

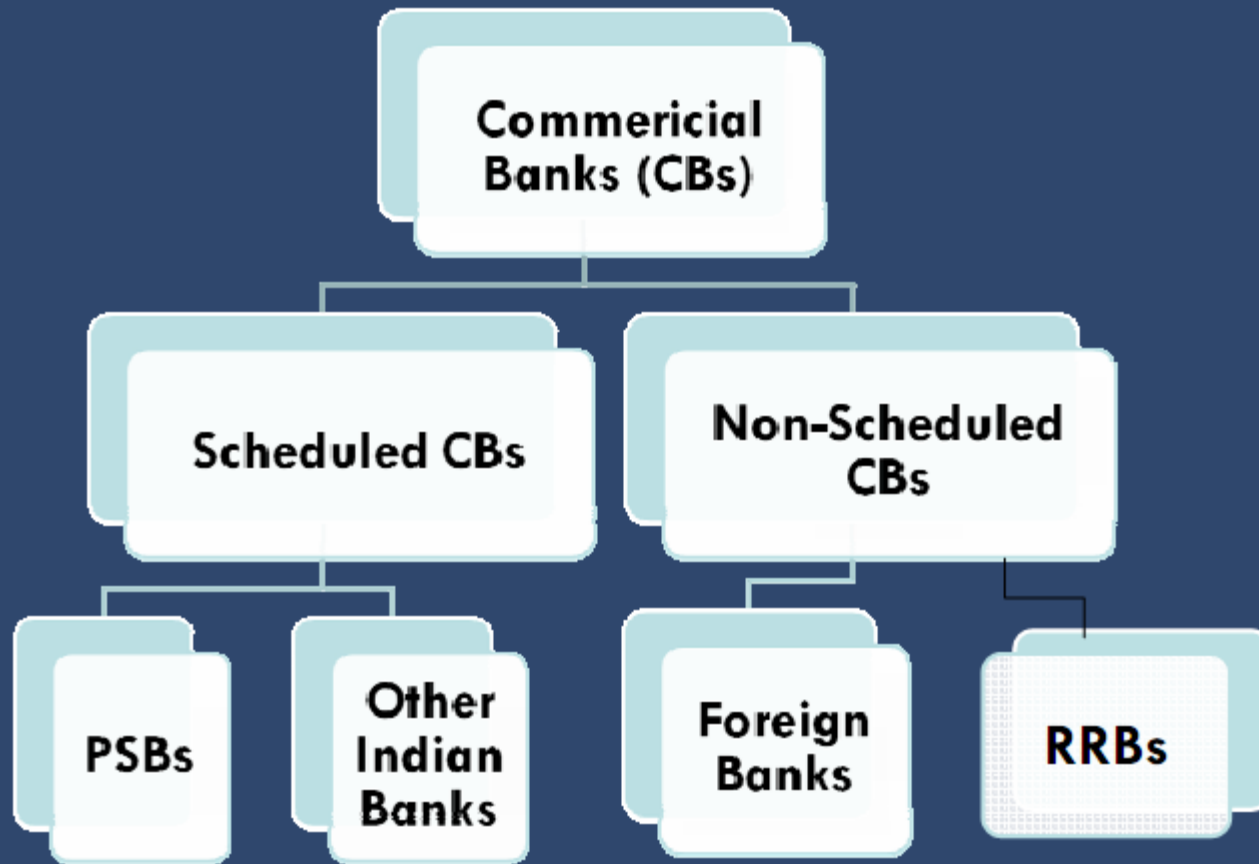
What is a Bank?

- Financial institution which accepts deposits & lends such money in the form of advances
- Two major functions – Basic (core) & Ancillary
- Deposit mobilisation & lending are basic functions
- Deposit (for a customer) is a liability for the bank
- Its lending, however, forms its asset base
- Lending for individual & business needs

Bank's Ancillary Functions

- Safe deposit lockers; Bancassurance
- Bank guarantees / Letters of Credit (LoC)
- Remittances, Travellers cheques, utility payments
- Credit & Debit cards;
- Mobile & Internet banking

Types of Banks



Major types of Banks

- Public Sector Banks
 - Owned & controlled by the government of India;
Ex., State Bank of India & Canara Bank
- Private Sector Banks
 - Owned by private individuals / corporations;
Ex., ICICI Bank, DCB
- Cooperative Banks
 - Organised under cooperative societies law & are operated on cooperative lines; Play important role in meeting credit needs of people in the rural areas.

Types of Deposits

- **Time Deposit**
 - Recurring Deposit
 - Fixed Deposit
- **Demand Deposit**
 - Savings Bank
 - Current Account
- **Major difference lies in interest rates and duration of withdrawal / transaction**

Types of Lending

- **Loan**
 - With or without security
 - For fixed period at agreed rate of interest
 - Interest on full loan amount (incl on unused sum)
- **Cash Credit – via hypothecation or pledge**
 - In hypothecation, goods not given to bank
 - In pledge, goods remain under bank's custody
- **Overdraft**
 - Temporary arrangement to overdraw Current Account
- **Discounting Bills of Exchange**

Statutory Monetary Aggregates

- **Cash Reserve Ratio (CRR)**
 - Certain percentage of deposits to be kept with the RBI
 - Current rate – 5.75%; Upper limit – 15%
- **Statutory Liquidity Ratio (SLR)**
 - Certain percentage to be invested in highly liquid assets like govt securities and gold
 - Current rate – 25%; Upper limit – 40%
- **CRR impacts money supply while SLR helps avoid a 'run on the bank'**

Measures of Monetary Aggregates

- $M1 = \text{Currency with Public} + \text{Demand Deposits (i.e. current account deposits) with Banks} + \text{Demand portion of Savings Deposits with Banks} + \text{'Other Deposits' with RBI.}$
Also called 'Narrow Money'
- $M2 = M1 + \text{Post Office Savings Deposits}$
- $M3 = M1 + \text{Time Deposits (i.e. Fixed Deposits) with Banks}$
Also called 'Broad Money'
- $M4 = M3 + \text{All Post Office Deposits}$

Plastic Money

- **Debit Card**
 - Upon use, your bank account is debited immediately; no credit period; Is a combination of Cheque & ATM card.
- **Credit Card**
 - On use, you get an interest-free period of 45-55 days; Kind of unsecured loan; Comes with a credit limit.
- **Charge Card**
 - Similar to a credit card but it requires you to make full payment by due date; high credit limits, sometimes even unlimited credit

Cheque

- Drawn on Specified Banker
- Payable on Demand
- Ante- & Post-Dated
- MICR & IFCS Code
- Clearing
- Crossing & A/c Payee
- Bearer & Endorsement
- Bouncing of Cheque / Dishonour

What is Call Money Market

- Deals in call loans or call money granted for one day; also called interbank call money market.
- Banks with temporary deficit of funds form the demand side & the banks with temporary excess of funds form the supply side of the call money market.
- Rate of interest is highly unstable; quickly rises under the pressures of excess demand for funds and quickly falls under the pressures of excess supply of funds.

Other Banking & Related Terms

- Clearing House
 - Meeting place for representatives of different banks to settle payments of cheques & other transfer orders drawn on each other by their customers. In other words, it is a place where mutual indebtedness between banks can be settled.
- Negotiable Instrument
 - According to Section 13 of the Negotiable Instruments Act, 1881, a negotiable instrument means “a promissory note, bill of exchange or cheque, payable either to order or to bearer whether the words “order” or “bearer” appear on the instrument or not”.

Other Banking Terms

- EMI – **Equated Monthly Installments**
- Bank Rate – **Rate of interest charged by RBI on loans to commercial banks on long-term basis**
- Repo Rate – **Rate of interest charged by RBI on loans to commercial banks on short-term basis**
- Reverse Repo Rate – **Rate of interest paid by RBI on loans borrowed from commercial banks on short-term basis**
- **What are Basel Norms?**

Other Banking & Related Terms

- **ATM - Automated Teller Machine**
 - First ATM in 1987 (HSBC); SBI has largest ATM network overall; ICICI Bank in private sector
- **FDI - Foreign Direct Investment**
 - FDI cap is 49% in Banking sector
- **KYC - Know Your Customer**
 - Bank will, prior to opening an account, require documentation and information as prescribed by KYC guidelines issued by RBI

- CRR – 6%
- SLR – 24%
- Bank Rate – 6%
- PLR – 11% to 12%
- Repo Rate – 6.5%
- Reverse Repo – 5.5%
- SB Rate – 3.5%
- Deposit Rate – 6 to 7%