SAMPLE NOTES

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BANKING IN INDIA

The Indian money market is classified into: the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and the unorganised sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs)). The unorganised sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.

- Banking in India, in the modern sense, originated in the last decades of the 18th century. Among the first banks were the Bank of Hindostan, which was established in 1770 and liquidated in 1829-32; and the General Bank of India, established in 1786 but failed in 1791.
- The largest bank, and the oldest still in existence, is the State Bank of India (S.B.I). It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government; the other two were the Bank of Bombay and the Bank of Madras.
- The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.
- In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks.
- In 1969 the Indian government nationalised 14 major private banks. In 1980, 6 more private banks were nationalised. These nationalised banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.
- The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934.
- The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks.
- The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.
- Generally banking in India is fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge.

- The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development (NBARD) with facilities like microfinance.
- There are currently 27 public sector banks in India out of which 19 are nationalised banks and 6 are SBI and its associate banks, and rest two are IDBI Bank and Bharatiya Mahila Bank, which are categorised as other public sector banks. There are total 93 commercial banks in India.

Establishment of Three Presidency Banks

1) 02 June 1806 – Bank of Calcutta
2) 15th April 1840 – Bank of Bombay
3) 01st July 1843 – Bank of Madras

Year Of Formation Of Other Public & Private Sector Banks

- 1863 – Bank of Upper India
- 1865 – Allahabad Bank
- 1881 – Oudh Commercial Bank
- 19th May 1894 – Punjab National Bank
- 1895 – Punjab National Bank In Lahore
- 1904 – City Union Bank
- 1906 – Bank of India
- 12 March 1906 – Corporation Bank
- 15th August 1907 – Indian Bank
- 1908 – Bank of Baroda
- 01st July 1906 – Canara Hindu Permanent Fund (Rechristened to Canara Bank in 1910)
- 21st December 1911 – Central Bank of India
- 1916 – Karur Vysya Bank
- 11 November 1919 – Union Bank of India
- 26th November 1920 – Catholic Syrian Bank
- 1921 – Imperial Bank of India. Three presidency banks were merged in 1921 and evolution of this bank took place
- 11th May 1921 – Tamilnad Mercantile Bank Limited
- 1923 – Andhra Bank
- 1924 – Karnataka Bank Limited
- 1925 – Syndicate Bank
- 1926 – Lakshmi Vilas Bank Limited
- 1927 – Dhanlaxmi Bank Ltd
- 1929 – South Indian Bank Limited
- 23rd October, 1931 – Vijaya Bank
- 1934 – Reserve Bank of India
- 16th Sept 1935 – Bank of Maharashtra
- 1937 – Indian Overseas Bank
- 1938 – Jammu & Kashmir Bank
- 26th May 1938 – Dena Bank
- 19th February 1943 – Oriental Bank of Commerce
- 1943 – UCO Bank
- 1943 – United Bank of India
- 1945 – Federal Bank Limited
- 1954 – Nainital Bank Limited
- 1955 – State Bank of India (Post independence, Imperial Bank became State Bank of India)
- 1985 – Kotak Mahindra Bank
- 1994 – UTI Bank (Now Axis Bank)
- August 1994 – HDFC Bank
- 1996 – ICICI Bank
- 2003 – Yes Bank

ADOPTION OF BANKING TECHNOLOGY

The IT revolution has had a great impact on the Indian banking system. The use of computers has led to the introduction of online banking in India. The use of computers in the banking sector in India has increased many fold after the economic liberalisation of 1991 as the country's banking sector has been exposed to the world's market. Indian banks were finding it difficult to compete with the international banks in terms of customer service, without the use of information technology. The RBI set up a number of committees to define and co-ordinate banking technology. These have included:

- In 1984 was formed the Committee on Mechanisation in the Banking Industry (1984) whose chairman was Dr. C Rangarajan, Deputy Governor, Reserve Bank of India. The major recommendations of this committee were introducing MICR technology in all the banks in the metropolises in India. This provided for the use of standardised cheque forms and encoders.
- In 1988, the RBI set up the Committee on Computerisation in Banks (1988) headed by Dr. C Rangarajan. It emphasised that settlement operation must be computerised in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It further stated that there should be National Clearing of inter-city cheques at Kolkata, Mumbai, Delhi, Chennai and MICR should be made operational. It also focused on computerisation of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerisation began from 1993 with the settlement between IBA and bank employees' associations.
- In 1994, the Committee on Technology Issues relating to Payment systems, Cheque Clearing and Securities Settlement in the Banking Industry (1994) was set up under Chairman W S Saraf. It emphasised Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier. It also said that MICR clearing should be set up in all branches of all those banks with more than 100 branches.
- In 1995, the Committee for proposing Legislation on Electronic Funds Transfer and other Electronic Payments (1995) again emphasised EFT system.
- In July 2016, Deputy Governor Rama Gandhi of the Central Bank of India "urged banks to work to develop applications for digital currencies and distributed ledgers."

INDIAN RUPEE

- The Indian rupee (sign: ₹; code: INR), is the official currency of the Republic of India. The rupee is subdivided into 100 paise (singular paisa), though as of 2011, 25 paise coin is no more a legal tender.
- The issuance of the currency is controlled by the Reserve Bank of India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934.

- The rupee is named after the silver coin, rupiya, first issued by Sultan Sher Shah Suri in the 16th century and later continued by the Mughal Empire.
- In 2010, a new symbol '₹', was officially adopted. It was derived from the combination of the Devanagari consonant "र" (ra) and the Latin capital letter "R" without its vertical bar (similar to the R rotunda).
- The parallel lines at the top (with white space between them) are said to make an allusion to the tricolour Indian flag, and also depict an equality sign that symbolises the nation's desire to reduce economic disparity. The first series of coins with the new rupee symbol started in circulation on 8 July 2011.
- In a major step to check undeclared black money, the Government of India on the 8 November 2016 announced demonetisation of ₹500 and ₹1000 banknotes with effect from the same day's midnight, making these notes invalid.
- Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption.
- A new redesigned series of ₹500 banknote, in addition to a new denomination of ₹2000 banknote is in circulation since 10 November 2016. The new redesigned series is also expected to be introduced to the banknote denominations of ₹1000, ₹100 and ₹50 in the coming months.

The values of the subdivisions of the rupee during British rule (and in the first decade of independence) were:

- rupee = 16 anna (later 100 naye paise)
- 1 ardharupee = 8 anna, or 1⁄2 rupee (later 50 naye paise)
- 1 pavala = 4 anna, or 1⁄4 rupee (later 25 naye paise)
- 1 beda = 2 anna, or 1⁄8 rupee (later equivalent to 12.5 naye paise)
- 1 anna = 1⁄16 rupee (later equivalent to 6.25 naye paise)
- 1 paraka = 1⁄2 anna (later equivalent to 3.125 naye paise)
- 1 kani (pice) = 1⁄4 anna (later equivalent to 1.5625 naye paise)
- 1 damari (pie) = 1⁄12 anna (later equivalent to 0.520833 naye paise)
- 1 rupee = 16 anna
- 1 Athanni (dheli) = 1⁄2 rupee
- 1 Chawanni = 1⁄4 rupee
- 1 Dawanni = 1⁄8 rupee
- 1 Anna/Ekanni = 1⁄16 rupee
- 1 Taka/Adhanni = 1⁄32 rupee
- Paisa = 1⁄64 rupee
- Dhela = 1⁄128 rupee (1⁄2 paisa)
- Pie = 1⁄3 paisa = 1⁄192 rupee
- Damari = 1⁄4 paisa = 1⁄256 rupee.

MINTING

The Government of India has the only right to mint the coins and one rupee note. The responsibility for coinage comes under the Coinage Act, 1906 which is amended from time to time. The designing and minting of coins in various denominations is also the responsibility of the Government of India. Coins are minted at the five India Government Mints at Mumbai, Alipore (Kolkata), Saifabad (Hyderabad), Cherlapally (Hyderabad) and NOIDA (UP). The coins are issued for circulation only through the Reserve Bank in terms of the RBI Act.

COMMEMORATIVE COINS

- After independence, the Government of India mint, minted coins imprinted with Indian statesmen, historical and religious figures. In year 2010 and 2011 for the first time ever ₹75, ₹150 and ₹1000 coins were minted in India to commemorate the Platinum Jubilee of the Reserve Bank of India, the 150th birth anniversary of Rabindranath Tagore and 1000 years of the Brihadeeswarar Temple, respectively.
- In 2012 a ₹60 coin was also issued to commemorate 60 years of the Government of India Mint, Kolkata. ₹100 coin was also released commemorating the 100th anniversary of Mahatma Gandhi's return to India.
- Commemorative coins of ₹125 were released on 4 September 2015 and 6 December 2015 to honour 125th birth anniversary of Sarvepalli Radhakrishnan and B. R. Ambedkar respectively.

BANK NOTES

- In 1861, the government of India introduced its first paper money: 10 rupee notes in 1864, 5 rupee notes in 1872, 10,000 rupee notes in 1899, 100 rupee notes in 1900, 50 rupee notes in 1905, 500 rupee notes in 1907 and 1000 rupee notes in 1909.
- In 1917, 1- and 2 1⁄2-rupee notes were introduced. The Reserve Bank of India began banknote production in 1938, issuing 2, 5, 10, 50, 100, 1,000 and 10,000 rupee notes while the government continued issuing 1 rupee notes.
- After independence, new designs were introduced to replace the portrait of George VI. The government continued issuing the 1 rupee note, while the Reserve Bank issued other denominations (including the 5,000 and 10,000 rupee notes introduced in 1949).
- During the 1970s, 20 and 50 rupee notes were introduced; denominations higher than 100 rupee were demonetised in 1978. In 1987 the 500 rupee note was introduced, followed by the 1,000 rupee note in 2000. 1 and 2 rupee notes were discontinued in 1995.
- The design of banknotes is approved by the central government, on the recommendation of the central board of the Reserve Bank of India.

- Currency notes are printed at the Currency Note Press in Nashik, the Bank Note Press in Dewas, the Bharatiya Reserve Bank Note Mudran (P) Ltd at Salboni and Mysore and at the Watermark Paper Manufacturing Mill in Hoshangabad.
- The Mahatma Gandhi Series of banknotes are issued by the Reserve Bank of India as legal tender. The series is so named because the obverse of each note features a portrait of Mahatma Gandhi.
- Since its introduction in 1996, this series has replaced all issued banknotes of the Lion capital series. The RBI introduced the series in 1996 with ₹10 and ₹500 banknotes.
- At present, the RBI issues banknotes in denominations from ₹5 to ₹1,000. The printing of ₹5 notes (which had stopped earlier) resumed in 2009.
- As of January 2012, the new '₹' sign has been incorporated into banknotes of the Mahatma Gandhi Series in denominations of ₹10, ₹20, ₹50, ₹100, ₹500 and ₹1,000.
- In January 2014 RBI announced that it would be withdrawing from circulation all currency notes printed prior to 2005 by 31 March 2014. The deadline was later extended to 1 January 2015. Now further dead line was extended to 30 June 2016.
- There had been discussions on the necessity to withdraw notes of higher denominations such as the ₹1000 and ₹500 banknotes, considering their role in perpetuating unaccounted money. This move was taken to further curb the problem of fake currency circulation.
- On 8 November 2016 Prime Minister Narendra Modi announced the demonetization of ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series, with a detailed step-down program. This program would stop all usage of ₹500 and ₹1000 rupee notes by 11 November 2016.
- Citizens with valid identification will have until 30 December 2016 to exchange the notes for lower tender at any bank or post office, and until 31 March 2017 to exchange them at designated RBI offices by filling in a declaration form.
- On 8 November 2016, the Reserve Bank of India (RBI) announced the issuance of new ₹500 and ₹2000 banknotes in the Mahatma Gandhi New Series of banknotes.
- The new ₹2000 banknote has a magenta base colour, with a portrait of Mahatma Gandhi as well as the Ashoka Pillar Emblem on the front. The denomination also has a motif of the Mars Orbiter Mission (MOM) on the back, depicting the country's first venture into interplanetary space.
- The new ₹500 banknote has a stone grey base colour with an image of the Red Fort along with the Indian flag printed on the back. Both the banknotes also have the Swachh Bharat Abhiyan logo printed on the back.
- As of 10 November 2016, the current circulating banknotes are in denominations of ₹5, ₹10, ₹20, ₹50 and ₹100 are of the Mahatma Gandhi Series, while the denominations of ₹500 and ₹2000 are of the new Mahatma Gandhi New Series, and the denomination of ₹1 is of the Lion Capital Series.

CONVERTIBILITY OF INDIAN RUPEE

- Officially, the Indian rupee has a market-determined exchange rate. However, the RBI trades actively in the USD/INR currency market to impact effective exchange rates.
- Thus, the currency regime in place for the Indian rupee with respect to the US dollar is a de facto controlled exchange rate. This is sometimes called a "managed float".
- Other rates (such as the EUR/INR and INR/JPY) have the volatility typical of floating exchange rates, and often create persistent arbitrage opportunities against the RBI.
- Unlike China, successive administrations (through RBI, the central bank) have not followed a policy of pegging the INR to a specific foreign currency at a particular exchange rate.
- RBI intervention in currency markets is solely to ensure low volatility in exchange rates, and not to influence the rate (or direction) of the Indian rupee in relation to other currencies.
- Also affecting convertibility is a series of customs regulations restricting the import and export of rupees. Legally, foreign nationals are forbidden from importing or exporting rupees; Indian nationals can import and export only up to ₹7,500 at a time, and the possession of ₹500 and ₹1,000 rupee notes in Nepal is prohibited.
- RBI also exercises a system of capital controls in addition to intervention (through active trading) in currency markets.
- On the current account, there are no currency-conversion restrictions hindering buying or selling foreign exchange (although trade barriers exist).
- On the capital account, foreign institutional investors have convertibility to bring money into and out of the country and buy securities (subject to quantitative restrictions). Local firms are able to take capital out of the country in order to expand globally. However, local households are restricted in their ability to diversify globally. Because of the expansion of the current and capital accounts, India is increasingly moving towards full de facto convertibility.
- There is some confusion regarding the interchange of the currency with gold, but the system that India follows is that money cannot be exchanged for gold under any circumstances due to gold's lack of liquidity; therefore, money cannot be changed into gold by the RBI. India follows the same principle as Great Britain and the US.

Chronology

- 1991 – India began to lift restrictions on its currency. A number of reforms removed restrictions on current account transactions (including trade, interest payments and remittances and some capital asset-based transactions). Liberalised Exchange Rate Management System (LERMS) (a dual-exchange-rate system) introduced partial convertibility of the rupee in March 1992.

- 1997-A panel (on capital account convertibility) recommended that India move towards full convertibility by 2000, but the timetable was abandoned in the wake of the 1997–1998 East Asian financial crisis.
- 2006 – Prime Minister Manmohan Singh asked the Finance Minister and the Reserve Bank of India to prepare a road map for moving towards capital account convertibility.

FIXED RATE SYSTEM VS FLOATING RATE SYSTEM

- If government or RBI fix the exchange rate of a currency (and does not allow any variations according to demand and supply forces in market), such a system is called Fixed Rate system. It is also called Bretton Woods system or Pegged Currency System. India was following this kind of system till 1975 and partial controls till 1993.
- Since this currency valuation mechanism is artificial, most of the countries including India changed to Floating Rate System where currency market determines the value of a currency.

RUPEE DEVALUATION

- The term devaluation is used when the government reduces the value of a currency under Fixed Rate System. When the value of currency falls under Floating Rate System, it is called depreciation. Revaluation is a term which is used when there is a rise of currency to the relation with a foreign currency in a fixed exchange rate.
- In floating exchange rate correct term would be appreciation. Altering the face value of a currency without changing its foreign exchange rate is a redenomination, not a revaluation.
- The Indian Rupee has fallen in value against a basket of currencies since independence in 1947. In recent years, the Indian Rupee has continued to depreciate in value.
- In 1990, you could buy $1 for 16 Indian Rupees. By 2016, the value of a Rupee had fallen, so that you would need 70 Indian Rupees to buy $1.
- This shows there has been a substantial fall in the value of the Indian Rupee against the US dollar.
- When there is devaluation in the Indian Rupee it means that Indian exports become cheaper, but imports are more expensive for Indians to buy.
- In particular, devaluation in the Rupee is bad news for Indians who need to import raw materials, such as oil and gold.

Causes of Devaluation in Rupee

- **Lack of competitiveness / inflation**: The long term decline in the value of the Rupee reflects India's relative decline in competitiveness. In particular, India has a higher inflation rate than its international competitors. In November 2016, Indian inflation reached 7.24%. Therefore, there is relatively less demand for the rising price of Indian goods; this reduction in demand causes a fall in the value of the Rupee.

- **Current account deficit:** A consequence of poor competitiveness and high demand for imports is a current account deficit. This means India is purchasing more imports of goods and services than it is exporting. A large current account deficit tends to put downward pressure on a currency. This is because more currency is leaving the country to buy imports than is coming in to buy exports.
- **Oil Prices:** India is a net importer of oil. It has to buy oil in dollars. Therefore, rising oil prices worsen India's current account and also weaken the Rupee. More Indian's Rupee's have to be spent on buying oil.

Impact of Devaluation in Indian Rupee

- **Inflationary pressures**: India is trying to control inflation, which has been running into double digits. But, devaluation makes itself makes it harder to control inflation. The devaluation increases the price of imports, such as oil and fuels, leading to cost push inflation. Also, devaluation is considered an 'easy' way of restoring competitiveness; therefore devaluation may reduce the incentives for exporters to work on improving long-term competitiveness. Finally, devaluation can help boost domestic demand. Exports will rise and consumers will switch to domestic producers rather than imports. This can cause demand-pull inflation.
- **Economic growth**: Devaluation can boost domestic demand and short-term economic growth. However, this is not necessarily helpful for the Indian economy. India's economy needs to concentrate on boosting productivity and long term productive capacity, rather than relying on boosting domestic demand. The rapid devaluation has also caused a loss of confidence in international and domestic investors. With a history of quick depreciation, foreign investors will be more nervous of investing in India. The devaluation and inflationary impact will also discourage domestic investors, e.g. firms worried about future oil prices. This reduction in investment is damaging to long-term economic growth.
- **Devaluation spiral:** The concern is that high Indian inflation causes devaluation, which in turn feeds into more cost-push inflation. Thus it becomes a difficult to escape out of this unwelcome negative spiral of inflation-devaluation-inflation.

Policies to stem devaluation in Rupee

- Supply side policies to improve competitiveness.
- Reduce dependency on foreign oil, through domestic and renewable energy.
- Monetary policy to tackle inflation and reduce domestic demand. But, will conflict with lower economic growth and lead to higher unemployment.
- Financial controls, e.g. limiting the amount of gold imports to reduce the current account deficit.

THE BANKING CODES AND STANDARDS BOARD OF INDIA

- The Banking Codes and Standards Board of India (BCSBI) is an independent banking industry watchdog that protects consumers of banking services in India.
- The board oversee compliance with the "Code of Bank's Commitment to Customers".
- It is not a compensation mechanism and looks into an individual complaint only to the extent it points to any systemic compliance failure.
- It is an independent and autonomous body, registered as a separate society under the Societies Registration Act, 1860 on February 18, 2006.
- The Reserve Bank of India extended financial support to the Board, meeting its expenses for the first five years.
- Main aims:
  - ✓ To plan, evolve, prepare, develop, promote and publish voluntary,comprehensive Codes and Standards for banks, to provide fair treatment to their customers.
  - ✓ To function as an independent and autonomous watchdog to monitor and ensure that the Codes and Standards are adhered to.
  - ✓ To conduct and undertake research of Codes and Standards currently in use around the world.
  - ✓ To enter into covenants with banks on observance of codes and standards and to train employees of such banks about the Codes.
  - ✓ To help people affected by natural calamities.
- S S Tarapore (Former deputy general of RBI) came up with an idea to form a committee for the benefit of customer so that they can get better financial services.

Who decides on the volume and value of bank notes to be printed and on what basis?
The Reserve Bank decides upon the volume and value of bank notes to be printed. The quantum of bank notes that needs to be printed broadly depends on the annual increase in bank notes required for circulation purposes, replacement of soiled notes and reserve requirements.

Who decides on the quantity of coins to be minted?
The Government of India decides upon the quantity of coins to be minted.

How does the Reserve Bank estimate the demand for bank notes?
The Reserve Bank estimates the demand for bank notes on the basis of the growth rate of the economy, the replacement demand and reserve requirements by using statistical models.

How does the Reserve Bank reach the currency to people?
The Reserve Bank manages the currency operations through its offices located at Ahmedabad, Bangalore, Bhopal, Bhubaneshwar, Belapur(Navi Mumbai), Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Lucknow, Mumbai (Fort), Nagpur, New Delhi, Patna and Thiruvananthapuram. These offices receive fresh notes from the note presses.

Similarly, the Reserve Bank offices located at Kolkata, Hyderabad, Mumbai and New Delhi initially receive the coins from the mints. These offices then send them to the other offices of the Reserve Bank. The notes and rupee coins are stocked at the currency chests and small coins at the small coin depots. The bank branches receive the bank notes and coins from the currency chests and small coin depots for further distribution among the public.

What is a currency chest?

To facilitate the distribution of notes and rupee coins, the Reserve Bank has authorised selected branches of banks to establish currency chests. These are actually storehouses where bank notes and rupee coins are stocked on behalf of the Reserve Bank. At present, there are over 4422 currency chests. The currency chest branches are expected to distribute notes and rupee coins to other bank branches in their area of operation.

What is a small coin depot?

Some bank branches are also authorised to establish small coin depots to stock small coins. There are 3784 small coin depots spread throughout the country. The small coin depots also distribute small coins to other bank branches in their area of operation.

What happens when the notes and coins return from circulation?

Notes and coins returned from circulation are deposited at the offices of the Reserve Bank. The Reserve Bank then separates the notes that are fit for reissue and those which are not fit for reissue. The notes which are fit for reissue are sent back in circulation and those which are unfit for reissue are destroyed after processingshredded. The same is the case with coins. The coins withdrawn are sent to the Mints for melting.

From where can the general public obtain bank notes and coins?

Bank notes and coins can be obtained at any of the offices of the Reserve Bank and at all branches of banks maintaining currency chests and small coin depots.

BANKING OMBUDSMAN SCHEME 2006

- The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.
- The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.
- As on date, fifteen Banking Ombudsmen have been appointed with their offices located mostly in state capitals. The addresses and contact details of the Banking Ombudsman offices have been provided in the annex.
- All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme.

Grounds of Complaints: The Banking Ombudsman can receive and consider any complaint relating to the following deficiency in banking services (including internet banking):

- non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.;
- non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission in respect thereof;
- non-acceptance, without sufficient cause, of coins tendered and for charging of commission in respect thereof;
- non-payment or delay in payment of inward remittances ;
- failure to issue or delay in issue of drafts, pay orders or bankers' cheques;
- non-adherence to prescribed working hours ;
- failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents;
- delays, non-credit of proceeds to parties accounts, non-payment of deposit or non-observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits in any savings,current or other account maintained with a bank ;
- complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters;
- refusal to open deposit accounts without any valid reason for refusal;
- levying of charges without adequate prior notice to the customer;
- non-adherence by the bank or its subsidiaries to the instructions of Reserve Bank on ATM/Debit card operations or credit card operations;
- non-disbursement or delay in disbursement of pension (to the extent the grievance can be attributed to the action on the part of the bank concerned, but not with regard to its employees);
- refusal to accept or delay in accepting payment towards taxes, as required by Reserve Bank/Government;
- refusal to issue or delay in issuing, or failure to service or delay in servicing or redemption of Government securities;
- forced closure of deposit accounts without due notice or without sufficient reason;
- refusal to close or delay in closing the accounts;
- non-adherence to the fair practices code as adopted by the bank or non-adherence to the provisions of the Code of Bank s Commitments to Customers issued by Banking Codes and Standards Board of India and as adopted by the bank ;
- non-observance of Reserve Bank guidelines on engagement of recovery agents by banks; and
- any other matter relating to the violation of the directives issued by the Reserve Bank in relation to banking or other services.

A customer can also lodge a complaint on the following grounds of deficiency in service with respect to loans and advances:

- non-observance of Reserve Bank Directives on interest rates;

- delays in sanction, disbursement or non-observance of prescribed time schedule for disposal of loan applications;
- non-acceptance of application for loans without furnishing valid reasons to the applicant; and
- non-adherence to the provisions of the fair practices code for lenders as adopted by the bank or Code of Bank's Commitment to Customers, as the case may be;
- non-observance of any other direction or instruction of the Reserve Bank as may be specified by the Reserve Bank for this purpose from time to time.
- The Banking Ombudsman may also deal with such other matter as may be specified by the Reserve Bank from time to time.

NON-BANKING FINANCIAL COMPANIES

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).
- NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:
  - ✓ NBFC cannot accept demand deposits;
  - ✓ NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
  - ✓ deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

NBFCs are categorized a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs, b) non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and c) by the kind of activity they conduct.

Within this broad categorization the different types of NBFCs are as follows:

Asset Finance Company (AFC) : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

Investment Company (IC) : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.

Loan Company (LC): LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.

Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:-

- ✓ it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;
- ✓ its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets;
- ✓ it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- ✓ it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
- ✓ Its asset size is ₹ 100 crore or above and
- ✓ It accepts public funds

Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

- ✓ loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;
- ✓ loan amount does not exceed ₹ 50,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;
- ✓ total indebtedness of the borrower does not exceed ₹ 1,00,000;
- ✓ tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 15,000 with prepayment without penalty;
- ✓ loan to be extended without collateral;
- ✓ aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
- ✓ loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.

NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

CHEQUE TRUNCATION

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

required for their collection and brings elegance to the entire activity of cheque processing.

- Cheque Truncation speeds up the process of collection of cheques resulting in better service to customers, reduces the scope of loss of instruments in transit, lowers the cost of collection of cheques, and removes reconciliation-related and logistics-related problems, thus benefitting the system as a whole.
- With the other major products being offered in the form of RTGS and NEFT, the Reserve Bank has created the capability to enable inter-bank and customer payments online and in near-real time. However, cheques continue to be the prominent mode of payments in the country. Reserve Bank of India has therefore decided to focus on improving the efficiency of the cheque clearing cycle. Offering Cheque Truncation System (CTS) is a step in this direction.
- In addition to operational efficiency, CTS offers several benefits to banks and customers, including human resource rationalisation, cost effectiveness, business process re-engineering, better service, adoption of latest technology, etc. CTS, thus, has emerged as an important efficiency enhancement initiative undertaken by Reserve Bank in the Payments Systems arena.

PAYMENT AND SETTLEMENT SYSTEMS ACT

- The PSS Act, 2007 received the assent of the President on 20th December 2007 and it came into force with effect from 12th August 2008.
- The PSS Act, 2007 provides for the regulation and supervision of payment systems in India and designates the Reserve Bank of India (Reserve Bank) as the authority for that purpose and all related matters.
- The Reserve Bank is authorized under the Act to constitute a Committee of its Central Board known as the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), to exercise its powers and perform its functions and discharge its duties under this statute.
- The Act also provides the legal basis for “netting” and “settlement finality”. This is of great importance, as in India, other than the Real Time Gross Settlement (RTGS) system all other payment systems function on a net settlement basis.
- Under the PSS Act, 2007, two Regulations have been made by the Reserve Bank of India, namely, the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008. Both these Regulations came into force along with the PSS Act, 2007 on 12th August 2008.
- **Objectives:** The Board for Regulation and Supervision of Payment and Settlement Systems Regulation, 2008 deals with the constitution of the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a Committee of the Central Board of Directors of the Reserve Bank of India. It also deals with the composition of the BPSS, its powers and functions, exercising of powers on behalf of BPSS, meetings of the BPSS and quorum, the constitution of Sub-Committees/Advisory Committees by BPSS,

etc. The BPSS exercises the powers on behalf of the Reserve Bank, for regulation and supervision of the payment and settlement systems under the PSS Act, 2007.

- The Payment and Settlement Systems Regulations, 2008 covers matters like form of application for authorization for commencing/ carrying on a payment system and grant of authorization, payment instructions and determination of standards of payment systems, furnishing of returns/documents/other information, furnishing of accounts and balance sheets by system provider etc.

BHARAT BILL PAYMENT SYSTEM (BBPS)

- Bharat Bill Payment System (BBPS) is an integrated bill payment system which will offer interoperable bill payment service to customers online as well as through a network of agents on the ground. The system will provide multiple payment modes and instant confirmation of payment.
- The policy guidelines for the BBPS system were issued by the Reserve Bank of India on November 28, 2014.
- The BBPS will operate as a tiered structure with a single Bharat Bill Payment Central Unit (BBPCU) and multiple Bharat Bill Payment Operating Units (BBPOUs).
- Bharat Bill Payment Central Unit (BBPCU) will be a single authorized entity operating the BBPS. The BBPCU will set necessary operational, technical and business standards for the entire system and its participants, and also undertake clearing and settlement activities. As indicated in the circular dated November 28, 2015 National Payment Corporation (NPCI) has been identified to act as BBPCU. It will be an authorized entity under the Payment and Settlement Systems Act, 2007.
- **Bharat Bill Payment Operating Units** (BBPOUs) will be authorised operational entities, adhering to the standards set by the BBPCU for facilitating bill payments online as well as through a network of agents, on the ground.
- To start with, the scope of BBPS will cover repetitive payments for everyday utility services such as electricity, water, gas, telephone and Direct-to-Home (DTH). Gradually, the scope would be expanded to include other types of repetitive payments, like school / university fees, municipal taxes etc.

ELECTRONIC CLEARING SERVICE (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).

- Primarily, there are two variants of ECS - ECS Credit and ECS Debit.
- ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.
- ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations within the jurisdiction of a ECS Centre for single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

MICR CODE [BestCurrentAffairs.com]

- MICR is an acronym for Magnetic Ink Character Recognition. The MICR Code is a numeric code that uniquely identifies a bank-branch participating in the ECS Credit scheme. This is a 9 digit code to identify the location of the bank branch; the first 3 characters represent the city, the next 3 the bank and the last 3 the branch. The MICR Code allotted to a bank branch is printed on the MICR band of cheques issued by bank branches
- ECS Debit transaction can be initiated by any institution (called ECS Debit User) which has to receive / collect amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. It is a Scheme under which an account holder with a bank branch can authorise an ECS User to recover an amount at a prescribed frequency by raising a debit to his / her bank account.
- The User institution has to first register with an ECS Centre. The User institution has to also obtain the authorization (mandate) from its customers for debiting their account along with their bank account particulars prior to participation in the ECS Debit scheme. The mandate has to be duly verified by the beneficiary's bank. A copy of the mandate should be available on record with the destination bank where the customer has a bank account.

NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)

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

- For being part of the NEFT funds transfer network, a bank branch has to be NEFT-enabled.
- Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank
- Individuals, firms or corporates maintaining accounts with a bank branch can receive funds through the NEFT system. It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.
- The NEFT system also facilitates one-way cross-border transfer of funds from India to Nepal. This is known as the Indo-Nepal Remittance Facility Scheme. A remitter can transfer funds from any of the NEFT-enabled branches in to Nepal, irrespective of whether the beneficiary in Nepal maintains an account with a bank branch in Nepal or not. The beneficiary would receive funds in Nepalese Rupees.
- There is no limit – either minimum or maximum – on the amount of funds that could be transferred using NEFT. However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances within India and also for remittances to Nepal under the Indo-Nepal Remittance Facility Scheme.

INDO-NEPAL REMITTANCE FACILITY SCHEME

- Indo-Nepal Remittance Facility is a cross-border remittance scheme to transfer funds from India to Nepal, enabled under the NEFT Scheme. The scheme was launched to provide a safe and cost-efficient avenue to migrant Nepalese workers in India to remit money back to their families in Nepal.
- A remitter can transfer funds up to Indian Rupees 50,000 (maximum permissible amount) from any of the NEFT-enabled branches in India. The beneficiary would receive funds in Nepalese Rupees.
- Under the Scheme, even a walk-in customer can transfer funds upto Rs 50,000 by depositing the cash at the remitting bank branch.
- In Nepal, the Indo-Nepal Remittance Facility Scheme is handled by Nepal SBI Ltd. (NSBL). If the beneficiary does not have a bank account with NSBL or resides in a locality/ area in Nepal not serviced by a NSBL bank branch, an arrangement has been entered into by NSBL with a money transfer company in Nepal (called Prabhu Money Transfer) who would make arrangements for delivery of cash (in Nepalese Rupees) to the beneficiary.

US-DOLLAR CHEQUE COLLECTION

- One of the services rendered by banks as part of their normal banking operations is collection of cheques deposited by their customers, some of which, could also be drawn or payable on banks that are outside the country. Such cheques are called **foreign currency cheques** and, presently, a significant part of these cheques are US-Dollar denominated payable by banks in the United States of America.
- Cheques denominated in currencies other than Indian Rupees such as Euro (€), Pound Sterling (£), US Dollar ($), Yen (¥), etc., are called foreign currency cheques.
- Foreign currency cheques include demand drafts, personal cheques, banker's cheques, cashier's cheques, traveller's cheques, etc. Since such cheques are not payable in India they are, therefore, required to be sent to the country concerned for realization of proceeds.
- RBI has advised banks to frame their own Cheque Collection Policy covering various aspects relating to collection of Rupee cheques.
- Cheques denominated in US Dollars (USD cheques) constitute a major share of foreign currency cheques deposited by customers for realisation. In order to make the USD cheque collection process more efficient and transparent, RBI has advised banks to refine their USD cheque collection procedures and frame their own USD Cheque Collection Policy covering aspects like mode of collection, collection period, charges for collection, etc. This policy shall be made part of their regular Cheque Collection Policy.
- There are various ways of collecting (realising) USD denominated cheques. The collection process followed by banks (presenting banks) varies depending on the institutional arrangements put in place by them. There are basically three types of arrangements adopted by banks–
- **Cash Letter Arrangement (CLA):** Cheques are sent by the presenting banks in India to their correspondent banks (CBs) in USA for domestic clearing. Funds are collected (realised) by the CBs and credited to the account of the presenting bank maintained in US. Such accounts are known as **NOSTRO accounts**. For cheques sent under CLA the CB gives provisional credit to the bank on a pre-determined date (which varies from 7 to 9 days after tendering of cheque to the CB). However, the provisional credit will be subjected to a cooling period. After the cooling period, the customer's account with the presenting bank in India is credited. In case of secured collection facility, the CB provides a guaranteed credit but at an additional cost.
- (Cooling period is the time up to which banks wait after receiving provisional credit for the amount of cheque in their Nostro account for possible return of the cheque under provisions of the laws of USA by the drawee bank, before giving credit to the customers.)
- (Secured Collection is a facility extended by the CBs. Under this facility, the CBs provide guaranteed final credit without recourse within a confirmed time period unlike normal collection service. Hence the collection time period is better under this facility. CBs offering this facility normally fix a cap for the amount of individual cheques collected under the arrangement. The CBs absorb any subsequent recall of payment by the drawee

bank as per US laws. The bank offering such service charge an additional amount for giving credit without recourse.)

- **Direct Collection Arrangement** (DCA): Cheques are sent by the banks in India directly to the drawee banks in USA for collection. Usually collection services ensure receipts of clear funds i.e., risk of return is almost eliminated. Therefore, high value cheques are generally sent under collection though the time taken may be more.
- **Final Credit Services (FCS)**: These services are offered by some CBs. The CB offering the service guarantees confirmed credit against the instrument. Under this arrangement banks receive final credit in their Nostro accounts without any recourse. This service normally does not have any cooling period as the cooling period is factored by the CBs before releasing the clear funds.
- **Check-21 Facility**: The System has been facilitated under Check-21 Legislation. It works more or less like CTS. When using check 21 facility, dealings are cleared utilizing the exchange of check images from bank to bank. It saves time in transit.

NOSTRO ACCOUNT [BestCurrentAffairs.com]

- A Nostro account is a bank account established in a foreign country usually in the currency of that country for the purpose of carrying out transactions there. For example most commercial banks maintain US dollar accounts with their correspondent banks in USA in order to facilitate settlement of interbank and customer transactions in US dollar.
- The charges levied by banks for collection of such USD denominated cheques are dependent on the type of collection arrangement chosen by customers and the number of intermediaries (correspondent banks) involved in the collection process. Each of the CBs will levy their own charges for facilitating the process of collection. All these charges will be in turn levied by the collecting banks in India from the customers. The customer's account is credited net of collection charges (proceeds minus collection charges)

SPEED CLEARING

- Speed Clearing refers to collection of outstation cheques (a cheque drawn on non-local bank branch) through the local clearing. It facilitates collection of cheques drawn on outstation core-banking-enabled branches of banks, if they have a net-worked branch locally.
- The collection of outstation cheques, earlier required movement of cheques from the Presentation centre (city where the cheque is presented) to Drawee centre (city where the cheque is payable) which increases the realisation time for cheques. Speed Clearing aims to reduce the time taken for realisation of outstation cheques.
- Even though Speed clearing hastens the process of cheque collection as compared to outstation cheque collection, it pre-supposes the presence of the drawee bank branch in the clearing house location

- A person who had an outstation cheque with him/her use to deposit it with his/her bank branch. This bank branch is called the Presenting branch. The cheque, was sent for collection to the city where it was payable / drawn called **Destination centre or Drawee centre.** The branch providing the collection service is called the Collecting branch. On receipt of the cheque, the Collecting branch use to present the physical instrument in local clearing at the drawee bank branch location through its branch at the drawee bank branch location. Once the cheque was paid, the Collecting branch use to remit the proceeds to the Presenting branch. On receipt of realisation advice of the cheque from the Collecting branch, the customer's account was credited. This, in short, is the process of Collection before the introduction of Speed Clearing.
- When a cheque was accepted on a collection basis by a bank, the customer's account was credited only after realisation of proceeds. In the absence of a clearing arrangement at the Destination centre, the Presenting branch was sending the cheque directly to the Destination branch for payment. On receiving the proceeds from Destination branch, Presenting branch follow the practice of crediting the customer's account.

HOW DOES THE LOCAL CHEQUE CLEARING WORK?

- In Local Cheque Clearing in major centres, cheques are processed by using **Cheque Truncation Systems** (CTS) through movement of images. Grid based CTS are in place in New Delhi, Chennai and Mumbai. In addition, Express Cheque Clearing Systems (ECCS) application package is used in small clearing houses.
- Local Clearing handles only those cheques that are drawn on branches within the jurisdiction of the local Clearing House. Generally, the jurisdiction is determined taking into account the logistics available to physically move to and from the Clearing House.
- It may however be noted, under grid-based CTS clearing, all cheques drawn on bank branches falling within in the grid jurisdiction are treated and cleared as local cheques. The grid clearing allows banks to present/ receive cheques to/ from multiple cities to a single clearing house through their service branches in the grid location.
- Banks have networked their branches by implementing Core Banking Solutions (CBS). In CBS environment, cheques can be paid at any location obviating the need for their physical movement to the Drawee branch. Cheques drawn on outstation CBS branches of a Drawee bank can be processed in the Local Clearing under the Speed Clearing arrangement if the Drawee bank has a branch presence at the local centre.

RTGS SYSTEM

- The acronym **'RTGS' stands for Real Time Gross Settlement**, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis).

Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

- **Difference between RTGS and NEFT:** NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. For example, currently, NEFT operates in hourly batches. [There are twelve settlements from 8 am to 7 pm on week days and six settlements from 8 am to 1 pm on Saturdays.] Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours.

BANKING CARDS

- Cards can be classified on the basis of their issuance, usage and payment by the card holder. There are three types of cards (a) debit cards (b) credit cards and (c) prepaid cards.
- Debit cards are issued by banks and are linked to a bank account. Credit cards are issued by banks / other entities approved by RBI. The credit limits sanctioned to a card holder is in the form of a revolving line of credit (similar to a loan sanctioned by the issuer) and may or may not be linked to a bank account. Prepaid cards are issued by the banks / non-banks against the value paid in advance by the cardholder and stored in such cards which can be issued as smart cards or chip cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.
- The debit cards are used to withdraw cash from an ATM, purchase of goods and services at Point of Sale (POS)/E-commerce (online purchase) both domestically and internationally (provided it is enabled for international use). However, it can be used only for domestic fund transfer from one person to another.
- The credit cards are used for purchase of goods and services at Point of Sale (POS) and E-commerce (online purchase)/ through Interactive Voice Response (IVR)/Recurring transactions/ Mail Order Telephone Order (MOTO). These cards can be used domestically and internationally (provided it is enabled for international use). The credit cards can be used to withdraw cash from an ATM and for transferring funds to bank accounts, debit cards, credit cards and prepaid cards within the
- The usage of prepaid cards depends on who has issued these cards. The prepaid cards issued by the banks can be used to withdraw cash from an ATM, purchase of goods and services at Point of Sale (POS)/E-commerce (online purchase) and for domestic fund transfer from one person to another. Such prepaid cards are known as open system prepaid cards. However, the prepaid cards issued by authorised non-bank entities can be used only for purchase of goods and services at Point of Sale (POS)/E-commerce (online purchase) and for domestic fund transfer from one person to another. Such prepaid

cards are known as semi-closed system prepaid cards. These cards can be used only domestically.

- The limits on cash withdrawal at ATMs and for purchase of goods and services are decided by the issuer bank. However, in case of cash withdrawal at other bank's ATM, there is a limit of Rs 10,000/- per transaction. Cash withdrawal at POS has also been enabled by certain banks wherein, a maximum of Rs.1000/- can be withdrawn daily by using debit cards.

Types of Cards:

- Visa Debit Cards: These debit cards are issued with the bank's tie-up with VISA payment services providing the Verified by Visa (VbV) platform for online transactions.
- Visa Electron Debit Cards: Visa Electron debit cards are very similar to Visa debit cards but these cards do not provide the overdraft feature.
- MasterCard Debit Cards: A MasterCard Cirrus Card or a MasterCard Maestro Card gives customers access to their funds worldwide and they can perform online transactions using their bank accounts on the MasterCard SecureCode platform.
- Contactless Debit Cards: Customers can make payments with just a tap or wave of their contactless debit cards near PoS terminals, with the cards working on Near Field Technology (NFC) thereby making electronic payments safer.
- RuPay Debit Cards: Introduced as a domestic card scheme by the NPCI, RuPay debit cards facilitate online purchases and transactions on the Discover network and ATM transactions under the National Financial Switch network.
- Maestro Debit Card: Founded in 1992, Maestro from MasterCard is a premier, international debit card service that has been popularly adopted at over 13 million locations spread across 100+ countries around the world. Maestro, as easily identified by the signature logo on all partner cards, helps the customer gain immediate access to his/her money through a robust, international network of compatible ATMs, POS outlets and online resources.

RUPAY CARDS [BestCurrentAffairs.com]

- RuPay is an Indian domestic card scheme conceived and launched by the National Payments Corporation of India (NPCI). It was created to fulfil the Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India. In India, 90 per cent of credit card transactions and almost all debit card transactions are domestic; however, the cost of transactions was high due to monopoly of foreign gateways like Visa and Mastercard.
- RuPay facilitates electronic payment at all Indian banks and financial institutions. NPCI maintains ties with Discover Financial to enable the card scheme to gain international acceptance.
- The IndiaPay scheme was conceived by the National Payments Corporation of India as an alternative to the MasterCard and Visa card schemes, and to consolidate and integrate

various payment systems in India. It was renamed to RuPay to avoid naming conflicts with other financial institutions using the same name.

- RuPay is a portmanteau of the words rupee and payment. The colors used in the logo are an allusion to the tricolor national flag.
- The RuPay card was launched on 26 March 2012. NPCI entered into a strategic partnership with Discover Financial Services (DFS) for RuPay Card, enabling the acceptance of RuPay Global Cards on Discover's global payment network outside of India.
- On 8 May 2014, RuPay has been dedicated to India by President of India, Pranab Mukherjee.
- RuPay cards are accepted at all automated teller machines (ATMs) across India under National Financial Switch, and under the NPCI's agreement with DFS, RuPay cards are accepted on the international Discover network. According to the data published by National Payments Corporation of India, there are around 145,270 ATMs and more than 875,000 point of sale (PoS) terminals in India under the RuPay platform.
- In addition to the ATMs and PoS terminals, RuPay cards are accepted online on 10,000 e-commerce websites with the same PIN which they use for ATM transactions.
- RuPay's Parent Organization, **National Payments Corporation of India** has been backed by 11 leading banks, of which 7 are public sector banks namely State Bank of India, Bank of Baroda, Punjab National Bank, Canara Bank, Union Bank of India, Andhra Bank and Bank of India; 2 private sector banks ICICI Bank and HDFC Bank with 2 foreign banks namely Citi Bank and HSBC.

NATIONAL PAYMENTS CORPORATION OF INDIA

- National Payments Corporation of India is the umbrella organisation for all retail payment systems in India, which aims to allow all Indian citizens to have unrestricted access to e-payment services.
- Founded in 2008, NPCI is a not-for-profit organisation registered under section 8 of the Companies Act 2013. The organisation is owned by a consortium of major banks, and has been promoted by the country's central bank, the Reserve Bank of India. Its recent work of developing Unified Payments Interface aims to move India to a cashless society with only digital transactions.
- It has successfully completed the development of a domestic card payment network called RuPay, reducing the dependency on international card schemes. The RuPay card is now accepted at all the ATMs, Point-of-Sale terminals and most of the online merchants in the country. More than 300 cooperative banks and the Regional Rural Banks (RRBs) in the country have also issued RuPay ATM cards.
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- More than 250 million cards have been issued by various banks, and it is growing at a rate of about 3 million per month. A variant of the card called 'Kisan Card' is now being

issued by all the Public Sector Banks in addition to the mainstream debit card which has been issued by 43 banks. RuPay cards are also issued under the Jan Dhan Yojana scheme.

NATIONAL FINANCIAL SWITCH

- National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs) in India. It was designed, developed and deployed by the Institute for Development and Research in Banking Technology (IDRBT) in 2004, with the goal of inter-connecting the ATMs in the country and facilitating convenience banking. It is run by the National Payments Corporation of India (NPCI).
- The first ATM in India was set up in 1987 by HSBC in Mumbai. In the following twelve years, about 1500 ATMs were set up in India. In 1997, the Indian Banks' Association (IBA) set up Swadhan, the first network of shared ATMs in India. It was managed by India Switch Company (ISC) for five years, and allowed cardholders to withdraw cash from any ATM in the network, for a fee if they did not have an account with the bank that owned the ATM.
- In 2002, the network connected over 1000 ATMs of the 53 member banks of the association. The network was capable of handling 250,000 transactions per day, but only 5000 transactions, worth about ₹100,000, took place each day.
- In contrast, ICICI Bank's network of about 640 ATMs handled transactions worth about ₹20,000,000 each day. After the contract with ISC expired, IBA failed to find a bidder to manage the operationally uneconomical network, and shut it down on 31 December 2003.
- After the collapse of Swadhan, Bank of India, Union Bank of India, Indian Bank, United Bank of India and Syndicate Bank formed an ATM-sharing network called CashTree. Citibank, the Industrial Development Bank of India, Standard Chartered Bank and Axis Bank formed a similar network called Cashnet. Punjab National Bank and Canara Bank also created such networks.
- In August 2003, the IDRBT announced that it would be creating the National Financial Switch (NFS) to link together the country's ATMs in a single network.
- The IDRBT collaborated with Euronet Worldwide and Opus Software to build a platform to allow banks to connect their own switches to the NFS. The NFS consisted of an inter-ATM switch and a e-commerce payment gateway.

AUTOMATED TELLER MACHINE (ATM)

- Automated Teller Machine is a computerized machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial & non-financial transactions without the need to actually visit their bank branch.
- ATMs set up, owned and operated by non-banks are called **White Label ATMs**. Non-bank ATM operators are authorized under Payment & Settlement Systems Act, 2007 by the Reserve Bank of India.

- In White Label ATM scenario, logo displayed on ATM machine and in ATM premises pertain to WLA Operator instead of a bank. However, for a customer, using WLA is just like using the ATM of other bank (bank other than card issuing bank). ii) Acceptance of cash deposits at the WLAs is not permitted at present.
- The rationale of allowing non-bank entity to set up White Label ATMs has been to increase the geographical spread of ATM for increased / enhanced customer service.
- The ATM/ATM cum debit cards, credit cards and open prepaid cards (that permit cash withdrawal) issued by banks can be used at ATMs/WLAs for various transactions.
- In addition to cash dispensing, ATMs/WLAs may offer many other services/facilities to bank customers. Some of these services include:
  - ✓ Account Information
  - ✓ Cash Deposit (Acceptance of deposits are not permitted at WLAs)
  - ✓ Regular Bills Payment (not permitted at WLAs)
  - ✓ Purchase of Re-load Vouchers for Mobiles (not permitted at WLAs)
  - ✓ Mini/Short Statement
  - ✓ PIN change
  - ✓ Request for Cheque Book
- For transacting at an ATM/WLA, the customer inserts /swipes his/her Card in the ATM/WLA and enters his/her Personal Identification Number (PIN). Usually the transactions are menu driven for facilitating easy operation.
- PIN is the numeric password which is separately mailed / handed over to the customer by the bank while issuing the card. Most banks require the customers to change the PIN on the first use. Customer should not disclose PIN to anybody, including to bank officials. Customers should change the PIN at regular intervals.

UNIFIED PAYMENTS INTERFACE

- Unified Payments Interface (UPI) is a payment system launched by National Payments Corporation of India and regulated by Reserve Bank of India which facilitates the fund transfer between two bank accounts on the mobile platform instantly.
- UPI (Unified Payments Interface) is an advanced version of Immediate Payment Service (IMPS) platform designed for transferring funds using: Transfer through Virtual Payment Address (Unique ID provided by bank) or Account Number + IFSC or Mobile Number + MMID(Mobile Money Identifier) or Aadhaar Number or Collect / Pull money basis Virtual ID. A MPIN(Mobile banking Personal Identification number) is given to the banking customer once they register for UPI which is required to be entered while confirming a money transfer.
- Banks supporting UPI payment have started to upload their own UPI enabled Apps on Google Play store as well as on Apple App Store also.[3] National Payments Corporation of India has launched a Payment app BHIM and NUUP service for performing transaction using Aadhaar number over UPI.

BHIM (BHARAT INTERFACE FOR MONEY - BHIM APP)

- BHIM (Bharat Interface for Money - Bhim App) is a Mobile App developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI).
- It was launched by Narendra Modi, the Prime Minister of India, at a Digi Dhan programme at Talkatora Stadium in New Delhi on 30 December 2016. It has been named after Bhim Rao Ambedkar and is intended to facilitate e-payments directly through banks and as part of the 2016 Indian banknote demonetisation and drive towards cashless transactions.
- This UPI app supports all Indian banks which use that platform, which is built over the Immediate Payment Service infrastructure and allows the user to instantly transfer money between the bank accounts of any two parties. It can be used on all mobile devices.
- BHIM allow users to send or receive money to other UPI payment addresses or scanning QR code or account number with IFSC code or MMID (Mobile Money Identifier) Code to users who do not have a UPI-based bank account.
- BHIM allows users to check current balance in their bank accounts and to choose which bank account to use for conducting transactions, although only one can be active at any time.
- Users can create their own QR code for a fixed amount of money, which is helpful in merchant — seller — buyer transactions.[citation needed] They can also have more than one payment address.
- If the 12-digit Aadhaar is listed as a payment ID on the BHIM app will not require any biometric authentication or prior registration with the bank or Unified Payment Interface (UPI).
- During Union Budget 2017, Union Finance minister Arun Jaitley said that Government will launch two new scheme to promote the use of the BHIM app. One will be referral payments for individuals, and the other will cashback for merchants who accept payments from BHIM.
- During the Union Budget 2017, Union Finance minister Arun Jaitley said that BHIM is currently being used by over 125 lakh Indian citizens.

IMMEDIATE PAYMENT SERVICE

- Immediate Payment Service (IMPS) is an instant real-time inter-bank electronic funds transfer system in India. IMPS offers an inter-bank electronic fund transfer service through mobile phones. Unlike NEFT and RTGS, the service is available 24/7 throughout the year including bank holidays.
- It is managed by the National Payments Corporation of India (NPCI) and is built upon the existing National Financial Switch network. In 2010, the NPCI initially carried out a pilot for the mobile payment system with 4 member banks (State Bank of India, Bank of India, Union Bank of India and ICICI Bank), and expanded it to include Yes Bank, Axis Bank and HDFC Bank later that year. IMPS was publicly launched on November 22, 2010.

AADHAAR

- Aadhaar is a 12 digit unique-identity number issued to all Indian residents based on their biometric and demographic data. The data is collected by the Unique Identification Authority of India (UIDAI), a statutory authority established on 12 July 2016 by the Government of India, under the Ministry of Electronics and Information Technology, under the provisions of the Aadhaar Act 2016.
- Aadhaar is the world's largest biometric ID system, with over 1.112 billion enrolled members. 99% of Indians aged 18 and above had enrolled in Aadhaar.
- Prior to the enactment of the Act, UIDAI functioned as an attached office of Planning Commission (now NITI Aayog) since 28 January 2009. On 3 March 2016, a money bill was introduced in the Parliament to give legislative backing to Aadhaar. On 11 March 2016, the Aadhaar Act 2016 was passed in the Lok Sabha. On 26 March 2016, this Act was notified in the Gazette of India.
- Some civil liberty groups, like Citizens Forum for Civil Liberties and Indian Social Action Forum (INSAF), have opposed the project on privacy concerns.
- The Unique Identification Authority of India (UIDAI) is a statutory authority established on 12 July 2016 by the Government of India under the Ministry of Electronics and Information Technology, under the provisions of the Aadhaar Act 2016.
- The UIDAI is mandated to assign a 12-digit unique identification (UID) number (termed as Aadhaar) to all the residents of India.
- [BestCurrentAffairs.com]
- The number is linked to the resident's basic demographic and biometric information such as photograph, ten fingerprints and two iris scans, which are stored in a centralised database.
- The UIDAI data center is located at Industrial Model Township (IMT), Manesar (Haryana).

NATIONAL COMMON MOBILITY CARD

- National Common Mobility Card or NCMC is an interoperable transport card conceived by the Ministry of Urban Development of the government of India.
- The Urban Development Ministry brought in the National Payments Corporation of India with the task of management, clearing and settlement of payments, simulating cards and terminals and maintenance of network.
- C-DAC is given the responsibility of developing standards and hardware for the card usage and the related ecosystems. NPCI is set to launch the NCMC soon.

ASIAN CLEARING UNION (ACU)

- The Asian Clearing Union (ACU) was established with its head quarters at Tehran, Iran, on December 9, 1974 at the initiative of the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), for promoting regional co-operation.

- The main objective of the clearing union is to facilitate payments among member countries for eligible transactions on a multilateral basis, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries.
- The Central Banks and the Monetary Authorities of Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka are currently the members of the ACU.
- The Asian Monetary Units (AMUs) is the common unit of account of ACU and is denominated as 'ACU Dollar' and 'ACU Euro', which is equivalent in value to one US Dollar and one Euro respectively. All instruments of payments under ACU have to be denominated in AMUs. Settlement of such instruments may be made by AD Category-I banks through the ACU Dollar Accounts and ACU Euro Accounts, which should be distinct from the other US Dollar and Euro accounts respectively maintained for non ACU transactions.

LIST OF PRIVATE SECTOR BANKS IN INDIA

1. Catholic Syrian Bank Ltd.
2. City Union Bank Ltd.
3. Dhanalakshmi Bank Ltd.
4. Federal Bank Ltd.
5. ING Vysya Bank Ltd.
6. Jammu & Kashmir Bank Ltd.
7. Karnataka Bank Ltd.
8. Karur Vysya Bank Ltd.
9. Lakshmi Vilas Bank Ltd.
10. Nainital Bank Ltd.
11. Ratnakar Bank Ltd.
12. South Indian Bank Ltd.
13. Tamilnad Mercantile Bank Ltd.
14. Axis Bank Ltd.
15. Development Credit Bank Ltd
16. HDFC Bank Ltd.
17. ICICI Bank Ltd.
18. IndusInd Bank Ltd.
19. Kotak Mahindra Bank Ltd.
20. Yes Bank Ltd

LIST OF FOREIGN BANKS IN INDIA

1. AB Bank Ltd.
2. ABN-AMRO Bank N.V.
3. Abu Dhabi Commercial Bank Ltd.
4. American Express Banking Corp.
5. Antwerp Diamond Bank NV
6. BNP Paribas
7. Bank of America N.T. & S.A.
8. Bank of Bahrain & Kuwait B.S.C.
9. Bank of Ceylon
10. Bank of Nova Scotia
11. Barclays Bank PLC
12. Calyon Bank
13. Chinatrust Commercial Bank
14. Citibank N.A.
15. Deutsche Bank (Asia)
16. DBS Bank Ltd.
17. HSBC Ltd.
18. JPMorgan Chase Bank
19. JSC VTB Bank
20. Krung Thai Bank Public Co. Ltd.
21. Mashreqbank PSC
22. Mizuho Corporate Bank Ltd.
23. Oman International Bank S.A.O.G.
24. Shinhan Bank
25. Societe Generale
26. Sonali Bank
27. Standard Chartered Bank
28. State Bank of Mauritius Ltd.
29. The Bank of Tokyo-Mitsubishi UFJ, Ltd.
30. UBS AG

BASEL NORMS

- Basel is a city in Switzerland. It is the headquarters of Bureau of International Settlement (BIS), which fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations. Every two months BIS hosts a meeting of the governor and senior officials of central banks of member countries. Currently there are 27 member nations in the committee. Basel guidelines refer to broad supervisory standards formulated by this group of central banks - called the Basel Committee on Banking Supervision (BCBS).
- The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called Basel accord.
- The purpose of the accord is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking system.
- In fact, on a few parameters the RBI has prescribed stringent norms as compared to the norms prescribed by BCBS.

Basel I

- In 1988, BCBS introduced capital measurement system called Basel capital accord, also called as Basel 1. It focused almost entirely on credit risk. It defined capital and structure of risk weights for banks. The minimum capital requirement was fixed at 8% of risk weighted assets (RWA). RWA means assets with different risk profiles. For example, an asset backed by collateral would carry lesser risks as compared to personal loans, which have no collateral.
- India adopted Basel 1 guidelines in 1999.

Basel II

- In June '04, Basel II guidelines were published by BCBS, which were considered to be the refined and reformed versions of Basel I accord. The guidelines were based on three parameters, which the committee calls it as pillars. - Capital Adequacy Requirements: Banks should maintain a minimum capital adequacy requirement of 8% of risk assets - Supervisory Review: According to this, banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that a bank faces, viz. credit, market and operational risks - Market Discipline: This need increased disclosure requirements. Banks need to mandatorily disclose their CAR, risk exposure, etc to the central bank.
- Basel II norms in India and overseas are yet to be fully implemented.

Basel III

- In 2010, Basel III guidelines were released. These guidelines were introduced in response to the financial crisis of 2008. A need was felt to further strengthen the system as banks in the developed economies were under-capitalized, over-leveraged and had a greater reliance on short-term funding. Also the quantity and quality of capital under Basel II were deemed insufficient to contain any further risk.
- Basel III norms aim at making most banking activities such as their trading book activities more capital-intensive. The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.

'CAMELS RATING SYSTEM' [BestCurrentAffairs.com]

The CAMELS rating system is a recognized international rating system that bank supervisory authorities use in order to rate financial institutions according to six factors represented by the acronym "CAMELS." Supervisory authorities assign each bank a score on a scale, and a rating of one is considered the best and the rating of five is considered the worst for each factor. Banks that are given an average score of less than two are considered to be high-quality institutions. Banks with scores greater than three are considered to be less-than-satisfactory institutions. The components of a bank's condition that are assessed:
(C)apital adequacy
(A)ssets
(M)anagement Capability
(E)arnings
(L)iquidity (also called asset liability management)
(S)ensitivity (sensitivity to market risk, especially interest rate risk)

Ratings are given from 1 (best) to 5 (worst) in each of the above categories.

INDIAN ACCOUNTING STANDARDS (IND AS)

- Indian Accounting Standards (abbreviated as Ind-AS) in India accounting standards were issued under the supervision and control of Accounting Standards Board (ASB), which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz. icai, representatives from ASSOCHAM, CII, FICCI, etc.
- The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommend these standards to the Ministry of Corporate Affairs (MCA). MCA has to spell out the accounting standards applicable for companies in India.

- As on date MCA has notified 39 Ind AS. This shall be applied to the companies of financial year 2015-16 voluntarily and from 2016-17 on a mandatory basis.
- Based on the international consensus, the regulators will separately notify the date of implementation of Ind-AS for the banks, insurance companies etc. Standards for the computation of Tax has been notified as ICDS in February 2015.

LIST OF INDIAN ACCOUNTING STANDARDS

Ind As No.	Name of Indian Accounting Standard
Ind AS 101	First-time Adoption of Indian Accounting Standards
Ind AS 102	Share Based Payment
Ind AS 103	Business Combinations
Ind AS 104	Insurance Contracts
Ind AS 105	Non-Current Assets Held for Sale and Discontinued Operations
Ind AS 106	Exploration for and Evaluation of Mineral Resources
Ind AS 107	Financial Instruments: Disclosures
Ind AS 108	Operating Segments
Ind AS 109	Financial Instruments
Ind AS 110	Consolidated Financial Statements
Ind AS 111	Joint Arrangements
Ind AS 112	Disclosure of Interests in Other Entities
Ind AS 113	Fair Value Measurement
Ind AS 114	Regulatory Deferral Accounts
Ind AS 115	Revenue from Contracts with Customers
Ind AS 1	Presentation of Financial Statements
Ind AS 2	Inventories
Ind AS 7	Statement of Cash Flows
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 10	Events after Reporting Period
Ind AS 11	Construction Contracts
Ind AS 12	Income Taxes
Ind AS 16	Property, Plant and Equipment
Ind AS 17	Leases
Ind AS 18	Revenue
Ind AS 19	Employee Benefits
Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
Ind AS 21	The Effects of Changes in Foreign Exchange Rates
Ind AS 23	Borrowing Costs
Ind AS 24	Related Party Disclosures
Ind AS 27	Separate Financial Statements
Ind AS 28	Investments in Associates and Joint Ventures
Ind AS 29	Financial Reporting in Hyper inflationary Economies

Ind AS 32	Financial Instruments: Presentation
Ind AS 33	Earnings Per Share
Ind AS 34	Interim Financial Reporting
Ind AS 36	Impairment of Assets
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38	Intangible Assets
Ind AS 40	Investment Property
Ind AS 41	Agriculture

WHOLESALE AND LONG-TERM FINANCE BANKS IN INDIA

The Reserve Bank of India recently released a Discussion Paper on 'Wholesale & Long-Term Finance Banks'.

The discussion paper explores the scope for setting up more differentiated banks, specifically wholesale & long-term finance banks in the context of having issued in-principle approvals and licences to set up differentiated banks, such as, payments banks and small finance banks.

- The Wholesale and Long-Term Finance (WLTF) banks will focus primarily on lending to infrastructure sector and small, medium and corporate businesses. They will also mobilise liquidity for banks and financial institutions directly originating priority sector assets, through securitisation of such assets and actively dealing in them as market makers.
- They may also act as market-makers in securities, such as, corporate bonds, credit derivatives, warehouse receipts, and take-out financing, etc.
- These banks will provide refinance to lending institutions and shall be present in capital markets in the form of aggregators. They may have negligible retail sector exposure on asset side.
- The primary sources of funds for these banks could be a combination of wholesale and long term deposits (above a large threshold), debt/equity capital raised from primary market issues or private placement, and term borrowings from banks and other financial institutions.
- Since the scope of activities to be permitted for differentiated banks are mostly a subset of those allowed for universal banks, it needs to be considered whether the niche areas which they are envisaged to serve are currently underserved by the existing players, and whether licensing such specialised banks would result in a net positive for the development of those niche areas and serve the larger public good.
- In sum, the issues for discussion are: (i) whether there is a need for licensing wholesale & long-term finance banks, (ii) whether the time is opportune for the same, (iii) what would be the net impact of such players on the financial system, and (iv) whether the proposed regulatory framework is appropriate.

Background: In the First Bi-monthly Monetary Policy Statement, 2016-17 dated April 5, 2016, it was announced that in addition to recently licensed differentiated banks, such as, payments banks and small finance banks, the Reserve Bank will explore the possibilities of licensing other differentiated banks, such as, custodian banks and banks concentrating on wholesale and long-term financing. After detailed deliberations, it was felt that no significant advantage will accrue by introducing Custodian Banks at this point of time. Hence, discussion paper on 'Wholesale & Long-Term Finance Banks' (WLTF) has been prepared and released for discussion.