exampundit

Interview Guide

IBPS RRB OS-I
IBPS PO VII

"Preparation, application and determination are three of the most important factors that enable you to regain your sparkle and shine like never before."

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IBPS PO & RRB Interview Guide 2017

"If you don't know why you'd hire you, neither will they."

7 Important Guidelines

1) *Never Say Something which Cannot Be Achieved. This shows you are Immature.*
2) *Sometimes you can argue with the HR only if you have the valid point.*
3) *When asked about your past employers, never ever tell "They were bad".*
4) *Don't drag your family problems into your interview, it shows you are emotionally weak.*
5) *Don't say, "I'm Workaholic" "I love to Work 24x7", this is the oldest line in the interview.*
6) *Always keep Recent and Major Events information about the Bank you are giving interview.*
7) *Don't stammer while answering, it shows your confidence level is low.*

All About Regional Rural Banks

In the multiagency approach to **provide credit to agriculture**, Regional Rural Banks (RRB's) have special place. They are state sponsored, regionally based and rural oriented commercial banks. The Govt. of India, in July 1975, appointed a Working Group to study in depth the problem of devising alternative agencies to provide institutional credit to the rural people in the context of steps then initiated under the **20 Point Economic Programme**. The Working Group identified various weaknesses of the co-operative credit agencies and the commercial banks and felt that these institutions would not be able to fill the regional and functional gaps in the rural credit system within a reasonable period of time. These were set up on the recommendations of **The M. Narasimham Working Group**.

The development process of RRBs started on 2 October 1975 with the forming of the first RRB, the **Prathama Bank with authorised capital of Rs. 5 crore at its starting**.

The management of a RRB is vested in a nine-member Board of Directors headed by

- Chairman who is an officer deputed by a sponsor bank but appointed by the Govt. of India.
- Three directors to be nominated the Central Govt.
- Two directors to be nominated by the concerned State Govt.
- Three directors to be nominated by the sponsor bank.

Every RRB may undertake the following types of functions:

- The granting of loans and advances particularly to small and marginal farmers and agricultural labourers individually or to a group, co-operative societies, agricultural processing societies, co-operative farming societies, etc.
- The Granting of loans and advances to artisans, small entrepreneurs and small traders, businessmen, etc.

Highlights of RRBs:

- The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank.
- The equity of a regional rural bank is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. The RRBs combine the characteristics of a cooperative in terms of the familiarity of the rural problems and a commercial bank in terms of its professionalism and ability to mobilise financial resources. Each RRB operates within the local limits as notified by Government.

- The main objectives of RRB's are to provide credit and other facilities, especially to the small and marginal farmers, agricultural labourers artisans and small entrepreneurs in rural areas with the objective of bridging the credit gap in rural areas, checking the outflow of rural deposits to urban areas and reduce regional imbalances and increase rural employment generation.

Priority Sector Lending:

- As per the guidelines, domestic banks have to ensure that **forty percent of their advances are accounted for the priority sector**.
- Within the 40% priority target, **25% should go to weaker section** or 10% of their total advances should go to the weaker section .
- Weaker sections, under priority sector lending purposes, include scheduled castes, scheduled tribes, small and marginal farmers, artisans and self help groups.

Main highlights of Amendments to Regional Rural Banks Act, 1976

1. It amends the RRB Act, 1976 which mainly provides for the incorporation, regulation and winding up of Regional Rural Banks (RRBs).
2. It removes the five year limit cap that was put on the sponsor banks to assist the upcoming RRBs under the RRB Act, 1976. As per the Act, sponsor banks were liable to train personnel and provide managerial and financial assistance for the first five years.
3. It raises the amount of authorized capital to 2000 crore rupees and it is not to be reduced below one crore rupees. In the 1976 Act the authorised capital of each RRB was five crore rupees which was not permitted to be reduced below 25 lakh rupees.
4. It allows Union government to specify that the capital issued by a RRB should be at least one crore rupees. Under the Act, a RRB was to issue capital between 25 lakh rupees and one crore rupees.
5. It allows RRBs to raise their capital from sources other than the central and state governments, and sponsor banks as was mandated under the RRB Act. As per the Act, 50% of capital issued was held by Union government, 15% by concerned state government and 35% by the sponsor banks.
6. It also provides that in case of raising of capital from other sources by a RRB, the combined shareholding of the central government and the sponsor bank cannot be less than 51%.
7. The term of the non-official directors appointed by the Central Government will be fixed not exceeding three years.
8. Further, if the shareholding of the state government in a RRB is reduced below 15%, the Union government would have to consult the concerned state government.

All about Negotiable Instruments Act

Negotiable Instruments Act, 1881 is an act in India dating from the British colonial rule, that is still in force largely unchanged.

The Act was originally drafted in 1866 by the 3rd India Law Commission and introduced in December, 1867 in the Council and it was referred to a Select Committee.

Meaning and Definition

- A Negotiable Instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer.
- It must be freely transferable either by delivery (when it is payable to the bearer of the document) or by endorsement and delivery (when the document is payable to order).
- The transferee taking the instrument in good faith and for consideration gets a good title to the same even if the title of the transferor is defective.
- The party holding the instrument should be entitled to maintain a suit thereon in case the instrument gets dishonored while in his custody.

Characterstics of Negotiable Instruments

- ✓ Writing and Signed by Its Maker
- ✓ Unconditional
- ✓ Fixed Sum of Money
- ✓ Transferable
- ✓ Absolute And Good Title
- ✓ Right to Recovery

Relevant Provisions of RBI Act 1934

- A bill of exchange or hundi cannot originally be made payable to 'bearer on demand'.
- A promissory note cannot be originally made payable to bearer.

Kinds of Negotiable Instruments

- Promissory note
- Bill of exchange
- Cheque

Important Sections of Negotiable Instruments Act:

There are total 147 sections in the Negotiable Instruments Act.

I. Section 4 - Promissory note
II. Section 5 - Bill of exchange
III. Section 6 - Cheque
IV. Section 13 - Negotiable Instruments
V. Section 92 - Dishonour by non-payment
VI. Section 118 - Presumptions as to Negotiable Instruments

Promissory Note

- An unconditional promise in writing made by one person (maker) to another person(payee)
- Signed by the maker
- Stamped
- Promise to pay
- On demand or at a fixed or determinable future time
- A sum certain in money
- Pay in terms of legal tender money only
- To, or to the order of, a specified person or to the bearer.
- The parties i.e. the maker and the payee must be certain.

Bill of Exchange

- An order in writing directing a person to pay a sum of money to a specified person.
- Duly signed by its drawer
- Accepted by its drawee
- Properly stamped
- Express order to pay
- Definite sum of money
- Definite and unconditional order
- Parties to a bill must be certain

Cheque

- A bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand
- Includes the electronic image of a truncated cheque
- Includes a cheque in electronic form
- issued on a specified banker only
- The amount specified is always certain, and must be clearly mentioned
- The payee is always certain.
- Must bear a date
- **Types** -Open cheque, Crossed cheque, Bearer cheque, Order cheque

Retail Banking Products

What is Retail Banking?

Investopedia defines: *Retail banking, also known as consumer banking, is the typical mass-market banking in which individual customers use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and certificates of deposit (CDs).*

Retail Banking Products in India

ACCOUNTS

1) **Current A/c:** Current account is one of the two component accounts of the balance of payments of a nation. It records the trade of goods and services of an economy with other countries of the world.
2) **Savings A/c:** A savings account is one of the simplest types of bank accounts available to consumers, letting you store cash securely and earn interest on your money.
3) **Salary A/c:** It is usually opened by the Company, where your salary is deposited. You can maintain ZERO Balance.
4) **Minor A/c:** Minimum 10 years old to open this account.
5) **Recurring A/c:** It can be opened by any Individual for regular fixed amount every month into their Recurring Deposit account and earn interest at the rate applicable to Fixed Deposits.
6) **Fixed or Term Deposits A/c:** A type of savings account or certificate of deposit where deposits are made for a specified period of time and that pay out a fixed rate of interest.
7) **Joint A/c:** Can be opened by two or more individuals.
8) **Basic Savings Bank A/c:** Zero Balance A/c
9) **Pension A/c:** Zero Balance, usually opened for Pension purpose.

OTHER PRODUCTS

I. **Bancassurance:** Banks partners with Insurance Company to sell Insurance to Bank Customers. United Bank of India has with TATA Life Insurance.

II. **Cheque:** An order to a bank to pay a stated sum from the drawer's account, written on a specially printed form.

III. **Demand Draft:** A demand draft is a negotiable instrument similar to a bill of exchange. A bank issues a demand draft to a client (drawer), directing another bank (drawee) or one of its own branches to pay a certain sum to the specified party (payee). A demand draft can also be compared to a cheque.

IV. **Mobile Banking:** Usually operated by Customer through their Tablets or Phones via Application By Bank. CANMOBILE is an Android/Windows/iOs App by Canara Bank.

V. **M-Wallet:** Prepaid wallet can be used for various payments.

VI. **Tele Banking:** Banking done by calling up Bank's Toll-Free Number.

VII. **Safety Deposit Locker:** To keep valuable items usually jewellery, important documents.

VIII. **Foreign Inward Remittance**: Transfers from foreign to Indian customer's account. Usually done by Wire Transfer.

CARDS

- Debit Card
- Credit Card
- ATM Card
- Travellers Card: Used for travelling abroad.

LOANS

- Home Loan
- Personal Loan
- Pension Loan
- Car Loan
- Vehicle Loan
- Loan Against Gold
- Loan against Mortgage
- Educational Loan

Online Products

- Internet Banking
- Bill Payments
- Fund Transfer: NEFT, RTGS, IMPS
- Tax Payments
- Demat Account

Prompt corrective action for banks

As the financial health of banks had deteriorated over the last three years, the Reserve Bank of India (RBI) revised the norms for prompt corrective action early last month, and has promptly imposed those norms on a couple of public sector lenders.

PCA is applicable to All Scheduled Commercial Banks (Excluding Regional Rural Banks).

The salient features of revised PCA Framework for Banks

A. Capital, asset quality and profitability continue to be the key areas for monitoring in the revised framework.
B. Indicators to be tracked for Capital, asset quality and profitability would be CRAR/ Common Equity Tier I ratio1, Net NPA ratio2 and Return on Assets3 respectively.
C. Leverage would be monitored additionally as part of the PCA framework.
D. Breach of any risk threshold (as detailed under) would result in invocation of PCA.

What is PCA?

PCA norms allow the regulator to place certain restrictions such as halting branch expansion and stopping dividend payment. It can even cap a bank's lending limit to one entity or sector. Other corrective action that can be imposed on banks include special audit, restructuring operations and activation of recovery plan. Banks' promoters can be asked to bring in new management, too. The RBI can also supersede the bank's board, under PCA.

RBI, in April, had issued a new set of enabling provisions under the revised PCA framework with a clause that if the bank does not show improvement then it could be either be merged or taken be over by other bank.

The provisions of the revised PCA framework will be effective April 1, 2017 based on the financials of the banks for the year ended March 31, 2017. The framework will be reviewed after three years.

When is PCA invoked?

The PCA is invoked when certain risk thresholds are breached. There are three risk thresholds which are based on certain levels of asset quality, profitability, capital and the like. The third such threshold, which is maximum tolerance limit, sets net NPA at over 12 per cent and negative return on assets for four consecutive years.

What are the types of sanctions?

There are two type of restrictions, mandatory and discretionary. Restrictions on dividend, branch expansion, directors' compensation, are mandatory while discretionary restrictions could include curbs on lending and deposit. In the cases of two banks where PCA was invoked after the revised guidelines were issued — IDBI Bank and UCO Bank — only mandatory restrictions were imposed. Both the banks breached risk threshold 2.

What next?

Some more lenders are expected to come under the corrective action framework as and when their asset quality worsens, putting profitability under pressure. Some public sector banks have breached the net NPA parameter as well as the profitability parameter. These banks are comfortable on the capital parameter, thanks to the government's commitment to ensure the PSU banks are not starved of capital. However, as the government has its own commitment for maintaining fiscal discipline, it remains to been seen how long it can afford to infuse capital in these banks.

<u>Common menu for selection of discretionary corrective actions</u>

1. Special Supervisory interactions

- Special Supervisory Monitoring Meetings (SSMMs) at quarterly or other identified frequency
- Special inspections/targeted scrutiny of the bank
- Special audit of the bank

2. Strategy related actions

- RBI to advise the bank's Board to:
- Activate the Recovery Plan that has been duly approved by the supervisor
- Undertake a detailed review of business model in terms of sustainability of the business model, profitability of business lines and activities, medium and long term viability, balance sheet projections, etc.
- Review short term strategy focusing on addressing immediate concerns
- Review medium term business plans, identify achievable targets and set concrete milestones for progress and achievement
- Review all business lines to identify scope for enhancement/ contraction
- Undertake business process reengineering as appropriate
- Undertake restructuring of operations as appropriate

3. Governance related actions

- RBI to actively engage with the bank's Board on various aspects as considered appropriate
- RBI to recommend to owners (Government/ promoters/ parent of foreign bank branch) to bring in new management/ Board
- RBI to remove managerial persons under Section 36AA of the BR Act 1949 as applicable
- RBI to supersede the Board under Section 36ACA of the BR Act 1949/ recommend supersession of the Board as applicable
- RBI to require bank to invoke claw back and malus clauses and other actions as available in regulatory guidelines, and impose other restrictions or conditions permissible under the BR Act, 1949
- Impose restrictions on directors' or management compensation, as applicable.

4. Capital related actions

- Detailed Board level review of capital planning
- Submission of plans and proposals for raising additional capital
- Requiring the bank to bolster reserves through retained profits
- Restriction on investment in subsidiaries/associates
- Restriction in expansion of high risk-weighted assets to conserve capital
- Reduction in exposure to high risk sectors to conserve capital
- Restrictions on increasing stake in subsidiaries and other group companies

5. Credit risk related actions

- Preparation of time bound plan and commitment for reduction of stock of NPAs
- Preparation of and commitment to plan for containing generation of fresh NPAs
- Strengthening of loan review mechanism
- Restrictions on/ reduction in credit expansion for borrowers below certain rating grades
- Reduction in risk assets
- Restrictions on/ reduction in credit expansion to unrated borrowers
- Reduction in unsecured exposures
- Reduction in loan concentrations; in identified sectors, industries or borrowers
- Sale of assets
- Action plan for recovery of assets through identification of areas (geography wise, industry segment wise, borrower wise, etc.) and setting up of dedicated Recovery Task Forces, Adalats, etc.

6. Market risk related actions

- Restrictions on/reduction in borrowings from the inter-bank market
- Restrictions on accessing/ renewing wholesale deposits/ costly deposits/ certificates of deposits
- Restrictions on derivative activities, derivatives that permit collateral substitution
- Restriction on excess maintenance of collateral held that could contractually be called any time by the counterparty

7. HR related actions

- Restriction on staff expansion
- Review of specialized training needs of existing staff

8. Profitability related actions

- Restrictions on capital expenditure, other than for technological upgradation within Board approved limits

9. Operations related actions

- Restrictions on branch expansion plans; domestic or overseas
- Reduction in business at overseas branches/ subsidiaries/ in other entities
- Restrictions on entering into new lines of business
- Reduction in leverage through reduction in non-fund based business
- Reduction in risky assets
- Restrictions on non-credit asset creation
- Restrictions in undertaking businesses as specified.
- Any other specific action that RBI may deem fit considering specific circumstances of a bank.

Banking Ombudsman Scheme 2006 – Amendment 2017

Banking Ombudsman is a quasi-judicial authority functioning under the Banking Ombudsman Scheme, 2006. The authority was created to enable resolution of complaints of customers of banks relating to services rendered by the lenders.

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

Reserve Bank of India has widened the scope of its banking ombudsman platform for addressing mis-sell of third party products, and customer grievances on and mobile banking and electronic banking issues, recognising customers' plight in dealing with such troubles.

Under the amended scheme, a customer would also be able to lodge a complaint against the bank for **its non-adherence to RBI instructions with regard to mobile banking/ electronic banking services** in India.

The RBI had widened the scope of its Banking Ombudsman Scheme, 2006, to include, **inter alia, deficiencies arising out of sale of insurance, mutual fund, and other third-party investment products by banks**.

The new rule will be effective from July 1, and the banking ombudsmen will enjoy more power in their pecuniary jurisdiction.

The pecuniary jurisdiction of the banking ombudsman **to pass an award has been increased from existing Rs 10 lakh to Rs 20 lakh**. Ombudsman can direct banks to pay compensation up to Rs 1 lakh to the complainant for loss of time, expenses incurred as also, harassment and mental anguish suffered.

Key Features:

I. The complainant can be filed by one’s authorized representative (other than an advocate).

II. The Banking Ombudsman does not charge any fee for filing and resolving customers’ complaints.

III. The pecuniary jurisdiction of the banking ombudsman to pass an award has been increased from existing Rs 10 lakh to Rs 20 lakhs.

IV. Ombudsman can direct banks to pay compensation up to Rs 1 lakh to the complainant for loss of time, expenses incurred as also, harassment and mental anguish suffered.

V. The Banking Ombudsman may reject a complaint at any stage if icompensation sought from the Banking Ombudsman is beyond Rs 20 lakh .

VI. If one is not satisfied with the decision passed by the Banking Ombudsman, one can approach the appellate authority against the Banking Ombudsmen’s decision. Appellate Authority is vested with a Deputy Governor of the RBI.

VII. 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.

One s complaint will not be considered if:

- One has not approached his bank for redressal of his grievance first.
- One has not made the complaint within one year from the date one has received the reply of the bank or if no reply is received if it is more than one year and one month from the date of representation to the bank.
- The subject matter of the complaint is pending for disposal / has already been dealt with at any other forum like court of law, consumer court etc.
- The institution complained against is not covered under the scheme.
- The subject matter of the complaint is not within the ambit of the Banking Ombudsman.

Tier I and Tier II Capital

Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view. It consists of the types of financial capital considered the most reliable and liquid, primarily equity. Examples of Tier 1 capital are common stock, preferred stock that is irredeemable and non-cumulative, and retained earnings.

Tier 2 capital is a measure of a bank's financial strength with regard to the second most reliable forms of financial capital, from a regulator's point of view. It consists of accumulated after-tax surplus of retained earnings, revaluation reserves of fixed assets and long-term holdings of equity securities, general loan-loss reserves, hybrid (debt/equity) capital instruments, and subordinated debt.

The Basel-I defined two tiers of the Capital in the banks to provide a point of view to the regulators. The Tier-I Capital is the core capital while the Tier-II capital can be said to be subordinate capitals. The following info shows the 2 tiers of the Capital Fund under the Basel II.

As per the Basel II accords, the banks have to maintain the Minimum Total CRAR of 8%. The RBI stipulated 9% for India and within that the Tier Capital would be 6% (By 31.3.2010) Most banks prefer to hold at least 12% CAR at all points of time because a lower CAR increases their cost of resource Please note that banks have to follow the following minimum requirements of Capital Fund:

- ✓ Minimum Total CRAR (Basel II Recommendations) : 8%
- ✓ Minimum Total CRAR (RBI Guidelines) : 9%
- ✓ For New Private Sector Banks : 10%
- ✓ The banks that undertake insurance business: 10%
- ✓ Local Area Banks 15%
- ✓ For dividend declaration by banks 9%

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.

It is measured as

Capital Adequacy Ratio = *(Tier I + Tier II + Tier III (Capital funds)) /Risk weighted assets*

The risk weighted assets take into account credit risk, market risk and operational risk.

The Basel III norms stipulated a capital to risk weighted assets of 8%. However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.

Lets discuss it in regular words:

Tier I capital is what **was paid in (or contributed) at the start to form a bank**. This could also include any reserves or funds. Also called seed capital

Tier 2 would be capital that **is infused into the bank at a later stage**, say for example when the bank subscribes for an IPO then the proceeds from this would be considered Tier 2. This could also include any issue of shares, debentures or bonds.

Regulators require the Banks keep certain capital ratios in place specifically referring to Tier 1 Capital. This became more important after the financial crisis of 2008 and is monitored regularly by regulators.

All About Monthly Average Balance

Beginning this financial year, almost all public sector banks have introduced a monthly average balance structure for Savings Account holde₹ Here is all you need to know about monthly average balance and how banks calculate this balance.

So what exactly is monthly average balance?

Many savings account holders wrongly assume that Monthly Average Balance (MAB) means they must keep a stipulated amount of money parked in their account at all times. MAB is actually defined as the sum total of the amount of money at the end of each day of the month divided by number of days of the month. All working days and bank holidays are included in the number of days in the month.

Monthly average balance calculation made easy

The amount of money in your bank account at the end of each day makes up for the day's final balance, also known as the end of day (EOD) closing balance. The monthly average balance is derived by dividing the sum total of EODs for every day for the month by number of days in that month.

Illustration: Let us assume you have a balance of ₹ 15,000 on January 1 in your savings bank account. Assuming you withdrew ₹ 10,000 on January 5 but deposited ₹ 10,000 on January 20, here is how your MAB for the month will be calculated.

Jan 1 to Jan 4: EOD balance = ₹ 15,000*4 = ₹ 60, 000

Jan 5 to Jan 19: EOD balance = ₹ 5,000*15 = ₹ 75,000

Jan 20-Jan 31: EOD balance = ₹ 15,000*12 = ₹ 1,80,000

Total Balance = ₹ 60,000 + ₹ 75,000 + ₹ 1,80,000 = ₹ 315,000

Number of days in Jan (including bank holidays and working days) = 31

Final MAB = ₹ 3, 15,000/31 = ₹ 10,161.29

Penalty for non-maintenance of MAB

The charges or penalty for non-maintenance of MAB varies from bank to bank. The State Bank of India, for example, has recently introduced minimum balance requirements for all bank account holders except basic savings bank and Pradhan Mantri Jhan Dhan Yojana (PMJDY) accounts. Account holders are now required to maintain an MAB of ₹ 5,000 if they live in metro cities and ₹ 3,000, ₹ 2,000 and ₹ 1,000 if they live in urban, semi-urban and rural areas.

The applicable penalty is also linked to how short the balance is from the MAB that's required. For example, SBI will charge a penalty of ₹ 100 plus service tax for balance below 75% of the MAB, and ₹ 50 plus service tax for 50% or less. The penalty charges for rural areas will range between ₹ 20 to ₹ 50 plus service tax.

<u>Monthly Average Balance vis-à-vis Quarterly Average Balance</u>

Some banks have policies that seek account holders to maintain a Quarterly Average Balance or QAB instead of MAB. To calculate QAB, you must use the same method as above to calculate the total quarterly balance, and divide it by the number of days in the quarter.

All About Money Market in India

The Money Market is a very important segment of the Indian financial system. It is the market where short term monetary assets are dealt in to raise short term requirements of funds and/ or to park short term surpluses. The main characteristic of the Money Market is the liquid nature.

The money market transactions may range from overnight to one year. It has minimum transaction cost. This unit encompass the structure of the Money Market that has undergone vast changes in the last decade. In this unit, we are going to discuss the different instruments and the defect of Indian Money Market. The unit also discuss the bill market. Thus, you will be able to understand through this unit the structure, instrument as well as the defect of the Indian money market.

The money market is the market which deals with short term funds in the economy. It refers to the institutional arrangements facilitating borrowings and lending of short term funds.

Participants of money market:

Following are the institutions which can take part in money market:

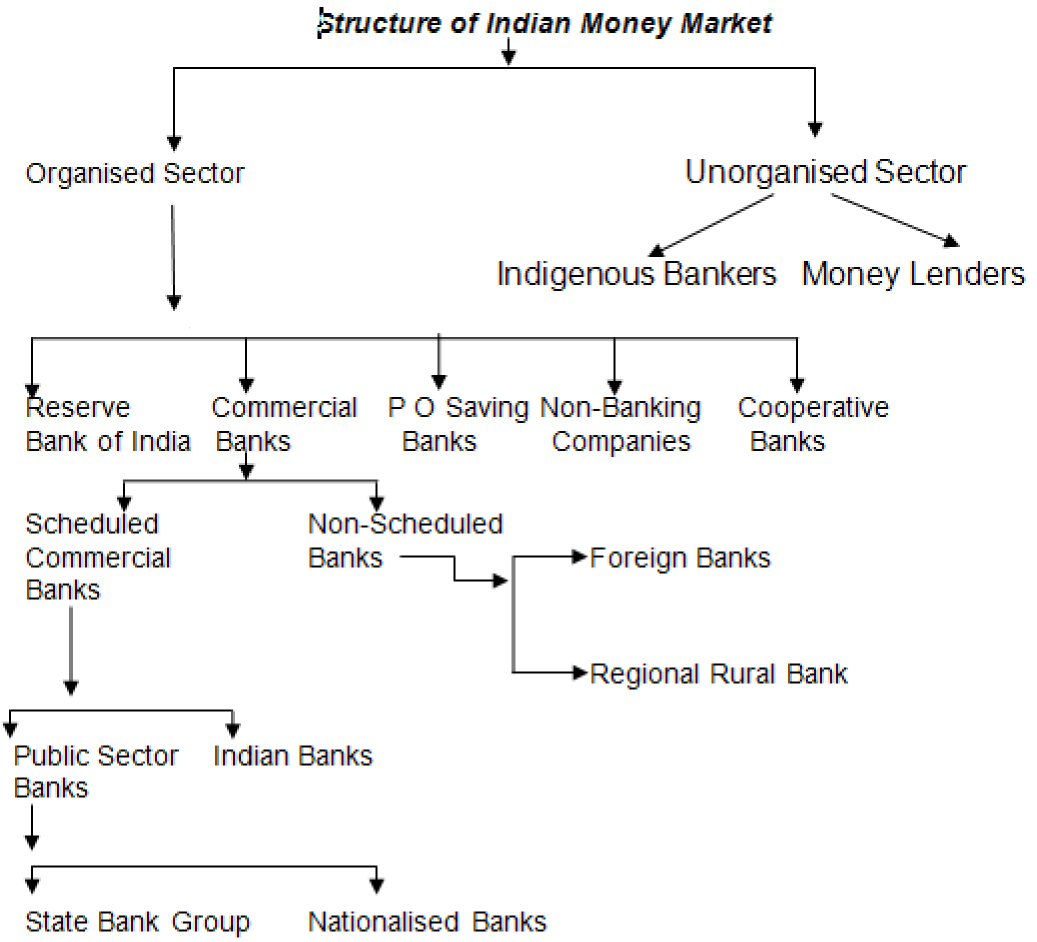
- Central and State Government
- Public sector undertaking
- Private sector companies
- Non-banking financial institutions
- Mutual funds
- Insurance companies
- Primary dealers

BASIC FUNCTIONS OF MONEY MARKET:

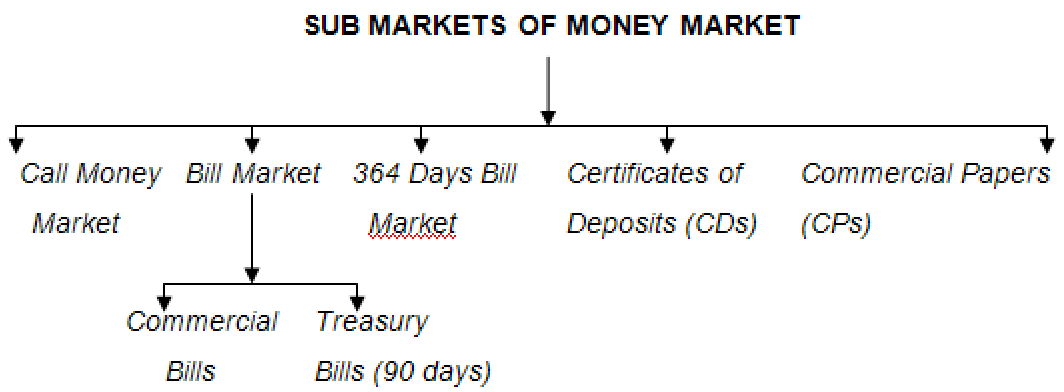
1. To provide efficient mechanism of liquidating for commercial banks, non-banking financial institutions, business firms and other investors.
2. To bridge between short term surpluses and defects.
3. To provide a realistic price for short term money.
4. To provide a platform for the Central bank of the country to control and manage the money supply.

STRUCTURE OF INDIAN MONEY MARKET

The Money Market is the close substitutes for money with the short term time span from overnight to year. The Indian Money Market consists of both organised and unorganised segment. The organised segment includes the Reserve Bank of India, State Bank of India, Public Sector as well as Private Sector Banks, Regional Rural Bank, Commercial Banks including Foreign Banks, Non-Scheduled Commercial Banks and other Non-Bank Financial Intermediaries such as LIC, GIC, and UTI etc. On the other hand, the unorganised segment consists of indigenous bankers, money lenders and other non-bank financial intermediaries.



Indian money market can be divided into various sub-markets depending on their nature and scope of the transactions and the features of the instruments.



Money Market instruments mainly include Government securities, securities issued by private sector and banking institutions—

5. Government Securities
6. Money at Call and Short Notice
7. Bills Rediscounting
8. Inter-Bank Participation
9. Money Market Mutual Funds
10. Call Money Market and Short-term Deposit Market

11. Treasury Bills
12. Certificates of Deposits
13. Inter-Corporate Deposits
14. Commercial Bills
15. Commercial Paper
16. Gilt-edged (Government) Securities
17. Repo Market

1. Government Securities:

The Reserve Bank of India issues securities on behalf of the Government. The term Government Securities includes Central Government Securities, State Government Securities and Treasury Bills. The different types of Government Securities are—

I. Dated Securities
II. Zero Coupon Bonds
III. Partly Paid Stock
IV. Floating Rate Bonds
V. Bonds with Call/ Put Option
VI. Capital Indexed Bonds

The Government dated securities can be purchased for a minimum amount of Rs. 10,000/- and the Treasury bills of Rs. 25,000/- and in multiple thereof. The State Government Securities can be purchased for a minimum amount of Rs.1, 000/-.

2. Money at Call and Short Notice:

Call money or call deposits are that money which is lent on condition to repay on call. Notice money refers to the money lent and repaid on a certain day's notice from the lenders. Banks borrow for a variety of reasons to maintain their cash reserve ratio, heavy payments, to maturity mismatch etc. Money at short notice is for a maturity upto 14 days. The main participants are banks and all India financial institutions as permitted by RBI.

A minimum size of Rs. 20 crores for each transaction was permitting the participation of the corporate in the call money market. The Discount and Finance House of India (DFHI) enhanced the activity of Call Money Market and Short-term Deposit Market. It allows lending and borrowing of funds.

The borrowers are essentially the banks. It can operate outside the purview of the provision of the ceiling rates fixed by the Indian Banks Association. The different participants that lend fund in the market are like GIC, IDBI, NABARD etc. The private Mutual funds were also participating in the market. The DFHI ascertains the settlement between the lender and the borrower about the availability of fund and the amount needed and the exchanges. It also provides advice regarding the interest rates applicable to them.

Here, the call rates are more volatile as they are determined by the interaction of demand and supply of funds in the market which is based on the maintenance of Cash Reserve Ratio by the banks. There are two call rates maintained in India i.e. Inter-bank call rate and the lending rate of DFHI.

3. Bills Rediscounting Scheme:

This is a money market scheme whereby banks may raise funds by issue of usance from issuing notes in convenient lots and maturities matching the genuine trade bills discounted by them. This instrument promotes liquidity in the market. Here the seller draws a bill of exchange and the buyer accepts it. Suppose, When X sells on credit and X (seller) needs money in the meantime, it may approach to the bank for discounting the bill and the seller get the money.

Now, the bank which has discounted the bill may require getting it 'rediscounted' with some other bank to get the fund. This is called 'bill rediscounting'. The bank has a facility to rediscount the bills with the RBI and other approved institutions like LIC, GIC, UTI, ICICI etc

4. Inter-Bank Participation Certificate:

Inter-Bank Participation Certificates are instruments issued by scheduled commercial banks only to raise funds or to deploy short term surplus. This instrument is issued as per RBI guidelines for two purposes:

b. on risk sharing basis
c. without risk sharing

Inter-Bank Participation without risk sharing can have tenure of 90 days only where, the issuing bank as borrowing and the participating bank advances to the banks. In case of risk sharing basis, the lender bank shares losses with the borrowing banks by mutually determining the interest rate. The tenure may be for 90 to 180 days.

5. Money Market Mutual Funds (MMMFs):

To provide safety, liquidity and return, MMMFs are formed which collect the small savings of a large number of savers and invest them in the capital market. This concept is extended to money market. Hence, the concept of money market mutual funds has coming up. The SEBI revises the guidelines on MMMFs from time to time relating to maximum limit of investment.

6. Treasury Bills:

Treasury Bills are discounted securities issued at a discount face value as per the short term requirement of the Government of India. RBI issues Treasury Bills on a prefixed day and at a fixed amount. There are four types of Treasury Bills:

d. 14-day Tbill maturity is in 14 days.
e. 91-day Tbill maturity is in 91 days.
f. 182-day Tbill maturity is in 182 days.
g. 364-day Tbill maturity is in 354 days.

These are highly liquid money market instruments. It is a zero default risk bearing paper. It helps in deployment of idle funds for very shorts periods as well.

7. Certificates of Deposits:

These are issued according to the guidelines of the Reserve Bank of India in dematerialized form or Usance Promissory Note for the fund deposited at a bank or other financial institution. It is a negotiable money market instrument whose minimum deposit should be Rs.1 lakh and the multiples of Rs. 1 lkh thereafter. The maturity period of Certificates of Deposits should not be less than 15 days and not more than 1 year. But, it should not be less than 1 year and exceed 3 years for financial institution.

8. Inter-Corporate Deposits:

Inter-Corporate Deposits are unsecured loan extended by one corporate to another. As the cost of funds for a corporate is higher than a bank, the rates in this market are higher than those in the other market.

9. Commercial Bills:

These are the bills accepted by the buyer for goods and services on credit from the seller and which may be kept upto the due date and encased by the seller or may be endorsed to a third party. The bills being bills of exchange may be discounted with the banks or financial institutions. These bills may again be the rediscounted at the bank.

10. Commercial Papers (CP):

It is an additional unsecured money market instrument to the investors as a source of short term borrowing. This instrument is issued in the form of a promissory note or dematerialized form. Every issuer has to appoint an Issuing and Paying Agent (IPA) for the issue of commercial papers and only a scheduled bank can act as an IPA for issuance of CP. The investor are given the Issuing and Paying Agent (IPA) certificate as well as issued physical certificates or arrangement is made for crediting the CP to the investor's account with a depository. The CP issued for a maturity period between a minimum of 7 days and a maximum up to one year from the date of issue in the denomination of Rs. 5 lakh or multiples thereof. The main purposes of introducing CP are—

- To enable the high level corporate borrowers such as leasing and financing of companies, manufacturing and financial institutions etc.
- To diversify the sources of short term borrowing
- To provide instrument for bank and financial institution in the money market.

11. Gilt-edged (Government) Securities:

Gilt-edged (Government) Securities have great demand by the banks to maintain the Net Demand and Time Liquidities (NDTL) position of the bank through its buying and selling. These securities are issued by Governments such as Central and State Governments, Semi-Government Authorities, Municipalities etc. They are long dated securities and held by the RBI. These issues are notified a few days before opening for subscription and offer is kept open for two to three days. The rate of interest is lower but it is payable half yearly.

12. Repo Market:

This money market instrument helps in collateralised short- term borrowing and lending through sale or purchase operation in debt instruments. Here the securities are sold by the holders to the investors with an agreement to repurchase them at a predetermined rate and date.

On the other hand, under the reverse repo transactions, securities are purchased with a simultaneous commitment to resell at a predetermined rate and date.

Bill Market

A bill is nothing but a promise by the borrower to the creditor to pay. These bills should be drawn on and accepted by the purchaser's bank. The date of repayment of bank's loan is fixed. It is of three types: i.) promissory notes, ii.) bills of exchange, and iii.) treasury bills. This is a market of short term bill to meet short term financial needs of individual, companies etc.

The commercial banks use these bills to maintain their financial positions of the bank by disposing or rediscounting it in the Reserve Bank of India. The Reserve bank of India has been making efforts to develop the bill market. These are of self- liquidating nature. Now-a-days, all commercial banks as well as the public sector banks are eligible for to offer the bill of exchange for rediscounting to the Reserve Bank of India.

Key points to remember:

18. Money Market is a market for short term funds. Money is raised and deployed for short term in this market.
19. The Money Market is the close substitutes for money with the short term upto one year.
20. A minimum size of Rs. 20 crores for each transaction was permitted in the participation of the corporate in the call money market.
21. The maturity period of Certificates of Deposits should not be less than 15 days and not more than 1 year.
22. On the recommendation of the Sukhmoy Chakravarty Committee and the Narasimham committee, RBI initiated a series of reform in Indian Money Market.
23. To provide safety, liquidity and return, MMMFs are formed which collect the small savings of a large number of savers and invest them in the capital market.
24. Gilt-edged (Government) Securities security have great demand for the banks to maintain the Net Demand and Time Liquidities (NDTL) position of the bank through its buying and selling.
25. Under the reverse repo transactions, securities are purchased with a simultaneous commitment to resell at a predetermined rate and date.

Important Terms related to Loans

A

1. Acceptance Letter: After you collect your sanction letter, you should, if you accept the terms of contract, communicate your willingness to accept the loan by way of an acceptance letter. You should do it within a particular time-frame which may vary between 1-3 months from the date of the sanction letter.

2. Accrual Basis: A method of accounting that allows revenues and expenses to be accrued, even if cash had not been received or paid during the accrual period.

3. Administrative Fee: The fee you pay for meeting the overheads of the administrative work handled by the housing finance firm. Usually to be paid while giving the acceptance letter.

4. ADR: An acronym for American Depository Receipt. Currently popular because of the rush of Indian firms to issue ADRs. Technically, it is an instrument traded at exchanges in the US representing a fixed number of shares of a foreign company that is traded in the foreign country.

5. Allotment: The acceptance of an application subscribing to the shares of a company. Establishes a contract that underlies an investment through public subscription.

6. Amortisation: Reduction of an amount at regular intervals over a certain time period. Usually, refers to the reduction of debt by regular payment of loan installments during the life of a loan. Also describes the accounting process of writing off an intangible asset.

7. Annual Reducing Method: A method of calculating interest on the reduced principal at the end of every year. However as repayments for all loans are EMI, though the principal is reduced every month, the interest is calculated on the original loan amount for twelve months after which the repayments towards principal are taken into account. Basically, this method will benefit you the least.

8. Annual Rest: A method of calculating EMI in which the appropriation towards interest and principal is made at the end of the financial year.

B

9. Balloon Mortgage: A balloon mortgage is a financing mechanism where the payments are not fully amortized over the term of the loan. Sometimes the borrower needs to pay only the interest on the loan. As the loan is not fully amortized, the borrower needs to pay a large sum of money at maturity, in some cases the full principal, in order to close the loan. As the closure amount is often large, this is called balloon payment.

10. Balloon Payment: The final payment on a debt, which is larger than the previous sums paid.

11. Borrower category: Defining the status of a borrower as salaried or self-employed.

C

12. Carpet areas: Areas of useable at any floor level as worked out in the plinth area minus the area occupied by the walls.

13. Clear title: It is a title which is free from any reasonable doubt and also free from all encumbrances.

14. Credit Appraisal: It is an assessment of the borrower's repayment capacity done by the lender before approving the home loan. Old credit history, present income, Income tax returns, bank statements and other personal details are used by the lender to arrive at the credit profile of the applicant and thus the eligibility and eligible amount.

D

15. Down payment: Money paid up front to make up the difference between the purchase price and loan amount.

E

16. Estimation: Estimating the value of the asset, especially if the asset is property that is not newly developed. Same as Valuation.

17. Extent of loan: The extent or percentage of loan a home finance company would disburse, given the value of the property. Same as Exposure.

F

18. Foreclosure: Sometimes if the cash flows are healthy and enough, a borrower may decide to pay up the entire amount of loan before the tenure and close it. This step helps in saving interest but it comes at an extra cost. This is why borrower must check the terms and conditions of the loan to see if the option of foreclosure exists and the charges for the same before taking the loan.

19. Flat rate: Percentage representation of the amount of annual interest on the total loan amount.

20. Flexible installment: Fixing the installment amount to a changeable benchmark.

I

21. Incidental Charges: In case the customer delays the payment of the monthly instalment, a collection team is sent to the customer's house to recover the money. The expenses incurred on such occasions are called Incidental Charges (IC).

22. Instalment to Income Ratio: The Instalment to Income Ratio (IIR) denotes the portion of your monthly instalment on your home loan. Very commonly used by Banks/ HFIs to calculate your loan eligibility, IIR is generally expressed as a percentage. Normally pegged at 40%, the IIR figure can vary on the basis of actual salary details, qualifications, employer / business, years of experience, growth prospects and sources of other income. For example, if your IIR is 40 per cent and your gross income is Rs. 10,000 per month, then as per the IIR ratio you will be eligible for a loan where the instalment does not exceed Rs. 4,000 per month (40%

multiplied by gross monthly income). Some banks peg IIR at even 55%, which increases your eligibility for a housing loan.

23. IRR: Internal Rate of Return or the IRR is a measure of cost of capital and the earnings from the cash flows to be made on the loan disbursed.

L

24. LTV/ LCR: There is a limit on the maximum loan amount that a person can get for a property irrespective of the loan eligibility. LTV stands for the Loan to Value ratio while LCR stands for the Loan to Cost ratio. Banks/ HFIs use this to signify the loan amount that a person is eligible for on the total cost of the property.

M

25. Marketable title: When the title to the property is clear and the person has the right and capacity to transfer the same then he is said to have a marketable title.

26. Moratorium period: A moratorium period is a time during the loan term when the borrower is not required to make any repayment. It is a waiting period before which repayment by way of EMIs begins. Normally, the repayment begins after the loan is disbursed and the payments have to be made each month. However due to this moratorium period, the payment starts after some time.

Education loans provide this feature. This is because education loans are repaid by the students after they start earning and build their finances.

27. Margin: Under a home loan, Bank/ HFIs fund only around 80% to 85% of the cost of the house. The remaining 20% to 15% has to be borne by the customer himself. This amount paid by the customer out of his own pocket is called the Margin or also the Own Contribution towards the cost of the house. The Margin amount is subject to the eligibility of the individual.

N

28. Obligation of the borrower: The borrower in terms of the agreement will be obligated to keep up the schedule of repayment, to deposit the post dated cheques periodically and to keep the property free from encumbrance.

P

29. Penal interest: If the installments are not received as per the repayment terms, by the end of the month, the borrower will be charged interest on the installments delayed which is called as penal interest.

30. PEMI: The disbursal of a home loan is made according to the completion stage of the property. When your loan is partly disbursed, you cannot start paying your EMI. Instead, you pay simple interest on the part amount drawn by you at the rate that is applicable to you. This is called PEMI.

R

31. Refinance: Loan or any additional loan financed on an existing property.

32. Registration value: It is the value of the property at which the property is registered. Generally the rates for the value for registration is fixed for specific areas by the authorities in many places.

S

33. Sale Agreement: It is an agreement which is entered into between the parties for dealing with the property and which creates a right to obtain a sale deed mentioning the property. Normally it fixes a time for completion, payment of earnest money or part payment of purchase consideration. Generally it is a document that precedes a sale deed and in such cases does not require registration and will also not confer any charge or right on the property. However in some states the sale agreement itself will be registered and will act as a sale deed.

34. Sale Deed: It is an instrument in writing which transfers the ownership of the property or properties in exchange for a price paid/consideration. This is a document that requires to be registered compulsorily.

T

35. Tenure: Period from the date of disbursement of loan to the date of the last EMI payment or the date of closure of loan.

36. Total initial payment: Initial payment made by the customer when the asset is purchased, also includes service charges and advance EMIs if any.

5 Common Questions and how to answer them

1. Tell us something about yourself / Brief yourself / Introduce Yourself.

Answer: Note, this is the MOST Important Question for Your Attitude Score. This will decide your attitude towards the job. You should start with a smile on your face and a gentle voice. Don't have an Underestimating, Aggressive tone while describing. Describe yourself in short with only Academic Achievements and Professional Achievements.

2. How do you Handle Pressure?

Answer: This is the perfect opportunity to describe your strengths and how do you fight back in hard situations. Don't boast about yourself, just be authentic about what you are saying. You can describe many academic situations where you had to handle a lot of pressure and you came back strong.

3. Why do you Believe that you are Qualified for this Position?

Answer: Tell them about the positive qualities you have and how you can improvise yourself. No need to pull technology and how good you can type stuffs.

4. Where do you see yourself after 3/5 years?

Answer: Never ever Say things which CANNOT be achieved in 3/5 years. That will prove you immature and that does not show any confidence. You can tell that you will be 1-2 management position ahead if your hard work is appreciated by the respected seniors.

5. Why Bank when you are from Engineering/Technical field?

Answer: Be honest but with some brief explanation. You can easily describe how bank has tied up with technology. How technology advancement made banking and transactions easier. How technology is helping the Financial Inclusion Programme. Your projects has helped you to achieve team work skills and proper management under pressure. And also do say the scope and current situation in your sector.

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