BANKING & ITS TYPES

BANK

A bank is an institution which deals with money & credit .Origin of the word bank belongs to the word Banchi or Greek word banque which means joint fund.

Definition of Bank

"An institution whose debts are widely accepted in settlement of other people's debts to each other."

Types of Banks

Basis of ownership	**Basis of law**	**Basis of function**
. **Public sector**	**Scheduled bank**	**Central Banking**
. **Private**	**Non scheduled**	**Commercial Bank**
. **Co-operative**		**Co – operative Bank**
		Industrial Bank
		Development Bank
		Agriculture Bank
		Foreign Bank

A. Basis of ownership.

i. **Public sector banks -** Those banks which are totally owned by government & whose social Objective is social welfare.
ii. **Private sector banks –** which are owned & run by private sector bank.
iii. **Co-operative bank –** Which are jointly run by a group of individuals .

B. Basis of law.

i. **Scheduled bank** - Which is registered under IInd Scheduled of RBI act, 1934?
ii. **Non Scheduled bank** – The other commercial banks which do not part of the second schedule o the RBI act are known as the non scheduled banks. They are not entitled to the privileges and facilities extended by RBI to scheduled banks.

C. Basis of function.

i. **Central Banking –** Established in December 1911 and nationalized in 1969 by sir sorabji Pochkhanawala with Sir Pherozesha Mehta as Chairman. It is the first Indian bank to have started as totally owned by Indians. It has over 3,960 branches and 270 extension counters across 27 Indian states and 3 union Territories with its head office inn Mumbai (Maharashtra). It is one of the top four banks in the country.

ii. **Commercial Banking** – The evolution of banking which lasted for centuries until two types of modern banking developed in the industrially advanced economies in the late nineteenth century was an integral part of the expansion of capitalism .The techniques of banking developed in the 17^{th} century facilitated the industrial and territorial expansion that began about the same time.

FUNCTIONS OF COMMERCIAL BANK

1. To change cash for bank deposits and bank deposits for cash.
2. To transfer bank deposits between individuals and or companies.
3. To exchange deposits for bills of exchange, government bonds, the secured and unsecured promises of trade and industrial units.

Co-operative Bank

Larger institutions are often called *cooperative banks*. Some are tightly integrated federations of credit unions, though those member credit unions may not subscribe to all nine of the strict principles of theWorld Council of Credit Unions (WOCCU).

Like credit unions, cooperative banks are owned by their customers and follow the cooperative principle of one person, one vote. Unlike credit unions, however, cooperative banks are often regulated under both banking and cooperative legislation. They provide services such as savings and loans to non-members as well as to members, and some participate in the wholesale markets for bonds, money and even equities.

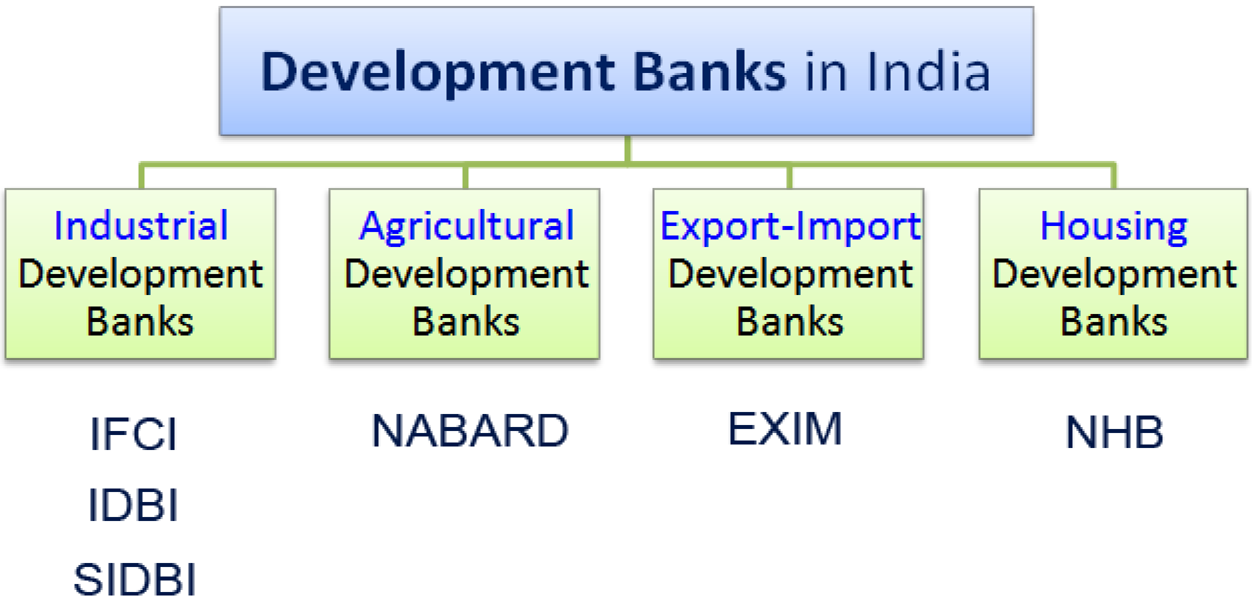
Definition of 'Industrial Bank'

A financial institution with a limited scope of services. Industrial banks sell certificates that are labeled as investment shares and also accept customer deposits. They then invest the proceeds in installment loans for consumers and small businesses. These banks are also known as Morris banks or industrial loan companies.
Which offer long term medium terms loans to industries & also work for their development.

Development bank

These were set up to cater to the need of agriculture & industries. Development banks are specialized financial institutions. They provide medium and long-term finance to the industrial and agricultural sector. They provide finance to both private and public sector. Development banks are multipurpose financial institutions. They do term lending, investment in securities and other activities. They even promote saving and investment habit in the public.

The arrangement of development banks in India is depicted below.



Development banks in India are classified into following four groups:

1. **Industrial Development Banks** : It includes, for example, Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), and Small Industries Development Bank of India (SIDBI).
2. **Agricultural Development Banks** : It includes, for example, National Bank for Agriculture & Rural Development (NABARD).
3. **Export-Import Development Banks** : It includes, for example, Export-Import Bank of India (EXIM Bank).
4. **Housing Development Banks** : It includes, for example, National Housing Bank (NHB).

Agriculture banks – A bank that lends money to farmers, often over a long period of time and at low rates of interest. Regional rural banks – These banks have been established under regional rural bank act, 1976 .The objective of establishing such banks is to develop rural economy by providing credit & other facilities to small & marginal farmers.

FUNCTIONS

1. Mobilise local savings
2. Provide short term & medium term credit for agriculture & other purposes.
3. Set up & maintain godowns.
4. Help in overall developed of villages in its area.

Foreign banks – Which are incorporated in foreign country .They have set up their branches in India. Foreign banks have become more prominent and visible subsequent to the liberalization process. In Line with the globalization and compliance with international obligations, foreign banks have been allowed to expand their operations in india both by opening more branches and new entrants in their fold.

The Difference Between Commercial Banks & Schedule Banks

While commercial banks exist around the world, scheduled banks constitute a unique feature of the Indian banking system. Within this banking structure, commercial banks take on a specific definition in relation to the other types of banks in the Indian system, which include schedule banks, nonscheduled banks and cooperative banks. Fully understanding the differences between commercial and scheduled banks requires a basic understanding of the Indian banking system as a whole.

The Structure of Indian Banking

- The structure of the Indian banking system can be categorized in two ways. The first divides banks into three categories: the Reserve Bank of India, commercial banks and cooperative banks. The second divides banks into two categories: scheduled banks and non-scheduled banks. In both of these systems of categorization, the Reserve Bank of India, or RBI, sits at the center of the banking structure. RBI holds the reserve capital of all commercial and scheduled banks in the country.

Scheduled Banks

- Three eligibility criteria exist for scheduled banks in India, the first of which entails carrying on the business of banking in India, which all banks ostensibly meet. All scheduled banks must maintain a reserve capital of 5 lakhs rupees in the Reserve Bank of India. A lakh constitutes 100,000. In 2011, 5 lakhs rupees, or 500,000 rupees, equates approximately $11,156. Any commercial bank, cooperative bank, nationalized bank, foreign bank, rural regional bank institution, State Bank of India branch or other private sector bank meeting these criteria qualifies as a scheduled bank. Thus all commercial banks in India qualify as scheduled banks, though not all scheduled banks qualify as commercial banks.

Commericial Banks vs. Cooperative Banks

- Scheduled banks in India fall into two categories: commercial banks and cooperative banks. Commercial banks constitute those banks driven by profit. These banks exist for no other reason than generating capital. Cooperative banks technically constitute cooperative institutions with an elected managing committee, provisions for the protection of members' rights and a set of communally developed and approved bylaws and amendments. In addition to personal finance, co-op banks exist to handle the finances of rural activities like agricultural and livestock farms and urban activities like entrepreneurship and home buying.

Non-scheduled Banks

- Very few non-scheduled banks exist in India, as very few institutions can claim exemption from the broad eligibility inclusions of scheduled banks. Banks with reserve capital of less than 5 lakh rupees qualify as non-scheduled banks, though 5 lakh rupees constitutes such a small sum of money that hardly any banks fall into this designation. In 2006, only three non-scheduled banks existed in the entire country. As of 2011 only four such banks exist. Despite economic expansion in this period, only one additional non-scheduled bank appeared in India.

List of Banks.

Nationalised Banks

Andhra Bank	Allahabad Bank	Bank of Baroda	Bank of India
Bank of Maharashtra	Canara Bank	Central Bank of India	Corporation Bank
Dena Bank	Indian Bank	Indian Overseas Bank	OBC
Punjab and Sind Bank	Punjab National Bank	State Bank of Bikaner & Jaipur	
State Bank of Hyderabad	State Bank of India	State Bank of Mysore	
State Bank of Patiala	State Bank of Travancore	Syndicate bank	UCO Bank
Union Bank of India	United Bank of India	Vijaya Bank	

Private-sector banks

Axis Bank	Catholic Syrian Bank	City Union Bank	DevelopmentCredit Bank
Dhanlaxmi Bank	Federal Bank	HDFC Bank	ICICI Bank
Karnataka Bank	IndusInd Bank	ING Vysya Bank	J & k Bank
Karur Vysya Bank	Kotak Mahindra Bank	Lakshmi Vilas Bank	Saraswat Bank
South Indian Bank	Sourashtra Bank	Tamilnad Mercantile Bank	Yes Bank

Foreign banks operating in India

ABN AMRO Bank N.V.	Abu Dhabi Commercial Bank	American Express Bank
Australia and New Zealand Bank	Bank Internasional Indonesia	Bank of America NA
Bank of Bahrain and Kuwait	Bank of Ceylon	Scotia Bank of Tokyo Mitsubishi UFJ
Barclays Bank PLC	BNP Paribas	Calyon Bank
Chinatrust Commercial Bank	Credit Suisse	DCB Bank
Commonwealth Bank of Australia	DBS Bank	Deutsche Bank AG
FirstRand Bank	HSBC	JP Morgan Chase Bank

Scheduled Banks in India (Public Sector)

The following are the Scheduled Banks in India (Public Sector):

Allahabad Bank	Andhra Bank	Bank of Baroda	Bank of India
Bank of Maharashtra	Canara Bank	Central Bank of India	Corporation Bank
Dena Bank	Indian Bank	Indian Overseas Bank	OBC
Punjab and Sindh Bank	Punjab National Bank	State Bank of Bikaner and Jaipur	
State Bank of Hyderabad	State Bank of India	State Bank of Mysore	State Bank of Patiala
State Bank of Travancore	Syndicate Bank	UCO Bank	Union Bank of India
United Bank of India	Vijaya Bank	IDBI Bank	

Scheduled Banks in India (Private Sector)

The following are the Scheduled Banks in India (Private Sector)[2][3]:

Abhyudaya Bank [4]	Axis Bank Ltd	Bank of Punjab Ltd	Bank of Rajasthan
Catholic Syrian Bank	Centurion Bank Ltd	City Union Bank	Development Credit Bank

Dhanlaxmi Bank Federal Bank Ltd HDFC Bank Ltd ICICI Banking Corporation Bank Ltd

IndusInd Bank ING Vysya Bank Jammu & Kashmir Bank Nainital Bank

Karur Vysya Bank Karnataka Bank Kotak Mahindra Bank Lakshmi Vilas Bank

Saraswat Bank South Indian Bank Ltd Tamilnad Mercantile Bank Limited Yes Bank

Scheduled Foreign Banks in India

The following are the Scheduled Foreign Banks in India:

American Express Bank ANZ Bank Bank of America NT & SA Bank of Tokyo Ltd.

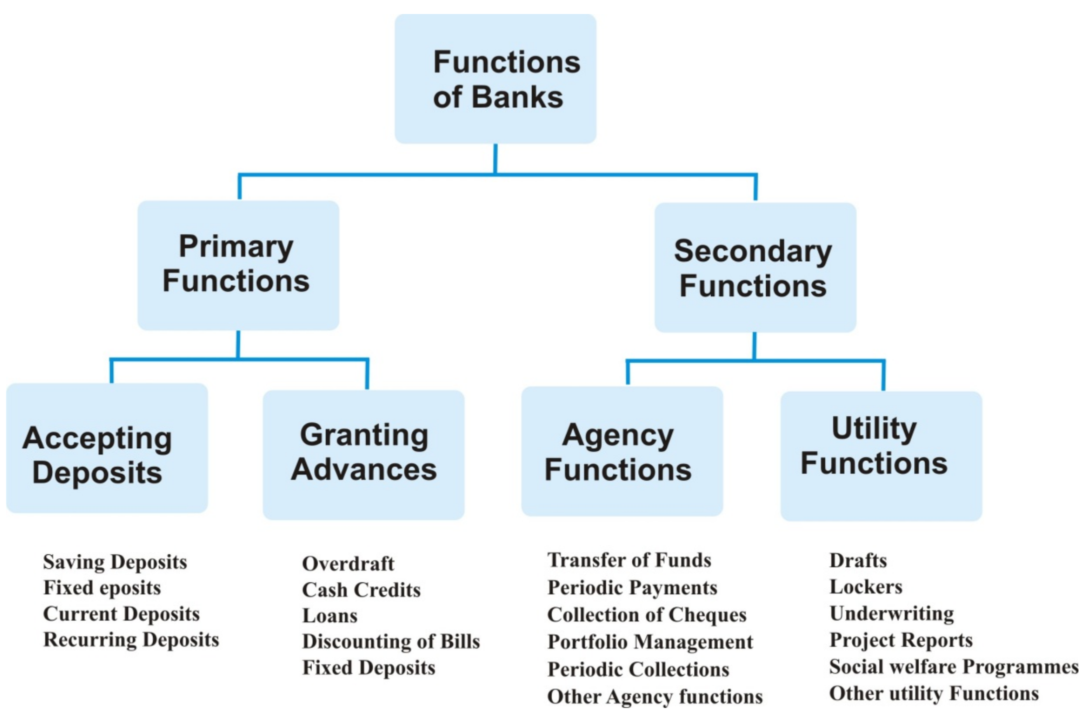
Banque Nationale de Paris Barclays Bank Plc Citibank Deutsche Bank AG

Hongkong and Shanghai Banking Corporation The Royal Bank of Scotland

The Chase Manhattan Bank Ltd. Dresdner Bank AG Standard Chartered Bank

FUNCTIONS OF DIFFERENT BANKS

The functions of banks are briefly highlighted in following Diagram or Chart.



These functions of banks are explained in following paragraphs of this article.

PRIMARY FUNCTIONS OF BANKS

The primary functions of a bank are also known as banking functions. They are the main functions of a bank. These primary functions of banks are explained below.

I. Accepting Deposits

The bank collects deposits from the public. These deposits can be of different types, such as

1. Saving deposits
2. Fixed Deposits
3. Current Deposits
4. Recurring Deposits

1. Saving Deposits

This type of deposits encourages saving habit among the public. The rate of interest is low. At present it is about 5% p.a. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names

2. Fixed Deposits

Lump sum amount is deposited at one time for a specific period. Higher rate of interest is paid, which varies with the period of deposit. Withdrawals are not allowed before the expiry of the period. Those who have surplus funds go for fixed deposit.

3. Current Deposits

This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid. In fact, there are service charges. The account holders can get the benefit of overdraft facility.

4**. Recurring Deposits** This type of account is operated by salaried persons and petty traders. A certain sum of money is periodically deposited into the bank. Withdrawals are permitted only after the expiry of certain period. A higher rate of interest is paid.

II. Granting of Loans and Advances

The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit.

The types of bank loans and advances are :-

1. Overdraft
2. **Cash Credits**
3. Loans

4. Discounting of Bill of Exchange

1. Overdraft This type of advances are given to current account holders. No separate account is maintained. All entries are made in the current account. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

2. Cash Credits The client is allowed cash credit upto a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash credit is given against the security of tangible assets and / or guarantees. The advance is given for a longer period and a larger amount of loan is sanctioned than that of overdraft.

3. Loans It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term. Repayment of money can be in the form of installments spread over a period of time or in a lumpsum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits. Loans are normally secured against tangible assets of the company.

4. Discounting of Bill of Exchange The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

SECONDARY FUNCTIONS OF BANKS

The bank performs a number of secondary functions, also called as non-banking functions.

These important secondary functions of banks are explained below.

I.Agency Functions

bank acts as an agent of its customers. The bank performs a number of agency functions which includes :-

A.Transfer of Funds
B.Collection of Cheques
C.Periodic Payments
D.Portfolio Management
E.Periodic Collections
F.Other Agency Functions

A. Transfer of Funds The bank transfer funds from one branch to another or from one place to another.

B. Collection of Cheques The bank collects the money of the cheques through clearing section of its customers. The bank also collects money of the bills of exchange.

C. Periodic Payments On standing instructions of the client, the bank makes periodic payments in respect of electricity bills, rent, etc.

D. Portfolio Management The banks also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account. This facility is called portfolio management.

E. Periodic Collections The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

F. Other Agency Functions They act as trustees, executors, advisers and administrators on behalf of its clients. They act as representatives of clients to deal with other banks and institutions.

II. General Utility Functions

The bank also performs general utility functions, such as :-

A.Issue of Drafts, Letter of Credits, etc.
B.Locker Facility
C.Underwriting of Shares
D.Dealing in Foreign Exchange

E.Project Reports
F.Social Welfare Programmes
G.Other Utility Functions

A. Issue of Drafts and Letter of Credits Banks issue drafts for transferring money from one place to another. It also issues letter of credit, especially in case of, import trade. It also issues travellers' cheques.

B. Locker Facility The bank provides a locker facility for the safe custody of valuable documents, gold ornaments and other valuables.

C. Underwriting of Shares The bank underwrites shares and debentures through its merchant banking division.

D. Dealing in Foreign Exchange The commercial banks are allowed by RBI to deal in foreign exchange.

E. Project Reports The bank may also undertake to prepare project reports on behalf of its clients.

F. Social Welfare Programmes It undertakes social welfare programmes, such as adult literacy programmes, public welfare campaigns, etc.

G. Other Utility Functions It acts as a referee to financial standing of customers. It collects creditworthiness information about clients of its customers. It provides market information to its customers, etc. It provides travellers' cheque facility.

Bank Account: A **bank account** is a financial account between a bank customer and a financial institution.A bank account can be a deposit account, a credit card, or any other type of account offered by a financial institution. The financial transactions which have occurred within a given period of time on a bank account are reported to the customer on a bank statement and the balance of the account at any point in time is the financial position of the customer with the institution. a fund that a customer has entrusted to a bankand from which the customer can make withdrawals.

TYPES OF BANK ACCOUNTS.

a. Savings Bank Account
b. Current Deposit Account
c. Fixed Deposit Account
d. Recurring Deposit Account.
e. Minor Account
f. No-Frill Account
g. NRI Account.

a. Savings Bank Account : If a person has limited income and wants to save money for future needs, the Saving Bank Account is most suited for his purpose. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited any time in this account. Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using ATM card. Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on savings bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

b. Current Deposit Account: Big businessmen, companies and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on number of withdrawals from savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times. Banks open current account for them. Like savings bank account, this account also requires certain minimum amount of deposit while opening the account. On this deposit bank does not pay any interest on the balances. Rather the accountholder pays certain amount each year as operational charge. For the convenience of the accountholders banks also allow withdrawal of amounts in excess of the balance of deposit. This facility is known as overdraft facility. It is allowed to some specific customers and upto a certain limit subject to previous agreement with the bank concerned.

c. Fixed Deposit Account (also known as Term Deposit Account): Many a time people want to save money for long period. If money is deposited in savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn a interest at a higher rate.

d. Recurring Deposit Account: This type of account is suitable for those who can save regularly and expect to earn a fair return on the deposits over a period of time. While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period. The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.

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e. Minor Account : A type of savings account that is setup by an adult to be used by a minor. This type of banking account does not provide all of the privileges that a normal account would, but does allow the minor to make withdrawals and deposits. Some banks require that the minor's account be linked to a primary account, so that the adult can be held accountable for any improper uses of the account. Normal maintenance fees are usually waived until the minor reaches the age of 18.

f. No Frill Account : 'No Frills 'account is a basic banking account. Such account requires either nil minimumbalance or very low minimum balance. Charges applicable to such accounts are low. Services available to such account is limited.

g. NRI Accounts : As per the directives and guidelines of RBI, Indian and foreign banks operating in India can allow non-resident Indians to open, maintain and operate various deposit accounts with them - tagged as NRI accounts. These accounts are subject to Indian Banking Regulation Act and FEMA. Deposits in these accounts can be kept in any of the currencies of the basket or INR, and carry special rates of interests different from domestic rates
on deposits.

Cheque

Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

1. Bearer Cheque or open Cheque

When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky, this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.

2. Order Cheque

When the word "bearer" appearing on the face of a cheque is cancelled and when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

3. Crossed Cheque

Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

4. Anti-Dated Cheque

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid upto six months from the date of the cheque.

5. Post-Dated Cheque

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque.

6. Stale Cheque

If a cheque is presented for payment after six months from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank.

7. A self cheque

A self cheque is written by the account holder as pay self to receive the money in the physical form from the branch where he holds his account.

8.Pay yourself cheque

The account holder issues this type of crossed cheque to the bank asking the bank deduct money from his account into bank's own account for the purpose buying banking products like drafts, pay orders, fixed deposit receipts or for depositing money into other accounts held by him like recurring deposits and loan accounts.

Various types of cheques based on their functionality

Local Cheque: A local cheque is a type of cheque which is valid in the given city and a given branch in which the issuer has an account and to which it is connected. The producer of the cheque in whose name it is issued can directly go to the designated bank and receive the money in the physical form.

At par cheque: With the computerisation and networking of bank branches with its headquarters, a variation to the local cheque has become common place in the name of at par cheque. At par cheque is a cheque which is accepted at par at all its branches across the country. Unlike local cheque it can be present across the country without attracting additional banking charges.

Banker's cheque: It is a kind of cheque issued by the bank itself connected to its own funds. It is a kind of assurance given by the issuer to the client to alley your fears. The personal account connected cheques may bounce for want of funds in his account. To avoid such hurdles, sometimes, the receiver seeks banker's cheque.

Travelers' cheques: They are a kind of an open type bearer cheque issued by the bank which can be used by the user for withdrawal of money while touring. It is equivalent to carrying cash but in a safe form without fear of losing it.

BANKING AND FINANCIAL TERMS

Repo Rate

Repo rate is the rate of interest which is levied on Short-Term loans taken by commercial banks from **RBI**. Whenever the banks have any shortage of funds they can borrow it from RBI. A reduction in the repo rate will help banks to get money at a cheaper rate. When the repo rate increases, borrowing from RBI becomes more expensive.

Reverse Repo Rate

This is exact opposite of Repo rate. Reverse repo rate is the rate at which commercial banks CHARGE on their surplus funds with RBI. RBI uses this tool when it feels there is too much money floating in the banking system. Banks are always happy to keep money with RBI since their money is in the safe hands with a good interest. An increase in Reverse repo rate can cause the banks to transfer more funds to RBI due to these attractive interest rates.

CRR Rate

Cash reserve Ratio (CRR) is the amount of cash funds that the banks have to maintain with RBI. If RBI decides to increase the percent of this, the available amount with the banks comes down. RBI is using this method (increase of CRR rate), to drain out the excessive money from the banks.

SLR Rate

SLR (Statutory Liquidity Ratio) is the amount a commercial bank needs to maintain in the form of cash, or gold or government approved securities (Bonds) before providing credit to its customers.
SLR is determined and maintained by the RBI in order to control the expansion of bank credit. SLR is determined as the percentage of total demand and time liabilities. Time Liabilities are the liabilities a commercial bank is liable to pay to the customers after a specific time period. SLR is used to control inflation and proper growth. Through SLR tuning, the money supply in the system can be controlled efficiently.

Bank Rate

Bank rate is the rate of interest which is levied on Longt-Term loans and Avances taken by commercial banks from **RBI**. Changes in the bank rate are often used by central banks to control the money supply.

MSF Rate:-MSF(Marginal Standing Facility Rate) is the rate at which banks can borrow overnight from RBI.This was introduced in the monetary policy of RBI for the year 2011-2012. Banks can borrow funds through MSF when there is a considerable shortfall of liquidity. This measure has been introduced by RBI to regulate short-term asset liability mismatches more effectively

Base Rate:-The Base Rate is the minimum interest rate of a Bank below which it cannot lend, except for DRI advances, loans to bank's own employees and loan to banks' depositors against their own deposits. (i.e. cases allowed by RBI) .

Term Deposit Rate:-A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days notice.

Inflation

Inflation is as an increase in the price of goods and services that projects the Indian economy. An increase in inflation figures occurs when there is an increase in the average level of prices in goods and services. Inflation happens when there are fewer goods and more buyers;or we can say when demand is more than supply.This will result in increase in the price of goods, since there is more demand and less supply of the goods.

Deflation

Deflation is the continuous decrease in prices of goods and services. Deflation occurs when the inflation rate becomes negative (below zero) and stays there for a longer period.

FII

FII (Foreign Institutional Investor) used to denote an investor, mostly in the form of an institution. An institution established outside India, which proposes to invest in Indian market, in other words buying Indian stocks. FII's generally buy in large volumes which has an impact on the stock markets. Institutional Investors includes pension funds, mutual funds, Insurance Companies, Banks etc.

FDI:-FDI (Foreign Direct Investment) occurs with the purchase of the "physical assets or a significant amount of ownership (stock) of a company in another country in order to gain a measure of management control" (or) A foreign company having a stake in an Indian company.

SEZ:-SEZ means Special Economic Zone is a special geographic part of country which possess special economic regulations that are different from other areas in the same country. Moreover, these regulations tend to contain measures that are favourable to foreign direct investment. Conducting business in a SEZ usually means that a company will receive tax incentives and the opportunity to pay lower tariffs.

The basic motto behind this is to increase foreign investment, development of infrastructure, job opportunities and increase the income level of the people.

Balance of Payment:-A record of all transactions made between one particular country and all other countries during a specified period of time.

Balance of payment of a country is a systematic record of all economic transactions completed between its residents and the residents remaining world during a year. In other words, the balance of payment shows the relationship between the one country's total payment to all other countries and its total receipts from them.

Balance of Trade:-Balance of trade refers to the total value of a country's export commodities and total value of imports commodities. Thus balance of trade includes only visible trade i.e. movement of goods (exports and imports of goods). Balance of trade is a part of balance of payment settlement.

Balance sheet:-Balance sheet is a statement showing the assets and liabilities of a business at a certain date. Balance sheet helps in estimating the real financial situation of a firm.

Direct and Indirect Taxes:-Direct taxes are levied on the income of individuals and corporates. For example, income tax, corporate tax etc. Indirect taxes are paid by consumer when they buy goods and services. These include excise duty, custom duty, VAT, service tax etc.

Bridge Loan:-A loan made by a bank for a short period to make up for a temporary shortage of cash. On the part of borrower, mostly the companies for example, a business organization wants to install a new company with new equipments etc. while his present installed company/equipments etc. are not yet disposed off. Bridge loan covers this period between the buying the new and disposing of the old one.

Call Money:-Call money is in the form of loans and advances which are payable on demand or within the number of days specified for the purpose.

Clearing Bank:-Clearing bank is one, which settles the debits and credits of the commercial banks. Even of the cash balances are lesser, clearing bank facilitates banking operation of the commercial bank.

Gresham's Law:-"Bad money (if not limited in quantity) drives good money out of circulation" – This statement was given by Sir Thomas Gresham, the economic adviser of Queen Elizabeth. This law states that people always want to hoard good money and spend bad money when two forms of money are in circulation at the same time.

HDI:-A tool developed by the United Nations to measure and rank countries' levels of social and economic development based on four criteria: Life expectancy at birth, mean years of schooling, expected years of schooling and gross national income per capita. The HDI makes it possible to track changes in development levels over time and to compare development levels in different countries.

Monetary Policy:-Monetary policy is the process by which monetary authority of a country, generally a central bank controls the supply of money in the economy by exercising its control over interest rates in order to maintain price stability and achieve high economic growth. In India, the central monetary authority is the Reserve Bank of India (RBI). is so designed as to maintain the price stability in the economy. Other objectives of the monetary policy of India, as stated by RBI, are:Regressive Tax

It is the tax in which rate of taxation falls with an increase in income. In regressive taxation incidence falls more on people having lower incomes than that of those having higher incomes.

Credit Authorization Scheme:-Credit Authorization Scheme was introduced in November, 1965 when P C Bhattacharya was the chairman of RBI. Under this instrument of credit regulation RBI as per the guideline authorizes the banks to advance loans to desired sectors

Open Market Operations:-An open market operation is an instrument of monetary policy which involves buying or selling of government securities from or to the public and banks.

Moral Suasion:-Moral Suasion is just as a request by the RBI to the commercial banks to take so and so action and measures in so and so trend of the economy. RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation.

Shadow Price: It is an imputed value for a good based on the opportunity costs of the resources used to produce it such values are of particular significance in resolving problems of resource allocating with respect to the effect on welfare.

Special Drawing Rights (SDRs):-It is a reserve asset (known as 'Paper Gold') created within the framework of the International Monetary Fund in an attempt to increase international liquidity, and now forming a part of countries official forex reserves along with gold, reserve positions in the IMF and convertible foreign currencies**.**

Stagflation:-It is a state of the economy in which economic activity is slowing down, but wages and prices continue to rise. The term is blend of the words stagnation and inflation.

Transfer payment:-It is a payment made by public authority other than one made in exchange for goods or services produced. Transfer payments are not the part of National Income. Examples includes unemployment benefit and child benefits.

In other words, the transfer is made without any exchange of goods or services.[1] Examples of certain transfer payments include welfare (financial aid), social security, and government making subsidies for certain businesses

Devaluation:- The loss of value of currency of a country relative to other foreign currency is known as devaluation. Devaluation is a process in which the government deliberately cheapens the exchange value of its own currency in terms of other currency by giving it a lower exchange value. In a fixed exchange rate regime, only a decision by a country's government (i.e central bank) can alter the official value of the currency.There are two implications for a currency devaluation. First, devaluation makes a country's exports relatively less expensive for foreigners and second, it makes foreign products relatively more expensive for domestic consumers, discouraging imports. As a result, this may help to reduce a country's trade deficit.

Fiscal Policy:-Fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy

Fiscal policy is that part of government policy which deals with taxation, expenditure, borrowing and the management of public debt in the economy. fiscal policy primarily concerns itself with the flow of funds in the economy. it exerts a very powerful influence of the working of economy as a whole.

Scheduled Banks:-They are banks which are included in the second schedule of the Reserve Bank of India Act, 1934. These banks enjoy certain privileges such as free concessional remittance facilities and financial accommodation from the RBI. they also have certain obligations like minimum cash reserve ratio (CRR) to be kept with RBI.

ATM :ATMs are Automatic Teller Machines, which do the job of a teller in a bank through Computer Network. ATMs are located on the branch premises or off branch premises. ATMs are useful to dispense cash, receive cash, accept cheques, give balances in the accounts and also give mini-statements to the customers.

Bouncing of a cheque : Where an account does not have sufficient balance to honour the cheque issued by the customer , the cheque is returned by the bank with the reason "funds insufficient" or "Exceeds arrangement".This is known as 'Bouncing of a cheque' .

Collecting Banker : Also called receiving banker, who collects on instruments like a cheque, draft or bill of exchange, lodged with himself for the credit of his customer's account.

Debit Card : A plastic card issued by banks to customers to withdraw money electronically from their accounts. When you purchase things on the basis of Debit Card the amount due is debited immediately to the account . Many banks issue Debit-Cum-ATM Cards.

Demand Deposits : Deposits which are withdrawn on demand by customers.E.g. savings bank and current account deposits.

Demat Account : The term "**demat**", in India, refers to a dematerialised account for individual Indian citizens to trade in listed stocks or debentures in electronic form rather than paper, as required for investors by the Securities and Exchange Board of India (SEBI). In a **demat account**, shares and securities are held electronically instead of the investor taking physical possession of certificates. A demat account is opened by the investor while registering with an investment broker

Electronic Commerce (E-Commerce): E-Commerce is the paperless commerce where the exchange of business takes place by Electronic means.

Endorsement : When a Negotiable Instrument contains, on the back of the instrument an endorsement, signed by the holder or payee of an order instrument, transferring the title to the other person, it is called endorsement.

Merchant Banking : When a bank provides to a customer various types of financial services like accepting bills arising out of trade, arranging and providing underwriting, new issues, providing advice, information or assistance on starting new business, acquisitions, mergers and foreign exchange.

Minor Accounts : A minor is a person who has not attained legal age of 18 years. As per Contract Act a minor cannot enter into a contract but as per Negotiable Instrument Act, a minor can draw,negotiate, endorse, receive payment on a Negotiable Instrument so as to bind all the persons, except himself. In order to boost their deposits many banks open minor accounts with some restrictions.

Mobile Banking : With the help of M-Banking or mobile banking customer can check his bank balance, order a demand draft, stop payment of a cheque, request for a cheque book and have information about latest interest rates.

Money Laundering The process of creating the appearance that large amounts of money obtained from serious crimes, such as drug trafficking or terrorist activity, originated from a legitimate source. Some estimate the size of the problem is over $500 billion annually. Often thought of as a victimless crime, money laundering is a very serious issue. Without it, international organized crime would not be able to function.

Mortgage : Transfer of an interest in specific immovable property for the purpose of offering a security for taking a loan or advance from another. It may be existing or future debt or performance of an agreement which may create monetary obligation for the transferor (mortgagor).

NABARD : National Bank for Agriculture & Rural Development was setup in 1982 under the Act of 1981. NABARD finances and regulates rural financing and also is responsible for development agriculture and rural industries. NABARD is an apex Development Bank that facilitates credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas..

Negotiation : In the context of banking, negotiation means an act of transferring or assigning a money instrument from one person to another person in the course of business.

NPA Account : If interest and instalments and other bank dues are not paid in any loan account within a specified time limit, it is being treated as non-performing assets of a bank.

GAAR: The full form of GAAR is : General Anti-Avoidance Rules. Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax. Such rules in simple terms are known as " General Anti Avoidance Rules " or GAAR. Thus GAAR is a set of general rules enacted so as to check the tax avoidance. News for GAAR has been in prominence in last few years as Indian Government has taken initiative to introduce GAAR or General Anti Avoidance Rules with a view to increase tax collections. GAAR is a concept which generally empowers the Revenue Authorities in a country to deny the tax benefits of transactions or arrangments which do not have any commercial substance or consideration other than achieving the tax benefit. Whenever revenue authorities question such transactions, there is a conflict with the tax payers. Thus, different countries started making rules so that tax can not be avoided by such transactions. Australia introduced such rules way back in 1981. Later on countries like Germany, France, Canada, New Zealand, South Africa etc too opted for GAAR. However, countries like USA and UK have adopted a cautious approach and have not been aggressive in this regard.

Plastic Money : Credit Cards, Debit Cards, ATM Cards and International Cards are considered plastic money as like money they can enable us to get goods and services

BPLR: In banking parlance, the BPLR means the Benchmark Prime Lending Rate. However, with the introduction of Base Rate (explained below), BPLR has now lost its importance and is made applicable normally only on the loans which have been sanctioned before the introduction of Base Rate (i.e. July 2010).The BPLR system, introduced in 2003, fell short of its original objective of bringing transparency to lending rates. This was mainly because under the BPLR system, banks could lend below BPLR. For the same reason, it was also difficult to assess the transmission of policy rates of the Reserve Bank to lending rates of banks

Thus, BPLR was / is the interest rate that commercial banks normally charge (or we can say they were expected to charge) their most credit-worthy customers. [Although as per Reserve Bank of India rules, Banks were free to fix Benchmark Prime Lending Rate (BPLR) for credit limits over Rs.2 lakh with the approval of their respective Boards yet BPLR was to be declared and made uniformly applicable at all the branches. The Asset-Liability Management Committee (ALCO) of respective bank fixed interest rates on Deposits and Advances, subject to their reporting to the Board immediately thereafter. The banks were also to declare the maximum spread over BPLR with the approval of the ALCO/Board for all advances]

Prime Lending Rate (PLR) : The rate at which banks lend to their best (prime) customers.It is usually less than normal interest rate.

Promissory Note : Promissory Note is a promise / undertaking given by one person in writing to another person, to pay to that person , a certain sum of money on demand or on a future day.

Public Sector Bank : A bank fully or partly owned by the Government.

Virtual Banking : Virtual banking is also called internet banking, through which financial and banking services are accessed via internet's world wide web. It is called virtual banking because an internet bank has no boundaries of brick and mortar and it exists only on the internet.

Wholesale Banking : Wholesale banking is different from Retail Banking as its focus is on providing for financial needs of industry and institutional clients.

National Electronic Funds Transfer System (NEFT)— RBI introduced an electronic funds transfer system to facilitate an efficient, secure,econo-mical, reliable and expeditious system of funds transfer and clearing in the banking sector throughout India, and to relieve the stress on the existing paper-based funds transfer and clearing system called National Electronic Funds Transfer System (NEFT System). The Amount in NEFT can be transferred upto 2 lac only.

RTGS: RTGS is an acronym that stands for Real Time Gross Settlement. RTGS is a funds transfer system where money is moved from one bank to another in ‘real-time’, and on gross basis. When using the banking method, RTGS is the fastest possible way to transfer money. ‘Real-time’ means that the payment transaction isn’t subject to any waiting period. The transaction will be completed as soon as the processing is done, and gross settlement means that the money transfer is completed on a one to one basis without clustering with another transaction. The transaction is treated as final and irrevocable as the money transfer occurs in the books of the RBI (Reserve Bank of India). This system is maintained by the RBI, and is available during working days for a given number of hours. Banks using RTGS need to have Core banking to be able to initiate RTGS transactions.The Amount more than 2 lac is transferred by RTGS.

Universal Banking:- Universal Banking refers to those services offered by banks beyond traditional banking service such as saving accounts and loans and includes Pension Funds Manage-ment, undertaking equipment leas-ing, hire purchase business and factoring services, Primary Dealer-ship (PD) business, insurance busi-ness and mutual fund business.

Financial System:-The economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate sector, government and household sector. While performing their activities these units will be placed in a surplus/deficit/balanced budgetary situations. There are areas or people with surplus funds and there are those with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactins and claims and liabilities.

Financial Markets:-A Financial Market can be defined as the market in which financial assets are created or transferred. As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset. Financial Assets or Financial Instruments represents a claim to the payment of a sum of money sometime in the future and /or periodic payment in the form of interest or dividend.

Money Market - The money market is a wholesale debt market for low-risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

Capital Market - The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year.

Forex Market - The Forex market deals with the multicurrency requirements, which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated market across the globe.

Credit Market - Credit market is a place where banks, FIs and NBFCs give short, medium and long-term loans to corporate and individuals.

Financial Inclusion : Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society.The Reserve Bank of India (RBI), which became an official member institution of the Alliance for Financial Inclusion in 2012, set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account

Money Market Instruments:-Money Market Instruments The money market can be defined as a market for short-term money and financial assets that are near substitutes for money. The term short-term means generally a period upto one year and near substitutes to money is used to denote any financial asset which can be quickly converted into money with minimum transaction cost.

Some of the important money market instruments are briefly discussed below;

1. Call/Notice Money
2. Treasury Bills
3. Term Money
4. Certificate of Deposit
5. Commercial Papers

1. Call /Notice-Money Market:-1.Call/Notice money is the money borrowed or lent on demand for a very short period. When money is borrowed or lent for a day, it is known as Call (Overnight) Money. Intervening holidays and/or Sunday are excluded for this purpose. Thus money, borrowed on a day and repaid on the next working day, (irrespective of the number of intervening holidays) is "Call Money".

Notice Money:-When money is borrowed or lent for more than a day and up to 14 days, it is "Notice Money".No collateral security is required to cover these transactions.

2. Inter-Bank Term Money:-Inter-bank market for deposits of maturity beyond 14 days is referred to as the term money market. The entry restrictions are the same as those for Call/Notice Money except that, as per existing regulations, the specified entities are not allowed to lend beyond 14 days.

3. Treasury Bills.:-Treasury Bills are short term (up to one year) borrowing instruments of the union government. It is a promise by the Government to pay a stated sum after expiry of the stated period from the date of issue (14/91/182/364 days i.e. less than one year). They are issued at a discount to the face value, and on maturity the face value is paid to the holder. The rate of discount and the corresponding issue price are determined at each auction.

4. Certificate of Deposits:- Receipt issued by a depository institution (such as a bank, credit union, or a finance or insurance company) to a depositor who opens a certificate account or time deposit account. Issued in a negotiable or non-negotiable form, it states the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties.

5. Commercial Paper:- An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

Bounced Cheque:-A cheque that a bank has refused to cash or pay because the account holder does not have sufficient funds to cover it in this account.

Cashier's Cheque:-A cheque issued by a bank drawn on its own funds rather than on the funds its depositors.

Clear:-A cheque is "cleared" when its account is debited or deducted from the payer's account and credited or added to the payee's account.

Compound Interest:-Interest calculated on the original principal and on the interest already accrued.

Overdraft:-A cheque written for more money than is currently in the account. The cheque is said to have 'bounced' if the bank refuse to cash the cheque.

Stop Payment:-A request made to a bank to not pay a specific cheque. If requested soon enough, the cheque will not be debited from the payer's account.

Bank Draft:-A cheque drawn by one bank against funds deposited into its account at another bank, authorizing individual named in the draft.

Inactive Account:-Transactions house not occurred on a bank account for an extended period of time..

Personal Identification Number (PIN):-An account holder has a secret number or code to authorize a transaction or obtain information regarding his or her account often used in conjunction with a plastic card (ATM or Debit Card), online account access or with a telephone voice response system.

Bank Statements:-This is a statement from the bank giving details of transaction in the relevant account. It can be requested at any intervals required, usually monthly.

Cheque Clearing:-This is the process of getting the money from the cheque-writer's account into the cheque receiver's account.

Standing Order:-A regular payment made out of a current account which is of a set account and is originated by the account holder.

Fringe Benefit:-A benefit in addition to salary offered to employees such as use of company's car, house, lunch coupons, heath care subscriptions etc.

Foreign Exchange Reserves:-Foreign-exchange reserves (also called **forex reserves** or **FX reserves**) in a strict sense are 'only' the foreign currency deposits and bonds held by central banks and monetary authorities. However, the term in popular usage commonly includes foreign exchange and gold, special drawing rights (SDRs), and International Monetary Fund (IMF) reserve positions.

Central Bank:-Major Financial institution responsible for issuing currency, managing foreign reserves, implementing monetary policy, and providing banking services to the government and commercial banks RBI is the central bank of India.

Account payee:-Also 'account payee only'. Words written on the face of a cheque between two parallel lines. The purpose is to ensure that the cheque may only be paid into an account in the name of the payee- the person to whom the cheque is made payable. This means that the payee cannot sign it in names of another person.

Multi Option Deposit scheme:-Multi Option Deposit scheme is a term deposit which is not fixed at all and comes with a unique break-up facility which provides full liquidity as well as benefit of higher rate of interest, through the savings bank account. One can also keep that deposit intact by availing on overdraft facility, to meet occasional temporary funds requirements.

Cards:-Banks provide free ATM cum Debit card to its customers who have deposit account with them. This card provides online access to savings or current account. They can have the access to the widest network of ATMs across the country to withdraw cash, enquire about the account balance etc. Banks are also having bilateral sharing arrangement with other banks under this scheme.

Demat Services:_ Banks have come forward to offer Demat Services to its customer. Demat account, the abbreviation for dematerialized account is used to avoid holding physical shares: The shares are bought and sold through a stock broker.

Online Banking:-Transaction at the convenience of customers, saving times and cost through computers is popularly known as Online Banking. It is also known as E-Banking or Net Banking or Internet Banking. It is done through a computer with internet facilities. Customers can monitor and control their through Internet Banking. They can check account balance view their account, get summary statement, make bill payments and utility payments, request for cheque book, drafts, Bankers cheques, stop cheque payments, transfer funds, request for third party transfers, invest and renew deposits, issue standing instruction, register mobile number for SMS alerts and many more attractive features user-id and password are given by the banks to the customer for operation of account after they successfully register with the bank.

NRI Banking :-Banks allow NRI's to open an NRI account when they complete the account opening formalities. A customer for this purchase a form has to be filled up in which the information soughtly the bank is provided. They can have a NRI Saving Bank Account, Current Account, Fixed Deposits in Indian Rupees, Fixed Deposits in foreign currency, NRO account (Rupee account for crediting income in India)

Capital Adequacy Ratio(CAR):-Capital adequacy ratio measures the amount of a bank's capital expressed as a percentage of its credit exposure. Globally, the capital adequacy ratio has been developed to ensure banks can absorb a reasonable level of losses before becoming insolvent. Indian banks are expected to maintain a minimum capital adequacy ratio of 9 per cent (Rs 9 as capital for every Rs 100 in loan or asset) Applying minimum capital adequancy ratios serves to protect depositors and promote the stability and efficiency of the financial system by reducing the likelihood of banks be coming insolvent.

Collateral Loan Market: Collateral loan market forms, by and large, the largest and the best developed section of the money market. In this market, loans are given against the security of government bonds, shares of first class companies, agriculture and manufactured commodities and bullion and jewellery.

Mutual Funds:-Mutual Funds collect the savings from small investors to invest them in government and other corporate securities and cash income through interest and dividends desides capital gains. It works on the principle of "small drops of water make a big ocean" to get funds from investors, the fund adopts a simple technique. Each fund is divided into a small fraction Called 'units' of equal value. Each investor is allotted units in proportion to the size of his investment.

Regular Savings Account:-A Form of deposit account with no legal limits or requirements as to amount duration or times of addition or withdrawals.

Wire Transfer:-An electronic transfer of funds from one financial institution to another.

Economic Miracle:-The terms "economic miracle", "economic boom", "tiger economy" or simply "miracle" have come to refer to great periods of change, particularly periods of dramatic economic growth, in the recent histories of a number of countries.

Asset – Liability Mismatch:-In finance, an asset–liability mismatch occurs when the financial terms of an institution's assets and liabilities do not correspond

Fixed income : It refers to any type of investment under which the borrower/issuer is obliged to make payments of a fixed amount on a fixed schedule: for example, if the borrower has to pay interest at a fixed rate once a year, and to repay the principal amount on maturity.

Premium Financing :-Premium Financing involves the lending of funds to a person or company to cover the cost of an insurance premium. Premium finance loans are often provided by third party finance entity known as a "Premium Financing Company"; however insurance companies and brokerages occasionally provide premium financing services

Net present value:- In finance, the **net present value** (**NPV**) or **net present worth** (**NPW**)[1] of a time series of cash flows, both incoming and outgoing, is defined as the sum of the present values (PVs) of the individual cash flows of the same entity.

Share Capital:-Funds raised by issuing shares in return for cash or other considerations. The amount of share capital a company has can change over time because each time a business sells new shares to the public in exchange for cash, the amount of share capital will increase. Share capital can be composed of both common and preferred shares.

RBI AND ITS ROLES

Meaning of RBI

RBI is the central Bank of India and controls the entire money issue, circulation the entire money issue, circulation and control by its monetary policies and lending policies by periodical updates or corrections to discipline the economy .it acts as a advisor to the govt .of India and states government ,implement Forex policies ,it works in tandem with the govt of India inn promoting trade and as the account holder of foreign currency transactions and the balance of payment (BOP) .it is also known as the bank of last resort.

Reserve Bank of India

Definition

The **central bank of India**, founded in 1935, which maintains the monetary policy of its national currency, the rupee, and the nation's currency reserves. It is a member of the Asian Clearing Union. The primary function of this establishment is to regulate the issuing of bank notes to ensure secure monetary stability in India.

Establishment

The reserve bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank of India was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

MAIN FUNCTIONS

Monetary Authority:

Formulates implements and monitors the monetary policy.

Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

Regulator and supervisor of the financial system:

Prescribes broad parameters of banking operations within which the country's banking and financial system functions.

Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

Manages the Foreign Exchange Management Act, 1999.

Objective: to facilities external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of Currency:

Issues and exchanges or destroys currency and coins not fit for circulations.

Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

Development role

Performs a wide range of promotional functions to support national objectives.

Related Functions

Bankers to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.

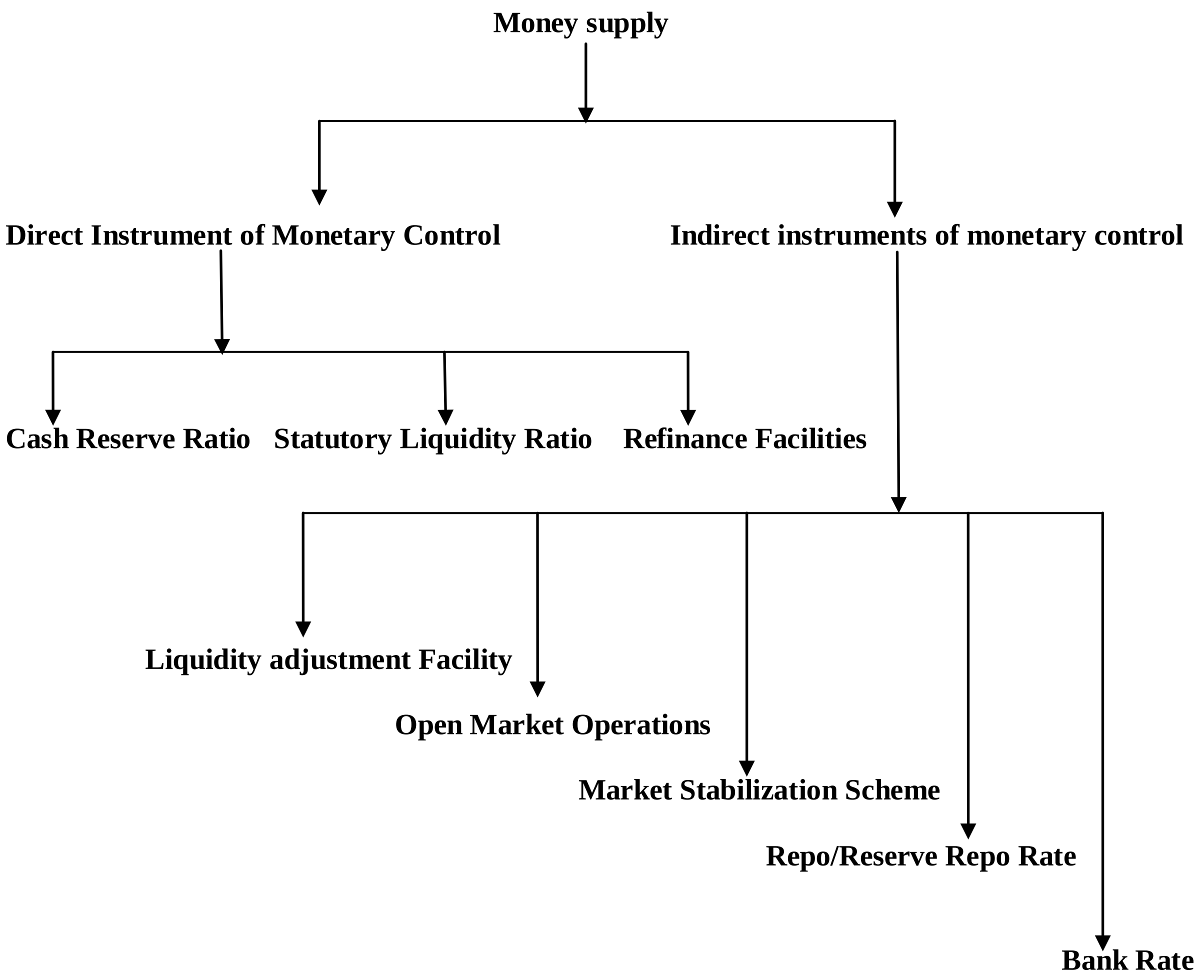
Bankers to banks: maintains banking accounts of all scheduled banks.

OBJECTIVES OF CREDIT CONTROL OF RBI

Objectives of credit control:

To obtain stability in the internal price level.
To attain stability in exchange rate.
To stabilize money market of a country.
To eliminate business cycles-inflation and depression-by controlling supply of credit.
To maximize income, employment and output in a country.
To meet the financial requirements of an economy not only during normal times but also during emergency or war.
To help the economic growth of a country within specified period of time.

HOW RESERVE BANK OF INDIA MANAGES MONEY SUPPLY IN THE ECONOMY.



MONEY AND ITS IMPORTANCE

Money is a thing that is usually accepted as payment for goods and services as well as for the repayment of debts. Money originated as commodity money, but almost all contemporary money systems are based on concept of fiat money. Fiat money is of no value as a physical commodity, and derives its value by being declared by the government to be a legal tender; that is, it must be accepted as a form of payment within the boundaries of the country. This applies for "all debts, public as well as private".

The money supply of a country consists of currency and demand deposits of bank money. Currency consists of banknotes and coins and demand deposits or 'bank money' consist of balance held in checking accounts and savings accounts. These demand deposits usually account for a much larger part of the money supply as compare to currency. Bank money is intangible. It exists in the form of various bank records. Although it is intangible, bank money still carries out the basic functions of money, being generally accepted as a form of payment.

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TYPES OF MONEY

- Commodity Money - Commodity money value is derived from the commodity out of which it is made. The commodity itself represents money, and the money is the commodity. For instance, commodities that have been used a
- mediums of exchange include gold, silver, copper, salt, peppercorns, rice, large stones, etc.
- Representative Money - is money that includes token coins, or any other physical tokens like certificates, that can be reliably exchanged for a fixed amount/quantity of a commodity like gold or silver.
- Fiat Money - Fiat money, also known as fiat currency is the money whose value is not derived from any intrinsic value or any guarantee that it can be converted into valuable commodity (like gold). Instead, it derives value only based On government order (fiat)
- Commercial Bank Money - Commercial bank money or the demand deposits are claims against financial institutions which can be used for purchasing goods and services

CAPITAL MARKETS

The economy needs the availability of primary resource which is money and productive purposes for gainful investment. The growth for a vibrant economy is pushed by matching the funds availability with productive use.

How is this objective pursued?

Capital market is the mechanism by which the owners of capital or money supply their funds to users for values creation. The industry and entrepreneurs seek to satisfy the suppliers of money with opportunities for increasing their savings. Those who make the right choices gain from wealth generation. The capital market, through different institutions and players mobilizes the funds and transfers them to the chosen entrepreneurs through a variety of financial instruments.

How is this process of raising capital carried out?

There are two ways in which it is done

Through Primary Markets Where the user of capital issues new securities to raise capital either for fresh ventures or expansion. The financial instrument or the security is directly issued to the investor at face value or at a discount/ premium depending on the strength of the company and proposed offer.

Through Secondary Markets That enables buyers and sellers of securities to trade in these securities.

Stock Exchange is an org. where buyers and sellers of securities come together for trading in these securities. The companies which raise money from the public are, therefore, required to list their securities on the stock exchange.

Initial Public Offerings (IPOs)

When a company opens to investments from the public by offering shares for the first time it is known as initial public offer. The retail investors who participate in the offer are considered to have subscribed to the company's equity and thus qualify to become shareholders of the company along with the existing ones.

Application Supported by Blocked Accounts (ASBA)

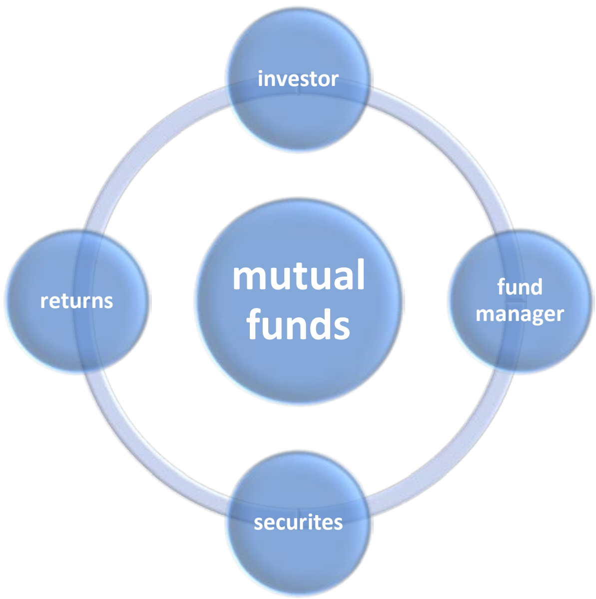
ASBA is an investor friendly service introduced for subscribing to IPOs. Through this facility, the investor's funds remain in his account till allotment of shares. Then, the amount equivalent to the shares allotted is deducted from the blocked amount for remitting to the company issuing the shares and the balance amount is available to the investor.

Follow on Public Offer (FPO)

When a listed company makes another public issue to raise further capital it is known as follow on public offer.

Mutual Funds

Mutual Fund is a company which collects the savings of a large number of investors for investment purposes. Mutual Funds invest in capital markets like stocks and other securities. The professional fund manager selects appropriate securities based on company profile and market conditions for capital appreciation.



Non – Banking Financial Companies (NBFCs)

Non Banking Financial Company (NBFC) is a company registered under the Companies Act 1956, and is engaged in the business of loans and advances, acquisition of stocks, debentures, hire purchase.**NBFCs** are

FOREIGN EXCHANGE MARKET

Definition of **'Foreign Exchange Market'**

The market in which participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors. The forex market is considered to be the largest financial market in the world.

Definition of 'Foreign Direct Investment - FDI'

An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as *portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.*

NEGOTIABLE INSTRUMENTS

DEFINITION OF NEGOTIABLE INSTRUMENT

According to section 13 of the Negotiable Instruments Act, 1881, a negotiable instrument means "promissory note, bill of exchange, or cheque, payable either to order or to bearer".

TYPES OF NEGOTIABLE INSTRUMENTS

There are three types of negotiable instruments. Which are followed as

1. Promissory Note
2. Bill of Exchange
3. Cheques

EXPLANATION OF TYPES

1. **Promissory Note:**
   A Promissory Note is a written promise by the debtor to pay a certain amount to the creditor. Section 4 of the Negotiable Instrument Act has defined Promissory Note as 'an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to or to the order of a certain person'.
2. **Bill of Exchange:**

   "An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument".

3. **Cheques:**
   Cheque is a very common form of negotiable instrument. If you have a savings bank account or current account in a bank, you can issue a cheque in your own name or in favor of others, thereby directing the bank to pay the specified amount to the person named in the cheque.

BANKING ABBREVIATIONS

PSBs	PUBLIC SECTOR BANKS
SNBCs	SCHEDULE NON COMMERCIAL BANKS
PBs	PRIVATE BANKS
KCC	KISAN CREDIT CARD
KGC	KISAN GOLD CARD
MFs	MUTUAL FUND
SENSEX	SENSITIVE INDEX OF STOCK EXCHANGE
GNIs	GROSS NATIONAL INCOME
GNP	GROSS NATIONAL PRODUCT
ICOR	INCREMENTAL CAPITAL OUTPUT RATIOS
KYC	KNOW YOUR CUSTOMER
RTGs	REAL TIME GROSS SETTLEMENT
NEFT	NATIONAL ELECTRONIC MONEY TRANSFER
EFT	ELECTRONIC FUND TRANSFER
CBS	CORE BANKING SOLUTIONS
LIBOR	LONDON INTERBANK OFFERED RATE
MIBOR	MUMBAI INTERBANK OFFERED RATE
MIBID	MUMBAI INTERBANK BID RATE
SARFAESI	SECURITISATION AND RECONSTRUCTION OF FINANCIAL ASSETS AND ENFORCEMENT OF SECURITY INTEREST
CAMELS	CAPITAL ADEQUECY RATIO, ASSET QUALITY, MANAGEMENT OF EFFECTIVENESS, EARNING OF PROFITABILITY, LIQUIDITY, SYSTEM AND CONTROLS
REER	REAL EFFECTIVE EXCHANGE RATE
CAR	CAPITAL ADEQUECY RATIO
FIIs	FOREIGN INSTITUTIONAL INVESTMENTS

FDI FOREIGN DIRECT INVESTMENT

IPO INITIAL PUBLIC OFFERING

NII NET INTEREST INCOME

PNs PROMISSOY NOTES/ PARTICIPATARY NOTES

MICR MAGNETIC INK CHARACTER READER

NAB CONS NABARD CONSULTANCY

BIRD BANKERS INSTITUTE OF RURAL DEVELOPMENT

SBBJ STATE BANK OF BIKANER AND JAIPUR

ABB ANY BRANCH BANK

BOB BANK OF BARODA

BOM BANK OF MAHARASTRA

CBI CENTRAL BANK OF INDIA

IBA INDIAN BANK ASSOCIATION

IOB INDIAN OVERSEASE BANK

BPLR BENCHMARK PRIME LENDING RATE

SLBCs STATE LEVEL BANKERS COMMITTIEES

ICICI INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

HDFC HOUSING DEVELOPMENT FINANCE CORPORATION

IRDA INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

SWOT STRENGETH, WEEKNESSES, OPPORTUNITIES AND THREATS

SWIFT SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION

FERA FOREIGN EXCHANGE REGULATORY ACT

FEMA FOREIGN EXCHANGE MANAGEMENT ACT

CASA CURRENT AND SAVING ACCOUNT

NDTL NET TIME AND DEMAND LIABILITIES

NCDEX NATIONAL COMMODITIES AND DERIATIVES EXCHANGE

NASDAQ	NATIONAL ASSOCIATION FOR SECURITIES DEALERS AUTOMATED QUOTATIONS
CRISIL	CREDIT RATING AND INVESTMENT SERVICES INDIA LIMITED
CIBIL	CREDIT INFORMATION BUREAU OF INDIA LIMITED
CMIE	CENTRE FOR MONITORING INDIAN ECONOMY
NCEAR	NATIONAL COUNCIL FOR INDIAN APPLIED ECONOMIC RESEARCHERS
PHDCCI	PROGRESS HARMONY AND DEVELOPMENT CHAMBER OF COMMERCE AND INDUSTRY
NAV	NET ASSET VALUE
ICRA	INDIAN CREDIT RATING AGENCY
CARE	CREDIT ANALYSIS AND RESEARCH LIMITED
STCI	SECURITIES TRADING CORPORATION OF INDIA
WMAs	WAYS AND MEANS ADVANCES
MMMF	MONEY MARKET MUTUAL FUNDS
ALM	ASSET LIABILITY MANAGEMENT
TQM	TOTAL QUALITY MANAGEMENT
INFINET	INDIAN FINANCIAL NETWORK