JAIIB CAPSULE

Paper-4 RBWM

MODULE A — RETAIL BANKING

MODULE B — RETAIL PRODUCTS AND RECOVERY

MODULE C — SUPPORT SERVICES- MARKETING OF BANKING SERVICES/ PRODUCTS

MODULE D — WEALTH MANAGEMENT

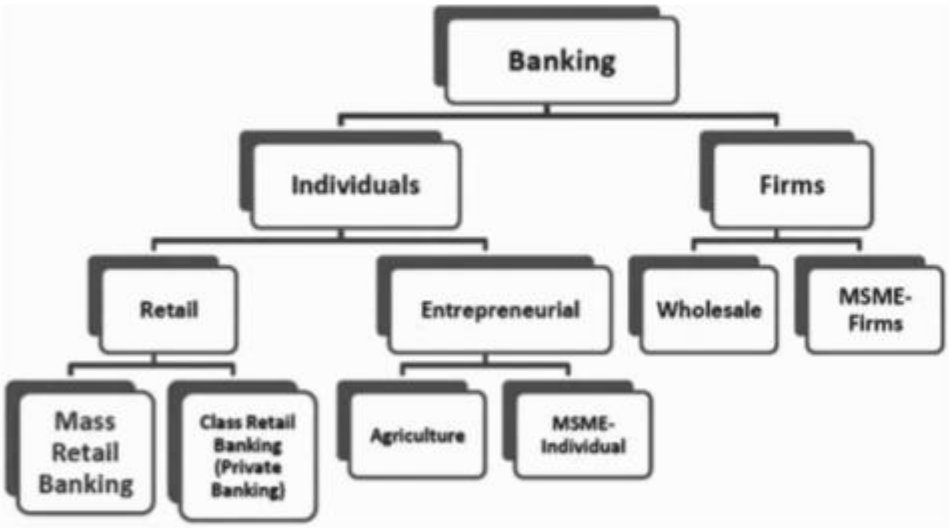
MODULE E — ADDITIONAL READING MATERIAL ON HOME LOANS

JAIIB Paper 4 (RMWM) Capsule

JAIIB Paper 4 (RMWM) Module A: Retail Banking

No. of Unit	Unit Name
Unit 1	Retail Banking Introduction
Unit 2	Role within the Bank Operations
Unit 3	Application of Retail Banking Concept and Distinction between Retail and Corporate/Wholesale Banking
Unit 4	Branch Profiabiltity

JAIIB Retail Banking Module A Unit 1: Retail Banking Introduction



Retail Banking

- **"Retail Banking is a banking service that is geared primarily toward individual consumers**. Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services, as well as debit and credit cards.
- Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking."

Characteristics of Retail Banking

The definitions of retail banking as discussed above bring out the following characteristics:

- Banking facilities targeted at individual customers.
- Focused towards mass market segment covering a large population of individuals.
- Offer different liability, asset and a plethora of service products to the individual customers.
- The delivery model of retail banking is both physical and virtual i.e. services are extended through branches and also through technology driven electronic off site delivery channels like ATMs, Internet Banking and Mobile Banking.
- Extended to small and medium size businesses.

Advantages of Retail Banking

- Client base will be large and therefore risk is spread across the customer base.
- Customer Loyalty will be strong and customers tend not to change from one bank to another very often.
- Attractive interest spreads since spreads are wide, since customers are too fragmented to bargain effectively; Credit risk tends to be well diversified, as loan amounts are relatively small.
- There is less volatility in demand and credit cycle than from large corporates.
- Large numbers of clients can facilitate marketing, mass selling and the ability to categorize/select clients using scoring systems/data mining.

Constraints in Retail Banking

Though retail banking as a segment has a number of embedded advantages, the segment suffers from constraints also. **A few of the constraints are listed below:**

- Problems in managing large numbers of clients, especially if IT systems are not sufficiently robust.
- Rapid evolution of products can lead to IT complications

- The costs of maintaining branch networks and handling large numbers of low-value transactions tend to be relatively high. (For this reason banks are encouraging clients to use cheaper distribution channels, such as ATMs, the telephone or internet for these transactions and reserve the branches for higher added value transactions).
- Higher delinquencies especially in unsecured retail loans and credit card receivables.

Prerequisite for Success of Retail Banking

There are various factors that can subscribe to the success of retail banking in India:

- Presence of an efficient delivery mechanism
- Product appropriateness
- Pricing
- Scoring models for assessing the credit worthiness
- Consumer protection environment

Challenges for Retail Banking

- Consumer Protection & Pricing
- Inadequacy of MIS
- Understanding of KYC/AML issues
- Managing Risk
- Effects of disruptive new technologies
- Continuing growth

Reason for the Growth of the Retail Banking Segment

- Rise of the young Indian Professionals
- Growth as an Economic Superpower
- Increasing purchasing power of middle class people
- Financial market reforms
- Engine of economic growth
- Mass Market banking
- Volume driven business
- Automation of banking process
- Easy and affordable access
- Financial liquidity
- Economic prosperity
- Changing consumer demographics
- Technology innovations
- Increase the Bank Liquid cash
- Decline in interest rates
- Declining cost of incremental deposit
- Changes of terms of loans

Scope of Retail Banking in India

- Increase in economic activity is taking place with some recessionary trends.
- Increase in purchasing power. The rural India has more purchasing power at their disposal and this is an opportunity to market Retail Banking.
- India has 300 million households and 400 million middle class population. More than 90% of the savings come from the house hold sector. Falling interest rates have resulted in a shift. "Now People Want to Save Less and Spend More."
- Nuclear family concept is gaining much importance which may lead to large savings. The number of banking services to be provided is increasing day-by-day.
- Tax benefits are available. For example, in case of housing loans/ education loan the borrower can avail tax benefits for the loan repayment and the interest charged for the loan.

Future of Retail Banking

- Growth in Digital Banking
- Rapid Adaptation of Blockchain by Retail Bankers
- Artificial Intelligence (AI) and Data Science in Banking
- Cyber Security to be a Top Priority
- Payment Innovations
- Rise of Big Tech in Banking Industry

JAIIB Retail Banking Unit 2: Retail Banking: Role within the Bank Operations

The business models for retail banking show interesting revelations across types of banks. The models adopted by banks vary among the public sector, private sector and foreign banks. **The main approaches are as follows:**

- Strategic Business Unit (SBU) Approach,
- Departmental Approach,
- Integrated Approach (part of the overall business plan).

Strategic Business Unit (SBU)

- **SBU approach aims at dividing the business on lines of Strategic Business Units (SBUs).** SBUs are autonomous divisions, small enough to be flexible and large enough to exercise control over most of the factors affecting its long-term performance. SBUs can be defined as profit centres which focus on product offering and market segment. An SBU can be a business unit of a large corporation or it can be a business in itself.

Departmental Approach

- **In Departmental Approach, rather than dividing on strategic or businesslines, an organisation can also be divided on the basis of functions, various teams perform**. The departmental approach is a specialised functional approach within an organisation. This approach segregates the functions of the organisation into departments such as accounting, marketing, finance, planning, etc.
- Generally, every department has its manager and chain of command. Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model. It indicates that the approach is more a general one with retail banking as one of the business models and not a focused business model.

The Integrated Approach

- **The Integrated Approach is usually adopted by smaller businesses**. It combines allsocio economic aspects and adopts a cohesive approach to tackle problems of the business. It is assumed that having a unified business would reduce risk and increase profitability through scale rather than having separate entities for each business line.
- If we go further deep into the models of retail banking followed by banks with regard to products, processes, delivery channels, technology, etc.,

Business Model

- Banks generally structure their retail banking models mainly on a positioning platform and to be the best/top three among the peer group players or across players. Strategies are based on the positioning objectives and vary from bank to bank depending on the importance attached to the business model.
- Among the public sector banks, some banks aim for a place among the top three retail players across banks including peer group banks while some other public sector aim for a space in the top three among the peer group. But the strategy adopted by these banks was a part of the overall strategy based on the business mix. projections and corporate objectives of the bank.

Unit 3: Application of Retail Banking Concept and Distinction between Retail and Corporate/Wholesale Banking

The growth of retail banking is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. It facilitates the delivery of the right product at the right price at the right place and at the right time.

Today's retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, loans, cards, insurance, investments, securities, etc.)

- Multiple channels of distribution (call centre, branch, internet, mobile banking, kiosk, etc.)
- Multiple customer groups (consumer, small business, and corporate). This Unit deals with the various business process structure, product models, business approach, retail liability products, retail assets products, etc., in detail.

Business Process Structure in Retail Banking

- **Horizontally organized model** is a modular structure using different process models for different products offering end to end solutions product wise.
- **Vertically organized model** provides functionality across products with customer data base orientation and centralised customer data base is used across products.
- **Predominantly horizontally organized model** is mostly product oriented with common customer information for some products.
- **In predominantly vertically organized model**, common information is available for most of the products.

Business Approach (Domain Specific) in Retail Banking

The business strategies with regard to the domains targeted are approached in different ways by different banks. ***The most common approaches are as follows***:

- **Segmented Approach** - where branches are classified based on the business potential with regard to retail space and business targeted in these segments of branches only with focused marketing strategies. These branches will be positioned as resource centre branches and will form part of the overall segmentation game plan of the bank. Branches are classified as Resource Centres, Profit Centres, Priority Centres and General Centres to have a clear business focus. This concept is an effective business model for PSBs with large network and useful for focused strategies and already getting implemented in some public sector banks.
- **Geography based approach** - where retail models are built based on geographies.
- **Classification based approach** - where strategies are designed based on the type of branch viz., Rural. Semi Urban. Urban and Metro. This strategy helps in better product structuring for specific types of branches.

Product Models in Retail Banking

Liability Products

Liability products are offered to retail banking customers basically under three spaces - **Savings Accounts, Current Accounts and Term Deposit Accounts**. Product differentiation among these accounts is best achieved by adding different value propositions.

- Retail deposit are stable and constitute core deposits.
- They are interest insensitive and less bargaining for additional interest.

- They constitute low cost funds for the banks.
- Effective customer relationship management with the retail customers build a strong customer base.

Retail Asset Products

Retail asset financing is a major component of retail banking model of banks. In fact retail loans are the backbone of the revenue streams of banks. In any customer expansion strategy, retail loan is packed as the main attraction uniformly by all banks.

- Retail banking results in better yield/improved bottom line for a bank.
- Retail segment is good revenue for funds deployment.
- Consumer loans are presumed to be of lower risk and NPA perception.
- Helps economic revival of nation through increased production activity.
- Improves lifestyles and fulfils aspirations of the people through affordable credit.
- Retail banking involves minimum marketing efforts in a demand-driven economy.

Other Products/Services

- **Other products and services broadly cover the beyond product facilities tagged to the products and services.** These enhance the service experiences of the customers by providing process and delivery efficiencies by additional service tools to the basic products.
- One set of these products are Credit Cards, Debit Cards. ATM Cards, Telephone Banking. Mobile Banking, Internet Banking. Depository Service and Broking Services. Distribution of third party products like life and non life policies, mutual funds, retail sale of gold coins, bill payment services, multi city cheques, payment gateway for rail, air ticket.

Process Models for Products and Services

- **Processing of products and services in retail banking is basically approached from three dimensions** viz., the entire processing is done through in house resources, some products processed in house and for some products outsourcing is done for process and the third approach is outsourcing of entire process subject to prescribing process standards.
- In PSBs and old private banks the entire process for products and services are done through in house resources but in some banks, process part of some products are outsourced. But generally no outsourcing is done for the process part. In new generation private sector banks, outsourcing is attempted partially for some process areas. In foreign banks, the entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of retail banking services.

Pricing of Products and Services

- **Banks develop models for pricing of products and services based on certain fundamental parameters.** Market dynamics, risk perception, return

expectations, tenor/duration, resources position, asset liability management positions and customer profile are some of the variables which are factored into the pricing model by banks. The balancing of these various variables dynamically with changing market dynamics is the key function for good pricing model.
- In addition, regulatory advices (both overt and covert) also influence the pricing models. The fundamental concept of costing in pricing has now gelled with the asset liability management practices of banks.

Technology Models in Retail Banking

- **The technology platform for retail banking plays a major role in the retail banking initiatives of banks.** In today's scenario, technology is the backbone of the process and delivery efficiencies of banks. The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models.
- Each model will have advantages and disadvantages and the overall business will be the decider of the effectiveness of the model.

Distinction between Retail and Corporate/Wholesale Banking

Retail Banking and Corporate or Wholesale Banking differ in their basic approach to banking. **The major differences between the two segments are discussed as follows:**

- Retail Banking targets at the individual segment while corporate banking deals mainly with corporate clients.
- Retail Banking is a mass market banking model whereas wholesale/corporate banking look at a relatively smaller segment of business/corporate client base as compared to retail segment.
- Retail Banking is a B2C approach (Business to Customer) whereas corporate banking is a B2B approach (Business to Business).
- The ticket size of loans in retail banking is low whereas the ticket size is high in corporate loans.
- Risk is widespread in retail banking as customer base is huge whereas in Corporate Banking, the risk is more as the ticket size is big though customer base is relatively small.
- Returns are more in retail banking as the spreads are more for different asset classes in retail. But in corporate banking, the returns will be low as corporates bargain for lower rates due to higher loan amounts.
- Monitoring and recovery in retail assets are more laborious because of the larger customer base as compared to corporate banking.
- In the liability side also, the cost of deposits is relatively less and mostly go along with the card rates as the ticket size in retail deposits is small. In corporate banking, as the ticket sizes of deposits will be large, the cost of deposits will be high due to pressure from the corporates for higher rates and competitive forces to garner the deposits.

- The impact of NPA will be more pronounced in corporate banking than retail banking as the ticket sizes in corporate loans are higher than retail loans.

JAIIB RBWM Module A Unit 4-Branch Profiabiltity

Banking System: An Introduction

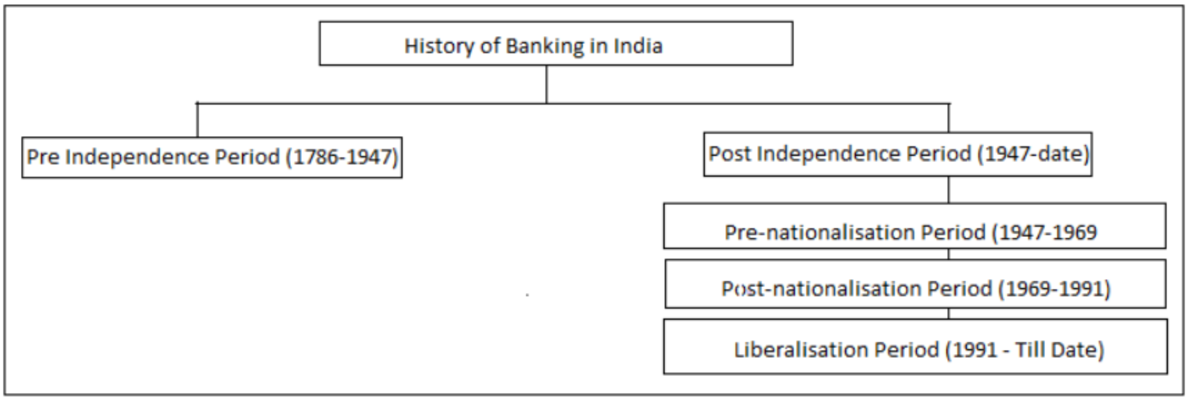
What Is Banking?

- Banking is classically defined in the **Banking Regulations Act, 1949 (BR Act).** As per **Section 5(1) (b) of the BR Act, banking is '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, order or otherwise.'
- **Section 5(l)(c), further defines** a banking company as any company which transacts the business of banking in India. **Section 6 of the BR Act defines**, in detail, the types of activities that banks are authorised to carry out, although under modern day banking, banks have embraced many other types of activities, too. The traditional types of businesses that banks
- Another important aspect on banking in India is that, **in terms of Section 7 (1)** of the **BR Act,** 'No company other than a banking company shall use as part of its name any of the words "**bank", "banker" or "banking**" and no company shall carry on the business of banking in India, unless it uses as part of its name at least one of such words.'
- Further, **Section 7(2) states 'No firm**, individual or group of individuals shall, for the purpose of carrying on any business, use as part of its or his name any of the words **"bank", "banking" or "banking company".'**

History Of Banking In India

The banking sector development can be divided into three phases:

- **Phase I:** The Early Phase which lasted from 1770 to 1969
- **Phase II:** The Nationalisation Phase which lasted from 1969 to 1991
- **Phase III:** The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date



Pre Independence Period (1786-1947)

The first bank of India was the "***Bank of Hindustan***", established **in 1770** and located in the then Indian capital, Calcutta. However, this bank failed to work and **ceased operations in 1832.**

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Following the path of Bank of Hindustan, various other banks were established in India. They were:

- The General Bank of India (1786-1791)
- Oudh Commercial Bank (1881-1958)
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843)

During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. **These three banks were later merged into one single bank in 1921**, which was called the "***Imperial Bank of India.***"

The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Independence Banks in India	
Bank Name	**Year of Establishment**
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

Post Independence Period (1947-1991)

- At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.
- With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the **Banking Regulation Act, 1949.** Whereas, the **Reserve Bank of India was nationalised in 1949.**

Candidates can check the list of Banking sector reforms and Acts at the linked article.

- Following it was the formation of **State Bank of India in 1955 and the other 14 banks were nationalised** between the time duration of **1969 to 1991**. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 14 Banks nationalised in 1969:

1.Allahabad Bank

2.Bank of India

3.Bank of Baroda

4.Bank of Maharashtra

5.Central Bank of India

6.Canara Bank

7.Dena Bank

8.Indian Overseas Bank

9.Indian Bank

10.Punjab National Bank

11.Syndicate Bank

12.Union Bank of India

13.United Bank

14.UCO Bank

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

- Andhra Bank
- Corporation Bank
- New Bank of India
- Oriental Bank of Comm.
- Punjab & Sind Bank
- Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

- State Bank of Patiala
- State Bank of Hyderabad
- State Bank of Bikaner & Jaipur
- State Bank of Mysore
- State Bank of Travancore
- State Bank of Saurashtra
- State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which merged in 2008 and State Bank of Indore, which merged in 2010.

Note: The Regional Rural Banks in India were established in the year 1975 for the development of rural areas in India.

Liberalisation Period (1991-Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role.

To provide stability and profitability to the Nationalised Public sector Banks, the Government decided to set up a committee under the leadership of **Shri. M Narasimham** to manage the various reforms in the Indian banking industry.

The biggest development was the introduction of Private sector banks in India. RBI gave license to 10 Private sector banks to establish themselves in the country. **These banks included:**

- Global Trust Bank
- ICICI Bank
- HDFC Bank
- Axis Bank
- Bank of Punjab
- IndusInd Bank
- Centurion Bank
- IDBI Bank
- Times Bank
- Development Credit Bank

What Is Profitability

- Before moving to Branch Profitability, let us first have a broad view of profit and profitability. Profitability is a measure of an organization's profit relative to its expenses.
- Organizations that are more efficient will realize more profit as a percentage of its expenses than a less-efficient organization, which must spend more to generate the same profit. In other words, Profitability is a measurement of efficiency – and ultimately its success or failure.

What Is Profit?

- Profit is the money a business pullsin after accounting for all expenses. Whether it's a lemonade stand or a publicly-traded multinational company, the primary goal of any business is to earn money, therefore a business performance is based on profitability, in its various forms.

- Some analysts are interested in top-line profitability (Gross Sales), whereas others are interested in profitability before taxes and other expenses. Still others are only concerned with profitability after all expenses have been paid (bottom-line profitability).

Three major types of profit

- Gross profit
- Operating profit, and
- Net profit

Gross Profit

The first level of profitability is gross profit, which is sales minus the cost of goods sold. Sales are the first line item on the income statement, and the cost of goods sold (COGS) is generally listed just below it. For example, if Company A has ₹1,00,00,000/- in sales and a COGS of ₹60,00,000/- it means the gross profit is ₹40,00,000/-, (i.e. ₹1,00,00,000 minus ₹60,00,000/-). Divide gross profit by sales for the gross profit margin, which is 40% (i.e. ₹40,00,000/- divided by ₹1,00,00,000/- multiplied by 100).

Gross Profit = Total Sales – Cost of Goods Sold

Operating Profit

The second level of profitability is Operating Profit, which is calculated by deducting operating expenses from gross profit. Gross profit looks at profitability after direct expenses, and operating profit looks at profitability after operating expenses. These are things like selling, general, and administrative costs (SG&A). Company A (stated above) has ₹20,00,000/- in operating expenses, and hence, the Operating Profit is ₹40,00,000/- minus ₹20,00,000/-, which is equal to ₹20,00,000/-. Divide operating profit by sales for the operating profit margin, which is 20%.

- **Operating Profit** = Gross Profit – Operating Expenses
- **Operating Profit Margin** = Operating Profit/ Total Sales

Net Profit

The third level of profitably is net profit, which is the income left over after all expenses, including taxes and interest, have been paid. If interest is ₹5,00,000/- and taxes are another ₹5,00,000/-, net profit is calculated by deducting both of these from operating profit. In the example of above Company, the answer is ₹20,00,000/- minus ₹10,00,000/-, which equals ₹10,00,000/-. Divide net profit by sales for the net profit margin, which is 10%.

Net Profit = Operating Profit – Taxes & Interest

Profit And Profitability In The Context Of Banking

- Like other businesses, banks profit by earning more money than what they pay in expenses. The major portion of a bank's profit comes from the interest that it earns on its assets mainly and fees it charges for its services. Its major expense is the interest paid on its liabilities.
- The major assets of a bank are its loans and advances to individuals, businesses, and other organizations and the securities that it holds, while its major liabilities are its deposits and the money that it borrows, either from its customers or other banks or by selling commercial paper in the money market.
- Banks increase profits by using leverage or gearing, which is the extent to which the banks fund its assets with borrowings rather than equity. Profits can be measured as a return on assets and as a return on equity. Because of leverage, banks earn a much larger return on equity than they do on assets.

Traditional Measures Of Profitability

- The traditional measures of the profitability of a business are primarily its **Return on Assets (ROA) and Return on Equity (ROE).** Assets are used by businesses to generate income. Loans and securities are bank's assets and are used to provide most of a bank's income.
- However, to make loans and to buy securities, a bank must have money, which comes primarily from the bank's owners in the form of bank capital, from depositors, and from money that it borrows from other banks or by selling debt securities — a bank buys assets primarily with funds obtained from its liabilities as can be seen from the following classic accounting equation:

Assets = Liabilities + Bank Capital (Owners' Equity)

Return on Asset (ROA)

Return on Asset is determined by the amount of income that it earns on its **Net Interest income and fees** on its services.

Net interest income depends partly on the Interest Rate Spread, which isthe Average Interest Rate earned on it assets minus the Average Interest Rate paid on its liabilities.

$$\text{Interest Rate Spread Or Interest Spread} = \text{Average Interest Rate Received on Assets} - \text{Average Interest Rate Paid on Liabilities}$$

$$\begin{aligned}\text{Net Interest Income} &= \text{Interest Received on Assets} - \text{Interest Paid on Liabilities} \\ &= \text{Interest Earned on Securities + Loans} - \text{Interest Paid on Deposits and Borrowings}\end{aligned}$$

Net Interest Margin shows how well the bank is earning income on its assets. High net interest income and margin indicates a well- managed bank and also indicates future profitability.

Net Interest Margin = Net Interest Income / Average Total Assets

Return on Asset for Banks:

$$ROA = \frac{\text{Fee Income} + \text{Net Interest Income} - \text{Operating Costs}}{\text{Average Total Assets}}$$

$$= \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Because income is calculated over a time period, but assets, as a balance sheet factor, are determined at a particular time, average assets are used:

$$\text{Average Total Assets} = \frac{\text{Total Assets at Start of the Fiscal Year} + \text{Total Assets at End of the Fiscal Year}}{2}$$

(Note: Herein we will refer to Average Total Assets as simply Bank Assets.)

Return On Equity (ROE) For Banks

The return on equity is what the bank's owners are primarily interested in because that is the return that they earn on their investment, and depends not only on the return of assets, but also on the total value of the assets that earn income. However, to purchase more assets, a bank needs to pay for it either with more liabilities or with bank capital. Therefore, if the owners want to earn a greater return, they would rather use liabilities rather than their own capital because this greatly increases their return.

When a bank increases its liabilities to pay for assets, it is using leverage, otherwise a bank's profit would be limited by the fees that it can charge and its interest rate spread. But the interest rate spread is limited by what a bank must pay on its liabilities and what it can charge on its assets. Since banks compete with each other for depositors and deposits compete with other investments, banks must pay competitive market rate to attract depositors. Likewise, banks can only charge so much for loans since there is competition from other banks and businesses can get loans by selling debt securities, either commercial paper or bonds, in the financial markets. Hence, interest rate spreads are not wide, so a bank can only earn more net interest income by increasing the number of loans that it makes compared with the amount of its bank capital, which it does by using **leverage:**

$$\text{Leverage Ratio} = \frac{\text{Bank Assets}}{\text{Bank Capital}}$$

Now the return for the owners is easy to calculate:

$$\begin{aligned} \text{ROE} &= \text{Return on Assets} \times \text{Leverage Ratio} \\ &= \frac{\text{Net Income}}{\text{Bank Assets}} \times \frac{\text{Bank Assets}}{\text{Bank Capital}} \\ &= \frac{\text{Net Income}}{\text{Bank Capital}} \end{aligned}$$

The leverage that banks use is similar to a business using debt to increase its earnings. After all, deposits are just money that the bank owes to its depositors. Hence, the leverage ratio is the same as the debt ratio used to determine the leverage of other business types. The return on equity can be increased by increasing leverage, but banks can only increase leverage by so much, because with increased leverage comes increased risk. For instance, let us consider the following hypothetical bank:

Bank Assets = ₹ 100

Bank Liabilities = ₹ 95

Bank Capital = ₹ 5

This is a leverage ratio of 20 to 1 (₹100/₹5). If the value of its assets drops just 5%, then the bank's capital will be wiped out. To protect the safety of the banking system, the regulator (i.e. RBI in India) restricts the amount of leverage that banks can have. In USA to protect the safety of the banking system, the Federal Reserve restricts the amount of leverage that banks that are depository institutions can use. Typically, the leverage ratio is about 10 to 12. In other words, a bank's assets may have at least 10 times the value of its capital, but not much more.

Branch Operating Efficiency

With the challenges banks are facing these days, it's becoming clear that banks must get the best "bang for the buck" from all resource expenditures. Continued inefficiency at a bank might be robbing important efforts of the resources banks need to be fully successful. But a focus on cutting costs alone is not a formula for long-term success. A balanced approach – one that enables a bank not only to improve operating efficiency but also to upgrade its capabilities to respond to market needs and prepare for the future – is imperative to the success of a bank's operations and profitability.

Why Efficiency matters for Bank Operations

- As with any business, banks must be vigilant about spending wisely. Today, however, the banking industry faces a new combination of circumstances that are giving special impetus to the need for efficiency. Changes in customer preferences and expectations, new competition, and new technologies are transforming the nature of banking.

- The business of banking is morphing toward a digital- and technology-based model while retaining important aspects of the traditional person-to-person business model. To remain competitive, banks need to invest in technology, marketing, automation, and self-service capabilities, and also must optimize their legacy investments in branches and traditional systems.

Setting operating targets for improvement

- Banks today are focusing how, and by how much, efficiency and costs can be improved. Every institution is unique, of course, so the size of the improvement opportunity will vary greatly from one bank to another and also from one branch to another. Industry experience suggests that a concentrated and carefully executed efficiency initiative should be able to achieve significant savings.
- The outcomes are not always realized through direct cost reductions. Ideally, improved efficiency means processes that are scalable and that support a faster pace of growth for the bank's revenue stream and asset base than for its overhead costs.

Strategies For Improving Efficiencies Of Banking Operations

- Business realignment
- Channel optimization
- Process costs
- Staff productivity
- Technology and automation
- Vendor Management
- Product Bundling and Relationship Pricing
- Cross-lob data sharing and building a 360-degree Customer View
- Sophisticated customer segmentation
- Real time cross –selling/up –selling
- Innovative Reward Design
- Automating Customer Care
- Digital Revolution
- Big Data
- Multi-Channel Seamless Experience
- Innovative Bank Branch Design
- Instilling a culture that values efficiency

Factors Affecting Profitability of Banks In India

The results indicate that profitability of banks in India is affected by both internal and external factors. Strength of equity capital, operational efficiency, ratio of banking sector deposits to the gross domestic product (GDP, cost of funds, non-performing assets(NPA) are few of the external factors which affect bank profitability whereas inflation, government policies, competition, etc. are few external factors affecting the profitability. Broadly the profitability of banks is affected by three major factors as follows:

- **Macro-economic factors**-The profitability of banks respond positively to GDP growth and negatively, to inflation growth rate. Inflation has a strong effect on profitability of banks and banks' profits are not significantly affected by the real GDP fluctuations. Low interest rates along with stiff competition among banks put pressure on interest margins of banks and hence negatively affect bank profitability.
- **Industry Specific Factors**-NPAs have the most adverse impact on the profitability of banks. They reduce the profitability due to increase in operating costs and decline in their interest margins.
- **Other Bank Specific Factors**-There exists a positive relationship between deposits and profitability as more deposits a bank collects, higher will be the availability of funds for generating loans and for other profitable uses such as investments. Non-interest income of the bank consisting of commission income, service charges, and fees, guarantee fees, net profit from sale of investment securities, and foreign exchange profit is another factor in determining the bank's profitability.

Steps To Improve Branch Profitability

- Focus on balancing profit, growth and risk
- Assess the strategic fit and unique role for each branch in the network
- Analyse the current customer base for each branch
- Identify your best new prospect (potential customers) opportunities
- Analyse the competition
- Set specific goals by branch for business and consumer markets
- Execute effective marketing campaigns to drive customer origination, retention and expansion
- Redefine the bank model of the future

Besides the strategic steps stated above, the branches should also ensure to focus on the following steps too to improve profitability.

- Relentless focus on NPA reduction
- More quality loans
- Focus on non-interest income
- Low cost deposit
- Holding Minimum Cash Balance
- Cost Management
- Good Customer Relationship
- Courteous behaviour by Branch Head

Essential Factors To Make Continuous Improvement In Profitability

- Locating areas in your business that could be improved or made more efficient, e.g. general business processes or administration

- Using key performance indicators (KPIs) to analyse your strengths and weaknesses, e.g. rising costs or falling sales
- Assessing your general business costs, e.g. overheads, how discounted deals with loyal customers affect your profits, how productive your staff are
- Reviewing your areas of business waste and reduce them, e.g. power supply costs
- Regularly reviewing the pricing of your products
- Testing the prices of any products you review before making the changes permanent
- Improving your profitability through your best customers - use up-selling, cross selling and diversifying techniques to improve your profit margins
- Identifying areas of expenditure and limit these by bargaining with your suppliers
- Long-term deals with suppliers to negotiate a better price on products
- Researching new opportunities in your business sector and identifying where you could expand the market
- Put monitoring systems and processes in place, e.g. benchmarking.

JAIIB RBWM Module B (Retail Products and Recovery)

Index

JAIIB RBWM Module B Unit 1: Customer Requirement

Customer Requirement

- Retail Product Overview
- Approval Process for Retail Loans
- Due Diligence (Verification of KYC with relevant documents, Pan Number, House visit etc etc..)

Quantum of loan

- Quantum of loan is either related to the product or to the income of the individual.
- The quantum is expressed as **12th times the monthly income** in the case of loans for **personal expenses.**
- **4 times the annual income** in the case of **vehicles,**
- **48 to 60 times the monthly income** for the purpose of **housing etc.**
- Margin may vary from **15% to 30% of the value of asset**, depending on the type **of loan/scheme.**

Payment Period

- The repayment period may vary from 3yrs to 30 yrs depending on the purpose.
- Loans for personal expense are to be repaid within 3 years.
- Auto loans are given for duration of 5 to 7 years;
- Housing loans for 5 to 30 years.

Customer Requirements

Let us first try to understand the customer segment first before discussing about their requirements. Broadly customers are segmented based on their income levels as their need pyramid will vary with the rise in their income levels. Banks develop and market their products based on this segmentation and target the relevant segment for maximum conversion of business. The basic segmentation of customers based on their income levels is presented below.

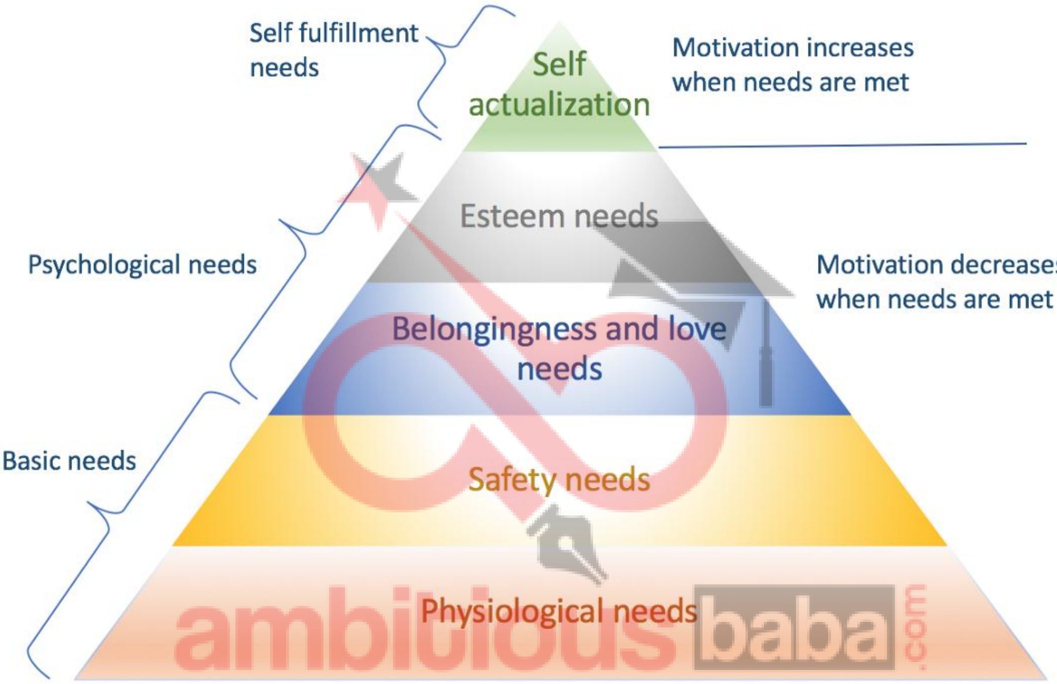
Income Levels (Rs.	*Lakhs)*	*Customer Segment*
2-10		Mass Market
10-50		Mass Affluent
50-400		Super Affluent
400-4,000		HN W
4000-120,000		Super HNW
Above 120,000		Ultra HNW

The fundamental assumptions about customers for building retail banking products and services are briefly explained as follows:

- Customers are different.
- Needs of the customers are different
- Each customer will have different sets of need for financial services.

- The need requirements of customers for financial services will be unique.
- Customers can be broadly grouped together based on their need pyramids.
- Customers can be grouped together based on their income, age, geography, profession, employment, vocation gender and family size.
- Product and services can be developed for a single or a combination of the above elements to satisfy most of the needs.
- Products and services can be structured on a niche basis within one or any of the above elements.

Moslow's Theory and Customer Requirements



Maslow has defined five needs of individuals in their various stages of life. The needs start from the basic requirements and move up the value chain during the life stage progression. Obviously, the need ladder will also move up with the change in the life stage of the customers. If banks structure products and services to match the different stages in the need spectrum, banks will achieve the twin objectives of

customer satisfaction and business conversion. Let us demonstrate the above concept with the following

illustration:

Need Level Matching Banking	Investment and Insurance Products
Physiological Needs	Core Savings Accounts Personal Accident Cover Housing Loans

Security/Safety Needs	Recurring, Fixed Deposit Products.
Life Insurance Products	Endowment Products with low premium, long tenor and high maturity amounts. Tax Planning Banking, Insurance and Mutual Fund Products
Social Needs	Consumer Loans Personal Loans Home Loans Car Loans Loans for Professional Development for Doctors, Engineers, Lawyers, Chartered Accountants, Management Consultants, Architects etc., Insurance Cover tagged to above loans. Retail Gold Coins. Health Policies for self and family. Investment Products like Mutual Fund Schemes. Systematic Investment Plans of Mutual Funds. Unit Linked Insurance Products.
Esteem Needs	Special Term Deposit Products. Term Insurance Products. Second Housing Loans/ Home Improvement/ Home Decor Loans.
Self Actualization Needs	Pensioners Loans Retirement Solutions in Banking & Pension Plans in Insurance Senior Citizens Term Deposit Products

Customer Requirements about Service Quality

Service quality is what customers expect from Banks and has different dimensions. Following are some of the requirement s/expectations form the customers about the service quality of banks.

(a)Tangibles: Appearance of physical facilities. equipment, personnel and communication materials

- Are bank's facilities attractive?
- Is my credit card statement easy to understand?

(b)Reliability: Ability to perform the promised service dependably and accurately.

- Where an Officer says that the amount will be sanctioned in 2 days, does he follow up and inform the status?
- Is my credit card statement accurate?

(c)Responsiveness: Willingness to help customers and provide prompt service.

- When there is a problem with the bank statement, does the bank resolve the bank quickly?
- Are the charges which are debited wrongly are recredited to my account properly,

(d)Assurance

- Competence - Possession of required skills and knowledge to perform services.
- Courtesy - Politeness, respect, consideration and friendliness of the contact personnel.
- Credibility - Trustworthiness about the service provider.
- Security - Freedom from risk and doubt.

(e)Empathy

- Access - Approachability and ease of contact.
- Communication - Keeping customers informed in a language that they understand.
- Understanding the customer - Making an effort to know customers and their needs.

Service Quality

Savings Bank

***The following dimensions revealed the service quality and delivery parameters for savings accounts*:**

- **Touch point Experience:** Overall Measures - At an overall level, the PSU bank is comparable to the PS banks average across touch points**.**
- **Branch-Layout and Cash transactions:** Performance across parameters above PS banks average.
- **Savings Account:** No serious concerns on savings account; Parameters at or above par vis-a-vis private banks.
- **Branch Non-Cash Transactions:** Scores on most parameters at par with PS Banks average.
- **Communication:** Communication channels available along with information How to customer meets average expectations.
- **Problem Incidence/Recurrence -** Very low problem incidence just like the industry.
- **Key Performance Indicator** - Savings Account Activation Time - Account activation within 3-day window similar to industry average.
- **Key Performance Indicator -** Welcome Kit Receipt Time - Close to 90% receive welcome kit within 14 days**.**
- **Customer Mindspace (Image Map) -** The PSU Bank differentiated on problem resolution & delivering on promise, amongst its customers.

Further Mreasures Needed to Enhance Service Quality

The study suggested further measures to improve the service quality to meet the customer expectations with regard to savings accounts.

- Need to improve transaction time at the branch.

- Branch offerings need to be relooked at, in terms of range of services offered, in light of people-related drivers being seen as driving overall customer satisfaction.
- Lack of adequate channels is felt by the customer, in addressing his needs. Need to relook at current channels and their ease of access/usage for the customer.

Home Loans

The PSU Bank came second in the rankings for service quality with regard to Home Loans. Important service parameters satisfied by the Bank are listed below :

- **T**he PSU Bank index is above the average for the Cluster it belongs to.
- **Drivers of Satisfaction (Identifying the most important touch points):** Product features and communication seen to be driving overall experience the most.
- **Overall Measures:** At an overall level, the Bank scored above PS banks average across touch points.
- Home loan parameters perform above PS banks average.
- Communication channels & communication received from the bank, all score above PS banks average.
- **Loan Disbursement Time:** Disbursement within the 14 day window for the bank far higher than Industry average**.**
- **Customer Mindspace (Image Map)** -The Bank differentiated on responsiveness and customer service, amongst its customers.

Measures Needed to Enhance Service Quality

The bank has scored across parameters at par or above PSU banks' average. But to enhance the service quality, bank has to take the following initiatives.

- Bank has to focus on strengthening performance across parameters
- Bank has to pay special attention to range of product features.
- Proactive customer communication needs to have a systemic approach.
- Customer-friendly modules on branch network, new products and services need to be developed.
- Score comparatively lower on handling special requests.
- Need to reorient employees, towards this key aspect of customer experience, through training and reviews around service time.

Customers' Requirement from Banks

Generally, customers require the following from their bank/s for maintaining their accounts/relationship.

- Right product mix to satisfy different customer segments.
- Right channel mix (both direct channels and e channels).
- Structured process time across products and adherence to the time prescriptions.
- Delivery of the promises with regard to products/services and channels.
- Satisfactory service experience from the delivery channels and the service personnel.

- Effective Communication about the different products and services.
- Transparent service charges.
- Good ambience.
- Effective and time bound greivance redressal mechanism.

JAIIB RBWM Unit 2: Product Development Process

Product Development Process

In retail banking, product is the starting point of the marketing process. Product is the fulcrum on which the entire retail banking revolves. Everything is centered on it. The add on and the other value propositions are tagged to the products to offer better value and acceptance to the product. The different definitions for product are discussed below:

Theodre Levitt observes that "Products are almost always combinations of the tangible and the intangible. To the potential buyer, a product is a complex cluster of value satisfactions... A customer attaches value to a product in proportion to its perceived ability to help solve his problems or meet his needs. All else is derivate".

A bank product can be defined as "Anything that has the capacity to provide the satisfaction, use and return desired by the customer".

Product Life Cycle

There are various stages in the life of the product. The product after development goes through different stages in its sales journey and in each stage, the impact on sales will be different.

- Introduction
- Growth
- Maturity
- Decline

Product Lines of a Banker

To be successful in retail banking, any Bank has to understand different segments and develop appropriate products to meet these segments. Though different products cater to different segments, there are certain products like core products which cater to all segments.

Products can be broadly classified into following:

- Deposit Products or Liability Products
- Asset Products or Retail Credit Products
- Other Products and Services.

Deposit Products or Liability Products

In the Deposit Product category, the products can be classified into

- Saving Deposit
- Current Deposit
- Term Deposit

Demand Deposit (CASA Deposit)

Current Accounts (CA)

Core Current Accounts

- Basic Current Account with Cheque Book

Augmented Current Accounts

- Basic Current Account with Cheque Book

+

- Value Additions like tagged insurance cover (life and non life)
- Other concessions like fi remittance etc.

Saving Accounts (SA)

- Basic Savings Account with Cheque Book, Debit Card
- Value Additions like tagged insurance cover (life and non life)
- Personal Accident Cover
- Sweep In/Sweep Out Facility
- Other concessions like free remittance etc., Saving Accounts (SA)

Term Deposit (Fixed Deposits)

Recurring Deposits

- Deposit can be built up on a monthly basis.
- Term Deposit Interest Rate tor the relevant period.
- Flexibility with respect of amount payable every month

Fixed Deposits

- Deposits offered lor a fixed period.
- Option to receive interest at maturity/monthly/quarterly/half yearly.
- Interest also reinvested ad payable on matumy along with principal

Combination Term Deposits

- Combination of Recurring Deposits and Fixed Deposits.
- Different combinations are structured.
- The first part will be in the form of RD and the second part will be on any one type of fixed deposit.

Basic Savings Bank Deposit Account (BSBDA)

The Basic Savings Bank Deposit (BSBD) Account has been designed as a savings account which will offer certain minimum facilities, free of charge, to the holders of such accounts.

Minimum Common Facilities

- The **'Basic Savings Bank Deposit Account'** should be considered a normal banking service available to all.
- This account shall not have the requirement of any minimum balance.
- The following basic minimum facilities will be offered in the BSBD Account, free of charge, without any requirement of minimum balance.

1. The deposit of cash at bank branch as well as ATMs/CDMs
2. Receipt/ credit of money through any electronic channel or by means of deposit /collection of cheques drawn by Central/State Government agencies and departments
3. No limit on number and value of deposits that can be made in a month
4. Minimum of four withdrawals in a month, including ATM withdrawals
5. ATM Card or ATM-cum-Debit Card

- No charge will be levied for non-operation/activation of in-operative 'Basic Savings Bank Deposit Account'.
- Banks are free to provide additional value-added services, including issue of cheque book, beyond the above minimum facilities, which may/may not be priced (in non-discriminatory manner) subject to disclosure. The availment of such additional services shall be at the option of the customers. However, while offering such additional services, banks shall not require the customer to maintain a minimum balance. Offering such additional services will not make it a non-BSBD Account, so long as the prescribed minimum services are provided free of charge.
- The BSBD Account shall be subject to RBI instructions on KYC/AML for opening of bank accounts.
- Holders of 'Basic Savings Bank Deposit Account' 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 'Basic Savings Bank Deposit Account'.
- The minimum free withdrawals available to the BSBD Account holders can be made at all ATMs (own-bank/other bank ATMs).

Small Account

In terms of **Rule 2 clause (fb)** of the Notification 'small account' means a savings account in a banking company where-

- The aggregate of all credits in a financial year does not exceed rupees one lakh;
- The aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
- The balance at any point of time does not exceed rupees fifty thousand .

Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

Know Your Customer Forms (KYC Forms)

KYC Forms, as said earlier, are required to be obtained from all the account holders while opening the account itself. It is obtained as an Annexure to the Account Opening Form. It throws light on the different dimensions of the customers and helps the banks to deal with them appropriately. ***The important details which are to be furnished in the KYC Form are discussed below:***

- Name and Address of the Customer and PAN/TIN Number
- Details of Spouse/Father and also Son(s)/Daughter(s)
- **Type of Account** - Savings/Current/Term Deposit/Loan (iv) Age - Age band - < 20, 21 -40,41 -60 and >60.
- **Occupation** - Details of Service, Profession, Others
- **Educational Qualifications** - Non Graduate, Graduate, Post Graduate, Others
- Nationality
- Accomodation - Own/Residential
- Conveyance - Two Wheeler/Car etc.,
- Telephone
- Credit Card - Details of Credit Cards held
- Details of Deposits/Loans held with other branches/banks
- Purpose of opening the account.
- Source of funds - Salary/Business etc.,
- Annual Income
- If in business, all business details
- Details of passport, if any.
- Details of foreign countries visited during the past three years.
- Any other relevant information.

Credit Products

Credit products offered by the bank, again, can be classified into **two broad categories, traditional credit schemes and market oriented new credit schemes.**

Traditional credit products are cash credit accounts for business people to fix credit limits and allow them to operate freely within the limits subject to certain stipulations. Overdraft scheme is to allow credit for a short period to be adjusted in a very short time.

Retail Credit Products

- Home Loans
- Auto Loans
- Personal Loans
- Credit Card Receivables
- Other Retail Loans

Other Services

In the other services category, all the services offered by the bank other than the Deposit schemes and Credit schemes can be grouped. Again it can be further classified into **Remittances and other Fee Based Services.**

- **In the remittances services,** issue of Drafts, Bank Orders/Bankers Cheques, National Electronic Funds Transfers (NEFT), Real Time Gross Settlements (RTGS) are the types of services offered to the customer. The cost of availing these services will depend on the quantum of transactions and the customer's business relationship with the bank.
- **In other fee based services**, Collection of Cheques, Safe Deposit Lockers, Standing Instructions for carrying out the instructions of the customer on a periodic basis.

'Other Services' is the non fund based business of the banks. In these types of services, the bank will be guaranteeing on behalf of the customer for whom they will be offering these products. Two examples of non fund based business for the banks are:

- Letter of Guarantee
- Letter of Credit
- Co-acceptance of bills

Stages In New Product Development

A new product development has to pass through several important stages as shown below:

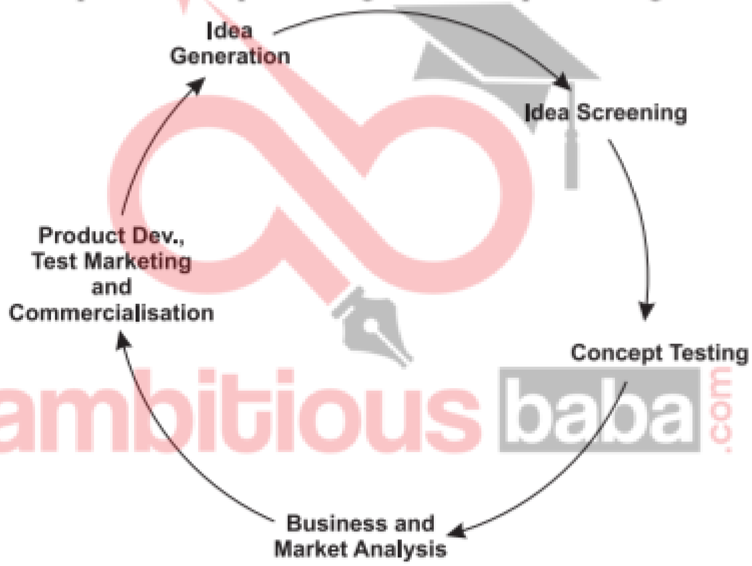


Fig. 6.6 New Product Development

- Generating new product ideas
- Idea screening
- Concept Testing
- Business analysis and Market analysis
- Actual product development, test marketing and commercialisation :

Product Management

According to Theodre Levitt, product, over a period, evolved on the following lines :

- The Generic Product
- The Expected Product

- The Augmented Product
- The Potential Product

Product Policy

Product policy is one of the main tasks in product management. The marketer should decide what exactly the products to be offered to different segments are. Again if the customer base is fairly very large, the product line should be based on the homogenous needs of the heterogeneous customer base and customer segments. Otherwise it will result in unwieldy product range. But of course the marketer has to consider designing product tailored to specific customer base if the segment is an important segment. For deciding that the marketer should develop a product policy which involves ***the following concepts:***

- Appraisal of the product line and individual products
- Decisions on product differentiation
- Product positioning
- Brand decisions
- Decisions on packaging
- New Product Development

JAIIB RBWM Module B Unit 3: Credit Scoring

Risk

The types of risks and the triggers for the risk are mentioned below:

- **Credit Risk** - Customer fails to pay
- **Business Risk** - Loosing money due to wrong strategy.
- **Market Risk** - Change in market prices.
- **Operations Risk** - Processing failures and frauds,

Credit Scoring -Concepts

Every borrower seeks the lowest interest rate, every lender the highest. The return a lender seeks factors in, apart from his profit, a premium for the risk he feels he bears of not being paid back. This risk perception is different for different borrowers and, ideally, should be determined from their credit history.

What is a Credit Score?

- **A credit score takes a 'snapshot' of a consumer's credit report and through advanced analytics turns the information into a 3-digit number** representing the amount of risk he brings to a particular transaction. For instance, the Cibil- TransUnion model gives scores ranging from **300 to 900**.
- The higher the score, the lesser is the risk of the **consumer going 91-plus days** overdue in the next year. While credit scores are new to India, the US has had them since 1989, when the FICO scores were launched. The lines of credit assessed to arrive at this score would mainly be retail products like home loans, auto loans, personal loans, credit cards and overdrafts.

What's a Good Credit Score?

- Whether a score is good or not will depend on the bank's internal policy, its customer profile and its risk appetite. **Some bank may perceive 700 as a good score and another may not. Thus, in India, different banks will rank different scores as good. Still, any score over 800 will be considered excellent across the board.**
- But credit score is only an indicative tool for managing risk and its effectiveness depends on the banks' internal control mechanism. An objective thing like the credit score will not only help the banks to reduce defaults but also make loan disbursing faster, improve operational efficiency and bring costs down.

Credit Scoring Model

CICs typically build scores using three historical data files:

- Defaults on previous credit transactions
- Payment behavior/ Payment history
- Previous searches/inquiries

Managing the Credit Score

We have studied about the two important determinants of the credit scoring by banks. But to effectively manage the credit score, the following points are very important.

- **Credit Utilization**: Effective credit utilisation is a very important step in individual's credit score. If your safe limit is Rs 10000 and you are using only Rs 5000, then you are a very safe customer. If your limit is Rs 10000 and you are not only fully using it, but also seeking further credit, you could be overleveraging yourself and your score could fall.
- **Payment Defaults:** How many past accounts are due, by how many days and by how much? The fewer, the better.

- **Trade Attributes:** How old are your lines of credit and what type are they? Do you have a good mix or is it, say, all credit cards? A history of consistent repayment of various types of credit will improve your score.

Positive Side of Credit Score

A good credit score will indicate the character of the borrower in his financial matters. The following are some of the indicators of good score.

- Evidence of financial discipline.
- If the borrower has defaulted once or twice due to reasons beyond their control, those would show up as clear aberrations in an overall consistent payment history.
- The longer the credit history, the better. The lender's assessment presumably improves as he gets bigger spans of repayment. One should be judicious about closing old accounts and opening new ones.

Warning Signs In Credit Score

The behavioroul pattern of the borrowers will impact the credit score of the borrowers. The following are some of the signals.

- Craving for credit.
- Frequent and unnecessary shopping for credit,
- Several new accounts or recent requests for loans can be taken as signs of an over- hungry borrower.
- The length of credit history is also important. Older accounts are generally better, so you should be judicious about closing old accounts and opening new ones.
- Trade attributes - does the customer use a good mix of credit?

Credit Information Companies in India

Presently, four CICs

- Credit Information Bureau (India) Limited
- Equifax Credit Information Services Private Limited
- Experian Credit Information Company of India Private Limited
- CRIF High Mark Credit Information Services Private Limited

have been granted Certificate of Registration by RBI. In terms **of Section 15 of the Credit Information Companies (Regulation) Act, 2005 (CICRA),** every Credit Institution shall become member of at least one CIC. Further, S**ection 17 of CICRA** stipulates that a CIC may seek and obtain credit information from its members (Credit Institution / CIC) only.

As a result, when a Specified User, as defined in **CICRA and Credit Information Companies Regulations, 2006, o**btains credit information on a particular borrower/client from a CIC, it gets only such information that has been provided to the CIC by its members.

Factors lending to favourable credit score

- On time loan EMI payments.
- Regular payment of credit card bills.
- Paying credit card bills in full rather than paying minimum due amount every time.
- Avoiding over-leveraging
- Maintaining strong financial records.
- Too Many forms of credit (such as unsecured person loans) among family members.
- Proper utilization of approved credit limit.

Factors leading to negative credit score

- Too many credit report enquiries by banks and other institutions.
- Cheque bounces/dishonours.
- Irregular loan repayment.
- Defaulting on credit card bills/making late payments or consistent part payements.
- Too much unsecured credit such as multiple personal loans.
- Multiple applications for unsecured loan getting rejected.
- Defaulting as a guarantor.
- High utilization of approved credit limit or overshooting the limit.
- Errors in record by banks and other finance institutions.

Issues in credit scoring

Three common credit problems are:

- Lack of enough credit history.
- Denied credit application.
- Fraud and identity theft.

Mistakes In Credit Scoring

- Confusion of Names
- Human Input Error
- Identity Theft

Troubleshooting Credit Score

We have to accept that there are chances of mistake in arriving of credit score or mistaken identities creating confusion in the scoring process. Errors and inaccuracies are possible with Credit Information Report. **The steps for seeking clarifications in your credit report are as follows:**

- Contact the bank that declined a credit card or loan application on the basis of your poor credit score. Ask them for a clarification on the poor credit score and request them to provide the control number for your credit report.
- The bank will provide you with the control number of the credit report and also share the information on the credit report that is responsible for your poor credit score.
- Provisions are available in the website of the CICs for resolving disputes.
- The control number is a nine-digit unique number that helps to track an individual's credit report from CIC's database. The control number is generated when banks pull out your credit report on a requirement basis. The control number is a unique number, which is generated every time any bank or credit institution pulls out a credit report on you.
- CIC requires this number because it enables them to view the exact details that the bank has seen when they drew a report on you. Hence, it is important for you to request the bank to provide you the control number.

JAIIB RMWM Module B Unit 4: Important Retail Liability Products

An Introduction to Retail Liability

Intermediation is the primary function of banks and mobilisation of deposit is the first step to intermediation. They accept deposit from public and lend it to the enterprise class engaged in productive activities. On loans and advances banks charge some additional interest rate. Banks don't have their own money and so they lend from the deposited money. Banks normally pay interest on the money deposited by public which lies with the banks. Therefore, the deposited money is the banks liability as interest is paid on that sum to the depositor. On the other hand, the money given out as loan becomes the asset for the bank and earns interest.

Main Retail Liability Products of Banks

As stated above, main Retail Liability Products of Banks constitute various types of DEPOSIT accounts.

Banks accept various types of deposits. These are,

- **Demand deposits**: Are payable on demand
- **Term deposits**: Are repayable on expiry of the period and also known as Time deposit/ Fixed deposit
- **Recurring Deposit:** Help people with regular income to save a fixed income every month and at the same time earn interest at the rate applicable to Fixed Deposit.

Current Deposit Account

Current Deposit account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. In current account, amount can be deposited and withdrawn at any time without giving any notice.

It is also suitable for making payments to creditors by using cheques and online banking. Cheques received from customers can be deposited in this account for collection.

Main Features Of Current Deposit Account

- Current deposit accounts are meant to run a business.
- It is a non-interest bearing bank account.
- It needs a higher minimum balance to be maintained as compared to the savings account.
- Penalty is charged if minimum balance is not maintained in the current account.
- It charges interest on the short-term funds/overdraft borrowed from the bank.
- It is of a continuing nature as there is no fixed period to hold a current account.
- It does not promote saving habits with its account holders.
- Banker requires KYC (Know your Customers) norms to be completed before opening a current account.
- The main objective of current bank account is to enable the businessmen to conduct their business transactions smoothly.
- There is no restriction on the number and amount of deposits.
- There is also no restriction on the number and amount of withdrawals made, as long as the current account holder has funds in his bank account.
- Generally, bank does not pay any interest on current account.

Advantage Of Current Deposit Account To Customer

- Since the purpose of the deposit is generally for 'Trading' and 'Business' it differs from the object of other deposit accounts which are meant to tap/mobilize the savings of the people.
- Current account is mainly opened by businessmen such as proprietors, partnership firms, public and private companies, trust, association of persons, etc. that has a large number of daily banking transactions, i.e. receipts and/or payments.
- It enables businessmen to carry out their business transactions properly and promptly.
- The businessmen can withdraw from their current accounts without any limit, subject to banking cash transaction tax, if any, as stipulated by the individual bank.
- Home branch is that location where one opens his bank account. Normally, there are no restrictions on deposits made in the current account opened in a home branch of a bank. However, the current account holder can deposit the cash to any other branch of a bank other than the home branch by paying a nominal charge as applicable/stipulated by the individual bank.

- It helps businessmen to make a direct payment to their creditors by issuing cheques, demand drafts or pay-orders, online fund transfers etc.
- It enables a bank to collect money on behalf of its customers and credits the same in their customers' current accounts.
- It enables the current account holder to obtain overdraft (short-term borrowing) facility subject to satisfactory conduct of the account.
- Third party cheques and cheques with endorsements may be deposited in the current account for collection and credit to the account, subject to certain conditions.
- The creditors of the account holder can get credit-worthiness information of the account holder through inter-bank connection.
- It facilitates the industrial progress of the country. Without its help, businessmen would face difficulties in running their businesses.
- It has the facilities of Internet-banking and mobile-banking to carry out important business transactions with ease and quickly.

It also provides various other advantages (benefits) such as:

- Deposit and withdrawal of money (cash) at any location
- Multi-location funds transfer
- Electronic funds transfer
- Periodical (monthly, quarterly or yearly) e-mail or download of bank statements in various formats like '.XLS', '.TXT', '.PDF', etc.
- Support from customer care executives

Documents Required for Opening Various Types Of Current Accounts

Individuals (singly/jointly): A certified copy of an OVD, as mentioned in the Master Directions on KYC, containing details of identity and address of the individual shall be obtained.

Sole proprietary firm: A certified copy of an OVD, as mentioned in the Master Directions on KYC, containing details of identity and address of the individual (proprietor) shall be obtained.

And Certified copy of any two the following:

- Registration certificate.
- Certificate/ licence issued by the municipal authorities under Shop and Establishment Act.
- Sales and income tax returns.
- CST/VAT certificate.
- Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities.

- Licence/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.
- 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.

Partnership firm: One certified copy of each of the following documents shall be obtained:

- Registration certificate
- Partnership deed
- Officially valid documents in respect of the person holding an attorney to transact on its behalf, PAN card of the entity
- OVD of all the partners as per master directions on KYC

Hindu Undivided Family (HUF) or Joint Hindu Family:

- Joint Hindu Family letter
- A certified copy of an OVD, as mentioned in the master directions on KYC, containing details of identity and address of the individual operating the account shall be obtained.
- PAN Card of the HUF

Limited Liability Partnership Firms:

- Certificate of Incorporation
- Copy of Resolution
- PAN Card of the LLP firm
- OVD of the designated partners as per master directions on KYC

Limited Companies: A certified copy of each of the following documents to be obtained:

- Certificate of incorporation and Certificate of Commencement of Business in the case of public limited companies
- Memorandum of Association
- Article of Association
- Are solution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf
- Officially valid documents in respect of managers, officers or employees holding an attorney to transact on its behalf
- PAN Card of the entity

Co-operative Societies:

- Certificate of registration associations, clubs, etc. of the society/association/club, if any
- Certified copy of the bye-laws of the society etc.

- Resolution of the managing committee, appointing the bank a sits bankers and stipulating the conditions for the conduct of the account
- List of members of the managing committee, with the copy of the resolution electing them to the committee

Charitable or Public Trust: A certified copy of each of the following documents to be obtained:

- Registration certificate
- Trust deed
- Officially valid documents in respect of the person holding a power of attorney to transact on its behalf

Transgender Persons:

- Banks have been advised by RBI to refer to the judgement dated April 15, 2014 of the Supreme Court in the case of National Legal Services Authority v. Union of India and others [AIR 2014 SC 1863: (2014) 5 SCC 438] on treating all transgender persons as 'third gender'.
- Banks should therefore, include 'third gender' in all forms/applications etc. prescribed by the Reserve Bank or the banks themselves, wherein any gender classification is envisaged.

Apart from above business entities, current accounts can also be opened for the followings subject to completion of the necessary/required formalities:

- All scheduled banks
- All apex cooperative banks
- All district cooperative banks
- All land mortgage banks
- All Regional Rural Banks sponsored by any bank
- All urban cooperative banks
- Government Departments/Bodies/Corporations/ Committees /Boards/Development Authorities/ Panchayat Bodies, etc.

Opening Of Current Account

The following points are to be kept in mind while opening Current accounts:

- Cheques may also be accepted along with the cash.
- When the party gives a cheque drawn on his own account with another bank, it may be accepted as an initial deposit.
- Abundant care should be exercised while opening an account with an initial deposit by means of a demand draft.
- Before opening a current account of a company or firm, banks should ensure that they do not enjoy any credit facilities with any other bank/branch. The purpose of this procedure is to discourage the likely misuse of such accounts to avoid the credit discipline.

- As per RBI notification no. RBI/2021-22/116DOR.CRE.REC.63/21.04.048/2021-22 dated October 29,2021 it has been clarified that banks may open current accounts for borrowers who have availed credit facilities in the form of cash credit (CC)/ overdraft (OD) from the banking system as per the provisions below:

(i) For borrowers, where the exposure of **the banking system is less than ₹5 Crore**, there is no restriction on opening of current accounts or on provision of CC/OD facility by banks, subject to obtaining an undertaking from such borrowers that they shall inform the bank(s), as and when the credit facilities availed by them from the **banking system reaches ₹5 crore or more.**

(ii) In respect of borrowers where exposure of the **banking system is ₹5 crore or more**, such borrower can maintain current accounts with any one of the banks with which it has CC/OD facility, provided that the bank has **at least 10 per cen**t of the exposure of the banking system to that borrower.

Operational Instructions In Current Account

- Accounts of Individuals
- Joint Accounts
- Sole proprietorship firm
- Partnership Firm
- Limited Company

Transfer Of Accounts

As per recommendations of Damodaran Committee on Customer Service, IBA has given direction for implementing the facility of account number portability, whereby customer is allowed to maintain the same a/c number in the bank even when he/she moves to another city or shifts his a/c to another branch in the same city.

Inoperative Accounts

In current accounts where there are no operations continuously for two years, should be treated as inoperative accounts. Banks recover incidental charges every half year to the debit of inoperative accounts and credit to P/L Incidental Charges. The account can be made operative after the bank is satisfied with the reasons for non-operation and fresh KYC documents are obtained and duly verified.

Closure Of Current Account

To close your bank account permanently, you have to visit the bank and enquire about the process of closing a bank account and then write a letter to the branch manager by providing the reasons for closing the account. Also, provide the required documents for proof and verification.

Saving Account

Individuals have requirements to make a variety of payments regularly, such as electricity bills, telephone bills, water bills, school fees etc. Therefore, they require an account that helps them to make regular payments without having cash to use. They also like to keep some amount in their savings account for meeting their near future expenditure and at the same time earn some interest. The SB Account has been designed to meet these needs of individuals. Individuals can open SB Account singly or Jointly.

Advantages And Importance Of Savings Bank Deposits To Customers

- Saving account encourages savings habit among salary earners and others who have fixed income.
- It enables the depositor to earn income by way of saving bank interest.
- Saving account helps the depositor to make payment by way of issuing cheques.
- It shows income of a salaried and other person earned during the year.
- Saving account passbook acts as an identity and residential proof of the account holder.
- It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.
- It helps to do online shopping via facility like internet banking.
- It aids to keep records of all online transactions carried on by the account holder.
- It provides immediate funds as and when required through ATM.
- Enables digital transaction 24*7*365 in 'AAA' mode of banking.

Advantages and Importance of Savings Bank Deposits to Bank

- Savings deposits are valuable component of CASA deposits for banks, these accounts provide the broad retail deposit base.
- It help banks to shore up their earnings through low cost deposits which can be profitably deployed into high yielding advances and thereby provide better interest spread and margin.
- Provides potential customer base for marketing of other product's.
- Relatively stable in nature.

Who Can Open a Savings Bank Account?

Person (s) who is/are legally capable of entering into a valid contract and make application to the bank in proper manner and accept the terms and conditions and are agreeable to follow/ accept the rules and regulations stipulated by the bank can open a Savings Bank Account either singly or jointly.

As the relationship between the bank and the depositor is essentially that of "**Debtor**" and "**Creditor**", the parties to the contract should be competent to enter into the contract. Documents Required for opening Savings Bank Account

- Proof of identity (OVD)
- Proof of address in case address is different than the identity proof or no address is mention in identity proof.

- Recent photograph
- PAN card or declaration in form 60 or 61 as per I.T. Act (vide section 39A) from the person opening the account.

Savings Bank Account of Minor:

Documents required to open a bank account for a minor:

- Proof of a minor's date of birth
- KYC documents of the parents/guardian.
- Aadhaar card of a minor.
- Specimen signature of a guardian. The minor's specimen signature if he/she is 10 years old or above.
- No overdraft should be granted in Savings Bank accounts of minors held either singly or jointly with
- A minor is any person below the age of 18 years.

Savings Bank Accounts of Illiterates

- No cheque book facility should be extended in account of an illiterate person.
- Joint account of an illiterate can be opened with a literate close relative i.e. father, son, husband, wife, mother and daughter but not two cousins.

Savings Bank Account of Blind Persons

- Like other persons, the blind persons are fully competent to enter into a valid contract. Accordingly, there is no any legal bar in opening savings bank accounts of blind persons by the banks as usual.
- However, due care should be taken while opening of such accounts because blind persons can later on argue that the terms and conditions were not properly told to them.
- They may also dispute their signatures due to which banks are required to take extra care while opening and allowing operations in the accounts of blind persons.

Savings Bank Accounts of Incapacitated (Handicapped/ Old/ Sick) Persons

- As an alternative, the person may be requested to give a suitable power of attorney to a person of his/her confidence.
- It would also be in order to open a joint account with his/ her near relative.
- Where a person is incapacitated due to illness or other reasons to sign a cheque/withdrawal or is unable to come in person to bank to withdraw money, he can put his thumb impression which is to be witnessed by two independent witnesses known to the bank out of which one of them should be competent bank officials.

Accounts of Pardanashin Women

Joint account of two or more illiterates can be opened on following terms and conditions:

- All the joint account holders should be close relatives, i.e. spouse, children, parents, brothers and unmarried sisters – not cousins.
- The operations in the account should be allowed jointly by all account holders, survivors or survivor.
- No cheque book facility should be provided and all the account holders should come personally to the branch for withdrawals.
- The implications of opening the joint account and the mode of operation, withdrawal, payment etc. should be explained to the party in his/her vernacular language.
- A note to this effect should be made in the relative account opening form, signed by a known person, besides an officer of the branch. (f) Photograph of all the joint account holders is to be obtained.
- Where the joint account holders, as above, are not related to each other, a reference should be made to Regional Authorities giving all relevant particulars and the need for opening such accounts.

Savings Account for Non-Individual Entities

As per RBI guidelines, the following categories of non-individual entities are allowed to open savings account:

- Primary Co-operative Credit Society which is being financed by the bank.
- Khadi and Village Industries Boards.
- Agriculture Produce Market Committees.
- Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in a State or a Union Territory except societies registered under the State Cooperative Societies Acts and specific state enactment creating Land Mortgage Banks.
- 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'.
- Government departments/ bodies/ agencies in respect of grants/ subsidies released for implementation of various programmes/ Schemes sponsored by Central Government/ State Governments subject to production of an authorisation from the respective Central/ State Government departments to open savings Bank Account.
- Development of Women and Children in Rural Areas (DWCRA).
- Self-help Groups(SHGs), registered or unregistered, which are engaged in promoting savings habits among their members.
- Farmers' Clubs – Vikas Volunteer Vahini – VVV.

Services Offered In Savings Bank Accounts

Amongst various services being offered by banks, a few of the services are mentioned below:

- Cash transactions – Deposit and withdrawal of cash
- Clearing of cheques
- Debit cards/ ATM Cards
- Access to ATMs
- Access to Internet Banking
- Access to Phone Banking Services
- Access to Mobile Banking Services
- Standing instructions
- Tax payments
- Electronic Fund Transfer
- Auto Sweep (Automatic creation of FDs beyond a specified minimum balance in SB account

Time Deposit – An Introduction

- **A time deposit is a contract entered into by the Bank with the depositor, to pay on a fixed or determinable future date**, the amount of money deposited plus interest accrued thereon.
- Each time deposit is a separate contract and various deposits in the name of the same depositor or in the names of members of the same family, should not be treated as one deposit.
- A time deposit receipt is not a negotiable instrument and, therefore, cannot be transferred by endorsement by a depositor in favour of another.

Periodicity Of Time Deposit

Minimum period:

- At present, the minimum period for a term deposit for banks is 7 days for deposit amount of ₹15/- lacs and above & minimum 15 days for amounts less than ₹15/- lacs. The amounts may vary in different banks.

Maximum period:

- Banks accept fixed deposits for a period ***not exceeding 120 months.*** Where a deposit is offered for a period over twelve months, efforts should be made to accept deposits for periods in multiples of 3 months e.g., 15 months, 18 months, 21 months and so on.
- But at the specific request of the customer, branches may accept deposits for any periods in multiples of complete months or even for a period where the terminal month is incomplete i.e. 13 months, 37 months, 41 months, 38 months and 12 days.

Operational Instructions

- Term deposit accounts can be opened with instructions as '**Singly'** or payable to **'Either or Survivor'**, payable jointly, payable to any one of the depositors etc.
- It can also be opened with instructions payable to "**Former or Survivor**" or **"Former, Survivors Jointly or Last Survivor**" or **"Latter or Survivor**" in which case operational/ payment instructions at the time of opening the account or subsequent variations, if any, in these instructions, should be signed by all the joint depositors.

Interest On Fixed Deposit

- Interest on FDs is paid at quarterly intervals. The customer can choose to have the interest reinvested in the FD account. In this case, the deposit is called the Cumulative FD or compound interest deposit.
- For such deposits, the interest is paid with the invested amount on maturity of the deposit at the end of the term. If the customer instructs that the interest to be paid every quarter/month, it is credited to their Savings Account or sent to them by cheque. **This is called Simple FD.**

Form 15G, Form 15H to Save TDS on Interest Income

Forms 15G & 15H: What can you do to make sure the bank does not deduct TDS on interest if your total income is not taxable?

Banks have to deduct TDS when your interest income is more than Rs.40,000 in a year for individuals other than senior citizens (for senior citizens, the limit is Rs.50,000) under section 194A of the Income Tax Act. The bank aggregates the interest on deposits held in all its branches to calculate this limit.

However, if your total income is below the taxable limit, you can submit Form 15G and 15H to the bank and request them not to deduct any TDS.

What is Form 15G and Form 15H?

Form 15G and Form 15H are self declaration forms that an individual submits to the bank requesting not to deduct TDS on interest income as their income is below the basic exemption limit.

For this, providing PAN is compulsory. Some banks allow you to submit these forms online through the bank's website.

FORM 15G	FORM 15H
Resident Individual or HUF or trust or any other assessee but not a company or a firm with age less than 60 years	**Resident Individual with an age 60 years or more i.e Senior citizen.**

Tax calculated on your total income is Nil	Tax calculated on your Total Income is Nil
The total interest income subject for the year is less than the basic exemption limit of that year, which is Rs.2.5 lakh for financial year 2020-21 (AY 2021-22)	
Please note that benefits of Form 15G and 15H cannot be claimed by Non residents.	

Important points

- Form 15G and 15H are applicable only for 'residents', hence a non-resident cannot take the benefit of these forms.
- Deepak cannot submit Form 15G even though tax on total income is Nil, because his interest income is more than the basic exemption limit.
- A senior citizen of age 68 years in above example can submit form 15H as his tax liability is Nil.
- Condition of interest income being more than the basic exemption limit is applicable for form 15G only and not for form 15H. Form 15H can be submitted by senior citizens even if the interest income is more than basic tax exemption limit ,provided that the taxable income (after deductions) is below the exemption limit.

Mode of Working of 2 in 1 Account

The mode of working in such accounts is that money in Savings or Current account in excess of the stipulated amount is swept into an FD for a particular period, which carries interest rate higher than Savings/ Current accounts. Such a sweep is called "Auto Sweep". Further, if Savings/ current account has insufficient fund to meet any debit transaction, the FD, up to the short fall amount is withdrawn and transferred to SB/ CA Account for honouring the debit transaction. Such a sweep is called Reverse Sweep. The following are the features of the 2 in 1 account:

Auto Sweep Facility: It offers maximum returns. The features of this facility are:

- Balance in excess of the stipulated amount is automatically transferred to an FD for a particular period. Amount in multiple of ₹1,000/- or any other amount as stipulated by the respective bank is transferred to FD.

- FD formed through Auto sweep facility carry the rate of interest as applicable to FD and other relevant terms applicable on the day of Auto Sweep.

Reverse Sweep Facility: It offers liquidity. The features of this facility are:

- This facility gives access to funds swept in FDs created by Auto sweep.
- In case of shortfall in the SB account to honour any debit transaction or any other transaction FDs are automatically broken to the extent needed for meeting the shortfall. The remaining balance in FDs continue to earn higher interest at the original rate applicable to FD.
- FDs are broken in multiple of ₹1,000/- or any other amount as stipulated by the respective bank. For maximum benefit of interest to the customers, FDs are broken on Last in First Out (LIFO) basis. These calculations are all system driven and no manual intervention is required.

Recurring Deposit (RD)

Recurring deposit (RD) accounts help customers with regular income to save a fixed amount every month and at the same time earn interest at the rate applicable to FDs. The contract between the customer and the banker is similar to the contract related to FD. It is also for a fixed period. It is similar to making FD of a certain amount every month. Banks allow premature payment of RD on the same terms and conditions as that of FD.

Banks also provide loan against RD on the same terms and conditions as applicable to FD. Any person duly introduced to the Bank and fulfilling KYC norms may open a recurring deposit account.

A recurring deposit account may be opened by the following:

- By a person in his own name.
- By more than one person, in their joint names, the amount being payable to all of them jointly or to any one or more of them or any one or more of the survivors amongst them – specific instructions in this regard being required to be given in writing, at the time of opening the account.
- By a minor of age 10 years and above on terms laid down by the bank. Accounts can also be opened in the name of minor with their father/mother, as guardian.

Nomination Facility

Nomination facility is made available to all types of deposit holders, irrespective of the nomenclature used by the banks.

The Central Government has framed in consultation with the Reserve Bank of India- the Banking Companies (Nomination) Rules, 1985 which together with the provision of new **Sections 45ZA to 45ZF** of the **Banking Regulation Act, 1949** regarding nomination facilities were brought into force with effect from 1985.

The Banking Companies (Nomination) Rules, 1985 which are self-explanatory, provide for:

- Nomination Forms for deposit accounts, articles kept in safe custody and contents of safety lockers.
- Forms for cancellation and variation of the nominations.
- Registration of Nominations and cancellation and variation of nominations, and matters related to the above.

Settlement Of Claims In Respect Of Deceased Depositors

Banks adhere to the provisions of Sections 45 ZA to 45 ZF of the **Banking Regulation Act, 1949** and the Banking Companies (Nomination) Rules, 1985 and facilitate the settlement of claims in respect of the deceased depositors as per the laid down guidelines.

Accounts with survivor/nominee clause

In the case of deposit accounts where the depositor had utilized the nomination facility and made a valid nomination or where the account was opened with the survivorship clause **("either or survivor", or "anyone or survivor", or "former or survivor" or "latter or survivor**"), the payment of the balance in the deposit account to the survivor(s)/nominee of a deceased deposit account holder represents a valid discharge of the bank's liability provided:

- the bank has exercised due care and caution in establishing the identity of the survivor(s) / nominee and the fact of death of the account holder, through appropriate documentary evidence;
- there is no order from the competent court restraining the bank from making the payment from the account of the deceased; and
- it has been made clear to the survivor(s)/ nominee that he would be receiving the payment from the bank as a trustee of the legal heirs of the deceased depositor, i.e., such payment to him shall not affect the right or claim which any person may have against the survivor(s)/ nominee to whom the payment is made.

Time limit for settlement of claims

As per RBI guidelines, Banks should settle the claims in respect of deceased depositors and release payments to survivor(s)/ nominee(s) within a period **not exceeding 15 days** from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s), to the bank's satisfaction.

JAIIB RBWM Module B Unit 5: Important Retail Asset products

Types of Loans

- Home loan
- Vehicles loan
- Personal loan
- Education loan
- Mortgages Loans, etc.

Home Loan

Home Loans Scheme

Eligibility	Salaried employees, Professionals, Self-employed persons. Requests are also considered from NRIs, PIOs, HUF, Proprietorship Firms, Partnership firms, and corporate for their employees/quarters.
Purpose	To purchase/construct house/flat. To renovate/extend/repair existing house/flat. To purchase a plot of land for construction of house. To acquire household articles along with the house/flat - for furnishing the house/flat.
Quantum of Loan	For construction/purchase of a house/flat - No upper ceiling in many banks Repairs/renovation/extension to house/flat - amount varies from bank to bank Purchase of a plot - amount varies from bank to bank Purchase/acquire household articles for furnishing the house/flat - amount varies from bank to bank
Eligible Quantum of Loan/EMI	Calculation of quantum of loan is related to Income/repayment The method of reckoning eligible finance varies

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<tr><td>capacity of proponent/borrower.
Salaried Employees:</td><td>from bank to bank. However, repayment capacity needs to be ensured from the existing source of income</td></tr>
<tr><td>Self-employed/Professionals etc.:</td><td>Eligible finance is calculated by banks based on I-T Returns</td></tr>
<tr><td>HUF/Proprietorship/Partnership Firm/Company:</td><td>Eligible finance is calculated by banks based on cash accruals</td></tr>
<tr><td colspan="2">In case of Individuals:
Net take home pay/income (net of all deductions including EMI of Proposed loan) should not be generally less than 40% of the gross monthly salary/income of applicant(s). But for high income applicants, lesser take home pay even up to 15% of gross income is being considered by some banks.</td></tr>
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<td>Margin (For 1st House)</td>
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<tr><td>Amount</td><td>Margin (%)</td></tr>
<tr><td>Upto 30 Lakh</td><td>10</td></tr>
<tr><td>> Rs. 30 Lakh and upto Rs. 75 Lakh</td><td>20</td></tr>
<tr><td>> Rs. 75 Lakh</td><td>25</td></tr>
</table>
Margin is subject to RBI stipulated LTV (Loan to Value) of Max. 90% for loans upto Rs. 30.00 Lakh, Max. 80% for loans above Rs. 30.00 Lakh & upto Rs. 75 Lakh, and Max. 75% for loans above Rs. 75 Lakh. Banks should not include stamp duty, registration and other documentation charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted. However, in cases where the cost of the house/dwelling units does not exceed Rs. 10 lakh, bank
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	may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating LTV ratio.
Interest (Floating ROI – linked bank's base rate p.a. at monthly rests)	ROI varies from bank to bank. RBI has left ROI to the discretion of individual banks
Processing charges/other expenses	Processing charges vary from bank to bank. Some banks do not levy any processing charges and some do. The schedule is left at the discretion of individual banks.
Security	Mortgage/Equitable Mortgage on land/flat/house. (if mortgage could not be created at the time of disbursement, banks may get the loan secured by creating charge on alternative assets/obtaining third party guarantee).
Disbursement	Upfront disbursement in case of ready flat/house Closely linked to the stages of construction of the housing project/houses; and Upfront disbursal should not be made in cases of incomplete/under construction/green field housing projects.
Repayment (can be customized)	Highly flexible - maximum 30 years including moratorium period is considered by banks. Maximum moratorium period of 18 months in case of construction and 3 months in case of purchase is allowed generally by banks. Loan to be normally repaid before date of retirement in case of salaried persons and before attaining 65 years of age in case of others.
Special features	Some banks stipulate health/life insurance of the borrowers as additional terms and conditions.
Other features	• Interest on Daily Reducing Balance Basis • No Pre-Payment Charges on Floating Rate Loan

	• Repayment allowed up to age of 70 years in select cases • Facility for step up/step down EMIs available • Inclusion of Income of Close relatives for enhanced loan • Tax Benefit on Interest and Instalments repaid in Home Loans • To have differentiation in housing loan products, many banks add some features the generic products. For example, the provisional sanction of Home Loan limits to the customers before finalization of the property which enables them to negotiate with the Builder/Seller confidently. Cash credit facilities are also provided by some banks to make the product more attractive.

Housing Loan Under Pradhan Mantri Awas Yojana (PMAY)

What is PMAY?

- **The Pradhan Mantri Awas Yojana (PMAY**) is an initiative of the Government of India which aims at providing affordable housing to the **urban poor by the year 2022.** The scheme was first **launched on 1 June 2015**. The interest rate for the PMAY **scheme starts at 6.50% p.**a. and can be availed for a **tenure of up to 20 years.** The deadline for availing the PMAY CLSS scheme for the MIG-I and MIG-II categories has been extended to 31 March 2021. The same has been extended to 31 March 2022 for the LIG and EWS categories.

Features and Benefits of PMAY Scheme

- Under PMAY Scheme, subsidy interest rate is provided at 6.50% p.a. on housing loan for the term of 20 years to all the beneficiaries.
- Differently abled and senior citizens will be given preference in allocation of ground floors.
- Sustainable and eco-friendly technologies would be used for construction.
- The scheme covers entire urban areas in the country which includes 4041 statutory towns with the first priority given to 500 Class I cities. **This will be done in 3 phases**.
- The credit linked subsidy aspect of the PM Awas Yojana gets implemented in

India in all statutory towns from the initial stages itself.

Pradhan Mantri Awas Yojana Beneficiaries

The beneficiaries under the PMAY scheme can be listed as follows:

Beneficiary	Annual Income
Middle Income Group I (MIG I)	Rs.6 lakh to Rs.12 lakh
Middle Income Group I (MIG II)	Rs.12 lakh to Rs.18 lakh
Lower Income Group (LIG)	Rs.3 lakh to Rs.6 lakh
Economically Weaker Section (EWS)	Up to Rs.3 lakh

Identification and Selection of Beneficiaries under PMAY

- **The Pradhan Mantri Awas Yojana** - Urban scheme caters mainly to the housing requirements of the urban poor. The scheme also caters to the housing requirement of slum dwellers residing in confined areas of slums with inadequate infrastructure, poor sanitation and drinking facilities.
- Beneficiaries of PMAY-U mainly include **Middle Income Groups (MIGs), Low-income Groups (LIGs) and Economically Weaker Section (EWS).**
- While the beneficiaries from the EWS category is eligible for complete assistance under the scheme, beneficiaries from LIG and LIG categories are only eligible for the Credit Linked Subsidy Scheme (CLSS) under PMAY.
- In order to be recognised as a LIG or EWS beneficiary under the Scheme, the applicant is required to submit an affidavit as income proof to the authority.

PMAY Interest Subsidy

Particulars	Interest Subsidy	Maximum Loan for Subsidy
EWS	6.50% p.a.	Rs.6 lakh
LIG	6.50% p.a.	Rs.6 lakh
MIG -1	4.00% p.a.	Rs.9 lakh
MIG-2	3.00% p.a.	Rs.12 lakh

Home Improvement Loans

No.	Particulars	Features
1.	**Eligibility and Other Conditions**	• Individuals/Group ot Individuals/Members of Cooperative Society who owns a house/flat. • Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of employment. • In case of employed persons, minimum three years of confirmed service is necessary. • In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary.
2.	**Purpose**	• For repair, renovation, upgradation, painting, and other repairs.
3.	**Amount**	• Maximum of Rs. 5 lacs but some banks give higher amounts upto Rs.10 lacs also.
4.	**Margin**	• 20% to 50%
5.	**Security**	• Equitable mortgage of property under repair/ renovation or any other unencumbered immovable property also accepted by banks.
6.	**Disbursement**	• Depending on the nature of repair/renovation.
7.	**Moratorium**	• 3 months.
8.	**Repayments/Collection**	• As allowed by banks

Home Decor Loans

No.	Particulars	Features
1.	**Eligibility and Other Conditions**	• Individuals/Group of Individuals/Members of Cooperative Society who owns a house/flat. • Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of employment.
		• In case of employed persons, minimum three years of confirmed service is necessary. • In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary.
2.	**Purpose**	• For furnishing the house/flat, interior decoration/air conditioners, etc.
3.	**Amount**	• Maximum of Rs. 5 lacs but some banks give higher amounts upto Rs.10 lacs also.

4.	**Margin**	• 20% to 50%
5.	**Security**	• Equitable mortgage of property under repair/ renovation or any other unencumbered immovable property also accepted by banks.
6.	**Disbursement**	• Depending on the nature of repair/renovation.
7.	**Moratorium**	• 3 months.
8.	**Repayments/Collection**	As allowed by banks

Note: Different banks offer different variations of the above loans. But the fundamental approaches of the banks will be to address the entire needs of the customers regarding housing loans.

Auto/Vehicle Loans

No.	*Particulars*	*Features*
1.	**Eligibility**	• Individuals in confirmed service in Government, Public Sector Undertakings, reputed private organisations and institutions.
		• Professional & Self Employed persons ,Business people • In case of employed people, take home pay not less than 50% of gross salary.
2	**Purpose**	• To buy new or used car. • In cased of used car, the age of the car should not be more than 5 years.
3	**Margin**	• 10% for new cars. • 25/30% for used cars • 10% for two wheelers. • Margins also may vary with the banks.

4	**Security**	• Hypothecation of the vehicle to be purchased out of the loan.
5	**Disbursement**	• Directly to the Dealer/ Suppliers and invoice/receipts to be obtained for record.
6	**Moratorium**	• Normally no moratorium. • Repayment of the loan commences from the immediate following month.
7.	**Prepayment issues**	• Public sector banks normally do not charge any pre payment penalty. • Some Private Sector banks collect pre payment while some don't.
8.	**Repayments/Collection**	• For Individuals- for new vehicles • 4 Wheelers- Max. 7 years, generally • 2 Wheelers- Max. 5 to 6 years, generally • For Corporate/ Firms, etc- Max. 5 years, generally • For Second Hand vehicles- Max. 3 years, generally or a period depend on the age of the vehicle.

Personal Loans

Personal Loans are basically unsecured in nature and are backed by personal guarantees only. As credit risk and delinquency rates are more in this segment, public sector banks tread cautiously in this segment and private banks do it aggressively.

Eligibility	Salaried employees, Professionals and individuals with High net worth, Regular pensioners or family pensioners drawing regular monthly pension through Bank.
Purpose	Marriage expense of self, children or a dependent. Medical expense For education of self/ children For Repairs, renovation, extension Any other personal expense
Amount	**Clean/ Unsecured loans**- Amount varies from bank to bank and depend on the schemes developed by each bank and the target group. **Secured Loans**- Amount varies from bank to bank and depend on the schemes developed by each bank and the target group.
Security	Equitable/legal Mortgage of commercial or residential properties. Hypothecation charge on assets acquired.
Disbursement	Directly to suppliers/ dealers wherever feasible. Credit to account of borrower in respect of clean loan

Rate of interest	As applicable (vary from bank to bank)
Moratorium	No moratorium normally
Repayments	**Clean/Unsecured loans**- 36 to 60 EMIs generally **Secured loans**- 60 EMIs

Educational Loans

No.	*Particulars*	*Features*
1.	**Eligibility**	• Students studying Professional/Other Colleges • Indian Banks' Association has brought out a Model Educational Loan Scheme prescribing the modalities to be followed by banks regarding disbursement of educational loans. The objective of IBA is to make the banks to adopt a uniform approach as per the prescribed guidelines. • Amount of loan, purposes, approval requirements of colleges, security prescriptions. • Loan to be given jointly to the student and their parent.
2.	**Purpose**	• To pursue professional degree/diploma and other course as prescribed in the IBA guidelines. • For studies in India and abroad.
3.	**Amounts**	• Inland Studies - Upto Rs.10 Lacs. • Foreign Studies - Upto Rs.20 Lacs • In case the amount required is more, the same can be considered by banks on a case to case basis.
4.	**Security**	• Upto Rs.4 Lacs - No security. Above Rs.4 Lacs and upto Rs.7.50 Lacs - Additional Personal Guarantee worth the amount. Above Rs.7.50 Lacs - To be secured by tangible asset to cover the loan in the form of property, Govt. Securities like NSC.KVP etc.,
5.	**Disbursement**	• To be disbursed in stages - semester wise or annual payments as per the requirements of the institutions • Payment to be made direct to the institution.
6.	**Moratorium**	• One year after completion of the studies or employment which ever is earlier.

7.	**Prepayment issues**	• No prepayment charges. • But generally pre payment will not happen in Educational Loans as the repayment is fixed only after completion of the studies and revenue streams for pre payment will be very rare. • But parents have the option to service the interest whenever due and if interest is serviced, Tax Exemption for interest serviced is available. • Some banks offer Interest Rebate of 1% for prompt repayment of the loan.
8.	**Repayments**	• Repayable in 60 monthly instalments (EMIs) after the moratorium period as prescribed above.

Processing Of Retail Loans

The success of retail asset expansion by banks depends on the processing speed of retail loans and making the procedures hassle free for the customers. Banks adopt different models for processing of retail loans. The important models of retail loans processing are explained below:

- Stand Alone Model and
- Centralised Model

- **Stand alone Model for Retail Loan Processing**: Stand alone model for retail loan processing refers to processing of retail loans independently at the branch level. Based on the discretionary powers given the Branch Head, Branch will market the retail loans and process and sanction the loans based on the eligibility of the applicants. Obtention of the necessary documents, appraisal of the proposal and sanction of the loans will be done independently at the branch level. The valuation, legal opinion etc, are obtained at the branch level through the approved panel valuers/lawyers.

- **Centralised Model for Retail Loans Processing:** Centralised Model for retail loans processing refers to processing of loans at a centralised place depending upon the geography of branches. Banks adopt differen centralised models for processing of retail loans. Some of the names. Banks give to these retail loans processing centres are

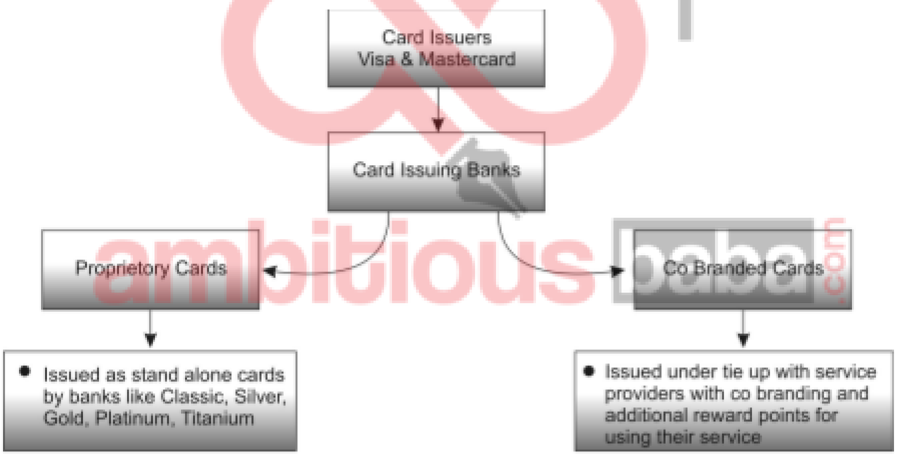
i)Retail Loan Factory
ii)Retail Loan Hub
iii)Retail Loan Processing Centres
iv)Retail Asset Processing Centres
v)Retail Loan Branches

Standalone Model Vs Centralized Model

	Standalone Model (Brand Level Processing)	Centralized Model (Retail Loan Processing Hubs/Centres)
1.	Better Understanding of the customer requirements.	• Based on documents only.
2.	No standardised approach	• Standardised approach.
3.	Retail Loans are only one part of the multiple activities.	• Exclusive activity and hence will be more faster and professional in approach.
4.	Difference in quality of appraisal based on the branch and its personnel.	• Quality will be uniform as the activity is exclusive.
5.	Processing time may differ based on the priorities of the branches and importance of the customers/proposals.	• Processing time will be uniform and based on fixed Turn Around Time (TAT) for different retail loans
6.	Compliance of appraisal norms may be biased based on the customer profile.	• Uniform and impersonal appraisal standards.
7.	Documentation standards may not be uniform.	• Professional documentation standards.

Unit 6: Credit & Debit Cards

Credit Card



Global Scenario

- **A credit card is a thin plastic card, usually 3-1/8 inches by 2-1/8 inches** in size that contains identification information such as a signature or picture, and authorizes the person named on it to charge purchases or services to his account — charges for which he will be billed periodically.
- The concept behind Credit Card **is "Buy Now, Pay Later".**
- Credit Cards had their origin **right from 1800s**.
- The first universal credit card that could be used at a variety of stores and businesses — was **introduced by Diner's Club Inc., in 1950.**
- Another major universal card — **"Don't leave home without it**!" — was established in **1958 by the American Express Company.**

- The first national bank plan was Bank Americard, which was started on a statewide basis in 1959 by the Bank of America in California. This system was licensed in other states starting in 1966, and was renamed Visa in 1976.
- Other major bank cards followed, including MasterCard formerly Master Charge.

Indian Scenario

- **Citibank and HSBC** were the pioneers in the **Indian credit card market in the 1980s.**
- Among the public sector banks, Andhra Bank, Bank of Baroda were the early starters followed by Bank of India.
- Citibank, Standard Chartered Bank, State Bank of India, ICICI Bank and HDFC Bank dominate the credit card market with **more than 90% market share**.
- Mainly credit cards are issued by banks in two formats viz.,
- The proprietary format - banks issue the card in different brand names like **Classic, Silver, Gold, Platinum, Titanium** etc. Credit limits, cash withdrawal limits and other facilities will depend on the type of card.
- The Cobranded format - banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc. and offer the cards as a co branded product with the brand name of the tied up company also embossed in the card.

National Payments Corporation of India (NPCI)

National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of **the Payment and Settlement Systems Act, 2007**, for creating a robust Payment & Settlement Infrastructure in India. RuPay, a new card payment scheme launched by the National Payments Corporation of India (NPCI), has been conceived to fulfill RBI's vision to offer a domestic, open-loop, multilateral system which will allow all Indian banks and financial institutions in India to participate in electronic payments.

NPCI offers 'RuPay Credit card', 'RuPay Debit card', 'RuPay Prepaid card'& ''RuPay Global card'

The variants of RuPay Credit card are:

- RuPay Select'
- 'RuPay Platinum'
- 'RuPay Classic'

Variant/Parameters	SELECT (Super Premium)	PLATINUM (Premium)
Personalized	YES	YES
Insurance Amount	₹10 Lakh for loss of life or permanent disability	₹2 Lakh for loss of life or permanent disability
Lounge program	Four free access per year in 300+ cities across the world	NO
Fuel Surcharge Waiver	Maximum ₹75/- per card per month	Maximum ₹75/- per card per month
Utility Bill – Cash Back Offer	Maximum ₹50/- per card per month	Maximum ₹50/- per card per month
Mobile Wallet Cash Back	Maximum ₹50/- per month for minimum transaction of ₹500/-	Maximum ₹50/- per month for minimum transaction of ₹500/-
IRCTC – Cash Back Offer	₹25/- for minimum transaction of ₹300/-	₹25/- for minimum transaction of ₹300/-

BharatQR

A QR code consists of black squares arranged in a squire on a white background, which can be read by an imaging device such as camera, QR contains information about the Merchant. It is developed by NPCI in collaboration with Mastercard, and Visa as an integrated interoperable QR code based payment system and was launched in September 2016. It facilitates users to transfer their money from one source to another(P2M) without the need of physical card and POS terminal. The money transferred through BharatQR is received directly in the user's linked bank account using IMPS. It provides a common interface between RuPay, Mastercard, Visa, American Express as opposed to other such individual proprietary systems. BharatQR is supported on both Android and iOS devices.

The QR code Payment System consists of the following parties:

- Acquirer- merchant on-boarding, merchant management, and mobile app solutions
- Issuer- consumer on-boarding and consumer mobile app solutions
- Transaction processing Engine (NPCI) - end transaction routing engine.

Features of Bharat QR code transactions:

- Low-cost infrastructure
- Remote management of merchant and customers
- Interoperable QR code
- Push based transaction
- No need to store any charge slip copy by merchant
- Instant payment notification to merchant and consumer
- Transaction history is available in the app
- Nondisclosure of card details by consumer to merchant .

Salient Features of Credit Cards

- Credit Cards are accepted globally through their affiliation with Visa and Master Card.
- Credit Cards are issued with limits of usage called **"Card Limit"** which fix the upper limit upto which the cards can be used.
- Credit cards have a regular billing cycle and billing date and due date of payment is decided from the billing date. The period after which payment is to be made after the billing date is called as **the free credit period and will be usually between 20 days and 50 days and differ across banks**.
- To induce usage of cards, reward points are awarded based on the amount and type of usage. Reward points vary for different classes like **Silver, Gold, Platinum, Titanium etc.**
- Another promotional concept is in vogue now for usage of credit cards. The concept of **"Cash Back Offer"** was introduced in credit cards to promote more usage by incentivizing the usage. This incentivisation is offered **from 2% to 10%** and adjusted in the payment. Cash Back Offer always comes with a cap on the total amount.
- The payment for the usage of the card after the credit period and on the due date can be paid in different ways. The payment can be made in full on or before the due date. Alternatively, a **minimum of 10% of the outstanding amount** can be paid every month on due date. The third option for payment is to convert the outstanding amount into a loan and repay the same in equated monthly installments (EMIs).
- Charges for late payment beyond the due date is collected as late fees and varies **from Rs.200 to Rs.500 across banks.**
- Cards are issued with photos also as add on feature.
- Liability for the card holder in case of loss of cards is limited to a small amount in case of most of the credit card issuers. Usually the **liability is restricted to Rs. 1000/- (Rupees One Thousand Only)** and the balance liability if any is borne by the card issuer through an insurance protection. Liability for lost card can be controlled from the time the loss is reported to the card centers which operate on a 24 hour basis.
- For online purchases using credit cards, additional password protection just like PIN for ATM transactions can be secured with special security features such as Verified by **Visa, Mastercard Secure Code etc**., and the above procedure is mandated by Reserve Bank of India.
- Some banks offer free personal accident insurance cover for the card holders **ranging from Rs. 1 Lac to Rs. 10 Lacs** depending on the type of card.

Credit Card Issuing Process

Issue of credit card involves the following processes.

- Obtaining an application from the prospect.
- Processing the application.
- Analysing and arriving at the Credit Score.

- Decision on the type of card to be issued.
- Issue of Card & PIN Mailer
- Dispatch of Card & Acknowledgement of Receipt.
- Card Operations.

Charges

- Finance Charges
- Minimum Amount Due
- Maximum Interest Free Period
- Annualised Percentage Rate (APR)
- Other Charges & Penalties

Eligibility of Credit Card

- At least 18 years of age
- Compliance of KYC norms
- A regular sources in income to repay one's credit card bills (Salaried or self employee)
- A good credit History

Types of Credit cards

- **The proprietary format** - banks issue the card in different brand names like Classic, Silver, Gold, Platinum, Titanium etc. Credit limits, cash withdrawal limits and other facilities will depend on the type of card.
- **The Co branded format -** banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc. and offer the cards as a co branded product with the brand name of the tied up company also embossed in the card.

Credit Scoring Module for credit cards consists of two parts

- Part I deals with the criterion to take a decision to issue a card or not.
- Part II deals with the scoring for various parameters submitted by the applicant.

Prepaid Cards

Prepaid cards have radically changed the way individuals pay for their purchases on a daily basis. Most individuals tend to pay by using their card rather than cash. Prepaid cards are very similar to debit cards and credit cards in the way it looks. It even comes with a signature strip, the name of the company that has issued the card, and a card number.

NPCI offers Rupay prepaid cards of different variants. **They are Gift card, Payroll card, student card and Virtual card.**

Prepaid Payment Instrument (PPI)

PPIs that can be issued in the country are classified under three types:

- **Closed System PPIs:** These PPIs are issued by an entity for facilitating the purchase of goods and services from entity only and do not permit cash withdrawal.
- **Semi- Closed System PPIs**: These PPIs are used for purchase of goods and services, including financial services, remittance facilities etc.
- **Open system PPIs**: These PPIs are issued only by banks and are used at any merchant for purchase of goods ad services, including financial services, remittance facilities etc.

Issuance, loading, and reloading of PPIs

- PPI issuers shall ensure that no interest is payable on PPI balance.
- Cash loading to PPIs shall be limited to **Rs 50,000/month subject to overall limit of PPl.**
- PPIs may be issued as cards, wallets, and any such form/instrument.
- Issuers shall enable the facility of cross- border outward transaction only on explicit request of the PPI holders and shall apply a per transaction **limit no exceeding Rs 10,000/ while per month limit shall not exceed Rs. 50000/- for such cross-border transactions.**

Debit Card

The characteristics of **Debit Cards differ vastly from Credit Cards.** As already explained, Credit Cards define the concept of **"Buy Now, Pay Later"** but Debit Cards explain the concept of **"Buy Now and Pay Now"**. The important aspect of Debit Card is that at the point of purchase itself, the payment is made directly from their account balances.

RBI Guideline

In a bid to make transactions through debit cards and credit cards more secure and convinient, **the Reserve Bank of India (RBI) has issued new guidelines that have come into effect from (October 1, 2020).**

- All new credit and debit cards issued by the banks will be only enabled for domestic transactions at ATMs and point of sale (PoS) terminals.
- All the debit card and credit card users from now on are allowed to set up transaction limits.
- Card users now have an option to opt-in or opt-out of services on their credit/debit cards such as online transactions (e-commerce), international transactions, and contactless transactions (NFC-based).
- RBI has asked all the banks and card issuing companies to disable online payments for all those debit and credit cards which have never been used for online or contactless transactions in India or abroad.

Debit Cards v Credit Cards

	Debit Cards	Credit Cards

Spending limits	- Daily limits on spends and cash withdrawals	- Monthly credit limits based on card. - Monthly and daily limits on cash withdrawals
Benefits	- What you spend is instantly debited from your account - No repayment needed - No interest charges - Get cashbacks and discounts	- Buy now, pay later - Enjoy 50-days of interest free credit - Get cashbacks, discounts, rewards and miles - EMI-based repayment
Annual fees	- Low to nil	- Depends on card
Security features	- PIN, OTP, SMS notifications	- Zero liability insurance on lost or stolen card PIN, OTP, SMS notifications

Co-Branded Cards

- Co-branding is a process where two or more facilities are combined in a card with added benefits. An airline or a hotel chain co-branded card isthe best example of a co-branded card.
- Co-branded cards offer the usual facilities plus some rewards from the co-branded entities. For example, an airline co-branded card will give some special discounts to the card holder on booking tickets with the card.

Contactless Cards

- A Contactless card is a faster way to pay with a credit or debit card **for purchases under ₹5000/-** at participating stores. Instead of dipping (or swiping) the card at the billing counter, simply wave or tap the card on the contactless terminal and pay without entering a PIN (**for amount under ₹5000/-).**
- These cards work on Near-Field Communication (NFC) technology, which employs radio transmission to ascertain contact when the cards are tapped or waved near a terminal.

JAIIB RBWM Module B Unit 7: Remittance Products

Remittance Products

The **two most traditional forms of making remittances** used by the banks for making local payments and for remitting funds outstation are:

- **Banker's Cheque**: The Bank Cheques are issued for making local payments on behalf of customers. All local payments by branches should be made by means of Banker's Cheques on account of purchase of stationery, furniture, sundry articles, telex/telephone/electricity bills, etc.,
- **Demand Draft**: A bank draft is a negotiable instrument, drawn by one branch of a bank upon another instructing the latter to pay a certain sum of money only or to the order of a certain person. However, by prior arrangement, the paying bank may be a different bank also. A bank draft is a bill of exchange but is not a cheque as such.

Electronic Payment Systems

RBI set in motion necessary regulation and payment for electronic funds transfer. There are two sets of access criteria for Banks:

Centralised Payment Systems (CPC)

- Real Time Gross Settlement (RTGC)
- National Electronic Fund Transfer (NEET)
- National Electronic Clearing Service (NECS)

Decentralised Payment Systems (DPS)

- Clearing House at MICR centres
- Electronic Clearing Service (ECS)

Note: Payment and Settlement Systems Act 2007.

Real-Time Gross Settlement (RTGS)

- RTGS stands for Real-Time Gross Settlement system which can be described as a transfer system wherein the transfer of money takes place from one bank to any other bank on **a "real-time" and a gross basis.**
- 'Real Time' means the processing of instructions at the time they are received and 'Gross Settlement' means that the settlement of funds transfer instructions occurs on a one-to-one basis.
- In RTGS, the transactions are processed continuously on a one-to-one basis 24×7, 365 days. RGTS is most used for high-value transactions and is managed by the Reserve Bank of India. In India, there are more than 110,000 RTGS enabled bank branches.

Benefit

- It is a safe mode of money transfer with no amount cap
- It is a real-time fund transfer system
- No additional charges
- Available **24×7 from Monday to Sunday**

- **Customers can initiate the remittances from his** / her home or place of work using internet banking
- Transaction through RTGS has legal backing

Charges

- Inward transactions – Free, no charge to be levied
- RBI has directed all the banks to not charge any service fee on transfer of funds through RTGS initiated online via internet banking and/or mobile banking
- Outward transactions – **₹2,00,000/- to 5,00,000/-: not exceeding ₹30/-**
- Above ₹**5,00,000/- not exceeding ₹55/-**

Limit

- The minimum amount to be transferred **via RTGS is ₹2,00,000/-** and there is no maximum RTGS limit as RTGS service is meant for high-value transactions.

National Electronic Fund Transfer (NEFT)

National Electronic Fund Transfer (NEFT) is a nation-wide payments system that allows the transfer of funds from one bank's account to another. With an increased focus on online banking, NEFT has become one of the most popular ways of transferring funds. Since it can electronically transfer funds from any bank branch to any individual, it has eliminated the need to visit a bank branch for transfer of funds.

NEFT Timings

- NEFT works on a round-the-clock basis i.e. **24×7, 365 days.** Earlier, NEFT transactions were available from 8**:00 AM to 6:30 PM from Monday to Friday only**. However, RBI has regularised that NEFT transactions will be available 24*7 on all days of the year, including holidays.
- Also, after usual banking hours, NEFT transactions are expected to be automated transactions initiated using 'Straight Through Processing (STP)' modes by the banks.

NEFT Transfer Limit

- There is **no upper or lower limit on the amount that can be transferred via NEF**T. You can begin with **an NEFT transfer with Rs. 1**. There is only a single limitation on the amount of one-time transaction through cash **mode, which is Rs. 50,000.**
- Depending on each bank, timings and settlement period for each transaction could be different. Ordinarily, if funds are transferred within the same bank account, one can expect to receive them within a matter of a few seconds. However, when such transfers take place between different banks, the settlement time could be longer.

Charges applicable to NEFT

Fund transfer charges applicable to remitter are: (GST excluded)

- Rs. 2.50 on transfers up to Rs. 10,000
- Rs. 5 on the transfer of Rs. 10,000 to Rs. 1 Lakh
- Rs. 15 on the transfer of Rs. 1 Lakh to Rs. 2 Lakh
- Rs. 25 on the transfer of more than Rs. 2 Lakh

NEFT v/s UPI v/s RTGS

Given below is a detailed comparison between NEFT, UPI (Unified Payments Interface) and RTGS:

Parameters	NEFT	UPI	RTGS
Minimum Transfer Value	Rs. 1	Rs. 1	Rs. 2 Lakh
Payment Option	Online and Offline	Online	Online and Offline
Maximum Transfer Value	No limit	Rs. 1 Lakh	No limit
Transfer Time	Min. 2 hours	Immediate	Immediate
Service Timing	Available 24*7	Available 24*7	Available 24*7
Inward Transaction Charges	No Charges	No Charges	No Charges
Details Required	Account No. and IFSC Code	VPA of beneficiary and MPIN	Account No. and IFSC Code
Beneficiary Registration	Yes	No	Yes

National Electronic Clearing Service (NECS)

Payment and settlement systems in India are used for financial transactions. They are covered by the Payment and Settlement Systems Act, 2007 (PSS Act), legislated in December 2007 and regulated by the Reserve Bank of India and the Board for Regulation and Supervision of Payment and Settlement Systems.

Electronic Clearing Service (ECS Credit)

Known as "Credit-push" facility or one-to-many facility this method is used mainly for large-value or bulk payments where the receiver's account is credited with the payment from the institution making the payment. Such payments are made on a timely-basis like a year, half a year, etc. and used to pay salaries, dividends or commissions. Over time it has become one of the most convenient methods of making large payments.

Electronic Clearing Services (ECS Debit)

Known as many-to-one or "debit-pull" facility this method is used mainly for small value payments from consumers/ individuals to big organizations or companies. It eliminates the need for paper and instead makes the payment through banks/corporates or government departments. It facilitates individual payments like telephone bills, electricity bills, online and card payments and insurance payments. Though easy, this method lacks popularity because consumer awareness is important.

Electronic Clearing Services (ECS)

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS includes transactions processed under **National Automated Clearing House (NACH) operated by National Payments Corporation of India (NPCI).**

Categories of ECS

- **Local ECS –** this is operating at 81 centres / locations across the country. At each of these ECS centres, the branch coverage is restricted to the geographical coverage of the clearing house, generally covering one city and/or satellite towns and suburbs adjoining the city.
- **Regional ECS –** this is operating at 9 centres / locations at various parts of the country. RECS facilitates the coverage all core-banking-enabled branches in a State or group of States and can be used by institutions desirous of reaching beneficiaries within the State / group of States.
- **National ECS –** this is the centralized version of ECS Credit which was launched in October 2008. The Scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country. This system too takes advantage of the core banking system in banks.

National Automated Clearing House (Nach) System

National Automated Clearing House (NACH) has taken place of **ECS on May 1, 2016.** National Payments Corporation of India (NPCI) has implemented “National Automated Clearing House (NACH)” for Banks, Financial Institutions, Corporate and Government, a web based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature. NACH System can be used for making bulk transactions towards distribution of subsidies, dividends, interest, salary, pension, etc., and also for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium, etc.

Benefits to customer:

- No need for a manual process in this case.
- The process is easier and faster than ECS.

- No need to keep track of due dates for payments such as utility bills, phone and credit card bills, interest payments, and a variety of other payments because they are all handled automatically through registered banks.

Benefits to Organization:

- No dependence on cheques or clearance.
- Payments such as scholarships, allowances, and subsidies take less time to process.
- Salary, dividends, and pension payments are all made on scheduled date.
- Much improved customer service and bill payment.

Benefits to Bank:

- Better customer service, faster payment processing, and stronger ties with associated organisations.
- No need to rely on checks or paperwork.
- Registration, payment, and collection of EMI, loans, and advances are all done in a hassle free manner.
- Because no manual processes are involved, there are fewer errors and a smoother workflow than before.
- Transactions that are quick and do not take a long time to complete.

Comparison between ECS and NACH:

- NACH is much faster with same day presentation, settlement and returns processing, compared to the ECS system, where the entire process spreads over 3-4 days.
- NACH has a well-defined Dispute Management System, to raise and solves issues, which was absent in the case of ECS.
- NACH also has a robust Mandate Management System, with standardised mandate format and verification workflow.
- NACH introduced the Unique Mandate Reference Number to clearly identify each mandate with reference to a customer.

Aadhaar Enabled Payment System

Aadhar Enabled Payment System (AePS) is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale/ Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication. This needs a KYC compliant bank account in which Aadhaar has been linked. It allows online interoperable financial inclusion transaction at PoS (Micro ATM) through the Business correspondent of any bank using the Aadhaar authentication.

Services Offered by AePS

- Cash Withdrawal
- Cash Deposit

- Balance Enquiry
- Aadhaar to Aadhaar Fund Transfer
- Mini Statement

Bharat Bill Payment System (BBPS)

Bharat BillPay

Bharat BillPay has multiple modes of payment and provides instant confirmation of payment via an SMS or receipt. It offers myriad Bill collection categories like electricity, telecom, DTH, gas, water bills, etc. and also other repetitive payments like insurance premium, mutual funds, school fees, institution fees, credit cards, fastag recharge, local taxes, housing society payments, etc. at one single window. An effective mechanism for handling consumer complaints has also been put in place to support consumer regarding any Bill related problems in Bharat BillPay

Different Payment Channels

Bharat BillPay transaction can be initiated through multiple payment channels like Internet, Internet Banking, Mobile, Mobile-Banking, Mobile Wallets, Kiosk, ATM, Bank Branch, Agents and Business Correspondents, by just looking at the Bharat BillPay logo

Different Payment Modes

Bharat BillPay facilitates myriad payment modes enabling Bill payments. The payment modes options facilitated under the ecosystem are Cards (Credit, Debit and Prepaid), NEFT Internet Banking, UPI, Wallets, Aadhar based Payments and Cash.

Key Features

Interoperable	Bharat BillPay is an integrated ecosystem connecting banks and non-banks in bills aggregation business, Billers, payment service providers and retail Bill outlets.
Accessible	Facilitate seamless payment of bills through any channel : Digital and physical.
Cost-effective	Most cost-effective for entire ecosystem – Flat fee charge vs current ad valorem.
Integration	BBPOUs will have to connect only to BBPCU to get access to all the billers. Utility companies just need to connect to maximum two BBPOUs to enable all customers to pay bills.

Complaint Management	Standardised system to handle customer grievances for both ON-US and OFF-US transactions.
Dispute Management	Facilitate BBPOU's to raise and resolve disputes relating to transactions that have passed through the Bharat BillPay ecosystem.
Clearing & Settlement	Multiple Clearing & Guaranteed Settlements between different parties, standardised TAT.
Standardisation	Standardisation of processes for entire Bharat BillPay ecosystem.
Brand Connect	Single and trusted brand connect and Bharat BillPay Assurance.

Key Participants

About Bharat Bill Payment Central Unit (BBPCU)

National Payments Corporation of India (NPCI) has been authorized by RBI as the Bharat Bill Payment Central Unit (BBPCU) and is responsible for setting business standards, rules and procedures for technical and business requirements for all participants. The BBPCU undertakes clearing and settlement activities related to transactions routed through Bharat BillPay.

About Bharat Bill Payment Operating Unit (BBPOU)

- Bharat Bill Payment Operating Unit aka BBPOU is the entity that is authorized by Reserve Bank of India. It can be a Bank or a Non-Bank. BBPOU may choose to integrate either with the customers, (COU: Customer OU) or with the billers (Biller OU) or may wish to participate as both – which means such BBPOU will be integrated with customers as well as billers.
- Going forward, only authorised BBPOU - both banks and non-banks authorised by RBI - can handle payment and aggregation of payment services relating to bills under the scope of Bharat BillPay.

Agent Institutions

- Eligible Entities who wish to offer or those who are currently in Bill payment, collection and aggregation business, would operate under a COU (Customer BBPOU).
- Customer BBPOU will on-board Agent institutions which may further on-board agents and/ or set up customer service points in various regions and locations.

Agents

Agents are the customer touch points and service points in the Bharat BillPay ecosystem available in the form of agent outlets, Business Correspondent outlets, Bank branches, collection centres, retail outlets.

Biller/Utility Company

Service providers, who shall receive payments from customers for services rendered. By participating in the Bharat BillPay scheme, the biller will be able to receive payments from third party channels for the services provided to the customer. A biller may tie up with up to two BBPOUs to access the entire universe of its consumers and all payment channels.

JAIIB RBWM Module B Unit 8: Digitisation of Retail Banking Products

Technology In Retail Banking

Technology and Retail Banking are inseparable. Technology is the foundation on which the retail banking edifice is built across the globe. Technology is the enabler for building and translating a customer data base into retail banking business. Banks adopt different technology platforms in line with the global trends. The levels of technology implementation in PSBs started from standalone Automated Ledger Posting Machines (ALPMs) in the early days of computerisation in 1980s and graduated to Total Branch Automation and regional net worked hubs.

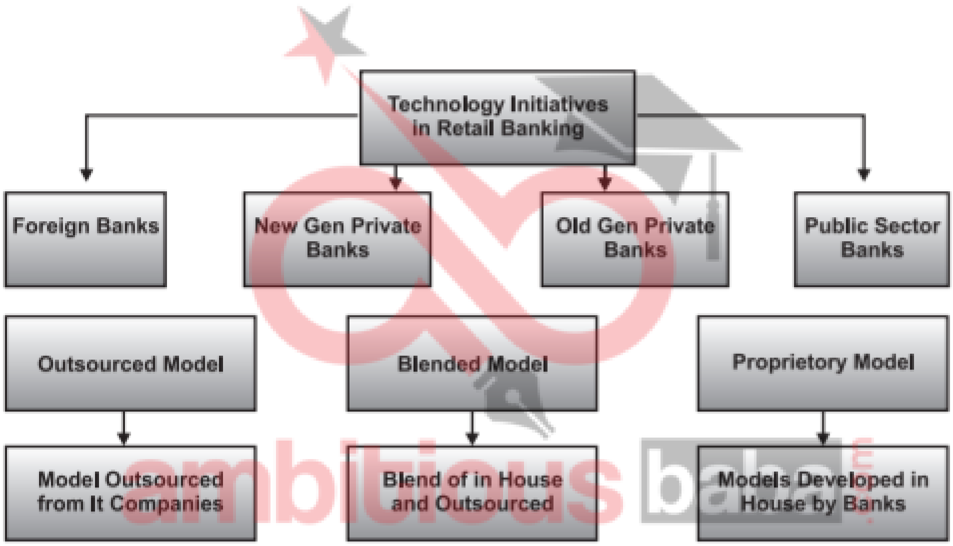
Few essential technology trends which is going to have a major impact on the banking ecosystem as follows:

- Increased use of Data Analytics and Artificial Intelligence
- Develop self-learning banking systems using computer programs to serve in customer facing situations
- New concepts like Open Banking and Embedded Finance through which banks will be able to offer their own customers access to third party products and services
- Cloud-based infrastructure will support banking organizations react to marketplace changes at a faster pace in economical manner
- A lot of banking activities will be automated in the coming years as next-level process automation and virtualization become more commonplace

Technology Processes In Retail Banking

A **Boston Consulting Group Study conducted in 2003**, “Opportunities for Action in Financial Services – Transforming Retail Banking Processes” reported that in terms of processes for integration of technology in retail banking, retail banks are using different approaches to modularise and standardise their processes. Four distinct process models have emerged from their study. They are:

- **Horizontally Organised Model** where individual process platform supports one product only. The sub data in the model are not shared with other products and product platform.
- **Vertically Organised Model** where functionality is provided across all products. In this model, customer information is centralised. Centralised customer information builds common origination and servicing processes across all its retail banking products.
- **Predominantly Horizontally** Organised Model with some modularization within a product oriented feedback. Customer data integration is available to a certain extent for other products. iv. Predominantly Vertically Organised Model is a hybrid model that offers common information for most of the related services. The basic information is available across products for common services to the various products.



In the retail liabilities and asset side, the software is developed mainly to capture the following types of information, viz.,

- **Static Information** – Account Opening, Basic Loan Origination Data, etc.
- **Updated Information –** Income Details at different frequencies, etc.
- **Transaction Information** – Information from disbursement to final settlement in loan accounts and operation details in liability accounts.
- **Analytics and Alerts** – Both operational and strategic alerts to take action or to develop strategies for further action.

Institute For Development and Research In Banking Technology (IDRBT)

- Banking industry is in the path of growth leveraging Information Technology in a big way in all its strategic, functional and operational processes and applications.

- The Reserve Bank of India constituted a committee on "**Technology Upgradation in the Payments System"** in the year 1994 under the **Chairmanship of Shri W. S. Saraf**, the then Executive Director of RBI. In its report submitted in December 1994, the committee emphasized that an apex-level Institute is set up to undertake development and research in the area of Information Technology applied to the financial sector, with a specific focus on banking.
- Reserve Bank of India approved this recommendation and established an Institute with a brief to spearhead technology absorption in the banking and financial sector of the country. Accordingly, the IDRBT started functioning from March 06, 1996.

The Institute, over the years, conceptualized, designed and launched the following technology services for Indian banking and financial sector.

- Indian Financial Network (INFINET)
- Structured Financial Messaging System (SFMS)
- National Financial Switch (NFS)
- Indian Banking Community Cloud (IBCC)

Indian Financial Network (INFINET)

INFINET, a closed user group network is nationwide communication backbone for banking and financial sectors. Various inter-bank and intra-bank applications ranging from Structured Financial Messaging System (SFMS), Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS), Electronic Debit, Online Processing and Trading in Government Securities, Centralized Funds querying for Banks and Financial Institutions, Anywhere/Anytime Banking and Inter-bank reconciliation have been implemented using the INFINET. Funds transfer under NEFT and RTGS is being done through INFINET.

It is Financial Network in the form of a reliable communication backbone, facilitates running different applications/services. The advantages of INFINET being:

- Banking and Financial services independent of their location.
- Extended banking business sreach and hours as well as increased business volume and better fund utilisation, thereby facilitating reduced operational cost.
- Increased security.
- Reduction/elimination of payment risks.
- Efficient Housekeeping.
- Improvement in decision making process.
- Innovative customer-oriented delivery mechanisms.

Structured Financial Messaging System (SFMS)

Structured Financial Messaging System (SFMS) is a secure messaging standard **developed to serve as a platform for intra-bank and inter-bank applications**. It is an Indian standard similar to Society for World- wide Interbank Financial Telecommunications (SWIFT) which is the international messaging system used for financial messaging globally. SFMS can be used practically for all purposes of secure communication within the bank and between banks.

Key Features

- Template Builder to support flexible definition of messages similar to SWIFT, like user-touser and systems messages.
- Flexible architecture that facilitates centralized or distributed deployment.
- Directory services for maintenance of IFSC directory, network configuration.
- Secured messaging and routing based on store and forward principles governed by push technology.
- Messages can be clubbed and exchanged as a batch of files.
- Smart card based user access.
- Messages will be secured via standard encryption and authentication services conforming to ISO/SWIFT standards.
- Complete auditing, logging, time-stamping and warehousing of messages.
- Periodic computation of charges and billing of the services offered to the participating banks.
- Multi-tiered solution covering INFINET HUB, Bank Gateways and Bank sites.
- A modularized Web-enabled software to facilitate the participating banks to send and receive financial and non-financial messages through Bank Gateways and INFINET HUB.

National Financial Switch (NFS)

National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs) in India. Thus, NFS functions as the backbone of Indian ATM network. NFS was designed and implemented by the **Institute for Development and Research in Banking Technology (IDRBT) in 2004**. IDRBT launched the National Financial Switch on 27 August 2004, by connecting the ATMs of three banks. Thereafter, IDRBT worked towards the goal of inter-connecting the **ATMs** in the country for facilitating convenience banking.

How did National Financial Switch (NFS) come under NPCI?

- **National Payments Corporation of India (NPCI)** was launched with the intention of bringing Retail Payment systems in India under a separate entity. When RBI authorised NPCI to take over the operations of NFS, IDRBT handed over NFS to NPCI. IDRBT hived off the operational aspects of NFS to focus more on it's key targets of research and development. **NPCI took over NFS operations from December 14,2009.** ATMs were the first alternate payment channel introduced in India. ATMs propelled the journey towards **digital channels** and **digital banking** in India.
- National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs)in India. The ATM network launched by **IDRBT,is managed by NPCI.**

What is an ATM network?

- All the ATM's of a bank are connected to an ATM switch. An ATM network is a network that connects the ATM switches of different banks. An ATM network can be set up with two ATM switches to hundreds of ATM switches of different banks. A customer can utilise another bank ATM only if both banks are connected through the same ATM network. 'Inter-operability of different bank ATMs are made possible through ATM network.

Indian Banking Community Cloud (IBCC)

Cloud computing is a promising technology that provides various services to the customers on demand over the Internet. The ease of this technology is increasingly expanding in almost all the industries across the globe for its resulting benefits.

A Community Cloud can possibly be a solution where the Cloud services are meant for organizations having common objectives and security controls. To furnish Cloud services to such like-minded organizations in India, IDRBT has setup a pilot approach to building Community Cloud for the Indian Banks to provide Infrastructure as a Service.

Cloud computing technology provides three fundamental services **namely Software as a Service (SaaS), Platform as a Service (PaaS),** and **Infrastructure as a Service (IaaS)** which can be deployed on top of Public, Private and Hybrid cloud models.

- **Software as a service (SaaS):** SaaS is an "on-demand software" service where the required software is provided to the end users as an application to run on their systems through Internet.
- **Platform as a Service (PaaS):** In PaaS, a computing environment is provided as a service to the customers to build their own applications that run on the provider's infrastructure.
- **Infrastructure as a Service (IaaS):** A pool of equipment including servers, storage systems, network, data centres, etc., provided as a service to the customers where providers can handle customers' application workloads is referred as IaaS. The customer can host their own software on the cloud infrastructure.

Wealth Management Solutions

Wealth management solutions are mostly modular, fully scalable, integrated core banking and in- vestment management system designed for the specific needs of retail and private banks. They offer unique combination of an extensive portfolio of functions with impressive flexibility that enables end-to-end processing of investment products from diverse asset classes including structured deposits, structured notes, equities, mutual funds and insurance.

Key Modules

- Structured Products
- Mutual Funds
- Equities

- Insurance

Business Benefits:

- Leverage the HNWI Opportunity – For e.g.-Finacle wealth management solution enables financial institutions to derive rich integrated insights about the HNWI client's investment portfolio. Sophisticated analytics, relevant financial planning and asset allocation tools can be deployed, to leverage the opportunities presented by hot listed clients to explore prospects for cross-selling and fee-based personalized advice.

Ease of Enhancing Product Portfolio:

- The user-friendly solutions provide flexibility to tailor solutions and create new product flavours for emerging customer segments.
- It enables business users at the bank to add innovative functionalities and features to their offerings, without changing the source code of the application.

Higher Operational Efficiency

- The solutions enable Straight Through Processing (STP) and are fortified with a powerful integration framework to interface with the bank's core banking solution and external data sources.
- This plays a crucial role in minimizing operational delays and ensuring seamless transaction flows at the bank.

Lower Total Cost of Ownership (TCO)

- Built on new-generation technologies, wealth management solutions are generally future-proof and can be seamlessly integrated with other enterprise applications.
- With proven scalability and a flexible architecture, they ensure protection for the bank's technology investments.

Digital Lending

In today's financial world, there has been rapid advancements in technology brought in by cloud computing, artificial intelligence and blockchain which has supported the growth of Fintech start-ups. It has revolutionized the banking space in a big way including lending. The process of Digital Lending involves lending through the web or mobile interface, using technology to get the authentication done and evaluation of credit. The entire process of credit including sourcing, credit and risk assessment and disbursement happens on the digital platform in a seamless manner within a shortest amount of time.

The universe of digital lenders is classified into three groups:

- Entities regulated by the RBI and permitted to carry out lending business;

- Entities authorized to carry out lending as per other statutory/regulatory provisions but not regulated by RBI;
- Entities lending outside the purview of any statutory/ regulatory provisions.

The major highlights of the regulatory framework are as follows:

Customer Protection and Conduct Issues

- All loan disbursals and repayments are required to be executed only between the bank accounts of borrower and the Regulated Entity (RE) without any pass-through/ pool account of the Lending Service Provider (LSP) or any third party.
- Any fees, charges, etc., payable to the LSPs in the credit intermediation process shall be paid directly by RE and not by the borrower.
- A standardized Key Fact Statement (KFS) must be provided to the borrower before executing the loan contract.
- All-inclusive cost of digital loans in the form of Annual Percentage Rate (APR) is required to be disclosed to the borrowers. APR shall also form part of KFS.
- Automatic increase in credit limit without explicit consent of borrower is prohibited.
- A cooling-off/ look-up period during which the borrowers can exit digital loans by paying the principal and the proportionate APR without any penalty shall be provided as part of the loan contract.
- REs shall ensure that they and the LSPs engaged by them shall have a suitable nodal grievance redressal officer to deal with FinTech/ digital lending related complaints.
- As per extant RBI guidelines, if any complaint lodged by the borrower is not resolved by the RE within the stipulated period (currently 30 days), he/she can lodge a complaint under the Reserve Bank – Integrated Ombudsman Scheme.

Technology and Data Requirements-

- Data collected by Digital Lending Apps (DLAs) should be need based, should have clear audit trails and should be only done with prior explicit consent of the borrower.
- Option may be provided for borrowers to accept or deny consent for use of specific data, including option to revoke previously granted consent, besides option to delete the data collected from borrowers by the DLAs/ LSPs.

Regulatory Framework-

- Any lending sourced through DLAs is required to be reported to Credit Information Companies (CICs) by REs irrespective of its nature or tenor.
- All new digital lending products extended by REs over merchant platforms involving short term credit or deferred payments are required to be reported to CICs by the REs.

JAIIB RBWM Module B Unit 9: Uses of AI and Technology in Retail Banking

Banking Technology

The term "**Banking Technology**" refers to the use of sophisticated information and communication technologies together with computer science to enable banks to offer better services to its customers in a secure, reliable, and affordable manner, and sustain competitive advantage over other banks.

Dimensions Of Banking Technology

Banking Technology is not a single, stand-alone discipline, but a confluence of several disparate fields such as finance (subsuming risk management), information technology, communication technology, computer science and marketing science. From the functional perspective, **Banking Technology has mainly three important dimensio**ns. **They are as follows:**

- The use of appropriate hardware for conducting business and servicing the customers through various delivery channels and payments systems and the associated software constitutes one dimension of Banking Technology. The use of computer networks, security algorithms in its transactions, use of ATM and credit cards, Internet banking, telebanking and mobile banking are all covered by this dimension. The advances made in information and communication technologies take care of this dimension.
- On the other hand, the use of advanced computer science algorithms to solve several interesting marketing related problems such as customer segmentation, customer scoring, target marketing, market-basket analysis, cross-selling, up-selling and customer retention etc. faced by the banks to reap profits and outperform their competitors constitutes the second dimension of Banking Technology. This dimension covers the implementation of a data warehouse for banks and conducting data mining studies on customer data.
- Moreover, banks cannot ignore the risks that arise in conducting business with other banks and servicing their customers, for otherwise, their very existence would be at stake. Thus, the quantification, measurement, mitigation and management of all the kinds of risks that banks face constitutes the third

important dimension of Banking Technology. This dimension covers the process of measuring and managing credit risk, market risk and operational risk.

Evolution Of Banking Technology

- The Introduction of Credit Card: (1950)
- ATMs, Computers, and Much More: (1960)
- The Convenience of Online Banking: (1980s)
- The Mobile Banking Revolution: (2000s)
- Google Wallet (About seven years later in 2011, Google introduced Google Wallet, a mobile payment technology meant to rival credit cards)
- Fingerprint authentication and Touch Id (2015)

Benefits Of Technology In Retail Banking

- Increase in Efficiency
- Cost Reduction
- Accuracy
- Customer Service
- Products
- Easy Communication
- Self-guided financial wellness

Difference Between Artificial Intelligence (AI) And Automation

Artificial Intelligence	Automation
AI is the science of creating machines to solve problems that are too complicated for the human brain to process by itself.	Automation is the use of technology to automate processes with minimal or no human intervention.
The idea behind AI is to create technology that allows computers and machines to think like humans, behave like humans and learn from them.	The main objective of automation is to simplify and speed up common, repetitive tasks to increase productivity and efficiency of output.
Examples of AI include ride-sharing apps like Uber, Amazon Alexa, Google Now, Apple Siri, and more.	Examples of automation include online banking, automated waste management, thermostat, etc.

Why AI In Banking Industry?

- Enormous challenges in the banking sector.
- Thrust for a process-driven operation.
- Initiate self-service in the branches.
- Customer desire to deliver different personalized solutions.
- Build functional efficiencies.
- Escalating the productivity of employees.
- To support focus on productivity and efficiency.
- Visualization to extend human function with the use of robotics tools.
- To minimize the chances of fraud and scam.
- Manage an immense volume of data at record speed and gain valuable insights.
- To carry out effective decision-making.

Benefits Of Artificial Intelligence Technology In Banking And Finance

Personalized Financial Services

Personalized connect will reach new heights as automated financial advisors and planners provide expertise in making financial decisions. They analyse market temperament against the user‘s financial goals and personal portfolio, and offer recommendation regarding stocks and bonds.

Smart Wallets

Digital wallets are touted as the future of real-world payment technologies, with major players like Google, Apple, Paypal and others, jumping on the bandwagon and developing their own payment gateways. This decreases the dependence on physical cash, thereby expanding the reach of money to greater levels.

Underwriting

The insurance sector is also coming up with a storm as they are moving towards congruent automation. By utilizing AI systems that automate the underwriting process, the organizations come armed with more granular information to empower their decisions.

Voice Assisted Banking

Physical presence is slowly fading away as technology empowers customers to use banking services with voice commands and touch screens. The natural language technology can process queries to answer questions, find information, and connect users with various banking services, eliminating the language barriers. This reduces human error, systemizing the efficiency.

Data-driven AI applications for lending decisions

Applications embedded in end-user devices, personal robots, and financial institution servers are capable of analysing a huge volume of data, providing customized financial advice, calculations and forecasts. These applications can also develop financial plans and strategies through research, regarding various customized investment opportunities, loans, rates, fees, etc and track the progress.

Customer support

As speech processing and natural language processing technologies mature, we are drawing closer to the day, when computers could handle most customer service queries. This would mark an end to waiting in line and hence result in happier customers.

Digitalization instead of branch lines

Banking is a lengthy process, with past records of long queues and sluggish response marring the productivity. Even opening a bank account was viewed in negative terms as harried consumers would run pillar to post, while getting the necessary documentation complete. Digitization of documentation eases that pain and creates a comprehensive platform, where the consumers and providers connect.

Blockchain hastening payments

The customer base that banks serve is going through a major shift in terms of buying behaviours and preferences, driven by the digital revolution, particularly social media and mobile. An increased demand for more choice and control in how they interact with a bank is on a rise. Sluggish payment processes will be a thing of the past as Blockchain is set to inculcate the advantage of real-time payment process, hastening up the procedure of payment, thereby increasing support and satisfaction.

Benefits Of AI In Retail Banking

- **Customer Support and Helpdesk:** Humanoid Chatbot interfaces can be used to increase efficiency and reduce cost for customer interactions.
- **Risk Management**: Tailored products can be offered to clients by looking at historical data, doing risk analysis, and eliminating human errors from hand-crafted models.
- **Security**: Suspicious behaviour, logs analysis, and spurious emails can be tracked down to prevent and possibly predict security breaches.
- **Digitization and automation in back-office processing**: Capturing documents data using OCR and then using machine learning/AI to generate insights from the text data can greatly cut down back-office processing times.
- **Wealth management for masses**: Personalized portfolios can be managed by Bot Advisors for clients by taking into account lifestyle, appetite for risk, expected returns on investment, etc.

JAIIB RBWM Module B Unit 10: Recovery of Retail Loans

Repayment In Retail Loans

The success of any banking initiative is judged only by the profit generated from that business segment. Banks aggressively build up their retail asset portfolios to expand business as retail assets are one of the best revenue drivers in banking.

Holiday Period/ Moratorium Period

A Moratorium period/holiday period is a time allowed for the borrowers, during the loan term, when they are not required to make any principal repayment. It is a waiting before which repayment by way of EMIs begins.

Generally;

- The repayment begins only after disbursement of entire loan. Term loan may be disbursed either in single debit or in multiple debits, as per the requirements.
- Holiday period interest needs to be serviced. But it educational loans, this is not insisted upon.
- In respect of housing loans, a holidays period upto 18 months is allowed in case of construction and 3 months in case of purchases.

- The Holiday period is allowed with an intention to allow the borrowers to get themselves equipped for repayments. In the initial stages of availing the loan, there may be some miscellaneous expenses which they need to meet.

Types of Monthly Installments

Borrowers can choose among three types

- Monthly instalment to repay their loan.
- Repayment includes the principal loan amount and
- Interest accrued on it.

Bullet Payment

In this case, the **loan amount with interest is paid in a single payment at the end of the loan period.** Small value gold loans are paid in this way.

Fixed Instalment loan

This payment is in equal monthly instalments. **The loan amount is divided into equal monthly instalments.** In this method, the interest servicing burden is more in initial stages. The borrower has to pay the loan instalment along with the entire interest accrued in the account during that period.

Equated Monthly Installments (EMI)

An equated monthly installment (EMI) is a fixed payment amount made by a borrower to a lender at a specified date each calendar month. Equated monthly installments are used to pay off both interest and principal each month so that over a specified number of years, the loan is paid off in full.

Formula for calculation of EMIs

The mathematical formula for calculating EMIs is: EMI = [P x R x (1+R)^N]/[(1+R)^N-1]

Defaults and Rescheduling In Retail Loans

What is default?

Default is the occurrence of an event which happens due to non payment of agreed installments. If the repayment schedule is not adhered to as per the commitments made, then it translates into default. The strength of the default grades it according to the period of default from a simple overdue to the stage of NPA. What are the reasons for default in retail loans? Let us take the case of Home Loans.

Home Loans are offered in two price formats. One is fixed pricing and the second is variable pricing or floating pricing. The irony is that even fixed pricing takes the character of a floating pricing as interest is reset as per the reset clause agreed between the lender and borrower.

Rescheduling happens in Credit Cards and Personal Loan segments also where the interest rates are quite high and unsecured in nature. **Here default happens mainly due to the following reasons;**

- Genuine defaults due to reasons beyond the borrowers' control and
- Willful defaults where the borrowers deliberately default with malafide intention.

Genuine Defaults: In genuine defaults, the customers fail to repay the EMIs due to personal set backs, job losses, unforeseen medical expenses etc., that tilt the balance of their monthly pay outs and results in non payment of banks' dues. Here the intention to pay is intact but the ability to pay is affected and results in defaults. The approach of the banks for recovery will be one of care and concern and will be a customer oriented approach because the chances of recovery are bright.

Willful Defaults: In willful defaults, the customers deliberately fail to pay the EMIs and the attitude is negative. The intentions of the borrowers are malafide and there is no attempt from the borrowers' side to service the loans as per the committed repayments. The objective is to delay the EMIs and put the banks into difficulties. In willful defaults the approach of the banks will be on a recovery basis as the chances of recovery are not so bright. So banks take a systematic and firm approach for recovery of these loans.

Penal Measures against Wilful Defaulters

- No additional facilities should be granted by any bank/FI to the listed willful defaulters.
- In addition, such companies (including their entrepreneurs/promoters) where banks have identified siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transaction should be debarred from institutional finance from the scheduled commercial banks.
- The legal process, wherever warranted against the borrowers/guarantors and foreclosure for recovery of dues should be initiated expeditiously.
- The lenders may initiate criminal proceedings against willful defaulters, wherever necessary.
- Wherever possible, the banks and FIs should adopt a proactive approach for a change of management of the willfully defaulting borrower unit.
- The bank can proceed against the guarantor, if any, along with the principal debtor also by virtue of the Contract Act.

Diversion of funds

The term 'diversion of funds' should be construed to include any one of the undernoted occurrences.

- Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction.

- Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned.
- Transferring borrowed funds to the subsidiaries/Group companies or other corporates by whatever modalities.
- Routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender.
- Investment in other companies by way of acquiring equities/debt instruments without approval of lenders.
- Shortfall in deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for.

Siphoning of funds: The siphoning of funds refers to the occurrence of a situation that the unit has failed in meeting its payment/repayment commitments to the lender bank and also the funds borrowed from the bank was not utilized for the specific purpose for which the credit was released.

Monitoring of loan Accounts

Monitoring process is a scientific as well as an essential tool for maintaining the quality of retail assets. As discussed above it has to de designed in such a way that it addresses both genuine defaulters as well as willful defaulters. While genuine defaulters are to be handled very sensitively as they are otherwise good customers and default have happened due to circumstances beyond their control.

Irregularities in Loan Accounts - Special Mention Accounts

To have more control over monitoring of accounts, the loan accounts are grouped us under:

SMA sub categories	Basis for classification Principal or interest payment or any other amount wholly or partly overdue between
SMA -0	1 to 30 days
SMA -1	31 to 60 days
SMA -2	61 to 90 days

Classification of Irregular loan Account

International practices and as per the recommendations made by the Committee on the Financial System (**Chairman Shri M. Narasimham),** The RBI has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks.

Income Recognition

The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.

A retail asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is a loan or an advance where:

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

Asset Classification

Banks are required to classify non-performing assets further into the following three categories based the period for which the asset has remained non-performing and the realisability of the dues

- Substandard Assets
- Doubtful Assets
- Loss Assets

Substandard asset: A sub-standard asset is one, which has remained NPA for a period less then to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets: An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months.

Loss Assets: An asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Recovery Policy of Banks

The recovery policy clauses are clearly spelt out in the recovery policy of the bank. The fundamental assumptions and approaches to recovery are clearly communicated to the customers. Let us see the different clauses of the recovery policy.

Preamble

- The debt collection policy of the bank is built around dignity and respect to customers.
- The Bank will not follow policies that are unduly coercive in collection of dues.
- The policy is built on courtesy, fair treatment and persuasion.
- The bank believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long-term relationship.

- The repayment schedule for any loan sanctioned by the Bank will be fixed taking into account paying capacity and cash flow pattern of the borrower.
- The Bank will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or payments through any other mode of repayment will be appropriated against interest and principal due from the customers.
- The Bank would expect the customers to adhere to the repayment schedule agreed to.
- The Bank Security Repossession Policy aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property.
- The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the Bank for follow up and recovery of dues and repossession of security will be inconsonancc with the law.

General Guidelines

All the members of the staff or any person authorized to represent the Bank in collection or/and security repossession would follow the guidelines set out below:

- The customer would be contacted ordinarily at the place of his/her choice and in the absence of any specified place, at the place of his/her residence and if unavailable at his/her residence, at the place of business/occupation.
- Identity and authority of persons authorized to represent the Bank for follow up and recovery of dues would be made known to the borrowers at the first instance. Bank staff or any person authorized to represent the Bank in collection of dues or/and security repossession will identify himself/herself and display the authority letter issued by the Bank upon request.
- Bank would respect privacy of its borrowers.
- Bank is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Bank will adopt civil manners for interaction with borrowers.
- Normally Bank's representatives will contact the borrower between 0700 hrs and 1900 hrs, unless the special circumstance of his/her business or occupation requires the Bank to contact at a different time.
- Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.
- Bank will document the efforts made for the recovery of dues and the copies of communication set to customers, if any, will be kept on record.
- All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls/visits to collect dues.

Giving Notice to Borrowers

While written communications, telephonic reminders or visits by the Bank's representatives to the borrowers place or residence will be used as loan follow up measures, Bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. Bank will follow all such procedures as required under law for recovery/repossession of security.

SARFAESI ACT 2002

SARFAESI provide a structured platform to the banking sector for managing its mounting NPA stocks and keep peace with international financial institutions, the Securitisation and reconstruction of financial Assets and Enforcement of Security Interest (SARFAESI) Act was put in place to allow banks and FIs to take possession of securities and sell them.

Provision of the SARFAESI Act

The SARFAESI Act introduced major changes in the legal framework for the recovery of dues by banks/FIs by giving those powers to realize the securities without the need to approach courts.

- Securitization of financial assets.
- Reconstruction of financial Assets.
- Recognition of any 'interest' created in the security for due repayment of a loan as a 'security interest' irrespective of its form and nature but when it is not in the possession of the creditor.

The provisions of the SARFAESI Act**,** relating to enforcement of the security interest, applies only to cases in which the security interests are created for due repayment of financial assistance. As per

SARFAESI Act, financial asset means debt or receivables and includes:

- A claim to any debt or receivables or part thereof whether secured or unsecured, or
- Any debt or receivable secured by mortgage of or charge in immoveable property, or
- A mortgage charge, hypothecation of moveable property, or
- Any right or interest in the security, whether full or part, securing debt, or
- Any beneficial interest in any moveable or immoveable property or in debt, receivables, whether such an interest is existing, future, accruing, conditional or contingent, or
- Beneficial right, title or interest in any tangible property given on hire/conditional sale/contract which secures the obligation to pay any unpaid portion of purchase price.
- Any right title or interest on any intangible asset or license or assignment of such intangible asset, which secures the obligations to pay any unpaid portions of purchase.
- Any financial assistance.

Enforcement of security interest

SARFAESI Act can be initiated only if the loan account satisfies the following conditions:

- Loan account must have been classified as NPA, backed by security.
- Outstanding in the account including the interest accrued/applied should be more than Rs. One lakh.
- Outstanding dues should be 20% or above of the principal and interest.
- Secured asset should not be an agricultural land.
- Documents should be enforceable and unexpired period of a minimum of 6 months must be available (not specified in the Act). Action under SARFAESI Act 2002 will not extend limitation period of documents.
- In case of multiple lenders/consortium advances, ensure lenders having a minimum of 60% of dues outstanding are agreeable for initiating action under SARFAESI Act 2002.

Demand Notice under section 13(2) can be issued by any one or more of the following modes:

- By Registered Post with Acknowledgement Due, or
- By Speed Post, or
- By Courier, or
- By Fax Message, or
- By electronic mail service (e-mail),
- By hand delivery against proper acknowledgment addressed to the borrower at the place where he resides or carries on business or works for gain

On receipt of the notice if the borrower makes any representation or raises any objection, the secured creditor has to communicate his reply to the **borrower within 15 days of the** receipt of such representation based on factual position and on merits.

Sec 13(13) of the SARFAESI Act: Provides that after receipt of the demand notice, the Borrower/Mortgagor! Guarantor shall not transfer any of the secured assets by way of sale, lease or otherwise without the prior written consent of the Bank. **Sec 29 of the Act provides that if any person contravenes or attempts to contravene or abets the contravention** of the provisions of the Act or Rules, he shall be punishable with imprisonment for a term which may extend to one year or with fine or both.

Debt Recovery Tribunals (DTRs)

Debt Recovery Tribunals are apex bodies to settle recovery issues in case of loans extended by financial institutions. Debt Recovery Tribunals (DRTs) are constituted for helping financial institutions recover their bad debts quickly and efficiently. DRTs are governed by provisions of the Recovery of Debt Due to Banks and Financial Institutions Act, 1993, also popularly called as the RDB Act. Rules have been framed and notified under the **Recovery of Debts Due to Banks and Financial Institutions Act, 1993.**

After the enactment of the Securitisation And Reconstruction of Financial Assets and Enforcement of Security Interests Act (S ARFAESI Act),borrowers could become first applicants before the Debt Recovery Tribunal. Earlier only lenders could be applicants.

Application for recovery of debts due shall be accompanied with a fee payable as follows:

- Where amount of debt due is Rs. 10 lacs: Rs. 12000
- Where the amount of debt due is above Rs. 10 lacs: Rs. 12000/-plus Rs. 1000/- for every one lakh rupee of debt due or part thereof in excess of Rs 10lakhs subject to a maximum of Rs 150000.
- DRT will issue summons to the defendant requiring him to show cause within 30 days of the services of summons as to why the relief prayed for should not be granted.

Recovery Through LOK ADALAT

Recovery of NPAs through award of Lok Adalat is the easiest and fastest mode. One time Settlement (OTS) can be put through Lok Adalat, so that in case of default in payment as per OTS, the award could be executed by the Court, as in the case of execution of a decree.

Some Suggestive steps are given below for recovery of bank dues:

- Identify NPAs in the branch with dues upto Rs. 20lacs, irrespective of whether secured or unsecured.
- The Bank/branch shall prepare a petition, separately for each account, to be submitted before the Hon'ble forum of Legal Services authority.
- The Identified cases can be referred to the usual Lok Adalat organized by the repective leagal Service Authorities, Periodically.
- The district or Taluk Legal Services Authority shall also be approached by the bank with the list of accounts where settlement is feasible to conduct exclusive Lok Adalat for the bank's cases alone, if more number of cases is involved. Banks can organize Lok Adalats in association with other banks also in the locality.
- With the consent of the respective Legal Service Authority the branch shall file petition, separately for each account, before the Hon'ble forum. The Legal Service Authority fixes the date of Lok Adalat and informs the same to the bank. Lok Adalat can be organized and award can be passed even on a holiday
- The concerned branch of the bank should personally contact the borrowers, convince them the benefits of settling the matter through Lok Adalat and ensure that all parties be present at Lok Adalat on the fixed date.
- The branch manager has to take the permission of Regional Office wherever necessary, with regard to proposed terms of settlement in Lok Adalat.
- The Lok Adalat will be convened on the date fixed and passes the award with the consent of both the parties (Authorised official of the bank and the borrower/guarantor).

- The Lok Adalat is presided over by a sitting or retired judicial officer as the chairman, with one or two other members, usually a lawyer and a social worker.
- The settlement may be made prudently under the following terms:

  i. Down Payment of awarded amount at the time of settlement itself.

  ii. Full payment of the awarded amount within a short duration

  iii. Full payment of the awarded amount in instalments within a short duration, etc.

- The most important factor to be considered while deciding the cases at the Lok Adalat is the consent of both the parties. It cannot be forced on any party for a settlement in Lok Adalat. No appeal shall lie in any court against the Award.
- While agreeing for a settlement, branch manager should ensure that a default clause – 'if not settled fully as per the terms of the award, the bank shall be at liberty to recover the contracted amount' is incorporated in the award.
- In the event of failure to honour the Lok Adalat commitments EP proceedings should be initiated immediately. If the case referred is a suit filed one, entire court fee paid for filing suit will be returned back.

Recovery Agents

When we talk about recovery of retail loans, the first thing which flashes in our mind is the most dreaded recovery agents deployed by banks for recovery of loan in which defaults happen. Public Sector Banks' approach to recovery of loans is different from the strategies adopted by private sector banks and foreign banks.

RBI Guidelines For Recovery Agents

RBI vide their circular DBOD.No.Leg.BC.75/09.07.005/2007-08 dated April 24,2008, issued guidelines for all scheduled commercial banks for Recovery Agents engaged by them for recovery of loans. In view of the rise in the number of disputes and litigations against banks for engaging recovery agents in the recent past, it is felt that the adverse publicity would result in serious reputational risk for the banking sector as a whole. Hence RBI felt that a need has arisen to review the policy, practice, and procedure involved in the engagement of recovery agents by banks in India. Reserve Bank issued draft guidelines which were placed on their web-site for comments of all concerned. Based on the feedback received from a wide spectrum of banks/individuals/organizations, the draft guidelines have been suitably revised and the guidelines finalized and implemented by RBI are as follows:

Engagement of Recovery Agents

Banks are advised to take into account the following specific considerations while engaging recovery agents:

- 'Agent' in these guidelines would include agencies engaged by the bank and the agents/employees of the concerned agencies.

- Banks should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process. The due diligence process should generally conform to the guidelines issued by RBI on outsourcing of financial services vide circular DBOD.No.BP.40/21.04.158/2006-07 dated November 3, 2006. Further, banks should ensure that the agents engaged by them in the recovery process carry out verification of the antecedents of their employees, which may include pre-employment police verification, as a matter of abundant caution. Banks may decide the periodicity at which reverification of antecedents should be resorted to.
- To ensure due notice and appropriate authorization, banks should inform the borrower the details of recovery agency firms/companies while forwarding default cases to the recovery agency. Further, since in some of the cases, the borrower might not have received the details about the recovery agency due to refusal/non-availability/avoidance and to ensure identification, it would be appropriate if the agent also carries a copy of the notice and the authorization letter from the bank along with the identity card issued to him by the bank or the agency firm/company. Further, where recovery agency is changed by the bank during the recovery process, in addition to the bank notifying the borrower of the change, the new agent should carry the notice and the authorization letter along with his identity card.
- The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. Banks should ensure that there is a tape recording of the reasonable precaution such as intimating the customer that the conversation is being recorded, etc.
- The up to date details of the recovery agency firms/companies engaged by banks may also be posted on the bank's website.
- Where a grievance/complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed of any grievance/complaint lodged by the concerned borrower:
- However, where the bank is convinced, with appropriate proof, that the borrower is continuously making frivolous/vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance/complaint is pending with them. In cases where the subject matter of the borrower's dues might be sub judice, banks should exercise utmost caution, as appropriate, in referring the matter to the recovery agencies, depending on the circumstances.
- Each bank should have a mechanism whereby the borrowers' grievances with regard to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency as at item (iii) above.

JAIIB RBWM Module B Unit 11 Management Information Systems

Management Information System (Mis)

What is Management Information System (MIS)?

Management Information System is an integrated man machine system that provides information to support the planning and control functions of managers in an organisation. Management Information System is a set of combined procedures that gathers and produces reliable, relevant, and properly organized data that supports the decision making process of an organization.

Management Information System (MIS) consists of three words,

- Management
- Information
- System

Data	➢ Process	➢ Information	➢ Decision	➢ Action

- **Management** is viewed as a function, a process, a profession and a class of people. It refers to the kind of task and activities that are performed by managers. The specific nature of the activities is determined by such managerial functions as planning, organising, directing, leadership and controlling.
- **Information** is the result or product of processing data. Information can be defined as the data which is organised and presented at a time and place so that the decision-maker may take necessary act.
- **System** is a group of elements or components joined together to fulfil certain functions. It is made up of sub-system. The systems are either natural or man-made.

The Main Elements Of MIS

- An integrated system to give service to many users.
- The computer system linking some of information software via a database.
- User-machine interface responding to the temporary and immediate searches.
- Presenting the information to all management level.
- Supporting the operation and decision making.

Role Of Management Information Systems

Two main roles are played by MIS in decision making by the managers.

- First it helps the managers to take decision based on the information being prepared.

- Second when the decision making and decisions are fixed and only the input data change, it acts as a suitable repeat to support different types of managerial decisions.
- It means that MIS is the tool that as the organizational information source provides the required information of the managers and makes them prepared for their decision making. The managers use MIS as a tool to define the problems being faced. MIS helps the managers to understand the problems and find the solutions.

Role Of Mis In Banking Industry

A bank is understood as a place where the financial services such as mainly deposit/ savings and providing credit to the customers are offered. The scope of this service in today's world is expanded to a "**Financial Services Super Shoppe**" where the banks have become an instrument in providing financial assistance to some activities as a policy or by regulation or for meeting sociology-economic obligations. In banking also, the concept of the financial product has come in. The customers choose a bank mainly on the following three factors:

- The ease of doing business.
- The quality of personnel and service.
- The range of the financial services.

Designing MIS For A Bank

Customer database: The service expectations and perceptions revolve around the following factors:

- **Customer** — Individuals, Company, Institutions, etc.
- **Operator** — Housewife, Employee, The officer of the organization.
- **The Range of Service** — Savings, Credit checking/ credit history and payment, other financial services.
- **Class of Customers** —Income group, Corporate Bodies, etc.
- **Working hours** —Morning, Afternoon, Evening, etc.

Service to the account holders: The customers (account holders) need constant advice on the status and its operations. Most of the customers use their account for routine payments affecting the balance. Many times the account holds a large amount and it is not transacted for any purpose.

The MIS should give following reports to the management:

- The non-moving account.
- The account was having the balance of more than, say ₹50, 000.
- The account was going down below minimum balance.
- The regular payments not made.
- The routine credits not arrived.
- The defaults on loan repayment.
- The delays on crediting cheque amounts.

- A sudden rise and fall in the account movement.

Service for business promotions: The bank finances can be utilized in some ways to increase the banking operations by offering credit to the right kind of customers.

The index monitoring system: One more feature of the MIS is to monitor the variety of indices and ratios related to banking operations, which are internal to the banking business.

Human resource upgrade: There is a lot of human aspect in the banking operations. With computerization, the service may become faster or quicker, but still, it requires a human touch and skill.

Issues Related To Management Information System (MIS)

Humanistic factors

- The lack of understanding of the needs of the users by designers (the lack of correct definition of the needs and their analysis).
- The lack of information of the managers and users as they don't know exactly what they want and what their information needs are.
- The lack of participation of the managers and users in system design.
- The lack of understanding of the managers of software and information systems.
- The lack of accuracy in the data collected.

Environmental factors

- The lack of procedures and methodology and stages of creating the system.
- The lack of suitable consultants for designing the system and software.
- The lack of evaluation of environmental aspects in management information systems.
- The lack of serious consideration and adequate investment in this regard.

Organizational factors

- The lack of good conditions for participation and collaboration of the managers, users and system directors.
- The lack of existing systems and methods analysis before the system design.
- The lack of evaluation of the existing power.
- Bad condition of educating the specialized forces.
- Unsuitable implementation of the system.
- Inadequate education of the users.
- Inadequate and incomplete documentation.

JAIIB RBWM Module B Unit 12: Securitisation

Securitisation is the financial practice of pooling various types of contractual debt such as residential mortgage, commercial mortgages, auto loans or credit card

debt obligation (or other non-debt assets which generate receivables) and selling their related cash flows to third party investors as securities, which may be described as Bonds, Pass-through Certificates, or Collateralized Debt Obligations (CDOs).

Securitisation of Assets

Definition of some of the terminologies used in securitisation

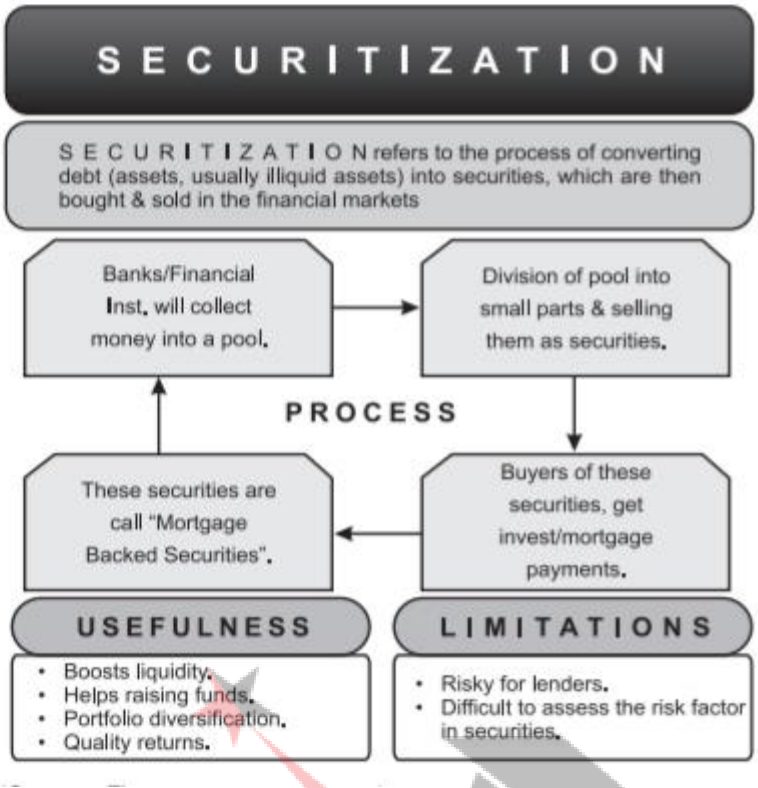
- **Obligor:** means a person who is liable, whether under a contract or otherwise, to pay a debt or receivables in discharge any obligation in respect of a debt or receivables.
- **Originator:** refers to a bank that transfers from its balance sheet a single asset or a pool of assets to an SPV as a part of a securitisation transaction and would include other entities of the consolidated group to which the bank belongs.
- **Securitisation:** means a process by which a single performing asset or a pool of performing assets are sold to a bankruptcy remote SPV and transferred from the balance sheet of the originator to the SPV in return for an immediate payment.
- **Special Purpose Vehicle (SPV):** means any company, trust, or other entity constituted or established for a specific purpose - (a) activities of which are limited to those for accomplishing the purpose of the company, trust or other entity as the case may be; and (b) which is structured in a manner intended to isolate the corporation, trust or entity as the case may be, from the credit risk of an originator to make it bankruptcy remote.
- **Sponsor:** means any person who establishes or promotes a special purpose distinct entity.

Securitization Process

The process of securitization begins when the lender (or originator) segregates loans/lease/ receivablesinto pools which are relatively homogenousin regard to types of credit, maturity and interest rate risk. The pools of assets are then transferred to a Special Purpose Vehicle (SPV).

Securitization thus follows a two stage process:

- In the first stage, there is sale of single asset or pooling and sale of pool of assets to a Special Purpose Vehicle (SPV)in return for an immediate cash payment.
- In the second stage repackaging and selling the security interests representing claims on incoming cash flows from the asset or pool of assets to third party investors by issuance of tradable debt securities. The securitization can be diagrammatically represented as follows:



Advantages of Securitization

Securitization is designed to offer a number of advantages to the seller, investor and debt markets. Advantages of securitization can be summarised as follows:

- With its support, banks can keep loans off their balance sheet, thus reducing need for additional capital
- It is an alternative form to banks and financial institutions of funding risk transfer and capital market development
- It helps reduce lending concentration and improve liquidity
- Supports attainment of funds at lower costs since these are isolated from potential bankruptcy risk of originator
- Provides better matching of assets and liabilities and development of long-term debt market
- Provides diversified pool of uniform assets to banks and financial institutions
- Supports converting non-liquid loans or assets into liquid assets or marketable securities.
- Facilitates transfer of funds from less efficient debt market to more efficient capital market through securitization.

RBI new directives for securitization of standard assets, Loan transfer

- Reserve Bank of India (RBI) has issued separate master directions on transfer of loan exposures and securitization of standard assets. These master directions came after considering public comments on **draft rules issued on June 8, 2020**.
- These master directions will apply to all scheduled commercial banks, excluding Regional rural banks, All-India Term financial institutions, Small Finance Banks,

NBFCs on securitization of standard assets, RBI has directed that while complicated and opaque securitization structures could be undesirable with the perspective of financial stability, prudentially structured securitization transactions can be an important facilitator in a well-functioning financial market as it improves risk distribution and liquidity of lenders in originating fresh loan exposures.

- In the **Master Direction Reserve Bank of India (Securitization of Standard Assets) Directions, 2021**, RBI specified the Minimum Retention Requirement (MRR) for different asset classes.
- For ***underlying loans with original maturity of 24 months or less***, the MRR will be **5 per cent of the book value** of the loans being securitised. For those with original maturity of **more than 24 months as well as loans with bullet repayments, the MRR shall be 10 per cent** of the book value of the loans being securitised.
- In the case of residential mortgage-backed securities, the MRR for the originator shall be **5 per cent of the book value** of the loans being securitised, irrespective of the original maturity. The minimum ticket size for issuance of securitization notes **shall be ₹1 crore, the direction added.**

Securitisation by transfer of assets through securitisation

Assets Eligible for Securitisation

In a single securitisation transaction, the underlying assets should represent the debt obligations of a homogeneous pool of obligors. Subject to this condition, all on-balance sheet standard assets, except the following, will be eligible for securitisation by the originators:

- Revolving credit facilities (e.g., Cash Credit accounts, Credit Card receivables, etc.)
- Assets purchased from other entities
- Securitisation exposures (e.g., Mortgage-backed/asset-backed securities)
- Loans with bullet repayment of both principal and interest*

Minimum Holding Period (MHP)

Originating banks can securitise loans only after these have been held by them for a minimum period in their books. The criteria governing the determination of MHP for assets listed below reflect the need to ensure that:

- The project implementation risk is not passed on to the investors, and
- A minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards.

Minimum Retention Requirement (MRR)

The MRR is primarily designed to ensure that the originating banks have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitized. The guidelines stipulate

MRR of 5% of the book value of the loans being securitized for Loans with an original maturity of 24 months or less and 10% of the book value of the loans being securitized for Loans with an original maturity of more than 24 months. For Bullet repayment loans! receivables, 10% of the book value of the loans being securitized.

Minimum Retention Requirement (MRR)

Type of asset	MRR
Assets with original maturity of 24 months or less	Retention of right to receive 5% of the cash flows from the assets transferred on pari-passu basis.
Assets with original maturity of above 24 months	Retention of right to receive 10% of the cash flows from the assets transferred on pari-passu basis.
Assets with bullet repayment of both principal and interest	

Accounting and Asset Classification of MRR

The asset classification and provisioning rules in respect of the exposure representing the MRR would be as under:

- The originating bank may maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the consolidated amount receivable in amortisation of the MRR and its periodicity should be clearly established and the overdue status of the MRR should be determined with reference to repayment of such amount. Alternatively, the originating bank may continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.
- In the case of transfer of a pool of loans other than retail loans, the originator should maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.
- If the originating bank acts as a servicing agent of the assignee bank for the loans transferred, it would know the overdue status of loans transferred which should form the basis of classification of the entire MRR/individual loans representing MRR as NPA in the books of the originating bank, depending upon the method of accounting followed.

Securitisation of NPA

- Sale of Stressed Assets by Banks
- Acquisition of Stressed Financial Assets by ARCs
- Issue of Security Receipts (SRs)

JAIIB RBWM Module C (Support Services- Marketing of Banking Services/ Products)

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JAIIB RBWM Module C Unit 1: Marketing: An Introduction

Marketing in Banking

- **Sir Frederick Seebohmn define** 'the creation and delivery of customer - satisfying services at a profit to the bank'
- **Kenneth Andrew defines Bank Marketing** as 'the matching of bank's resources with the customer's needs in the most profitable manner'.

Customer is the centre of attraction in retail banking and marketing and all the activities have to be focussed towards

- Identifying the customers' needs,
- Developing appropriate products to satisfy their needs,
- Providing them with efficient delivery channels for availing the products.
- Making them avail the products continuously.

Marketing in Retail Banking

The process of marketing comprises different stage:

- Marketing Analysis
- Marketing Planning
- Marketing Implementation
- Marketing Control

Marketing Mix in Retail Banking

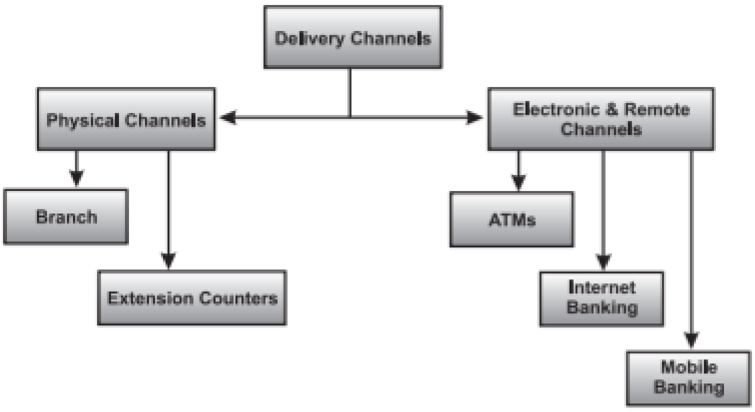
Fundamental ingredients of an effective marketing mix in retail banking which are as follows:

- Product
- Price
- Promotion
- Place
- People
- Process
- Physical evidence

The success of the seven Ps and the marketing strategies are measured only by the responses from the customers from the point of view of need satisfaction.

JAIIB RBWM Module C Unit 2: Delivery Channels in Retail Banking

Delivery Channels



Physical / Direct Channels

- **Branch:** A branch, banking center or financial center is a retail location where a bank, credit union, or other financial institution offers a wide array of face-to-face and automated services to its customers.
- **Extension Counter**: Extension counters provide limited banking services such as deposit/withdrawal transactions, issuing and encashment of drafts and mail transfers, issue and encashment of travellers cheques, sale of gift cheques and collection of bills.

Electronic & Remote

Automated Teller Machines (ATMs)

- **An automated teller machine also known as an Automated Banking Machine (ABM) is an electronic telecommunication devic**e that enables the customers of a financial institution to perform financial transactions, particularly cash withdrawal, without the need for a human cashier, clerk or bank teller.

The Services Normally Offered At An ATM Are:

- Cash withdrawal
- Cash Deposit
- Account information
- Regular bills payment
- Balance Enquiry
- Mini Statements
- Money Transfer
- Purchase of Re-load Vouchers for Mobiles

Types Of ATMs

- **White Label ATM**: White Label ATMs are those ATMs which set up, owned and **operated by non-bank entities.** To aid financial inclusion and drive ATM penetration in the country the Reserve Bank of India has permitted the launch of White Labelled ATMs (WLAs) i.e private non-bank companies to set up, own and operate its own brand of ATMs in the country. These white label ATMs will not display logo of any particular bank. **TATA launched the first white label ATM in India under the brand name of Indicash.**
- **Brown Label ATMs:** These **ATMs are owned and maintained by service provider whereas a sponsor bank** whose brand is used on ATM takes care of cash management and network connectivity.
- **Onsite ATMs**: These are **ATM machines that are set up in the premises where there is a bank branch so that both the physical branch and the ATM can be used.** This is known as being on site and this can be used for several purposes. Many people can use this to avoid the lines that are present in the branch and hence save on the time required to complete their transactions.

- **Offsite ATMs:** These are the machines that are set up on a standalone basis. **This means that the bank has a place where there is only an ATM machine then this becomes an offsite ATM.** This is done to ensure that the bank reaches out to more geographical areas and that people are able to use its services even when there is no bank branch in the area.

Point-of-sale (POS) terminal

A point-of-sale (POS) terminal is a computerised replacement for a cash register which can process credit and debit cards. A customer needs to enter a card PIN to complete the transaction using the PoS terminal.

How to install one?

If you are a merchant, then you can request the bank where you have an account to install PoS machines at your establishment.

What are the charges?

The end-customer does not have to pay any charges for swiping his or debit/credit cards at the PoS terminals.

Separate charges for debit and credit cards

MDR is capped for debit cards but not for credit cards. Effective July 1, 2012, RBI capped the MDR for debit cards at 0.75 per cent of the transaction amount for value up to Rs.2,000 and 1 per cent for a transaction amount for value above Rs.2,000. For credit cards, the MDR varies between 1.5 per cent to 2.5 per cent. Following the withdrawal of legal tender status to the old Rs.500 and Rs.1,000 currency notes, RBI had asked banks to waive off the MDR till the end of December. Last week, RBI also lowered the MDR cap for debit cards effective between January 1 to March 31, 2017. In this period, MDR is capped at 0.25 per cent for debit card transactions up to Rs.1,000 and 0.5 per cent for transactions above Rs.1,000 up to Rs.2,000.

Mobile Banking

Mobile banking is a facility which enables customers to initiate and/or perform banking tasks on their mobile phones. This is provided by most of the banks in India and abroad. Customers can use mobile banking to view their **account balance, make instant fund transfers and pay bills, etc.**

There are various types of mobile banking, viz. via SMS, USSD and mobile apps. Some of the banks like SBI, have incorporated services like loan approval and linking of insurance policy in their mobile banking apps. Let us read the features and benefits of mobile banking and how to use mobile banking.

Banks provide mobile banking services to their clients in the different ways listed here:

- Mobile Banking over mobile applications (for smartphones; e.g. SBI Yono and iMobile by ICICI Bank, etc.)

- Mobile Banking over SMS (also known as SMS Banking)
- Mobile Banking over Unstructured Supplementary Service Data (USSD)

Immediate Payment Service (IMPS)

The full form of IMPS is an Immediate Payment Service. It enables 24 x 7 electronic fund transfer services in which the transaction is carried out between two bank accounts in real-time and on an immediate basis. IMPS fund transfer can be done through online banking as well as mobile banking. Immediate Payment Service **was launched in 2010** and is now one of the most widely-used forms of electronic payments across India.

Objectives of IMPS

- To enable bank customers to use mobile instruments as a channel for accessing their banks accounts and remit funds
- Making payment simpler just with the mobile number of the beneficiary
- To sub-serve the goal of Reserve Bank of India (RBI) in electronification of retail payments
- To facilitate mobile payment systems already introduced in India with the Reserve Bank of India Mobile Payment Guidelines 2008 to be inter-operable across banks and mobile operators in a safe and secured manner
- To build the foundation for a full range of mobile based Banking services.

IMPS Transfer via MMID and Mobile Numbers

- With IMPS it's easier to transfer money through your mobile number. All you need to do is register your mobile number for IMPS service with your bank (can do it online as well). If not online you can visit the nearest bank branch and get this done. Once your mobile number is registered, **you will be given a 7-digit MMID code from your bank**. MMID code is essential to initiate IMPS transfers through your mobile number.

With your MMID number, the funds can be transferred easily using the following steps:

- Simply log in to your mobile banking app with your User ID and password
- You will see the fund transfer section on the app, there you can select the IMPS option
- Now enter the beneficiary's details like the bank account number, mobile number, and the MMID code
- After this, you can simply verify the transaction using an MPIN or by entering the OTP sent you to via SMS

Unified Payments Interface (UPI)

- **Unified Payments Interface (UPI)** is a system that powers multiple bank accounts into a **single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant** payments into one hood.** It also caters to the **"Peer to Peer"** collect request which can be scheduled and paid as per requirement and convenience.

- With the above context in mind, NPCI conducted a pilot launch with 21 member banks. The **pilot launch was on 11th April 2016 by Dr. Raghuram G Rajan, Governor, RBI** at Mumbai. Banks have started to upload their UPI enabled Apps on Google Play store from 25th August, 2016 onwards.

Features of UPI

- Immediate money transfer through mobile device round the **clock 24*7 and 365 days.**
- Single mobile application for accessing different bank accounts.
- Single **Click 2 Factor Authentication –** Aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.
- Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.
- Bill Sharing with friends.
- Best answer to **Cash on Delivery hassle, running to an ATM or rendering exact amount.**
- Merchant Payment with Single Application or In-App Payments.
- Utility Bill Payments, Over the Counter Payments, Barcode (Scan and Pay) based payments.
- Donations, Collections, Disbursements Scalable.
- Raising Complaint from Mobile App directly.

Participants in UPI

- Payer PSP
- Payee PSP
- Remitter Bank
- Beneficiary Bank
- NPCI
- Bank Account holders
- Merchants

UPI - Benefits to the Ecosystem participants

Benefits for banks:

- Single click Two Factor authentication
- Universal Application for transaction
- Leveraging existing infrastructure
- Safer, Secured and Innovative
- Payment basis Single/ Unique Identifier
- Enable seamless merchant transactions

Benefits for end Customers:

- Round the clock availability
- Single Application for accessing different bank accounts
- Use of Virtual ID is more secure, no credential sharing
- Single click authentication
- Raise Complaint from Mobile App directly

Benefits for Merchants:

- Seamless fund collection from customers - single identifiers
- No risk of storing customer's virtual address like in Cards
- Tap customers not having credit/debit cards
- Suitable for e-Com & m-Com transaction
- Resolves the COD collection problem
- Single click 2FA facility to the customer - seamless Pull
- In-App Payments (IAP)

BHIM UPI Payments App

- **BHIM or Bharat Interface for Money, is a complete payment solution app that works on the Unified Payments Interface (UPI) system.** BHIM is a digital payment method that allows users to make various transactions such as sending and requesting money with a Virtual Payment Address (VPA) on a real-time basis. Money can be sent and received instantly on **all 365 days in a year on a 24/7 basis.** The service can also be used on bank holidays.
- There is no need to provide bank account details such as account number or IFSC code, all transactions can be carried out using a VPA. Customers can directly pay users using their VPA or scan and pay using the QR code option in the BHIM app.

Features of BHIM App:

- **Instant money transfer**: With the BHIM app, money can be sent on a real-time basis at anytime and from anywhere. Also, there is no cumbersome process of adding beneficiary and filling up account details such as account number and IFSC code.
- **No bank holidays**: The best part about this app is that you can send and receive money even on bank holidays and weekends.
- **Split bill with friends**: The app also allows users to split bills with multiple users.
- **Payment reminders**: Another feature of this app is the facility to schedule payment reminders.

Benefits of BHIM App

- Transactions are simple, fast, and secure
- No additional charges
- The app is free for download
- Payments can be made to non-UPI banks as well

- The app works 24/7

How to Enroll Yourself as a Merchant on UPI

- Download the BHIM Aadhaar Baroda Pay Android App
- Fill the application form and sign the merchant agreement
- The bank will carry out the on-boarding registration process and agreement through its regions/zones

Transaction Limit and Charges of BHIM

- You can make a transaction where the **maximum amount is Rs.10,000**. The maximum amount of money you can transfer **within 24 hours is Rs.20,000**. There are now charges for making a transaction via the BHIM UPI app.

Internet Banking

What is Internet Banking?

Internet banking, also known as online banking or e-bankingor Net Banking is a facility offered by banks and financial institutions that allow customers to use banking services over the internet. Customers need not visit their bank's branch office to avail each and every small service.

Features of Online Banking

- Check the account statement online.
- Open a fixed deposit account.
- Pay utility bills such as water bill and electricity bill.
- Make merchant payments.
- Transfer funds.
- Order for a cheque book.
- Buy general insurance.
- Recharge prepaid mobile/DTH.

Advantages of Internet Banking

The advantages of internet banking are as follows:

- Availability: You can avail the banking services round the clock throughout the year. Most of the services offered are not time-restricted; you can check your account balance at any time and transfer funds without having to wait for the bank to open.
- Easy to Operate
- Convenience
- Time Efficient
- Activity Tracking

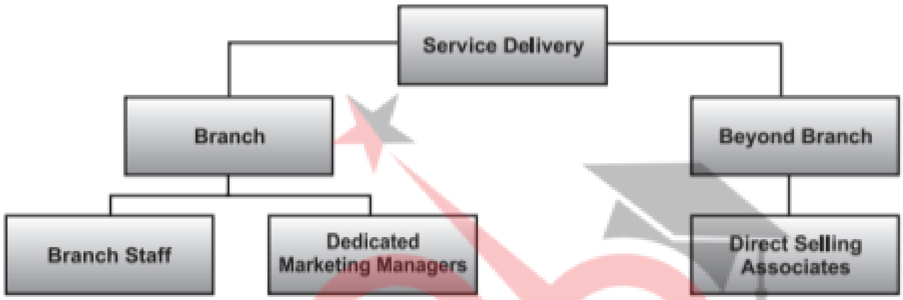
JAIIB RMWM Module C Unit 3: Delivery Models

The success of the Retail Banking depends on how the **products and services are delivered to the customer**. Delivery effectiveness in physical channels is determined more by the persons who are delivering the services.

Delivery Models

The three important human interventions in physical channels are

- Internal Customer - Staff of the Branch
- Specialised Marketing Personnel
- Direct Selling Associates (DSAs).



Dedicated Marketing Managers

- Dedicated Marketing Managers were appointed in addition to **existing internal human resources.**
- These **specialist Marketing Managers (MBAs in Marketing**) were young and energetic and recruited from the campuses of management Schools.
- Some banks appointed them in Junior Management and some other banks in middle management.

The expectations from these officers are explained:

- Market Intelligence
- Potential Sourcing
- Product and Service Delivery Presentations to the identified customer segments
- Right selling to the targeted customer group
- Sales Conversions
- Closing the leads with sales
- Compliance of promises made and conforming to the services delivery standards
- Following up with the operations department for effective process and delivery of products sold.

Direct Selling Agents (DSAs)

- DSAs are agencies appointed by banks to source business for them on a fee basis.
- DSAs are primarily engaged in sourcing Credit Cards and Retail Loans.
- The employees of the DSAs missell credit card products and make the customers fall into a debt trap by misusing the cards.
- Same is the case with misselling of retail loans and in this space, the pricing for the loans are not explained clearly.
- Ultimately this will result in dissatisfaction for the customers and reputation risk for the bank.

Reputation Risk is always a threatening factor in the DSA model

- DSAs focus on pure selling by pushing the products than effective marketing after verifying the needs of the customers and their actual requirements.

TIE-UP with Institutions/ OEMS/DEALERS ETC....

Banks enter into tie ups with the following agencies for extending different types of loans.

- Tie up with Builders as a preferred financier for extending Home Loans to prospective buyers.
- Tie ups with auto dealers is another method adopted by banks for expanding retail credit.
- Sanctioning of Personal Loans under tie up with different institutions is another model adopted by banks to expand retail loans.
- educational loans are disbursed on a tie up basis. Banks set up special counters during the admission season in reputed educational institutions and offer education loans based on merit.

Unit 4: Customer Relationship Management In Retail Banking

Customer Relationship Management In Retail Banking

What is Customer Relationship Management (CRM) in banking in general and retail banking in particular? As we are all aware, there are three elements in CRM viz.

- Customer
- Relationship
- Management

The purpose of CRM is to increase the share of wallet of the customer with the banks' services and increase the per customer profitability of banks. The stages involved in a CRM initiative are

- Capturing the customers' profile through a technology enabled model.
- Dissecting the profiles into common information buckets.

- Designing suitable products and services to cater to the different information buckets.
- Offering the products and services to the targeted and segmented customers from the information buckets with the right pricing.
- Providing the right sales and service processes to achieve total customer satisfaction.
- Tracking the customer information on a dynamic basis to design new products and services to meet the changing dynamics of the customers.

Customer optimisation is the essence of CRM and can be addressed through three dimensions viz.

- Acquisition of New Customers who are immediately profitable to the bank.
- Retention of Existing Customers who are most profitable and valuable to the Bank for the longest duration.
- Expansion of the customer relationship with the bank encouraging more purchases and shifting the less profitable customers to lower - cost delivery channels.

WHY CRM?

Why CRM? This is an important question which has to be answered by all concerned in retail banking Without CRM, whether banks cannot track the customers' profile and offer those products and services to match their expectations and needs? But the following needs for banks for implementation of a CRM program will answer the above questions.

- Need to increase operational efficiencies
- Need to derive more value from employees.
- Increasing Competition in retail banking.
- Rising NPAs.
- Increasing Importance of Fee Based Income.
- Delivery Channel Efficacy
- Application of Technology

CRM is not just an option for the banks but a compulsion to achieve business synergies and optimization of resources. CRM as a tool can be effectively utilized to explore new frontiers in product development and management and improve the per customer profitability in addition to building and sustaining customer loyalty and brand equity. Let us discuss each of these needs in detail for a better understanding of CRM.

Implementation Aspects of CRM in Bank

How does CRM Work?

CRM systems are designed to compile information on customer across different channels- or points of contract between the Customer and the Bank. L**ikes telephone, live chat, direct mail, social media Etc.**

Security concerns of CRM

Business need to ensure that the strange and analysis of the customer data must have the highest levels of **protection against cyber criminals, identity theft and other breaches of securities.**

Features of CRM Software

- Marketing automation
- Sales force automation
- Contract centre automation
- Geolocation technology or location-based services

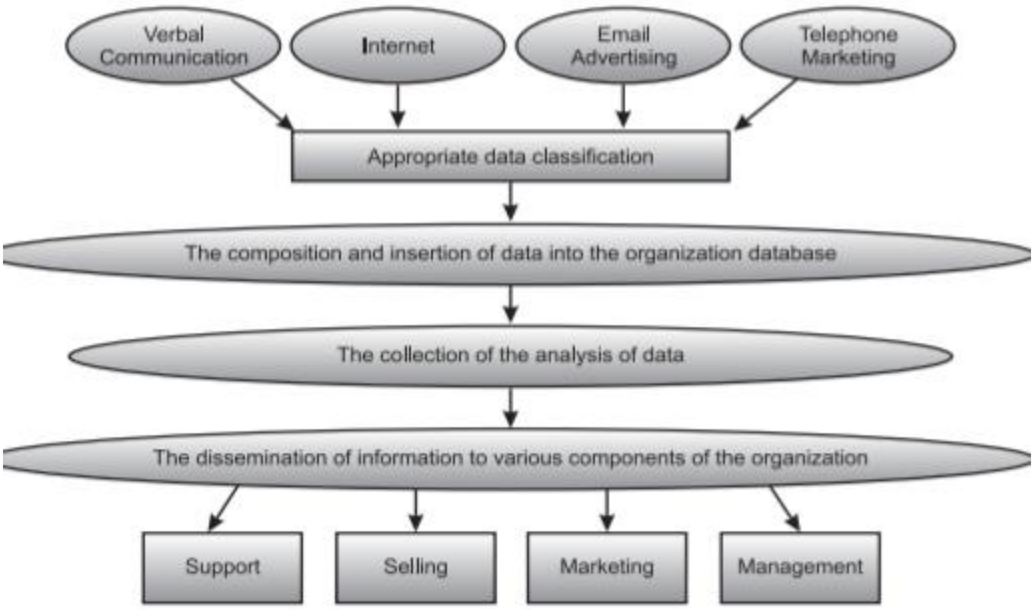
Main Component of CRM

The main Component of CRM are building and managing customer relationship through marketing, observing relationship as they mature through distinct phases, managing these relationship at each stage and recognizing that the distribution of value of a relationship to the firm is not homogenous.

Implementation Process of CRM In Banks

Though CRM is a must in the retail banking scenario in India, the process of implementation is a tough one because of the different nature of business process structure, organization structures and the technology structure and architecture, to name a few. ***Let us see the different key issues in the implementation of CRM by banks***.

- Business Processes
- Information Processes
- Information Systems
- Internal Organisational Culture



Implementation Stages In CRM

Four stages through which CRM is implemented. Let us now discuss the four stages.

- Identification of Customers
- Classification of Customers
- Interaction With the most Valued Customers
- Customisation of Bank's Products and Services for Different Customer Segments

Benefits of CRM

An effective CRM implementation in retail banking will benefit the banks in more than way. ***The following are some of the important benefits that accrue to banks and enhance the customer focus of the banks:***

- Improves the customer satisfaction and cross selling potential for the banks.
- Helps the banks to derive increased share of wallet from the customer.
- Enhances the operational efficiencies of the banks.
- Helps to take on competition as CRM results in more customer focus and retention.
- Helps to understand Customer Lifetime Value through the structured data base on a dynamic basis.
- Improves customer service through effective integration of all remote delivery channels.
- Helps to manage multi delivery channels in a better way to adopt and maintain uniform service standards across channels.
- Enables to achieve seamless information flow across functions in delivery.
- Results in better relationship marketing as customer segments are better target based on the data available in CRM.

JAIIB RMWM Module C Unit 5: Service Standards for Retail Banking

Banking Codes and Standards Board of India (BCSBI)

In November 2003, RBI had constituted a committee **on "Procedure & Performance Audit of Public Service"** under the chairmanship of **Shri S.S Tarapore** (Former Deputy Governor).

Banking Codes and Standards Board of India (BCSBI) prescribed the various compliance requirements for the promises made by the banks for offering services to retail banking customers and they have codified the promises into a document. The commitments made by banks for various services offered by banks are reproduced in the following pages. Most of the prescriptions are applicable to individual customers availing retail banking services.

The Code has been developed to:

- Promote good and fair banking practices by setting minimum standards while dealing with you.
- Increase transparency so that you can have a better understanding of what you can reasonably expect of the services.
- Encourage market forces, through competition, to achieve higher operating standards.
- Promote a fair and cordial relationship between you and your bank.
- Foster confidence in the banking system.

The Banking Codes and Standards Board of India (BCSBI) in collaboration with the Indian Banks' Association (IBA) has evolved two codes - Code of Bank's Commitment to Customers and the Code of Bank's Commitment to Micro and Small Enterprises which have been voluntarily adopted by member banks.

As per Annual Report of RBI dated 25th August 2020, Reserve Bank of India (RBI) has decided to dissolve the Banking Codes and Standards Board of India (BCSBI). BCSBI was set up by the Reserve Bank in February 2006 as an independent and autonomous body, assigned to formulate codes of conduct to be adopted by banks voluntarily for ensuring fair treatment of customers. However, the Code has left itsimprint in the customer service policies of the banks and hence, it is critical to have a fair understanding of the Code. The customer service policies of most of the banks are based on the guidelines designed as per the code.

Chairman, BCSBI and members of the Governing Council held a meeting with the Principal Code Compliance Officers of member banks at Mumbai on March 27, 2010 which was very well attended. Issues emanating during discussions are listed below with BCSBI's clarifications.

Main Aims and Objects Of Forming BCSBI

- To plan, evolve, prepare, develop, promote and publish voluntary comprehensive Codes and Standards for banks, for providing for fair treatment to their customers.
- To function as an independent and autonomous watch dog to monitor and to ensure that the banking Codes and Standards voluntarily adopted by banks are adhered to, in true spirit by banks in delivering the services, as promised, to their customers.
- To conduct and undertake research of the Codes and Standards currently in vogue in and outside India.
- To enter into covenants with banks on observance of the codes and standards and for that purpose to train employees of such banks about the Banking Codes.

Other Aims and Objects

- To advertise and publish promotional literature in newspapers and otherwise about the Codes and Standards for the guidance and knowledge of the public through Web site, advertisements in the newspapers, magazines, journals, TV/Radio, hoardings or any other mode which the Society may deem fit.
- To take up specific assignments, if any, in the areas coming under the Society's objects as projects, turnkey solutions or on any other terms of contracts with in-house resources or with the participation of outside agencies in order to fully implement the Code.
- To organize teaching and training courses, conferences, seminars, lectures and similar other activities relating to the Codes and Standards or implementation of the said Codes and Standards.
- To publish journals, reports, pamphlets, books, booklets, research papers in furtherance of the objects of the Society.
- To maintain close contacts with Indian Banks Association, other similar institutions, Boards and organizations having similar objects or allied objects by way of subscription, enrolment as a member thereof, financial or other kind of assistance, collaboration, cooperation and in any manner as the Society may deem fit.

- To initiate, establish and participate in collaborative activities with other institutions/ organizations having similar objects within and outside the country.
- To establish, acquire, maintain and manage facilities such as offices, other accommodation, library, computer centres, etc.

Code of Bank's Commitment to Customers

Sl. No.	Para of the Code	Issues Raised by Member Banks	BCSBI Clarifications
1		There are multiple codes and charters for customer service from BCSBI, IBA and RBI. There may be need to move towards unification thereof. The contents covered in the Fair Practices Code are also covered in the BCSBI Code. BCSBI member banks are required to follow, practice and provide information on both the codes to customers. Branches are often getting confused.	IBA has clarified on its website that the following codes evolved by them are not applicable to members of the BCSBI. • Bankers' Fair Practice Code • Fair Practice Code for Credit Card Operations • Model Code for Collection of Dues and Repossession of security. Member banks are, therefore, required to follow BCSBI Codes. A reference is invited to the introductory para in the Code which clarifies that the Code does not replace or supersede regulatory or supervisory instructions of the Reserve Bank of India (RBI) and that banks will comply with such instructions/directions issued by RBI from time to time. Provisions of the Code may set higher standards than what is indicated in the regulatory instructions and such higher standards will prevail as the Code represents best practices voluntarily agreed to by banks as their commitment to customers.
2	**2.1.6 To Publicise The Code We Will:** **a.** provide you with a copy of the Code, on request,	As the Code is a large document, portions applicable to the product opted for may	The full text of the Code must be given to the customer as he may avail of different products / services offered by the bank and he must be made aware of all his rights.

	over the counter or by electronic communication or **mail** **b.** provide you (new customer) with a copy of the Code when you open your account	be given to the customer	
3	**3.2 'Do Not Call Service'** When you become our customer, we will automatically register your name under our 'Do Not Call ' Service. We will not inform/extend to you through telephone calls/SMS/e-mails any new product /service unless and until you inform us in writing that you consent to avail of this information/ service	Why cannot there be an entry in the DNC only at the specific instance of the customer? **i)**The customer is entitled to receive all updated information on our products / services to enable him to take a prudent decision. ii)It is the responsibility of the bank to inform the customers also, as to the latest information on products and services. iii)In the era of technology the most convenient way of marketing is e-mail, telephone,	The underlying principle of the Code is the need for explicit consent and not implicit consent. The customer has a right to privacy and should not be taken for granted. Member banks can ask the **customer to exercise his option, in writing**, as to whether he would like to receive information about new products / services offered by the bank over the telephone, through SMS or e-mail before using these modes for marketing their products.

		SMS etc. but item 3.2 of the Code says that it should be done only after seeking specific consent under 'Do Not Call' service.	
4	**3.4.2 Changes in Fees & Charges** If we increase any of these charges or introduce a new charge, it will be notified one month prior to the revised charges being levied / becoming effective.	The medium through which customers can be intimated about changes in fees and charges should be included in the Code. For example: any of the following modes: i. Notice at the branches ii. Annexure to the statement of account iii.Letters iv.e-mail v.SMS vi.Website vii. Newspaper	A reference is invited to Para 3.5.1 of the Code wherein the modes of communicating changes to terms and conditions have been listed. Banks need to ensure that changes to terms and conditions including fees and charges reach the customer 30 days prior to the changes becoming effective.
5		Is Email a valid mode of communication for customers who have given their email ID to the bank for regulatory purpose - informing that the account is inoperative / dormant / Nomination	If a customer has registered an e-mail id with the bank, communications may be sent to him by e-mail.

		confirmation etc	
6	4. **Advertising, Marketing and Sales** d. We may, from time to time, communicate to you various features of our products availed by you. Information about our other products or promotional offers in respect of our products/services, will be conveyed to you only if you have given your consent to receive such information/ service either by mail or by registering for the same on our website or on our phone banking/customer service number.	In spite of DNC registrations, we (the bank) will continue to intimate changes in product features and send email/SMS alerts for security purposes.	Please see clarifications at items 3 & 4 above.
7	**5.1 Credit Reference Agencies** d. If your loan account has been in default, and thereafter regularised, we will take steps to update this information with the CRA in the	This para needs to be modified to read as “If your loan account has been in default, and thereafter regularised, bank will take steps to update this information as applicable with the	As per Regulation No.10 (a) (ii) (A) to the Credit Information Companies (Regulation) Act, 2005 credit information is to be updated on a monthly basis or at such shorter intervals as may be mutually agreed upon between the credit institution and credit information company.

	next monthly report.	CRA **in 60 days** in the format as per guidelines issued by CRA/RBI from time to time	
8	**6. Collection of Dues** Whenever we give loans, we will explain to you the repayment process by way of amount, tenure and periodicity of repayment. However, if you do not adhere to repayment schedule, a defined process in accordance with the laws of the land will be followed for recovery of dues. The process will involve reminding you by sending you notice or by making personal visits and/ or repossession of **security**, if any.	'Calling and SMS alerts' should be included as modes for contacting the borrower.	It is preferable for the bank, in its own interest, to send reminders in writing or through personal visits.
9	**6. Collection of dues** b. We will also make available on request details of the recovery agency firms/ companies at our branches.	The provision should be amended to read as "these details are available on the website and can also be obtained by writing to the	The bank is committed to have details of recovery agents on their websites. Therefore, if a customer requests the branch for details of the recovery agency firms the same can be provided to the customer at the branch.

		Nodal officer of the Bank."	
10	**8.1.1 Savings/Current Accounts - Statements (a)** a. To help you manage your account and check entries in it, we will provide you with a monthly statement of account unless you have opted for a pass book.	Banks should have the freedom to decide periodicity of sending physical statements to customers. However, the customer can walk into the branch to collect monthly statements free of cost.	According to RBI regulations banks must issue monthly statements of account, free of cost to those customers who opt for statements of account.
11	**8.1.1 Savings/Current Accounts Statements** e. We will ensure that entries in your pass book / statements are brief and intelligible	i)Entry of the name of the payee of a cheque in case of debit entries need not be entered as the customer is expected to keep a record of the cheques he issues. ii)Existing systems do not allow such entries.	This is a fraud-prone area and the source of several complaints. It is, therefore, imperative that member banks modify their procedures and systems to enter the name of the payee in the pass book / statements of account.
12	**8.1.2 Term Deposit** When you place a term deposit with us, we will f: obtain Form 15 H / 15 G from you at the time of application if you are not liable to	The provision may be modified to read as **We will accept** Form 15 H / 15 G from you at the time of application if you are not liable to pay tax	The bank is committed to explain the IT rules and obtain Form 15 G /15H, at the time of placement of Term Deposit. If a bank is willing to accept an application for FD through electronic media, it can also transmit Form 15G / 15 H through internet to the customer to enable him to submit the same.

	pay tax on your interest income.	on your interest income. Additionally it needs to be mentioned that: **For FDs booked through Internet banking/ phone banking the customer will have to walk into the branch and submit Form 15H/15G**	
13	**8.1.6 Dormant / Inoperative accounts** We will b. notify the joint holder/s also before an account is classified as inoperative / dormant	How can the bank notify the joint account holders before an account is classified as dormant, when the address of the joint account holders are different? The system only captures the address of the 1st account holder.	It is important to advise the joint account holder(s) that the account is proposed to be classified as dormant / inoperative. The joint account holder(s) has the power to operate the account, except if mandated otherwise. The account opening form should have the provision for address of the joint account holder(s) and the system should be enabled to capture contact details of all the account holders. Yes. The Code provides that the account holders be advised that their account is liable to be classified as dormant after a period of inoperation of 1 year and 9 months i.e. three months before the account is classified as dormant / inoperative.

		ii) Is it practically possible to assess any account as dormant / inoperative or unclaimed three months in advance? Decision to classify any account as dormant / inoperative or unclaimed could be taken only after the expiry of the stipulated period?	
14	**8.2 Clearing Cycle / Collection Services** b. We will pay you compensation as per our Cheque Collection / Compensation policy for any delay in collection of instruments, without waiting for a demand.	i)With regard to collection of cheques, it is mandated that the collecting bank should compensate its customer for delay in collection. No liability is fixed on the paying bank, for delay, if any, at its end. The paying bank is expected to remit the proceeds of the inward instrument as early as possible, but in	A person who deposits a cheque to be collected from another bank is a '**customer**' of the collecting bank. Compensation for delay, must, therefore, be paid by the collecting bank. The customer has a relationship with his bank and not with the paying bank. In the present CBS environment banks should keep all details of accounts including phone number(s) of customer(s) up-to-date so that the data can be accessed at all branches besides the home branch.

		any case by the following day of receipt. Time limit and compensation amount should be set for delays at the paying bank and such amount should be remitted voluntarily. ii)RBI has instructed that a customer should not be inconvenienced in any way, just because his account has been rendered inoperative. In the scenario of 'Anywhere banking' cheques drawn on a dormant account may be presented at another centre. The non-home branch may not be able to contact the customer. Hence, it will be difficult for them to honour the cheque which may cause inconvenience to the customer.	Bankers have to use their discretion and exercise due diligence while allowing operations in such accounts.

15	**8.3 Cash Transactions** d**.** We will reimburse amounts wrongly debited in failed ATM transactions within a maximum period of 12 days from the date of receipt of your complaint.	While RBI has set a limit of 12 working days for settling these transactions, many a times there is a delay beyond 12 working days when the ATM is owned by some other bank. In such cases, the compensation to be paid should be shared by the other bank and time limit for responding to other bank ATM failed transactions should be specified.	Compensation should be paid by the card issuing bank to its **customer**. The customer has a relationship with his bank and not with the ATM owning bank.
16	**8.3.1 Direct debits and standing instructions** We will b. act upon mandates given by you for direct debits [say Electronic Clearing Service (ECS)] and other standing instructions. In case of any delay or failure in executing the mandate resulting in financial loss or	In case of pensioners' account Life Certificate is obtained during November every year. In the event of death of pensioner say during December and bank not being informed, the bank shall continue to pay pension till October (till due date for next Life	"The paying branch before commencement of pension obtains an undertaking from the pensioner in the prescribed form for this purpose and therefore, can recover the excess payment made to the pensioner's account due to delay in receipt of any material information or due to any bonafide error. The bank has also right to recover the excess amount of pension credited to the deceased pensioner's account from his/ her legal heirs/nominees."

	additional cost, we will compensate as per the compensation policy of the bank. If the mandate cannot be executed due to insufficient balance in your account, we will levy charges as per the Tariff Schedule as amended from time to time	Certificate). Standing Instructions accepted under such accounts will allow transfer of funds even after death of the pensioner. Pension paid after death cannot be recovered under such circumstances.	
17	**8.9 Foreign Exchange Services** f. In case of delay beyond the day when the amount is due for credit, you will be compensated (a) for any loss on account of interest for due period beyond the due date and (b) also for adverse movement of forex rate as per the Compensation Policy of the bank.	Compensation would be paid **provided the beneficiary details are correctly mentioned by the remitting bank**	The beneficiary of the remittance is a customer of the receiving bank. Compensation for delay, must, therefore, be paid by the receiving bank. The customer has a relationship with his bank and not with the remitting bank. The receiving bank has to make efforts to ascertain correct beneficiary details.
18	**8.11.1 Loan products Applications for loans and their processing** c. We will give you the Most	i)The various terms of the loan are provided to the loan applicants while applying for a loan and also clearly	The MITC must necessarily contain the most important terms and conditions including those which affect the customer adversely. The sanction letter may not contain all terms and conditions of the loan. Some conditions may form part of the loan agreement. The Most Important

	Important Terms and Conditions (MITC) governing the loan / credit facility you have availed.	indicated on the sanction letter which is accepted by the applicant / borrower. In view of the above the MITCs may not be insisted upon ii)BCSBI may prescribe a format of MITC so that uniformity is maintained and to avoid subjectivity between most important and important terms of loan sanctioned.	Terms and Conditions may, therefore, be listed separately. Banks should be able to decide the most important terms and conditions for each of their products. Terms and conditions of similar products may differ from bank to bank.
19	**8.11.1 Loan Products Applications for loans and their processing** I. We will compensate you for any delay in return of securities / documents / title deeds to mortgaged property beyond 15 days of the repayment of all dues agreed to or contracted.	Compliance with the provision may not be possible under the following circumstances: i) A third party makes final payment and the mortgager does not claim the document; ii)Documents have been mutilated / destroyed due	The mortgager should be advised to collect the documents. The bank should compensate the borrower and assist the customer in obtaining duplicate documents. Courts have to be made aware of the Code commitment and compensation has to be paid for the delay.

		to natural calamity; iii)The account is closed by intervention of Courts and there is a delay in receipt of the title deeds from the Courts.	
20	**8.14.3 Credit Card Statements** a. To help you manage your credit card account and check details of purchases/cash drawings using the credit card, we will offer you free of cost a facility to receive credit card transaction details either via monthly mail and, if you so desire, also through the Internet. Credit card statement will be dispatched on a predetermined date of every month free of cost at your mailing address	Some banks may choose not to send statements in following scenarios- 1) In case no transactions or outstandings are involved 2) In cases after sending the statements the customer is delinquent for over 180 days 3) For oustandings below Rs. 100	Item No. 1 has been noted for consideration at the appropriate time. Credit card statements are required to be sent in the case of scenarios 2 & 3.
21	**8.14.3 Credit Card Statements** c. We will let you know / notify changes in schedule of fees	Besides monthly statement we can let a customer know of changes through emails	A reference is invited to para 3.5.1 - Changes in terms and conditions. (Account statements is one of the modes)

	and charges and terms and conditions. Normally, changes (other than interest rates and those which are a result of regulatory requirements) will be made with prospective effect giving notice of at least one month. The changes will be notified along with the monthly statement of account or copy thereof	or SMS or letters. However it is also the customer's responsibility to have latest address/mobile number and email id updated with the bank	

Code of Bank's Commitment To Micro And Small Enterprises

Sl. No.	Para of the Code	Issues Raised by Member Banks	BCSBI Clarifications
1	**5.3 Sanction / Rejection** We will f. Follow a rating system, the parameters of which will be shared with you.	A bank has suggested that as there are several specific internal parameters on the basis of which a bank rates a customer and takes a call whether to lend or not to lend and would vary from product to product, sharing of the parameters without complete information would not be of any use to the applicants. Moreover, the reasons for rejection are invariably shared with the applicants as prescribed by RBI.	Parameters need to be shared so that the customers are able to take appropriate measures to ensure that their performance on these parameters meet the required standards

Other Issue

Sl. No.	Issues Raised	BCSBI's Clarifications
1	Nomination is recorded in the principal account of the depositor (Savings a/c) and FDR is issued at the request of the depositor by debit to the Savings account. • Do we need to obtain a separate nomination for FDR. • Whether position will change when the account is opened with sweep facility.	Fixed Deposit is a separate account and will need separate nomination even though the FDR is issued to the debit of the Savings Bank account of the customer. When an account is opened with sweep facility the application form itself should clearly specify the position regarding nominee for the deposit.
2	Issuance of chequebook to blind and illiterate person. How will the bank clear such cheques which are with thumb impression?	RBI has issued instructions that banks should offer all the banking facilities including cheque book facility, ATM facility and locker facility to the visually challenged persons and also assist them in withdrawal of cash following the orders dated 05.09.2005 passed, in Case No. 2791/2003, by the Honourable Court of Chief Commissioner for Persons with Disabilities. The Honorable Court observed that visually impaired persons cannot be denied the facility of cheque book, locker and ATM on account of the possibility of risk in operating / using the said facility, as the element of risk is involved in case of other customers as well. Banks may please note that a visually impaired person may be able to sign documents just like other customers.
3	BCSBI newsletter can be provided in e-mail format and contents thereof can focus on Banking Codes initiatives so that it can be widely circulated to bank branches	BCSBI newsletters are available on our website under quick link - Publications. Banks may make use of the same. Initiatives of the BCSBI are included in the newsletters.
4	BCSBI can publish small handy booklets of do's and don'ts regarding customer service which can be purchased by member banks for wide circulation amongst their branches.	BCSBI has placed FAQs on BCSBI, MSE Code, Housing Loans and Credit Cards on its website BCSBI also publishes a quarterly newsletter 'Customer Matters' to

		create awareness which is also available on its website.
5	Training Plan for the BCSBI Code. • Trainers' training: The faculties of training institutes of banks can be trained by BCSBI • BCSBI can also introduce a system of accreditation for proficiency in customer service like NCFM by NSE or certified by AMFI or IIBF. • A chapter on banking code should be made a part of course curriculum of any course on banking done by public or private institutions like NIBM, IIBF, NIIT etc.	BCSBI has held workshops for faculty of banks. BCSBI is willing to lend faculty support to any member bank, if required. Matter is being taken up with IIBF to introduce a Certificate Course on Customer service with due emphasis on the Codes. BCSBI is taking up the matter with NIBM.
6	A trend analysis of customer complaints received by BCSBI may be carried out every month and BCSBI can provide findings of the analysis to all member banks , which will facilitate timely review and corrective actions by the member banks.	The Annual Report of the BCSBI has a paragraph on customer complaints as also a profile of complaints under various heads.
7	Keeping in view the technology interface of the banking services and increasing role of IT in banking services and increasing prominence of alternate delivery channels like ATMs and Internet, a periodical interaction of BCSBI and IT heads of banks would be fruitful.	BCSBI has noted the suggestion and is open to dialogue with IT officials of member banks, if necessary.
8	A periodical report on decisions from Banking Ombudsmen where the bank concerned was found wanting in service levels, can also be provided to all member banks which would also facilitate systemic corrections and improvements in customer service.	Compendium of cases handled by the offices of the Banking Ombudsmen, classified under certain heads like Operations in Deposit accounts, Complaints relating to loans etc. are available at
9	BCSBI may suggest inclusion of a para on Customer service Initiatives under Directors' Report in the Annual Report of banks.	The activities of the Customer Service Committee of the Board of a bank are reported in the Directors Report which forms part of the Annual Report of the bank.
10	BCSBI can follow the SLBC model for spreading the organisational reach to State capitals. In each of the States, one of the member banks can take the responsibility for holding periodical meetings of all member	BCSBI has requested Convenors of SLBCs to disseminate the MSE Code.

	banks on the subjects related to Banking Code compliance and customer service in which a representative of BCSBI as well as a representative from Head Offices of the member bank can also participate.	
11	BCSBI officials visiting the branches are requested to submit branch-wise report regarding the deficiencies observed to facilitate speedy compliance.	BCSBI's objective is to ensure that systemic gaps do not exist in any of the bank branches and not mere compliance of Code provisions by a particular branch.
12	BCSBI officials conduct incognito visits to select branches to evaluate the level of compliance of the codes adopted by the banks. It is considered desirable that the level of compliance is given a rating over a scale of 1-10 or 1-100 and the rating system is made known to the banks so that they can strive for improvement and carry out self assessment periodically.	The suggestion has been noted for consideration

JAIIB RBWM Module C Unit 6: Marketing Information Systems - A Longitudinal Analysis

Marketing Information Systems

Any organization is studded with different Systems, Management Information System (MIS), Computer Information System (CIS), Marketing Information System (MKIS), all of which aid as a proactive tool for Decision Support System (DSS). In order to carry out marketing function effectively, firms would need information and data in respect of various aspects impacting the market of the product or service.

Functions Of MKIS

Marketing information system is a tool for dealing with data pertaining to marketing management. Hence, its functions are related to the process of database management. **The principal functions of MKIS are briefly discussed below:**

- **Collecting and assembling data**
- **Processing of data**
- **Analysing the data**
- **Storage of data**
- **Dissemination of information**

Components Of MKIS

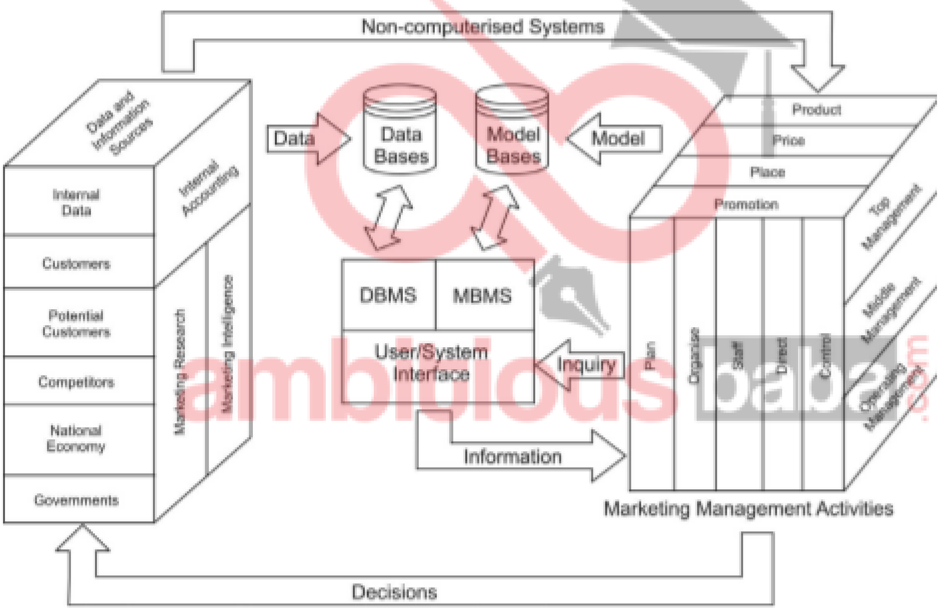
MKIS consists of four subsystems, which facilitate the entire system. These are:

- Internal records system

- Market intelligence system
- Marketing research system
- Marketing management and science system

MKIS Model

For the purpose of this study, the MKIS model of McLeod and Rogers is **shown in Figure** In this, there are two general subsystems which are fairly consistent with the others: they are the input and output subsystems. The input subsystems are internal accounting, marketing intelligence, and marketing research. They gather internal and environmental data for the databases. The output subsystems utilize the databases to produce marketing management information. Marketing managers will not only receive routine reports but enquires are also made interactively to produce ad hoc reports. Through this information, marketing managers can make their decisions on pricing, products, advertising/promotion, distribution and packaging, under the constraints imposed by economics, the government, competitors and the customer needs. This process should be integrated into organizational strategies and decision-making processes to support all levels of marketing functions – planning, organizing, staffing, directing and controlling.



Observations

Any business should process some marketing-related information (e.g. customer addresses, sales orders, merchandise returns, etc.). As McLeod and Rogers suggested, the perceived MKIS support might be of such a low level that it did not seem to exist, which resulted in losing its identity. Alternatively, managers might rely on external MKIS services for marketing information. For the purpose of this study, the companies having no MKISs are excluded from further analyses.

Roles of Computer in Information Systems

Information systems are in use from an ancient time. With the development of computing technology, computers became an important part of today's modern information systems which satisfies speed, dependability etc.

Following are the roles of computers in Information Systems

- Data Collection
- Data Verification
- Data Processing
- Data Storing
- Information Supply
- Information Presentation
- Data Updates
- Security of Data
- Information Sharing
- System Automation

Recommendations

The specific patterns of MKIS usage includes:

- Computers are needed by marketing managers, for retrieving data and then storing and processing it.
- Internal accounting continues to be the most important source of MKIS information while the use of marketing intelligence and marketing research, as information sources, are more balanced.
- Most companies collect data about their customers. Collection of data about competitors and prospective customers is also popular, but this is less computerized.
- The major users of MKIS are the middle-level managers.
- Planning and controlling are still the management functions using most MKIS support.
- Price and product related decisions consume most of the MKIS resources. However, support for marketing mix ingredients is likely to become more balanced.
- Decision models are used mostly for product and price decisions. Computer assisted decision models reflect this.
- The computer software, being used in an MKIS, includes modelling/spreadsheets, conventional/ third-generation programming languages and database management systems. Statistical analysis software, logic programming languages and expert system shells are not used very much.

Advantages Of MKIS

MKIS gives several advantages in managing information for marketing function. Some of these are discussed:

- The MKIS framework provides a set of procedures and methods for regular, planned, purpose oriented and systematic collection of data, its analysis, storage and retrieval.
- It helps in improving the data capture process, checks for reliability, consistency and quality of data.
- The operation of collecting, processing and transmitting data becomes smooth and the information flow to the decision-makers takes place in a ready for decision form.
- Provides tailor made information for specific needs.
- It facilitates repetitive use of the same information for different purposes.
- It also helps in sorting out conflicting information, which otherwise would lead to confusion and misdirect the decisions.
- It results in integration of information obtained from various sources regarding different aspects. It also helps in providing instant access to company wide information and cross sharing of data, enabling better service to the customer.
- It creates customer insights from routine transactional data. This helps in developing and delivering customer-oriented offers and building of better customer relations.
- It serves as a total knowledge-management mechanism. It supports capture of knowledge, makes the knowledge flow where it is required and ensures its availability in readily usable form.

JAIIB RBWM Module D Wealth Management

No. of Unit	Unit Name
Unit 1	Important of Wealth Management
Unit 2	Investment Management
Unit 3	Tax Planning
Unit 4	Other Financial Services Provided by Banks

JAIIB RBWM Module D Unit 1 Importance of Wealth Management

Wealth Management- An Introduction

Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients. Using a consultative process, the advisor gleans information about the client's wants and specific situation, then tailors a personalized strategy that uses a range of financial products and services.

In brief Wealth Management Services can be summarized in three stages,

- Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients.
- A wealth management advisor is a high-level professional who manages an affluent client's wealth holistically, typically for one set fee.
- This service is usually appropriate for wealthy individuals with a broad array of diverse needs.

Wealth Management – Broad View

Wealth management is not just investment advice rather more than that. It can encompass all parts of a person's financial life. Instead of attempting to integrate pieces of advice and various products from multiple professionals, high net worth individuals may be more likely to benefit from an integrated approach. In this method, a wealth manager coordinates the services needed to manage their clients' assets, along with creating a strategic plan for their current and future needs—whether it is will and trust services or business succession plans.

Following are some of the important aspects of wealth management:

- Understanding Investment needs: Clarity of the investment needs should be of the utmost priority to set the direction.
- Products and Services: Knowing the right products and services suitable for you will enable you to take the right decision to achieve your financial goal.

- Advisory Services: Involving the professionals will enable you to take advantage of their professional experience and expertise.
- Estate Planning: Estate Planning is also a very essential part of your wealth management as it ensures and preserves wealth for a longer term.

Wealth Management Process

Wealth Management process involves the following steps:

- Assessing the current financial situation of the client.
- Identifying financial goals.
- Designing a customized solution to achieve the goals.
- Implementing the financial strategies into the plan.
- Monitoring the results and reviewing the plans.

Wealth management provides direct and dynamic Customer Services. Wealth management deals in Asset Allocation Management, Tactical Management, and Diversified Management.

- **Asset Allocation management**: The Asset allocation management is an investment advisory fully dedicated to managing investment portfolios with the only focus on initiating the income generation. It aims to balance the risk by moving among investment categories.
- **Tactical Management**: Tactical management helps in selecting the appropriate ways to achieve financial strategies by choosing the best alternatives and tactics.
- **Diversified Management**: Diversifier management team help its clients in providing a flexible model which helps in meeting the need of the client.

Wealth Management Products and Services

There are so many wealth products and services in the market. Traditionally, customers have been investing large amount of money in bank deposits owing to convenience and safety. we shall discuss here a few important and common products and services which are generally offered by wealth management professionals.

- Alternative Asset
- Bonds, Corporate Fixed Deposits, Fixed Maturity Plan & Debentures
- Insurance
- Mutual Funds
- Systematic Investment Plan
- Portfolio Management Services
- Real Estate Services
- Retirement planning
- Strategic Business Strategy
- Will Writing

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Alternative Asset

It is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult for most people, examples of alternative assets would include:

- Art and Antiques
- Precious Metals
- Fine Wines
- Rare Stamps
- Coins
- Sports Cards
- Other Collectibles

BOND

Bonds are fixed-income instruments derived from a loan forwarded by an investor to a borrower. In case of a bond, the issuer promises to pay a specific interest for the life of the bond and the principal amount or the face value at maturity to the investor. Bonds are generally issued by governments, corporations, municipalities and other sovereign bodies. Just like securities, bonds are tradeable.

Bond Market and Types

Convertible bond

A convertible bond gives the purchaser a right or an obligation to convert the bond into shares of the issuing company. The quantum of shares and the value of the shares are usually predetermined by the issuing company. However, an investor can convert the bond into stock only at certain specified times during the bond' stenure. It features a fixed tenure and pays out interest payments periodically at predetermined intervals.

Convertible bonds can be further classified as:

- **Regular convertible bonds** - Regular convertible bonds come with a fixed maturity date and a predetermined conversion price but they give the investor merely the right, and not an obligation, to convert. Companies generally prefer to issue these types of convertible bonds to the public.
- **Mandatory convertible bonds** - Unlike regular convertible bonds, these bonds obligate the investor to convert them into equity shares of the issuing company upon maturity. Since investors are essentially forced to convert their bonds, companies usually offer a higher rate of interest on mandatory convertible bonds. Reverse convertible bonds - With reverse convertible bonds, the issuing company holds the right to convert them into equity shares upon maturity at a predetermined conversion price.

Government Bonds

Bonds are issued by the Central as well as state governments of the country in order to tide its liquidity crisis which can be used to develop infrastructure. Serving as long-term investment tools they can be issued **for periods that range from 5 to 40 years**.

Types of Government Bonds

- **Fixed-rate bonds –** The interest rate applicable on these government bonds is fixed for the entire tenure of the investment regardless of fluctuating market rates. The lock-in period for such bonds is usually one to five years.
- **Floating rate bonds (FRBs) –** These bonds have variable interest rates based on periodic changes experienced by the rate of returns. The intervals within which these changes occur are made clear prior to the bonds being issued. These bonds can also exist with the rate of interest being split into a base rate and a fixed spread. This spread is determined via auction and remains stable right up to maturity.
- **Sovereign Gold Bonds (SGBs) –** Under this scheme, entities are allowed to invest in digitized forms of gold for an extended period of time without having to avail of gold in its physical form. Interest generated via these bonds is tax-free.
- **Inflation-Indexed Bonds –** the principal and interest earned on such bonds are in accordance with the inflation. Ordinarily, these bonds are issued for retail investors and are indexed in accordance with the consumer price index (or CPI) or wholesale price index (or WPI).
- **Zero-Coupon Bonds –** These bonds don't earn interest. Instead, investors accrue returns via the difference that exists between the issuance price and the redemption value. They aren't issued via auction but are created via existing securities.

Municipal Bonds

Municipal bonds are debt instruments that are issued on behalf of municipal corporations or bodies associated with them across the country aimed at socio-economic development. Municipal bonds can be purchased with a maturity period that amounts to three years.

Types of Municipal Bonds in India

- **General Obligation Bonds –** These bonds generate finance for various projects in general and therefore their repayments are made from the general revenues of the municipality.
- **Revenue Bonds –** These bonds are focused on generating funds for specified projects and the repayment and interest issued to bondholders are processed via revenue explicitly generated via the projects declared in the bonds. They have extended maturity periods of upto 30 years and higher returns than GO bonds.

Retail bonds

- A retail bond offering allows a company to raise additional capital by borrowing at a fixed rate from an investor for a specific length of time. Companies typically issue retail bonds to expand their business, pay off debt, or fund a specific project, as with any capital raising. Retail bonds are typically listed and can thus be bought and sold during regular market hours, allowing investors more flexibility.

Insurance

- Protecting or safeguarding loss is done through Insurance. Insurance is a policy representing a contract in which an individual or entity receives financial protection from the insurance company against any losses.
- An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage **is called the premium.**
- The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

Types of Insurance Policies:

- Life insurance protects our family in unforeseen situations like death or accidental death.
- Term life insurance is one of the types of life insurance for financial safety which provides a lumpsum benefit to the nominee of the insured person after the death of the insured.
- Health insurance facilitates a person to insure coverage against surgical and medical expense.
- Disability insurance will insure a person for coverage against physical disability for longer period with no productive work.
- Auto insurance facilities you to cover car or any vehicle against damages or accidents.
- Home insurance will protect one's house against any damages like structural damage, fire, earthquake, etc.

Insurance provides protection against the following:

- Protecting family from loss of income from premature death.
- Ensuring obligation repayment after death.
- Covering unforeseen liability losses.
- Protecting business against the loss or disability of a critical employee.
- Buying out a partner or co-shareholder after his or her demise.
- Income protection insure from one's job, business against unforeseen business stoppage.
- Protecting one against unforeseeable medical, health or hospital expenses.
- Protect one's property from fire, thief, or any other natural calamities like flood, etc.
- Protecting assets against employee lawsuits.
- Protecting oneself in the event of disability.
- Protecting one's car against theft or losses incurred because of accidents.
- And many more types of risk.

Mutual Fund

Mutual Funds are the funds created with the mutual requirement needs of the investors. It is a basket created with varieties of investment options. similar to basket of shares, bonds, money market or a mixture of all instruments or a basket of shares based on sectors like Bank, IT, Infrastructure, FMCG, etc. or basket of diversified shares.

Types of Mutual Funds

In India, Mutual Funds are categorized based on various fundamentals like investment objectives and structure. Based on investment objectives, mutual funds are categorized into, Equity

- **Mutual Fund**: It will invest money in the stock markets. The investments under this category of mutual funds in primarily in stock markets and returns on investments are purely based on stock performance of the fund. These funds are off the record best type of mutual fund in long run.

- **Debt Mutual Funds**: It will invest money in debt instruments like Treasury bills, Government Bonds, etc. These investments ensure you fixed rate of returns.
- **Balanced Mutual Funds**: It will invest money partially into equities and partially into debts. Investor prefers this sort of investment when they want to minimize the equity investment risk.
- **Sectorial Funds**: It will invest your money as per selected sector like IT, Banks, FMCG, Pharma, etc.
- **ELSS or Equity Linked Savings Schemes**: These are commonly known as Tax saving funds. Investment made towards ELSS funds are exempted from Income tax under section 80 C. However, **ELSS funds have 3 years of lock-in period**. Further, on the basis of structure, mutual funds are classified into,
- **Open Ended Fund**: These are funds that allow you to invest money and redeem anytime as per one's needs and one's strategies regardless of any time circumstances.
- **Close ended Funds**: These are funds allowing a person to invest with some lock-in period, **mostly within 1 to 3 years**; before that one cannot redeem the fund since there is a time-bound investment horizon involved with it.

Systematic Investment Plan (SIP)

- Systematic Investment Plan, most popularly known as SIP is a disciplined way of investing offered by mutual funds, where one invests a fixed amounts at a regular frequency (say, every month). It allows an investor to invest a fixed sum of money in a selected scheme of mutual fund at pre-defined intervals like monthly, quarterly, etc.

Systematic Withdrawal Plan (SWP)

- A Systematic Withdrawal Plan (SWP) is a facility which allows an investor to withdraw a fixed amount at pre-determined intervals. One can choose the amount and frequency of withdrawal also. At the set date, units from the portfolio are sold and the funds are transferred to your account.
- Portfolio Management Services (PMS) It is a tailor-made professional service offered to cater the investment objectives of different investor classes. The investment solutions provided by PMS caters to a niche segment of our clients.

Private Banking

Private banking involves providing banking, investment, tax management, and other financial services to high-net-worth individuals (HNWIs). Unlike mass-market retail banking, private banking focuses on providing more personalized financial services to its clients, through banking personnel specifically dedicated to providing such individual services.

Benefits Of Wealth Management

Function on a relationship-based approach

Wealth manager is constantly thinking of our financial well-being which is why, when the need arises, they level with us like a friend would. They are not interested in impressing us with financial jargons but rather invest their time to help us navigate through troubled financial waters. They also help us to make better investment decisions. Wealth managers use this relationship based approach through which we can have a healthy exchange of ideas and perceptions and formulate various financial strategies.

- **Creation of a financial plan:** Wealth management services help investors calculatedly and systematically create their corpus. Wealth managers come armed with the skills that help them understand client requirement and financial goals. These are taken into account when financial strategies are formulated. Wealth manager puts in a lot of time to comprehend our needs and helps us to meet as many of your financial goals as possible.
- **Elimination of financial stress**: Wealth advisors have a deep understanding of financial uncertainties. They have expertise in the field of taking critical financial decisions for us, should the need arise. Wealth advisors can help us to manage our finances during the roughest market conditions, which can often lead to stress. They help us to prioritize our financial decisions based on a timeline. Wealth advisor takes all our financial considerations in account while creating our goals and also helps us to organize our funds from time to time.
- **Personalized services:** Wealth managers understand that there is no "one size fits all" formula when it comes to wealth management. As such, every individual client gets personalized services of a dedicated wealth manager.

JAIIB RBWM Module D Unit 2: Investment Management

Investment Management

All of us whether individuals or organizations earn money by different economic activities and spend it for satisfying our wants. Sometimes, Income of people is more than their expenditure and other times, their expenditure on goods and services is more than income, these differences result into saving and borrowing of money respectively. When income is more than consumption people incline to save (surplus money).

It can be understood in the form of equation also.

Saving = Income – expenditure.

Element Of Investment

The characteristics or elements of investment can be understood in terms of return, risk, safety and liquidity.

- **Return**: The prime objective of any type of investment is to drive return. The expected return may be regular income (interest, dividend, rent, etc.) or increase in the value of investment/ capital appreciation, i.e. difference between the selling price and buying price of assets. The nature of investment (risky, less risky, non- risky) is the deciding factor of required return from it.
- **Risk:** Risk is the basic attribute of investment. Risk means variability in return because of loss of capital or non-payment of income what so ever reason. More the risk, normally more is the expected return and vice versa.
- **Safety:** Safety rule of investment states that investors get back their original principal on maturity with no loss in value and hindrance. Liquidity: It means an investor can sell his investment in market as need arise without incurring much transaction costs, less energy and time.
- **Objectives of Investment**: The basic objectives of any investment is maximizing the return and minimizing the risk. In addition to the basic objectives other objectives of investment are safety, liquidity, hedging against the inflation etc.

Basics Of Investment Management

Professional investment management aims to meet particular investment goals for the benefit of clients whose money they have the responsibility of overseeing. These clients may be individual investors or institutional investors such as pension funds, retirement plans, governments, educational institutions, and insurance companies.

In short, Investment management may be summarized as follows:

- Investment management refers to the handling of financial assets and other investments by professionals for clients.
- Clients of investment managers can be either individual or institutional investors.

- Investment management includes devising strategies and executing trades within a financial portfolio.

Steps In Investment Management

- Deciding investment goals
- Analysis of Securities
- Construction of portfolio
- Evaluating performance of Portfolio
- Revision of portfolio

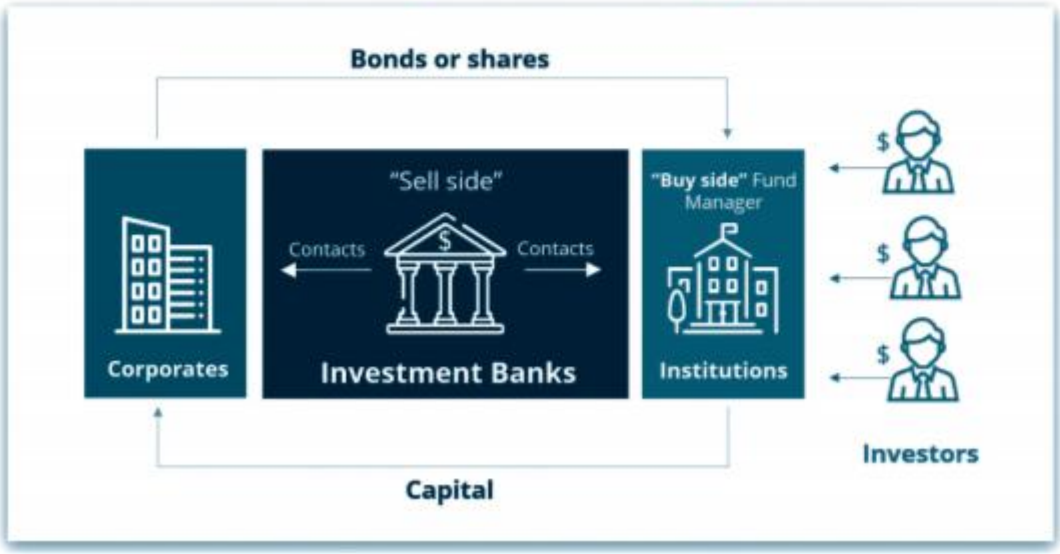
Investment Banking

Investment banking is a specific division of banking or financial institution that serves Governments, corporations, and institutions by providing underwriting (capital raising) and mergers and acquisitions (M&A) advisory services. Investment banks act as intermediaries between investors (who have money to invest) and corporations (who require capital to grow and run their businesses).

Role of Investment Banking

- Investment banking deals primarily with the creation of capital for other companies, governments, and other entities.
- Investment banking activities include underwriting new debt and equity securities for all types of corporations, aiding in the sale of securities, and helping to facilitate mergers and acquisitions, reorganizations, and broker trades for both institutions and private investors.
- Investment bankers help corporations, governments, and other groups plan and manage the financial aspects of large projects.
- Broadly speaking, investment banks assist in large, complicated financial transactions. They may provide advice on how much a company is worth and how best to structure a deal if the investment banker's client is considering an acquisition, merger, or sale.

Pictorial Presentation of Working of Investment Banking:



Investment Banking typically covers two key areas:	
M&A Advisory	Underwriting
Assisting in the negotiation and structuring of a merger/acquisition	Raising capital through selling stocks or bonds to investors (e.g. IPO)

Services Being Offered By Full-Service Investment Banks

Full Service Investment Bank offer the following services:

- **Underwriting** – Capital raising and underwriting groups work between investors and companies that want to raise money or go public via the IPO process. This function serves the primary market or "**new capital".**
- **Mergers & Acquisitions (M&A**) – Advisory roles for both buyers and sellers of businesses, managing the M&A process start to finish.
- **Sales & Trading** – Matching up buyers and sellers of securities in the secondary market. Sales and trading groups in investment banking act as agents for clients and also can trade the firm's own capital.
- **Equity Research** – The equity research group research, or "coverage", of securities helps investors make investment decisions and supports trading of stocks.
- **Asset Management** – Managing investments for a wide range of investors including institutions and individuals, across a wide range of investment styles.

Underwriting Services in Investment Banking

Underwriting is the process of raising capital through selling stocks or bonds to investors (e.g., an initial public offering IPO) on behalf of corporations or other entities.

Firm Commitment – The underwriter agrees to buy the entire issue and assume full financial responsibility for any unsold shares.

Best Efforts – Underwriter commits to selling as much of the issue as possible at the agreed upon offering price but can return any unsold sharesto the issuer without financial responsibility.

All-or-None – If the entire issue cannot be sold at the offering price, the deal is called off and the issuing company receives nothing.

Once the bank has started marketing the offering, the following book-building steps are taken to price and complete the deal (Book building process):

- Prospects with price range
- Institutional investor commitment @firm price
- Book demand Built
- Price is set to ensure clearing
- Allocation

Investment Bank Organizational Structure

Investment banks are split up into three main offices **- front office, middle office, and back office.**

- **Front Office** – The revenue for an Investment Bank is generated by the front office. It consists of three primary divisions: investment banking, sales & trading, and research. Sales and trading department involves Buying and selling products. The research department comes up with various research reports on the firms or industry.
- **Middle Office** – The main function of the middle office is to ensure that the investment bank doesn't engage in activities that can be detrimental to the bank's health. It includes functions like risk management, financial control, corporate treasury, corporate strategy, and compliance.
- **Back Office** – Back office basically provides supporting activities like operations and technology to the front office so that it can do the jobs needed to make money for the investment bank.

Investment Management Vs Investment Banking

Investment managers help clients reach their investment goals by managing their money. Clients of investment managers can include individual investors as well as institutional investors such as educational institutions, insurance companies, pension funds, retirement plans, and governments. Investment managers can work with equities, bonds, and commodities, including precious metals like gold and silver.

Investment managers can have varied roles and responsibilities, depending on the firm, which can include:

- Financial statement analysis
- Portfolio allocation such as a proper mix of bonds and stocks
- Equity research and buy and sell recommendations
- Financial planning and advising
- Estate and retirement planning as well as asset distribution

Investment bankers help with corporate finance needs, such as raising funds or capital. Companies and governments hire investment bankers to facilitate complicated financial transactions, including:

- Debt issuance such as a bond offering
- New securities underwriting
- Mergers and acquisitions

Initial public offerings (IPOs) Investment banking can involve equity and security research and making buy, sell, and hold recommendations. Investment banking firms are also market makers, which provide liquidity or connect buyers and sellers to **"make" the** market.

Portfolio Management

What is Portfolio Management?

In a layman's language, the art of managing an individual's investment is called as portfolio management. Portfolio management is the art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution. It is managing an individual's investments in the form of bonds, shares, cash, mutual funds, etc.

Who is a Portfolio Manager?

An individual who understands the client's financial needs and designs a suitable investment plan as per his income and risk taking abilities is **called a portfolio manager.**

Objectives Of Portfolio Management

The fundamental objective of portfolio management is to help select best investment options as per one's income, age, time horizon and risk appetite. **Some of the core objectives of portfolio management are as follows:**

- Capital appreciation
- Maximising returns on investment
- To improve the overall proficiency of the portfolio
- Risk optimization
- Allocating resources optimally
- Ensuring flexibility of portfolio

- Protecting earnings against market risks

Who Should Opt for Portfolio Management?

The following should consider portfolio management:

- Investors who intend to invest across different investment avenues like bonds, stocks, funds, commodities, etc. but do not possess enough knowledge about the entire process.
- Those who have limited knowledge about the investment market.
- Investors who do not know how market forces influence returns on investment.
- Investors who do not have enough time to track their investments or rebalance their investment portfolio.

Key Elements of Portfolio Management

- Asset Allocation
- Diversification
- Rebalancing

Portfolio Management Vs Investment Banking

- Portfolio Management refers to the management of the portfolio of assets of the client whereas, investment banking refers to the various different type of function performed by the investment banker in the economy by offering different financial services to their clients by mainly dealing in the purchase and sale of the stock and helping in raising the capital.
- Portfolio Management (Asset management) is all about managing clients' investments whereas Investment Banking is all about raising the capital for clients.
- **So, the basic difference between these two is in case of Portfolio Management** or Asset management, clients already have the money which portfolio manager need to manage whereas, in the case of investment banking, clients don't have the money and investment banking professional need to raise capital to support your clients. Let's take an example to illustrate the difference between the two. We will take two scenarios and will try to understand how this works.

Scenario#1

In the first scenario, Client A hires Bank B to help them with investing their money in different areas. Client A tells Bank B – "Take my money and invest in portfolios where you think our money will grow better and will make us wealthier." Bank B then takes the money and invests to get better returns on the portfolios they rely upon. This is portfolio management. In this case, clients have money; your job as a portfolio manager is to manage the investment ad try to maximize the client's wealth.

Scenario#2

In this scenario, Client A wants someone to invest in their business. An investment banker will search for the investor; look for capital raising opportunities in the equity market or via debt or run IPOs or advises companies on Merger & Acquisition deals. So, in this case, the client doesn't have money; investment banking professional helps the client get the money via capital raising opportunities. In finance parlance, asset management is also known as buy-side and investment banking is termed as sell-side. So, the outlook for these two are different. This is why investment banking needs more inputs as it needs to bring the business whereas portfolio management requires skill and knowledge about investment.

Role of Portfolio managers

Portfolio managers are investment decision-makers. They devise and implement investment strategies and processes to meet client goals and constraints, construct and manage portfolios, make decisions on what and when to buy and sell investments.

Portfolio Management Service Vs Mutual Funds (Mfs)

The following attributes distinguish between PMS and MF:

- **Customization**: PMS offers a higher degree of customization tailored specifically to the goals of an investor. Mutual funds, on the other hand, offer customization to the extent of the classification and diversity of the fund.
- **Engagement**: PMS is personalized promoting a dialogue between the portfolio manager and investor. An investor can convey any changes in the risk profile or personal situations to maximize returns. MFs offer low engagement with the investor limited to fact sheets. Portfolio managers for PMS are also directly accountable to the investors.
- **Fee structures:** MFs charge a fixed fee attributed to the entry and exit of investments as well as annual expenses for maintenance (known as the expense ratio). PMS demands a share in the profit over a particular rate of return (known as hurdle rate) in addition to the annual maintenance fee. The alignment of incentives is highly preferred in the case of PMS so that the portfolio manager takes responsible decisions in an attempt to attain supernormal returns.
- **Asset ownership**: Under PMS, the investor retains direct ownership of shares of the company. However, MFs offer units in the form of investment.
- **Investment size**: MFs entertain any amount of capital. However, PMS demand a capital investment which must be over the **minimum limit of ₹50/- Lakh as per** Securities and Exchange Board of India (SEBI) guidelines.

Types Of Portfolio Management Services

- **Active Portfolio Management**: The aim of the active portfolio manager is to make better returns than what the market dictates. Those who follow this method of investing are usually contrarian in their approach. Active managers buy stocks when they are undervalued and start selling when they climb above the norm

- **Passive Portfolio Management**: At the opposite end of active management comes the passive investing strategy. Those who subscribe to this theory believe in the efficient market hypothesis. The claim is that the fundamentals of a company will always be reflected in the price of the stock. Therefore, the passive manager prefers to dabble in index funds which have a low turnover, but good long-term worth.
- **Discretionary Portfolio Management**: A discretionary manager is given full leeway to make decisions for the investor. While the individual goals and time-frame are taken into account, the manager adopts whichever strategy he thinks best.
- **Non-Discretionary Portfolio Management**: The non-discretionary manager is simply a financial counselor. He advises the investor in which routes are best to take. While the pros and cons are clearly outlined, it is up to the investor to choose his own path. Only once the manager has been given the go ahead, does he make a move on the investor's behalf.

Processes of Portfolio Management

Steps	Process of Investment Portfolio Management	Description
Step 1 –	Identification of objectives	For a capable investment portfolio, investors need to identify suitable objectives which can be either stable returns or capital appreciation.
Step 2 –	Estimating the capital market	Expected returns and associated risks are analysed to take necessary steps.
Step 3 –	Decisions about asset allocation	To generate earnings at minimal risk, sound decisions must be made about the suitable ratio or asset combination.
Step 4 –	Formulating suitable portfolio strategies	Strategies must be developed after factoring in investment horizon and risk exposure.
Step 5 –	Selecting of profitable investment and securities	The profitability of assets is analysed by factoring in their fundamentals, credibility, liquidity, etc.
Step 6 –	Implementing portfolio	The planned portfolio is put to action by investing in profitable investment avenues.
Step 7 –	Evaluating and revising the portfolio	A portfolio is evaluated and revised regularly to evaluate its efficiency.
Step 8 –	Rebalancing the composition of the portfolio	Portfolio's composition is rebalanced frequently to maximise earnings.

Advantages of Portfolio Management

- **Makes Right Investment Choice:** Portfolio management is a tool that helps the investor in choosing the right portfolio of assets. It enables in making more informed decisions regarding investment plans in accordance with the goals and objectives.
- **Maximizes Return:** Maximizing the return is one of the important roles played by portfolio investment. It provides a structured framework for analyses and selecting the best class of assets. Investors are able to earn high returns with limited funds.
- **Avoids Disaster**: Portfolio management avoids the disaster of facing huge risks by investors. It guides in investing among different classes of assets instead of investing only in one type of asset. If an investor invests in only one type of security and supposes it fails, then the investor will suffer huge losses which could be avoided if he might have invested among different assets.
- **Track Performance**: Portfolio management helps management in tracking the performance of their portfolio of investments. A consolidated investment held within the portfolio can be evaluated in a better way and any of its failures can be easily detected.
- **Manages Liquidity**: Portfolio management enables investors in arranging their investment in a systematic manner. Investors can choose assets in such a pattern where they can sell some of them easily whenever they need funds.
- **Avoids Risk:** Investment in securities is quite risky due to the volatility of the security market which increases the chance of losses. Portfolio management helps in reducing the risk through diversification of risk among large peoples.
- **Improves Financial Understanding**: It helps in improving the financial knowledge of investors. While managing their portfolio they came across numerous financial concepts and learn how a financial market works which will enhance the overall financial understanding.

Disadvantages of Portfolio Management

- **Risk Of Over Diversification**: Sometimes portfolio managers invest funds among large categories of assets whose control becomes impossible. In his efforts to diversify the risk it goes beyond the limit to manage efficiently. Loss arising in such situations is quite high and can bring serious repercussions.
- **No Downside Protection:** Portfolio management only reduces the risk through diversification but does not provide full protection. At times of market crash, the concept of portfolio management becomes obsolete.
- **Faulty Forecasting**: Portfolio management uses historical data for evaluating the returns of securities for investment purposes. Sometimes the historical data collected is incorrect or unreliable which leads to wrong forecasts.

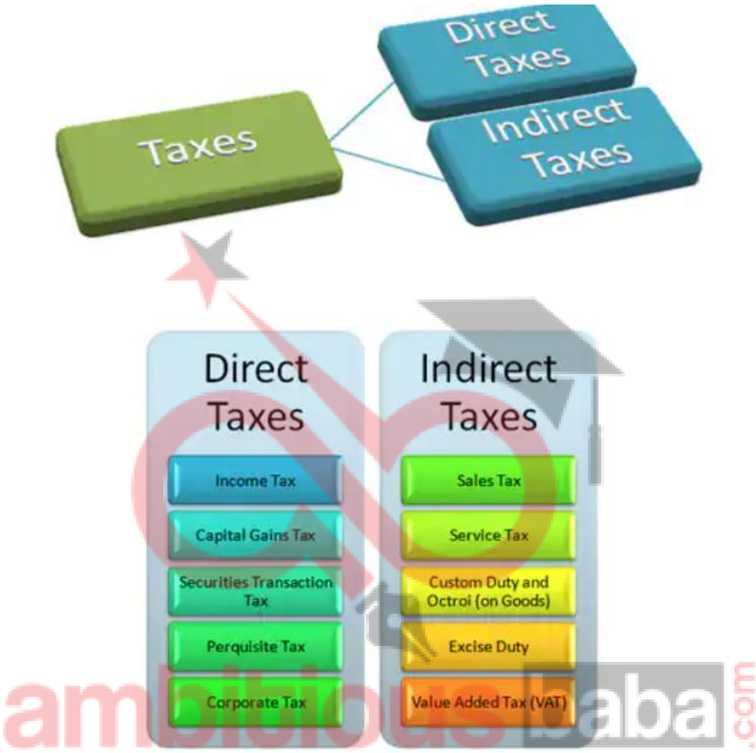
Taxation

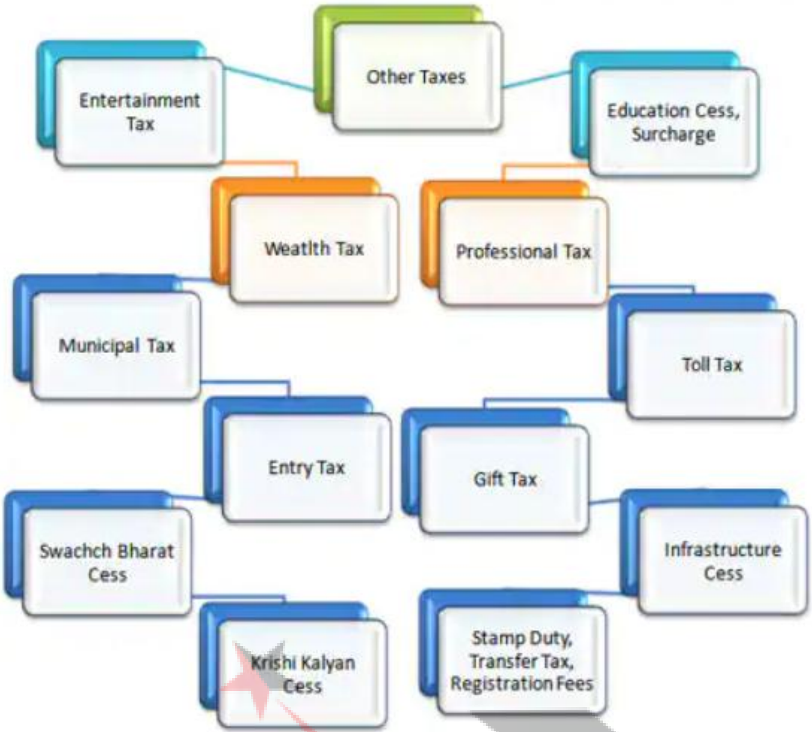
Taxation is the means by which a government or the taxing authority imposes or levies a tax on its citizens and business entities. From income tax to goods and services tax (GST), taxation applies to all levels.

Classification Of Tax Structure In India

The tax structure in India can be classified into two main categories:

- Direct Tax
- Indirect Tax





- **Direct Tax**: It is defined as the tax imposed directly on a taxpayer and is required to be paid to the government. Also, an individual cannot pass or assign another person to pay the taxes on his behalf.
- **Indirect Tax:** It is defined as the tax levied not on the income, profit or revenue but the goods and services rendered by the taxpayer. Unlike direct taxes, indirect taxes can be shifted from one individual to another. Earlier, the list of indirect taxes imposed on taxpayers included service tax, sales tax, value added tax (VAT), central excise duty and customs duty. However, with the implementation of goods and services tax (GST) regime from 01 July 2017, it has replaced all forms of indirect tax imposed on goods and services by the state and central governments.

Taxes		
Direct Taxes	**Indirect Taxes**	**Other Taxes**
Income Tax	Sales Tax	Property Tax
Wealth Tax	Goods & Services Tax (GST)	Professional Tax
Gift Tax	Value Added Tax (VAT)	Entertainment Tax
Capital Gains Tax	Custom Duty	Education Cess
Securities Transaction Tax	Coctroi Duty	Toll Tax
Corporate Tax	Service Tax	Registration Fees

Financial Year and Assessment Year

What is Financial Year?

- A Financial Year (FY) is the period between **1 April and 31 March** – the accounting year in which you earn an income.

What is Assessment Year?

- The assessment year (AY) is the year that comes after the FY. This is the time in which the income earned during FY is assessed and taxed. Both FY and AY start on 1 April and end on 31 March. For instance, for FY 2020-21, the assessment year is AY 2021-22.

The difference between Financial year and Assessment year

Financial Year	Assessment Year
The financial year is the time period where income is earned.	The assessment year that follows is the financial year and the period in which tax returns are filed.
The financial year is when salaried professionals, businessman and senior citizens earn their money.	While AY is the time when the income that was earned in the financial year gets evaluated.
Taxation and evaluation are carried out in the AY for the income that has been earned in the financial year.	Income Tax Return Forms are specialized forms for the evaluation and taxation of FY income.
Income is always earned in the period known as the financial year it cannot be taxed prior to being earned.	After money has been earned by an individual it will be evaluated for the purpose of taxation in the latter, that is the AY.

Previous Year

In simple language, for the purpose of income tax or income tax return, terms financial year and previous year are used interchangeably. So, the financial year (FY) 2020-21 can also be termed as the preceding (previous) year (PY) 2020-21 & the income of such year will become taxable in assessment year (AY) 2021-22. As per **Sec.2(34) of Income Tax Act, 1961**, unless the context otherwise requires, the term '***previous year'*** means the previous year as defined in section 3. In view of above, we need to visit **Section 3 of Income Tax Act, 1961**, which defines the term previous year as under:

"For the purposes of this Act, "**previous year"** means the financial year immediately preceding the assessment year:

Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year."

In such cases income of the previous year is subject to charge of tax in the same previous year, wherein previous year and assessment year are considered as the same in the **case of certain assessee to avoid situations of income escaping assessment:**

- Income from Shipping business in India in the case of non-residents **(Section 172)**
- Assessment of persons leaving India permanently or for longer duration **(Section 174)**
- Assessment of association of persons (AOP) or body of individuals (BOI) or artificial juridical person (AJP), which are formed for a particular short period of time/ event/ purpose, i.e. which are dissolved within the same previous year **(Section 174A)**
- Assessment of persons suspected to transfer their property to avoid tax liability **(Section 175)** and
- Assessment of income from a business which has been discontinued during the previous year **(Section 176).**
- Finance Bill (Finance Budget) is presented, discussed in Parliament, passed and executed as per Financial Year. Financial year can be classified into two categories (**Sec. 3):**

i)Year in which Income is earned;

ii)Year of paying taxes on income earned or deemed to be earned on advance basis.

Residential Status For Income Tax

The individual taxability of a person depends upon the residency status as per Income Tax Act and it is not to be confused with an individual's citizenship in India. An individual may be citizen of the country but will be considered at non-resident as per tax guidelines and vice versa.

How to determine residential status?

For the purpose of income tax in India, the income tax laws in India classifies taxable persons as:

- A resident
- A resident not ordinarily resident (RNOR)
- A non-resident (NR)

The taxability differs for each of the above categories of taxpayers. Before we get into taxability, let us first understand how a taxpayer becomes a resident, an RNOR or an NR.

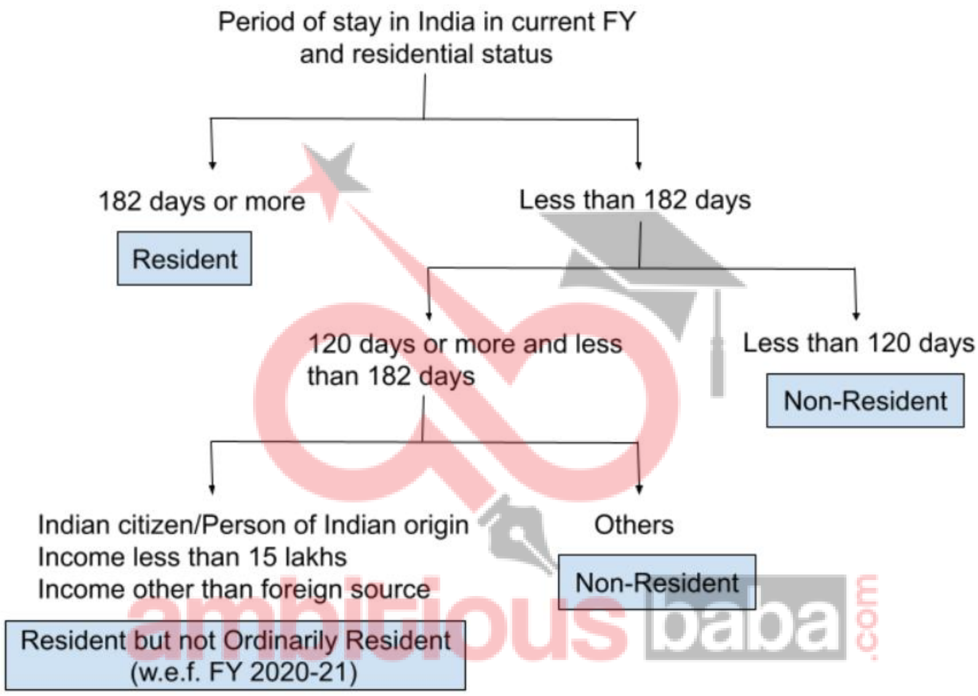
Resident

A taxpayer would qualify as a resident of India if he satisfies one of the following 2 conditions:

- Stay in India for a year is **182 days or more or**
- Stay in India for the immediately 4 preceding years is **365 days or more and 60 days or more** in the relevant financial year

In the event an individual who is a citizen of India or person of Indian origin leaves India for employment during an FY, he will qualify as a resident of India only if he stays in India for 182 days or more. Such individuals are allowed a longer time greater than 60 days and less than 182 days to stay in India. However, from the financial year 2020-21, the period is reduced to 120 days or more for such an individual whose total income (other than foreign sources) **exceeds Rs 15 lakh**.

In another significant amendment from FY 2020-21, an individual who is a citizen of India who is not liable to tax in any other country will be deemed to be a resident in India. The condition for deemed residential status applies only if the total income (other than foreign sources) exceeds Rs 15 lakh and nil tax liability in other countries or territories by reason of his domicile or residence or any other criteria of similar nature.



Non-resident

- An individual satisfying neither of the conditions stated in (a) or (b) above would be an NR for the year.

Taxability

- **Resident**: A resident will be charged to tax in India on his global income i.e. income earned in India as well as income earned outside India.
- **NR and RNOR**: Their tax liability in India is restricted to the income they earn in India. They need not pay any tax in India on their foreign income. Also note that in a case of double taxation of income where the same income is getting taxed in India as well as abroad, one may resort to the Double Taxation Avoidance Agreement (DTAA) that India would have entered into with the other country in order to eliminate the possibility of paying taxes twice.

A Few Important Terms In Income Tax

Assessee: As per **Income Tax Act 1961 section 2(7),** an assessee is a person who is liable to pay the taxes under any provision of the Income Tax Act 1961. Assessee can also be a person with respect to whom any proceedings have been initiated or whose income has been assessed under the Income Tax Act 1961.Assessee is any person who is deemed assessee under any of the provisions of this act or an assessee in default under any provisions of this Act.

Person: As per Sec 2(31) of the Income Tax Act, 1961, a person would be anyone who is

- An Individual
- A HUF (Hindu Undivided Family)
- A Company
- A Firm
- An association of person or body of individuals
- A local authority
- Every artificial or juridical person who is not included in any of the above-mentioned categories

PAN Number: PAN stands for Permanent Account Number which is a ten-digit unique alphanumeric number issued by the Income Tax Department as a unique identification ID. The PAN is applicable whether an Individual, HUF, Company, Firm, or any other assessee. The PAN number is a prerequisite for filing ITR and also, the tax department can trace all communications, returns, refunds, and other activities relating to Income Tax through it.

TAN Number: TAN refers to Tax Deduction Number which is a 10-digit alphanumeric number allotted to those who are liable to deduct TDS by the Income Tax Department.

Tax Deducted at Source (TDS): The option of Tax Deducted at Source (TDS) was introduced in order to collect tax from the very source of income. As per the guideline, a person (deductor) who is liable to make payment of specified nature to any other person (deductee) shall deduct tax at source and remit the same into the account of the Central Government. The deductee from whose income tax has been deducted at source would be entitled to get credit of the amount so deducted on the basis of Form 26AS or TDS certificate issued by the deductor.

Covered Under TDS Under The Income Tax Act, 1961

- Salaries- Section 192
- Interest in securities- Section 193
- Payment of interest, other than interest of securities- Section 194A
- Payment to contractors or sub- contractors- 194C
- Payment of brokerage and commission- Section 194H
- Payment by way of rent- Section 1941
- Payment of professional and technical fees- Section 194J

- Payment to non-resident- Section 195

Taxpayers and Income Tax Slabs

Taxpayers in India, for the purpose of income tax includes:

- Individuals, Hindu Undivided Family (HUF), Association of Persons (AOP) and Body of Individuals (BOI)
- Firms
- Companies

New tax slabs

Income of Rs 0-3 lakh is nil.

- Income above Rs 3 lakh and up to Rs 6 lakh to be taxed at 5% under new regime.
- Income of above Rs 6 lakh and up to Rs 9 lakh to be taxed at 10% under new regime.
- Income of above Rs 9 lakh and up to Rs 12 lakh to be taxed at 15% under new regime
- Income above Rs 12 lakh and up to Rs 15 lakh to be taxed at 20% under new regime.
- Income above Rs 15 lakh to be taxed at Rs 30%.

Means

- Pay 5% tax between 3-6=15k tax
- pay 10% tax between 6-7 lacs= 10k

total Tax paid=25k
Govt will refund 25k

Old tax slabs

- Income up to ₹2.5 is exempt from taxation under both regimes
- Income between ₹2.5 to ₹5 lakh is taxed at the rate of 5 per cent under the old as well as the new tax regime.
- Personal income from ₹5 lakh to ₹7.5 lakh is taxed at a rate of 15 per cent under the old regime
- Income between ₹7.5 lakh to ₹10 lakh is taxed at a rate of 20 per cent in the old regime

- Under the old regime personal income above ₹10 lakh is taxed at a rate of 30 per cent.

JAIIB RMWM Module D Unit 4: Other Financial Services Provided by Banks

Banks are permitted to undertake certain eligible financial services or para banking activities either departmentally or by setting up subsidiaries. Para banking activities, including bancassurance, depository service, insurance, MFs, credit and debit cards, etc, have helped increase the reach of the banks and brought a vast segment of the population into the fold of basic financial services.

Mutual Fund Business

A mutual fund pools money from many investors and invests the money in stocks, bonds, short-terms money-market instruments, other securities or assets, or some combination of these investments. The combined holdings the mutual fund owns are known as its portfolio. Each unit represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

The function of Mutual Fund can be easily understood by the diagram given below.

Salient Features of Mutual Funds

- **Professional Management** - Money is invested through fund managers.

- **Diversification –** Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket". By owning shares in a mutual fund instead of owning individual or bonds, the risk is spread out.
- **Economies of Scale –** Because a mutual fund buys and sells large amounts of securities at a time its transaction costs are lower than what an individual would pay for securities transactions
- **Liquidity** – Just like individual shares, mutual fund units are convertible into money by way of sale in the market.
- **Simplicity –** Buying a mutual fund unit is simple. Any bank has its own line of mutual funds, and the minimum investment amount is small.
- Investors should examine each of the above features carefully before investing in mutual funds.

Types of Mutual Funds

Each fund has a predetermined investment objective that tailors the fund's assets, regions of investments and investment strategies. At the fundamental level, there are **three varieties of mutual funds:**

- Equity funds (stocks)
- Fixed-income funds (bonds)
- Money market funds

All mutual funds are variants of these three asset classes. For example, while equity funds that invest in fast-growing companies are known as growth funds, equity funds that invest only in companies of the same sector or region are known as specialty funds.

Mutual Funds can also be classified as open-ended or closed-ended, depending on the maturity date of the fund.

Closed – ended Funds

- Closed-end funds run for a specific period.
- On the specified maturity date, all units are redeemed and the scheme comes to a close.
- The units shall be listed on a stock exchange to provide liquidity.

- Investors buy and sell the units among themselves, at the price prevailing in the stock market.

Categorization of mutual fund schemes

In order to bring the desired uniformity in the practice, across Mutual Funds and to standardize the scheme categories and characteristics of each category, SEBI advised to categorize the open-ended MF schemes s given below.

The Schemes would be broadly classified into following groups:

- Equity Schemes
- Debt Schemes
- Hybrid Schemes
- Solution Oriented Schemes
- Other Scheme

Equity Schemes

Invest in shares and stocks:

- Represent the largest category of mutual funds.
- Investment objective is long-term capital growth with some income.
- Many different types of equity funds because of the different types of investment objective.

In equity schemes, a company is referred based on its market capitalization. Market capitalisation is the value of the stock that you arrive at by multiplying the stock price by the company's outstanding number of equity shares. There are three main classifications, viz., Large Cap, Mid Cap and Small Cap.

- **Large Cap**: 1st – 100th company in terms of full market capitalization
- **Mid Cap:** 101st – 250th company in terms of full market capitalization
- **Small Cap:** 251st – company onwards in terms of full market capitalization

Debt Scheme

Invest in debt instrument of different maturities. This ensures regular income.

Hybrid Schemes

Invest in Equity and debt instruments depending on the objectives of the schemes.

Solution Oriented Schemes

In case of Solution oriented schemes, there will be specified period of lock in. Examples of fund in the scheme are:

- **Retirement fund scheme**: An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).
- **Children's Fund**: An open ended fund for investment for children having a lock-in for atleast 5 years or till the child attains age of majority (whichever is earlier).

Other Schemes: Examples of this Schemes are Index fund schemes and ETF.

RBI guidelines on mutual fund business

- Banks shall not undertake mutual fund business with risk participation except through a subsidiary joint venture set up for the purpose.
- Where a sponsoring bank undertaking the mutual fund business lends its name to the bank sponsored mutual fund, a suitable disclaimer clause shall be inserted while publicising new schemes to the effect that the bank is not liable or responsible for any loss or shortfall resulting from the operations of the scheme.
- Banks shall undertake agency business of mutual fund companies departmentally ***subject compliance of the following additional conditions:***
    - The investors' applications for purchase/sale of mutual fund units shall be forwarded to the mutual funds/registrars/transfer agents.
    - The purchase of units shall be at the customers' risk without the bank guaranteeing any assured return.
    - No mutual fund units shall be acquired from the secondary market or bought back from a customer for selling it to other customers.
    - Extension of credit facility to individuals against the security of mutual fund units shall be in accordance with the Master Directions on Credit Management.
    - A bank holding custody of mutual fund units on behalf of its customers shall keep the investments of the customers distinct from its own investments.

Insurance Business

Insurance is a financial risk management tool in which the insured transfer a risk of potential financial loss to the insurance company that mitigates it in exchange for monetary compensation known as the premium.

Insurance policies are of different types depending on the risk they mitigate. Broad categories include:

- Health Insurance
- Life Insurance
- Asset Insurance

Health Insurance

Health insurance is a contract between the insurance company and the insured person to cover the medical cost that might arise from illness, accidental injuries, surgeries and other medical complications. The Liberalization of the insurance sector as well as the increasing demand for health insurance covers. specially from the middle class, have given a fillip to the growth of health insurance and today the sector is emerging as fastest growing segment in the non-life insurance industry. These insurance companies provide individual as well as floater policies. Group insurance are also in vogue.

Present players in Health Insurance Industry:

We can divide them into THREE categories.

- Standalone health insurance companies
- Health Insurance from General insurance companies
- Health Insurance from Life Insurance Companies.

Life Insurance Products

There are different Life insurance products offerings catering to the investment needs and objectives of different kinds of investors**. The broad categories of life insurance products are:**

- **Endowment Policies:** An endowment policy is the life insurance agreement that is mapped out to pay the lump sum after a specified term that is on maturity or upon death. The typical maturities are 10, 15 or 20 years up to a specified age limit. Moreover, in the case of any critical illness, the endowment policy also pays out.
- **Term Insurance Policy**: Term life insurance or term assurance is life insurance that provides coverage at a fixed rate of payments for a limited period of time, the relevant term.
- **Money Back Policies**
- **Pension Plans**

Asset insurance

Many movable and immovable assets can be insured. It is the need of any bank to protect the assets charged to it. **These assets are to be safeguarded by covering under insurance. Insurance on vehicles, machinery, livestock insurance etc**. are some of the examples. The Insurance Regulatory and Development Authority, an agency of the Government of India, is the regulatory body for the insurance sector's supervision and development in India.

Cross Selling

Cross-selling is the action or practice of selling an additional product or service to an existing customer. In practice, businesses define cross-selling in many different ways.

Strategies for Effective Cross Selling

- A robust customer database is foremost for effective cross-selling. The database is the core on which the entire cross-selling strategy is built.
- Based on the customer relationship history and the cross-selling model, a broad mapping of the customer profile and retail products to be cross sold has to be done.
- The mapped data has to be sliced and diced to develop specific asset related cross-selling information.
- The cross-selling information has to be put in place for staff (internal customers) to view and communicate to the target customer group.

- The internal customers should be trained to effectively cross sell and convert the initiatives into business.
- Cross-selling is a team effort and success depends on the attitude and involvement of all the staff concerned.
- The success of cross-selling depends on offering at the right time, the relevant product to customer. It will be a futile exercise to cross sell a product which is not needed or relevant for the customer.
- The strategy has to percolate from the corporate to the branch level based on customer database across geographies.
- Dynamic feedback from the line level should be taken cognizance of for fine-tuning/re-tuning the strategies.
- Selecting the target customer group is essential for cross-selling success. Selling the right product to the right customer improves the relationship.
- Cross-selling is more relationship- than transaction-based. At any point of time, the cross-selling initiative by the line staff should not be an irritant for the customer.

Depository Services by Banks

With a view to adding value to banking services and making available the numerous benefits of depository system to clients, some banks have been offering DEMAT/Depository services through both the Depositories viz., National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL).

A "**Depository**" is a provider of the facility for holding and/or transacting securities (like shares, debentures, bonds, government securities, mutual fund units, etc.) in, book entry form.

Depository Participant

Depository Participant (DP) is an agent of the depository who is authorized to offer depository services to investors and is registered as a DP with SEBI. Financial institutions, banks, custodians, stockbrokers and other types of intermediaries specified under SEBI (Depositories and Participants) Regulations, 1996, complying with the requirements prescribed by SEBI/Depositories can be registered as DP. An investor will always interact with a DP for the services and cannot directly approach the depository for any services except for Redressal of Grievances.

A Depository provides following services to investors through a DP:

- Opening a demat account.
- Dematerialization.
- Rematerialization.
- To maintain record of holdings in the electronic form.
- Facilitate settlement of trades by exchanges/Clearing corporations by delivering/receiving underlying securities from/in Beneficial Owner (BO) accounts.
- Facilitate transfer of securities between BOs.
- Receiving electronic credit in respect of securities allotted by issuers under IPO or otherwise.
- Receiving non-cash corporate benefits, such as, allotment of bonus and rights shares or any other non-cash corporate benefits given by the issuers in electronic.
- Facilitate pledging of dematerialized securities.
- Freezing of the demat account for debits, credits or both.
- Subscription/Redemption of mutual fund units in demat form.

Demat Account

What is a Dematerialisation (Demat) Account?

Investing in equity shares in physical form entails a lengthy procedure, lot of paperwork and risk of getting fake shares. In order to keep the entire experience easy and streamlined, a demat account is required. While trading online, demat account is used to hold shares and securities in dematerialised/electronic format.

Facilities offered by a Demat Account

- Transfer of shares
- Loan facility
- Dematerialization & rematerialization

- Multiple access options
- Corporate actions
- Freezing Demat accounts
- Speed E-Facility

How to open a Demat Account?

You can open a Demat Account by following these easy steps:

- Firstly choose a Depository Participant (DP) with whom you would like to open a Demat Account.
- Afterwards, fill an account opening form and attach a passport-sized photograph along with photocopies of the required documents stating proof of address and identity. You should have a PAN card unless otherwise exempted. Remember to carry the original documents along for verification.
- The DP will give you a copy of the rules and regulations, the terms of the agreement and necessary charges that you need to pay.
- During an In-Person Verification, a representative of the DP would contact you to verify the details provided in the account opening form.
- After processing of the application, you will get an account number/ client ID from the DP. These details will be required to access Demat Account online.
- When you become a demat account holder, you would be required to pay an annual maintenance fee for maintenance of your account. Additionally, you would be charged a transaction fee for conducting buying/selling transaction via the Demat Account. In case your shares are in physical form, the DP may charge you a separate fee for dematerialisation of the shares.
- You can open a Demat Account without having any shareholdings. Moreover, there's no mandate to maintain a minimum balance.

Some Social Security Insurance Schemes

PM Jeevan Jyoti Bima Yojana Scheme

- As mentioned earlier, this scheme is a one-year Insurance Scheme, and it offers life insurance cover for death due to any reason. The plan would be offered/administered through LIC (Life Insurance Corporation of India) and other Life Insurance companies willing to provide the product on similar terms with the required approvals and tie-ups with Banks for this purpose.

- PMJJBY can be availed by the people who fall under the **age group of 18 to 50 years (life covers up to age 55)** and have a savings bank account. Interested people who give their consent to join and enable auto-debit can avail of the benefits of this scheme.
- **A life cover of Rs. 2 lakhs is available under the PMJJBY scheme**, at a premium of Rs.330 per annum per member, and is renewable every year. If someone has a joint account, all the account holders can join the scheme, provided they meet its eligibility criteria and agree to pay the premium at the rate of Rs.330 per person.
- **Benefits:** ₹2 lakh is payable on member's death due to any cause.
- P**remium**: ₹ 436/- per annum per member.

Appropriation of Premium:

- Insurance Premium to LIC/insurance company: ₹289/- per annum per member
- Reimbursement of Expenses to BC/Micro/Corporate/Agent: ₹30/- per annum per member.
- Reimbursement of Administrative expenses to participating Bank: ₹11/- per annum per member

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Pradhan Mantri Suraksha Bima Yojana is a government scheme launched **on 9th May 2015 by PM Narendra Modi.** It intends to provide an affordable insurance scheme for the poor and underprivileged people in the **age group of 18 to 70 years with a bank account at a premium of Rs.12 per annum**; risk coverage of Rs.2 lakh for accidental death and full disability and Rs.1 lakh for partial disability.

Benefits of Pradhan Mantri Suraksha Bima Yojana

Pradhan Mantri Suraksha Bima Yojana (PMSBY) provides an insurance policy to the people belonging to the underprivileged sections of society. The scheme is administered by insurance companies from both the private and public sectors. **Some of the benefits provided by the scheme are mentioned below:**

- The Pradhan Mantri Suraksha Bima Yojana offers a life cover of Rs. 2 lakhs for one year to all its account holders. This life cover is provided in case of accidental death or permanent disability.
- A life cover of Rs. 1 lakh is provided to the beneficiary in case of partial disability.
- This scheme can be availed by any individual aged between 18 years to 70 years.
- In case of the death of the account holder, the benefits of the scheme can be availed by his/her nominee.
- The scheme provides an annual premium of Rs. 12 per annum per member. This premium is auto-debited in one instalment on or before 1st June of every year.

Eligibility for Pradhan Mantri Suraksha Bima Yojana

Any individual must follow the below-mentioned criteria to be eligible for the Pradhan **Mantri Suraksha Bima Yojana:**

- Any individual aged between 18 years to 70 years are eligible to apply for the scheme.
- He/she must have a bank account along with their phone number linked to the account.
- The individual should submit their Aadhaar details while applying for the scheme. This Aadhaar details will be linked with their bank account.
- If any individual has multiple bank accounts of one or different banks, then he/she will be eligible to join the scheme through one bank account only. In the case of a joint account, the scheme benefits can be availed by all the bank account holders.
- In the case of an NRI beneficiary, the claim benefits will only be provided to the nominee in Indian currency.

Factoring

Factoring implies a financial arrangement between the factor and client, in which the firm (client) gets advances in return for receivables, from a financial institution (factor). It is a financing technique, in which there is an outright selling of trade debts by a firm to a third party, i.e. factor, at discounted prices.

Type of Factoring

Recourse and Non-recourse Factoring: In this type of arrangement, the financial institution, can resort to the firm, when the debts are not recoverable. So, the credit risk associated with the trade debts are not assumed by the factor.

On the other hand, in non-recourse factoring, the factor cannot recourse to the firm, in case the debt turn out to be irrecoverable.

Disclosed and Undisclosed Factoring: The factoring in which the factor's name is indicated in the invoice by the supplier of the goods or services asking the purchaser to pay the factor, is called disclosed factoring.

Conversely, the form of factoring in which the name of the factor is not mentioned in the invoice issued by the manufacturer. In such a case, the factor maintains sales ledger of the client and the debt is realized in the name of the firm. However, the control is in the hands of the factor.

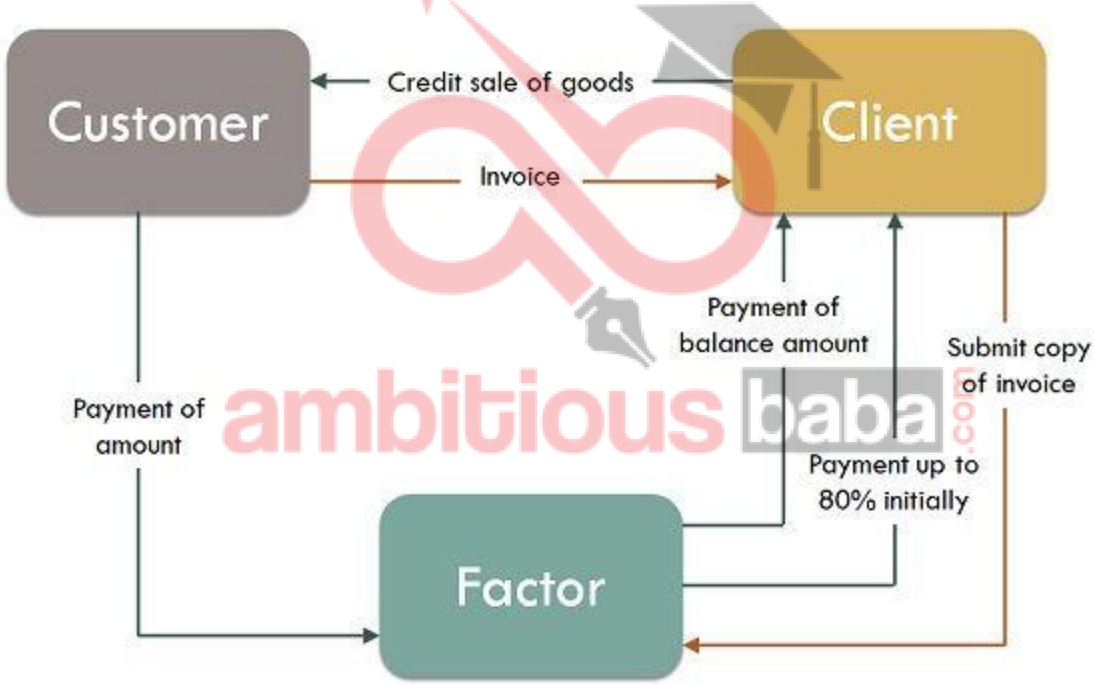
Domestic and Export Factoring: When the three parties to factoring, i.e. customer, client, and factor, reside in the same country, then this is called as domestic factoring.

Export factoring, or otherwise known as cross-border factoring is one in which there are four parties involved, i.e. exporter (client), the importer (customer), export factor and import factor. This is also termed as the two-factor system.

Advance and Maturity Factoring: In advance factoring, the factor gives an advance to the client, against the uncollected receivables.

In maturity factoring, the factoring agency does not provide any advance to the firm. Instead, the bank collects the sum from the customer and pays to the firm, either on the date on which the amount is collected from the customers or on a guaranteed payment date.

Procedure of Factoring



Atal Pension Yojana (APY)

The Government of India has announced a new scheme called Atal Pension Yojana (APY). APY is a guaranteed pension scheme and is administered by the Pension Fund Regulatory and Development Authority (PFRDA).

There is an option of getting **a fixed pension of Rs 1000, Rs 2000, Rs 3000, Rs 4000, or Rs 5000 on attaining an age of 60.** The pension will be determined based on the individual's age and the contribution amount. The contributor's spouse can claim the pension upon the contributor's death, and upon the death of both the contributor and his/her spouse, the nominee will receive the accumulated corpus. However, if the contributor dies before completing 60 years of age, the spouse can either exit the scheme and claim the corpus or continue the scheme for the balance period.

APY Features

Guaranteed monthly pension for subscribers, ranging from Rs. 1,000 to Rs. 5,000 per month.

- Government of India (GoI) will also co-contribute 50% of the subscriber's contribution or Rs. 1,000 per annum, whichever is lower. The Government co-contribution is available for those who are not covered by any Statutory Social Security Schemes and is not an Income Tax payer
- GoI will co-contribute to each eligible subscriber for a period of 5 years, who joined the scheme during the period Jun 1, 2015 to Mar 31, 2016. The benefit of five years of Government co-contribution under APY would not exceed 5 years for all subscribers, including the migrated Swavalamban beneficiaries.

Eligibility

- APY is applicable to all citizens of India aged between 18 - 40 years
- KYC compliant Bank account is mandatory for this product

JAIIB RMWM Module E Additional Reading Material on Home Loans

No. of Unit	Unit Name
Unit 1	Lender's Appraisal Procedure
Unit 2	Housing Finance and Tax Planning
Unit 3	Mortgage Advice
Unit 4	Valuation Of Real Property

JAIIB RBWM Module E Unit 1: Lender's Appraisal Procedure

Application Form

The appraisal process begins with an application form. An application form is designed to collect all relevant information that a lender needs, to decide whether *prima facie* the loan exposure would be an acceptable risk and falls within the policy parameters of the bank. This is a first step preceding other processes. Housing loans are generally sanctioned against the security of immovable properties viz., land and building. Again, this is a personal segment loan and the source of repayment of these loans come from the existing income of the borrower/s. Therefore, banks need to gather full particulars of:

- The land and building.
- Existing income and the source of it. How long this income is expected to continue.
- Existing liability, if any, and monthly financial repayment obligation on the proposed loansam other things.

Power Of Attorney

This act may be called as "POWER OF ATTORNEY ACT, 1882", which was passed in the year 1882 on 24th feb and the act came into force on first day of May, 1882. This act applies to the whole of India. The main aim of passing this statute is to make it easy for your designated attorney to access your finances and, in that way, take care of your property.

'Power Of Attorney' is an authority given by an instrument by one person, called as the donor or principal, authorising another person, called donee or agent to act on his behalf. There may be possibility of giving 'Power Of Attorney' by two or more persons jointly to one or more persons. Here a legal authority is given by the principal to the agent which may be broad or limited and an agent can take all necessary decisions i.e. financial, property related matters and all other matters where principal cannot be present to sign or in the case of principal's illness and disability. A paper signed by principal giving powers to an agent is sometimes itself called a power of attorney. A paper giving a power of attorney should be clear and understandable.

Appraisal of Loan Request

The appraisal comprises a validation of the information submitted by the applicant, collected by the various credit verification agencies, property appraisers, bank's solicitors, etc. In the process of validation, the information is checked against the bank's policy, budgetary guidelines, risk management practices any negative list, etc.

Agreements/letters/application forms required for the appraisal process:

- Housing Loan application.
- Appraisal form.
- Term Loan agreement for Home Finance.
- Guarantee Agreement (if required). Arrangement letter (Terms and conditions for Housing Finance).
- Equitable Mortgage intent letter.
- Equitable Mortgage confirmation letter.
- Letter of undertaking (where finance is availed for purchase of plot).

- Letter to be addressed by the borrower to his/her employer. An undertaking letter from the borrower that the construction will be carried out only as per the plan approved (in case of construction only).
- Letter to be addressed by the borrower's employer to the bank. Letter when the applicant himself/herself is the drawing officer.
- Mortgage Deed (in case of Registered Mortgage).
- Mortgage Confirmation Letter.
- Documents in connection with pledge of other securities, wherever applicable.

Appraisal Form for a Home loan

Eligible loan amount

Eligible: The Lender could have a policy laying down the criteria for acceptance of a home loan exposure, against which a loan application is checked. The parameters could be:

- A preferred age group.
- Minimum salary/income level.
- Score in credit information report
- Areas/localities where home loan will be given; and areas where he will not take an exposure.
- Negative list containing other disqualifications.

The banker/lender would be well advised to develop such Risk Asset Acceptance Criteria (RAAC). This will ensure that the portfolio quality is developed and maintained in terms of the policy of the bank. Leaving the same to the skills of the several credit officers of the institution could result in disparate credit standards being applied in selection of the borrowers.

Parameter 1:

Loan Amount Requested	Rs.
Cost of purchase/construction/renovation/repair of flat/house Plus registration fee/stamp duty	Rs.
Amount under b) above less margin stipulated	Rs.
Loan amount: (a) or (c) whichever is less	Rs.

Parameter 2:

a. Gross monthly income	Rs.
Gross income of the applicant	Rs.

Add: Income of the spouse, if any	Rs.
Add: Other income, if any (say 50-60% of future rental)	Rs.
Total	**Rs.**
b. Net monthly income:	Rs.
Net income of the applicant	Rs.
Add: Net Income of the spouse, if any	Rs.
Add: Other net income, if any (say 50-60% of future rental)	Rs.
Total	**Rs.**
c. Certain multiples of (a) (say 36 times)	Rs.
d. Certain multiples of (b) (say 60 times)	Rs.
e. Loan amount (c) or (d) whichever is higher	Rs.

Eligible loan limit: Lower than Parameter 1 or Parameter 2

(In case of take-over, the loan amount should not exceed the balance principal outstanding)

A. EMI for eligible loan amount for a repayment period of... years Rs.
B. Net monthly income minus 40% of Total Monthly Gross Income Rs.
(B should be equal to or more than A)

II. Service Eligibility

Minimum years of service .... years (applicable for loan to salaried class people)

III. Age Eligibility

- Present age of the borrower
- Repayment period
- Age at the end of the repayment period
- Retirement age (in case of salaried class people)

IV. Legal Opinion

- Date of opinion

- Name of the advocate (who should be in the panel of the financing institution)
- Layer's opinion on the title of the property

V. Valuation Details

- Date of valuation
- Name of the valuer (who should be in the panel of the financing institution)
- Value of the property as per valuer's report: Rs. ....
- Estimated cost of construction/repair Rs. ....
  Whether the property is encumbered: Yes/No
- If yes, name of the mortgagee
- Amount of loan take Rs. ....
- Amount of loan outstanding Rs. ....

VI. Inspection Details

- Date of inspection by staff of the financing institution: ....
- Inspection done by: ....

Observation: Specific comments on interaction with neighbours/officials of society in case of existing building, discussion with builder and observation regarding the state of construction in case of a building under construction, land mark of the area, approach details to the building, boundary details of the building and any other relevant information

VII. Rate of Interest

- Rate of interest: .... % per annum
- Type of interest: Fixed/Floating

VIII. Security Details

- Market value of the land and house/flat (proposed to be financed) Rs.
- Collateral security value, if any Rs.
- Total Rs.
- Margin (.....%) Rs.
- Drawing limit (Total minus Margin amount) Rs.

IX. Repayment Details

- Holiday period, if any .... months
- Repayment to start from .... (Month).................... (Year)
- Type of EMI: Regular/Variable
- Repayment in .... EMIs of Rs. .... each

X. Other Charges

- Processing Fee/Administrative Fee Rs. .... Date of collection......................... .
- Upfront Fee Rs. .... Date of collection ....

XI. Litigation Details, if any

XII. Relaxation/Concession, if any

XIII. Disbursement details

- First Stage: Rs. .... Date of disbursement ....
- Second Stage: Rs. .... Date of disbursement ....
- Third Stage: Rs. .... Date of disbursement ....
- Total: Rs. ....

Typical Format used by Banks for Assessment of Housing Loan

Loan for Construction of House

1. In Case of House

- Area of Plot Sq. ft.
- Proposed built up area Sq. ft.
- Purchase Price of Plot Rs.
- Architect's fees Rs.
- Cost of construction Rs.

2. In case of Flat

- Area of undivided share of land Sq. ft.
- Cost of undivided share of land Rs.
- Cost of semi-finished flat Rs.
- Cost of Completion and/or additional items Rs.
- Registration Charges Rs.
- Total Cost Rs.
- Market Value as per Report Rs.

3. Loan for Purchase of House/Flat (Ready Built)

- Is the Unit New Old
- Age of existing structure if old .... Years
- Purchase Price Rs.
- Cost of additional items Rs.

- Total Cost Rs.
- Area of Plot undivided share of land …………….
- Built up area in Sq. Ft. …………….
- Market Value/Land Value Rs.
- Structure Value Rs.

4. Loan for Extension

- Age of Existing structure ……………
- Plot Area/Built up area of Flat ………… In sq. ft.
- Market value of existing structure Rs.
- Is the property mortgaged to any institution? YES/NO
- If yes, name of Institution ………….
- Value of outstanding loan …………
- Mortgage Value Rs.
- Details of proposed repair extension ………….
- Estimated cost of repairs/extension Rs.

5. Loan amount request:

Cost of Property	Amount in INR	Source of funds	Amount in INR
1. Cost of land 2. Cost of construction extension **1.** Cost of amenities, service charges. **2.** Cost of repairs, improvement **3.** Cost of flat/house **4.** Cost of stamp duty, electrical connections, municipal charges **Total costs***		1. Amount already invested 2. Saving in Bank 3. Disposal of investment, property 4. PF (a) refundable (b) non-refundable 5. Other, specify 6. Loan applied for **Total Funds**	

*Total cost should equal Total funds

Other Relevant issues at Pre- Sanction Stage

- **Interest:** Both Fixed rate loans and floating rate loans may be offered.
- **Insurance**: The house/ flat should be insured against the risk of fire/riots/earthquakes/lighting/floods, etc..
- **Moratorium:** A repayment holiday may be allowed for a home loan when the construction is undertaken by a reputed builder, a Government agency, etc. and the borrower makes payments in stages over the construction period. The moratorium will be upon 18 months after the first disbursement of the loan or two months after completion of construction whichever falls first.

If the loan under consideration is for purchase of land with building/flat, a maximum holiday period of 3 months may be allowed.

- **Equated Monthly Instalment (EMI)**
- **Pre EMI Interest**
- **EMI Reset**

Mortgage

The next section deals with an important part of the security documentation, viz. mortgage. The basic steps in creating a mortgage are listed herein. The legal position surrounding the creation of mortgage and the precautions to be taken by a lender to secure his position are discussed in some detail.

Mortgage

Section 58(a) of the Transfer of Property Act, 1882 defines mortgage as "a transfer of an interest in specific immovable property for the purpose of security, for the payment of money advanced or to be advanced by way of a loan, an existing or future debit or the performance of an engagement which may give rise to a pecuniary liability".

Types of Mortgage:

In India, Immovable property is accepted by the banks as security usually by way of:

- Registered or Simple Mortgage,
- Mortgage by Deposit of Title Deeds.

Registration of Documents

In each State the relevant Stamp Acts and registration formalities are required to be followed. The following points are relevant in connection with registration of documents in respect properties located in Maharashtra. Those persons who are referring this courseware should study the relevant provisions as prevailing in the particular State.

The Bombay Stamp Act (BSA), 1958 is applicable in the State of Maharashtra. This Act pertains to levy of stamp duty on certain types of documents executed in the State. The rates at which stamp duty is levied on these documents are mentioned in Schedule I of BSA. The stamp duty is payable on instrument and not on the transactions. Instrument means any document by which any right or liability is created or recorded. The payment of proper stamp duty on instruments bestows legality on them. The instruments which are not properly stamped are not admitted in evidence.

The Documents relating to the following transactions of immovable properties are required to be compulsorily registered:

- *Gift*
- Lease of immovable property from year to year or for any term exceeding one year
- Instruments which create any right in an immovable property of a value of more than one hundred rupees.

Fees for Registration of a Document

The State Government has been empowered to fix the fees for registration of the document. The registration fees at present fixed by the Govt, of Maharashtra are approximately 1% of the consideration of the document but subject to a maximum limit of Rs. 30,000. The registration fee for the following immovable property transactions is leviable on the market value of property on which stamp duty is charged.

The transactions are as under:

- Conveyance,
- Exchange
- Gift,
- Partition,
- Transfer of Lease by way of Assignment,
- Sale,
- Settlement,
- Power of Attorney given for consideration, and
- Authorising the attorney to sell the property.

Detection of Forged and Fabricated Title Deeds

The title deeds submitted by the applicants need to be examined to detect any fake/forged title deeds. The following are certain tips:

- Schedule of property and Registration of the document: It is necessary to verify the Schedule of the property where it is situated and the Registration of the same with the Sub-Registrar Office concerned. Any discrepancy could indicate forgery/fraud.
- Stamp Duty affixed on the document and the consideration shown in the document: It is necessary to verify the consideration paid in the document and also verify the Stamp Duty affixed on the document.

- Affixation of stamps, cancellation and date of execution: It is necessary to verify the source of purchase of stamps and its cancellation and also the execution of the document. The execution of the document should be subsequent to the cancellation of stamps/date of purchase.
- Examine security marks on the stamp paper, which are visible only on a close examination.

Unit 2: Housing Finance and Tax Planning

Tax Benefits In Respect of Housing Finance

In respect of Loan taken for Purchase/Construction of a Residential Unit, the borrower can avail benefit of payment of interest as well as repayment of principal.

Home Loan Tax Benefits

- Tax deduction on payment of home loan interest - section 24
- Tax deduction on principal repayment of housing loan – section 80C
- Tax deduction for first time home buyer - section 80EE

Tax benefit under section 24(b)

Interest on housing loan can be claimed as a deduction from income from property, salary, business profession, capital gains, **or any other source upto a maximum of Rs. 2,00,000 under section 24(b) of the Income tax Act, 1961 every year subject to fulfilment of the following conditions.**

- Loan has been taken on or after 1st April 1999.
- Loan is for purchase or construction of a residential property or as re-finance (takeover) of the principal amount outstanding under a loan taken earlier for purchase or construction of a residential property. However, in case of loan for construction, the construction should get completed within 35 Years of raising the Loan. Deduction can be claimed only from the financial year when the purchase/construction is completed.
- The lender issues a certificate at the end of the financial year mentioning therein the interest and principal paid during the year in respect of that loan.
- Interest payment of home loan taken for a self-occupied property.

If the loan is availed for repair or renewal an amount of Rs. 30,000 is only allowed under Section 24(b)

Computation of income from Self occupied property

Particulars	**Amount**
Gross annual value	Nil
Less - Municipal taxes paid during the year	Nil
Net Annual Value (NAV)	Nil
Less- Deduction under section 24	
• Deduction under section 24(a) @ 30% of NAV • Deduction under section 24(b) on account of interest on borrowed capital	Nil (XXXX)
Income from house property	XXXX

Under Section 80C

Tax benefit on Home Loan Principal Repayment under section 80C

The maximum tax deduction allowed under section 80C is Rs. 1,50,000. The tax deduction on principal repayment is also a part of the various deductions allowed under section 80C which includes amount invested in PPF Account, Tax Saving Fixed Deposits, Life Insurance premium, National Savings Certificate, Senior Citizens Saving Scheme, etc.

Conditions for claiming deduction under section 80C: Certain conditions must be satisfied to claim deduction under section 80C for principal repayment of home loan:

- Only if the construction of property is complete and have received a completion certificate for the same.
- No deduction would be allowed under this section for repayment of principal for those years during which the property was under construction.
- Deduction is also available whether the property is self-occupied or let out.
- The benefit can also be claimed for more than 1 house property.

Reversal of tax benefits availed under section 80C

If a house property for which tax benefit was availed under section 8OC, is sold within a period of 5 years from the end of the financial year in which the property has been received in possession, then:

- Tax benefit under 80C will not be eligible for claim in that financial year.
- The total amount of tax deduction already claimed in respect of earlier years shall be deemed to be income of such year in which the property has been sold and will be liable to pay tax on that income.

Section 80EE

Tax benefit under Section 8OEE: Deduction for First Time Home Buyers

Just like deduction **under section 24, the deduction under section 80EE is also available on the interest paid on the home loan by taxpayer or assessee**. But his deduction is only available to first time home buyers. The quantum of deduction is Rs. 50,000 for interest paid on the home loan This deduction is available over and above the deduction of section 24 and section 80C which are Rs. 2,00,000 and Rs. 1,50,000 respectively.

Conditions Necessary for Claiming Deduction under Section 80EE: ***To claim this special tax benefit, the taxpayer must satisfy the following conditions:***

- The deduction can be availed on home loans sanctioned only between 1st April to 31st March in the financial year.
- The value of property for which the loan has been taken should be less than Rs. 50 lakh.
- The home loan amount should not exceed Rs. 35 lakhs.
- The tax benefit here can be claimed till the time repayment of loan continues
- Deduction is only applicable on home loan paid for first house property.
- The property in question can be either self-occupied or non-self-occupied.
- The amount of claim deducted under this section will not be eligible to claim the deduction u/s 24 again for the same amount of interest.
- As on the date of sanction of loan no other house is owned by you.

Eligibility for Claiming Section 80EE Deductions

- The deductions under this section can be claimed only by individual taxpayers on properties purchased either singly or jointly.
- Section 80EE is applicable on a per person basis instead of a per property basis. So, suppose you have purchased property jointly with your spouse and you both are paying the instalments of loan then you both can individually claim this deduction.
- It is not necessary to reside in the property for which you want to claim this deduction. So borrowers staying in a rented accommodation can also claim this deduction.

If the property is rented out, interest paid on Loan can be fully deducted from the Income derived from the property without the limit of Rs. 2,00,000 or Rs. 30,000, as the case may be.

Unit 3: Mortgage Advice

Economic and Regulatory Context For Giving Mortgage Advice

In India, mortgage advice profession is carried out without any regulations. There is no entry barrier and no code of conduct or ethics are stipulated by any

regulation. Any person can enter the profession and can provide advice and do business. There are regulations in US, UK and other countries regulating the mortgage advice services. It would be worthwhile to look at some of the legal provisions in US to understand the position prevailing in these counties and to feel the need of such regulations in India.

Development of "Home Information Packs"

This concept is being introduced in UK from 1st August 2007. An attempt has been made to explain in brief the concept and its utility. It is not at all applicable in India. However, the study of this concept and understanding its usefulness may be advisable. This may also pave the way for introducing the same in the country on a limited basis in a gradual manner.

What is Information Pack?

- The Home Information Pack contains important information that buyers and sellers need to know. Home Information Packs including Energy Performance Certificates will be implemented on a phased basis from 1st August 2007 in UK. From then, on Packs will be required for the sale of four bedroom properties and larger, with smaller properties being phased in as soon as sufficient energy assessors are fully qualified.

Time Value of Money-Interest and Annuities

The Rule of 72

This rule allows you to determine the number of years before your money doubles whether in debt or investment. Here is how to do it.

Divide the number 72 by percentage rate you are paying on your debt (on earning on your investment.

For Illustration: Suppose, you borrowed Rs. 1,000 at 6% interest. 72 divided by 6 is 12. That makes 12 the number of years it would take for your debt to double to Rs. 2,000, if you did not make any payment. Similarly, a saving account with Rs. 500 deposited in it earning 4% interest. 72 divided by 4 is 18. It will take, 18 years for your Rs. 500 to double to Rs. 1,000 if you don't make or with any deposit.

Future Value of Money

For finding out future value (FV), we must use compounding formula which is given below:

$FV = PV(1 + r)^n$

Where PV means present value, 1 means one rupee, r means rate of interest and n means period or term

Example:

If Rs. 1,00,000 is invested for a period of 6 years at interest at 11% p.a. find the maturity sum i.e., future value

Future value = PV × future value factor

FV = 1,00,000 x 1.87 = 1,87,000

Solving problem through MS EXCEL program

The in-built function of FV in excel is –

FV (RATE, NPER, PV, TYPE)

FV = Future value, RATE = rate of interest, NPER = Total number of periods, PV - present value. PMT and TYPE are included to handle annuities (a series of payments equally spaced over a period of time). TYPE is for indicating whether the cash flow occurs at the beginning (1) or at the end (0) of the period.

In order to do calculation with EXCEL go to Insert, go function, click financial function.

Calculating the Future Value of an Ordinary Annuity

If you know how much you can invest per period for a certain time period, the future value of an ordinary annuity formula is useful for finding out how much you would have in the future by investing at your given interest rate. If you are making payments on a loan, the future value is useful for determining the total cost of the loan. In order to calculate the future value of the annuity, we have to calculate the future value of each cash flow.

F = A $\frac{(1+i)^n - 1}{i}$

Where, F = future value of an annuity

A = annuity

I = interest rate

n= term

Calculating the Future Value of an Annuity Due

Since each payment in the series is made one period sooner, we need to discount the formula one period back. A slight modification to the FV-of-an-ordinary-annuity formula accounts for payments occurring at the beginning of each period.

Notice that when payments are made at the beginning of the period, each amount is held for longer time at the end of the period. For Illustration, if the Rs. 1,000 was invested on January 1st rather than December 31st of each year, the last payment before we value our investment at the end of five years (on December 31st) would have been made a year prior (January 1st) rather than the same day on which it is valued. The future value of annuity formula would then read:

F = A $\frac{(1+i)^n - 1}{i}$ x (1+r)

Therefore, future value of annuity due of Rs. 1,000 for a period of 5 years at interest rate of 5% would be

FV (Annuity Due) = 1000 x $\frac{(1+0.5)^5 - 1}{.05}$ x (1 + .05)

= Rs. 1000 * 5.53 * 1.05

= Rs. 5801.91

The same value can be calculated by using annuity table.

Future value of annuity = Annuity x CV factor

Compound value factor for annuity (CVA) of Re. 1 at different rates of interest are given below for information. Assume rupee to be invested at the end of the year.

Year	7%	8%	9%	10%	11%	12%
1	1.00	1.00	1.00	1.00	1.00	1.00
2	2.070	2.080	2.090	2.100	2.110	2.120
3	3.215	3.246	3.278	3.310	3.342	3.374
4	4.440	4.506	4.573	4.641	4.710	4.779
5	5.751	5.867	5.985	6.105	6.228	6.353
6	7.153	7.336	7.523	7.716	7.913	8.115

Example:

If Ms. Anusaya is paying home loan instalment at Rs. 12,000 per year for a period of 6 years how much she paid till the end of the loan period (What is the future value of an annuity of Rs. 10,000 p.a. at 11% for a period of 6 years)

Solution:

By using the annuity table above, find CVA factor for 6 years at 11% and multiply by Rs. 10,000 CVA for 6 years @ 11% = 7.913

Annuity = Rs. 10,000

So Future value of annuity = 7.913 x 10,000 = Rs. 79,130

Present Value

Present value is nothing but the reverse of future value. For finding out present value (PV), we must use counting formula which is given below:

PV = FV + (1 +r)^n

Where PV means present value, 1 means one rupee, r means rate of interest and n means period or term and FV means future value.

Capital Gains

Any profit or gain from transfer of a capital asset is chargeable to tax under the head "capital gains". Capital asset means any property whether movable or immovable, tangible or intangible. Transfer, in relation to capital asset, includes sale, exchange of the asset.

The following assets are, however, excluded from the definition of capital assets:

i)Stock-in-trade, stores, raw material,

ii)Personal effects (excluding Jewellery, archaeological collections, drawings, paintings, sculptures, etc.);

iii)Agricultural land in India, not being a land situated;

- Within jurisdiction of municipality, notified area committee, town area committee, cantonment board and which has a population of not less than 10,000;
- Within range of following distance measured aerially from the local limits of any municipality or cantonment board:
    - Not being more than 2 KMs, if population of such area is more than 10,000 but not exceeding 1 lakh;
    - Not being more than 6 KMs, if population of such area is more than 1 lakh but not exceeding 10 lakh; or
    - Not being more than 8 KMs, if population of such area is more than 10 lakh.

Bonds/securities under certain schemes, as announced by Government.

For the purpose of income tax Law "Transfer", in relation to a capital asset, includes:

- Sale, exchange or relinquishment of the asset;
- Extinguishment of any rights in relation to a capital asset;
- Compulsory acquisition of an asset;
- Conversion of capital asset into stock-in-trade;
- Maturity or redemption of a zero-coupon bond;
- Allowing possession of immovable properties to the buyer in part performance of the contract;

- Any transaction property which has the effect of transferring an (or enabling the enjoyment of) immovable property or
- Disposing of or parting with an asset or any interest therein or creating any interest in any asset in any manner whatsoever.

Types of Capital Assets Shon-term capital assets

- Long-term capital assets
- Short Term Capital Assets

Short Term Capital Assets

- Short term capital asset means a capital asset held for less than 36 months immediately prior to the date of transfer. However, in following cases, asset held for less than 12 months is treated as short term capital asset. However, in respect of certain assets like shares (equity or preference) which are listed in a recognised stock exchange in India, units of equity oriented mutual funds, listed securities like debentures and Government securities, Units of UTI and Zero Coupon Bond, the period of holding to be considered is 12 months instead of 36 months.
- In case of unlisted shares in a company, the period of holding to be considered is 24 months instead of 36 months.
- With effect from Assessment Year 2018-19, the period of holding of immovable property (being land or building or both), shall be considered to be 24 months instead of 36 months.

Short Term Capital Gain (STCG):

Short Term Capital Gain on property is considered as a gain from selling a property which was held by an assessee for not more than 36 months.

Long Term Capital Assets

Long term capital asset means a capital asset held for more than 36 months immediately prior to the date of transfer. However, in respect of certain assets like shares (equity or preference) which are listed in a recognised stock exchange in India, units of equity oriented mutual funds, listed securities like debentures and Government securities, Units of UTI and

Zero Coupon Bonds, the period of holding to be considered is 12 month instead of 36 months.

- In case of unlisted shares in a company, the period of holding to be considered is 24 months instead of 36 months.
- With effect from Assessment Year 2018-19, the period of holding of immovable property (being land or building or both), shall be considered to be 24 months instead of 36 months.

Long Term Capital Gain (LTCG)

Gain arising on transfer of long-term capital asset is termed as long-term capital gain.

Method of Computation of Short-term and Long-term Gain

Computation of short-term Cap. Gain	Computation of Long-term Cap. Gain
1. Find out full value of consideration 2. Deduct the following: a. Expenditure of transfer b. Cost of acquisition c. Cost of improvement 3. From the sum so arrived at deduct the exemptions provided by sections 54B, 54D 4. The balancing amount is short term capital gain	1. Find out full value of consideration 2. Deduct the following: a. Expenditure of transfer b. Indexed cost of acquisition c. Indexed cost of improvement 3. From the sum so arrived at deduct the exemptions provided by sections 54, 54B, 54D, 54EC, 54F 4. The balancing amount is long term capital gain

Cost Inflation Index

Indexation is a process by which the cost of acquisition is adjusted against the inflationary rise in the value of the asset. For this purpose, Central Government has notified cost inflation index. The benefit of indexation is available only to long-term capital assets. For computation of indexed cost of acquisition following factors are to be considered:

- Year of acquisition/improvement

- Year of transfer
- Cost inflation index of the year of acquisition/improvement
- Cost inflation index of the year of transfer

Computation of indexed cost of acquisition

$$\text{Indexed cost of acquisition} = \frac{\text{Cost of acquisition} \times \text{Cost inflation index of the year of transfer of capital asset}}{\text{Cost inflation index of the year of acquisition}}$$

Computation of indexed cost of improvement

$$\text{Indexed cost of improvement} = \frac{\text{Cost of improvement x Cost inflation index of the year of transfer of capital asset}}{\text{Cost inflation index of the year of improvement}}$$

Capital Gains: When and to What Extent Exempt from Tax

Section in IT Act	Gain eligible for claiming exemption	Asset in which the capital gain is to be re-invested to claim exemption
section 54	Long-term capital gain arising on transfer of residential house property.	Gain to be re-invested in purchase or construction of one residential house property in India.
section 54B	Long-term or short-term capital gain arising on transfer of agricultural land.	Gain to be re-invested in purchase of agricultural land.

Section 54EC	Long-term capital gain arising on transfer of any capital asset.	Gain to be re-invested in bonds issued by National Highway Authority of India or by the Rural Electrification Corporation Limited. The investment should be made within a period of 6 months from the date of transfer of capital asset and bonds should not be redeemed before 3 years. This benefit cannot be availed in respect of short-term capital gain. The Maximum amount which qualifies for investment will be Rs. 50,00,000. Thus, the deduction under section 54EC cannot be claimed for more than Rs. 50,00,000.
Section 54EE	Long-term capital gain arising on transfer of any capital asset.	Gain to be re-invested in units of specified fund, as may be notified by Govt. to finance start-ups.
section 54F	Long-term capital gain arising on transfer of any capital asset other than residential house property.	Net sale consideration to be re-invested in purchase or construction of one residential house property in India.
section 54D	Gain arising on transfer of land or building forming part of industrial undertaking which is compulsorily acquired by Government and was used for industrial purpose for a	Gain to be re-invested to acquire land or building for industrial purpose.

	period of 2 years prior to its acquisition.	
section 54G	Gain arising on transfer of land, building, plant or machinery in order to shift an industrial undertaking from urban area to rural area	Gain to be re-invested to acquire land, building, plant or machinery in order to shift the industrial undertaking from an urban area to a rural area
section 54GA	Gain arising on transfer of land, building, plant or machinery in order to shift an industrial undertaking from urban area to any Special Economic Zone	Gain to be re-invested to acquire land, building. plant or machinery in order to shift the industrial undertaking from urban area to any Special Economic Zone.
Section 54GB	Long-term capital gain arising on transfer of residential property (a house or a plot of land). The transfer should take place during 1st April, 2012 and 31st March 2017. However, in case of investment in "eligible start-up", sunset limit of 31st March 2017 is extended to 31st March 2019.	The net sale consideration should be utilised for subscription in equity shares of an "eligible company: W.e.f. April 1, 2017, eligible start-up is also included in definition of eligible company

JAIIB RMWM Module C Unit 4: Valuation Of Real Property

Valuation means assessment of the worth of an asset or property. The worth or value of a property is based on the income and other advantages that will accrue from the property in future. It is distinct from cost, which refers to the actual amount spent in producing an asset. Price is the cost of production plus profit of the producer. Price depends on demand and supply of a commodity and rises or falls accordingly. Cost is related to the past while value refers to the future. Thus, cost is not the same as value and price are not necessarily equal to value.

Who Does Valuation?

- Valuation is a specialized area practiced by qualified engineers and architects who possess knowledge of building costs, awareness of market conditions and economic trends, developmental plans, legal statutes and provisions governing real property, rental income and outgoings, etc.
- The valuer is required to collect data on aforesaid aspects but as the information is not easily accessible and/or authentic particularly about demand and supply, the valuer has to rely on his own experience and judgment in arriving at the fair market value.
- It is hence inevitable that there will be difference of opinion between two Valuers in respect of the value of same property. The Income-tax Department grants registration to **Valuers u/s 34AB of the Wealth TaxAct, 1957**, on the basis of their technical background and experience. For the purpose, the Department has classified Valuers under separate categories - those for (a) immovable property, (b) agricultural land, (c) plant & machinery (d) jewellery, etc.

Types of Real Property

Agricultural land: Agricultural land means land capable of being used for farming or for raising plants or trees that carry value. The factors that influence the return from agricultural land are:

- Location
- Soil quality
- Availability of water & electricity
- Size of holding
- Clear Title of land
- Access by road and approaches
- Cottage or Farm house, fencing and gates
- Types of crops that can be cultivated

Valuation of agricultural land is done by following two methods:

- **Income Capitalisation Method**: The income is determined by assuming that the land is rented on crop- sharing basis. The net annual income is arrived at after deducting the expenses incurred such as local taxes, cost of maintenance, cost of inputs, insurance etc. and the amount is then capitalized at an appropriate rate of interest to get the value of land.
- **Capitalised value** means the amount of money required today to get a certain fixed income in the form of annual instalments over a very long time (perpetuity). The present value of future annual income is obtained by multiplying it by a factor called 'Years Purchase'(YP). The factor or multiplier is

so called because it represents the purchase price for the yearly income. It is obtained from Present Value tables and for annual income in perpetuity (asset that does not depreciate), it is equal to 1/i where 'i' is the rate of interest.

- **Sales Statistics Method**: In this method, the valuation is based on the comparable sale value of similar agricultural land located in the vicinity of the land to be valued.

The factors generally considered for comparison are:

i)Size of holding

ii)Physical features, roads, fencing, cottages, soil quality, etc.

iii)Title of land and conditions of letting out for cultivation

Urban land

Urban open lands could be put to residential or industrial use and their value depends on their potential for development through construction of appropriate structures. The factors that have a bearing on value of vacant land are:

- **Location** – near ness to schools, shops, entertainment, transport, medical, recreation facilities, police station, etc.
- **Size, shape and level** – there is larger demand for plots of certain sizes in particular locality. Similarly, plots of irregular shape or at lower than road level carry lower value.
- **Usage:** A commercial land is more valuable than residential or industrial land. Similarly, residential and industrial lands are more valuable than agricultural land. Hence, it is important to determine the usage of land to evaluate its price.
- **Soil quality, water availability** – low bearing capacity of soil increases the cost of foundation.
- **Frontage & depth** – Street frontage adds to value while disproportionate depth reduces value of plot.
- **Restrictions on development** – Land with higher FSI commands higher price. FSI or Floor Space Index (also called Floor Space Area – FAR) refers to the ratio of total built-up area inclusive of all floors to the area of land on which the building is constructed. It is determined by local authority and varies for different areas or different buildings in the city. Available FSI refers to the difference between the permissible FSI and the FSI utilized.
- **Encumbrances** – such as easement rights, unauthorized hutment dwellers, etc. – The value of land with encumbrances is much less compared to land with no encumbrance.
- **Vastu:** Many people in India believe in Vastu Shastra. North facing and East facing plots command premium over West facing and South facing plots.
- **Return Frontage**: A plot with multiple frontages commands premium over a plot with single frontage. For eg. a corner plot or a three side open plot will be priced higher than a plot with only one side open to road.

Valuation of open land is done by following methods—

- **Comparative Method**: It is the most popular method. The value is determined on the basis of a fair rate for land situated in the vicinity as reflected from various recent sale-purchase transactions. The Valuer has to draw on his experience while using this method, as the land rates as per sale deeds do not often reflect the actual rate. Land value in urban areas is a function of the collective demand for real property, both present and future.
- **Rent Capitalisation Method**: First, a comparable property in nearby area on rent is used as benchmark and the capitalised value is calculated by multiplying the net income by Years Purchase. Next, the replacement cost of the building is worked taking into account the quality of construction, etc.,
- **Belting Method**: This method of valuation of land takes into account the frontage and depth of the plot. It is adopted for big size plots with lesser frontage and more depth. The land is divided into several belts running parallel to the frontage and progressively lower rates are taken for belts farther from the frontage.
- **Extraction Method**: In this method of land valuation, the unit prices for comparable land are extracted from a developed property in the vicinity by deducting the estimated value of the
- **Guideline Value**: In order to ascertain the value of the land for the purpose of stamp duty, property tax, wealth tax etc. government publishes guideline values for relevant period and location.

Land With Building

The methods used for valuation of land with building are:

- **Comparative Method**: The Town Planning Deptt. Generally adopts the Comparative Method for estimating the value of land with building because the property is generally sold as a single piece
- **Rent Capitalisation Method:** The rental income is the rent actually paid when the property has been let out in the recent past vis-á-vis the date of valuation. However, the actual rent may not always represent the fair rental income in cases where the tenant has paid some lump-sum amount upfront or the property is newly constructed, etc.
- **Valuation based on profits**: In cases of property which is used for conducting trade or business, like hotels, cinema houses, restaurants, etc., the valuation is done on the basis of capitalized value of the net profit as reflected in the books of account of the business entity. The net profit is capitalized by multiplying it by the YP for certain number of years or in perpetuity, for a rate of return pertinent to the specific business.
- **Valuation based on cost**: The present cost of building is estimated with prevalent rate staking into account the type of construction, age and condition of the building and appropriate depreciation is charged to get the depreciated value. The value of land is worked out on the basis of current
- **Valuation of specialized buildings**: Buildings erected to serve specific purpose such as bars, breweries, hotels, motels, cinema houses are valued by specialists

having experience of market practices and rules that apply to the particular trade. The business can be pursued only after a license is obtained from the authorities. When the business is sold as a going concern, one has to take into account the value of intangible assets such as monopoly, goodwill, competence of management, etc.,

Sinking Fund

At the end of life of the structure i.e., when it ceases to yield desired income, a property has to be replaced or rebuilt so that the income may continue for further period. The fund set aside for the purpose of recovering the original capital is called sinking fund. The amount to be regularly set aside out of annual income to create the sinking fund depends on the compound interest it is supposed to earn over the life of the structure. The sinking fund factor is the amount that accumulates to Re. 1 if invested at specified rate of interest for certain number of years. It can be obtained from Valuation Tables. The factor for redemption of Re. 1 at the end of 25 years @ 5% compound interest is 0.021 from the table (see Appendix). Thus the sinking fund for redeeming original capital of ₹15 Lakh will be 15,00,000 × 0.021 = 315000. In actual practice, separate provision for sinking fund is not done but the capitalized value is obtained by referring to dual rate Valuation Tables to determine the multiplying factor (YP) based on income for a specified period (life of building) at particular interest rate and redemption of capital at another rate of interest. Thus, the YP or present value of Re. 1 per annum for income @ 10% rate of interest and redemption of capital @ 5% rate of interest for a period of 25 years is 8.27 as per the tables(see Appendix). In other words, if a property is purchased for ₹8,00,000, its capitalized value will be 8.27 × 8,00,000 = 66,16,000.

Depreciation

Depreciation means loss in value. A building loses value due to deterioration in its physical condition as a result of usage (wear & tear), effect of climatic conditions, poor structural design or workmanship. An estimate of the useful life of the building is made after which it will become unserviceable and depreciation is charged accordingly so that accumulated depreciation becomes equal to the original investment at the end of its life. Abuilding also loses value due to obsolescence. There is continual improvement in construction technology and architecture and new buildings provide more comfortable living conditions by providing better amenities such as modular kitchen, wash basins, hot and cold water, geyser, lift, better ventilation, etc. There are several methods to calculate depreciation but the following two methods are usually adopted:

Straight Line Method: In this method, the depreciation is allocated uniformly over the life of the property and is generally adopted for tax purposes and preparing financial statements. The annual depreciation is given by:

D=C-S/n

- D is annual depreciation, C is original cost,
- S is salvage value (value that property may fetch at the end of useful life),
- n is life of building in years.

Written Down Value (WDV) Method: In this method, it is assumed that the property will lose value by a constant percentage of its value at the beginning of the year. Thus, the amount of depreciation goes on reducing every year because while depreciation is charged at fixed percentage, the capital value of asset decreases by depreciation charged every year. The object is to charge higher depreciation in initial years when the asset yields higher income due to low cost of repairs & maintenance and lower depreciation in later years when cost of repairs goes up. This method is also called the Declining Balance Method and is generally adopted by industrial units because of advantage of lower income-tax. The WDV of an asset can be found out by the formula:

WDV = C (1 – p)n

C being original cost, n being life in years, and p being the percentage at which depreciation is charged. Here, salvage value is assumed as zero.

Reverse Mortgage

Reverse Mortgage Loan provides an additional source of income for senior citizens of India, who have a self-acquired or self-occupied home in India. This product is beneficial for senior citizens who do not have adequate income to support themselves. The Bank makes payments to the borrower /borrowers (in case of living spouse), against mortgage of his / their residential house property. The borrower is not expected to service the loan during his lifetime.

Difference between Mortgage and Reverse Mortgage:

	Mortgage	Reverse Mortgage
Type of Security	Immovable Property	Immovable Property
Possession and Ownership	Generally with the borrower(Depends on the agreement and type of mortgage)	With borrower till death of the borrower
Parties	Mortgagor(borrower) and Mortgagee(lender)	Mortgagor(borrower) and Mortgagee(lender)
Age	Not exceeding the defined age by a lender	Must be a senior citizen
Home equity	Increases as the EMI's decreases	Decreases as the loan outstanding will increase
EMI's	The borrower pays to the lender	The lender pays to Borrower

Reverse Mortgage Loan - Salient Features

Reverse Mortgage Loan - Salient Features
- Reverse Mortgage Loan (RML) enables a Senior Citizen i.e. above the age of 60 years to avail of periodical payments from a lender against the mortgage of his/her house while remaining the owner and occupying the house.
- The Senior Citizen borrower is not required to service the loan during his/her lifetime and therefore does not make monthly repayments of principal and interest to the lender.
- RMLs are extended by Primary Lending Institutions (PLIs) viz. Scheduled Banks and Housing Finance Companies (HFCs) registered with NHB.
- The loan amount is dependent on the value of house property as assessed by the lender, age of the borrower(s) and prevalent interest rate.
- The loan can be provided through monthly/quarterly/half-yearly/annual disbursements or a lump-sum or as a committed line of credit or as a combination of the three.
- The maximum period of the loan is 20 years. (The maximum period over which the payments can be made to the reverse mortgage borrower).
- The loan amount may be used by the Senior Citizen borrower for varied purposes including up-gradation/ renovation of residential property, medical exigencies, etc. However, use of RML for speculative, trading and business purposes is not permissible.
- Valuation of the residential property would be done at such frequency and intervals as decided by the reverse mortgage lender, which in any case shall be at least once every five years.
- The quantum of loan may undergo revisions based on such re-valuation of property at the discretion of the lender.
- The borrower(s) will continue to use the residential property as his/her/their primary residence till he/she/they is/are alive, or permanently move out of the property, or cease to use the property as permanent primary residence.
- The lender will have limited recourse i.e. only to the mortgaged property in respect of the RML extended to the borrower.
- All reverse mortgage loan products are expected to carry a clear and transparent 'no negative equity' or 'non-recourse' guarantee. That is, the Borrower(s) will never owe more than the net realizable value of their property, provided the terms and conditions of the loan have been met.
- On the borrower's death or on the borrower leaving the house property permanently, the loan is repaid along with accumulated interest, through sale of the property.
- The borrower(s)/heir(s) can also repay the loan with accumulated interest and have the mortgage released without resorting to sale of the property.

➾	The borrower(s) or his/her heirs also have the option of prepaying the loan at any time during the loan tenor or later, without any prepayment levy.

Formula to Calculate the Periodic Payments under RML

The formula to calculate the periodic payments, as available in the website of NHB, is as under:

Instalment Amount = (PV*LTVR*I((1+I)n−1)

Where, PV = Property Value;

LTVR = LTV Ratio;

n = No. of Instalment Payments;

I = the value of I will depend on Disbursement Frequency selected.

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