ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR
JAIIB
PRINCIPLES & PRACTICES OF BANKING

Though we had taken enough care to go through the notes provided here, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. Creation of these short notes is the efforts of so many persons. First of all we thank all of them for their valuable contribution. We request everyone to go through the Macmillan book and update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information).

K Murugan, MCA MBA CAIIB

JAIIB / DBF – GENERAL INFORMATION

- **Consists of 3 papers :**
  1. Principles & Practices of Banking
  2. Accounting & Finance for Bankers
  3. Legal & Regulatory Aspects of Banking.
- Only existing employees of banks can appear for JAIIB Exam.
- People other than Bank Employees can appear for Diploma in Banking and Finance Exam. If Passed, JAIIB Examination certificate will be issued after joining the bank.
- Syllabus & exam pattern for both JAIIB and DBF exams are mostly same.
- Both JAIIB and DBF exams are conducted in on-line mode only.
- The examination will be conducted normally twice a year in May / June and November / December on Sundays.
- The duration of the examination will be of 2 hours.

- **Examination Pattern** : Each Paper will contain approx. 120 objective type MCQs, carrying 100 marks including questions based on case studies. The Institute may, however, vary the number of questions to be asked for a subject. There is no negative marking for wrong answers.

- **Passing Criteria** - Minimum 150 in total and minimum 45 in each subject in any single attempt (not required to be the 1st attempt) is considered as pass. Else 50 in each subject. Passed subject gets carried forward to 4 continuous attempts (whether you appear for the exam or not) from the 1st attempt. If not passed in 4 continuous attempts, you need to appear in all 3 papers.
  - **First Class :** 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT.
  - **First Class with Distinction :** 70% or more marks in aggregate and 60% or more marks in each subject in the FIRST PHYSICAL ATTEMPT.
  - Candidates who have been granted exemption in the subject/s will be given **"Pass Class"** only.

- **Cut-off Date of Guidelines /Important Developments for Examinations** - The Institute has a practice of asking some questions in each exam about the recent developments/ guidelines issued by the regulator(s) in order to test if the candidates keep themselves abreast of the current developments. But, there could be changes in the developments / guidelines from the date the question papers are prepared and the dates of the actual examinations. In order to address these issues effectively, it has been decided that:

- In respect of the exams to be conducted by the Institute for the Period from February 2018 to July 2018, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December, 2017 will only be considered for the purpose of inclusion in the question papers.
- (ii)In respect of the exams to be conducted by the Institute for the period from August 2018 to January 2019, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June, 2018 will only be considered for the purpose of inclusion in the question papers.

- **Exam Fees**

JAIIB
First attempt fee - 2,400*
Second attempt fee - 1,000*
Third attempt fee - 1,000*
Fourth attempt fee - 1,000*

DBF
First attempt fee - 3,200*
Second attempt fee - 1,000*
Third attempt fee - 1,000*
Fourth attempt fee - 1,000*

CAIIB
First attempt fee - 2,700*
Second attempt fee - 1,000*
Third attempt fee - 1,000*
Fourth attempt fee - 1,000*

* Plus convenience charges and Taxes as applicable

SYLLABUS

The details of the prescribed syllabus which is indicative are furnished below. However, keeping in view the professional nature of examinations, all matters falling within the realm of the subject concerned will have to be studied by the candidate as questions can be asked on all relevant matters under the subject. Candidates should particularly prepare themselves for answering questions that may be asked on the latest developments taking place under the various subject/s although those topics may not have been specifically included in the syllabus. Any alterations made will be notified from time to time. Further, questions based on current developments in banking and finance may be asked.

Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by IIBF.

MODULE A – INDIAN FINANCIAL SYSTEM

Indian Financial System – An Overview

Role of RBI, Commercial Banks, NBFCs, PDs, FIs, Cooperative Banks, CRR, SLR; Equity & Debt Market; IRDA

Banking Regulation

Constitution, Objectives, Functions of RBI; Tools of Monetary Control; Regulatory Restrictions on Lending

Retail Banking, Wholesale and International Banking

Retail Banking- Products, Opportunities; Wholesale Banking, Products; International Banking, Requirements of Importers & Exporters, Remittance Services; Universal Banking; ADRs; GDRs; Participatory Notes

Role of Money Markets, Debt Markets & Forex Market

Types of Money & Debt Market Instruments incl. G-Secs; ADs, FEMA, LIBOR, MIBOR, etc.

Role and Functions of Capital Markets, SEBI

Overview of Capital Market; Stock Exchange; Commonly used Terms; Types of Capital Issues; Financial Products / Instruments including ASBA, QIP; SEBI; Registration of Stock Brokers, Sub-brokers, Share Transfer Agents, etc QIBs

Mutual Funds & Insurance Companies, Bancassurance & IRDA

Types of Mutual Funds, its Management & its Role; Role & Functions of Insurance Companies; Bancassurance; IRDA

Factoring, Forfaiting Services and Off-Balance Sheet items

Types & advantages of Factoring & forfaiting services; Types of off balance sheet items

Risk Management, Basel Accords

Introduction to Risk Management; Basel I, II & III Accords

CIBIL, Fair Practices Code for Debt Collection, BCSBI

Role and Functions of CIBIL; Fair Practices Code for Debt Collection; Codes of BCSBI

Recent Developments in the Financial System

Structure, Reforms in the Indian Financial System; recent developments in Money, Debt, Forex Markets; Regulatory Framework; Payments and Settlement System

MODULE B – FUNCTIONS OF BANKS Banker Customer Relationship

Types; Different Deposit Products & Services; Services to Customers & Investors

KYC / AML / CFT norms

PMLA Act; KYC Norms

Bankers' Special Relationship

Mandate; POA; Garnishee Orders; Banker's Lien; Right of Set off

Consumer Protection - COPRA, Banking Ombudsman Scheme

Operational Aspects of COPRA Act & Banking Ombudsman Scheme

Payment and Collection of Cheques and Other Negotiable Instruments

NI Act; Role & Duties of Paying & Collecting Banks; Endorsements; Forged Instruments; Bouncing of Cheques; Its Implications; Return of Cheques; Cheque Truncation System

Opening accounts of various types of customers

Operational Aspects of opening and Maintaining Accounts of Different Types of Customers including Aadhaar, SB Rate Deregulation

Ancillary Services

Remittances; Safe Deposit Lockers; Govt. Business; EBT

Cash Operations

Cash Management Services and its Importance

Principles of lending, Working Capital Assessment and Credit Monitoring

Cardinal Principles; Non-fund Based Limits; WC; Term Loans; Credit Appraisal Techniques; Sources of WC Funds & its Estimation; Operating Cycle; Projected Net WC; Turnover Method; Cash Budget; Credit Monitoring & Its Management; Base Rate

Priority Sector Advances

Targets; Sub-Targets; Recent Developments

Agricultural Finance

Types of Agricultural Loans; Risk Mitigation in agriculture (NAIS, MSP etc.)

Micro, Small and Medium Enterprises

MSMED Act, 2006 Policy Package for MSMEs; Performance and Credit Rating Scheme; Latest Developments

Government Sponsored Schemes

SGSY; SJSRY; PMRY; SLRS

Self Help Groups

Need for & Functions of SHGs; Role of NGOs in Indirect Finance to SHGs; SHGs & SGSY Scheme; Capacity Building

Credit Cards, Home Loans, Personal Loans, Consumer Loans

Operational Aspects, Advantages, Disadvantages & Guidelines of Credit Cards; Procedure and Practices for Home Loans, Personal Loans and Consumer Loans

Documentation

Types of Documents; Procedure; Stamping; Securitisation

Different Modes of Charging Securities

Assignment; Lien; Set-off; Hypothecation; Pledge; Mortgage

Types of collaterals and their characteristics

Land & Buildings; Goods; Documents of Title to Goods; Advances against Insurance Policies, Shares, Book Debts, Term Deposits, Gold, etc; Supply Bills

Non Performing Assets

Definition; Income Recognition; Asset Classification; Provisioning Norms; CDR Financial Inclusion

BC; BF; Role of ICT in Financial Inclusion, Mobile based transactions, R SETI

Financial Literacy

Importance of financial literacy, customer awareness

MODULE C – BANKING TECHNOLOGY

Essentials of Bank Computerization

Computer Systems; LANs; WANs; UPS; Core Banking

Payment Systems and Electronic Banking

ATMs; HWAK; PIN; Electromagnetic Cards; Electronic Banking; Signature Storage & Retrieval System; CTS; Note & Coin Counting Machines; Microfiche; NPC; RUPAY

Data Communication Network and EFT systems

Components & Modes of Transmission; Major Networks in India; Emerging Trends in Communication Networks for Banking; Evolution of EFT System; SWIFT; Automated Clearing Systems; Funds Transfer Systems; Recent Developments in India

Role of Technology Upgradation and its impact on Banks

Trends in Technology Developments; Role & Uses of Technology Upgradation; Global Trends; Impact of IT on Banks

Security Considerations

Risk Concern Areas; Types of Threats; Control Mechanism; Computer Audit; IS Security; IS Audit; Evaluation Requirements

Overview of IT Act

Gopalakrishna Committee Recommendations

Preventive Vigilance in Electronic Banking

Phishing; Customer Education; Safety Checks; Precautions

MODULE D – SUPPORT SERVICES - MARKETING OF BANKING SERVICES / PRODUCTS

Marketing – An Introduction

Concept; Management; Products & Services; Marketing Mix; Brand Image

Social Marketing / Networking

Evolution, Importance & Relevance of Social Marketing / Networking

Consumer Behaviour and Product

Consumer Behaviour; Product Planning, Development, Strategies, etc; CRM

Pricing

Importance, Objectives, Factors, Methods, Strategies of Pricing; Bank Pricing

Distribution

Distribution Channels; Channels for Banking Services; Net Banking; Mobile Banking

Channel Management

Meaning, Levels, Dynamics, Advantages

Promotion

Role of Promotion in Marketing; Promotion Mix

Role of Direct Selling Agent / Direct Marketing Agent in a bank

Definition; Relevance; Banker as DSA / DMA; Delivery Channels in Banks; Benefits

Marketing Information Systems – a longitudinal analysis

Functions & Components of MKIS; MKIS Model; Use of Computers & Decision Models; Performance of MKIS; Advantages

MODULE E – ETHICS IN BANKING

Ethics, Business Ethics & Banking: An Integrated Perspective

Business Ethics, Ethical Foundation and Banking Ethics in Global and Indian Contexts

Ethics at the Individual Level

Values, Norms, Beliefs, Morality, Conflict, Integrity, Golden Rule, Dilemmas, Decision-Making.

Ethical Dimensions: Employees

Obligation to Bank/ Third Parties, Abuse of Official Position, Sexual Harassment, Conflict of Interest, Fair Accounting Practices, HRM Ethics, Employees as Ethics Ambassadors & Managers as Ethical Leaders

Work Ethics and the Workplace

Work Ethics, Benefits of Ethical Behaviour, Unethical Behaviour: Causes and Remedies, Code of Ethics Manual, Whistleblowing in Banks, Whistleblowing Laws in India

Banking Ethics: Changing Dynamics

Ethics and Technology, Data Security and Privacy, Intellectual Property Rights, Patents and Proprietary Rights, Ethics of Information Security, Cyber Threats, Digital Rights Management

Principles and Practices of Banking

Unit – 1 : Indian Financial System

1. NBFC are allowed to raise money from the public and lend monies through various instruments for ex leasing, hire purchase and bill discounting.

2. Primary dealers deal in government securities, primary as well as secondary markets.

3. FI are financial institutions which provide long term funds for industry and agriculture.

4. Co-operative banks are allowed to raise deposits and give advances from/to public.

5. Urban co-operative banks are controlled by State government and RBI.

6. Other co-operative banks are controlled by State Government and NABARD.

7. CRR is a percentage of demand and time liabilities of a bank which is deposits held by the bank.

8. SLR is a percentage of demand and time liabilities of a bank which is held in prescribed government securities by the bank.

9. Bonds and debentures are examples of corporate securities and can be used to raise debts.

10. Debts, equities and derivatives are examples of securities.

11. SEBI is the capital market regulator.

12. Merchant bankers aka Investment bankers are licensed by SEBI and they issue stocks, raise fund and manage them.

13. FII are authorized by SEBI to invest in Indian equity and debt market through stock exchanges.

14. Depositories held securities in demat form (not physical).

15. Mutual fund pools money from investors and invests in stocks, debt and other securities.

16. The three regulatory authorities are:

   a. RBI - for banks
   b. SEBI - for capital markets and
   c. IRDA - for insurance sectors

Unit – 2 : Banking Regulation

1. RBI was constituted under the RBI Act 1934.

2. RBI started functioning with effect from 1 Apr 1935.

3. RBI is a state owned institution under the RBI (Transfer of Public Ownership) Act 1948.

4. RBI has 4 Deputy Governors and 15 Directors nominated by Union government.

5. All coins and Re 1 note is issued by Government of India but put into circulation by RBI.

6. RBI manages the exchange rate between the Indian Rupee and foreign currencies by selling and buying foreign exchange to/from Authorised Dealers (RBI's specified branches and other dealers).

7. Important macroeconomic policies:

   a. Monetary and credit policies - issued by RBI annually
   b. Fiscal policy - issued by Ministry of Finance
   c. EXIM policy - Ministry of Commerce

8. Saving and current accounts are demand liabilities.

9. Reducing CRR reduces loanable funds with banks.

10. RBI can prescribe SLR from 0 to 40 percent of bank's DTL.

11. Increasing SLR reduces loanable funds with banks.

12. Bank rate is the rate at which RBI is prepared to buy or rediscount bills of exchange or other eligible commercial paper from banks.

13. No bank held shares in a company as pledge or mortgagee in excess of the limit of 30% of the paid-up capital of that company or 30% of the bank's Paid-up capital and reserves, whichever is less.

14. Open market operations refer to sale or purchase of government securities by RBI in the open market.

15. Selective credit control is another tool which RBI uses for monetary control. It prevents holding of essential commodities and resultant rise in their prices. Presently buffer stocks of sugar, unreleased stocks of sugar with sugar mills representing free sale sugar and levy sugar are covered by SCC.

Unit -3 : Retail Banking, ADR, GDR and PNs

1. Retail banking refers to dealing of commercial banks with individual customers, both assets and liabilities sides.

Products offered are: SB, RD, CA, TDR, STDR, No Frill A/C, Home loan, auto loan, personal loan, education loan, crop loan, credit card, debit cards, lockers, bankassurance etc.

2. Wholesale banking aka corporate banking or commercial banking refers to doing banking business with industrial and business entities – mostly corporate and trading houses, including multinationals, domestic business houses and prime public sector companies.

Products offered are: LC, BG, Collection of bills and documents, forex desk, tax collection, RTGS, term lending, etc.

3. International banking refers to dealing in cross border transaction.

4. Universal banking offers all types of financial products like mutual fund, capital market related products including share broking, commodity broking, etc, sale of gold/bullion, government/corporate bonds, merchant banking, general banking, insurance (both life and non-life), etc under one roof.

5. A depository receipt (DR) is a form of negotiable (transferable) financial instrument that is traded on a local stock exchange of a country but represents a security, usually in the form of equity that is issued by a foreign publicly listed company.

6. Participatory Notes are like contract notes. They are issued by FII to entities that want to invest in the Indian stock market but do not want to register themselves with the SEBI.

7. FII are not allowed to issue Participatory notes to Indian national or overseas corporate bodies (because majority are owned/controlled by NRIs).

Unit – 4 : Role of Money Markets, Fixed Income Markets, Forex markets and FEMA

1. Money markets play a key role in banks' liquidity management and the transmission of monetary policy.

2. In normal times, money markets are among the most liquid in the financial sector.

3. By providing the appropriate instruments and partners for liquidity trading, the money market allows the refinancing of short and medium-term positions and facilitates the mitigation of your business' liquidity risk.

4. The banking system and the money market represent the exclusive setting monetary policy operates in.

5. A developed, active and efficient interbank market enhances the efficiency of central bank's monetary policy, transmitting its impulses into the economy best.

6. Development of the money market smoothes the progress of financial intermediation and boosts lending to economy, hence improving the country's economic and social welfare.

7. Therefore, the development of the money market is in all stakeholders' interests: the banking system itself, the Central Bank and the economy on the whole.

8. "Money Market" refers to the market for short-term requirement and deployment of funds. Money market instruments are those instruments, which have a maturity period of less than one year.The most active part of the money market is the market for overnight call and term money between banks and institutions and repo transactions. Call Money / Repo are very short-term Money Market products. The below mentioned instruments are normally termed as money market instruments:

1. Certificate of Deposit (CD)
2. Commercial Paper (C.P)
3. Inter Bank Participation Certificates
4. Inter Bank term Money
5. Treasury Bills
6. Bill Rediscounting
7. Call/ Notice/ Term Money

9. Government Securities are issued by the Government for raising a Public loan or as notified in the official Gazette.

10. They Consist of Government Promissory Notes, Bearer Bonds, Stocks or Bond held in Bond Ledger Account.

11. They may be in the form of Treasury Bills or Dated Government Securities.

12. Government Securities are mostly interest bearing dated securities issued by RBI on behalf of the Government of India.

13. GOI uses these funds to meet its expenditure commitments. These securities are generally fixed maturity and fixed coupon securities carrying semi-annual coupon. Since the date of maturity is specified in the securities, these are known as dated Government Securities.

14. Features of Government Securities

1. Issued at face value.
2. No default risk as the securities carry sovereign guarantee.
3. Ample liquidity as the investor can sell the security in the secondary market.
4. Interest payment on a half yearly basis on face value.
5. No tax deducted at source.
6. Can be held in Demat form.

15. Corporate bonds are debt securities issued by private and public corporations.

16. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business. When one buys a corporate bond, one lends money to the "issuer," the company that issued the bond.

17. In exchange, the company promises to return the money, also known as "principal," on a specified maturity date. Until that date, the company usually pays you a stated rate of interest, generally semiannually.

18. While a corporate bond gives an IOU from the company, it does not have an ownership interest in the issuing company, unlike when one purchases the company's equity stock.

19. An interest rate swap (IRS) is a liquid financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another.

20. An interest rate future is a financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. It is a particular type of interest rate derivative.

21. LIBOR or ICE LIBOR (previously BBA LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans.

22. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.

23. LIBOR is administered by the ICE Benchmark Administration (IBA), and is based on five currencies: U.S. dollar (USD), Euro (EUR), pound sterling (GBP), Japanese yen (JPY) and Swiss franc (CHF).

24. It serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. There are a total of 35 different LIBOR rates each business day. The most commonly quoted rate is the three-month U.S. dollar rate.

25. The Mumbai Interbank Offered Rate (MIBOR) is calculated everyday by the National Stock Exchange of India (NSEIL) as a weighted average of lending rates of a group of banks, on funds lent to first-class borrowers.

26. It is the interest rate at which banks can borrow funds, in marketable size, from other banks in the Indian interbank market.

27. The MIBOR was launched on June 15, 1998 by the Committee for the Development of the Debt Market, as an overnight rate.

28. The NSEIL launched the 14-day MIBOR on November 10, 1998, and the one month and three month MIBORs on December 1, 1998.

29. Since the launch, MIBOR rates have been used as benchmark rates for the majority of money market deals made in India.

30. Foreign Exchange Management Act (FEMA), 1999 is applicable-

a. To the whole of India.

b. Any Branch, office and agency, which is situated outside India, but is owned or controlled by a person resident in India.

Unit – 5 : Role of Capital Markets, Securities and SEBI

1. Capital market is a market for long term debt and equity shares (both are issued and traded).

2. Two types of capital market are: primary and secondary.

In the primary market, securities (shares, bonds, debentures) are offered to the public for subscription, for raising capital or fund.

In the secondary market, securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Secondary market comprises equity markets and debt markets.

3. Corporatization is the process of converting the organizational structure of the Stock Exchange from a non-corporate to a corporate structure.

4. Demutualization refers to the transition process of a Stock Exchange from a mutually owned association to a shareholders-owned company.

5. FII can invest up to 49 % in Stock Exchange in India.

6. No single investor can hold shares in an Indian Stock Exchange beyond a limit of 5%.

7. A broker is registered with SEBI and is a member of a recognized Stock Exchange and is permitted to do trading of different Stock Exchanges.

8. Government securities are coupon bearing instruments which are issued by RBI on behalf of Government of India. Government securities have maturity dates ranging from less than 1 year to a max of 30 year.

9. Debentures are bonds issued by a company. It has fixed rate of interest usually payable half-yearly, on specific dates and the principal amount repayable on a particular date on redemption of debenture. It is an unsecured debt.

10. A bond is a negotiable certificate usually unsecured. In coupon bonds, interest are paid bi-annually, in zero-coupon bonds, interest is paid at the maturity.

11. Commercial papers are borrowing of a company from the market. These money market instruments are issued for 90 days.

12. Treasury bills are securities issued by RBI on behalf of Government of India for 91 days.

13. IPO refers to issue of fresh securities by an unlisted company or an offer for sale of its existing securities or both for the first time to the public.

14. FPO refers to issue of fresh securities by an already listed company or an offer for sale to the public through an offer document.

15. Rights Issue is when a listed company issues fresh securities to its existing shareholders as on a recorded date.

16. A private placement is an issue of shares or of convertible security by a company to a select group of persons under section 81 of the Companies Act 1956.

17. Any company making a public issue or a listed company making a RI of a value of more than Rs 50 lacs is required to file a draft offer document with SEBI for its observations. This observation period is only 3 months.

18. DIP stands for Disclosure and Investor Protection guidelines.

19. Offer document means prospectus in case of public issue.

20. Offer document means an offer for sale and letter of offer in case of a RI.

21. Offer documents are filed with Registrar of Companies and Stock Exchanges.

22. A draft offer document means the offer document in a draft stage.

23. The draft offer documents are filed with SEBI.

24. The period of filing draft offer document is at least 21 days prior to that of offer document.

25. RHP (Red Herring Prospectus) is a prospectus which doesn't have details of either price of number of shares being offered or the amount of issue. But the number of shares and the upper and lower price bands are disclosed.

26. In case of FPO, the RHP can be filed with Registrar of Companies without the price band. The price band is notified one day prior to the opening of the issue by way of an advertisement.

27. In book-built issue, price cannot be determined until the bidding process is completed.

28. In a book-built issue allocation, RII: NII: QIP::35: 15: 50 (or may be 60:10:30). RII – Retail Individual Investors. NII – Non-Institutional Investors. QIP – Qualified Institutional Placement.

29. Retail individual investor means an investor who applies or bids for securities of or for a value not more than Rs 1,00,000.

30. A merchant banker possessing a valid SEBI registration in accordance with the SEBI (Merchant Bankers) Regulations, 1992 is eligible to act as a BRLM (Book running Lead Manager).

31. A QIB (Qualified Institutional Buyer) means those investors who have expertise and financial muscle to evaluate and invest in capital market. Examples: mutual fund, scheduled commercial banks, FII registered with SEBI, insurance companies registered with IRDA, PF with a minimum corpus of Rs 25 crore etc.

32. Above mentioned entities are not required to be register with SEBI as QIB.

Unit – 6 : Mutual Fund and IRDA

1. Mutual fund is a mechanism for pooling resources from the public by issuing units to them and investing the funds in securities.

2. Mutual fund set up in the form of a trust and is registered with SEBI.

3. Unit holders refer to investor in mutual fund.

4. NAV denotes performance of a particular scheme of a mutual fund.

5. NAV per unit is the market value of securities of a scheme, less the expenses incurred on the scheme divided by the total number of units of the scheme on any particular date.

6. The scheme that is available for subscription and repurchase on a continuous basis is known as open ended scheme/plan.

7. The scheme that is available for subscription only during a specified period at the time of launch of the scheme is a close ended scheme. It has a maturity period 3-10 years.

8. Growth scheme aka equity oriented scheme invest in equities (higher risks).

9. Income scheme/debt oriented scheme invest in fixed income securities such as bonds, government securities, corporate debentures and money market instruments.

10. Balanced plan invest both in equities and fixed income securities (debt instruments) in 40-60%.

11. Money market or liquid fund invest in (safer short-term instruments) treasury bills, certificates of deposit, commercial paper and interbank call money, government securities, etc.

12. Gilt fund invest in government securities.

13. Repurchase or redemption price is the price or NAV at which an open-ended scheme purchases or redeems its units from the unit holders.

Unit – 7 : Factoring and Forfaiting

1. Factoring is a service that is connected with the financing and collection of account receivables in domestic and international trade.

2. Forfaiting is a means of finance (credit) an exporter of goods avails from an intermediary called the forfaiter against the export receivables but without the obligation to repay the credit. It is used in international trade.

3. The items in the books of a bank which are not mentioned in the balance sheet, is known as off-balance sheet items. These are not assets or liabilities but may get converted into assets/liabilities upon happening of certain events. That's why off balance sheet items are aka contingent liabilities.

4. Bank Guarantee is a contract of Guarantee means a contract to perform the promise or discharge the liability of a third person in case of his default.

5. There are 3 persons in case of a Bank Guarantee - the guarantor/surety, Principal debtor, and the creditor/beneficiary.

6. Bank Guarantee is a contingent liability.

7. A Letter of Credit is an undertaking given by the buyer's bank on behalf of the buyer to the seller, stipulating that if specified documents are presented within a stipulated date, the bank establishing the credit will pay the amount of the bill drawn in terms of such Letter of Credit.

8. There are 4 persons in case of a Letter of Credit – buyer, opening bank/branch, seller, and negotiating bank/branch.

9. A forward exchange contract is a firm contract between the bank and its customers for the purchase/sale of a specified quantity of a stated foreign currency at a predetermined rate. On the due date when the contract is executed, the transaction will be at the contracted rate of exchange instead of the rate then prevailing, thus it is method of protecting oneself against exchange rate fluctuations.

10. FRA (Forward Rate Agreement) and IRS (Interest Rate Swap) are such instruments that can provide effective hedge against interest rate risks.

11. An FRA is a financial contract between 2 parties to exchange interest payments for a notional principal amount on the settlement date for a specified period from start date to maturity date.

12. An IRS is a financial contract between two parties exchanging or swapping a stream of interest payments for a notional principal amount on multiple occasions during a specified period. Such contracts involve exchange of fixed to floating or floating to floating rate of interest.

Unit – 8 : Risk Management and Basel II & III

1. Credit risk is the possibility of losses associated with the reduction in the credit quality of borrowers or counterparties.

Credit risk forms – direct lending, Bank Guarantee, Letter of Credit, treasury operations, securities trading businesses, cross border exposure, etc.

2. Market risk arises from adverse changes in market variables.
Market risk forms – liquidity risk, interest rate risk, foreign exchange rate (forex) risk, commodity price risk, equity price risk, etc.

3. Operational risk (aka legal risk, administrative risk, settlement or payment risk) arises from human or technical errors.

4. Under the Basel I accord, only the credit risk element was considered and the minimum capital requirement of capital funds was fixed at 8 % of the total risk weighted assets.

5. In India, banks are required to maintain a minimum capital to risk weighted asset ratio (CRAR) of 9 %.

6. Basel II has 3 pillars –
   a. minimum capital requirements
   b. supervisory review process
   c. market discipline

7. The capital base of the bank consists of the following 3 types of capital requirements: Tier 1, Tier 2 and Tier 3.

8. The total of Tier 2 (supplementary) elements will be limited to a maximum of 100 % of the total of Tier 1 capital.

9. Subordinated term debt will be limited to a maximum of 50 % of Tier 1 capital.

10. Tier 3 capital will be limited to 250 % of a bank's Tier 1 capital that is required to support market risk.

11. Shareholder's equity and retained earning consists of Tier 1 capital while supplementary refers to Tier 2 capital.

12. The sum of total of Tier 2 and Tier 3 capital should not exceed the total of Tier 1 capital.

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Unit – 9 : Alliances / Mergers / Consolidation

1. Alliance is a mutually agree to commercial collaboration between two to more organizations where they agree to co-operate in the operation of a business activity. They remain independent entities however.

2. Merger/amalgamation means combination of two or more companies into a single company, where one company survives with its name or a combined new name, and other loses its existence.

3. Consolidation is the combination of two existing companies into a new company where old companies lose their existence and a new one is created either with a different name or same name.

4. Acquisition or takeover of a company refers to the acquiring of a controlling stake in the ownership of a company by another entity. This is done by buying the share capital of another company.

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Unit – 10 : Credit Information Companies, Fair Practices Code for Debt Collection, BCSBI

1. CIBIL is a composite credit bureau which contains the credit history of both commercial and consumer borrowers.

2. CIBIL provides credit history of borrowers to its members in the form of credit information reports (CIRs) to assist them in their loan appraisal process.

3. In the matter of recovery of dues, banks / NBFCs may ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders as also IBA's Code for Collection of dues and repossession of security. In case banks / NBFCs have their own code for collection of dues it should, at the minimum, incorporate all the terms of IBA's Code.

4. In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank / NBFC and that they observe strict customer confidentiality.

5. All letters issued by recovery agents must contain the name and address of a responsible senior officer of the card issuing bank whom the customer can contact at his location.

6. Banks / NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

7. The Banking Codes and Standards Board of India (BCSBI) was set up on 18th February 2006 as a collaborative effort of RBI and Banks, on the lines of a similar set up in UK to oversee the "Banking Code", a voluntary Code, evolved by the British Bankers Association (BBA), which is adopted by all banks in UK.

8. The proposal for setting up the BCSBI was based on the recommendation made by the Committee on Procedures and Performance Audit on Public Services (Tarapore Committee).

9. It provides valuable protection for customers on a day-to-day basis as also in the times of financial difficulty.

10. The code applies to savings deposits and current accounts, card products and services, loans and overdrafts and payment services including foreign exchange.

11. Member banks of BCSBI would put in place the following grievance redressal mechanism in their banks:

Have a Help desk / Helpline at the branch
Have a Code Compliance Officer at each Controlling office above the level of the branch
Display at each branch name and contact number of Code Compliance Officer
Display Name and address of the Banking Ombudsman.

Unit – 11 : Recent Developments in the Indian Financial System

1. Indian Government appointed a committee under the chairmanship of Sukhamoy Chakravarty in 1984 to review the Indian monetary system. Later, Narayanan Vaghul working group and Narasimham Committee was also set up. As per the recommendations of these study groups and with the financial sector reforms initiated in the early 1990s, the government has adopted following major reforms in the Indian money market.

a. Deregulation of the Interest Rate
b. Money Market Mutual Fund (MMMFs)
c. Liquidity Adjustment Facility (LAF)
d. Electronic Transactions
e. Establishment of the CCIL
f. Development of New Market Instruments : The government has consistently tried to introduce new short-term investment instruments. Examples: Treasury Bills of various duration, Commercial papers, Certificates of Deposits, MMMFs, etc. have been introduced in the Indian Money Market.

2. Commercial paper is an unsecured money market instrument issued in the form of a promissory note. It enables highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors.

3. A certificate of deposit is a negotiable money market instrument which is issued in dematerialised form or as a Usance Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period.

4. The minimum maturity period of CD is 8 days with effect from 29 Apr 2005.

5. The Reserve Bank has taken many initiatives towards introducing and upgrading safe and efficient modes of payment systems in the country to meet the requirements of the public at large.

6. Since paper based payments occupy an important place in the country, Reserve Bank had introduced Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency in processing of cheques.

7. Later, a separate High Value Clearing was introduced for clearing cheques of value Rupees one lakh and above. This clearing was available at select large centres in the country (since discontinued).

8. Recent developments in paper-based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core-banking enabled branches of banks), introduction of cheque truncation system (to restrict physical movement of cheques and enable use of images for payment processing), framing CTS-2010 Standards (for enhancing the security features on cheque forms) and the like.

Electronic Payments

9. The continued increase in the volume of cheques added pressure on the existing set-up, thus necessitating following cost-effective alternative systems.

a. Electronic Clearing Service (ECS) Credit
b. Regional ECS (RECS)
c. Electronic Clearing Service (ECS) Debit
d. National Electronic Funds Transfer (NEFT) System
e. Real Time Gross Settlement (RTGS)System
f. Clearing Corporation of India Limited (CCIL)

Other Payment Systems

10. Pre-paid instruments are payment instruments that facilitate purchase of goods and services against the value stored on these instruments. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card. The pre-paid payment instruments can be issued in the form of smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.

11. The use of pre-paid payment instruments for cross border transactions has not been permitted, except for the payment instruments approved under Foreign Exchange Management Act,1999 (FEMA).

12. Reserve Bank brought out a set of operating guidelines on mobile banking for banks in October 2008, according to which only banks which are licensed and supervised in India and have a physical presence in India are permitted to offer mobile banking after obtaining necessary permission from Reserve Bank

ATMs / Point of Sale (POS) Terminals / Online Transactions

13. As on Feb, 2014, there are over 1,50,008 ATMs (76836 onsite and 73172 offsite) in India. Savings Bank customers can withdraw cash from any bank terminal up to 5 times in a month without being charged for the same (refer RBI circulars for latest changes).

14. Reserve Bank has mandated re-crediting of failed transactions within 7 working day and mandated compensation for delays beyond the stipulated period.

15. As on Feb, 2014, there are over 10 lakh POS terminals in the country, which enable customers to make payments for purchases of goods and services by means of credit/debit cards.

16. To facilitate customer convenience the Bank has also permitted cash withdrawal using debit cards issued by the banks at PoS terminals.

17. Further, to reduce the risks arising out of the use of credit/debit cards over internet/IVR (technically referred to as card not present (CNP) transactions), Reserve Bank mandated that all CNP transactions should be additionally authenticated based on information not available on the card and an online alert should be sent to the cardholders for such transactions.

National Payments Corporation of India

18. The Reserve Bank encouraged the setting up of National Payments Corporation of India (NPCI) to act as an umbrella organisation for operating various Retail Payment Systems (RPS) in India. NPCI became functional in early 2009. NPCI has taken over National Financial Switch (NFS) from Institute for Development and Research in Banking Technology (IDRBT).

19. Oversight of the payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change. By overseeing payment and settlement systems, central banks help to maintain systemic stability and reduce systemic risk, and to maintain public confidence in payment and settlement systems.

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Unit – 12 : Banker-Customer Relationship

1. A firm consisting of not more than 10 partners or a company incorporated under Indian Companies Act 1956 can be a bank.

2. The relationship between customer and bank, when the customer deposits money with the bank, is a lender and a borrower and thus a creditor and a debtor.

3. The relationship between customer and bank, when the bank lends money to the customer, is a borrower and lender and thus a debtor and a creditor.

4. The relationship between customer and bank, when a customer deposits certain valuables, bonds, securities etc, with the bank for safe custody, is bailor-bailee and thus customer and trustee.

5. The relationship between customer and bank, when a bank performs the services of remittance, collection of cheques, bills, etc on behalf of the customers, is principal and agent.

6. The relationship between customer and bank, when a bank provides safe deposit lockers to the customer, who hires them on a lease basis, is lessee-lessor.

7. The relationship between customer and bank, when one party promises to save the other from loss caused to the other by the conduct of promisor, is indemnifier and indemnified (or indemnity holder).

8. Merchant bankers are financial intermediaries because they transfer capital from investor or bond subscriber (owner of capital) to government or corporate (user).

9. Lease financing means leasing out the capital purchase of assets to another company against monthly rents for asset's consumption or use.

Unit – 13 : Bankers Special Relationship

1. A mandate (an unstamped agreement) is an authority given by the account holder in favour of a third person to do certain acts on his behalf.

2. Institutions cannot issue mandate, instead they issue a power of attorney.

3. Power of Attorney is a legal document (as it is a stamped document and is executed in the presence of a notary public/magistrate of a court/authorized government official) executed by one person called donor (principal) in favor of another person called donee agent to act on behalf of the former, as per the authority given in the document.

4. Donor means the person who issues Power of Attorney and donee means the person to whom Power of Attorney is given.

5. General/universal power of attorney is issued for acting in more than one transaction while special/limited Power of Attorney is issued for only one transaction.

6. Garnishee order is an order of the court obtained by a judgement creditor attaching the funds belonging to a judgement debtor (customer) in the hands of his debtors, including a bank, who is called a garnishee, advising not to release the money until directed by the court to do so.

7. Cheques presented after service of the garnishee order should be returned with the "refer to drawer" remark.

8. Preliminary proceedings of a court are called garnishee order nisi.

9. Subsequent proceedings of a court are called garnishee absolute.

10. When a bank has a prior right to set-off, the bank is not bound by the garnishee order.

11. When a lien is marked on fixed deposit receipts, it cannot be attached by a garnishee order.

12. Any excess over the lien is attachable by the garnishee order.

13. Orders received from the court for recovery of certain debts are called garnishee order.

14. Orders received from the revenue authorities (income tax/sale tax authority) are called attachment order.

15. Credits received after garnishee orders are not attachable because debts due or accruing at the time of receipt of order are only attachable.

16. In "Joint Accounts" with "Either or Survivor" clause, "Garnishee Order" if in a single name, cannot be attached.

17. In "Joint Accounts" with "Former or Survivor" clause, "Garnishee Order" if in a single name, can be attached.

18. The personal accounts of a partner can be attached with garnishee order for the firm's debt.

19. The trust's account cannot be attached garnishee order.

20. When a customer has more than 1 account and one is in credit and other is in debit, then the garnishee order can be attached only if the net result is in credit.

21. A lien is a right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid.

22. The banker's lien is an implied (understood) pledge (promise/guarantee).

23. In case of lien, the bank can sell the goods and securities in case the debt is not paid under section 171 of the Indian Contract Act 1872.

24. Lien cannot apply in safe deposit locker.

25. Set-off means adjusting debit balance in one account with an account having credit balance of the same customer.

26. A deceased credit account and a customer debit account cannot be combined.

Unit – 14 : Banking Ombudsman Scheme and Consumer Protection Act

1. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.

2. The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks.

3. The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.

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

5. 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.

6. 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.

7. One can file a complaint before the Banking Ombudsman if the reply is not received from the bank within a period of one month after the bank concerned has received one s representation, or the bank rejects the complaint, or if the complainant is not satisfied with the reply given by the bank.

8. One can file a complaint with the Banking Ombudsman simply by writing on a plain paper. One can also file it online (at "click here to go to Banking Ombudsman scheme" or by sending an email to the Banking Ombudsman.

9. The Banking Ombudsman may reject a complaint at any stage if it appears to him that a complaint made to him is:

- not on the grounds of complaint referred to above
- compensation sought from the Banking Ombudsman is beyond Rs 10 lakh .
- requires consideration of elaborate documentary and oral evidence and the proceedings before the Banking Ombudsman are not appropriate for adjudication of such complaint without any sufficient cause
- that it is not pursued by the complainant with reasonable diligence
- in the opinion of the Banking Ombudsman there is no loss or damage or inconvenience caused to the complainant.

10. If one is aggrieved by the decision, one may, within 30 days of the date of receipt of the award, appeal against the award before the appellate authority. The appellate authority may, if he/ she is satisfied that the applicant had sufficient cause for not making an application for appeal within time, also allow a further period not exceeding 30 days.

11. Consumer Protection Act, 1986

a. It extends to the whole of India except the State of Jammu and Kashmir.
b. It shall come into force on such date as the Central Government may, by notification, appoint and different dates may be appointed for different States and for different provisions of this Act.
c. Save as otherwise expressly provided by the Central Government by notification, this Act shall apply to all goods and services.

12. "complaint" means any allegation in writing made by a complainant that—

a. an unfair trade practice or a restrictive trade practice has been adopted by any trader or service provider.
b. the goods bought by him or agreed to be bought by him; suffer from one or more defects.
c. the services hired or availed of or agreed to be hired or availed of by him suffer from deficiency in any respect.

d. a trader or service provider, as the case may be, has charged for the goods or for the service mentioned in the complaint a price in excess of the official/valid price.
e. goods which will be hazardous to life and safety when used or being offered for sale to the public.
f. services which are hazardous or likely to be hazardous to life and safety of the public when used, are being offered by the service provider which such person could have known with due diligence to be injurious to life and safety.

Unit – 15 : Payment and Collection of Cheques and Other NI

1. In Sans recourse endorsement, liability of the endorser is excluded.
2. In facultative endorsement, the notice of dishonour is waived.
3. The 3 negotiable instruments are promissory notes, bills of exchange and cheque.
4. A paying banker is protected under NI Act in the following cases:
   a. Forged endorsement in an
      i. order cheque under section 85 (1)
      ii. bearer cheque under section 85 (2)
      iii. draft under section 85 (A)
   b. Material alteration in a cheque under section 89
   c. Payment of a crossed cheque under section 128.

Unit – 16 : Opening Accounts of Various Types of Customers

1. Indian Majority Act 1875 defines the age of majority to be 18 years.
2. Section 26 of the NI Act provides that a minor may draw, endorse, deliver and negotiate a negotiable instrument and as such, a minor can draw a cheque. The minor's age should be above 13 years and should be literate. No overdraft is allowed in these accounts.
3. Two minors cannot open a joint account.
4. In an HUF, the members of a family are called coparceners and the eldest male child is called Karta (Manager), the Karta operates the account.
5. All the adult members have to sign account opening form while opening HUF account.

6. Registration of a partnership is optional (except in states of Gujarat and Maharashtra where it is compulsory).

7. When there is an addition into the partnership, the old account can be continued ifthe balance is in credit, else old account should be closed and a new one should be opened. This process avoids Clayton's Rule.

8. Death of a partner dissolves the partnership firm.

9. A public limited company – minimum 7 members, maximum unlimited members. Minimum paid up capital of Rs 5 Lakh.

10. A private limited company – minimum 2 members, maximum 50 members. For banking business maximum number is 20. Minimum paid up capital of Rs 1 Lakh.

11. A government company – minimum 51% of the shares are held by the government.

12. Internal rules of a company are mentioned in articles.

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Unit – 17 : Ancillary Sercices

Each bank has two main activities as the sourcing or borrowing of funds (as deposits and capital from the market) and the deploying or lending the funds as Loans and Investments): these form the traditional and core activities of all the banks.

Apart from these basic activities, the banks provide a variety of other services or products.The most popular ones are listed below.

1) Funds transfer service: Useful for sending and receiving money from all over the world.The products that cover these services are Demand Drafts, Bankers Checks/Pay orders, EFT(Electronic Funds Transfer),etc.

2) Forex service: You can buy the foreign exchange for any purpose of expenditures like travel, buying merchandise,etc..and sell the same to the bank when you earn or receive from abroad . Of course, these forex transactions are subject to the rules and regulations prevailing in a country and they are provided by only those bank branches which are approved by the Banking Authority or Regulator for this purpose.

3) Custodial Service: You can keep your valuables like jewels, documents, etc.. under this service which is commonly known as Locker facility(Safe Deposit Vaults in banking parlance. The bank will collect a nominal fee for the service.

4) Gold sale: You can buy pure gold for self consumption or for trading by the jewelry businesses. Here also, only a few selected branches of banks or banks are allowed to provide this. The products usually range from a coin to a 100 gm biscuit or bar.

5) Investment service: Invest your money in the mutual funds run by the banks. The service comes as Portfolio service(the decision to maximize the returns on your money is left with the banker or

portfolio manager) and as Stand-alone product where the decision to get maximum returns is borne by you. Both have the plus and minus but these products are offered to suit the convenience of the investors. Portfolio means a basket of investments and securities in a combined form. Debt securities will yield interest income and equity investment will yield dividend income. Portfolio management means management of a combination of securities to get the most efficient portfolio.

6) Insurance sale: A range of insurance products covering the risk of life, health, assets like vehicle, credit and debit cards, travel etc. are offered by almost all the banks by themselves or in collaboration with the leading insurer companies ,which again may be local or multinational entities.

7) Card services: Primarily intended for safety and convenience purpose but now, has become a payment mode and a symbol of economic status. The card products usually are called as Debit card, Credit card .

8) eBanking: also known as Netbanking or Internet banking is the latest and most convenient facility of the banks .You can get id and password to operate your account online : for transfer of funds to another account in the same bank or another bank. You can keep the surplus funds in fixed deposit by using this facility. The best use of this facility is for shopping online.

Unit – 18 : Cash Management Services and its Importance

1. Cash management is a broad term that refers to the collection, concentration, and disbursement of cash.

2. It encompasses a company's level of liquidity, its management of cash balance, and its short-term investment strategies

3. The objective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.

4. In India, the cash management business primarily involves collections and payments services.

5. Products Offered by Banks Under Collections (Paper and Electronic)

  a. Local cheque collections
  b. High value (0 Day clearing)
  c. Magnetic ink character recognition (MICR)
  d. Outstation cheque collections
  e. Cheques drawn on branch locations
  f. Cheques drawn on correspondent bank locations
  g. Cheques drawn on coordinator locations
  i. House cheque collections
  j. Outside network cheque collections
  k. Cash collections

l. ECS-Debit
m. Post dated cheque collection
n. Invoice collections
o. Capital market collections

6. Products Offered by Banks Under Payments (Paper and Electronic)

a. Demand drafts/banker's cheques
b. Customer cheques
c. Locally payable
d. Payable at par
e. RTGS/NEFT/ECS
f. Cash disbursement
g. Payments within bank
h. Capital market payments

7. In a dynamic economy, markets need to play a key role in guiding the development of infrastructure, including mechanisms like payments systems.

8. This means that innovation and competition will be central to the future development of the payments system - as they are in other areas of the economy.

9. Efficient cash management is a must to support an institution's growth, and therefore, adopting the best cash management practices is necessary.

Unit – 19 : Principles of Lending, Working Capital Assessment and Credit Monitoring

1. Stocks procured through L/C are taken under hypothecation.

2. An increase in the ratio of current assets to total assets results in a decline in the profitability of the firm (because investment in current assets is less profitable than those in fixed assets).

3. Term loans are loans which are repayable after one year and up to 10 years. Short term loan = 1-3 years, medium term loans = 3-7 years, long term loans = 7-10.

4. Difference between term loan and working capital is that term loans are repayable in quarterly or half yearly installments whereas working capital is generally availed in cash credit hypothecation accounts with frequent drawings and is payable on demand.

5. For an assessment of the working capital needs of a borrower who requires fund based limits in excess of Rs 10 crore, the cash budget system (instead of cash flow statement) should be used.

6. Cash flow system deals with both cash and non-cash funds, while the cash budget system deals with cash transactions only.

7. The ceiling for banks in providing advances/loans to borrowers is 15% of the capital funds in case of a single borrower and 40% in case of group borrowers.

8. Working capital means the sum total of inventory, receivables and other current assets held by a business entity.

9. Working capital is computed by the banks through the concept of operating cycle, i.e., the time taken by a business entity to get the money released from the raw materials, semi-finished goods, receivables, etc.

Unit – 20 : Priority Sector Advances

1. RBI has advised the banks to raise the shares of priority sector lending to 40 % of the aggregate bank advances.

2. Out of this 40 %, 18 % is for agricultural sector (no targets for foreign banks), 10 % is for weaker sections (no targets for foreign banks), and 1 % of previous year's total advances are given under DRI (Differential Rate of Interest Scheme) (no targets for foreign banks).

3. Above mentioned limit is for domestic commercial banks. For foreign banks, 32 % of ANBC (Adjusted Net Bank Credit) is for priority sector advances.

4. Export credit is not a part of priority sector for domestic commercial banks. However foreign banks are given target of 12 % of ANBC.

5. Description of Micro, Small and Medium Sectors:
Investment in plant and machinery Investment in Equipment Type of Enterprise
(Manufacturing Sector) - (Services Sector)
Up to 25 lacs - up to 10 lacs Tiny
25 lacs to 5 crore - 10 lacs to 2 crore Small
5 crore to 10 crore - 2 crore to 5 crore Medium

6. Micro credit includes provision of very small amounts up to Rs 50,000 per borrower.

7. The government has decided that the farmers should receive short term credit at 7 % with an upper limit of 3 lakh on the principal amount. On this amount, the government provides interest subvention of 2 % p.a. to the banks.

8. This 2 % subvention will be available to banks on condition that they make short term credit available at the ground level with ROI of 7 % p.a.

Unit – 21 : Agricultural Finance

1. Loans repayable up to 18 months are short term loans.

2. Medium/long term loans are for more than 36 months.

3. All farmers who require loan for their cultivation expenses are eligible to get loan under KCC scheme.

4. KCC is valid for a period of 3 years subject to an annual review. Any number of withdrawals and repayments are permitted under this scheme.

Unit – 22 : Micro, Small and Medium Enterprises in India

1. A credit guarantee scheme was started to provide collateral-free loans to micro and small entrepreneurs.

2. The exemption limit for relief from payment of Central Excise duty was raised to Rs 1 crore.

3. The MSMED Act (Micro, Small and Medium Enterprise Development Act) 2006 came into effect from 2 Oct 2006.

4. Credit to MSMEs is part of the priority sector lending policy of the banks. Refer to Lesson 18 (1-3). Any shortfall in the 10 % limit of MSMEs of the 32 % prescribed limit of priority sector for foreign banks has to be deposited in the SEDF (Small Enterprise Development Fund) set up by SIDBI.

5. The principal financial institution for promotion, financing and development of the MSME sector is the SIDBI.

6. If the buyer of the goods fails to make the payment to the supplier within a period of 45 days, the buyer shall be liable to pay compound interest to the supplier on the amount with monthly interest at 3 times of the bank rate.

Unit – 23 : Govt Sponsored Schemes

1. The Swarnajayanti Gram Swarojgar Yojna (SGSY) came into effect from 1 April 1999 in the rural areas of the country.

2. SGSY scheme is funded by the centre and state in the ration of 75:25 and will be implemented by commercial banks.

3. DRDA (District Rural Development Agencies) provides fund to those self help group who are in existence for 6 months and have demonstrated the potential of a viable group. This fund is aka revolving fund.

4. In case of group loan, the group is entitled to a subsidy of 50 % of the project cost, subject to per capita subsidy of Rs 10,000 or Rs 1.25 lacs whichever is less.

5. Loan applications under the SGSY scheme should be disposed of within the prescribed limit of 15 days and at any rate, not later than one month.

6. Swarojgaris are covered under the group insurance scheme. The maximum age of Swarojgaris at the time of sanction has to be kept at 60 years of age.

7. Insurance coverage would be for 5 years or till the loan is repaid.

8. For individual loans up to Rs 50,000 and group loans up to Rs 5 lacs, the assets created out of the bank loan would be hypothecated to the bank as a primary security.

9. In case of immovable assets (like minor irrigation, dug well, etc), the security created is mortgage. Where mortgage is also not possible, 3rd party guarantee may be obtained.

10. For all loans (individual or group), in addition to the hypothecation/mortgage/3rd party guarantee, suitable margin money/other collateral security in the form of an insurance policy; marketable security/deeds of other property, etc, may be obtained at the discretion of the bank.

11. Project cost includes bank loan plus government security.

12. Subsidy under SGSY scheme will be 30 % subject to a maximum of Rs 7,500.

13. In respect of SC/STs, Subsidy under SGSY scheme will be 50 % subject to a maximum of Rs 10,000 (per capita) or Rs 1.25 lacs whichever is less.

14. Banks should not charge interest on the subsidy portion of the loan amount.

15. All SGSY loans are medium term loans with minimum repayment period 5 years (maximum 9 years).

16. The SJSRY (Swarna Jayanti Shahari Rozgar Yojna) came into effect from 1 April 1997 in all urban towns in India.

17. The SJSRY scheme is funded by the centre and state in the ration of 75:25.

18. Both urban employed and urban unemployed (no age limit) youth whose annual family income is below the poverty line and have got education up to 9th standard come under SJSRY scheme.

19. Project cost up to Rs 50,000 is provided under the SJSRY scheme in case of an individual. Higher project costs would also be covered in the scheme provided the share of each person in the project cost is Rs 50,000 or less.

20. In SJSRY scheme, Subsidy would be provided at the rate of 15 % of the project cost, subject to a ceiling of Rs 7,500 per head.

21. Margin money is 5 % of the project cost in SJSRY scheme.

22. In SJSRY scheme, repayment schedule ranges from 3 to 7 years, after initial moratorium period of 6 to 18 months (at bank's discretion).

23. DWCUA (Development of Women and Children in Urban Areas) group shall consists of at least 10 urban poor women and the subsidy amount would be 50 % of the project cost of Rs.1,25,000, whichever is less.

24. If in DWCUA, the project cost exceeds Rs 2, 50, 000, the project cost less subsidy (Rs.1,25,000) and margin money (@ 5 % of the project cost) would be the component of the bank.

25. The beneficiaries under the SJSRY scheme are identified on the basis of a monthly per capita income and not by the annual family income (which is the case in SGSY scheme, refer to Point no 18).

26. The % of women beneficiaries under the SJSRY scheme shall not be less than 30 %.

27. The loans granted under the SJSRY scheme come under priority sector advances and hence loan applications for amount up to Rs 25, 000 should be disposed of within a fortnight and for credit limits above Rs 25, 000 within 8-9 weeks.

28. In SJSRY scheme, a loan amount of Rs 50, 000 and group loans up to Rs 3 lacs don't require a collateral/guarantee. Besides margin, the borrower would hypothecate/mortgage/pledge to the bank the assets created out of the bank loan.

29. The PMRY scheme is for unemployed youth between the age of 18-35 years (10 years relaxation in case of women/PH/SC/ST), who are at least 8th standard pass.

30. PMRY scheme covers those unemployed educated youths whose annual family income is below 1 lac per annum and the beneficiary should be a permanent resident of the district for 3 years.

31. In case of SHG, PMRY scheme gives subsidy per beneficiary Rs 12,500 subject to a maximum ceiling of Rs 1.25 lacs.

32. In PMRY scheme, bank's margin money varies from 5 to 12.5 % of the project cost so that the total of subsidy and margin money is equal to 20 % of the project cost.

33. The project cost in PMRY scheme is restricted to Rs 2 lacs for business sector and Rs 5 lacs for industry sector.

34. Margin money in PMRY scheme is 5 to 16.25 % (except in north-eastern states, HP, J&K, Uttaranchal, where it varies from 5 to 12.5 %) of the project cost so as to make the total of subsidy and margin money equal to 20 % of the project cost.

35. In PMRY scheme, subsidy eligible is 15 % of the project cost, subject to a maximum of Rs 12,500 per borrower in states other than north-eastern states, HP, J & K, Uttaranchal.

36. In PMRY scheme, the borrower has to hypothecate/mortgage/pledge to the bank assets. The borrowers will not have to give a collateral security under the industry sector projects with the cost up to Rs 2 lacs (for business sectors) and up to Rs 1 lac for service sectors.

37. The exemption from collateral is limited to Rs 1 lac per person in case of a partnership in PMRY scheme.

38. PMRY loans have repayment period from 3 to 7 years after an initial moratorium.

39. In joint ventures/partnerships, the total project cost should not exceed Rs 10 lacs.

40. In SHG, there may be 5-20 educated unemployed youths and there is no upper ceiling on loan.

41. The exemption from collateral security is Rs 5 lac per borrower in industry sector whereas the exemption is Rs 1 lac per member in services and industry sector.

42. SLRS (Scheme of Liberation and Rehabilitation of Scavengers) was launched on 22 Mar 1992 and the project cost is limited to Rs 50,000 (the banks would give 32,500, subsidy would be 10,000, and 7,500 would be margin money from Scheduled Caste Development Corporations aka SCDC) per head. Margin money is up to 15 % of the project cost and rate of interest 4 %.

43. Under the SLRS scheme, the subsidy would be 50 % of the project cost with a ceiling of Rs.10,000.

44. Loans up to Rs 6,500 are treated as loans under DRI scheme and rate of interest is 4 %. If the loan sanctioned/disbursed is more than Rs 6,500 such loans will attract a rate of interest according to the RBI directive.

45. In SLRS scheme, the security for the loan will only be the hypothecation of the assets. The repayment period is 3-7 years.

46. Loan amount up to Rs 25,000 under SLRS scheme should be disposed of within a fortnight and for amount exceeding Rs 25,000 within 8-9 weeks.

Unit – 24 : Self Help Groups

1. Registration of SHG is compulsory if the number of members is more than 20 (normally an SHG has 5-20 unemployed educated members).

2. The SHG should meet weekly or fortnightly and devise a code of conduct (Group Management Norms) to bind itself.

3. The SHG builds a group corpus fund by voluntary saving from members.

Unit – 25 : Credit Cards, Home Loans, Personal Loans and Consumer Loans

Credit card is the one of the delivery channels of the banking services. It is a small plastic card issued to users as a system of payment.

It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services.

The issuer of the card creates a revolving account and grants a line of credit to the consumer from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Benefits to Credit Card Holders

(a) They can purchase goods and services at a large number of merchant outlets up to the inbuilt ceiling credit limit amount without using cash or cheque. This is generally useful in emergencies.

(b) Card holder has a period of interest free credit, depending upon the issuing bank and the card scheme, i.e. the normal card and gold cards, as offered by various banks. The period of interest free credit ranges from 15 days to 51 days.

(c) Cash up to a ceiling, within the credit limit is obtainable from the banks' branches or ATMs (Automated Teller Machines).

Disadvantages to Credit Card Holders

(a) Often results in over spending.

(b) Frauds, due to a loss of card in the intervening periods.

(c) Since signatures are already on the cards, forged signatures could cause a loss to the card holders. Such kind of a forged signature loss is avoided with the use of photo credit cards.

Parties involved in Credit Card

Cardholder: The holder of the card used to make a purchase; the consumer.

Card-issuing bank: The financial institution or other organization that issued the credit card to the cardholder. This bank bills the consumer for repayment and bears the risk that the card is used fraudulently. American Express and Discover were previously the only card-issuing banks for their respective brands, but as of 2007, this is no longer the case. Cards issued by banks to cardholders in a different country are known as offshore credit cards.

Merchant: The individual or business accepting credit card payments for products or services sold to the cardholder.

Acquiring bank: The financial institution accepting payment for the products or services on behalf of the merchant.

Independent sales organization: Resellers (to merchants) of the services of the acquiring bank.

Merchant account: This could refer to the acquiring bank or the independent sales organization, but in general is the organization that the merchant deals with.

Credit Card association: An association of card-issuing banks such as Discover, Visa, MasterCard, American Express, etc. that set transaction terms for merchants, card-issuing banks, and acquiring banks.

Transaction network: The system that implements the mechanics of the electronic transactions. May be operated by an independent company, and one company may operate multiple networks.

Affinity partner: Some institutions lend their names to an issuer to attract customers that have a strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name. Examples of typical affinity partners are sports teams, universities, charities, professional organizations, and major retailers.

Home Loans

Home loans are available to resident Indians and NRIs for the purchase or construction of house or flats, repairs and renovation of house.

The Procedure and Practices for Home Loans

Target Group: Normally, the target group is the salaried class, professionals, self-employed and business¬men. Banks fix the age criteria for availing the loan.

Purpose: The purpose of the loan is for the purchase or construction of house or flats, repairs and renovation of house, and in some banks, for purchase of house sites also.

Quantum of loan: The quantum of eligible loan is fixed based on the gross monthly income/net monthly income. For this, banks ask for a salary certificate for the salaried class or the Income tax return for others. Bank also ask for the statement of bank account for a prescribed period.

Age: Banks fix the lower and upper age for availing the loan taking in to consideration the remaining period of service, in the case of salaried class and the income earning capacity during the period of loan for others.

Repayment: Most of the banks are giving long repayment period, say 20-25 years. The repayment will be based on equated monthly instalments (EMI). In case of loan for purchase of a ready built house, it should be ensured that the remaining life of the building should be longer than the repayment period allowed, plus a cushion period, says ten years. Normally banks allow a holiday period for repayment. The holiday period for construction will be more than it is, for the purchase of ready built house.

Security: Generally, the property purchased or constructed out of the bank loan is taken by way of mortgage. Sometimes, when the income of the spouse is taken for arriving at the quantum of loan, his/ her guarantee is also taken as personal security.

Margin: Banks stipulate that a certain percentage of the project cost, say fifteen per cent, is to be borne by the borrower from his own sources. When the loan is for repairs/renovation, banks stipulate a higher margin.

Rate of Interest: When compared to the rate of interest for other loans, the rate of interest for home loan is cheaper. Most of the banks offer a rate of interest below the 'Bench Mark Prime Lending Rate' (BPLR). Banks also offer a floating rate and a fixed rate option to the borrower.

Documents Required

At the time of applying for the loan, the banks ask for some necessary documents namely;

(a) Agreement of Sale/Sale deed
(b) No Encumbrance certificate NIL EC (for 13 years)
(c) Parent document for 30 years
(d) Approved building plan
(e) Patta (NOC from Housing Board, etc., wherever applicable)
(f) Valuation report from the Bank's approved engineer
(g) Bank statement for last 12 months

Personal Loans

Procedure and Practices for Salary Loans

Target group: Permanent employees with a minimum service/experience of say three years, with a Govt./quasi Govt./boards/endowments/reputed companies/corporate industrial establishments, etc. The stipulation of minimum period of service may vary from bank to bank.

Purpose: For meeting of marriage/educational and medical expenses, to celebrate family functions and for other household expenses.

Eligible Amount: The eligible amount of a loan is calculated based on so many times of the gross/net salary. While arriving at the quantum of loan, the minimum take home pay say, forty per cent of the gross salary, will be stipulated after the proposed EMI.

Security: Sometimes banks insist on the guarantee of another person, if there is no collateral security, or in case, the account is with the branch, a letter giving an undertaking from the borrower to debit his account for the EMI. When the employer of the borrower sponsors the loan, h is asked for an undertaking, to the bank to recover the EMI from the salary and remit into the bank.

Documents: Proof of employment and salary certificate are normally obtained. After sanction of the loan, banks take the necessary loan documents such as; DPN, salary loan agreement, etc., from the borrower and a guarantee agreement from the guarantor, if any.

The rate of interest on this loan will be higher than other loans as there is no collateral security.

Some banks are taking post-dated cheques for the future EMI.

Banks allow 36-60 months as repayment period.

Normally banks levy a certain percentage of the loan amount; say one per cent, as a processing fee.

Consumer Loans

Target group: Salaried class, pensioners, professionals, self-employed business persons and other individuals who have regular income.

Purpose: For purchase of consumer durables and white goods like TV, VCR, VCP, air conditioners, refrigerators, personal computers and accessories, etc.

Eligible amount: While arriving at the quantum of loan, the cost of the article to be purchased and the margin be brought by the borrower are taken into account. The minimum take home pay, say forty per cent of the gross salary, shall also be ensured after the proposed EMI.

Security: Hypothecation of the article purchased out of the bank loan.

Margin: Normally a margin of 10-20 per cent is stipulated.

Repayment: Banks allow a thirty six to sixty months repayment period.

Documents: The documents to be obtained are: salary certificate for three months for self and spouse (if spouse income is also taken into account for arriving at the eligibility) IT returns/Form 16 for two to three years in case of professionals, businessmen, Self-employed persons. Quotations of the articles selected from a reputed dealer. Statement of account/passbook, showing one year's transactions. Some banks are taking post-dated cheques for the future EMI.

After sanction of the loan, banks take necessary loan documents such as DPN, hypothecation agreement, etc., from the borrower and a guarantee agreement from the guarantor if any.

Normally banks levy a certain percentage of the loan amount, say one per cent, as a processing fee.

Unit – 26 : Documentation

1. There are 3 types of documents taken by a bank for a loan – DPN, agreement, and form.

2. DPN (Demand Promissory Note) is a document which a bank takes when there is no fixed period for the repayment of loan.

3. In DPN, the borrower makes a promise to the banker to repay the loan amount on demand with agreed rate of interest.

4. DPN must be stamped as per Indian Stamps Act.

5. An agreement includes the amount of loan, rate of interest, rate of penal interest, % of margin, period of repayment, rights of the bankers in case of default of loan, details of security/securities charged, etc.

6. The agreement must be stamped.

7. Forms are neither promised nor agreement. They are obtained to specify the intention of the borrower. For ex, when a loan is granted against the security of a FD standing in joint names, one of them gives an authorization to the other to raise a loan on the deposit. Such an authorization is taken in a form.

8. For correct documentation, the steps followed are – selection of correct set of documents, stamping, filling, execution, and legal formalities.

9. The cancellation of adhesive stamp is done as per Section 12 of the Indian Stamp Act.

10. In case of advances to limited companies against its assets, the required forms are to be presented to the Registrar of Companies with the 30 days from the date of execution.

11. In case of creation of registered mortgages, the mortgage deed is presented for registration before the Registrar of Assurances within 4 months from the date of execution of the deed.

12. The documents submitted to the bank don't have perpetual life, the provision of Limitation Act apply to them. The Limitation Act prescribes the period of limitation for different types of documents.

13. The limitation period for a DPN is 3 years from the date of execution. It means if the loan is not repaid within 3 years, the bank has to get fresh documents for extending the period.

14. If the borrower or his duly authorized agent makes any part payment towards the loan before the expiry of period of limitation, then the period of limitation is extended by one more period from the date of such part payment.

15. Securitisation is the process of acquisition of large NPA loan or portfolio of loans such as housing, by Securitisation or Reconstruction Co from a bank or financial institution on mutually agreed terms and conditions.

Unit – 27 : Different Modes of Charging Securities

1. Assignment is transfer of a right, property or a debt. The transferor is called assignor and the transferee is called assignee.

2. A borrower may assign the book debt, money due from government department and LIC as security for an advance.

3. Under the provision of the Insurance Act, an LIC is assignable by an endorsement on the back of the policy or by a separate deed of assignment, but notice of such assignment must be given to the insurer by the assignee or assignor.

4. Under section 171 of the Indian Contract Act, lien is the right of the banker to retain (and sell if need arises) possession of goods and securities owned by the debtor until the debt due from the latter is paid.

5. Lien is an implied (understood) pledge.

6. Set-off means adjusting the debit balance in one account of the debtor with the credit balance in another account of the same debtor. It is also applicable in case of partnership accounts.

7. Lien and set-off both cannot be exercised at a time.

8. Hypothecation is a charge created on movable property without delivery of possession of the property.

9. Hypothecation differs from pledge because goods remain in the possession of the borrower in hypothecation.

10. Hypothecation transforms into pledge when the possession of the goods is transferred to the creditor.

11. Hypothecation differs from mortgage because mortgage relates to immovable property but hypothecation relates to movables. Also, in hypothecation, there is only obligation to repay money and no transfer of interest but in mortgage, there is transfer of interest in the property to the creditor.

12. Pledge means bailment of goods for purpose of providing security for payment of debt or performance of a promise (as per section 172 of the Contract Act 1872).

13. In pledge, there is actual or constructive (no physical) delivery of goods to the Pawnee (who takes the goods as security).

14. 6 types of mortgage are –

   a. Simple mortgage – mortgage is by deposit of title deeds, mortgagee has a right to proceed against the property mortgaged and also personally against the mortgagor
   b. Mortgage by conditional sale – possession of mortgaged properties is given
   c. Usufructuary mortgage - possession of mortgaged properties is given
   d. English mortgage - possession of mortgaged properties is not given
   e. Mortgage by deposit of title deeds – it is not required to be created by way of a deed and doesn't require registration
   f. Anomalous mortgage

15. Mortgage is to be created by way of deed and requires to be registered under the Registration Act.

16. Limitation period for filing a suit for sale of mortgage property is 12 years from the date mortgage debt becomes due.

17. Limitation period for filing a suit for foreclosure of mortgage property is 30 years from the date mortgage debt becomes due.

18. Bankers generally prefer simple mortgage and mortgage by deposit of title deeds.

Liner Definition:

19. Pledge: When lender possess movable security.

20. Hypothecation: When lender has a charge against movable security, which is not in lender's possession.

21. Mortgage: when lender has a charge against immovable property, not in its possession.

22. Lien: not necessarily the security is in your possession, but we have frozen it for any debit/withdrawal transaction.

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Unit – 28 : Types of Collaterals and their Characteristics

1. Security is of two types – primary and collateral.

2. Primary security is one that is regarded as the main cover for an advance, generally assets against which advance are made. Ex stocks for cash credits, machinery for term loans.

3. Collateral security is security other than primary security.

4. Mortgage of immovable property is either primary or collateral.

5. When doing mortgage, encumbrance certificate is taken for generally 13 years to check no encumbrance exists on the property.

6. The nature of charge created on lands and buildings is mortgage.

7. The nature of charge created on goods may be pledge or hypothecation.

8. In the case of key cash credit, the nature of charge created is pledge because in this case, the possession of goods is transferred to the banker.

9. In the case of open cash credit, the nature of charge created is hypothecation because in this case, the possession of goods is not transferred to the banker.

10. In both the key cash credit and open cash credit (means in either case of pledge or hypothecation), the title in the goods is not transferred to the bank.

11. The valuation of the stocks is done on the basis of cost price or market price whichever is less.

12. Documents of title to goods means a document used in the ordinary course of business as a proof of possession or control of goods authorising or purporting (claiming) to authorise either by endorsement or delivery (as per section 2(4) of Sales of Goods Act).

13. Goods represented by the documents are transferrable by endorsement and/or delivery of the documents. It looks like negotiable instruments but actually they are quasi-negotiable instruments.

14. Examples of documents of title are bill of lading, dock warrant, warehouse-keepers certificate, railway receipts, delivery orders, etc.

15. LICs are taken either as primary or collateral security.

16. Nomination under the LIC is automatically cancelled in the event of the assignment of the policy.

17. The nature of charge created while making advances against shares is a pledge.

18. Banks provide either demand loan or an over draft against the security of shares.

19. Shares should be in demat form and should be quoted in a recognised stock exchange.

20. Advances are granted against fully paid shares only.

21. No loan can be granted against the security of a private limited company.

22. No banking company can hold shares in any company of an amount exceeding 30 % the paid up share capital of that company or 30 % of its own paid up share capital and reserves whichever is less (BR Act 1949, section 19 (2)).

23. If the securities (of shares, debentures and PSU bonds) are in physical form, loans against to individuals should not exceed the limit of Rs 10 lac per borrower.

24. If the securities (of shares, debentures and PSU bonds) are in demat form, loans against to individuals should not exceed the limit of Rs 20 lac per borrower.

25. ESOP (Employees Stock Option Plan) is a scheme under which banks provide loan to employees for purchasing shares of their own companies.

26. Under ESOP, an employee can purchase to the extent of 90 % of the purchase price of shares or Rs 20 lac, whichever is less.

27. In case of advances against shares, a uniform margin of 50 % shall be applicable on all advances/financing of IPOs/issue of guarantees. And within this margin of 50 %, a minimum cash margin of 25 % shall be maintained in respect of guarantees issued by banks for capital market operations.

28. Banks also give loans under book debts.

29. Book debts mean account receivables (total of debit balance in the purchaser’s account).

30. Book debts can be financed by: factoring (lesson 7), forfeiting (outright i.e. complete purchase of book debts, and overdraft and cc against hypothecation of book debts.

31. Age of the book debts should be 3-6 months old, but not later.

32. Margin of 50 % is maintained in book debts.

33. Banks may provide advances against the security of time deposits such as FD or RD.

34. The nature of facility granted against the security of term deposits may either be a loan or an overdraft.

35. The nature of charge created while granting loan against time deposits is a pledge.
36. Normally loans up to 90 % of the deposit amount/accrued value of the deposit is provided.
37. The ROI charged on the loan would be 1 or 2 % above the interest rate offered on the deposits.
38. Loans given to a sole proprietor against deposit in the name of the proprietor concern should NOT be treated as 3rd party loan.
39. Loans given to a partner against deposit in the name of the firm should be treated as 3rd party loan and interest should be charged at the commercial rate.
40. If a company seeks loan against its deposit, a board resolution authorising the company to raise the loan should be obtained. The charge of pledge need not be registered with the ROC.
41. A deposit held under 'Capital Gain Scheme' is not eligible for loan.
42. The nature of charge created under the security of gold ornaments is a pledge.
43. No loan can be given against the security of pure gold.
44. Around 30 % margin is kept on the market value of the ornaments.
45. The nature of charge created under 'Supply Bills' is assignment

Unit – 29 : Non-Performing Assets

The prudent guidelines were first issued by RBI in the year 1991 implemented wef 01.04.1992 on recommendations of Narasimham committee covering, income recognition, asset classification and provisioning.

1. Prudential norms prescribed by RBI include norms relating to Accounting, Exposure, and Capital Adequacy.
2. Prudential accounting norms are income recognition, asset classification and provisioning.

CLASSIFICATION AS NPA

1. Term Loan - If Interest and/ or installment of principal remain overdue for a period of more than 90 days
2. CC/Overdraft - if *the* account remains 'out of order or the limit is not renewed/reviewed within 180 days from the due date of renewal. Out of order means an account where
   (i) the balance is continuously more than the sanctioned limit or drawing power OR
   (ii) where as on the date of Balance Sheet, there is no credit in the account continuously for 90 days or credit is less than interest debited OR
   (iii) where stock statement not received for 3months or more.
3. Bills -If the bill remains overdue for a period of more than 90 days from due date of payment
4. Agricultural accounts – (i) if loan has been granted for short duration crop: interest and/or installment of principal remains overdue for two crop seasons beyond the due date.

(ii) if loan has been granted for long duration crop: interest and/or installment of principal remains overdue for one crop season beyond due date.

5. Decision about crop duration to be taken by SLBC.
6. Loan against FD, - Advances against term deposits, NSCs eligible for surrender, IVPs, NSC, KVP, LIP, KVPs and life policies not treated as NPAs provided sufficient margin is available.
   Advances against gold ornaments, govt securities and all other securities are not covered by this exemption.
7. Loan guaranteed - Loan guaranteed by Central Govt not treated as NPA for asset by Government classification and provisioning till the Government repudiates its guarantee when invoked. Treated as NPA for income recognition.
8. Consortium advances - Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks.

ASSET CLASSIFICATION

1. Asset Classification to be borrower-wise and not facility-wise

2. Assets classified into Standard, Sub standard, Doubtful, Loss. Except standard all others are NPAs.

3. When an account becomes NPA it is called Sub standard asset.

4. An account remains sub standard up to 12 months from the date of becoming NPA

5. Doubtful Assets : An asset is to be classified as doubtful, if it has remained NPA or sub standard for a period exceeding 12 months.

6. Loss Assets : A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

7. When an account is classified as Doubtful or Loss without waiting for 12 months: If in an account which was secured in the beginning, the realizable value of tangible security falls below10%of the outstanding, it should be classified loss asset without waiting for 12months

8. If the realizable value of security is 10% or above but below 50% of the outstanding, it should be classified as doubtful irrespective of the period for which it has remained, NPA.

PROVISIONING NORMS

1. Provisioning is made on all types of assets i.e. Standard, Sub standard, Doubtful and loss assets.

2. **Standard Assets :**

a. Direct advance to agriculture or Micro and Small Enterprise (Not medium) : 0.25%of outstanding;

b. Commercial Real Estate: 1%of outstanding;

c. Housing Loans with teaser interest rates: 2%of outstanding; All others: 0.4%of outstanding

d. The provisions on Standard Assets is shown as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.

3. **Sub Standard Assets:**

a. Secured sub standard: 15% of outstanding balance without considering securities available.

b. Unsecured sub standard: if the loan was unsecured from the beginning: 25%of outstanding balance.

c. If unsecured sub standard for infrastructure: 25%of outstanding balance.

d. Unsecured exposure means exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, *ab-initio,* of the outstanding exposure.

4**. Doubtful Assets:**

1. Unsecured portion:100%

2. Secured portion: 25% to 100% depending on the period for which account is doubtful

Age of Doubtful Asset	Provision as % of secured portion
Doubtful up to 1 year D1	25% of RVS (Realisable value of security)
Doubtful for more than 1 year to 3 years D2	40% of RVS
Doubtful for more than 3 years; D3	100% of RVS

5. Loss Assets: 100%of the outstanding amount.

6. If loan is guaranteed by ECGC, CGFT or CGFLHS, provision not on guaranteed portion

7. Provision on advance against FD, NSC, LIP, KVP as per their asset classification.

8. Overall provisions: Provisioning coverage ratio, including floating provisions, should not be less than 70 per cent.

9. Provisioning coverage ratio is the ratio of provisioning to gross NPAs.

10. Provision on Standard account to be kept as part of Other Liabilities in Schedule-5 of bank's balance sheet.

11. Provision on Standard accounts to be done on Global balance and for NPA accounts on Gross Balance

12. For Doubtful accounts, provision to be done separately for secured portion and unsecured portion of total balance in the account.

13. In case of standard and sub standard assets, provision is on outstanding balance without bifurcating the balance into secured or unsecured.

14. Floating provisions can be deducted from Gross NPAs or treated as part of Tier II capital but not both.

UPGRADATION OF LOAN ACCOUNTS CLASSIFIED AS NPAs

1. if arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account may be classified as 'standard' accounts immediately.

2. Restructured accounts: After one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during 12 months period from the date of starting payment after moratorium period.

Unit – 30 : Financial Inclusion & Financial Literacy

FINANCIAL INCLUSION

Financial inclusion or inclusive financing is the delivery of financial products, at affordable costs to sections of disadvantaged and low-income segments of society. It is in contrast to financial exclusion, where those services are not available or affordable.

As per United Nations, the goals of financial inclusion is, to ensure access to a full range of financial services, at a reasonable cost, to ensure continuity and certainty of investment.

India: RBI set up the Rangarajan Committee in 2004 to look into financial inclusion. Financial inclusion first featured in 2005 when Mangalam became the first village in India where all households were provided banking facilities.

RBI initiatives:

1. Opening of no-frills accounts (replaced by basic saving bank accounts)
2. Relaxation KYC norms for small deposit accounts.
3. Allowing engaging business correspondents (BCs)
4. Effective use of information and communications technology (ICT), to provide doorstep banking services
5. Implementation of electronic benefit transfer (EBT) by leveraging ICT-based banking 6. Issue of general credit cards for amount up to Rs.25000
7. Simplified branch authorization for tier III to tier VI centres (population of less than 50,000) under general permission

Financial Inclusion Index: On June 25, 2013, CRISIL, launched an index (Inclusix) to measure the status of financial inclusion in India. Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, in each of the 632 districts. It is a relative index on a scale of 0 to 100, and combines 3 critical parameters of basic banking services : branch penetration, deposit penetration, and credit penetration, into one metric.

RBI Roadmap for Financial Inclusion

Under RBI's earlier roadmap (of Sep 2010) 74,414 unbanked villages were allocated to banks for opening of banking outlets. Banks opened banking outlets in 74,199 (99.7%) villages by March 2012.

New roadmap: To take financial inclusion to the next stage of providing universal coverage and facilitating Electronic Benefit Transfer, banks have been advised) to draw up FIP for 2013-16 and disaggregate the FIPs to the controlling office and branch level. RBI advised State Level Bankers' Committees (SLBCs) to prepare a roadmap covering all unbanked villages of population less than 2000 and notionally allot these villages to banks for providing banking services, in a time-bound manner to provide with at least one banking outlet. The lead banks are to constitute a Sub-Committee of the District Consultative Committees (DCCs) to draw up a roadmap for provision of banking services in every village having a population below 2000 (2001 census) for providing banking services, in a time bound manner.

DIRECT BENEFIT TRANSFER (DBT) SCHEME

DBT is being rolled out in a phased manner (43 districts taken up in the first phase from January 1, 2013 and extended to 78 more districts from July 1, 2013). Eventually, all districts in the country would be covered under the DBT scheme.

To facilitate DBT for delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, banks were advised by RBI (May 10, 2013) to:

1. open accounts for all eligible individuals in camp mode with the support of local government authorities,

put in place an effective mechanism to monitor and review the progress in the implementation of DBT.•2. seed the existing -accounts or the new accounts opened with Aadhaar numbers and

SLBC Convenor Banks and Lead Banks should institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation.

The SLBC Convenor banks shall submit a monthly statement of district wise progress made in implementing DBT from the month ended April 30, 2013 by the 10th of the succeeding month to respective RBI Regional Office.

RBI initiatives :

(1) RBI has undertaken a project titled 'Project Financial Literacy' to disseminate information regarding banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

(2) RBI launched a financial education website on November 14, 2007.

(3) RBI circulated a comprehensive Financial Literacy Guide for conduct of Financial Literacy Camps & Financial Literacy. Material as also a Financial Diary and a set of 16 posters.

In terms of RBI circular dated Jun 06, 2012, all the Financial Literacy Centres and rural branches are required to prepare an annual calendar of locations for conduct of outdoor Financial Literacy Camps.

At every location, the program should be conducted in 3 stages to be spread over a period of 3 months comprising of 3 sessions of minimum 2 hours each plus a visit to ensure timely delivery of cards. 2nd, session is to be conducted a fortnight after first session. After 15 days of the second session, branch officials should visit the village to ensure delivery of cards to the villagers. They will also make sure that the BC has started operations and villagers are able to make transactions. 3rd Session is to be conducted, 2months after holding of second session.

PRADHANMANTRI JAN DHAN YOJANA

Prime Minister Narendra Modi on August 28 launched his government's mega scheme 'Pradhan Mantri Jan Dhan Yojana', an ambitious scheme for comprehensive financial inclusion. According to Prime Minister, in a country where 40 per cent of the population does not have access to banking services, this programme would mark the beginning of the end of "financial untouchability" and rid the country of poverty. The scheme has been started with a target to provide 'universal access to banking facilities'. On the inaugural day, a record 1.5 crore bank accounts were opened across the country, the largest such exercise on a single day possibly anywhere in the world. Currently, around 41% of the population is unbanked, of which 33% are in urban areas and 46% in rural. Salient points of Prime Minister's ambitious Jan Dhan Yojana are given below:

1. About 15 million accident insurance policies done on a single day and same number of bank accounts opened.

2. Programme held at around 77,000 locations.

3. Target to cover 7.5 crore households with at least one account will be achieved by Jan 26, 2015.

4. Coverage of all households with at least one basic banking account.

5. Account holders will be provided zero-balance bank account with RuPay debit card, in addition to inbuilt accidental insurance cover of Rs 1 lakh.

6. Additional Rs.30,000 free life assurance cover for those opening bank accounts before Jan 26, 2015.

7. Holders can avail overdraft of Rs 5,000 subject to satisfactory operations of the account for six months.

8. Universal access to banking facilities for all households through a bank branch or a fixed point business correspondent called "BankMitra".

9. Financial literacy to be imparted up to village level.

10. Under the Jan Dhan Yojana, all benefits from the Centre/states/local bodies are proposed to be transferred to the accounts of beneficiaries.

11. Platform has been built by the National Payment Corporation of India that connects all banks and all telephone networks in the country. With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone.

12. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

13. The second phase of rollout will involve providing micro-insurance to people and schemes like 'Swavalamban'.

14. Households being targeted instead of only being villages targeted earlier.

15. For the entire exercise, the existing banking network will be strengthened - it will rope in an additional 50,000 business correspondents and set up about 7,000 branches and 20,000 new automated teller machines, in the first phase.

16. PMJDY also aimed at eliminating corruption as it would facilitate routing of subsidies directly into the accounts of intended beneficiaries.

17. Presently, one account is being opened for one adult of each household and by 2018, the mandate is to make it two per household, with the compulsory inclusion of the lady of the house.

18. The government would institute a credit guarantee fund post-August 2015.

FINANCIAL LITERACY

The financial literacy or financial education stands for ability to know and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

It primarily relates to personal finance that enables individuals to take effective action to improve their overall wellbeing and avoid distress in financial matters.

Benefits: Financial literacy promotes financial inclusion and ultimately financial stability. In India, its need is even greater, due to low levels of literacy and the large section of the population, remaining out of the formal financial set-up.

Unit – 31 : Essentials of Bank Computerisation

The concept of Bank Computerisation practically started after 1980-81 and more precisely gained pace in the year 1983-84, after setting up a committee in the year 1983 under the chairmanship of the then Deputy Governor of RBI, Dr. C. Rangarajan.

Need for Computerisation

The four major objectives of computerisation in banking are to improve:

(a) customer service
(b) housekeeping
(c) decision-making
(d) productivity and profitability.

Stand-alone Computer System

The stand-alone computer system is used by only one person at a time.
Stand-alone systems are best suited for the decision-making process, which involves processing and analysis of data.
Today's stand-alone systems are also capable of handling multimedia, high-quality graphics, fax messages, etc.

Multi-user Systems

The multi-user systems are computers on which several people can work at the same time. Mini computers, Main Frame Computers, Micro-computers and the more powerful Super Computers all fall under this category.

Multi-user Computer Networking

a. In such a system computers are based on the centralised processing concept.

b. All information is kept and processed at the main central machines and various terminals are attached to the main computer.
c. The main computer can store a huge amount of information and possesses high-processing speeds enabling a large number of users to be connected to the main central computer.
d. Each user has his/her own terminal.
e. Most of the banking systems are developed using the centralized computing concept.

The advantages of using a centralised data processing system :

(a) availability of corporate level information at one location is possible
(b) cost of acquiring hardware, software and other infrastructure is more profitable than acquiring the same for individual departments
(c) due to the high volume of data processing the computing resources can be fully utilised
(d) technical manpower can also be efficiently managed at a central level
(e) costly resources like leased telephone lines, satellite links, etc., can be shared among the various departments Branch-level Computerisation

Computerisation at the branch level can be used to:

(a) Provide better and speedy customer service
(b) Improve housekeeping services
(c) Analyse the branch-level data for decision making
(d) Generation of various reports.

Total Branch Automation

a. This is a real time online banking.
b. Whenever a transaction is entered through a terminal, the transaction is recorded, verified and authenticated and all corresponding updates are reflected instantly.
c. Various outputs such as ledger extracts, passbooks, vouchers, statements of accounts of customers, etc., are generated online.
d. It is possible to provide the 'single window' transactions concept. That means a customer can approach any counter for completing all his or her transactions.
e. Off-site ATMs are also linked to the branch system to enable the customer to bank anytime/anywhere.
f. Software and hardware requirements depend upon the size of the branch.

Computerisation at Regional/Circle/Zonal Office

RO/ZO acts in between branches and the head office. The most common tasks performed by the regional office/zonal office are:

(a) branch profile
(b) inter-branch reconciliation

(c) credit monitoring
(d) personnel data management, etc.

Computerisation at Head Office Level

The head office of a bank is responsible for bank level planning, and control functions, policy decisions. The head office activities are divided into different functional areas like:

(a) operations
(b) planning
(c) personnel
(d) international business
(e) services, etc.

The computerisation at various functional areas may include application areas:

(a) personnel management and administrative support
(b) funds management
(c) investment portfolio management
(d) branch profiles
(e) credit information system, etc.

Local Area Network (LAN)

a. The computer network that links computers and peripherals within a localised area say, within a building is known as LAN.
b. Generally, LAN will not extend beyond 150 metres. However, it can be up to a maximum spread of 1 km and the number of devices supported may also vary from 2 to as many as 1000.
c. In LANs, each independent system is known as a node and when such nodes are interconnected, it is known as a LAN.
d. Usually, there will be one central node (Server) providing and controlling all the services of the network.
e. The client nodes route their requests to the server and obtain the necessary services.

Topology (Layout)

The way in which the devices are interconnected is known as topology

Bus Topology

a. All devices on the network are connected to a single continuous cable.
b. Transmission from any station travels the length of the bus in both directions and is received by all other stations.
c. The main advantage of bus topology is that it is quite easy to set up.
d. Further, if one station on the LAN fails, it will not affect the rest of the network
e. Data transmission is possible in one direction only

f. The breakdown of any one station on the ring can disable the entire LAN.

Star Topology

a. In a star topology, the central node is often the master.
b. Each of the other nodes is joined to the master by separate links.
c. It cannot handle large traffic as every transaction has to pass through the central node.
d. However, if one node fails, it will not affect the network.

Protocols

a. The protocols are the rules for communication between similar modules of processes, usually in different nodes.
b. Protocols define message formats and the rules for message exchange.
c. It controls priority and sequence of transmission, errors in transmission, and the process of beginning and concluding conversion.
d. The network protocols depend on the adapters. Some of the commonly used types of adapters are Ethernet and Token-Ring
e. A multiplexer is used to receive signals from several communication lines and pass on to one communication line and vice versa.

Network Operating System:

a. The function of the networking software is to set up some computers as hosts, or servers, and some computers as clients to those hosts.
b. The servers manage the printer sharing, file sharing and communications link sharing to their clients.

The advantages of using LANs in banks are that:

(a) The expensive resources such as computer hardware and software can be shared by several users. This brings down the overall cost of computerisation.
(b) The information stored on the host computer is available to all users of the system. Therefore, there is no necessity of duplication of databases.
(c) Since all the terminals are intelligent terminals, the processing load is shared between the various machines and there is no overloading on any single machine.

There are also a few shortcomings of a LAN, such as:

(a) Complicated software has to be installed for data management.
(b) Security risks are higher, since each user access the host computer independently.
(c) Maintenance cost of such a system is high, since it has to be done frequently.

Wide Area Network (WAN)

Wide Area Networks (WAN) are defined as a large-scale computer network spread over a span of sizeable geographic area, normally utilising the telecommunication network.

In the banking sector, the WANs are generally used to interconnect branches with the regional offices, and regional/zonal offices to head office, etc.

UNINTERRUPTED POWER SYSTEM (UPS)

Uninterrupted power system provides clean and reliable AC power to the computer systems protecting them from power blackouts, brownouts, swells, sags, surges, and interface.

In case of a power failure, the UPS attached with the file server automatically takes over the power supply to the file server or to the main computer to eliminate the chance of data loss.

CORE BANKING

In core banking, there is a central database for the bank and transactions are done centrally, online. It offers integrated products and services to customers round the clock.

Business Components

(a) To have retail customer banking modules
(b) Deposits, loans, bills, remittances, locker, clearing, etc.
(c) Trade finance/forex modules
(d) Government business modules
(e) To have corporate finance and service branch modules
(f) To have enhanced MIS modules
(g) To have modules for business intelligence
(h) To integrate with the existing ATMs, tele-banking, debit card, kiosks and other delivery Channels
(i) To have any branch banking, Internet banking and call centre
(j) To interface with existing corporate systems like treasury, IBR, centralised accounting system, HRMS, ALM, credit appraisal and management, credit monitoring and NPA management, etc.
(k) To interface with systems like NDS, SFMS, RTGS, CFMS, etc.

Benefits

(a) Enables the establishment of a reliable centralised data repository for the bank
(b) Facilitates data warehousing and data mining technologies for business intelligence
(c) Easy implementation of integrated customer centric services like online ATMs, telebanking, internet banking, any branch banking, kiosk banking, cash management services, etc.
(d) Enables centralised management information, decision support and executive information systems
(e) Efficient and effective MIS, ALM, risk management, etc., using the central data pool
(f) Enables centralised management and control with centralised data
(g) Standardisation of the branch automation software using a single version. Quick adoption of

software changes as changes are done only at the central site
(h) Facilitates business process re-engineering (BPR) to streamline the existing processes
(i) Relieves branches of jobs like data backup, MIS generation, etc.
(j) Requires infrastructure at the central location, backup location and at branches
(k) Servers are not mandatory at branch locations
(1) Attracts higher investment in the beginning
(m) Cost of implementation for further branches and delivery channels relatively cheaper
(n) Core infrastructure can be used for future expansions
(0) No extra cost for implementation of SFMS, RTGS, CFMS, etc.

Unit – 32 : Payment Systems and Electronic Banking

Automated Teller Machines (ATMs)

Automated Teller Machines (ATMs) are primarily used for performing some of the banking functions such as the withdrawal of cash or the deposit of cash/cheque, etc., by using an ATM card.

The committee headed by Dr. C. Rangarajan recommended the setting up of ATMs in India.

Convenience of ATMs

To the Customers:

(a) 24 x 7 access availability
(b) Less time for transactions (less queue)
(c) Privacy in transactions
(d) Any branch/anywhere banking enabled
(e) Acceptability of card across multiple bank ATMs, even foreign tourists can access Maestro/VISA / ATMs

To the Bank:

(a) Cost of setting up ATMs is lower than setting up a branch
(b) Migration of the routine transactions to the ATMs frees the bank staff for more productive work
(c) ATMs serve as the crucial touch point for cross-selling of the bank's products
(d) Enables the bank to display products on the screen and serves as a media for publicity for the bank
(e) Less hassle in handling cash.

The following components of the ATM provide the customer interface:

(a) Video Display Monitor
(b) Keyboard/Keypad
(c) Touch Screen
(d) Slots: There are slots in the ATM for various purposes as detailed below:
(i) Card Reader (ii) Cash Dispenser
(iii) Envelope Dispenser (iv) Deposit Slot

HWAK (The Intelligent Auto-teller and Netware Management System)

Intelligent auto-teller systems are a special breed of auto-teller machines capable of thinking for themselves, that means they are fast, impose less demands on your banking systems and serve the customers more like a personal banker than less sophisticated auto teller systems.

HWAK provides unsurpassed service even without benefit of a reliable communication network.

Benefits of HWAK are:

(a) Customer satisfaction.
(b) High availability
(c) Online and offline auto-recovery
(d) Anytime full banking service
(e) Low cost, shorter queues and less number of tellers with ease of use
(f) Quick and early implementation
(g) Enhanced security and audit control
(h) Network management
(i) Predictable cost of ownership
(j) Comprehensive 'One Stop' autobanking.

White Label ATM (WLA)

Traditionally, Automated Teller Machines (ATMs) have respective bank's logo. So just by looking, this is SBI's ATM, this is ICICI's ATM and so on.
But White label ATM doesn't have such Bank logo, hence called White label ATMs.
RBI has given license / permission to non-bank entities to open such ATMs.
Any non-bank entity with a minimum net worth of Rs.100 crore, can apply for white label ATMs. (not just NBFC, any non-bank entity can apply.)
Late 80s: first ATM in India; 2012: RBI issues guideline for White label; 2013: RBI gives license/permission.
Tata Communications Payment Solutions Limited =the first company to get RBI's permission to open White label ATMs.
They started their chain under brandname "Indicash".
Other White label= Muthoot Finance, Srei Infra., Vakrangee Software, Prizm Payments, AGS. More than 15 companies given such permission.

National Payments Corporation of India (NPCI)

National Payments Corporation of India (NPCI) was incorporated in December 2008 and the Certificate of Commencement of Business was issued in April 2009.
It has been incorporated as a Section 25 company under Companies Act and is aimed to operate for the benefit of all the member banks and their customers.
Presently, there are ten core promoter banks (State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank and HSBC).

RuPay

The Indian market offers huge potential for cards penetration despite the challenges. RuPay Cards will address the needs of Indian consumers, merchants and banks. The benefits of RuPay debit card are the flexibility of the product platform, high levels of acceptance and the strength of the RuPay brand-all of which will contribute to an increased product experience.

Lower cost and affordability :
Since the transaction processing will happen domestically, it would lead to lower cost of clearing and settlement for each transaction. This will make the transaction cost affordable and will drive usage of cards in the industry.

Customized product offering :
RuPay, being a domestic scheme is committed towards development of customized product and service offerings for Indian consumers.

Protection of information related to Indian consumers :
Transaction and customer data related to RuPay card transactions will reside in India.

Provide electronic product options to untapped/unexplored consumer segment :
There are under-penetrated/untapped consumers segments in rural areas that do not have access to banking and financial services. Right pricing of RuPay products would make the RuPay cards more economically feasible for banks to offer to their customers. In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments.

Inter-operability between payment channels and products :
RuPay card is uniquely positioned to offer complete inter-operability between various payments channels and products. NPCI currently offers varied solutions across platforms including ATMs, mobile technology, cheques etc and is extremely well placed in nurturing RuPay cards across these platforms.

Credit Card

a. It allows the cardholder to pay for goods and services based on the holder's promise to pay for them.
b. The issuer of the card creates a revolving account and grants a line of credit to the cardholder, from which the user can borrow money for payment to a merchant or as a cash advance.
c. The size of most credit cards is 3 3⁄8 × 2 1⁄8 in (85.60 × 53.98 mm).
d. It allows the consumers a continuing balance of debt, subject to interest being charged.

Charge Card

a. Transactions are accumulated over a period of time, generally a month and the total amount charged, i.e. debited to the account.
b. The credit card holder is given about 25 to 50 days' time to credit his account in case there are insufficient funds in his account at the time of debit.
c. Since the transactions are accumulated, it is only charged, i.e. not debited to the account immediately, such cards are called charge cards.

Debit Card

a. A debit card (also known as a bank card or check card) is a plastic payment card that provides the cardholder electronic access to their bank account(s).
b. Payments using a debit card are immediately transferred from the cardholder's designated bank account

Electronic Purse

Type of smart card which, with an embedded microchip, provides multiple options, such as debit card or credit card type payments.

Smart card

a. A smart card is a payment card embedded with a computer chip, essentially functioning like a mini-computer on a card. The memory and the computing power of the chip on the card could transform payments in many ways. The chip, a true technological breakthrough, holds at least 80 times more data than the magnetic stripe on existing credit cards.
b. Unlike the magnetic stripe, the chip can process data as well as store it, and because each program on the chip runs on independent software, several different programs can operate on the same card at the same time.
c. An added bonus: the smart card is a more secure method of payment that protects the cardholder's account information from fraudulent use.

Electronic Cheque

The smart card can be used during electronic fund transfer at the point-of-sales (EFTPOS). At a retailer's checkout, the card is placed in the reader, where it automatically goes through authentication sequences.

Electronic Cash

Funds can be loaded into a card for use as cash. This electronic cash can then be used for making purchases

Electronic Token

The principle here is that a prepaid area is set aside to store electronic units of time or electronic tickets, etc., for a specific service or item. Magnetic strip cards are often used with public telephones, parking meters and vending machines.

Anytime Banking

ATMs have eliminated the time limitations of customer service, and offer a host of banking services, including deposits, withdrawals, requisitions, instructions and transfers. HSBC Ltd., for instance, has taken the concept of remote banking further by providing a service called Hexagon, which allows the customer to access his accounts from a PC that is installed at his office or at his home - that is desktop banking - for the customer.

Anywhere Banking

With the introduction of ATMs and tele-banking, financial details can be accessed from remote locations and basic transactions can be effected even outside the bank.

Corporate Banking

At present, by utilising remote banking facility, corporate customers will be able to get the following services:

(a) Getting their current balance or getting their statement of accounts for any pre-defined period
(b) Ordering cheque books
(c) Ordering intra-bank and inter-bank fund transfers
(d) Instructing stop payments of cheques
(e) International remittances
(f) Opening letter of credits.

Cheque Truncation

Process of stopping the flow of the physical cheque issued by a drawer to the drawee branch.

The physical instrument will be truncated at some point en-route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc.

Mobile Banking

a. Undertaking banking transactions using mobile phones by bank customers that involve credit/debit to their accounts.
b. Only banks which are licensed and supervised in India and have a physical presence in India will be permitted to offer mobile banking services.
   Only banks who have implemented core banking solutions would be permitted to provide mobile banking services.
c. The services shall be restricted only to customers of banks and/or holders of debit/credit cards issued as per the extant Reserve Bank of India guidelines.
d. Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

Unit – 33 : Data Communication Network and EFT Systems

Data communication consists of various data communication components. It has three basic components.

1. Transmission Devices and Interface Equipment

Modem conversion between the digital and analog forms is carried out by an interface device called Modem

2. Transmission Medium

Terrestrial Cables

a. Twisted-wire Pair - A twisted pair consists of two insulated copper wires
b. Coaxial Cable - The Coaxial cable consist of an inner copper conductor held in position by circular spacers.
c. Optical Fibre - Optical fibre has been a technological breakthrough in communications. It supports data rate of 2 giga bits/sec. Fibre Optics provide high quality transmission of signals at very high speeds. Not affected by electromagnetic interference. The transfer of data is through very thin glass or plastic fibres with a beam of light. The light source is the laser beam driven by a high speed high current driver.

3. **Microwave System** microwave signals may be passed on to the satellite.

4. Transmission Processors

Message Switcher is used to store and forward data to large number of terminals over a single communication channel.

Multiplexer send more than one signal simultaneously over a single communication channel.

Front End Processors used to intercept and handle communication activities for the host computer. A device located at the site of the CPU or the host computer. It relives the computer of the communication tasks leaving it free for processing application programs.

Modes Of Transmission

Simplex – transmitting data in only one direction (commercial radio)
Half-Duplex – transmission is both directions, but in only one direction at a time. WALKY TALKY
Full Duplex – Simultaneous two-way transmission. MOBILE

Major Networks

INET
NICNET
INDONET

Emerging Trends in Communication Networks For Banking

RBI's VSAT Network
Internet – The connection to the host computer of the ISP is established through the interface protocol software, using following two protocols :

a. Serial Line Protocol (SLIP)
b. Point to Point Protocol (PPP)

Automated Clearing Systems

a. CHIPS - Clearing House Inter-bank Payment System
b. CHAPS – Clearing House Automated Payment System
c. CHATS – Clearing House Automated Transfer System

Two-Level Funds Transfer System

a. Fed Wire
b. Bank Wire
c. Point of Sale Systems

NationalElectronicFundsTransfer (NEFT)System

1. Amount - There is no minimum or maximum amount to be remitted.
2. Batches: The settlement of transactions is in batches.

3. Normally, the beneficiary should get credit within 2 hours from the time of completion of batch i.e. on B+2 basis on the same day.
4. Processing Charges/Service Charges: Upto Rs 10,000: Maximum Rs 2.5; Upto Rs 1 lac: Maximum Rs 5. More than 1 lac to Rs 2 lac: Rs 15; More than Rs 2 lac: Max Rs 25. (Service tax extra).

Update yourselves with latest charges.

6. Difference between IFS Code and MICR: Indian Financial System Code (IFSC) is an alpha numeric code designed to uniquely identify the bank-branches in India. This is 11 digit code with first 4 characters representing the banks code, the next character reserved as control character (Presently 0 appears in the fifth position) and remaining 6 characters to identify the branch. The MICR code has 9 digits to identify the bank-branch. IFSC code is printed on cheques leaves issued to their customers.

Real-Time Gross Settlement (RTGS) System

PI – Participant Interface.

a. The message is passed on by PI to IFTP (Inter – Bank Fund Transfer Processor) which acts as a broker.
b. RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.
c. This is the fastest possible money transfer system through the banking channel.
d. RTGS helps in preventing Systemic and Settlement Risks.
e. Minimum/maximum amount for RTGS transactions : Minimum amount : Rs 2 lakh; Max : No limit.

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Unit – 34 : Role of Technology Upgradation and its Impact on Banks

Data Warehouse: Data from heterogeneous sources is stored to generate critical information for decision support systems. The main characteristics of the data stored in a Data Warehouse are:

a. It is Subject-Oriented
b. It is integrated, and there are no inconsistencies
c. The data in a Data Warehouse is non-volatile
d. It is time variant

Data Warehouse can be established even across multiple computer platforms as long as the transaction details are made available to the data warehouse in standardized formats.

Data Mining is a technique to reveal the strategic information hidden in Data Warehouse(s). It helps in exposing the patterns that are critical to business and provide an advantage through insight and knowledge of:

a. Sound predictions of customer behavior
b. Highly targeted market focus
c. Maximized operational effectiveness
d. Optimal return on Investment.

Establishment of Data Warehouse : **Vasudevan Committee**

Data Mining techniques can be applied in Predicting future trends based on information available
Credit Risk Analysis

Analyzing demographic information about customers

Banks can use a corporate website for

a. Dissemination of information
b. Financial Advice
c. To highlight non-banking activities
d. A node for commerce
e. Selling financial products
f. Gateway to the internet
g. Account Services

Unit – 35 : Security Considerations

A typical computerised environment constitutes three independent but separate components Software, Hardware and Data

The Risks broadly lead to

a. Incorrect decision-making leading to setback to business
b. Interruption in activities due to loss of data, hardware, software, Peopleware.
c. Violation of Privacy
d. Direct Financial loss due to computer frauds.

The objective of Computer Auditing is:

a. Assets safeguarding
b. Preserving data integrity
c. Achieving system efficiency

Risk prone components in computerised systems

a. Errors and omissions in data and software
b. Unauthorised disclosure of confidential information
c. Computer abuse and mis-utilisation of banks assets

Effective Control Mechanism in computerised environment

a. Preventive
b. Detective
c. Corrective

Scope of System Audit is

a. Review of operations to establish compliance
b. Review of the adequacy of procedures and controls
c. Integrity review focused at fraud detection/prevention of IT system
d. **Audit Trail** is a chronological record of all events occurring in a system

Legal Framework for Electronic Transactions

Consequent upon the recognition given to the electronic records, electronic documents and electronic signatures, incidental amendments have also been made in the following acts:

a. The Indian Penal Code, 1860
b. The Indian Evidence Act, 1872
c. The Bankers' Books Evidence Act, 1891
d. The Reserve Bank Of India Act 1934

Unit 36 : Marketing – An Introduction

Marketing Management

Marketing (management) is the process of planning and executing the conception, pricing, promotion and distribution of goods, service, and ideas to create exchanges with target groups that satisfy customer and organizational objectives.

Functions of Marketing Management

Analysis
Planning
Implementation
Control

Characteristics of Services

1. Intangibility
2. Inseparability
3. Heterogeneity
4. Perishability

Physical Goods Services

1. Tangible Intangible
2. Homogeneous Heterogeneous
3. Production and Distribution are separated from consumption. Production, Distribution and Consumption are simultaneous process
4. A thing, an activity or process
5. Core value produced in factory Core value produced in buyer-seller interactions
6. Customers do not participate Customers participate in the production
7. Can be kept in stock cannot be kept in stock
8. Transfer of ownership No Transfer of Ownership

Unit 37 : Social Media Marketing

Social Media Marketing is a term used to describe marketing techniques that are focused on social media sites such as Twitter, FaceBook and Youtube etc,. It is actually using social media as a communications tool that makes the companies accessible to those interested in their product and make them visible to those who have no knowledge of their products.

Scope in Social Media Marketing

Social Media Marketing has a huge scope in India. As rightly pointed out by earlier user, Facebook has more than 20 million Indians. Most of the youth-focused brands already have an active social media presence. But the trend might not have caught the brands targeting other age segments.

We are seeing in explosion in internet penetration in India which in turn will propel growth in social media. We are seeing lots and lots of brands, both big and small, getting onto social media. If employed properly, it can even help start-ups rise to prominence.

Some of the popular Social Marketing Networks

1. Twitter. Perhaps the simplest of all social media platforms, Twitter also just happens to be one of the most fun and interesting. Messages are limited to 140 characters or less, but that's more than enough to post a link, share an image, or even trade thoughts with your favorite celebrity or influencer. Twitter's interface is easy to learn and use, and setting up a new profile only takes minutes.

2. Facebook. Considered to be synonymous with "social media" by some, Facebook is the one site where you're likely to find friends, colleagues, and relatives all floating around. Although Facebook is mainly centered around sharing photos, links, and quick thoughts of a personal nature, individuals can also show their support to brands or organizations by becoming fans.

3. LinkedIn. One of the only mainstream social media sites that's actually geared towards business,

LinkedIn is to cyberspace what networking groups once were to local business communities. It's great for meeting customers, getting in touch with vendors, recruiting new employees, and keeping up with the latest in business or industry news. If it matters to your company or career, you can probably do it on LinkedIn.

4. Xing. Another professional networking and recruitment site, Xing has the global presence and focus that LinkedIn lacks. Although it can be mistaken for a job search portal, the site actually has a number of features and communities that make it easy to develop relationships with suppliers, colleagues and even thought leaders within industry.

5. Google+. Social media's big up-and-comer has really arrived over the past few years. By combining the best of Facebook and Twitter into one site – and backing it by the power of the world's largest search engine, Google has given users a social site that has a little something for everyone. You can add new content, highlight topics with hashtags, and even separate contacts into circles. And, a G+ profile only takes a few minutes to get set up.

6. Pinterest. Serving as a giant virtual idea and inspiration board, Pinterest has made a huge impact on social media in the last few years. Especially popular with women and the do-it-yourself crowd, it lets you share pictures, creative thoughts, or (especially) before-and-after pictures of projects that others can pin, save, or duplicate.

7. YouTube. As a video sharing service, YouTube has become so popular that its catalog of billions and billions of videos has become known as "the world's second-largest search engine" in some circles. The site has everything from first-person product reviews to promotional clips and "how-two" instruction on virtually any topic or discipline. Users have the ability to share, rate, and comment on what they see.

8. Instagram. If you're looking for a quick, convenient connection between the camera feature on your smart phone and all your social profiles, then Instagram is the answer. Not only will allow you to share via Twitter, Facebook, and the Instagram website, you can choose from a variety of photo filters and invite friends to comment on your photos or ideas.

Banks in India and Social Media Marketing

Indian Banking Industry has shown a tremendous growth on Social Media platforms like Facebook, Twitter, YouTube etc. The Banking sector in India has proven that its not just about opening saving bank accounts, credit cards, investments, wealth management, mutual funds, insurance and so on. With the increasing growth in Social Media in India, banks have understood that likes, tweets, shares do matter to engage with the young generation.

With a more globalized approach and increasing competition, banks have increased their marketing budgets and Social Media is one of the major portion of it. There are banks that we have seen, using social platforms as another customer care, using them to showcase their thought leadership, using them to launch new products, endorsing celebrities and many more.

Social media is being used by businesses to discuss products and services. Consumers like to use services which not only tell them about themselves but also listen to them. A few private banks like ICICI and HDFC have begin to understand this shift and have started to be engaging rather than selling but majority of the banks in India still have a long way to go.

Unit 38 : Consumer Behaviour and Product

A **Product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Product Personality
The Core
The Associated Features
The Brand Name and Logo
The Package and Label

Product Levels
Product Categories
Product Item, Product Line and Product Mix
The Banking Product

Product Planning
The process of product planning consists of determining the strategies in respect of various elements:

a. Product Line
b. Product Mix
c. Branding
d. Packaging and New Product Development

Product Life Cycle
a. Introduction
b. Growth
c. Maturity
d. Decline

New Product Development

The Process of product Development comprises five main stages:
a. Idea Screening
b. Concept Testing
c. Product Development

d. Test Marketing
e. Commercial Launch

Diversification

Diversification refers to entering attractive opportunities which are outside the existing businesses of the firm. Three types of diversification

a. Concentric Diversification
b. Horizontal Diversification
c. Conglomerate Diversification

Other Aspects of Product Development

a. Branding
b. Line Extension
c. Brand Extension
d. Multibrands
e. New Brands

Packaging

a. Primary Package
b. Secondary Package
c. Shipping Package

Unit 39 : Pricing

Cost Based Pricing
Value Based Pricing
Competition Based Pricing
Group Pricing

1. Mark up Pricing
2. Absorption Cost Pricing
3. Target-return Pricing
4. Marginal Cost Pricing
5. Perceived value pricing
6. Value Pricing
7. Going – Rate Pricing
8. Auction- Type Pricing

English Auctions
Dutch Auctions
Sealed – bid Auctions

Pricing Strategies

1. Geographical Pricing: different locations, different prices, cost of transportation included.
2. Price Discounts and Allowance : Cash Discount, Quantity Discount, Functional Discount, Seasonal Discount
3. Psychological Pricing: To many consumers think that higher priced product to be of better quality. By setting the price in particular range sellers can create an impression about the product belongs to the particular class
4. Promotional Pricing :
5. Discriminatory Pricing: when different prices are changed to different buyers.
6. Product-Mix Pricing :
7. Market-skimming Pricing: Product is initially priced higher, and over a period of time it is reduced to attract more buyers, with a view to 'skimming' the revenues layer to layer from the market.
8. Market-penetration Pricing: Setting the price low initially in order to penetrate the market quickly and deeply attracting a large market share.

Unit 40 : Distribution

Functions of Distribution Channel

Market Information
Promotion
Contact
Matching
Negotiation
Product Information
Physical Distribution
Financing
Risk Taking

Channel Types

Following factors influenced producers to select the channels for distribution.

Product Characteristics
Market Characteristics
Customer Characteristics
Company Resources
Competition
Product Lines

Unit 41 : Channel Management

Channels for Banking Services

The following factors affects the channel decision

Intangibility
Inseparability
Variability
Perishability
Client Relationship

Channels

1. **Branches** are the primary distribution outlets for banking services. These are fixed in location and customer is required to visit the branches.

2. Other Channels

Tele-banking and Call Centres
ATMS
Personal Computer
Plastic Cards
Virtual Branches

3. Intermediaries in Banking Services

Direct Sales Agents
Automobile Dealers
Merchant Establishments

Unit 42 : Promotion

Role of Promotion in Marketing

Promotion is the exercise of communicating the properties of different elements of marketing mix to the customers with the motto of influencing them. This involves the following aims:

a) Persuasion
b) Inform
c) Reminding
d) Reinforcing

Promotion Mix

The promotion mix comprises the following tools:

Advertising
Sales Promotion
Public Relations
Personal Selling
Direct Marketing

Promotion-mix Strategies

There are two basic promotion-mix strategies

Push Strategy – promotion efforts are directed at the channel members to induce them to purchase the products and sell them to the final customer.

Pull Strategy - promotion efforts are directed to the final consumer to induce them to buy the product

Factors influencing the Promotion Mix

Three major factors affecting the choice of promotion mix are

Type of Product / Market
Buyers' Readiness Stage
Product Life Cycle Stage

Unit 43 : Role of Direct Selling Agent/Direct Marketing Agent in a Bank

Roles and Responsibilities of Direct Selling Agent/Representative

In The primary responsibility of the Banking Direct Selling Agent/Representative is branch management and in-branch services, teller and platform services, financial product sales, customer services, and management of lending risk to retail customer base. He builds a client base for banking direct sales through prospecting, networking, and referrals.

A typical job description for the Banking Direct Selling Agent Representative role may include:

1. Develops new business prospects in specific geographic areas through cold calls.
2. Interacts with existing customers to increase sales of the bank's products and services.
3. Requires a high school diploma or equivalent and 2-4 years of experience in the field or in a related area.
4. Familiar with standard concepts, practices, and procedures within a particular field.

IBA Model Code of Conduct for Direct Selling Agents

1. Tele-calling a Prospect (a prospective customer)

A prospect is to be contacted for sourcing a bank product or bank related product only under the following circumstances:
a. When prospect has expressed a desire to acquire a product through the bank's internet site/call centre/Branch or through the Relationship Manager at the bank or has been referred to by another prospect/customer or is an existing customer of the bank who has given consent for accepting calls on other products of the bank.
b. When the prospect's name/telephone no/ address is available & has been taken from one of the lists/directories/databases approved by the DSA Manager/Team leader, after taking his/ her consent.

The TME should not call a person whose name/number is flagged in any "do not disturb" list made available to him/her.

2. When you may contact a prospect on telephone

Telephonic contact must normally be limited between 0930 Hrs and 1900 Hrs. However, it may be ensured that a prospect is contacted only when the call is not expected to inconvenience him/her.

Calls earlier or later than the prescribed time period may be placed only under the following conditions:

When the prospect has expressly authorized TME/BDE to do so either in writing or orally

3. Can the prospect's interest be discussed with anybody else?

DSA should respect a prospect's privacy. The prospect's interest may normally be discussed only with the prospect and any other individual/family member such as prospect's accountant/secretary /spouse, authorized by the prospect.

4. Leaving messages and contacting persons other than the prospect.

Calls must first be placed to the prospect. In the event the prospect is not available, a message may be left for him/her. The aim of the message should be to get the prospect to return the call or to check for a convenient time to call again. Ordinarily, such messages may be restricted to:

Please leave a message that ______________ (Name of officer) representing Axis Bank called and requested to call back at __________ (phone number)".

As a general rule, the message must indicate:
That the purpose of the call is regarding selling or distributing a bank product of Axis Bank

5. No misleading statements/misrepresentations permitted

TME/BDE should not -
• Mislead the prospect on any service / product offered;
• Mislead the prospect about their business or organization's name, or falsely represent themselves.
• Make any false / unauthorised commitment on behalf of Axis Bank for any facility/service.

6. Telemarketing Etiquettes

PRE CALL

No calls prior to 0930 Hrs or post 1900 Hrs unless specifically requested.

- No serial dialing
- No calling on lists unless list is cleared by team leader

DURING CALL

- Identify yourself, your company and your principal
- Request permission to proceed
- If denied permission, apologize and politely disconnect.
- State reason for your call
- Always offer to call back on landline, if call is made to a cell number
- Never interrupt or argue
- To the extent possible, talk in the language which is most comfortable to the prospect
- Keep the conversation limited to business matters
- Check for understanding of "Most Important Terms and Conditions" by the customer if he plans to buy the product
- Reconfirm next call or next visit details
- Provide your telephone no, your supervisor's name or your bank officer contact details if asked for by the customer.
- Thank the customer for his/her time

POST CALL

- Customers who have expressed their lack of interest for the offering should not be called for the next 3 months with the same offer
- Provide feedback to the bank on customers who have expressed their desire to be flagged "Do Not Disturb"
- Never call or entertain calls from customers regarding products already sold. Advise them to contact the Customer Service Staff of the bank.

7. Gifts or bribes

TME/BDE's must not accept gifts from prospects or bribes of any kind. Any TME/BDE offered a bribe or payment of any kind by a customer must report the offer to his/her management.

8. Precautions to be taken on visits/contacts

BDE should :

- Respect personal space - maintain adequate distance from the prospect.
- Not enter the prospect's residence/office against his/her wishes;
- Not visit in large numbers - i.e. not more than one BDE and one supervisor, if required.
- Respect the prospect's privacy.
- If the prospect is not present and only family members/office persons are present at the time of the visit, he/she should end the visit with a request for the prospect to call back.
- Provide his/her telephone number, supervisor's name or the concerned bank officer's contact details,

if asked for by the customer.
• Limit discussions with the prospect to the business - Maintain a professional distance.

9. Other important aspects - Appearance & Dress Code

BDE's must be appropriately dressed -
For men this means
- Well ironed trousers;
- Well ironed shirt, shirt sleeves preferably buttoned down.

For women this means
- Well ironed formal attire (Saree, Suit etc.);
- Well groomed appearance.

Jeans and/or T Shirt, open sandals are not considered appropriate.

10. Handling of letters & other communication
Any communication sent to the prospect should be only in the mode and format approved by the Bank.

Unit 44 : Marketing Information System

Need of MIS

a) Complex marketing activity
b) Knowledge / information explosion
c) Communication Gap
d) Prompt Decisions
e) Non-Price Competition

Kind of Information needed

Information about market forces
Information about the bank's market behaviour
Internal Information

Components of MIS

MIS consists of four subsystems, which facilities the entire MIS system.

a) Internal Record System
b) Market Intelligence System
c) Marketing Research System
d) Marketing Management and Science System

Module - E : Ethics in Banks and Financial Institutions

Ethics, Business Ethics & Banking: An Integrated Perspective

Ethics is a subject of social science that is related with moral principles and social values. Ethics is the branch of philosophy that deals with values relating to human conduct. Specifically, that human conduct that deals with the rightness and wrongness of certain actions and the goodness and badness of the motives and outcomes of such actions

Ethics is the study of right and wrong; 'the moral choices people make and the way in which they seek to justify them. Ethics involves judgments as to good and bad, right and wrong, and what ought to be. Ethics can be distinguished from "morals", which are rules or duties that govern our behavior as persons to persons (such as "do not tell lies" or "do not hurt another person") and "values", which are ends or goals sought by individuals (such as health or happiness)

Ethical theories may be divided in to two categories: conseqentialist and deontological. The distinction between two theories is actually based on the way they define the very sense, objective and principles of morality, for instance, conseqentialist theories determine the ethics of an act by looking to consequences of decision (the ends), While deontological theories determine the ethics of an act by looking to very sense of duty and the process of the decision (the means).

Conseqentialist Ethical System
The key points, which actually build the structure of Conseqentialist Ethical System, are as follows:

- Principle of Utility
- Psychological Hedonism
- Types of Utilitarianism: Act Based, Rule Based, and Preference Based
- Quantitative and Qualitative Notion of Pleasure (Utility)

Utilitarianism: Based on the utilitarian account we can extract some important features for a standpoint, as follows:

- An ethical principle should be practical as well as it should take the human nature, conditions, and consequences in the account of morality
- An ethical principle should work for the general maximization of good
- An ethical principle should give importance to quality of good as well as it should take rules and preferences in the account of morality

Deontological Ethical System
The key points, which actually build the structure of deontological (Kantian) ethical system, are as follows:

- Reason: Theoretical and Practical Reason
- Apriority: Necessity and Universality
- Imperative: Categorical and Hypothetical, Supreme Moral Principle
- Good Will: Duty and Inclination
- Phenomenal World and Noumenal World

Kantianism: Based on the Kantian account we can extract some important features for a standpoint, as follows:

- An ethical principle should be based on objective and rational reasons
- An ethical principle should provide freedom to agent to perform the actions
- An ethical principle should treat humanity (society) as well as environment as ends in themselves

Business Ethics
'Business Ethics' can be termed as a study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.

Businesses must abide by some basic principles. It should provide quality goods and services at reasonable prices to their consumers. It must also avoid adulteration, misleading advertisements, and other unfair malpractices.

A business must also perform other duties such as distributing fair wages, providing good working conditions, not exploiting the workers, encouraging competition, etc.

Business Ethics - Definition
There are many definitions of business ethics, but the ones given by Andrew Crane and Raymond C. Baumhart are considered the most appropriate ones.

According to Crane, "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed."

Baumhart defines, "The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly."

Business ethics/corporate ethics are practically concerned with the entire gamut of functions of an organization which scrutinizes and sets the codes related to the moral/ethical principle to find the solutions to the problems faced by an employee in specific and the organization in general.

Business ethics are related to-

- morally right and wrong behavior,
- in the business context,
- including questions of fairness, justice, and equity,
- that which require application of moral standards by persons in the organizations
- the moral standards that are not separate, but derived from society

Features of Business Ethics

There are eight major features of business ethics:

- Code of Conduct: Business ethics is actually a form of codes of conduct. It lets us know what to do and what not to do. Businesses must follow this code of conduct.
- Based on Moral and Social Values: Business ethics is a subject that is based on moral and social values. It offers some moral and social principles (rules) for conducting a business.
- Protection to Social Groups: Business ethics protect various social groups including consumers, employees, small businesspersons, government, shareholders, creditors, etc.
- Offers a Basic Framework: Business ethics is the basic framework for doing business properly. It constructs the social, cultural, legal, economic, and other limits in which a business must operate.
- Voluntary: Business ethics is meant to be voluntary. It should be self-practiced and must not be enforced by law.
- Requires Education & Guidance: Businessmen should get proper education and guidance about business ethics. Trade Associations and Chambers of Commerce should be active enough in this matter.
- Relative Term: Business ethics is a relative term. It changes from one business to another and from one country to another.
- New Concept: Business ethics is a relatively newer concept. Developed countries have more exposure to business ethics, while poor and developing countries are relatively backward in applying the principles of business ethics.

Principles of Business Ethics

The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows:

- **Avoid Exploitation of Consumers:** Do not cheat and exploit consumer with measures such as artificial price rise and adulteration.

- **Avoid Profiteering:** Unscrupulous business activities such as hoarding, black marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.
- **Encourage Healthy Competition:** A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.
- **Ensure Accuracy:** Accuracy in weighing, packaging and quality of supplying goods to the consumers has to be followed.
- **Pay Taxes Regularly:** Taxes and other duties to the government must be honestly and regularly paid.
- **Get the Accounts Audited:** Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.
- **Fair Treatment to Employees:** Fair wages or salaries, facilities and incentives must be provided to the employees.
- **Keep the Investors Informed:** The shareholders and investors must know about the financial and other important decisions of the company.
- **Avoid Injustice and Discrimination:** Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.
- **No Bribe and Corruption:** Do not give expensive gifts, commissions and payoffs to people having influence.
- **Discourage Secret Agreement:** Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.
- **Service before Profit:** Accept the principle of "service first and profit next."
- **Practice Fair Business:** Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.
- **Avoid Monopoly:** No private monopolies and concentration of economic power should be practiced.
- **Fulfil Customers' Expectations:** Adjust your business activities as per the demands, needs and expectations of the customers.
- **Respect Consumers Rights:** Honour the basic rights of the consumers.
- **Accept Social Responsibilities:** Honour responsibilities towards the society.
- **Satisfy Consumers' Wants:** Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have this aim.
- **Service Motive:** Service and consumer's satisfaction should get more attention than profit-maximization.
- **Optimum Utilization of Resources:** Ensure optimum utilization of resources to remove poverty and to increase the standard of living of people.
- **Intentions of Business:** Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

Follow Woodrow Wilson's rules: There are four important principles of business ethics. These four rules are as follows:

- **Rule of publicity:** According to this principle, the business must tell the people clearly, what it tends to do.
- **Rule of equivalent price:** The customer should get proper value for their money. Below standard, outdated and inferior goods should not be sold at high prices.
- **Rule of conscience in business:** The businesspersons must have conscience while doing business, i.e. a morale sense of judging what is right and what is wrong.
- **Rule of spirit of service:** The business must give importance to the service motive.

Example of Unethical Business Practices

Satyam Computers, a global IT company, was defamed in a notorious list of companies involved in fraudulent financial activities. The list includes names such as Enron, WorldCom, Parmalat, Ahold, Allied Irish, Bearings and Kidder Peabody.

Satyam's CEO, Ramalinga Raju, accepted his role in a broad accounting impropriety that had overstated the company's net revenue and profit. The company had earlier reported a cash reserve of approximately $1.04 billion that actually existed only in books but not in reality.

In his letter to his board, exposing the fraud, Satyam's Raju showed the propensity of the fraud. He stated that, "What started as a marginal gap between actual operating profits and ones reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions." Later, he described the process as "like riding a tiger, not knowing how to get off without being eaten."

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Ethics at the Individual Level

Ethics

Ethics is the science of morals; it is that branch of philosophy that deals with human character and conduct. It is treaties on morals distinguished between right and wrong. The ethical conduct confirms with what a group or a society considers "right behavior". It is a set of moral choices, rules and codes of conduct that governs behavior.

Theoretical ethics, sometimes called normative ethics, is about discovering and delineating right from wrong; it is the consideration of how we develop the rules and principles (or norms) used to judge and guide meaningful decision-making. Theoretical ethics is supremely intellectual in character, and, being a branch of philosophy, is also rational in nature. Theoretical ethics is the rational reflection on what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behavior. Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Norms

Norms are expectation of proper behavior not the requirement of that behavior. Norms are the ways an individual expects all the people to act in a given situation. They are inconsistent and universal. Norms are not published, may not be obeyed and cannot be enforced except by sanctions of a group who use penalties as disapproval or exclusion.

Norms are informal guidelines about what is considered normal (what is correct or incorrect) social behavior in a particular group or social unit. Norms form the basis of collective expectations that members of a community have from each other, and play a key part in social control and social order by exerting a pressure on the individual to conform.

Values

Values are collective representations of what constitutes a good life or a good society. For e.g. health, self respect, tolerance, freedom etc. values is a term referring to things that people consider good or bad, right or wrong, desirable etc. Values are the potent source of conflict and cooperation.

Values are important and lasting beliefs or ideals shared by the members of a culture about what is good or bad and desirable or undesirable. Values have major influence on a person's behavior and attitude and serve as broad guidelines in all situations.

Belief

Beliefs in an ethical code are standards of thought. Beliefs are criteria of abstract thought that does not necessarily evoke action. It may instigate or forces certain quest in the environment that coheres one to behave in a certain manner. Beliefs are among the most primitive and central of mental constructs, and yet there is little agreement as to what they are or how they should be construed. They are basic to our understanding of a wide range of central phenomena in modern psychology. For example our beliefs are key components of our personalities and senses of identity, and our expressions of beliefs often define us to

Integrity

Integrity, said author C.S. Lewis, "is doing the right thing, even when no one is looking." Integrity is a foundational moral virtue, and the bedrock upon which good character is built. Acting with integrity means understanding, accepting, and choosing to live in accordance with one's principles, which will include honesty, fairness, and decency. A person of integrity will consistently demonstrate good character by being free of corruption and hypocrisy.

Integrity is revealed when people act virtuously regardless of circumstance or consequences. This often requires moral courage. Indeed, integrity is the critical connection between ethics and moral action.

Honesty

Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.

Promise-Keeping & Trustworthiness

Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.

Loyalty

Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage.

They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.

Fairness

Ethical executives and fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor indecent means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties.

Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, the they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.

Concern for Others

Ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule, help those in need, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

Respect for Others

Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.

Law Abiding

Ethical executives abide by laws, rules and regulations relating to their business activities.

Commitment to Excellence

Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavor to increase their proficiency in all areas of responsibility.

Leadership

Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

Accountability

Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

Morals

Morals are the prevailing standards of behavior that enable people to live cooperatively in groups. Moral refers to what societies sanction as right and acceptable.

Most people tend to act morally and follow societal guidelines. Morality often requires that people sacrifice their own short-term interests for the benefit of society. People or entities that are indifferent to right and wrong are considered amoral, while those who do evil acts are considered immoral.

While some moral principles seem to transcend time and culture, such as fairness, generally speaking, morality is not fixed. Morality describes the particular values of a specific group at a specific point in time. Historically, morality has been closely connected to religious traditions, but today its significance is equally important to the secular world. For example, businesses and government agencies have codes of ethics that employees are expected to follow.

Some philosophers make a distinction between morals and ethics. But many people use the terms morals and ethics interchangeably when talking about personal beliefs, actions, or principles. For example, it's common to say, "My morals prevent me from cheating." It's also common to use ethics in this sentence instead.

So, morals are the principles that guide individual conduct within society. And, while morals may change over time, they remain the standards of behavior that we use to judge right and wrong.

Conflict of Interest

A conflict of interest arises when what is in a person's best interest is not in the best interest of another person or organization to which that individual owes loyalty. For example, an employee may simultaneously help himself but hurt his employer by taking a bribe to purchase inferior goods for his company's use.

A conflict of interest can also exist when a person must answer to two different individuals or groups whose needs are at odds with each other. In this case, serving one individual or group will injure the other.

In business and law, having a "fiduciary responsibility" to someone is known as having a "duty of loyalty." For example, auditors owe a duty of loyalty to investors who rely upon the financial reports that the auditors certify. But auditors are hired and paid directly by the companies whose reports they review. The duty of loyalty an auditor owes to investors can be at odds with the auditor's need to keep the company – its client – happy, as well as with the company's desire to look like a safe investment.

So, those of us who wish to be ethical people must consciously avoid situations where we benefit ourselves by being disloyal to others.

Dilemma

A dilemma is a tough choice. When you're in a difficult situation and each option looks equally bad, you're in a dilemma.

Dilemma is from a Greek for "double proposition." It was originally a technical term of logic, but we use it now for any time you have a problem with no satisfactory solution. If you're at the mall choosing between red or blue socks, that's not really a dilemma. But if you have to choose whether to save your cat or your dog from a burning building, that's an awful dilemma.

Decision-Making Models: The Golden Rule

This most basic and useful ethical theory, sometimes called the "Rule of Reciprocity," has a long history:

Confucius (500 B.C.): "What you do not want done to yourself, do not do to others."
Aristotle (325 B.C.): "We should behave to others as we wish them to behave to us."
From the Mahabharata (200 B.C.): "Do nothing to thy neighbor which thou wouldst not have him do to thee thereafter."
Jesus (30 A.D.): "As ye would that men should do to you, do ye also to them likewise."
The Golden Rule is valid for a great range of decisions, personal or professional. Even in the most difficult situation, application of the "do unto others" standard often reveals what actions are ethical and which are not. If you don't want to be deceived, don't deceive others. If you want others to keep their commitments to you, keep your commitments to them.

Treating others Better Than They Treat You

Cynics claim that the Rule will not work in the "real world." They suggest that to survive one must "do unto others before they do unto you." This, of course, becomes a self-fulfilling prophesy fueling an anti-ethical, everyone-for-himself ethos. Of course, many people do not live by the Golden Rule; they do not treat others fairly, honestly or with compassion. The challenge to an ethically committed person is to overcome this fact of life and do what is right in spite of, even because of, the failure of others to do so.

Shortcomings

The Golden Rule, however, falters in situations that involve a complex network of stakeholders with conflicting interests. It provides no guidance on how to choose among them.

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Ethical Behavior at the Workplace

What does it mean to be unprincipled in the workplace? It may comprise taking individual phone calls during your duty time; declaring that the "check is in the mail," when it is still in the making; and even stealing office supplies for personal use.

Organizations typically create an ethical standards' code or a manual is handed over when a new employee joins, which usually lists the rules and strategies which needs to be followed at all times.

Many problems prevent business people from being totally ethical, consistent, and fair. Ethics is a lively issue and occasionally it is difficult to decide at the specific moment what is considered ethical and what is not.

Ethical Lapses and Organizational Culture

Business ethics comprises human abilities of, and it does not offer the good qualities. So, if a businessman is overwhelmed, there is a chance that ethical rules will be abnormal. It is known as "ethical lapse," which is a short-term and quite rare occurrence.

Ethics at an individual level may seem to involve only the individual but it is a holistic process. There may be high pressure from co-workers, managers, or any other constituent of business culture to be unethical.

Basic Attributes of Ethical Workers

To be moral in the workplace, the workers must have some common attributes. The most powerful attributes are the resulting −

Dedication

Dedication is one of the most significant qualities of an ethical worker. Companies do seek consequences, but most companies look for an truthful effort from employees who can be considered a “natural” at the job. When an employee joins the workforce, he/she is agreeing to offer the best for helping the company to flourish.

Integrity

Integrity, or showing truthful behavior at all times, is a very significant attribute. Honesty might mean, being honest in reporting or being transparent while reporting cash transactions.

Accountability

Accountability worth to be responsible towards the time and duty during working hours. It also means tolerant responsibility, gathering yourself and willingly working towards an acceptable resolution. Taking initiative and being punctual also comes under this purview.

Collaboration

Teamwork and collaboration are appreciated attributes. As greatest companies believe that if confidence is high and everyone co-works, success will follow. So, it is important for employees to be team players.

Conduct

Employee conduct is a exact significant value in ethics. Workers must treat others with respect, and show suitable behavior. Wearing proper attire, using fine language and conducting them with professionalism are part of the job.

Being a Better Worker

Understanding how to be a healthier person in the workplace is a good starting point for a commitment to always doing the right thing.

Trusting Relationships

It is vital to build trust in office relationships. By letting people to open up, share info and feel relaxed in communicating are signs of a trustworthy employee. Morality, fairness and avoiding rumors are some basic qualities.

Team Cohesiveness

The ethical promises of workers have a optimistic effect on team and section performance apart from enhancing individual performance. An ethical worker is a better team player, who continuously makes positive aids for teams and never hinders the group progress.

Value to Employers

Trust in their workers is a very significant excellence of companies. An unethical employee can drive entire company in legal trouble, or it can destroy the hard-earned reputation. Ethical employees working for any company are the employees who adhere to ethics policies and use ethical reasoning in making decisions.

Personal Wellness

Ethical employees continuously raise value of an employer in public domain. Unethical acts can weigh people down with guilt and paranoia, making them hostile and fearful. Workers who spread unethical rumors or lies about others can have a paranoia as they try to remember which lies they told to whom and when.

Core Values

According to Martin Seligman, some core good values influence ethical behavior and appear to have universal appeal. These are −

Wisdom and Knowledge

The aptitude to gather information and change it to something valuable is a great quality. Wisdom is exploiting one's knowledge to interpret information and being knowledgeable to produce wise decisions. A prerequisite to be knowledgeable is knowing what to do and being able to differentiate between the right and wrong.

Self-Control

It is significant to have the aptitude to avoid unethical temptations. The choice to take the ethical path needs sufficient commitment to the value of good ethics. Ethical people usually say "no" to the individual gain if it is irrelevant to institutional benefit and goodwill.

Justice and Fair Guidance

Fair action of people is significant. Justice is helped when a fair return is increased in return for the energy and effort expended. Certain persons give special treatment without regard to objective criteria by which to judge fairness.

Transcendence

It is the credit of to some degree beyond oneself more permanent and powerful than the self. When one lacks perfection, he may tend towards self-absorption. Leaders driven by self-interest and the exercise of personal power have limited effectiveness and authenticity.

Love and Kindness

The appearance of love and kindness is all the time productive. Research shows that there are different types of "love." In an organizational context, love means intense positive reaction to co-workers, groups and/or situations. An organization "with heart" allows love, compassion and kindness among and between people.

Courage and Integrity

It is vital to have the bravery to act morally and with honesty. These values let us choose right from wrong and acting consequently. They urge one to act in the right manner without seeing personal consequences, even when it is tough and needs kindness.

Ethical Dimensions: Employees

Employees frequently need to make numerous moral decisions in the workplace. Though numerous of these workplace choices have to be made depending on moral duties, some ethically tolerable choices may require bravery and need to be performed beyond the usually accepted norms.

While discussing workplace ethics, six predominant subjects are of primary importance. These are :

- Obligations to the firm
- Abuse of one's position
- Bribery and kickbacks
- The obligations to third parties

- Whistleblowing
- Employee's self-interest

Obligations to the Firm

Employees are appointed for the company's tasks. The employees may obligate themselves to do the work of the specific company for financial gains. The employers frequently have many conditions to employment which the employee has to follow. These may include dress codes and respectful behavior.

Loyalty to the Company

Maximum people have a standpoint that employees must have some moral duties to stay loyal to their organizations. It is true that employees are obligated to do the tasks offered to them, but is it satisfactory to have an obligation to work for the company in a manner that is beyond the assigned jobs?

Many employers may think so, but is not stated wherever. The employees are not bound or obligated to have any kind of loyalty to the employers. But on a moral ground, loyalty to the company is often considered to be a good thing and it is plausible that the loyalty is rewarded through pay-raises, promotions, and good recommendations etc.

Conflicts of Interest

Employees can have a battle of interest with the company. Some of these fights of interest are trivial and include general workplace conditions or situations. Though, some other fights may be serious and can let the employees to show disloyalty.

Usually, employees must avoid important battles of interest by not involving themselves in disloyal activities. Though, it is difficult enough to decide when a conflict is significant and it may not always clear what employees should do besides resisting the temptation to be disloyal.

Abuse of Official Position

By means of the official position for private or personal gains is often measured as an abuse of power. Such abuse can result from unfaithfulness.

Insider Trading

Insider trading happens when a member has admission to company information that's typically unavailable to the public and can have an impact on the stock prices. For instance, certain employees may come to know that their company is going to be broke before general public and they can sell all their stock. People who tend to buy the stocks will be betrayed. It is also a kind of insider trading to encourage near ones to sell their stock having such "insider information."

Proprietary Data

Companies can frequently have "trade secrets" which they don't want to share with other organizations, and a small number of employees may divulge such information to the benefit of competing organizations which is unethical.

Three main arguments why trade secrets should be protected by the law are −

- These are intellectual property.
- Trade secrets theft is wrong.
- Stealing trade secrets is a violation of the confidentiality terms.

Sharing trade confidences and following privacy information is a difficult moral issue. People have the right to seek and advance employment and it is not easy to separate proprietary information from a worker's own skills and technical knowledge.

Bribes and Kickbacks

Corruption is aimed to letting somebody to act against their duties. Bribes can be very thoughtful when it can injure people. Kickbacks are also a form of bribery that involves a person to uses his/her position to benefit a party or someone.

Bribing foreign officers for favors could harm people. Though, examples of bribing are many and they comprise both large and small organizations.

Gifts and Entertainment

Gifts and entertainment may be used to prize and inspire certain behavior from workers. This can outcome in a conflict of interest. Entertainment isn't as likely to be ethically wrong if allowed to be used according to ethical standards.

The resulting considerations may be considered while judging the ethics of gifting −

- The Price of the Gift − Gifts of huge prices are more likely a bribe.
- The Purpose of the Gift − Gift can be used to encourage, for advertising, or as a bribe.
- The Circumstances − A gift given at a special occasion is different than a gift on non-special occasions, and a gift given openly is more ethical.
- The Position of the Person Receiving the Gift − A person in a position to reciprocate is more likely to be taking a bribe.
- The Accepted Practices − Gifts as "tips" for a waiter or waitress is norm, but to a CEO; it is clearly unethical.
- The Company's Policy − Some companies may have stricter rules about gifts than others.
- The Law − Gifts against the law are usually unacceptable.

Obligations to Third Parties

A person is ethically grateful to let others know about unsafe and misleading business practice. Though, employees should match and judge the significance of their job duties and personal interests with the importance of the interests of others. It can be ethically preferable to let the third parties know about wicked and illegal business practices, even when it is not a moral obligation to do so.

Whistleblowing

Whistleblowing is the act of going public with meaningfully immoral or illegal acts of an organization one is part of. Nevertheless, someone is not a whistle blower for discussing the awkward or rude behavior with public, and a whistle blower doesn't need to involve in sabotage or violence.

The reasoning given to judge a whistle-blowing activity may include the following −

- The reason must be ethical. The worker must act in contradiction of the organization that committed a significant immoral or illegal act.
- The whistleblower should look for less harmful ways to resolve the issue first. Employees should tell the management and executives of wrong-doing before making the information public.
- The whistleblower should have enough evidence. It is unethical to accuse a company when there's a possibility of company being innocent.
- The company's fault must be specific and significant. The wrong-doing must have specific and significant reasons.

Self-Interest

Are the people obligated to save the interests of others by making misconducts known to the management or by alerting the public by making significant immoral acts committed by companies publicly?

It is always preferable to think rationally and impartially regarding morality. It is important to think about our life and ask the following questions −

- Are we following authorities blindly?
- Are we suffering from a moral tunnel vision?
- Are we mindlessly doing what is asked from us, without considering the impact on outside parties?
- Are we considering about our possible roles as accomplices in the immoral activities?
- Are we having a proper view of our interests against those of others?
- Is there any substantial evidence for acting against the norms?

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Ethics frequently wants us to reflect the interests of everyone who can be affected by our decisions and also about the situations we are in. We can have serious social and personal duties and depends on all these important and unique factors.

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Work Ethics and the Workplace

We frequently talk about work morals and worker support towards the success of an organization. It is significant to understand what we mean by these problems. Why some administrations have better work culture than others?

Do modern administrations need to reflect something specific to revive their work cultures? To learn all this, we must look at the problem of 'work ethic' and then try to apply it in the culture of an organization.

What is Work Ethic?

The problem of 'work ethic' is universal, but it has come to the focus meanwhile the turn of the millennium as scandals came up that have sunk the entire administrations, such as those related with Enron and WorldCom. Ethics has now become a required subject in many professional courses. Still, people find it perplexing to face the challenges they call 'work ethic'.

Max Weber first invented the term work ethic in 1904. He said that it did not matter whether you were a woodcutter or a farmer, you could still find solace if you did your duty perfectly. There are genuine virtues such as hard work, frugality, honesty, perseverance and integrity that form the core of work ethic. All the values included in the set of 'work ethic' require us to have a degree of self-sacrifice, or dedicating ourselves to the task.

Something Bigger Than the Self

When an association wants to talk about the matters around work ethic, they will first need to ask how the structural culture is contributing. People will only offer their best when they bestow them to a cause which they believe in. They must see somewhat, which is bigger than they are.

Administrations will need to comprehend this unspoken need of employees for something bigger, if they really want to see people come to work and give their best unconditionally. Therefore, administrations need to define their vision, mission and strategies, which motivate the people. It is known as the benevolent intent of the organization.

People, who are interested, often find desire to work for their corporations. These people come to work with intent to let their organization achieve its goals, to support their peers and the organization for success, to empower their juniors and to grow them.

When workers feel that they are working for a better purpose, they will mechanically seek to exploit their own contribution. They feel their importance of their contribution to the organization. They will not feel that they are just working for the sake of compensation and it is a big achievement for the organization.

Conducting Personal Business during Office Time

Workers frequently spend most of their weekday hours on the office job. Occasionally, they often may be attracted to do personal business during office hours. Such performs can include setting up doctor's appointments using company phones, making tour-package bookings using their employer's computers or occasionally arranging calls for a side freelance business during office time.

The coming up ethical problem is quite clear – the employees are ill-treating their employer to conduct own business on company time. Though, what if you know that your children are ill? Is it then fine for you to go for a doctor's selection using company lines? The most common rule of thumb is, so, to check with the HR managers or managers to get an idea of what counts as an offense according to the company policies.

Taking Credit for Others' Work

Workers often have to work in teams to make up marketing operations, or develop new products for sale or fine-tune creative services, yet everybody in a group do not donate equally to the final product. If two members of a three-person team did all the work, will this mean that, these two people need to demand to receive proper credit while pointing out that the particular member did not do anything.

This is a precise simple yet a sharp question. Singling out co-workers in a negative light could stimulate dislike. A parallel thing could happen if all employees receive equal share of honour even when only a select few did the real work.

The best way to decide this kind of issues is not to let it occur in the first place. Team fellows should ensure that all members of a team perform some tasks to help complete a project.

Harassing Behavior

Employees often do not appreciate what they must do if they see one of their co-workers irritating another, either spiritually, sexually or physically.

Employees have to concern for their jobs while trying to report a superior for harassment. They may fear that they might be labelled a troublemaker if they report inappropriate behavior.

The best way rests with the staff members who usually develop the company's employee handbook. It is their job to tell workers that, they will not be penalized for reporting the harassing behavior or inappropriate actions.

The Solutions to Workplace Dilemmas

Ethics and value-based concerns in the office are often hard to handle when the employees need to choose between the right and wrong by their own principles. Smart companies who know how to implement workplace ethics policies are typically well ready for the potential conflicts of interest of opinion, values and culture in the workforce.

Though, managing ethical issues needs a steady and cautious approach to matters, which can potentially be dangerous or illegal.

Step 1: Documenting the Issues

- ❖ Grow a workplace policy liable on your company's philosophy, mission statement and conduct guidance.
- ❖ Include the policy into your performance management program to hold employees accountable for their actions.
- ❖ Alert the employees to their everyday jobs to follow skilled standards in their job performance and interaction with peers and supervisors.
- ❖ Study the employee manual to include any missing policy and provide revised handbook to employees.
- ❖ Obtain written acknowledgement from employees that they have received and understood the workplace ethics policy.

Step 2: Training and Guidance for Up-Keeping Values

- ❖ Offer ethics training to employees.
- ❖ Offer instructions in learning how to address and resolve ethical dilemmas.
- ❖ Experiential learning, or role-play, may be used as an effective way to facilitate workplace ethics training.
- ❖ Offer instances of workplace ethics simulations, such as misappropriation of company funds, improper workplace relationships etc.

Step 3: Taking Effective Measures

- ❖ Designate an executive in-charge of handling employees' concerns pertaining to workplace ethics.
- ❖ Consider whether your organization also needs an ethics hotline, a confidential benefit service for employees to contact whenever they need.
- ❖ Confidential hotlines assure employees' anonymity, which is a concern for "whistle blowing" actions.

Step 4: The Legal and Private Angle

- Investigation and apply federal, state and municipal labor and employment laws pertaining to whistle blowing.
- Refrain from making suspension, termination decisions, in connection with whistle blowing or when employee's right is protected under whistle blowing laws or public policy.
- Look for legal advice for the employee reports of workplace ethics issues that may increase your organization's legal liability.

Step 5: Keeping the Standard Intact

- Apply office policy reliably while addressing employee concerns about workplace ethics.
- Use the similar standard in every condition, irrespective of the apparent intention, seriousness or the position of employees involved.
- Connect the same rules for all employees – whether executive or front-line production roles.
- Approach every issue with equal interpretation of the company policy.

Banking Ethics: Changing Dynamics

What is Business Ethics Cyber Age?

Doing business in the cyber age is totally unlike from the traditional theories of business, which captured down many periods ago. In addition, as the proliferation of internet and communication technologies have been growing in an unparalleled rate, business organizations feel that, it is important to address the ethical issues that convoy technological progress.

It is significant to realize that mere knowledge of cyber age problems is not enough; one has to take concrete steps to minimize the negative effects of the technological progress that is applicable to business organizations and individuals alike.

The major issues of cyber ethics can be broadly divided into five sections −

- Privacy
- Property
- Security
- Accuracy
- Accessibility

Privacy Angle

In an 1890 Harvard Law Review seminar in, Warren and Brande said the golden words about privacy. It is an ethical and moral concept.

The Constituents of Privacy

Privacy can be broken down to limiting others' access to an individual or business organizations' information with "three elements of secrecy, anonymity, and solitude."

- Anonymity is related with the right to protection from undesired attention.
- Solitude refers to the deficiency of physical proximity of a business or an individual.
- Secrecy is the protection of personalized information from being freely accessed.
- Protection of Private Information
- Direct or indirect misuse of private information can lead to fake and impression. Individuality theft is a growing issue of discussion due to the availability of personal and private information on the web.

Identity Theft

Millions of people were subject to identity theft. Public records, search engines, and databases are the main culprits contributing to the rise of cybercrime.

To restrict and limit online databases from proliferating sensitive personnel information, the following commandments may be useful.

- Do not comprise delicate unique identifiers, such as social security numbers, birth dates, hometown and mothers' maiden names in the database records.
- Reject those phone numbers, which are normally unlisted.
- There must be simple and clear provision for people to remove their names from a database.
- Reverse social security number lookup services should be banned.

Private Data Collection

Individuals frequently surrender private information for numerous online services. Ethical business practice would be to defend this information, which may lead to the loss of privacy, anonymity, and solitude.

Additionally, data warehouses now collect and store enormous amounts of personal and consumer transactions data. Preserving large volumes of consumer and business information is likely for an unlimited amount of time. Erosion of confidentiality can be done with these databases, cookies and spyware.

There is a lookout that data warehouses are destined to stand-alone and need to be protected. Though, private information can be collected from corporate websites and social networking sites to initiate a malicious reverse lookup. So, how public domains should use information is an ethical debate.

Property Issues

The concept of property is a dispute of ethical debate for a long time. Some persons contend that the internet is based around the concept of freedom of information. Though, disagreement over ownership has frequently occurred when the property of information is infringed upon.

Intellectual Property Rights

The aggregate speed of the internet facilities and the emergence of file compression technology, such as mp3 have led to Peer-to-peer file sharing, which is an expertise that permits users to secretly transfer and share files to each other.

Facilities offered by Napster or Bit Torrent fall under the issue of file transfer and sharing. These sites offer copyrighted music and content which are illegal to transfer to other users.

Intellectual property rights include a host of rights that belong to businesses of individuals, such as patents, copyright, industrial design rights, trademarks, plant variety rights, trade dress, and in some jurisdictions trade secrets. We take up the most important constituents that having an ethical dilemma associated with them.

Patent Rights

A patent is a form of right decided by the government to an inventor, so that he may advantage financially from his/her invention. Many businesses have their R&D departments and their patents bring a source of revenue for them. It is continually supposed that patent breach is common in the cyber age and that it should be dealt legally and ethically with the strictest norms.

Copyright Violation

A copyright offers the maker of original work high-class rights to it, typically for a limited time. Copyright is usually appropriate to creative, intellectual, or artistic forms, or "works". As is clear, copying and re-creating the matter is quite effortlessly possible in the age of information. This increases the business ethics queries whether copyright protection should be made mandatory for all creative productions. The limit of copying and re-creation is also an ethical issue.

Trademarks

A trademark is a familiar and sole sign, design or expression, which differentiates products or services. It has been quite informal to duplicate trademarks in the age of computers and internet. It raises the concerns whether there should be any mercy to those who use trademarks unethically or illegally.

Trade Secrets

A trade secret is a formula, practice, process, design, instrument, pattern, information which is secret and by which a business can obtain an economic advantage over competitors or customers. Trade secrets theft can be considered unethical because it may be tough to create or ideate a unique formula, but quite easy to replicate it.

Digital Rights Management (DRM)

The outline and use of digital rights management software, has elevated the question of whether the subverting of DRM is ethical. Some see DRM to be an ethical step; others trust that, this is incorrect because the costs of products or services may go up due to DRM.

DRM is also depicted as defenders of users' rights. This lets, for instance, making copies of audio books of PDFs they receive; also letting people to burn music they have legally bought to CD or to transfer it to a new computer is an issue. It looks like a defilement of the rights of the intellectual property holders, leading to uncompensated use of copyrighted media.

Security Concerns

Security, in business domains, has long been an issue of moral debate. Is it significant to protect the common good of the public or we should safeguard the rights of the individual? There is a repeated and growing argument over the boundaries of these two ideas. This raises the question whether making compromises are right.

As uncountable people connect to the internet and the amount of personal data that is obtainable online goes on to increase forever, there is vulnerability to identity theft, cyber-crimes and computer hackings.

There is also an quarrel over ownership of the internet. People tend to ask who has the right to control the internet in the interest of security. This is a very complex issue because huge amounts of data and uncountable people are associated with the internet.

Responsibility of Accuracy

The concern of correctness is evident. We must ask queries like, who is accountable for the genuineness and loyalty of the information available online. Morally, the concept comprises a debate over who can contribute content and who should be held answerable when the content is mistaken or false. This also has a legal angle for recompense for the injured party due to wrong information and loss of capital due to these accuracy defects.

Accessibility, Censorship, and Filtering

The opinions that apply to offline restriction and filtering apply to online censorship and filtering. Is it superior to have free access to information or should be endangered from what is considered by a governing body as harmful, indecent or illicit. The issue of access by minors is also a major concern.

Many corporations limit their employees' access to cyberspace by blocking some sites, which are related only to personal usage and therefore destructive to productivity. On a superior scale, governments also create large firewalls, which censor and filter access to certain information available online which is often from foreign countries to their citizens and anyone within their borders.

Enhancing ethical codes

The difficult question, of course, is how to do this in practice.

Anyone who has been involved in corporate governance of some sort, in financial and non-financial institutions alike, either public or private, has experience with ethical codes. Typically that experience gives rise to mixed feelings. In principle, everybody thinks they are important and supports them. In practice, codes are often so general and high level, and difficult to implement and enforce, that their practical impact remains limited. They almost never play a central role in corporate board agendas. This is still true recently, I believe, even though attempts have been made to make ethical practices more systematic.

Useful elements to move forward can be derived by combining inputs from corporate experience, behavioural research and concrete cases from the recent crisis. Based on them, as well as, once again, on a fundamental intuition by Adam Smith, I think we can say that at the root of much unethical or fraudulent corporate behaviour is a mix of two partly conflicting sentiments: self-justification and opaqueness.

Self-justification is the array of reasons that people typically give themselves when they are about to violate laws or ethical rules. Here are some examples:

- Everybody does it
- We have always done it, so why change now
- This is how this business works
- If I don't do it, somebody else will
- It works, so let's not ask too many questions

- Nobody will notice and nobody will be hurt or similar

Many humans find such self-arguments convincing enough, but at the same time a deeper voice tells them that there is something wrong; hence the need for opaqueness. The acts they embark on and the self-justifications given must not be exposed. Any risk of exposure constitutes a very powerful disincentive to misbehave.

Leveraging on this psychological mechanisms, one could establish practices whereby employees engaged in certain activities that critically impinge on trust are routinely made accountable to answer the following questions:

- Are you doing what you promised to do?
- Are you using your best knowledge and intention in doing it?
- Are you doing what public authorities, superiors, colleagues and business partners expect you to do, and if not why?
- Are you conforming to the mission and the values of your company, as they are publicly stated?
- Will your actions enhance public confidence in your company and in the financial sector?
- Would you behave similarly if your actions were publicly observed?

The fundamental importance of the last question was understood by Adam Smith, who believed that an "impartial spectator" scrutinising individual behaviour was a necessary complement of the "invisible hand". To quote:

"We suppose ourselves the spectators of our own behaviour, and endeavour to imagine what effect it would, in this light, produce upon us. This is the only looking glass by which we can, in some measure, with the eyes of other people, scrutinize the propriety of our own conduct." (A. Smith, The Theory of Moral Sentiments, Section III.1.5.)

Putting all this into practice is evidently a challenge for supervisors, but once the logic is understood it does not seem impossible. By looking across a range of indicators and fact patterns, helped by intrusive questioning, if supervisors make the effort to connect the dots they should be able to see which banks are lax about culture and ethics. Shareholders, board members and senior management play an evidently important role in setting the example, putting in place adequate control mechanisms and enforcing them. Such processes need to be enshrined in explicit codes. Incentives of managers and staff need to be consistently aligned. The ethical framework should influence the annual appraisals and bonuses. Peer pressure and transparency help in this respect, especially when there is a risk of conflict of interests, for instance between sales employees and clients. Making commissions and reward schemes transparent would be helpful. An emphasis on ethics should also be placed on the recruitment process and career promotion mechanisms.

The role of banking supervision

The current process of reform aims at changing not only regulations but also the supervisory approach. This suggests in principle a change relative to the reactive and hands-off approach of the past, and asks supervisors to use their judgement and engage in a dialogue scrutinising and probing senior management and board members. The intrusive questions listed in the last section can also play a role here. That said, assessing whether a bank has a sound risk culture and proper internal controls to promote it is not easy, as it is a broad concept. Supervisors should check that mechanisms are in place and ensure that the necessary checks and balances are in place throughout the organisation, as well as proper accountability and transparency provisions.

Ethics are inextricably connected to the financial world as they form the basis for trust. Without trust the system is either dysfunctional or unstable or both, as the recent experience have shown.

Regulatory and supervisory reform can contribute to strengthening trust, by placing the emphasis on robust risk management systems, strong corporate governance frameworks and a sound risk culture. But in itself regulation is not sufficient, if not complemented by a sound ethical framework. As “trust comes by foot, but leaves on horseback”, it may take a while before we see results, but I am confident results can be achieved. Banking supervisors should be aware of these issues and contribute to the process.

Ethics and Technology

Businesses today are technology and innovation driven. There is huge competition in the sphere and therefore like other industry or business function ethics is essential here also. Specially because ethics by itself is only a tool to create and doesn’t know ethics or morals!

Every day we have innovative products and services that announce their arrival in the market place and others that go obsolete. It is this technology and innovation that leads to ethical issues, considering the competition to stay ahead by innovating is immense. Issues like data mining, invasion to privacy, data theft and workplace monitoring are common and critical.

In technology we speak of ethics in two contexts; one is whether the pace of technological innovation is benefiting the humankind or not, the other is either severely empowering people while choking others for the same. Technology, for example, has drastically replaced people at work.

In the first case we are compelled to think about the pace at which technology is progressing. There are manifold implications here, be it things like computer security or viruses, Trojans, spam's that invade the privacy of people or the fact the technology is promoting consumerism.

Nowadays data storage is primarily on computer systems. With the advent of internet technology the world has got interconnected and data can be accessed remotely by those who are otherwise unauthorized to do the same. This is one of the pitfalls of innovation. The other one i.e. the pace of technological change also raises the question of ethics.

New products make their way and leave the existing ones obsolete. In fact technological change and innovation is at the heart of consumerism, which is bad for economy and environment in general. The recent economic downturn makes up for a very good example.

Increasingly technological products are adding up to environmental degradation. Computer screens, keyboards, the ink used in the printers are some of the ways in which technology is polluting the environment. All these produce toxins that cannot be decomposed easily.

The other major issue in technology that brings in ethics is interface between technology and the computers. Many scientists are of the opinion that the world will come to an end with a war between the humankind and the technology. Technology they say will advance to an extent beyond the control of those who have made it!

No doubt technology has replaced people at work and made certain others redundant. On the flip side many people have been raised to power while others have been severely handicapped. The latter is especially true for third world countries. New manufacturing processes that are outsourced either replace manpower there or either exploits the latter in the name of employment by engaging them cheaper prices.

Technology has also made inroads into the field of medicine and life care. New cloning techniques, genetic modifications or other life saving drugs need continuous monitoring and surveillance. Bioethics has thus emerged as ethics in the field of medical technology.

Whereas we cannot talk of controlling technology and innovation, the better way is to adapt and change. The role of ethics in technology is of managing rather controlling the same. Continuous monitoring is required to keep track of latest innovations and technological changes and for ensuring fair practices.

Intellectual Property

Intellectual property (IP) is any unique product of the mind or human intellect. Examples of IP include: music, movies, books, software, paintings, words, phrases, symbols, designs, chemical formulas, etc.

Intellectual property rights protect the interests of creators by giving them property rights over their creations. IP is protected with laws (copyrights, patents, etc.) which enable people to earn recognition or financial benefit from what they invent or create. By striking the right balance between the interests of innovators and the wider public interest, the IP system aims to foster an environment in which creativity and innovation can flourish.

Intellectual property relates to items of information or knowledge, which can be incorporated in tangible objects at the same time in an unlimited number of copies at different locations anywhere in the world. The property is not in those copies but in the information or knowledge reflected in them.

In other words, intellectual property is distinguished from the media on which it is expressed. The physical pages of a book aren't the intellectual property. The intellectual property is in the words and their order no matter how they are expressed. You can't transcribe the contents of a book by hand and sell your notes.

Rational for Intellectual Property Rights

There is a question about whether or not there is a natural right to intellectual property. Regardless, in order to encourage its creation, most societies choose to grant intellectual property rights (legal monopolies) to people through laws. These laws recognize a form of property called intellectual property (IP). Intellectual property rights are like any other property right. They give people the right to own and profit from their artistic, scientific and technological creations for a designated period of time.

IP can be easily copied so it is hard to control. IP laws give creators more control over their work.

Countries with strong IP laws tend to be sources of most inventions and creative work. IP laws promote creativity and the dissemination and application of its results

There is a balance, sometimes tension, between wanting to (1) reward creators of intellectual property, and (2) the need for the public to benefit from the IP. The constitution specifically mentions this balance with the mention of (1) "exclusive right", (2) "for limited times". IP laws are supposed to reflect the need for this compromise. If IP laws are too weak, there would be less incentive for some people to create valuable intellectual property. If IP laws are too strong, the public misses out on the beneficial consequences of creative work.

Special Challenges of the Digital Age

Everything in cyberspace is composed of bits. If those bits are viewable on a general purpose computer, those bits are capable of being copied. In their digital form, images, music, video, and text are perfectly reproducible (perfect copies). As long as it's legal to send an encrypted message from one person to another on the Internet, it will be possible to easily share copyrighted material (easily distributable). Consequently there is no easy answer to thwarting the pirating of digital content.

Fair Use

In some cases you are allowed limited use of copyrighted material (fair use) without having a license or permission of the author.

The fair use provision allows limited use of copyrighted materials under certain circumstances. Fair use applies mainly when the work is used for the purpose of criticism, parody, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research. The fair use clause isn't specific and requires interpretation. The factors to be considered are:

- the purpose and character of the use, including whether such use is of a commercial nature or is for news reporting and/or non profit educational purposes;
- the nature of the copyrighted work (fiction has more protection than factual work)
- the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- the effect of the use upon the potential market for or value of the copyrighted work.

The last item carries the most weight. For example, if a substantial portion of a book was copied and distributed in a classroom it would likely not be considered fair use because it would potentially hurt sales of the book.

Note, Fair Use isn't a right or entitlement, but rather a legal defence against a claim of infringement.

ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR
JAIIB
PRINCIPLES & PRACTICES OF BANKING

Though we had taken enough care to go through the notes provided here, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. Creation of these short notes is the efforts of so many persons. First of all we thank all of them for their valuable contribution. We request everyone to go through the Macmillan book and update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information).

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