primary market, the 14uthorized14n of funds takes place through prospectus, right issue and private placement of securities.
- **Secondary Market**: Secondary Market can be described as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here. The trading takes place between investors, that follows the original issue in the primary market. It covers both stock exchange and over-the counter market.

Chapter 5: Inflation

Inflation

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

Simply, inflation is rise in the prices of goods and services caused by the devaluation of currency.

There are three major types of inflation

- **Demand-pull inflation –** This increase in liquidity and demand for consumer goods results in an increase in demand for products. As a result of the increased demand, companies will raise prices to the level the consumer will bear in order to balance supply and demand.
- **Cost-push inflation**- Cost-push inflation, also called "supply shock inflation," is caused by a drop in aggregate supply (potential output). This may be due to natural disasters, or increased prices of inputs, increases in corporate taxes, rising wages.
- **Built-in inflation –** Built-in inflation is induced by adaptive expectations, and is often linked to the "price/wage spiral". It involves workers trying to keep their wages up with prices (above the rate of inflation), and firms passing these higher labor costs on to their customers as higher prices, leading to a 'vicious circle'.

Deflation

- Deflation is a decrease in the general price level of goods and services. **Deflation occurs when the inflation rate falls below 0% (a negative inflation rate).** Deflation is the exact opposite of inflation. Inflation reduces the value of currency over time, but deflation increases it. This allows one to buy more goods and services than before with the same amount of currency.

Stagflation

- Stagflation is a condition of **slow economic growth and relatively high unemployment, or economic stagnation, accompanied by rising prices, or inflation.** It can also be defined as inflation and a decline in gross domestic product (GDP).

Galloping Inflation

- Galloping inflation also called as hopping inflation, jumping inflation, and running or runaway inflation is basically a very high inflation, which can be in the range of 'double-digit' or 'triple-digit' (for example: 50 % or 200% in a year).

Causes of Inflation

Factors on Demand Sides –

- Increase in money supply
- Increase in Export
- Increase in disposable income
- Deficit financing
- Foreign exchange reserves

Factors on Supply Side –

- Rise in administered prices
- Erratic agriculture growth
- Agricultural price policy
- Inadequate industrial growth

Measurement of Inflation

- The Consumer Price Index (CPI)
- Producer Price Index (PPI)

Measures of Inflation

Monetary policy

- Credit Control
- Demonetization of Currency
- Issue of New Currency

Fiscal policy

- Reduction in Unnecessary Expenditure
- Increase in Taxes
- Increase in Savings
- Surplus Budgets
- Public Debt

Other Measures

- To Increase Production
- Rational Wage Policy

- Price Control

Chapter 6: Negotiable Instrument, Mutual Fund, Money Laundering

What is Negotiable Instrument

A negotiable instrument is a document guaranteeing the payment of a specific amount of money, either on demand, or at a set time, with the payer usually named on the document.

Types of Negotiable Instruments

- Promissory Note
- Bills of Exchange
- Promissory note
- Demand Draft
- Letter of credit
- Cheque

Bill of Exchange

A bill of exchange is a written order used primarily in international trade that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date.

Features of Bill of Exchange:

- Bills of exchange must be in writing.
- Bills of exchange are not a request to pay and an order to pay.
- The order must be signed by the drawer, i.e. the maker.
- The order must be for the payment of money only.
- The money payable not vague and must be certain.
- The bills of exchange must be payable to a certain person mentioned in the instrument or to his order or to the bearer of the document.

Promissory note

Promissory note may be a negotiable instrument if it is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand to the payee, or at fixed or determinable future time, certain in money, to order or to bearer.

Cheque

A Cheque is a document which orders a bank to pay a particular amount of money from a person's account to another individual's or company's account in whose name the cheque has been made or issued. The person writing the cheque, known as the drawer.

Demand Draft

Demand Draft is a negotiable instrument used for the transfer of money from one place to another. It making payment to the bank. Demand Draft can't be dishonored as the amount is paid beforehand.

Demand Draft is issued by a bank. The amount in cash not exceeding Rs 50,000. In case of amount exceeding Rs 50,000, the payment is to be made by cheque along with giving the PAN No. It can be cleared at any branch of the same bank. The payment of a draft cannot be stopped.

Letter of credit

A letter of credit (LC), also known as a documentary credit or bankers commercial credit, is a payment mechanism used in international trade to provide an economic guarantee from a creditworthy bank to an exporter of goods.

Maker/ Drawer

The maker of a promissory note or cheque, the drawer of a bill of exchange until acceptance, and the acceptor are, in the absence of a contract to the contrary, respectively liable thereon as principal debtors, and the other parties thereto are liable thereon as sureties for the maker, drawer or acceptor, as the case may be.

Drawee

Drawee is a legal and banking term used to describe the party that has been directed by the depositor to pay a certain sum of money to the person presenting the check or draft.

Payee

A payee is the party in an exchange who receives payment. A payee is paid by cash, check or other transfer medium by a payer.

Holder

The Holder is either the payee or some other person to whom he may have endorsed the promissory note or bill of exchange or cheque. A person cannot be a holder unless he is the payee or indorsee there of.

Money Laundering

Money laundering is the process of making large amounts of money generated by a criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. The money from the criminal activity is considered dirty, and the process "launders" it to make it look clean. Money laundering is itself a crime.

Money Laundering on International Basis

On international Basis Financial action task force was established (FATF) to combat with money laundering cases and terrorism financing.

- Established in 1989
- Headquarters – Geneva
- Total member countries – 36

Introduction of Mutual Fund

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature.

Chapter 7: Types of Cheque & Types of Account

Cheque

A Cheque is a document which orders **a bank to pay a particular amount of money from a person's account** to **another individual's or company's** account in whose name the cheque has been made or issued. The cheque is 19uthoriz to make safe, secure and convenient payments. It serves as a secure option since hard cash is not involved during the transfer process; hence the fear of loss or theft is 19uthorize.

Number of Parties involved with a Cheque

Under the cheque mode of fund payment, there are three parties which are involved for on-track movement of money through a written paper source.

- **Drawer or Maker:** He/she is the customer or account holder who issues the cheque.
- **Drawee**: It is basically the bank on which the cheque is drawn and is called the "Drawee". Always remember that a cheque is always drawn on a particular banker.
- **Payee**: The individual who is named in the cheque for getting the payment is known as the "Payee". Interestingly, the drawer and the payee can be the same individual in a particular case.

Types of Cheque

- **Bearer Cheque:** Bearer cheques are the cheques which withdrawn to the cheque's owner. These types of cheques normally used for a cash transaction.

- **Order Cheque:** Order cheques are the cheques which are withdrawn for the payee(the person whose name is written on the cheque). Before making payment to that payee,cross-checks check the identity of the payee.
- **Crossed Cheque**: On the Crossed cheques, two lines are made on the top right of the cheque. Amount mentioned on the cheque is only transferred to the bank account of the payee. No cash payment is made.
- **Account Payee Cheque**: On the Account payee cheque, two lines are made with the word "account payee" on the top right of the cheque. Amount mentioned on the cheque is only transferred to the bank account of the payee whose name is mentioned on the cheque. No cash payment is made. This cheque can not be endorsed to the third party.
- **Stale Cheque:** In India, if a cheque is not presented to the bank within 3 months from the date written on the cheque is known as a stale cheque.
- **Post Dated Cheque:** If any cheque issued by a holder to the payee for the upcoming withdrawn date, then that type of cheques are called post-dated cheque.
- **Ante Dated Cheque:** If date entered on the cheque is prior to the current date, that type of cheque is known as Ante-dated cheque.

Demand Draft

- Demand Draft is a negotiable instrument used for the transfer of money from one place to another. It making payment to the bank. Demand Draft can't be dishonoured as the amount is paid beforehand.

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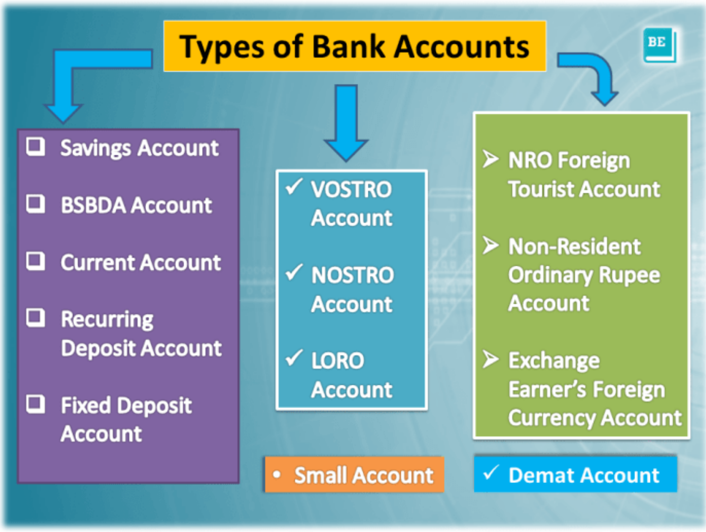
Letter of credit (LC)

- A letter of credit (LC), also known as a documentary credit or bankers commercial credit, is a payment mechanism used in international trade to provide an economic guarantee from a creditworthy bank to an exporter of goods.

Bank Account

A bank account is a financial account maintained by a bank or other financial institution in which the financial transactions between the bank and a customer are recorded.



Savings Account

A savings account is a deposit account held at a retail bank that pays interest. Any individual either single or jointly can open a savings account. Most of the salaried persons, pensioners and students use Savings Account.

Current Account

The current account is a country's trade balance plus net income and direct payments. The trade balance is a country's imports and exports of goods and services. The current account also measures international transfers of capital.

Basic Savings Bank Deposit Accounts (BSBDA)

- A person having savings account can open a BSBDA in the same bank. But he will have to close the savings account **within 30 days from the date of opening of BSBDA.**
- With the introduction of BSBDA, **'no-frills' account with 'nil' or very low minimum balances** have been converted to BSBDA
- Total credits in such accounts should **not exceed one lakh rupees in a year.**
- Maximum balance in the account should **not exceed fifty thousand rupees at any time.**
- In a month, the total of cash withdrawals and transfers **cannot exceed Rs 10,000.**

Recurring Deposit Account

- Recurring Deposit is a special kind of Term Deposit offered by banks in India which help people with regular incomes to deposit a fixed amount every month into their Recurring Deposit account and earn interest
- Recurring Deposit schemes allow customers with an opportunity to build up their savings through regular monthly deposits of fixed sum over a fixed period of time. **Minimum Period of RD is 6 months and maximum is 10 years.**
- There are **no limits for number** of transactions or the amount of transactions in a day.

- There is **no interest paid on amount** held in the account, banks charges certain service charges, on such accounts.

Fixed Deposit Account

- A fixed deposit (FD) is a financial instrument provided by banks or NBFCs which provides investors a higher rate of interest than a regular savings account, until the given maturity date. It may or may not require the creation of a separate account. It is known as a term deposit or time deposit.

Important Feature

- Customers can avail loans **against FDs up to 80 to 90 percent** of the value of deposits. The rate of interest on the loan could be 1 to 2 percent over the rate offered on the deposit.
- Residents of India can open these accounts for a **minimum of 3 months.**
- Investing in a fixed deposit earns you a higher interest rate than depositing your money in a saving account.
- The tenure of an FD can vary from **7, 15 or 45 days to 1.5 years** and The longest permissible **term for FDs is 10 years.**

Demat Account

- The full form of Demat Account is Dematerialized account. A Demat Account is an account that allows investors to hold their shares in an electronic form. Demat account functions like a bank account, where you hold your money and respective entries are done in bank passbook.

CASA Account

- CASA stands for current and savings account ratio. CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits.

RAFA Account

- RAFA stands for Recurring Deposit Account Fixed Deposit Account. The RAFA ratio shows how much deposit a bank has in the form of Recurring and fixed deposits.

NRI ACCOUNTS

- NRO (Non-Resident Ordinary Rupees) Account
- NRE (Non-Resident External Rupees) Account
- FCNR (Foreign Currency Non-Resident) Account NRO (Non-Resident Ordinary Rupees) Account

Different Between NRE and NRO account

Basis	NRE Account	NRO Account
Acronym	Non Resident External Account	Non Resident Ordinary Account
Meaning	It is an account of an NRI to transfer foreign earnings to India	It is an account of an NRI to manage the income earned in India
Taxability	Interest earned is tax free	Interest earned is taxable
Repatriability	Can repatriate	Can repatriate the interest amount, the principle amount can be repatriated within the set limits
Joint Account	Can be opened by two NRIs	Can be opened by an NRI along with an Indian citizen or another NRI
Deposits and Withdrawals	Can deposit in foreign currency, and withdraw in Indian currency	Can deposit in foreign as well as Indian currency, and withdraw in Indian currency
Exchange Rate Risk	Prone to risk	Not prone to risk

Chapter 8: Types of Payment Cards, Fund transfer service

Plastic money is a term used to represent the hard plastic cards used in day to day life in place of actual banknotes. They come in several forms such as debit cards, credit cards, store cards and pre-paid cash cards. The plastic cards began to be used widely after 1970 when the specific standards were set for a magnetic strip. In 1981, the concept of Credit cards was introduced in India and was on the verge of an exceptional boom.

Today the domestic card industry is applied with different types of cards from gold, silver, global, smart to secure, co-branded credit cards, etc. the list is endless. There is enormous growth potential in the domestic card industry.

Types Of Plastic Money

Charge Card: A charge card has similar features of credit cards. However, after using a charge card, it is necessary to pay the whole amount of bill till the due date. If the person defaults to pay the amount of the charge card, then he has to pay the late payment charges.

Visa & MasterCard: Visa & MasterCard are international non-profit organizations. They are dedicated to promoting the growth of the business of cards across the globe. They have designed a wide network of merchant institutions by keeping in mind that the customers might use their credit cards to make several transactions worldwide.

Debit Cards: The debit card is an encoded plastic card which is issued by banks and has replaced with the cheques. It allows the customers to pay in exchange for goods and services without carrying cash. It is a multipurpose card, as it can be used as an ATM to withdraw the money and check the balance of the bank account. It is issued by bank free of cost with the savings or current account. It is one of the best online-payment tools where the amount of purchase is immediately subtracted from the account of the customer and credited to the merchant's account. It has overcome the delay in the payment process.

There are presently two ways in which debit cards transactions are processed:

i)Online debit (also known as a PIN)

ii)Offline debit (also known as signature debit

ATM Cards: These cards are typically used at ATMs to withdraw money, transfer funds and make deposits. ATM cards are used by inserting the card into a machine and enter a PIN or personal number for security purpose. The system checks the account for sufficient funds before allowing any transaction.

Fund transfer services

- National Electronic Funds Transfer (NEFT)
- Real-time gross settlement (RTGS)
- Immediate Payment Service (IMPS)

	NEFT	RTGS	IMPS
Minimum transfer value	Rs.1	Rs.2 lakh	Rs.1
Maximum transfer value	No limit	No upper limit	Rs.2 lakh
Type of settlement	Batches	One-on-one settlement	One-on-one settlement
Speed of settlement	2 hours (subject to cut-off timings and batches)	Immediately	Immediately
Service availability	Weekdays: 12 batches between 8:00 a.m. - 6:30 p.m. Saturday: 6 batches between 8:00 a.m. 1:00 p.m. Sunday and bank holidays: Unavailable	Working Days: 7:00 a.m. - 6:00 p.m.	24/7
Transaction fee	Up to Rs.10,000 - Rs.2.50 From Rs.10,000 up to Rs.1 lakh - Rs.5 From Rs.1 lakh up to Rs.2 lakh - Rs.15 From Rs.2 lakh up to Rs.5 lakh - Rs.25 From Rs.5 lakh up to Rs.10 lakh - Rs.50	Between Rs.2 lakh up to Rs.5 lakh - Rs.30 From Rs.5 lakh up to Rs.10 lakh - Rs.55 Time Varying Charge per Outward Transaction: 8:00 a.m. - 11:00 a.m. - Nil 11:00 a.m. - 1:00 p.m. - Rs.2 1:00 p.m. - 6:00 p.m. - Rs.5 Post 6:00 p.m. - Rs.10	Up to Rs.10,000 - Rs.2.5 From Rs.10,000 up to Rs.1,00,000 - Rs.5 From Rs.1,00,000 up to Rs.2,00,000 - Rs.15
Online/Offline	Both	Both	Online

Chapter 9: Basel I, II and III

Basel Accords

The Basel Accords refer to the banking supervision Accords (recommendations on banking regulations)—**Basel I, Basel II and Basel III**—issued by **the Basel Committee on Banking Supervision (BCBS).** They are called the Basel Accords as the BCBS maintains its secretariat at the Bank for International Settlements in Basel, Switzerland and the committee normally meets there. The Basel Accords is a set of recommendations for regulations in the banking industry.

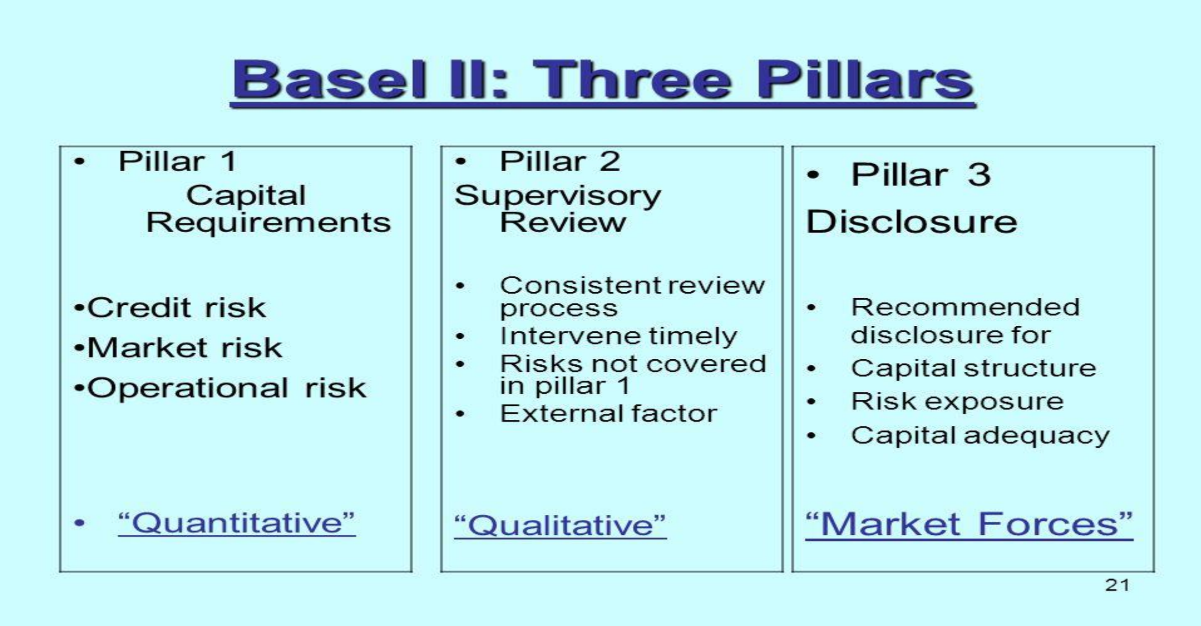
Basel I

Basel I is the round of deliberations by central bankers from around the world, and in 1988, the Basel Committee on Banking Supervision (BCBS) in Basel, Switzerland, published a set of minimum capital requirements for banks. This is also known as the 1988 Basel Accord, and was enforced by law in the Group of Ten (G-10) countries in 1992. Basel I norms set a minimum capital requirements for banks. It defined capital requirement and structure of risk weights for banks. The goal was to minimize credit risk i.e. the defaults on a credit or loan when the borrower is unable to pay back to the bank.

Basel-II

The Basel II Accord was published initially in June 2004 and was intended to amend **international banking standards that controlled** how much capital banks were required to hold to guard against the financial and operational risks banks face. These regulations aimed to ensure that the more significant the risk a bank is exposed to, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

Basel II was implemented in the years prior to 2008, Basel II uses a "**three pillars**" concept – (1) minimum capital requirements (addressing risk), (2) supervisory review and (3) market discipline.



Basel-III

Basel III (or the Third Basel Accord or Basel Standards) is a global, voluntary regulatory framework on bank capital adequacy, stress testing, and market liquidity risk. This third installment of the **Basel Accords (see Basel I, Basel II) was developed in response to the deficiencies in financial regulation revealed by the financial crisis of 2007–08.** It is intended to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage.

Basel III was agreed upon by the members of the Basel Committee on Banking Supervision in November 2010, and was scheduled to be introduced from 2013 until 2015; however, implementation was extended **repeatedly to 31 March 2019. It has now been decided to extend the dispensation of enhanced HTM of 22 per cent up to March 31, 2023 to include securities acquired between April 1, 2021 and March 31, 2022**

Basel III's 3-Pillar Framework		
Pillar 1	**Pillar 2**	**Pillar 3**
Minimum Capital Requirements	Supervisory Review Process	Market Discipline
Additional/Refined Capital Basis - Liquidity Coverage Ratio (LCR) - Net Stable Funding Ratio (NSFR) - OTC Derivatives Charge - Quality and Level of Capital - Leverage Ratio - Capital Conservation Buffers - Countercyclical Buffers - Enhanced Loss Absorption Clause (Write-Off or Debt Conversion)	**Supervision (Dialogue)** - Firm-wide Corporate Governance - Managing Risk Concentrations - Alignment of LT Incentives - Sound Compensation Practices - Supervisory Colleges - Capital (ICAAP) - Firm-wide Risk Management - Valuation Practice, Stress Tests - Supervisory Review Evaluation Process (SREP) - Capital - Governance	**Additional/Enhanced Disclosure** - Risk Management • Market • Credit • Operational - Regulatory Capital components - Detailed Reconciliation of Capital - Regulatory Capital Ratios - Securitisation Exposures

Chapter 10: NPA & SARFAESI Act, 2002

What is NPA

NPA Meaning (Non-performing Assets) – All those assets which don't generate regular income are known as NPA.

Types of assets

- **Standard assets** :- Assets which are generating regular income to the bank
- **Sub-standard assets** :- An asset which is overdue for a period of more than 90 days but less than 12 months
- **Doubtful assets** :- An asset which is overdue for a period of more than 12 months.
- **Loss assets** :- Assets which are doubtful and considered as non-recoverable by bank, internal or external auditor or central bank inspectors
- Sub-standard assets, Doubtful assets and Loss assets are NPA.

SARFAESI Act, 2002

Narasimham Committee I and II and Andhyarujina Committee was constituted by the Central Government for the purpose of examining banking sector reforms have considered the need for changes in the legal system in respect of these areas. Amongst the other committees, these Committees have made suggestions to form new legislation for securitization and empowering banks and financial institutions to gain possession of the securities and to sell them without any intervention of the court here.

Applicability Of SARFAESI Act, 2002

The amendment to this Act is "an act to regulate securitization and reconstruction of financial assets and enforcement of security interest and to provide for a central database of security interests created on property rights, and for matters connected therewith or incidental thereto."

The Act deals with the following:

- Registration and regulation of Asset Reconstruction Companies (ARCs) by the Reserve Bank of India
- Facilitating securitization of financial assets of banks and financial institutions with or without the benefit of underlying securities
- Promotion of seamless transferability of financial assets by the ARC to acquire financial assets of banks and financial institutions through the issuance of debentures or bonds or any other security as a debenture
- Entrusting the Asset Reconstruction Companies to raise funds by issue of security receipts to qualified buyers
- Facilitating the reconstruction of financial assets which are acquired while exercising powers of enforcement of securities or change of management or other powers which are proposed to be conferred on the banks and financial institutions
- Presentation of any securitization company or asset reconstruction company registered with the Reserve Bank of India as a public financial institution
- Defining 'security interest' to be any type of security including mortgage and change on immovable properties given for due repayment of any financial assistance given by any bank or financial institution
- Classification of the borrower's account as a non-performing asset in accordance with the directions given or under guidelines issued by the Reserve Bank of India from time to time
- The officers authorized will exercise the rights of a secured creditor in this behalf in accordance with the rules made by the Central Government
- An appeal against the action of any bank or financial institution to the concerned Debts Recovery Tribunal and a second appeal to the Appellate Debts Recovery Tribunal
- The Central Government may set up or cause to be set up a Central Registry for the purpose of registration of transactions relating to securitization, asset reconstruction and creation of the security interest
- Application of the proposed legislation initially to banks and financial institutions and empowerment of the Central Government to extend the application of the proposed legislation to non-banking financial companies and other entities
- Non-application of the proposed legislation to security interests in agricultural lands, loans less than rupees one lakh and cases where eighty per cent, of the loans, is repaid by the borrower

Objectives of SARFAESI Act, 2002

- Efficient or rapid recovery of non-performing assets (NPAs) of the banks and Fis.
- Allows banks and financial institutions to auction properties (say, commercial/residential) when borrower fail to repay their loans.

Chapter 11: LIBOR & MIBOR, SWIFT Codes for banks

WHAT IS LIBOR?

- The **London Interbank Offered Rate** is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks.
- Libor rates are calculated for ten currencies and fifteen borrowing periods ranging from overnight to one year and are published daily at 11:30 am (London time) by Thomson Reuters.
- Many financial institutions, mortgage lenders and credit card agencies set their own rates relative to it. At least $350 trillion in derivatives and other financial products are tied to the Libor.
- There are four money markets in the world having interbank offered rate fixings in USD, including:
- **Libor** fixed in London
  - **Mibor**, or MIBOR (Mumbai Interbank Offered Rate) fixed in India
  - **Sibor**, or SIBOR (Singapore Interbank Offered Rate) fixed in Singapore
  - **Hibor**, or HIBOR (Hong Kong Interbank Offered Rate) fixed in Hong Kong

MIBOR is Mumbai Interbank Offer Rate

- This reference rate originally developed by NSE is now co-branded with FIMMDA and is now known as " FIMMDA – NSE MIBOR ".
- Mibor is based on rates polled by NSE from a representative panel of 30 banks, institutions and mutual funds. The rate is used as a benchmark for majority of deals struck for swaps, FRAs etc
- NSE releases this rate at 0955 hours for overnight rate and at 1215 hrs for other periods.

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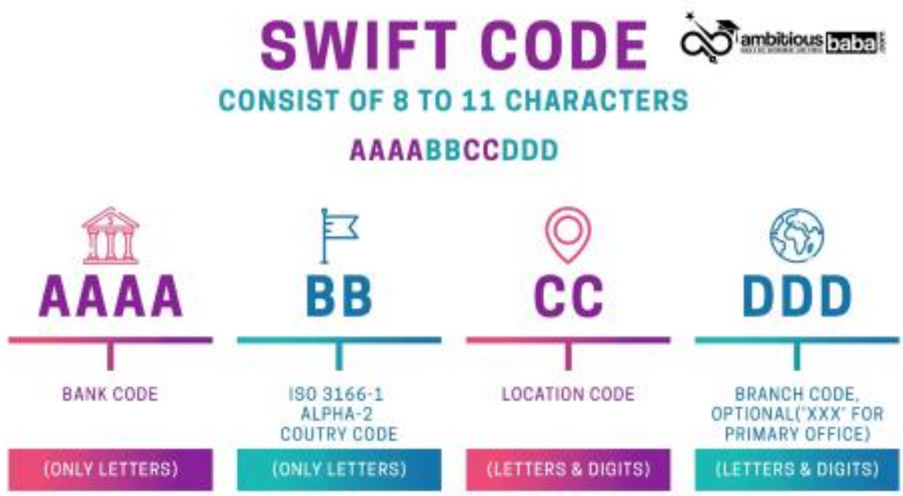
Swift History

- SWIFT is the industry-owned co-operative
- Established in 1973
- Head quarters at Brussels Belgium
- Common language for international financial transactions
- Secure, Standardised messaging services
- Provides interface software



Chapter 12: Banking Ombudsman Scheme (India) & CIBIL

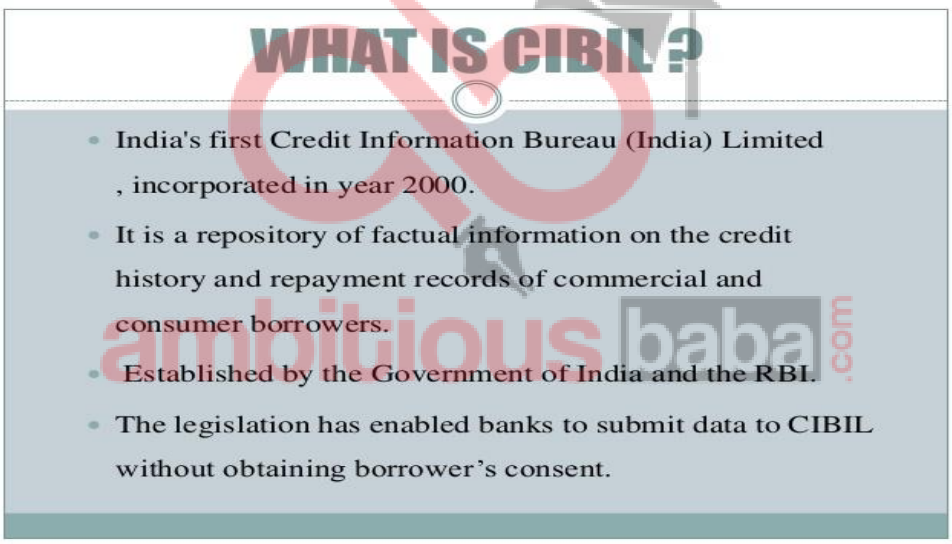
Bank Credit

What Is Bank Credit?

Bank credit is the total amount of credit available to a business or individual from a banking institution. It consists of the total amount of combined funds that financial institutions provide to an individual or business. A business or individual's bank credit depends on the borrower's ability to repay the loan and the total amount of credit available in the banking institution.

How Bank Credit Works

Bank credit is the total borrowing capacity banks provide to borrowers. The credit allows borrowers to buy goods or services. Bank Credit requires a fixed minimum monthly payment for a certified period



Priority Sector lending

Priority Sector refers to those **sectors of the economy which may not get timely and adequate credit.**

Priority Sector Lending is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors.

The sectors may be agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

This is essentially meant for an all round development of the economy as opposed to focusing only on the financial sector.

As per the **RBI circular released in 2016,** there are eight broad categories of the Priority Sector Lending.

They are: (1) Agriculture (2) Micro, Small and Medium Enterprises (3) Export Credit (4) Education (5) Housing (6) Social Infrastructure (7) Renewable Energy (8) Others.

The others category includes personal loans to weaker section, loans to distressed persons, loans to state sponsored organisations for SC/ST.

Banks Mergers

Banking order (Largest to Smallest)

- State Bank of India
- PNB +OBC +United Bank:- Punjab National Bank

- Bank of Baroda + Vijya Bank+ Dena Bank:- Bank of Baroda
- Canara + Syndicate Bank:- Canara Bank
- Union Bank + Andhra Bank +Corporation Bank: Bank of India
- Indian Bank + Allahabad Bank:- Indian Bank
- Central bank of India
- Indian Overseas Bank
- UCO Bank
- Bank of Maharashtra
- Punjab and Sind Bank

Chapter 13: Important Terms

Retail banking

Retail banking, also known as consumer banking, is the provision of services by a bank to the general public, rather than to companies, corporations or other banks, which are often described as wholesale banking. Banking services which are regarded as retail include provision of savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards. Retail banking is also distinguished from investment banking or commercial banking.

Call money

Call money is money loaned by a bank that must be repaid on demand. The money that is lent for one day in this market is known as "Call money".

Notice Money

In the call money is usually availed for one day. If the bank needs funds for more days, it can avail money through notice market. Here, the loan is provided from two days to fourteen days. This is called notice money.

Green Banking

Green banking aims at improving the operations and technology along with making the clients habits environment-friendly in the banking business.

It is like normal banking i. e. in addition to financing social activities does business in environmental activities including its financing.

Skimming

Skimming is a tactic used predominantly for credit-card fraud. Credit card fraud is a wide-ranging term for theft and fraud committed using or involving a payment card, such as a credit card or debit card, as a fraudulent source of funds in a transaction. The purpose may be to obtain goods without paying, or to obtain unauthorized funds from an account.

Proportional reserve system

Under the proportional reserve system, certain proportion of currency notes (40%) are backed by gold and silver reserves and the remaining part of the note issue by approved securities.

Minimum Reserve System

RBI is required to maintain a Gold and Foreign Exchange Reserves of Rs. 200 Crore of which at least Rs. 115 Crore should be in Gold. This is called Minimum Reserve system.

Camels rating

The CELS ratings or Camels rating is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. It is applied to every bank and credit union in the U.S. It also implemented outside the U.S. by various banking supervisory regulators.

Each factor is assigned a weight as follows:

- Capital adequacy -20 %
- Asset quality -20%
- Management- 25%
- Earnings -15%
- Liquidity- 10%
- Sensitivity -10%

Core banking Solution

Core (Centralized Online Real-time Exchange) banking is a banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices.

Unified Payments Interface

Unified Payments Interface (UPI) is an instant real-time payment system developed by National Payments Corporation of India facilitating inter-bank transactions. UPI is a payment system that allows money transfer between any two bank accounts by using a smartphone.

UPI allows a customer to pay directly from a bank account to different merchants, both online and offline, without the hassle of typing credit card details, IFSC code, or net banking/wallet passwords.

The Balance of Trade

The difference of the country's exports and the value of its imports are known as the Balance of Trade.

Important features:

- The cost of production (land, labor, capital, taxes, incentives, etc.) in the exporting economy vis-à-vis those in the importing economy;
- Currency exchange rate movements;

- Multilateral, bilateral and unilateral taxes or restrictions on trade;
- The availability of adequate foreign exchange with which to pay for imports; and Prices of goods manufactured at home (influenced by the responsiveness of supply).

A Balance of Payments

The balance of payments, also known as balance of international payments and abbreviated B.O.P. or BoP, of a country is the record of all economic transactions between the residents of the country and the rest of the world in a particular period of (generally 1 year).

Cheque Truncation System (CTS)

Cheque Truncation System (CTS) or Image-based Clearing System (ICS), in India, is a project of the Reserve Bank of India (RBI), commenced in 2010, for faster clearing of cheques. CTS is based on a cheque truncation or online image-based cheque clearing system where cheque images and magnetic ink character recognition (MICR) data are captured at the collecting bank branch and transmitted electronically.

Cheque truncation means stopping the flow of the physical cheques issued by a drawer to the drawee branch.

Shadow banking system

The shadow banking system is a term for the collection of non-bank financial intermediaries that provide services similar to traditional commercial banks but outside normal banking regulations. Likes Non-banking financial companies (NBFCs)

The shadow banking sector plays an important role in promoting financial inclusion. The main Benefits of shadow banks lie in their ability to reduce transaction costs, their quick decision making ability, and customer orientation and prompt delivery of services. But there is also a risk in shadow banking practice in any economy because they can take their own decisions.

Special drawing rights

Special drawing rights are supplementary foreign-exchange reserve assets defined and maintained by the International Monetary Fund (IMF).The SDR is the unit of account for the IMF, and is not a currency per se. SDRs instead represent a claim to currency held by IMF member countries for which they may be exchanged. The SDR was created in 1969 to supplement a shortfall of preferred foreign-exchange reserve assets, namely gold and the U.S. dollar.

Participatory Notes

Participatory Notes commonly known as P-Notes or PNs are instruments issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India – SEBI.

Participatory notes are instruments used for making investments in the stock markets. However, they are not used within the country. They are used outside India for making investments in shares listed in the Indian stock market.

Liabilities of A Bank

In the simplest of terms, the bank's liabilities are deposits, money that people deposit with the bank, because the banks owes that money to the depositors.

Below are some of the products

- Capital and Reserves
- Savings account, current account, salary account
- Fixed deposits
- Recurring deposits
- Insurance

Assets of a Bank

The asset products are those in which the customer is liable to pay to the bank.

In banking term Assets are loans the banks makes to borrowers.

Any type of loans like

- Cash
- Money at Call at Short Notice
- Investments
- Loans, Advances and Bills Discounted-or Purchased
- Demand Loans
- Term Loans
- personal loan, car loan, education loan Etc
- Credit card

Initial Public Offering (IPO)

Initial public offering (IPO) or stock market launch is a type of public offering in which shares of a company are sold to institutional investors and usually also retail (individual) investors; an IPO is underwritten by one or more investment banks, who also arrange for the shares to be listed on one or more stock exchanges. Through this process, colloquially known as floating, or going public, a privately held company is transformed into a public company. Initial public offerings can be used: to raise new equity capital for the company concerned; to monetize the investments of private shareholders such as company founders or private equity investors; and to enable easy trading of existing holdings or future capital raising by becoming publicly traded enterprises.

Advantages of IPO

- Enlarging and diversifying equity base
- Enabling cheaper access to capital

- Increasing exposure, prestige, and public image
- Attracting and retaining better management and employees through liquid equity participation
- Facilitating acquisitions (potentially in return for shares of stock)
- Creating multiple financing opportunities: equity, convertible debt, cheaper bank loans, etc.

Mortgage

A loan used to buy real estate. A mortgage is secured by the property it is used to purchase. One must make monthly payments on a mortgage, and there is a set term before full payment is due, often 15, 20, or 30 years. Some mortgages have fixed interest rates, while others have variable interest rates. If one defaults on a mortgage, the bank making it may take possession of the real estate and sell it to recover its investment. Some banks, notably savings and loans, specialize in making mortgage loans.

Chapter 14: Micro, Small and Medium Enterprise in India

The **Micro, Small and Medium Enterprises Development (MSMED) Act, 2006,** governs the coverage and investment ceiling of MSMEs in India.

According to the Act, there are **two categories of MSMEs in the country –**

Manufacturing: Manufacturing Enterprises-he enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries **(Development and regulation) Act, 1951**) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

Service Enterprises:-The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.. The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified,vide S.O. 1642I dtd.29-09-2006 are as under

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing Enterprises and	**Investment in Plant and**	**Investment in Plant and**	**Investment in Plant and**

Enterprises rendering Services	**Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore**	**Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore**	**Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore**

Performance & Credit Rating Scheme

This scheme seeks to establish independent, trusted third party opinion on capabilities and credit-worthiness of MSEs, and makes credit available at attractive interest rates and will ensure better productivity. Under this scheme (as per the turnover of the MSE) a percent of Rating Agency charges are reimbursed by Ministry of SSI.

Scheme Benefits & Highlights

The fee to be paid to the rating agencies shall be based on the turnover of the Small-Scale Units which has been categorized into three slabs. The slabs of the Turnover and the Share of Ministry of SSI towards the fee charged by the Rating Agency is as follow:

Turnover of MSE Re-imbursement of fee through NSIC:

- Up to Rs. 50 lakh – 75% of the fee or INR25,000 (whichever is less)
- Above Rs. 50 to 200 lakh – 75% of the fee or INR30,000 (whichever is less)
- More than Rs. 200 lakh – 75% of the fee or INR40,000 (whichever is less)

Credit Guarantee

Any collateral / third party guarantee free credit facility (both fund as well as non fund based) extended by eligible institutions, to new as well as existing Micro and Small Enterprise, including Service Enterprises, with a maximum credit cap of of 200 lakh (Rupees Two Hundred lakh only) are eligible to be covered. Recently, guarantee coverage made eligible to select NBFCs and Small Finance banks.

The guarantee cover available under the scheme is to the extent of 50%/ 75% / 80% & 85% of the sanctioned amount of the credit facility. The extent of guarantee cover is 85% for micro enterprises for credit up to 5 lakh. The extent of guarantee cover is 50% of the sanctioned amount of the credit facility for credit from 10 lakh to 100 lakh per MSE borrower for retail trade activity.

The extent of guarantee cover is 80%(i) Micro and Small Enterprises operated and/or owned by women; and (ii) all credits/loans in the North East Region (NER) for credit facilities upto 50 lakh. In case of default, Trust settles the claim up to 75% of the amount in default of the credit facility extended by the lending institution for credit facilities upto 200 lakh.

Category	**Maximum extent of Guarantee where credit facility is**		
	Upto 5 lakh	**Above 5 lakh upto 50 lakh**	**Above 50 lakh upto 200 lakh**
Micro Enterprises	85% of the amount in default subject to a maximum of 4.25 lakh	75% of the amount in default subject to a maximum of 37.50 lakh	75% of the amount in default subject to a maximum of 150 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) (other than credit facility upto 5 lakh to micro enterprises)	80% of the amount in default subject to a maximum of 40 lakh		
All other category of borrowers	75% of the amount in default subject to a maximum of 37.50 lakh		
Activity	**From 10 lakh upto 100 lakh**		
MSE Retail Trade	50% of the amount in default subject to a maximum of 50 lakh		

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