

CIBA

CERTIFICATE IN BANKING

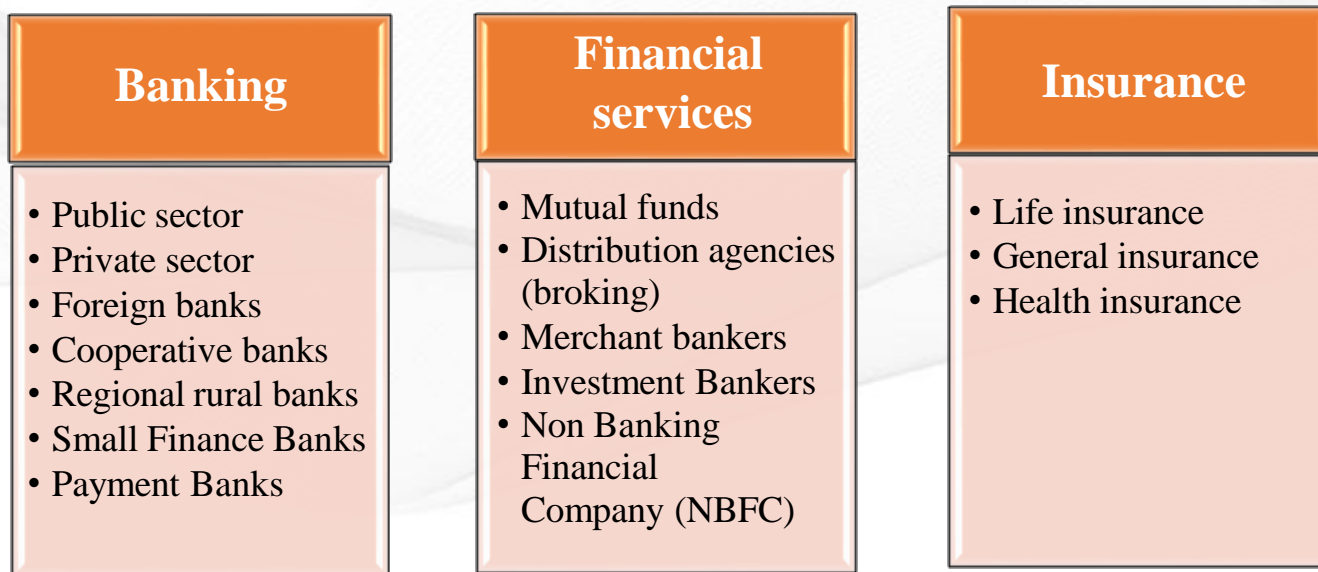
Session 1- Introduction to Banking and Banking Products

Objectives

- In this session, you will learn :
 - To identify the key players of the BFSI industry with emphasis on Banking
 - To differentiate between various Liability and Asset products of the Bank.

Overview of BFSI Industry

- The following figure provides the overview of the BFSI sector in India:



Evolution of Banking in India

- ❑ Presidency banks by East India Company were:
 - Bank of Bengal (1809)
 - Bank of Bombay (1840)
 - Bank of Madras (1843)
- ❑ 1921: Imperial Bank Of India was formed with the amalgamation of the three presidency Banks.
- ❑ 1935: Reserve Bank of India was established
- ❑ 1949: Enactment of Banking Regulation Act
- ❑ 1955: Imperial Bank of India rechristened State Bank of India (SBI)
- ❑ 1969: Nationalisation of 14 major banks

- ❑ 1980: Nationalisation of six banks
- ❑ 1991: Banking sector reforms
- ❑ 2000: Globalisation
- ❑ 2010: Merger of SBI with State Bank of Saurashtra
- ❑ 2015: Licenses given to 10 Small Finance Banks and 11 Payment Banks
- ❑ 2017: Merger of SBI with its subsidiaries
- ❑ 2020: Merger of 8 Public Sector Banks



✓ Scheduled Commercial Banks

- Included in the second schedule of RBI Act 1934
- Registered under the Companies Act, 2013
- Licensed by RBI under the provisions of Section 22 of the Banking Regulation Act 1949
- **Public Sector Banks-** Majority ownership (more than 50%) with the Government. Listed on stock exchanges. Operating pan India. e.g SBI, PNB, BOB etc
- **Private Sector Banks-** Majority ownership with Private Institutions. FDI limit raised to 74%. Operating pan India e.g HDFC Bank. ICICI Bank, Axis Bank etc.
- **Foreign Banks-** Banks with head office overseas and with Branch offices in India. Operating pan India e.g HSBC, CitiBank, Standard Chartered Bank etc.
- **Regional Rural Banks-** Owned by Central Government – 50%, State Government – 15% and Sponsor Banks – 35%. Operating at the regional level. Set up under the RBI Act 1976 e.g Maharashtra Gramin Bank, J&K Gramin Bank, Saurashtra Gramin Bank etc

Other Banks

- **Co operative Banks-** Registered under Co operative Societies Act, 1904. Regulated by Registrar of Co operative Societies and RBI under Banking Regulation Act, 1949 and Banking Laws (Co-operative Societies) Act, 1955
- **Small Finance Banks-** RBI gave licenses to 10 entities in 2015. Registered as Public company in the private sector under the Companies Act 2013. Pan India operation. Set up to further the objective of financial inclusion by undertaking basic banking activities.
- **Payment Banks-** RBI gave licenses to 11 entities in 2015, of which only 4 are operational. Registered as Public company in the private sector under the Companies Act 2013. Pan India operation. Can only accept deposit. No lending activities.

- The following are the key regulators of the BFSI sector in India:

Reserve Bank of India

- Regulates banks
- Issues banking licenses

Securities Exchange Board of India

- Regulates capital markets, stock exchanges and mutual funds

Insurance Regulatory Development Authority

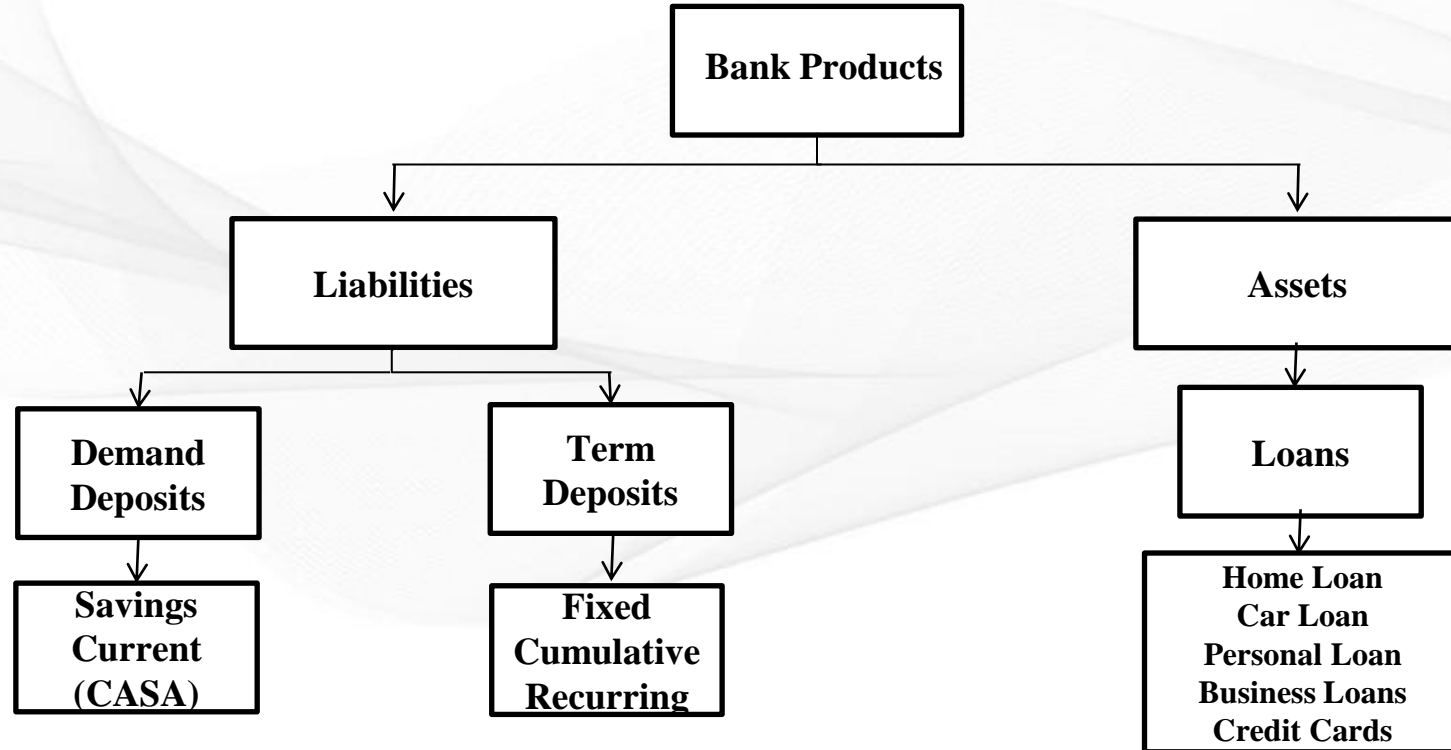
- Regulates insurance companies

Pension Fund Regulatory Development Authority

- Regulates pension fund and NPS system

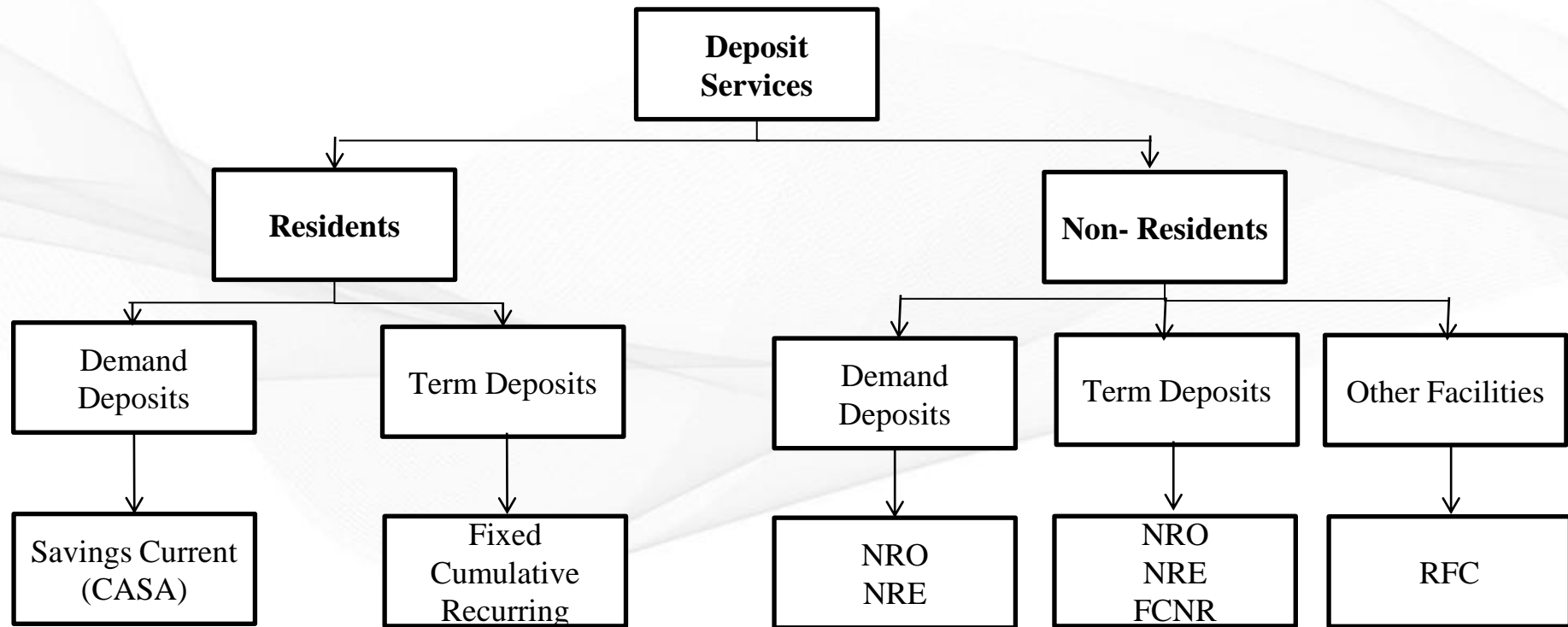
Banking Products

□ The following figure represents the various products offered by banks:



Deposit services

□ The following figure represents the various deposit products offered by banks:



Demand Deposit

- **Savings bank account:**
 - Primarily meant for savings
 - Repayable on demand
 - Opened in single or joint names
 - Can be opened by adult individuals, minors, trust, association, societies, clubs, HUF etc
 - Not permitted for trading and business organisations
 - Eligible for interest:
 - Payable on daily balance
 - Banks are free to decide the rate of interest
 - Maintenance of minimum balance stipulation
 - Restrictions on number of withdrawals in a specified period
 - KYC documents mandatory for opening an account

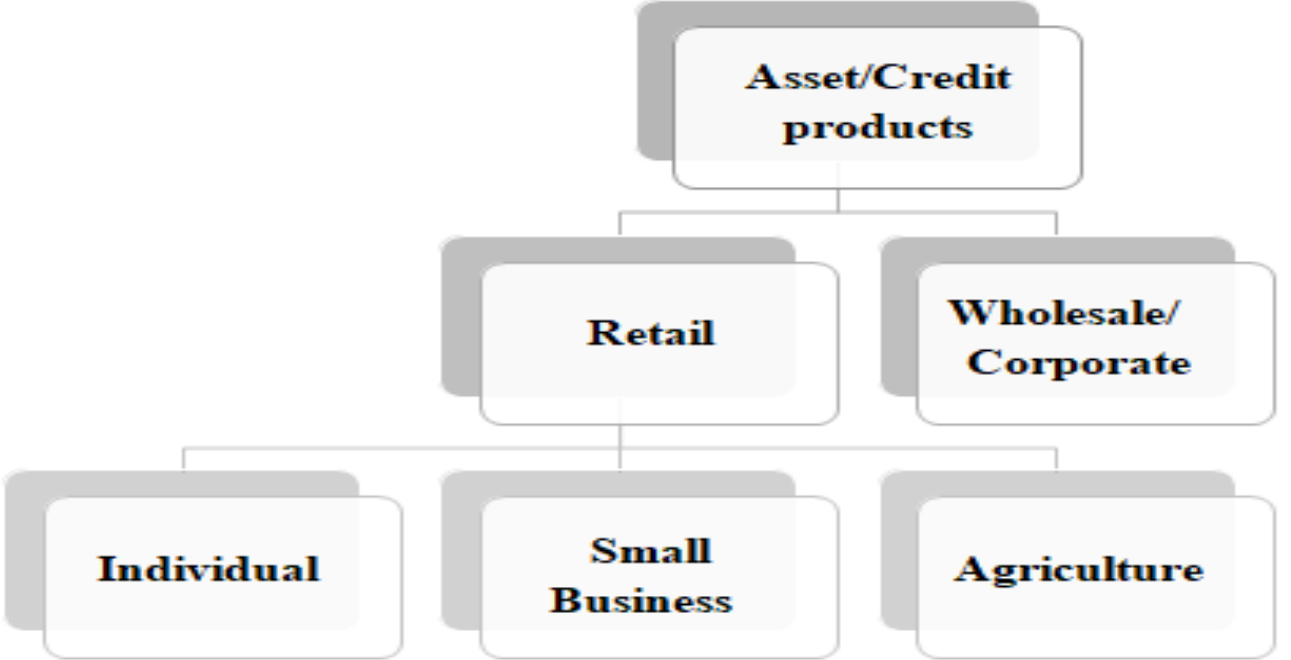
- **Current account:**
 - Caters to the business needs of the customers
 - Can be opened for professionals, proprietors, partnerships, Private and Public limited companies, HUFs etc
 - Unrestricted operations
 - High minimum balance
 - No interest payable
 - Repayable on demand
 - KYC documents mandatory for opening an account

Deposit Services

- **Fixed deposit account:**
 - Opened for a specified period. Also known as “Term Deposit”
 - Min period: 7 days. Max period: 10 years
 - Investor can invest a lumpsum amount
 - Premature withdrawal permitted, may entail penalty
 - Rate of interest depends on the period of deposit
 - Interest calculated and paid at quarterly basis:
 - Can be paid monthly at discounted rates
 - Can be issued as ordinary or cumulative fixed deposit
 - Interest, in excess of Rs. 40,000, subject to TDS of 10%
 - Loans can be availed against security of fixed deposits
 - Many variants of FDs are offered by Banks for e.g Money multiplier FD (ICICI), SBI Multi option deposit scheme (SBI)

- **Recurring deposit account:**
 - Saving a fixed amount every month
 - Opened for a specified period
 - Min period: 6 months. Max period: 10 years
 - Rate of interest as applicable for fixed deposit
 - Premature withdrawal permitted but may entail penalty
 - Interest, in excess of Rs. 40,000, subject to TDS of 10%
 - Loans can be availed against security of recurring deposits
 - Some banks offer flexi RDs like “I wish RD” (ICICI), Flexi deposit scheme (SBI)

Asset/ Credit Products



Retail vs Corporate Loans

Retail

- For Individuals, small businesses and agriculture
- Small ticket size
- Large Customer base
- Standardised products
- Risk spread out
- Monitoring and recovery more laborious due to large customer base

Corporate

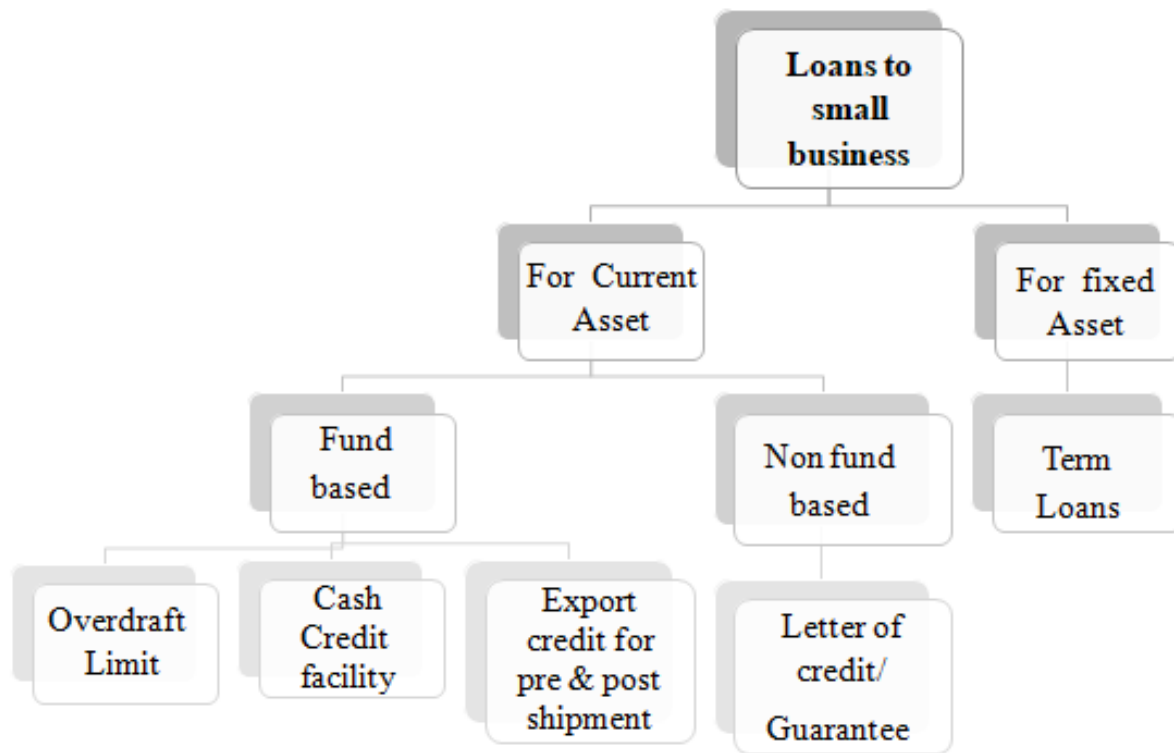
- For Medium and big businesses
- Big ticket size
- Small customer base
- Customised products
- Concentration of risk
- Impact of NPA is larger due to the large ticket size

Retail Credit Products

	Home Loan	Vehicle Loan	Personal Loan	Educational Loan
Eligible customers	Individuals, Business	Individuals, Business	Individuals	Individual
Purpose	Purchase or construction of new/old house/flat	Purchase of new or used car	Any purpose	Studies in India and abroad
Amount	Differs between banks	Differs between banks	Differs between banks	Differs between banks
Tenure	Usually max 30 Years	Usually max 7 years	Usually max 5 years	Usually 7 years after the completion of studies
Security	Property Mortgaged	Vehicle hypothecated	Unsecured	Unsecured-4 lakhs Above that secured by any tangible Asset
Margin	20%	10-20%	none	none


 Credit card:


- Is a type of loan given to customers.
- Is issued as standalone or co-branded cards
- Allows flexibility to make purchases without carrying cash.
- Payments (towards withdrawals under credit card) are to be made on monthly basis.
- Payment not made by due date, involves finance charges being levied.
- Cash withdrawals attract additional charges along with finance charges.
- To promote usage, reward points and cash back are offered to customers





☐ Creation of fixed assets:

- Term loan:
 - For purchase of machinery, Commercial property etc.
 - Repayable over a period of time
 - Asset created is taken as security
 - Tenure based on repaying capacity of organisation
- Deferred payment guarantee
 - A non fund-based facility

 Working capital finance:

- Is given in the form of a running account.
- Can be given as:
 - Overdraft.
 - Cash credit.
 - Export Packing credit (for exporters)
 - SME credit card

 Post sale finance or trade finance:

- Is for meeting post sale requirements in case of credit sale.

Can be given as:

- Purchase of demand bills drawn under L/C or confirmed order.
- Discounting of usance bills drawn under L/C or confirmed order.
- Includes non fund-based facilities such as:
 - Letter of credit.
 - Guarantee.



- **Pradhan Mantri MUDRA Yojana**

- Loans for Micro and Small Enterprises
- Maximum loan amount : Upto Rs 10 lacs
- SHISHU - Loans upto Rs.50,000
- KISHORE - Loans from Rs.50,001 to Rs.500,000
- TARUN- Loans from Rs.500,001/- to Rs.10,00,000/-
- Loan tenure: 5 years with a maximum moratorium of 6 months

- ❑ Credit to agricultural sector is given for the purpose of:
 - Purchase of agricultural implements.
 - Developmental activities.
 - Meeting expenses towards growing crop.
- ❑ Agricultural credit can be classified under two broad heads:
 - Credit requirement of individuals
 - Credit requirement of non-individuals

Thank You