BANKING

The concept of banking encompasses such an industry that covers credit, cash, and various other financial transactions.

Bank meaning relates to such a financial institution that works in extending credit to its customers as well as storing their deposits. These deposits are further used by banks to grant loans to customers. It offers multiple services including saving accounts, checking of balances, and providing certificates of deposits, among others.

BANKING SYSTEM

A banking system is **a group or network of institutions that provide financial services**. The major types of banking systems include those made up of commercial, national, and investment banks and credit unions may also be part of a banking system

TYPES OF BANK ACCOUNTS

The major types of bank accounts are –

- **Savings Account**

  The facilities of savings account are only for savings purposes, and a bank is liable to pay interest on the funds which are deposited in the account. In India, the rate of interest for savings accounts ranges from anywhere between 4% to 7%.

- **Current Account**

  The current account mainly contains liquid deposits that are utilized for business purposes and not for savings or investments. No interest is paid on such an amount, and there are no maturity periods as well due to the continuous nature of the account.

- **Fixed Deposit Account**

  A particular sum of money is deposited in a fixed deposit account for a given duration. If a deposit is taken out before the maturity date, penalties will be imposed. Fixed deposits

enjoy higher interest rates. The interest rate is subjected to variation from bank to bank and also periodic revisions.

- **Recurring Deposit Account**

  In the case of a recurring deposit account, a deposit will have to be made by the account holder at regular intervals for a specified period. The bank will have to pay the relevant rate of interest when the amount is repaid after the fixed period.

  Now that we have refreshed our memories let us start with the topic at hand.

TYPES OF BANKING

The types of banks in India can be divided into the following categories –

1. **Central Bank**

   The central bank in this country is the Reserve Bank of India (RBI) which acts as the apex body for regulating and monitoring all other banks in the country. It also acts as a banker to the government in certain situations. RBI is instrumental in laying down the repo rate, reverse repo rate, cash reserve ratio, and statutory liquidity ratio.

2. **Commercial Bank**

   Commercial banks perform the function for the public in terms of accepting profits or extending loans. These loans act as investments of the commercial banks intending to earn profit. Examples of commercial banks in India are the State Bank of India, United Bank of India, ICICI Bank, HDFC Bank, etc.

3. **Specialized Bank**

   Specialized banks are formed with the specific goals of catering to a particular industry or sector. It may focus on export and import or provide financial services to some specific industries. An example of a specialized bank in India is Export-Import Bank.

4. **Cooperative Bank**

Cooperative banks in India are established under the State Cooperative Societies Act, providing easy credit to the members of the cooperative banks. One of the core functions of cooperative banks is to provide financial resources to the rural population at large. Examples of cooperative banks in India are – New India Cooperative Bank Limited, Ahmedabad Mercantile Co-operative Bank Ltd.

TYPES OF COMMERCIAL BANKS

There are four types of commercial banks in India. Those are –

1. Public Sector Banks

Commercial banks in India where the government holds majority stakes in the bank (that is more than 50%) fall under the category of public sector banks.
Examples of public sector banks in India are – Bank of Baroda, Canara Bank, Punjab National Bank, etc.

2. Private Sector Banks

Commercial banks in India in which higher equity stakes are held by individual shareholders as opposed to the government fall under the category of private sector banks.
Apart from the shareholding structure, both public sector and private sector banks offer the same set of services. The aspects on which those are different involve charges that are imposed as well as the duration and description of the services that are provided.
Examples of such financial institutions in India are – HDFC Bank, Axis Bank, IndusInd Bank, ICICI Bank, etc.

3. Small Finance Banks

The objective of Small Finance Banks in India is to provide financial inclusion to less privileged sections of the economy, which ordinarily fails to gain access to financial institutions. Small Finance banks cover small and micro business units, marginal and small farmers, and various entities in the unorganized sector.

Examples of Small Finance Banks in India are – Janalakshmi Small Finance Bank, Equitas Small Finance Bank, Ujjivan Small Finance Bank, etc.

4. Regional Rural Banks

Regional Rural Banks in India have very specific mandates such as granting loans to marginal and small farmers cooperative societies, agricultural labourers along small entrepreneurs and artisans among others.

These banks were established according to the recommendations of the Narsimha Committee on Rural Credit. Examples of Regional Rural Banks in India – Kerala Gramin Bank, Pragathi Krishna Gramin Bank, etc.

COMMERCIAL BANKS AND ITS FUNCTIONS

The major functions of commercial banks include the following –

- **Deposits**

  One of the primary functions of commercial banks is to accept deposits from their customers, which can be both individuals or business entities. The deposits may be in the form of time deposits, savings deposits, and current deposits.

- **Lending**

  The deposits that are taken by the commercial banks are further invested by way of granting loans to their customers. Banks derive profits in this manner. However, the lending of funds may take different forms such as cash credit, advances, discounting bills, overdraft, etc.

- **Remitting Funds**

  Fund remittance, or money transfer in general vernacular, is also done by these commercial banks. Funds can be transferred in various modes such as IMPS, NEFT, RTGS, draft pay orders, etc., for specified commissions.

- **Cheque Facilities**

  Cheque facilities provided by commercial banks also help in drawing funds. Money can be withdrawn both by the owner and the payee. The bearer cheques can be cashed immediately, but the crossed cheques can only be deposited in the account of the payee.

- **Services of General Utilities**

  Banks provide general utility services too. For instance, traveller cheques are issued, locker facilities provide for safe custody, and facilities of credit and debit card services.

- **Services as Agent**

  Commercial banks may also serve the role of agents to their customers by way of various services. Services may include a collection of cheques, drafts, and bills, insurance premium payment, trustee or executor or customers‟ estate, etc.

ANKING

Electronic banking or e-banking engages electronic mediums enabling customers to access their funds. It does away with the need of the customer to visit the bank premises for a transaction.

With greater penetration of the internet, it has become easier for customers to avail the facilities of e-banking. E-banking has become convenient for both bankers and customers. Banks have to bear reduced transaction costs and also significantly less margin for human error. The fixed costs also lessen considerably.

Customers enjoy greater access round the clock and do not have to visit bank premises. It helps to save both time and money for the customer. It also removes geographical distance in the case of certain banking transactions.

TYPES OF E-BANKING

- **Internet Banking**

  Both financial and non-financial transactions can take place over the internet. Customers can engage in various transactions such as remitting funds, checking balance and account statements, and also paying utility bills, among others.

- **ATM**

  Automated Teller Machine (ATM) is a computerized electronic device that allows customers to withdraw funds, change Personal Identification Numbers, and (in some cases) also deposit funds. It does away with the need for any human interface.

- **Mobile Banking**

  Mobile banking app is an online portal of a bank, similar to internet banking. The app may be downloaded on iOS or Android and can be accessed to avail of the banking services. Apart from usual services, it can also be used to locate the ATM nearest to the customer.

- **Debit Card**

  Debit cards allow customers to access funds directly from the bank account. In such a case, the transaction amount is directly deducted from the account. One can use a debit card for shopping online, paying at POS outlets, and also withdrawing cash from ATMs.

  The banking landscape in India is undergoing major changes lately, which is bound to have far-reaching effects on the sector. To test your knowledge, find out answers to the following questions.

STRUCTURE OF THE INDIAN BANKING SYSTEM

Reserve Bank of India is the central bank of the country and regulates the banking system of India. The structure of the banking system of India can be broadly divided into scheduled banks, non-scheduled banks and development banks.

Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.

All scheduled banks enjoy the following facilities:

- Such a bank becomes eligible for debts/loans on bank rate from the RBI
- Such a bank automatically acquires the membership of a clearing house.

All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are **Non-scheduled Banks**. They are not eligible to borrow from the RBI for normal banking purposes except for emergencies.

Scheduled banks are further divided into commercial and cooperative banks.

Scheduled, Non-Scheduled Banks and Development Banks

COMMERCIAL BANKS

The institutions that accept deposits from the general public and advance loans with the purpose of earning profits are known as **Commercial Banks**.

Commercial banks can be broadly divided into public sector, private sector, foreign banks and RRBs.

- In **Public Sector Banks** the majority stake is held by the government. After the recent amalgamation of smaller banks with larger banks, there are 12 public sector banks in India as of now. An example of Public Sector Bank is State Bank of India.
- **Private Sector Banks** are banks where the major stakes in the equity are owned by private stakeholders or business houses. A few major private sector banks in India are HDFC Bank, Kotak Mahindra Bank, ICICI Bank etc.
- A **Foreign Bank** is a bank that has its headquarters outside the country but runs its offices as a private entity at any other location outside the country. Such banks are under an obligation to operate under the regulations provided by the central bank of the country as well as the rule

prescribed by the parent organization located outside India. An example of Foreign Bank in India is Citi Bank.

- **Regional Rural Banks** were established under the Regional Rural Banks Ordinance, 1975 with the aim of ensuring sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area notified by the Government. RRBs are owned jointly by the Government of India, the State Government and Sponsor Banks. An example of RRB in India is Arunachal Pradesh Rural Bank.

RURAL FINANCE is referred to here as the provision of financial services through formal, semiformal and informal institutions to rural farm and nonfarm population at all income levels.

RURAL CREDITS

Agriculture is the primary source of income of individuals residing in the rural regions across India. Every year, farmers and peasants need to invest a considerable amount of funds to ensure a healthy harvest. Thus, they often resort to borrowing money from moneylenders and financial institutions to fulfill their basic needs before harvest season arrives, and they can earn money by selling their crops.

Thus, any loan taken for agricultural purposes or small home businesses across the rural areas in India is known as a Rural Credit.

SOURCES OF RURAL CREDIT

Simply understanding what Rural Credit means is not enough. Commerce students also need to learn the various sources from which such monetary assistance is available to rural families. Listed below are the five major sources for Rural Credit in India.

1. Land Development Banks

These banks provide a considerable sum of money as a credit to farmers by using their land as collateral. This low-interest loan has a repayment tenure ranging between 15 and 20 years. Farmers are free to avail this loan to bear the cost of land development work, including the creation of wells or other irrigation related facilities.

Still, land development credits are underutilized since most farmers remain unaware of this source of funding.

2. Co-operative Credit Societies

One of the most economical sources of funding for farmers, co-operative credit facilitates credit to small- and medium-scale farmers. These short-term credits are extended by Primary Agricultural Credit societies or PACs. Nonetheless, these societies have not been able to minimize the influence of moneylenders on the Rural Credit market.

3. Regional Rural Banks

Set up by the government, regional rural banks or RRBs extend monetary assistance to marginal farmers, landless laborers and artisans.

4. Commercial Banks

Originally, commercial banks were reluctant to provide credit for agriculture due to the risks involved with such a move. However, today, these banks extend monetary help both directly and indirectly, to farmers. Direct investment in agriculture refers to short and medium term loans to simplify farming activities. Indirect investment, on the other hand, refers to the advances to farmers made through intermediary agencies or institutions.

5. Government

Also known as Taccavi loans, these are short-term credits extended by the Indian government to assist struggling farmers, especially in the aftermath of natural calamities, such as floods and droughts.

TYPES OF RURAL CREDITS

- **Short Term Credit –** These loans have a limited repayment tenure that can range up to one year at the most. Therefore, such credits can act as a brief business or private capital requirement for farmers and others in a rural setting.
- **Medium Term Loan –** Any loan that has a tenure ranging from two years to less than 10 years is classified as a medium-term loan. The credit amount available varies from one firm or individual to the next, depending on the credit rating and a host of other factors.
- **Long Term Loan–** These are considerable sums that farmers can avail for a tenure ranging between 5 years and 20 years. In agriculture, such a line of credit is useful in creating permanent assets. For example, with the help of such a loan, farmers can purchase tractors and other farming properties.

RELATIONSHIP BETWEEN BANKER AND CUSTOMER

The banker and customer relationship are based on trust. This relationship is divided into two important parts to understand clearly:

- **The general relationship between banker and customer**
- **The special relationship between banker and customer**

The general relationship between banker and customer

The services provided by a banker to its customer comes under a general relationship between banker and customer. The general relationships between banker and customer are:

Relationship as Debtor and Creditor

The opening of a bank account in the bank of a banker by the person who has the capacity to contract is the basis of the debtor and creditor relationship between banker and customer. By filling the form for opening a bank account bind the banker and customer in the written contract. The customer when deposits his money into his bank account, becomes a creditor because he is giving his money to the bank indirectly. The money deposited by the customer in the bank account becomes the bank‟s property. The bank can use your money as it likes. By using your

money, the bank becomes a debtor because he will take that money into his account to make further transactions with other bank customers. The bank is not liable to inform the customer about the utilization of his money.
This relationship gets opposite at the time when a bank customer takes the loan from the bank, the bank becomes the creditor and the customer becomes a debtor. It means the debtor and creditor relationship works both ways depending on the condition of the transfer of money. The bank usually takes the money of customers to use it to provide loans for other bank customers and it is the most important activity of a bank.

Almost in all types of bank accounts, the customer can withdraw his saved money into the bank account at any time because there are no restrictions imposed by the bank on the customer. Some bank accounts like fixed deposits etc. impose minor penalties if a person wants to withdraw his money before the expiration period.

Relationship as Trustee and Beneficiary

The bank performs the relationship as a trustee with his customer when the bank customer deposited his property or other assets. In this case, the bank holds the property of other documents of bank customers in exchange for the loan provided by the bank. The person who is depositing the property or other document is known as the beneficiary.

It can be done in two conditions:

- When a person deposited his important document in the bank locker.
- The person took the loan and deposited his property document as security.

This relationship is based on trust. The document deposited in the bank is a secured document and the bank never share these document with any other person. Also, the ownership of the property will remain with the person, not the bank. In the situation of bank liquidation, the property secured in the bank by the beneficiary is not subject to distribution to the general creditors of the bank.

Relationship as principal and Agent

The bankers provide agent services to their customers. The agent is defined under section 182 of the Indian contract act as the agent is the person who is employed by a person by giving him the power of attorney to work or deal on his behalf. The banker pay taxes, electricity bills, insurance premium etc. at the command of the bank customer who acts as principal. The bank usually charges for these services provided by the bank to its customer.

Relationship as Lesser and Lessee

Section 105 of the transfer of property act deals with the **contract of lease.** It is a transfer of a right to enjoy the immovable property for a certain time with consideration**.** This happens in the relationship between banker and customer when the bank provides a safe deposit locker to the customer of the bank to save his important property for a certain period of time. The bank changes its customer who is taking the benefit of the locker for a certain period of time.

Relationship as Pledger and Pledgee

The banker performs the relationship of Pledger and Pledgee when the customer took the loan from the bank and deposits some security to the banker. The customer becomes a pledger and the bank is pledgee. The security of the customer will remain in the custody of the bank until the person repays the money of loan taken by him from the bank.

Relationship as Bailor and Bailee

The banker can perform the relationship of bailor and bailee with its customer. There are many types of bailment under which the person delivers his goods to another party for a specific period of time and take the goods back when the purpose of bailment has been done.

The relationship of bailor and bailee between banker and customer arises when the customer gives his security document of any other goods to the bank for a specific period of time for security. The customer is a bailor and the bank becomes bailee.

Relationship as Advisor and Client

The relationship between banker and customer can be as advisor and client in a case when the customer invests in securities. The bank gives advice to his customer for investing. For example, if you are planning to take any kind of loan, but you are not sure that which loan you should take.

Here, the bank can advise you officially or unofficially to take the right decision. In that case, the banker will be your advisor and you will be his client.

Relationship as Mortgagor and Mortgagee

Section 58(a) of the Transfer of Property Act, 1882 defines the mortgage as "A mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced by way of loan, etc."

When the banker provides the credit facility to his customer against the security of immovable property, the customer becomes a mortgagor and the bank is a mortgagee.

Relationship as Indemnity holder and Indemnifier

There are various types of indemnity given under the Indian contract act. Indemnity is one of the types of contracts in which one person promise to save another party by paying his loss occurred due to the person who is making the contract or by the act of any other person.

In the relationship between banker and customer, the banker act as indemnity holder if any wrong transaction is done while making the payment by the customer.

For example, if you make an online transaction with another person but the transaction failed and your money is deducted. The bank will repay the loss that occurred due to fault occurred in the transaction. Though, it requires all the necessary written evidence to prove this in litigation.

Relationship as Hypothecator and Hypothecatee

The relationship between banker and customer converts into Hypothecator and Hypothecatee when the bank customer hypothecates some movable or immovable property or any other assets into the bank to take the loan from the bank. In this case, the bank customer is a hypothecator and the banker is Hypothecatee.

Special Relationship between Banker and Customer

The duties and instruction to the banker come under a special Relationship between Banker and Customer.

Maintain records

It is the duty of the banker to maintain every record of the transaction, loan and investment done by the bank customer. These records must be clear, genuine and authorized. The bank customer has the right to check his transaction details whenever he needs them. In a case where the transaction details are needed, the banked has the duty to provide the true details to its customer with the stamp and signature of the authorized person. Any mistake in the records can bring the bank into trouble.

Maintain confidentiality

A banker is responsible for the safety of the documents, records or any other property which is deposited by the bank customer in the bank. The information must remain confidential. Though there are some conditions when the banker can disclose these confidential documents saved in the bank account.

Obligation to honour cheques

The bank is responsible to accept the Cheque of the customer that is equivalent to the amount present in the account. There are some necessary conditions which must be fulfilled by the Cheque. Lack of these conditions can lead to the dishonour of cheques. Some important conditions are:

- Proper format of the Cheque
- Correctly signed by the person
- Properly presented in the bank
- There must be an available balance in the bank account.

Deposit mobilization is **the process of public cash or funds accumulation by the financial institutes via its different routes**, for instance, savings, current, fixed deposit accounts and other specialized schemes.

LOANS AND ADVANCES

Money is an essential element for any business, because it fulfills the short term and long term requirement of funds. It is nt possible for the owner to bring all the money himself, so he/she take recourse to loans and advances. **Loans** refer to a debt provided by a financial institution for a particular period while **Advances** are the funds provided by the banks to the business to fulfill working capital requirement which are to be payable within one year.

The loan amount is required to be repaid along with the interest, either in lump sum or in suitable instalments. It can be a term loan (payable after 3 years) or demand loan (payable within 3 years). In the same waty, advances also requirement repayment along with the interest within one year. These two terms are always uttered in the smae breath, but there are a number of differences between loans and advances which we have discussed in the article below.

DEFINITION OF LOANS

The amount lent by the lender to the borrower for a specific purpose like the construction of the building, capital requirements, purchase of machinery and so on, for a particular period of time is known as Loan. In general, loans are granted by the banks and financial institutions. It is an obligation which needs to be repaid back after the expiry of the stipulated period.

The loan carries an interest rate on the debt advanced. Before advancing loans, the lending institution checks the credit report of the customer, to know about his credibility, financial position and capacity to pay. Loan is classified in the following categories:

- On the basis of Security:
  - Secured Loan: The loan which is backed by securities is Secured Loan.
  - Unsecured Loan: The loan on which no asset is pledged as security is Unsecured Loan.
- On the basis of Repayment:
  - Demand Loan: The loan which is repaid on demand of the lender is Demand Loan.
  - Time Loan: Loan, which is repaid in full at a future specified date is Time Loan.

    - Instalment Loan: Loans which are to be repaid in evenly distributed monthly instalments is Installment Loan.
- On the basis of Purpose:
    - Home Loan
    - Car Loan
    - Education Loan
    - Commercial Loan
    - Industrial Loan

DEFINITION OF ADVANCES

Advances are the source of finance, which is provided by the banks to the companies to meet the short-term financial requirement. It is a credit facility which should be repaid within one year as per the terms, conditions and norms issued by Reserve Bank of India for lending and also by the schemes of the concerned bank. They are granted against securities which are as under:

- **Primary Security**: Hypothecation of Debtors, Stock Pro-notes, etc.
- **Collateral Security**: Mortgage of land and buildings, machinery, etc.
- **Guarantees**: Guarantees given by partners, directors or promoters, etc.

The following are the forms of bank advances:

- **Short term loans**: Advance in which the entire amount is provided to the borrower at one time.
- **Overdraft**: A facility provided by the bank in which the customer can overdraw money from his account up to a specified limit.
- **Cash Credit**: A facility granted by the bank in which the customer can advance money up to a certain limit against the asset pledged.
- **Bills Purchased**: An advance facility provided by the bank against the security of bills.

COMPARISON CHART

BASIS FOR COMPARISON	LOANS	ADVANCES
Meaning	Funds borrowed by an entity from another entity, repayable after a specific period carrying interest rate is known as Loans.	Funds provided by the bank to an entity for a specific purpose, to be repayable after a short duration is known as Advances.
What is it?	Debt	Credit Facility
Term	Long Term	Short Term
Legal formalities	More	Less
Security	May or may not be secured	Primary security, collateral security and guarantees.

Asset-liability management addresses the protection of both income and capital from interest rate risk, which originates from mismatches in the repricing of assets and liabilities. Interest rate risk management aims to maintain interest rate risk exposures within authorized levels.

ASSET AND LIABILITY MANAGEMENT (ALM)

Asset and liability management (ALM) is a practice used by financial institutions to mitigate financial risks resulting from a mismatch of assets and liabilities. ALM strategies employ a combination of risk management and financial planning and are often used by organizations to manage long-term risks that can arise due to changing circumstances.

Asset and Liability Management
Mitigating Risks Associated with a
Mismatch of Assets and Liabilities

The practice of asset and liability management can include many factors, including strategic allocation of assets, risk mitigation, and adjustment of regulatory and capital frameworks. By successfully matching assets against liabilities, financial institutions are left with a surplus that can be actively managed to maximize their investment returns and increase profitability.

UNDERSTANDING ASSET AND LIABILITY MANAGEMENT

At its core, asset and liability management is a way for financial institutions to address risks resulting from a mismatch of assets and liabilities. Most often, the mismatches are a result of changes to the financial landscape, such as changing interest rates or liquidity requirements.

A full ALM framework focuses on long-term stability and profitability by maintaining liquidity requirements, managing credit quality, and ensuring enough operating capital. Unlike other risk management practices, ALM is a coordinated process that uses frameworks to oversee an organization‟s entire balance sheet. it ensures that assets are invested most optimally, and liabilities are mitigated over the long-term.

Traditionally, financial institutions managed risks separately based on the type of risk involved. Yet, with the evolution of the financial landscape, it is now seen as an outdated approach. ALM practices focus on asset management and risk mitigation on a macro level, addressing areas such as market, liquidity, and credit risks.

Unlike traditional risk management practices, ALM is an ongoing process that continuously monitors risks to ensure that an organization is within its risk tolerance and adhering to regulatory frameworks. The adoption of ALM practices extends across the financial landscape and can be found in organizations, such as banks, pension funds, asset managers, and insurance companies.

PROS AND CONS OF ASSET AND LIABILITY MANAGEMENT

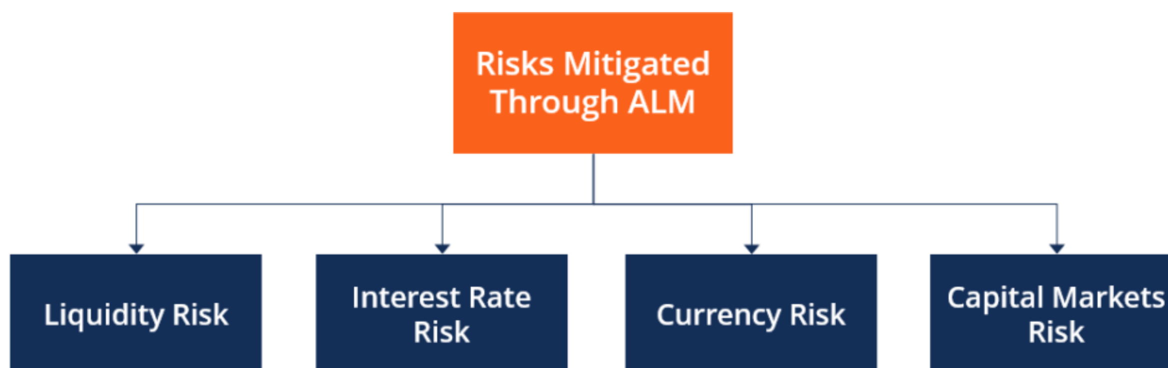
Implementing ALM frameworks can provide benefits for many organizations, as it is important for organizations to fully understand their assets and liabilities. One of the benefits of implementing ALM is that an institution can manage its liabilities strategically to better prepare itself for future uncertainties.

Using ALM frameworks allows an institution to recognize and quantify the risks present on its balance sheet and reduce risks resulting from a mismatch of assets and liabilities. By strategically matching assets and liabilities, financial institutions can achieve greater efficiency and profitability while reducing risk.

The downsides of ALM involve the challenges associated with implementing a proper framework. Due to the immense differences between different organizations, there is no general framework that can apply to all organizations. Therefore, companies would need to design a unique ALM framework to capture specific objectives, risk levels, and regulatory constraints.

Also, ALM is a long-term strategy that involves forward-looking projections and datasets. The information may not be readily accessible to all organizations, and even if available, it must be transformed into quantifiable mathematical measures.

Finally, ALM is a coordinated process that oversees an organization‟s entire balance sheet. It involves coordination between many different departments, which can be challenging and time-consuming.



Examples of ALM Risk Mitigation

Although ALM frameworks differ greatly among organizations, they typically involve the mitigation of a wide range is risks. Some of the most common risks addressed by ALM are interest rate risk and liquidity risk.

Interest Rate Risk

Interest rate risk refers to risks associated with changes to interest rates, and how changing interest rates affect future cash flows. Financial institutions typically hold assets and liabilities that are affected by changing interest rates.

Two of the most common examples are deposits (assets) and loans (liabilities). As both are impacted by interest rates, an environment where rates are changing can result in a mismatching of assets and liabilities.

Liquidity Risk

Liquidity risk refers to risks associated with a financial institution‟s ability to facilitate it‟s present and future cash-flow obligations, also known as liquidity. When the financial institution is unable to meet its obligations due to a shortage of liquidity, the risk is that it will adversely affect its financial position.

To mitigate the liquidity risk, organizations may implement ALM procedures to increase liquidity to fulfill cash-flow obligations resulting from their liabilities.

Other Types of Risk

Aside from interest and liquidity risks, other types of risks are also mitigated through ALM. One example is currency risk, which are risks associated with changes to exchange rates. When assets and liabilities are held in different currencies, a change in exchange rates can result in a mismatch.

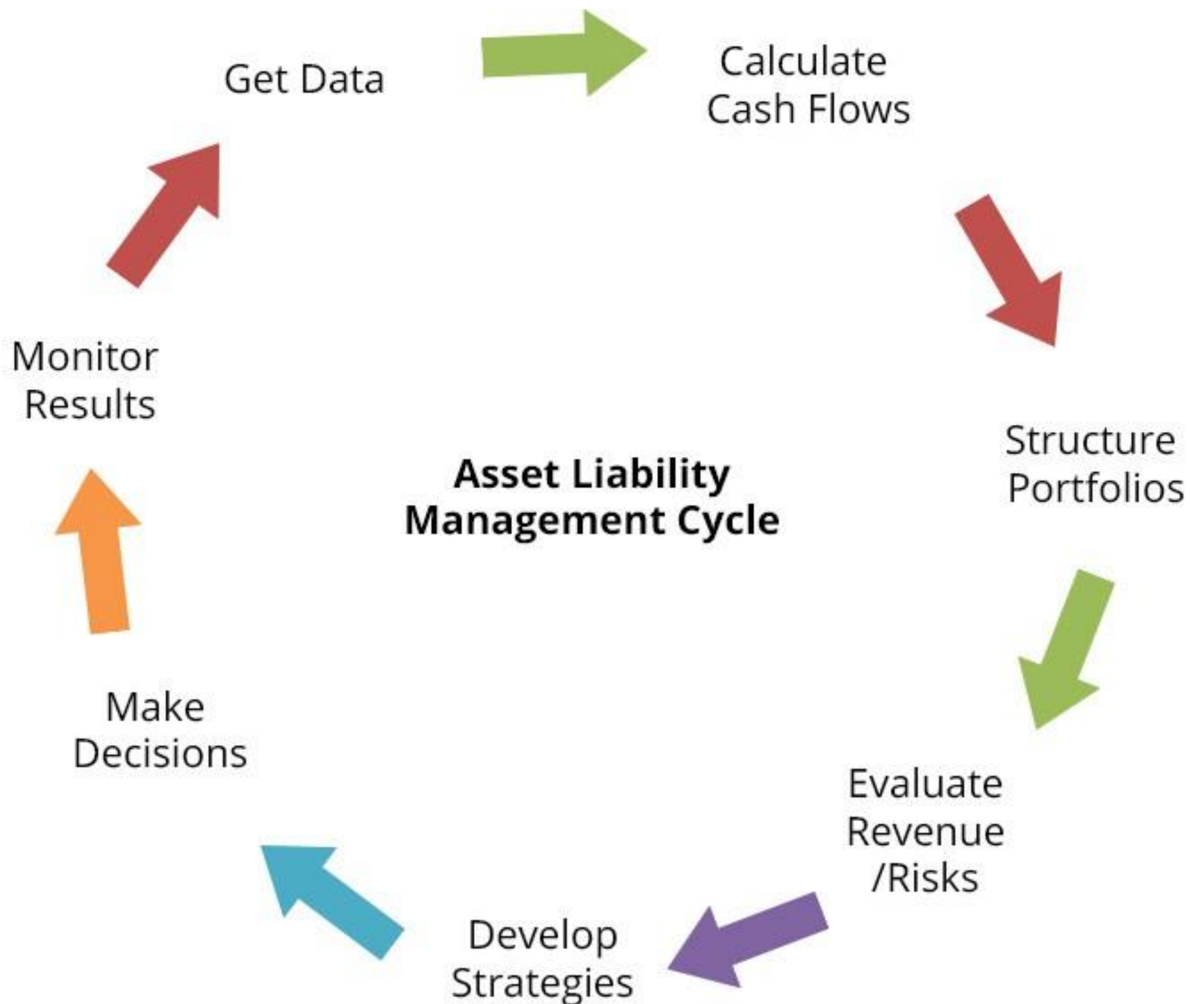
Another example is capital market risk, which are risks associated with changing equity prices. Such risks are often mitigated through futures, options, or derivatives.

OBJECTIVES OF ASSETS AND LIABILITIES

The main objective of Asset Liability Management (ALM) is to effectively hold asset and liability portfolios along the time axis and optimize the RORAC (Return/Risk), using various evaluation and strategy approaches. Due to the complexity of sophisticated mathematical models, effective finance management implies the application of software tools and systems. Our solution accomplishes the following:

- Modeling and pricing of various instrument types.
- Hierarchical structuring of portfolios in assets, liabilities, off-balance positions and their sub-portfolios, using lists, filters and structures.
- Generation and evaluation of cash flows (fixed, float, pay-offs).
- Definition of regular and irregular future periods to be used for ALM analysis.
- Calculation of prices and measures (e.g. Net Present Value) on position level and aggregation on portfolio level.
- Modified duration, convexity, dispersion, internal rate of return, etc..
- Calculation of opportunity rates based on interest rate expressions that can define rates, such as floater, spread, step-up/down, maturity mixed, curve mixed, currency mixed, historical, average, depressed, etc.

- Definition and usage of future scenarios for market factors (FX, interest rates, stock indexes, yield curves, etc.) and for capital development (liquidity scenarios), including prolongation, increase/decrease of business, losses of defaulted debtors, budget plans, future cash flow obligations, etc. The usage of market and liquidity scenarios enables future assessments and stress tests of assets and liabilities. The involvement of simulated positions in the portfolio is a flexible way of planning and investigating future cash flows.
- Performance of advanced ALM analysis, related to future interest and capital developments and transformations, including:
  - Cash flow analysis and GAP-analysis for future periods, according to cash flow types, such as capital decrease/increase, interest rate payments, expectated pay-offs of stochastically modeled instruments.
  - Interest income analysis that calculates interest rates, margins and contributions for the asset and liability side, based on rates of alternative or market relevant business. Gross, conditional and structural margin and contribution are obtained between the asset and the liability side.
  - Fund Transfer Pricing (FTP), that calculates the market value and contributions of assets and liabilities, based on opportunities for alternative businesses with different contract maturities. This functionality is known as maturity transformation, i.e. long-term loans with high interest rates are refinanced by short-term rollover deposits with lower interest rates.
  - Refinancing and reinvestment, including the definition of planned positions in order to refinance or reinvest future cash flows.
  - Replication of portfolios, used to model future financial instruments without knowing the cash flows or pay-offs, such as rollovers and non-term liabilities.



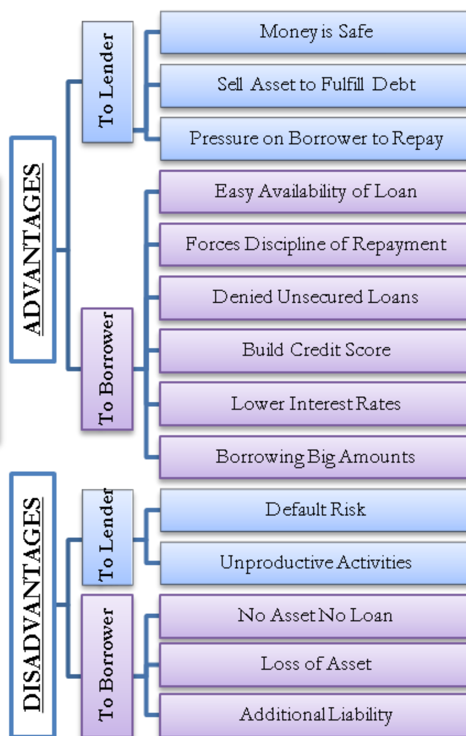
SECURED ADVANCES

Secured loans are **business or personal loans that require some type of collateral as a condition of borrowing**. A bank or lender can request collateral for large loans for which the money is being used to purchase a specific asset or in cases where your credit scores aren't sufficient to qualify for an unsecured loan.

SECURED LOAN are loans extended only against deposition of some asset as security. Assets could be any ranging from PPE to a car. The term 'security' in lending terms commonly understood as creating a temporary right on asset in favor of the lender. In other words, the asset can be sold and liquidated by the lender if the loan or its interest is not repaid by the borrower.

Lender – Return on Money with its Safety.
Borrower – Cost Effective with Comfortable Terms

Points of Differences	Secured Loans	Unsecured Loans
Security	Needed	Not Needed
Interest	Low	High
Availability to Borrower	Easy	Difficult
Credit Score	Low	High
Suitable for	Low Cost Required.	Urgency
Size of Loan	Big Sized	Small and Medium



TYPES OF SECURED LOANS

- Mortgage Loan
- Nonrecourse Loans
- Car Loans
- Home Loans

TYPES OF SECURED LOANS

Secured loans are categorized into different types as follows.

Mortgage Loan

A mortgage loan is a secured loan where the asset under pledge is a property.

Nonrecourse Loans

Nonrecourse loans are loans where the liability of the borrower to pay the debt is limited to the seizure of assets under collateral. This means that the lender can seize the asset and sell it. There

are two possibilities here. One, the lender gets sufficient money by selling to fulfill the balance of the unpaid debt. Second, the lender does not fetch sufficient money by selling the asset. Under non-recourse loans, the borrower is not liable to pay more in the second condition mentioned here.

Car Loans

Car loans are the most common loans availed by individuals and businesses. In these loans, the collateral is the car for the loan that has been taken.

Home Loans

Fortunately, in all individuals‟ life, there comes a situation when he plans to buy a home. We will all agree that it is a costly affair and shelling out that amount of money in one go is very difficult for normal individuals. A home loan is a very good option under the secured loans category for getting a loan at lower interest rates. Here, the home is the collateral. This is considered most secured by the lenders, especially when the home is bought for living in it and not for investment purposes. It is because any individual would not like not to pay and become homeless when the home is seized.

ADVANTAGES OF SECURED LOANS

To Lender

Money is Safe

A money lender has only two purposes that he wishes to serve – the safety of his money and earn a return. With secured loans, the first purpose of safety is fairly catered. It is very difficult to identify borrowers from their faces. The world is a mix of good and wicked people. Wicked borrowers may have a bad intention of taking a loan and not repaying it. So, the job of a lender is to identify the intentions and make sure that the money is safe. By the process of taking securities, a lot of these problems are solved. Still, there are bad secured loans. It is difficult to eradicate but definitely is controlled.

Sell Asset to Fulfill Debt

Fortunately or unfortunately, if a borrower is not able to pay, the lender has an option to seize the asset, sell it, and fulfill its debt. Although it is not a desirable situation, the process is not so easy also. It isn‟t easy to sell a second-hand asset and get its due price in the market. At times, it is possible that even after selling the asset full amount of debt is not recovered, but it can at least reduce the loss.

Pressure on Borrower to Repay

When the borrower offers security, there is psychological pressure to repay. The consequences of non-payment are known to the borrower. Consequences include the loss of assets that he acquired with the help of a loan and the loss of credit that will substantially reduce his capacity to take any further loans.

To Borrower

Easy Availability of Loan

Secured loans are easily available in comparison to their counterpart, that is, unsecured loans. The process of secured loans is seamless because the lender has a reasonable assurance of his money.

Forces Discipline of Repayment

Priorities in an individual‟s life are more than his capacity to handle. In this crowded list of priorities, it is natural that some priorities lapse. The secured nature of this loan helps an individual keep the loan repayment in his top priorities and thereby enables him to remain in the discipline of repayment. It is good for both the borrower as well as the lender.

Denied Unsecured Loans

One of the most important benefits of secured loans is to a category of borrowers who have been denied unsecured loans. They have no choice but to go for secured loans if the need for money is crucial.

Build Credit Score

Loans are a reality of the current world. There is seldom anybody who has not taken a loan or has felt a need for a loan. It is difficult to forecast that unforeseen situation when you would need money. money is given to those who have good credit scores. It is very important to build and maintain credit scores. Secured loans are a great way of building a credit score. The information about taking this loan goes to the credit bureau, and if the loan is successfully paid, the credit score is strengthened.

Lower Interest Rates

Compared to unsecured loans, secured loans have a quiet and lower interest rate. The reason behind it is quite simple; the lender assumes less risk when there is security. We know that risk and returns are directly related. Lower the risk – lower the return expectations, and higher the risk – higher the return expectation of the lender. Although there are more angles, do it like the ability to repay, the viability of a project, the income of an individual, etc.

Borrowing Big Amounts

Secured loans are the only choice when you want to borrow big amounts. No lender would risk millions of dollars for an unknown borrower. Collateral and additional security are in easy language both lender and borrower can understand.

DISADVANTAGES OF SECURED LOANS

To Lender

Default Risk

There is always a risk of default, however good the borrower‟s credentials may be. The reason for default could be anything but this situation is always a disaster for a lender. The primary job of a lender is not to seize assets and sell them. Due to inefficient selling, the lender may not be able to get the right price for the asset. The difference has to be booked as a loss.

Unproductive Activities

In the event of default, the lender is bound to invest his time in productive activities of following up with the borrower for payment, seizing assets, auctioning, selling assets, etc.

To Borrower

No Asset No Loan

When a borrower needs money and has no assets to offer security, he cannot get a secured loan. He will have to try for unsecured loans, which are costly and require a good credit score.

Loss of Asset

If the borrower is not able to pay the loan on time, there is a risk of losing the asset he owned by borrowing money. At times, there are genuine life hardships that force non-payment, be it business or an individual.

Additional Liability

We discuss the situation when the selling asset also does not have sufficient money to repay the loan. Depending on the terms and conditions of a secured loan or if the loan is not a non-recourse loan, the borrower may also be liable to repay with his personal assets.

SECURED VS. UNSECURED LOANS

Points of Differences	**Secured Loans**	**Unsecured Loans**
Security	There is an asset placed as collateral security. At times there are other additional assets also as additional securities.	In unsecured loans, there is the security given by the borrower. The loan extended here is completely based on the borrower‟s credit.
Interest	Since the lender‟s money risk is low, the interest cost is also lower here.	Similarly, the risk perception in unsecured loans is high. Therefore the interest cost is also higher.
Availability to Borrower	The secured loans are easy to borrow. There is no need to convince the lender too much on parameters when security is available.	Unsecured loans are not easily available to everyone. The borrowers conduct a tough credit check before extending

		the loan.
Processing	The decision to process the loan is relatively easy but processing the papers may take some time. Rest depends on the amount of loan that is looked out for.	The processing time increases in making a decision whether to extend the loan or not.
Credit Score	A lower credit score also suffices when you have security to offer for a secured loan.	You should have a very good track record and reasonable credit score for an unsecured loan.
Suitable for	A secured loan is suitable for all the purposes where the borrower wants the cost of funds to be on the lower side. Like a business loan for buying a machinery, the businessman would expect a low cost of funds. A higher cost of funds may snatch away the whole viability of the project and increase overall risk.	This type of loan is suitable for a temporary unavoidable need for money because long-term loans are very costly. They are mostly personal loans extended based on the credit score, salaries, etc.
Size of Loan	All sizes of loans are available as secured loans.	Only small and medium-sized loans are extended as unsecured loans. Big size loans are not lent as unsecured loans.

CROSSING OF CHEQUE AND ENDORSEMENT

Cheques may be of two types:

1. Open or uncrossed cheques &
2. Crossed Cheque

5. An open cheque is payable at the counter of the drawee bank on the presentation of cheque. Such cheque runs great risk in the course of circulation because once a wrong person takes away the payment of an open cheque it is difficult to trace him

2. A crossed cheque is payable only through a collecting banker and not directly at the counter of the bank. Thus crossing affords security and protection to the holder of the cheque.

Section 123 to 131 of Negotiable Instrument Act contain provisions relating to „crossing of a cheque‟. According to section 131-A, these sections are also applicable in case of drafts. Thus not only cheques but bank draft

When a **cheque** is crossed it in effects means a request more appropriately, an instruction by the client not to pay the cheque directly over the counter but to a banker only for crediting the payees account with the bank. A cheque bearing such an instruction is called a „crossed cheque‟. The crossing of a cheque is intended to ensure that its payment is made to the right payee. Section 123 to 131 of the Negotiable Instrument Act contain provisions relating to the crossing. According to section 131-A, these sections are also applicable in case of drafts. Thus not only cheques but bank drafts also may be crossed.

WHAT IS CROSSING

A crossing is an instruction or a direction given to paying banker to pay the amount of the cheque through a banker only or a particular banker as the case may be and not directly to the person presenting it at the counter. The crossing is constituted by drawing two transverse parallel lines on the face of the cheque.

For our discussion we may differentiate crossing into the following two types:

1. General Crossing.
2. Special Crossing.

1. **GENERAL CROSSING**:

a) Meaning: According to section-123 of NI Act, where a cheque bears across its face an addition of the words "and company" or any abbreviation thereof between two parallel transverse lines or two parallel transverse lines simply, either with or without the words "not negotiable" that addition shall be deemed a crossing & the cheque shall be deemed to be crossed generally.

b) A specimen of General Crossing:

c) Features of General Crossing:

From the above section we find that a cheque is said to be crossed generally when it bears across its face any of the following:

- Two transverse parallel lines.
- Two transverse parallel lines with the word "And Company".

- Two transverse parallel lines with any abbreviation of the word "& Company".
- Two transverse parallel lines with the words "Not Negotiable".
- Two transverse parallel lines with the words "Account Payee Only".

1. The cheque crossed generally does not cease to be negotiable further.

iii. The collecting banker can collect the proceeds of the cheque in the account of that person mentioned on the cheque.

1. **Special Crossing**:

a) Meaning: A special crossing implies the specification of the name of a banker on the face of the cheque. Sec.124 of N.I. Act 1881 reads. "Where a cheque bears across its face an addition of the name of a banker, either with or without the words "Not Negotiable" that addition shall be deemed a crossing and the cheque shall be deemed to be crossed specially, and to be crossed to that banker".

Drawing of two transverse and parallel lines is not necessary in case of a special crossing. When a cheque has been specially crossed, the banker upon whom it has been drawn will make the payment only to that banker in whose favour it has been crossed.

b) The specimen of Special Crossing:

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Not Negotiable

c) Features of Special Crossing:

The name of a banker must be necessarily specific across the face of the cheque. The name of the banker itself constitutes special crossing. Two parallel transverse lines are not at all essential for a crossing.

The Two parallel transverse lines and the words "Not negotiable" may be added to a special crossing.

Difference between General and Special Crossing

General Crossing	**Special Crossing**
1. Drawing of two parallel transverse lines is a must.	1. Drawing of two parallel transverse lines is not essential.
2. Inclusion of the name of a banker is not essential.	2. Inclusion of the name of a banker is essential.
3. In General Crossing paying banker to honor the cheque from any bank A/C.	3. In Special Crossing paying banker to honor the cheque only when it is presented through the bank mentioned in the crossing and no other bank.
4. General Crossing can be converted into a Special Crossing.	4. Special Crossing can never be converted to General Crossing.
5. In case of General Crossing the words “And Company” or “& Company” or “Not Negotiable” between the transverse lines to highlight the crossing does not carry special significance.	5. In case of Special Crossing the name of a banker may be written within two parallel transverse lines or with the words “And Company” or “Account Payee Only” or “Not Negotiable” the inclusion of these words has become customary.

Some other types of Crossing:

1. **Account Payee Crossing**:

a) Meaning: Section 123 A(i) When a cheque crossed generally bears across its face an addition of words „Account Payee" between the two parallel transverse lines constituting the general crossing, the cheque besides being crossed generally is said to be crossed account payee.

Account Payee Account Payee Account Payee

b) Specimen **of Special Crossing:**

C) Features of Account Payee Crossing:

i.Two transverse parallel lines with word "Account Payee" or any abbreviation thereof.

ii.The Cheque ceases to be negotiable further.

iii.The collecting banker is duly bound to collect the proceeds of the cheque in the account of the Payee only.

2. Double Crossing:

When a cheque bears two separate special crossing, it is said to have been doubly crossed.

As per section-127, "where a cheque is crossed specially to more than one banker except when crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof."

Thus a paying banker shall pay a cheque doubly crossed only when the second banker is acting only as the agent of the first collecting banker and this has been made clear on the instrument. Such crossing may be done in those cases where that banker in whose favour the cheque is to be paid.

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Islami Bank Bangladesh Ltd
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Special Features of Not Negotiable Crossing:

Section 130 – " A person taking a cheque generally to or specially, bearing in either case the words „Not Negotiable" shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had –

Unlike other crossing it deprives the instrument of the incident of negotiability. If the holders have a good title he can transfer it with good title. But if the transferor has a defective title his transfer is affected by such defects and the transfer cannot claim rights of a holder in due course as proving that he purchases the instrument in good faith and for value.

As such, bank should not collect a not negotiable cross cheques in the account of a person other than person even if it is endorsed in a regular manner unless he is completely satisfied regarding integrity of the endorsement.

Who can cross a cheque

a) A cheque may be crossed generally or specially by the drawer.

b) Holder may also cross it.

c) Holder may turn a general crossing into special crossing.

d) A banker may cross an uncrossed cheque & he may cross it specially to himself or to another banker for purpose of collection through him.

The above contention is substantiated by section-125 of NI Act-1881.

Opening of crossing/cancellation of crossing

If the crossing on a cheque is cancelled, it is called opening of the crossing. The cheque thereafter becomes an open cheque. Only the drawer of the cheque is entitled to open the crossing of the cheque by writing the words "Pay Cash" and canceling the crossing along with his full signature. His initials are not sufficient for this purpose.

The paying banker must be very careful in ascertaining the validity or genuineness of the drawer‟s signature opening the crossing. If drawer‟s signature (already on the cheque) is forged by the holder in order to open the crossing and the payment is obtained at the counter, the banker will remain liable to the true owner of the cheque. The banker is under an obligation to pay the cheque according to the direction of the drawer conveyed through the crossing on the cheque.

Endorsement:

A negotiable instrument may be transferred by negotiation. (i) Negotiation can be effected by mere delivery if the instrument is a bearer one. (ii) By endorsement and delivery in case it is an order instrument. An order instrument means instrument payable to a specified person or to the order of that specified person. If an instrument payable to order is transferred without endorsement, it is merely assigned and the holder thereof is not entitled to the rights of a holder in due course.

Meaning of Endorsement:

An endorsement is a mode of negotiating a negotiable instrument. A negotiable instrument payable otherwise than to a bearer can be negotiated only by endorsement and delivery. An endorsement, according to sec. 15 of the NI Act is "when the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation on the back or face thereof or on a slip of paper annexed thereto or so signs for the same purpose a stamp paper intended to be completed as a negotiable instrument, he is said to endorse the same and is called the endorser. The person to whom the instrument is endorsed is called the endorsee. "The word endorsement is said to have been derived from Latin „en‟ means „upon‟ and „dorsum‟ meaning „the back‟. Thus usually the endorsement is on the back of the instrument though it may be even on the face of it. Where no space is left on the instrument, the endorsement may be made on a slip of paper attached to it. This attached slip of paper is called „Allonge‟.

General Rules Regarding Endorsement:

i. Signature of the endorser:

ii. Spelling: The endorser should spell his name exactly in the same way as his name appears on the cheque or the bill as its payee or endorsee.

iii. Complementary or Courtesy Title: An endorsement need not contain the complementary prefixes or suffixes and other courtesy title or professional designation.

iv. Illiterate Person: An illiterate man can make pa valid endorsement by putting his left hand thumb impression thereon.

v. Endorsement by Deceased Person: A cheque in the name of deceased person must be endorsed by his legal representative.

vi. Agent: While signing a negotiable instrument only as an agent of another, he should make

clear by adding the words "Per Procuration", "Per Pro", "For", "For and on behalf of", "On behalf of".

vii. Joint Stock Company: In case of joint stock companies endorsement should be made by persons who are only authorized to on behalf of the companies, i.e. Managing Director, Secretary or General Manager.

viii. Club, School, College and other Non Trading Organizations: Signed by authorized person.

TYPES OF ENDORSEMENT:

According to the N.I. Act, 1881 endorsement may take any of the following forms:

1. Endorsement in blank or general endorsement.
2. Endorsement in full or special endorsement.
3. Restrictive endorsement.
4. Partial endorsement.
5. Conditional endorsement.

1. Endorsement in Blank or General Endorsement:

In case of an endorsement in blank, the payee or endorser does not specify an endorsee and he simply signs his name (S. 16 NIA).

2. Endorsement in Full or Special Endorsement:

When the payee or endorser specifies the person to whom or to whose order the instrument is to be paid, the endorsement is called special endorsement or endorsement in full. The specified person i.e. the endorsee then becomes the payee of the instrument.

3. Restrictive Endorsement:

An endorsement is restrictive when it prohibits further negotiation of a negotiable instrument. Sec. 50 of the NI Act 1881states. "The endorsement may, by express words, restrict of exclude the right to negotiable or pay constitutes the endorsee an agent to endorse the instrument or to receive its contents for the endorser or for some other specified person."

For example, if B endorses an instrument payable to barer as follows, the right of C to further negotiate is excluded

- Pay the contents to C only
- Pay C for my use

4. **Partial Endorsement:**

If only a part of the amount of the instrument is endorsed, it is a case of partial endorsement. An endorsement which purports to transfer to the endorsee only a part of the amount payable, or which purports to transfer the instrument to two or more endorsees severally, is not valid.

5. **Conditional Endorsement:**

If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability or the right of the endorsee to receive the amount due thereon, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a conditional endorsement (Section 52 of NI Act). Such an endorser gets the following rights:

He may make his liability on the instrument conditional on the happening of a particular event.

He will not be liable to the subsequent holder if the specified event does not take place to the instrument even before the particular event takes place.

For example, "pay C if he returns from London". Thus C gets the right to receive payment only on the happening of a particular event, i.e. if he returns from London.

Effect of Endorsement

An unconditional endorsement of a negotiable instrument followed by its unconditional delivery has the effect of transferring the property therein to the endorsee. The endorsee acquires a right to negotiate the instrument further to anyone he likes.

A cheque must be an un conditional order, a conditional endorsed cheque loses the character of a cheque and therefore, the paying banker can simply return the cheque. When a well established customer attaches such condition the banker should see to the fulfillment of the condition before making payment just to satisfy the customer. They may accept such requests, only when the

customer is ready to indemnify the banker for any loss which he may suffer in such cases.
Section 50 of NI Act also permits that an instrument may also be endorsed so as to constitute the endorsee an agent of the endorser.

- To endorse the instrument further or
- To receive its amount for the endorser or for some other specified person.

COLLECTION PROCEDURE OF A CHEQUE

A 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 the certain person or to the bearer of the instrument.

The cheque clearing cycle is the process we use to establish whether a payment made by cheque can be honored. It normally takes 5 working days. However, in cases where the payment can"t be honored – e.g., if the person making it doesn"t have enough money in the relevant account – we need extra days to allow for the unpaid cheque to be returned.

The explanation below has been designed to help you understand when cheques paid into your account start to earn interest and when the funds become available for withdrawal. It also shows when you can be certain that the funds won"t be reclaimed from your account as a result of a cheque being returned unpaid. It applies to Sterling cheques paid from UK accounts.

(a) Branch cut-off times

Some branches have a cut-off time, after which cheques paid in are processed the following working day. Cut-off times vary and are available in branches.

(b) Accessing the money

You don"t have to wait for the cheque to clear before you use the money. If you"re sure a cheque won"t be returned unpaid, you may be able to access some of the money on the day it"s paid into

your account using our Instant Access Service, Please check with us as to whether you qualify for this service and what limit applies.

(c) Working days

Working days refer to Monday to Friday, excluding bank holidays. However, Bank holidays that are only observed in Scotland do count as working days. For cheques deposited in Northern Ireland, bank holidays only observed there don"t count as working days.

(d) Post offices

If you pay a cheque at a post office to your Barclays account. It"ll take working days longer to process them.

(e) Speeding up the process

If you need a cheque to clear faster than usual, ask to use the Direct Presentations service in any of our branches. We"ll send the cheque by Royal Mail Special Delivery to the bank the cheque is being paid from. It usually then takes that bank up to 2 working days to confirm whether the cheque can be paid. After that, we"ll phone you to let you know the decision.

A cheque is a document you can issue to your bank, directing it to pay the specified sum mentioned in digits as well as words to the person whose name is borne on the cheque.

Cheques are also called negotiable instruments. In banking terms, a negotiable instrument is a document that promises its bearer a payment of the specified amount either on furnishing the document to the banker or by a given date.

The issuing party is called the drawer of the cheque, and the one it is issued to or put simply, whose name is mentioned on the cheque is the drawee.

TYPES OF CHEQUES

How many types of cheques are in use depends on elements like who is the issuer and who is the drawee. Based on these essentials, we explore the different types of cheques in India.

1. Bearer Cheque

A bearer cheque is the one in which the payment is made to the person bearing or carrying the cheque. These cheques are transferable by delivery, that is, if you are carrying the cheque to the bank, you can be issued the payment to. The banks need no other authorisation from the issuer to be allowed to make the payment.

How can you identify a bearer cheque? You know it is a bearer cheque when you see the words „or bearer‟ printed on them.

2. Order Cheque

In these cheques, the words „or bearer‟ is cancelled. Such cheques can only be issued to the person whose name is mentioned on the cheque, and the bank will do its background check to authenticate the cheque bearer‟s identity before releasing the payment.

3. Crossed Cheque

You may have observed cheques with two sloping parallel lines with the words „a/c payee‟ written on the top left. That is a crossed cheque. The lines ensure that irrespective of who presents the cheque, the payment will only be made to the individual whose name is written on the cheque, in other words, the a/c payee along with his/her account number. These cheques are relatively safe because they can be encashed only at the drawee‟s bank.

4. Open cheque

An open cheque is basically an uncrossed cheque. This cheque can be encashed at any bank, and the payment can be made to the person bearing the cheque. This cheque is transferable from the original payee (the original recipient of the payment) to another payee too. The issuer needs to put his signature on both the front and back of the cheque.

5. Post-Dated Cheque

These types of cheques bear a later date of being encashed. Even if the bearer presents this cheque to the bank immediately after getting it, the bank will only process the payment on the date mentioned in the cheque. This cheque stands valid past the mentioned date, but not before.

6. Stale Cheque

A cheque past its validity, three months after the date of being issued, is called a stale cheque.

7. Traveller's Cheque

Foreigners on vacations carry traveller"s cheques instead of carrying hard cash, which can be cumbersome. These cheques are issued to them by one bank and can be encashed in the form of currency at a bank located in another location or country. Traveller"s cheques do not expire and can be used for future trips.

8. Self Cheque

You can identify self cheques by the word „self" written in the drawee column. Self cheques can only be drawn at the issuer"s bank.

9. Banker's Cheque

A bank is the issuer of these types of cheques. The bank issues these cheques on behalf of an account holder to make a remittance to another person in the same city. Here the specified amount is debited from the account of the customer, and then, the cheque is issued by the bank. This is the reason banker"s cheques are called non-negotiable instruments as there is no room for banks to dishonour these cheques. They are valid for three months. They can be revalidated provided specific conditions are met.

CENTRALBANK

- ✓ A central bank is a public institution that manages the currency of a country or group of countries and controls the money supply – literally, the amount of money in circulation.
- ✓ The main objective of many central banks is price stability. In some countries, central banks are also required by law to act in support of full employment.
- ✓ One of the main tools of any central bank is setting interest rates – the "cost of money" – as part of its monetary policy.
- ✓ A central bank is not a commercial bank. An individual cannot open an account at a central bank or ask it for a loan and, as a public body, it is not motivated by profit.
- ✓ In the banking system, the central bank is recognized as the most powerful financial institution. It is considered to be an important part of a country's economic and financial structure.
- ✓ The central bank is an independent authority in charge of supervising, regulating, and stabilizing the country's monetary and banking framework.
- ✓ The Reserve Bank of India is the country's central bank. It was founded in 1935.
- ✓ Central banks are in charge of ensuring the country's Financial Stability and Economic sovereignty.
- ✓ The meaning of central bank is a financial institution that has the privilege of producing and distributing money (and credit) for a country or a group of countries.
- ✓ The central bank, in the modern economy, is also responsible for regulating member banks and formulating monetary policies.
- ✓ This article will acquaint you with the importance of the central bank with a focus on the functions of the central bank of India.

FEATURES OF CENTRAL BANK

The basic nature of Central banks is that they are non-market-based and also anti-competitive institutions. The key features of a central bank are:

- Most central banks are centralized though there could be central banks that are not

government agencies.

- Even if the central government does not own a central bank, the law establishes and protects the privileges of a central bank.
- It has a legal monopoly status that enables it to issue cash and banknotes as opposed to private commercial banks that can issue only demand liabilities, for example, checking deposits.

FUNCTIONS OF CENTRAL BANK

A central bank is deemed as the lender of the last resort, as per Hawtrey (a British economist). The central bank is the organ of the government which controls major financial operations of the government. Through its various operations, the objectives of the central bank are to support the economic policy of a country by influencing the way financial institutions behave.

The central bank of India is RBI or Reserve bank of India and it is a statutory bank. The primary role of RBI in India is to print currency notes and manage the money supply in the economy of India. Let us now delve into the central bank and its functions where we will discuss the role of the central bank in the money market:

- **Regulator of Currency-** The main function of the central bank is to print currency notes and RBI has the sole right in the country for this operation. RBI prints money of all denominations apart from 1 rupee note. It is the ministry of finance that issues 1 rupee note.
- **Banker and Advisor to the Government-** This role of the central bank is of a fiscal agent to the government where the RBI keeps the deposits of both central and state governments. It also makes payments on behalf of the government, along with buying and selling foreign currencies. The various functions of a reserve bank as an advisor is to tender useful suggestions to the government regarding monetary policies and other economic matters.
- **Custodian of Commercial Banks-** As per law, commercial banks need to keep a reserve that is equal to a certain percentage of the NDTL (net demand and time liabilities). These reserves help commercial banks clear cheques by transferring funds from one bank to

another. The resee bank facilitates these transactions as it acts as a custodian and lender of cash reserves to the commercial banks.

- **Custodian and Manager of Foreign Exchange Reserves-** To keep the rates of foreign exchange stable, there serve bank buys and sells foreign currencies at international prices. If the supply of foreign currency decreases in the economy, RBI sells them at foreign exchanges, and in case of surplus supply, it buys them. RBI is also an official reservoir of foreign currencies and gold. RBI sells gold to monetary authorities of other countries at fixed prices.

- **Lender of the Last Resort-** The RBI grants accommodation to commercial banks, financial institutions, bill brokers, etc. in the form of collateral advances or re-discounts. This step is taken in times of stress so that the financial structure of the country is saved from collapsing. This lending is done on the basis of government securities, treasury bills, government bonds, etc.

- **Controller of Credit-** The Reserve bank of India controls the credit created by commercial banks. The credit flow in the country is regulated by means of two methods; quantitative method and qualitative method. RBI applies tight monetary policies when it observes that there is enough supply of money which may cause an inflationary situation. It squeezes the money supply to keep inflation in check.

- **Transfer and Settlements-** The central bank acts as a "clearinghouse" by providing free services to commercial banks in transferring and settling their mutual claims. Since the RBI holds reserves of commercial banks, it facilitates the clearing of cheques by transferring funds between banks. The principle of bookkeeping is followed in this procedure to make transfer entries into their accounts. There is a separate department operated by the central bank in big cities and trade centers to transfer and settle the claims of one bank on the other.

IMPORTANCEOFCENTRALBANK

The central bank is the heart of the monetary system of any country. A country's economy is influenced heavily by the actions taken by its central bank. They are the key governing body that ensures the boom and bust cycle of the economy and financial markets does not hamper the

direction of the country's economy. Its central bank ensures the steady and stable growth of the economy of a country.

The Functions of a Central Bank can be discussed as follows:

1. Currency regulator or bank of issue
2. Bank to the government
3. Custodian of Cash reserves
4. Custodian of International currency
5. Lender of last resort
6. Clearing house for transfer and settlement
7. Controller of credit
8. Protecting depositors interests

Examples of Central Banks

Some of the well known central banks across the world are:

1. Federal Reserve(USA)
2. Reserve Bank of India(India)
3. Peoples Bank of China(China)
4. Bank of England (UK)
5. European Central Bank (EU or European Union)

The basic nature of Central Banking can been umerated as follows:

1. The Central Bank does not aim at profits but aims at national welfare.

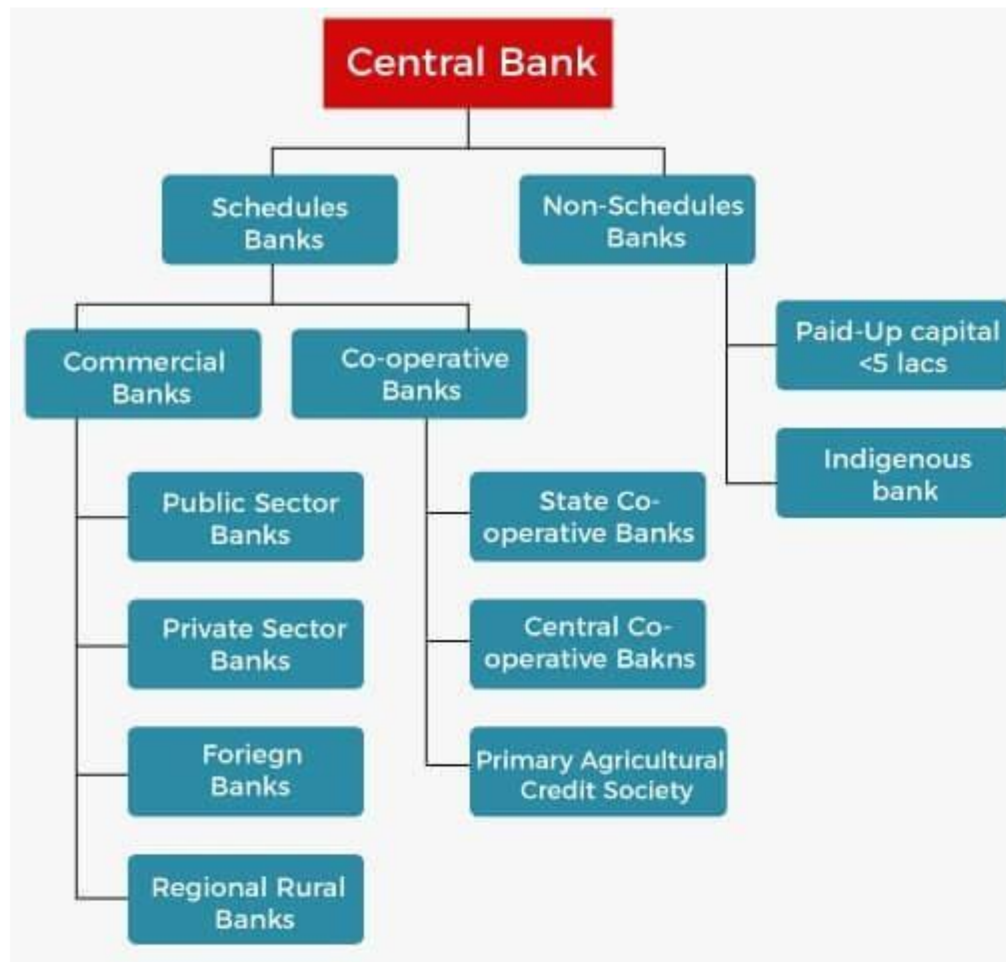
2. The Central Bank does not compete with the member banks.

3. The Central Bank has special relationship with government and with commercial banks.

4. The Central Bank is generally free from political influence.

5. The Central Bank is the apex body of the banking structure of the country.

6. The Central Bank should have overall control over the financial system.



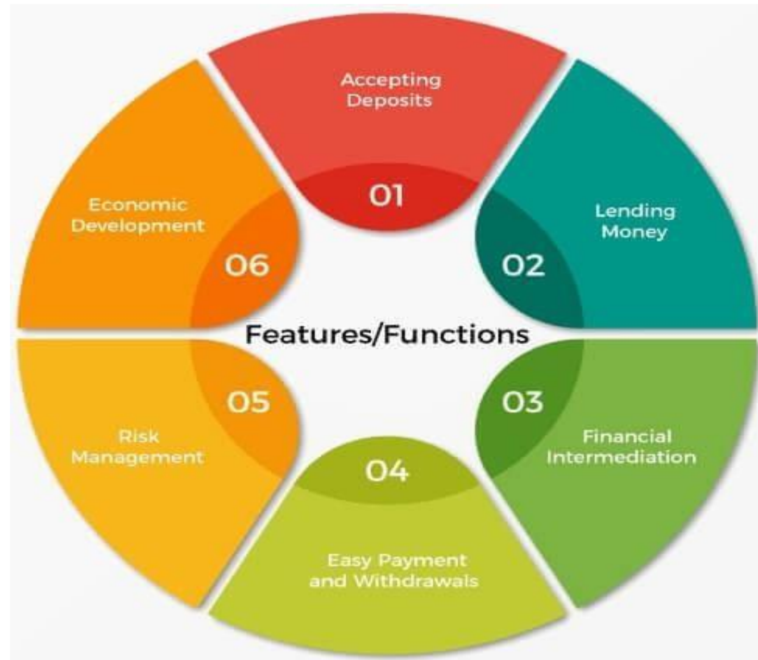
TYPES OF THE BANKS IN INDIA:

- **Central Bank:** The central bank works at the highest position in controlling the financial system of a country. In India, this role of regulating the entire financial sector is played by the **Reserve Bank of India (RBI).** Some of its functions are:
    - Issuing currency
    - Guiding all the other banks
    - Implementing the monetary policies in the country
    - Supervising the country's financial system

- **Cooperative Banks:** The cooperative banks work under the control and regulation of the **state government's act**. Their main motive is to providing short-term credit to the farmers at a low rate of interest. Their main aim is social welfare. They have three levels:
  - State Level-State Co-operative Banks
  - District Level-District Cooperative Banks
  - Village Level-Primary Agriculture Co-operative Banks
- **Commercial Banks:** These banks are regulated under the **Banking Companies Act of 1956**. The main motive of commercial banks is to earn a profit. Their prime source of funds is public deposits. These banks are divided into:
  - **Private Sector Banks:** With a controlling shareholding in these banks, the government owns them. For example, State Bank of India, Allahabad Bank, Bank of Baroda, Indian Bank, etc.
  - **Public Sector Banks:** These banks are owned by individuals, groups of individuals, or private organizations with the majority stakes. For example, Axis Bank, ICICI Bank, HDFC Bank, Kotak Mahindra Bank, etc.
  - **Foreign Sector Banks:** The banks which are based in other countries but have branches in India are termed as foreign banks. For example, CITI Bank, United Overseas Bank, Deutsche Bank, National Australia Bank, etc.
- **Regional Rural Banks (RRB):** These banks work for the welfare of the rural and agriculturalsectorbyprovidingthemconcessionalcredit.Theyareownedunder the**Regional Rural Bank Act, 1976**. An RRB can have its branches maximum in three districts. Examples of these banks include:
  - J&K Grameen Bank,
  - Purvanchal Bank,
  - Utkal Gramin Bank,
  - Nagaland Rural Bank,etc.
- **Local Area Banks (LAB):** These banks were introduced in 1996 and are controlled by the private sector. As a result, their primary goal is to make money. These institutions are governed by the **Companies Act of 1956**. These banks are of four types:

  - Coastal
  - Capital
  - Krishna Bhima Samruddhi
  - Subhadra Local Area Bank Ltd.
- **Specialized Banks:** These banks are only for some particular purposes. They include:
  - NABARD(National Bank for Agricultural and Rural Development)
  - SIDBI(Small Industries Development Bank of India)
  - EXIM(Export and Import)Bank
- **Small Finance Banks:** Small farmers, micro businesses, and unorganized elements of society are served by these institutions to give loans and financial help to them. The central government controls these banks. They include:
  - AU Small Finance Bank,
  - Northeast Small Finance Bank,
  - Utkarsh Small Bank,
  - Capital Small Finance Bank, etc.
- **Payments Banks:** These are a newly introduced form of the bank in India. The maximum limit of deposits in these banks is Rs. **1, 00,000**. The depositor of these banks can't opt for credit cards and loans. But online banking and debit cards are available. Examples of these banks include:
  - Airtel Payments Bank
  - Jio Payments Bank
  - Paytm Payments Bank
  - NSDL Payments Bank

FUNCTIONSOFBANKS

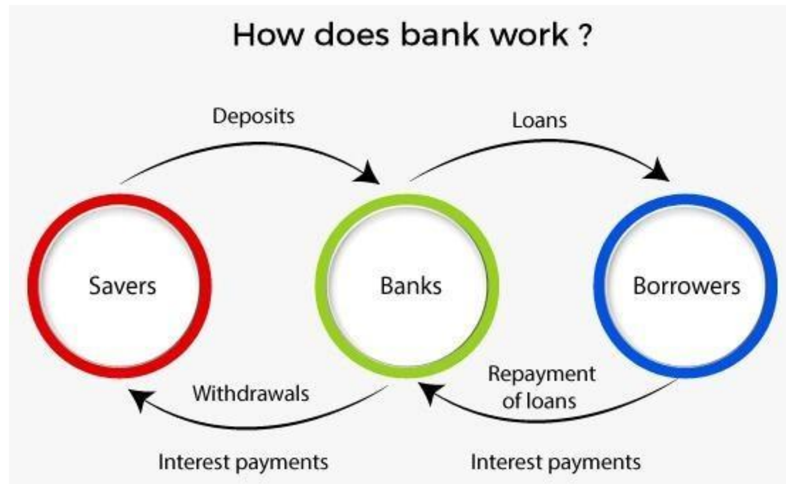


TYPES OFBAKINGFUNCTIONS

Primary Functions

- **Accepting Deposits:** Collecting the public funds, providing safety to the savings, and giving interest on the savings are the basic but the most important functions of commercial banks. There are some different types of deposits that are accepted by the banks:
  - Saving Deposits
  - Fixed Deposits
  - Current Deposits
  - Recurring Deposits
- **Granting of Loans and Advances:** After accepting the public deposits, banks grantloans and advances to businesses and individuals and charge a higher interest rate onthe amount. The bank earns money from the surplus of interest on loans over interest on deposits. The banks provide the following sorts of loans and advances:
  - Cash Credits
  - Bank Overdraft

- Loans
- Discounting the Bill of Exchange



Secondary Functions

- **Agency Functions:** The banks perform the following functions as the agent of the customers:
  - Transferring the funds.
  - Collecting money from the cheques.
  - Collecting salary, dividend, pension, and other periodic collections.
  - Banksmanagethecustomers'portfolioofcreditsanddebitsofaccountandpurchase and sell of the shares and debentures.
  - Other than this, the bank also serves as a trustee, advisor, executor, administrator, etc.
- **Utility Functions:** The banks' utility functions include:
  - Providing lockers facility for the safety of important papers and other valuable things.
  - Underwriting of debentures and shares.
  - Using traveler's cheque, letters of credit, etc.
  - Dealing in foreign exchange.
  - Programs for social welfare.

LIST OF TOP 20BANKSIN INDIA

1. Central Bank of India: CBI is among the oldest and largest commercial banks in India. This public sector bank is owned by the Indian government. CBI was started on 21 December 1911 with its headquarters in **Mumbai, Maharashtra**. The bank has five offices in Singapore, Doha, Dubai, and London also.

2. Reserve Bank of India: The RBI is the central bank and is responsible to regulate the flow of money in the country's economy. It works under the **Ministry of Finance's** jurisdiction Government of India. The bank starteditsoperationon1 April1935under the **RBI Act; 1934**. It is headquartered in **Mumbai, Maharashtra**. In its primary function RBI is responsible for printing, issuing, and supplying the Indian currency and regulating the county's banking system. The bank also makes policies for the economic growth of the country. The highest designated officer of RBI is a Governor who is an IAS, IES, or ISS.

3. State Bank of India: SBI is a multinational, public sector Indian bank and financial service provider. Its headquarters are in **Mumbai, Maharashtra**, and it wascreatedonJuly1, 1955.SBI was the only Indian bank to get the place Fortune Global 500 list of the world's most powerful

firms in 2020. SBI is the country's largest bank and the world's 43rd largest bank.

4. HDFC Bank: HDFC stands for **Housing Development Finance Corporation**. The bank was founded in August 1994 in **Mumbai, Maharashtra**, and has its headquarters there. In terms of assets, HDFC is the country's largest private-sector bank. In addition, as of March 2020, HDFC Bank is India's largest bank by market value. In the same year, HDFC Bank got the **Euro money Award** as India's Best Bank.

5. Bank of Baroda: It is a banking and financial services company owned by the Ministry of Finance, Government of India. BoB was found on 20 July 1908 and its headquarters are situated at **Vadodara, Gujarat**, India. It stands at the third position in the list of the largest public sector banks in India. It has about 132 million customers and 100 overseas offices located worldwide.In**ForbesGlobal2000** list of2019,the bank got the **1145th**On17 September 2018,thebank got merged with **Vijaya Bank** and **Dena Bank**.

6. Indian Overseas Bank: IOB is a major Indian bank that is owned by the Indian Government. The bank was established in February 1937 with its headquarters in **Chennai, Tamilnadu**. At present, the bank runs 3,400 domestic and 6 foreign branches. The scheme of the personal loan was first time ventured by IOB. The bank has its own IT development team that builds almost 80% of its software.

7. Punjab National Bank: PNB is a government-owned bank that has its headquarters in **New Delhi, India**. The bank was established on 12 April 1984. As per the business and network, this is the second-largest public sector bank in the country with a number of about 108 million customers. In the United Kingdom, Hong Kong, Dubai, Kowloon, and Kabul, PNB has banking subsidiaries.

8. IDBI Bank Ltd: Industrial Development Bank of India (IDBI) was set up in1964 and has its headquarters in **Mumbai, Maharashtra**. IDBI is a subsidiary of LIC and also a development finance institution. Initially, the bank was owned by RBI but later RBI transferred the ownership to the Government of India. In the **Forbes Global 2000** of 2013, IDBI Bank reserved **1197th**

9. ICICI Bank: ICICI stands for **Industrial Credit and Investment Corporation of India**. The bank was established on 5 January 1994. The bank has its registered office in **Vadodara,**

Gujarat and the corporate office in **Mumbai, Maharashtra**. ICICI is an Indian development finance institution that is privately owned. The bank's products and services cover various areas like asset management , life ,and non-life insurance, investment banking, and venture capital. The bank has its branches in 17 countries.

10. Indian Bank: It is a financial service and banking company that works under the ownership of the Indian Government. The bank was founded in 1907 having its headquarters in **Chennai, India**. The bank became the seventh-largest bank in India after getting merged with **Allahabad Bank**. There are 227 **Overseas Correspondent banks** of Indian Bank are established in 75 countries.

11. Yes Bank: The bank is a private sector bank in India. It was established in 2004 with its headquarters in **Mumbai, Maharashtra**. The founders of the bank are **Rana Kapoor** and **Ashok Kanpur**. There are various retail banking and asset management services provided by the bank. Yes Bank is owned by SBI with a 30% stake in the company. The bank launched **Yes Pay**, a digital wallet in October 2017 for its customers.

12. Canara Bank: This is one of the largest bank in the country that is owned by the Government of India. The bank was privately established at **Mangalore** in 1906 but was nationalized in 1969. Its headquarters are located in **Bangalore, Karnataka**. On 30thAugust 2019, **Syndicate Bank** was merged with Canara Bank. The bank has also its branch in several foreign countries.

13. Union Bank of India: The Ministry of Finance under the control of Government of India owns this bank. It is among the India's largest banks. It was established on November 11, 1919, in **Mumbai, Maharashtra** whereitsheadquartersarelocated.On1April2020, when **Corporation Bank** and **Andhra Bank** amalgamated with Union Bank of India, the entity became the bank with the fourth largest branch network with around 9500 branches. UBI is the anchor bank of both other banks.

14. South Indian Bank: SIB Ltd. is one of the major private sector banks and the first private sector bank of Kerala. It was established on 29 January 1929 and is headquartered in **Kerala, India**. There are 871 branches of banks that have been established in overall India. In the list of the private bank with the largest branch network, SIB stands at the 8thposition in the country.

15. Axis Bank: The bank stands at the third number in the list of the largest private sector banks in India. The bank was started in 1993 with its headquarters in **Mumbai, Maharashtra**. Axis bank provides its financial services to SMEs, large and mid-size companies, and retail businesses. In 2011, the bank got '**The Banker Awards'** and became the '**Bank of the Year'**, India. In2015, the bank got the award of the best security provided by a private bank. The award was given by the **Data Security Council of India (DSCI)**.

16. Oriental Bank of Commerce: The bank is a completely owned subsidiary of **PNB**. It was founded on19 February 1994 by **Susheel Kumar Pal**. The bank's headquarters are located in**Gurgaon,Haryana**.OnApril1,2020,theOBCwasmergedwiththe **United Bank of India** to form **Punjab National Bank** and then it became the country's second-largest public sector bank.

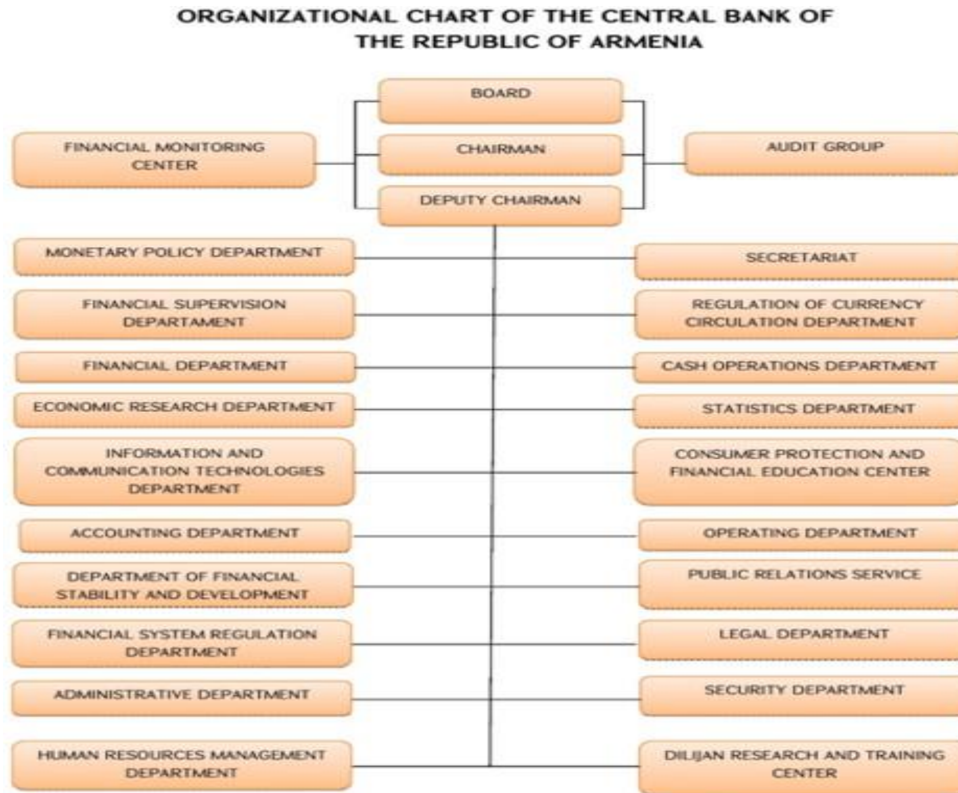
17. IndusInd Bank: This is an Indian Bank of the new generation. The bank was started in April 1994 in **Pune, Maharashtra**. The bank provides commercial, transactional, and electronic banking products and services to its customers. Its name is drawn from the **Indus Valley Civilization**. The largest numbers of branches of the bank are located in Mumbai followed by New Delhi and Chennai.

18. Kotak Mahindra Bank: This is an Indian Bank of the private sector with its headquarters in **Mumbai, Maharashtra**. It provides its products and services to the retail and corporate customers in the fields of life industry, personal finance, wealth management, and investment banking. The bank was founded in February2003 by **Uday Kotak**. As of February2021, Kotak Mahindra Bank is the third-largest Indian bank in the private sector with market capitalization.

19. Federal Bank: Federal Bank Limited was set up on 23 April 1931 but as **Travancore Federal Bank**. Later on2 December 1949, it was converted into **Federal Bank**. This is a major Indian bank with its headquarters in **Kochi, Kerala**. The bank had a sponsorship of **North East United FC** in the 2019-20 season of the **Indian Super League**. There are more than 1,200 branches of the bank are located throughout India.

20. IDFC First Bank: IDFC First Bank or IDFC Bank is an Indian private bank. It was set up in October 2015 with its headquarters in **Mumbai, Maharashtra** with a demerger from IDFC

Limited. IDFC Bank serves private and corporate customers including the infrastructure sector. The bank got a license of universal banking from the RBI in July 2015 and became the part of NSE and BSE on 6 November 2015. In 2020, **Mr. Amitabh Bachchan** became the first brand ambassador of the bank.



FUNCTIONS OF CENTRAL BANK

An Issue Bank

The Central Bank is the sole authority that has been given the sole right to issue money. Moreover, they are responsible for the rightful printing, minting and circulation of money into the economy. However, with great powers, comes great responsibility. Therefore, the Central Bank is responsible for controlling elasticity, ensuring uniformity and providing supervision.

Holder of Cash Reserves

One of the most crucial functions of the Central Bank is that they are the custodians of cash. Moreover, banks ineverycountryreservesomepercentageoftheirdepositswiththecentralbank. This makes the central bank , the legal and the most safest holder of cash reserves.

Adviser to the Government

Thecentralbankissaidtobethemosttrustworthybanktothegovernment.Also,the central bank is vested upon by the government to be their advisor in terms of financial and monetary crisis. In addition, the central bank collects deposits, makes payments and handles the financial matters of a country. Therefore, the central bank is the governments:

- Advisor
- Agent
- Banker

Last Resort Lender

When everything with a bank's functioning, seems to be going down and under-performing, the central bank is ready to rescue. In other words, when the commercial banks are unable to lift themselves up from a crisis, they take to the last resort. In this case, the last monetary resort is one of the most important functions of Central Bank.

Holder of Foreign Currency Reserves

By now, it is a known fact that the central bank is a holder of cash reserves. It is only fair, safe, legal and best suited for the central bank to be the house for foreign currency reserves. Moreover, by making the central bank the official foreign currency holder , the government can promise economic disciple.

Credit Controller

Thecommercialbankscreatealotofcreditduringtheircourseofoperations.However, this credit canbeoneofthemostcriticalandleadingreasonsfortheemergenceofinflationinaneconomy.In such a case, a governing body is required to monitor the credit rates. Therefore, the central bank worksonthecontrolandmodificationofcreditratesandthecontrolofinflation.

Protector of Depositor's Interests

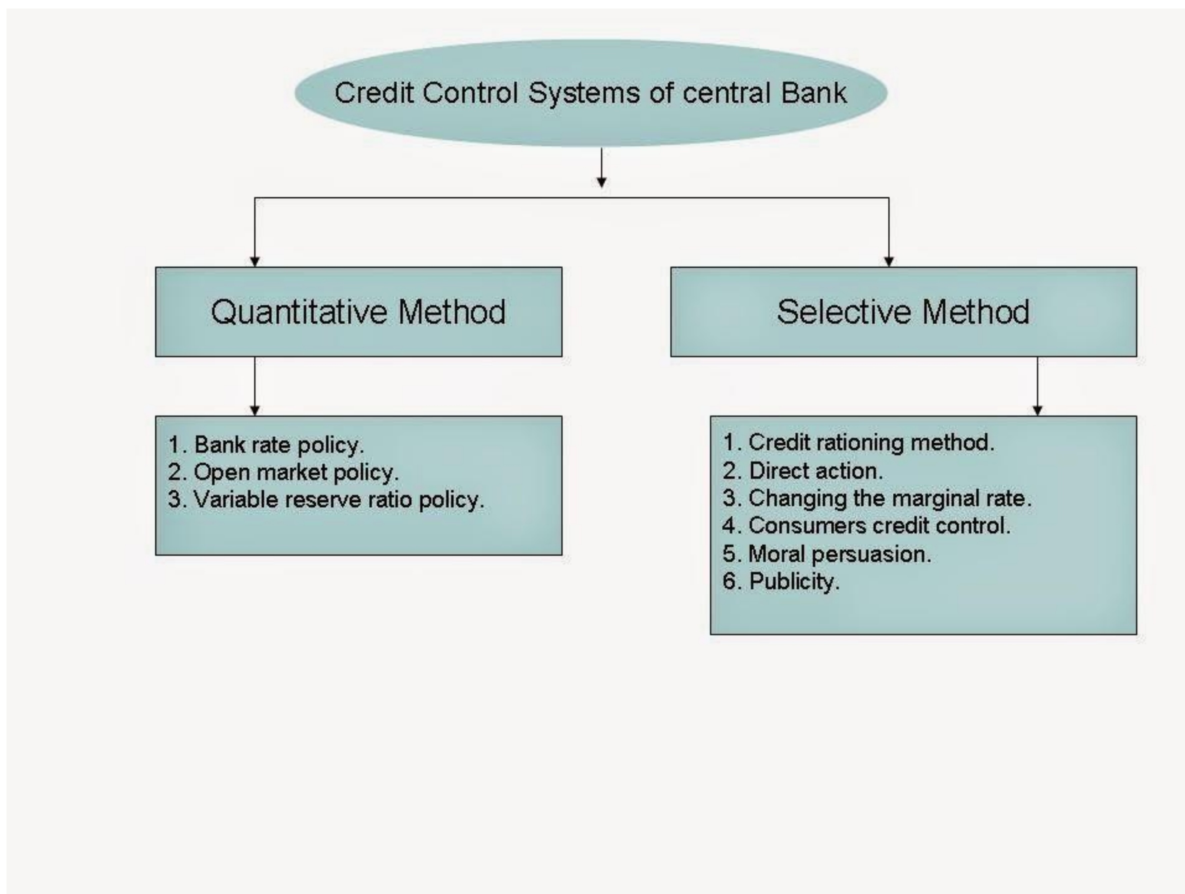
The central bank has much variety of depositors. Some of the most important depositors are the commercial banks and the government itself. One of the most critical functions of a central bank

is to protect its customer interest.

Credit control means checking that customers pay on time and do not exceed their credit limits. Moreover it should mainly aim at internal price stability. The most important function of central bank is to control credit created by commercial banks. It controls credit depending on different techniques. Techniques of credit control of central bank can be discussed dividing by following two separate methods:

A. Quantitative method.

B. Selective method.



A. Quantitative method:

If credit is controlled by numerical changing is called Quantitative method. In this system total loan given by commercial banks, costs of loan or reserve are controlled. Quantitative method of credit control are practiced the following three policies :

1. Bank rate policy.
2. Open market policy.
3. Variable reserveratio policy.

1. ***Bank rate policy:***

Bank rate is the rate at which the central bank is readied to loan to different banks in the keeping money framework and to rebate charges, security, security and so forth of business bank. The central bank controls credit by making mixed bags in the bank rate. If the economy's need is to broaden credit, the central bank cuts down the bank rate. Gaining from the central bank gets the chance to be humble and straightforward. So the commercial banks will get more. They will, in this manner, impel credits to customers at a lower rate. The business area rate of venture will be decreased. This backings business development, and expansion of credit takes after which engages the climb in expenses. The opposite happens when credit is to be contracted in the economy. The central bank raises the bank rate which makes acquiring outlandish from it. So the banks get less. They, consequently, raise their crediting rates to customers. The business rate of premium also ascends by virtue of the tight cash market.

2. **Open market policy:**

Open market operations infers the buy and offer of government security. Its are another framework for quantitative credit control used by a national bank. This framework insinuates the arrangement and purchase of securities, bills and commitments of government and furthermore private financial foundations by the central bank. Yet in its tight sense, it basically means overseeing just in government securities and bonds. There are two principle aims of open business operations. One is to affect the stores of business keeps money with a particular finished

objective to control their vitality of credit creation. Two is to impact the business rates of premium so as to control the business credit. Its technique for operation is according to the accompanying. Accept the central bank of a country needs to control expansion of credit by the business manages an account with the finished objective of controlling inflationary weights inside the economy. It offers government securities in the money business part signifying, say, 100 millions. The late give the central bank checks for this aggregate drawn against the central banks in which the all inclusive community have their records.

3. **Variable reservation policy:**

The method of bringing about changes in the minimum cash preservation of commercial banks known as the technique for variable money save proportion. It is called direct system. Every scheduled commercial bank is to mandatory accumulate decided piece of stores to central bank. On the off chance that credits are brought up in business sector, then national bank builds that rate so advances giving force of banks and the quantity of advances into the business sector ought to be diminished and the other way around. Along these lines of expanding & diminishing the rate of gathered, central bank controls advance.

B. Selective Methods:

Credits controlling system by central bank through receiving special system to any selective areas is called selective methods are shown below :

1. ***Credit rationing method:***

In this system central bank forces a couple rules & prohibited divisions on advance giving or size of advance to commercial banks. As per that coordinated guidelines, parts and size the commercial banks gives its credits and advances.

2. ***Direct actions:***

To control credits through direct evidence by central bank is called direct technique. In this framework the commercial banks are to be said to necessarily take after the advance giving tenets demonstrated by central bank. On the off chance that any bank don't take after that then central bank rebuff it in different courses, for example, cheating bank rate, over safeguarding of store, wiping out the offices of clearing house, precluding on specific administration and so on.

3. ***Changing the marginal rate of security:***

Central bank controls loan by changing the marginal rates of security. It's a another credit control system of central bank.

4. ***Consumers credit control:***

Central bank controls credit by Increasing & decreasing the installed size and amount due to changing the customers eagerness on loan.

5. ***Moral persuasion:***

It is ethically obligatory for commercial banks to comply with every one of the counselings of central bank. In this way, the central bank tossesa couple of counselings to commercial banks so that they might ethically obey it. This is another credit controlling system of central bank.

6. ***Publicity :***

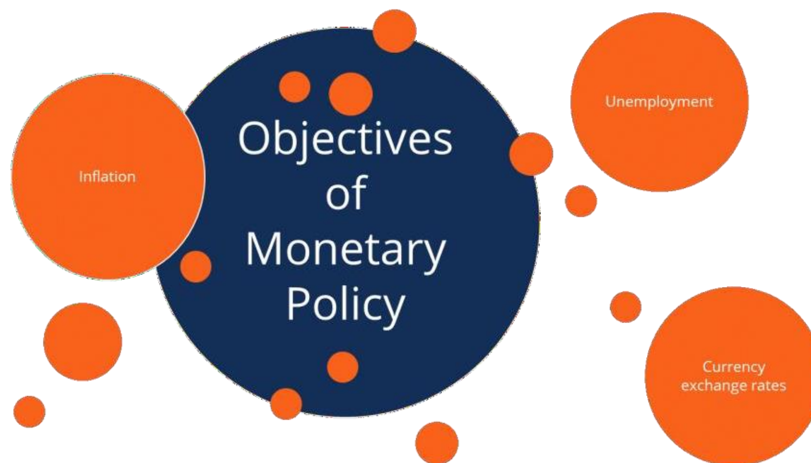
In this system central bank publishes regular news, bulletins, journals, reports etc and takes help of electronic media for highly informing to the about the necessity & ways of loan controlling.

In this framework central bank distributes normal news, announcements, diaries, reports and so forth and takes help of electronic media for exceedingly advising to commercial & schedule banks about the need & methods for advance controlling.

MONETARYPOLICY

Monetary policy is an economic policy that manages the size and growth rate of the money supplyinaneconomy.Itisapowerfultooltoregulatemacroeconomicvariablessuch as inflation and unemployment.

These policies are implemented through different tools, including the adjustment of the interest rates, purchase or sale of government securities, and changing the amount of cash circulating in the economy. The central bank or a similar regulatory organization is responsible for formulating these policies.



Objectives of Monetary Policy

The primary objectives of monetary policies are the management of inflation or unemployment and maintenance of currency exchange rates.

1. Inflation

Monetary policies can target inflation levels. A low level of inflation is considered to be healthy for the economy. If inflation is high, a contractionarypolicy can address this issue.

2. Unemployment

Monetary policies can influence the level of unemployment in the economy. For example, an expansionary monetary policy generally decreases unemployment because the higher money supply stimulates business activities that lead to the expansion of the job market.

3. Currency exchange rates

Using its fiscal authority, a central bank can regulate the exchange rates between domestic and foreign currencies. For example, the central bank may increase the money supply by issuing more currency. In such a case, the domestic currency becomes cheaper relative to its foreign counterparts.

TOOLSOFMONETARYPOLICY

Central banks use various tools to implement monetary policies. The widely utilized policy tools include:

1. Interest rate adjustment

A central bank can influence interest rates by changing the discount rate. The discount rate(base rate) is an interest rate charged by a central bank to banks for short-term loans. For example, if a central bank increases the discount rate, the cost of borrowing for the banks increases. Subsequently, the banks will increase the interest rate they charge their customers. Thus, the cost of borrowing in the economy will increase, and the money supply will decrease.

2. Change reserve requirements

Central banks usually set up the minimum amount of reserves that must be held by a commercial bank. By changing the required amount, the central bank can influence the money supply in the economy. If monetary authorities increase the required reserve amount, commercial banks find less money available to lend to their clients, and thus, money supply decreases.

Commercial banks can't use the reserves to make loans or fund investments into new businesses. Since it constitutes a lost opportunity for the commercial banks, central banks pay them interest on the reserves. The interest is known as IOR or IORR (interest on reserves or interest on required reserves).

3. Open market operations

The central bank can either purchase or sell securities issued by the government to affect the money supply. For example, central banks can purchase government bonds. As a result, banks will obtain more money to increase the lending and money supply in the economy.

CENTRALBANKAUTONOMY

Central bank independence is a means, **the end being an appropriate division of responsibility between the monetary and the fiscal authority and policy coordination**.

Statutory Characteristics of Central Bank Autonomy

- Monetary Policy Formulation
- Conflict Resolution
- Central Bank Objectives
- Term of Office
- Limitations on Lending to Government
- Accountability & Transparency

MONEY MARKET

The money market is an organized exchange market where participants can lend and borrow short-term, high-quality debt securities with average maturities of one year or less. It enables governments, banks, and other large institutions to sell short-term securitiesto fund their short-term cash flow needs. Money markets also allow individual investors to invest small amounts of money in a low-risk setting.

The India money market is **a monetary system that involves the lending and borrowing of short-term funds**. India money market has seen exponential growth just after the globalization initiative in 1992.

FUNCTIONS OF THE MONEY MARKET

The money market contributes to the economic stability and development of a country by providing short-term liquidityto governments, commercial banks, and other large organizations. Investors with excess money that they do not need can invest it in the money market and earn interest.

FUNCTIONS OF THE MONEY MARKET

1. Financing Trade

The money market provides financing to local and international traders who are in urgent need of short-term funds. It provides a facility to discount bills of exchange, and this provides immediate financing to pay for goods and services.

International traders benefit from the acceptance houses and discount markets. The money market also makes funds available for other units of the economy, such as agriculture and small-scale industries.

2. Central Bank Policies

The central bank is responsible for guiding the monetary policy of a country and taking measures to ensure a healthy financial system. Through the money market, the central bank can perform its policy-making function efficiently.

For example, the short-term interest rates in the money market represent the prevailing conditions in the banking industry and can guide the central bank in developing an appropriate interest rate policy. Also, the integrated money markets help the central bank to influence the sub-markets and implement its monetary policy objectives.

3. Growth of Industries

The money market provides an easy avenue where businesses can obtain short-term loans to finance their working capital needs. Due to the large volume of transactions, businesses may experience cash shortages related to buying raw materials, paying employees, or meeting other short-term expenses.

Through commercial paper and finance bills, they can easily borrow money on a short-termbasis. Although money markets do not provide long-term loans, it influences the capital market and can also help businesses obtain long-term financing. The capital market benchmarks its interest rates based on the prevailing interest rate in the money market.

4. Commercial Banks Self-Sufficiency

The money market provides commercial banks with a ready market where they can invest their excess reserves and earn interest while maintaining liquidity. Short-term investments, such as bills of exchange, can easily be converted to cash to support customer withdrawals.

Also, when faced with liquidity problems, they can borrow from the money market on a short-term basis as an alternative to borrowing from the central bank. The advantage of this is that the money market may charge lower interest rates on short-term loans than the central bank typically does.

TYPES OF INSTRUMENTS TRADED IN THE MONEYMARKET

Several financial instruments are created for short-term lending and borrowing in the money market. They include:

1. Treasury Bills

Treasury bills are considered the safest instruments since they are issued with a full guarantee by the United States government. They are issued by the U.S. Treasury regularly to refinance Treasury bills reaching maturity and to finance the federal government's deficits. They come with a maturity of one, three, six, or twelve months.

Treasury bills are sold at a discount to their face value, and the difference between the discounted purchase price and face value represents the interest rate. They are purchased by banks, broker-dealers, individual investors, pension funds, insurance companies, and other large institutions.

2. Certificate of Deposit(CD)

A certificate of deposit (CD) is issued directly by a commercial bank, but it can be purchased through brokerage firms. It comes with a maturity date ranging from three months to five years and can be issued in any denomination.

Most CDs offer a fixed maturity date and interest rate, and they attract a penalty for withdrawing prior to the time of maturity. Just like a bank‟s checking account, a certificate of deposit is insured by the Federal Deposit Insurance Corporation (FDIC).

3. Commercial Paper

Commercial paper is an unsecured loan issued by large institutions or corporations to finance short-term cash flow needs, such as inventory and accounts payables. It is issued at a discount, with the difference between the price and face value of the commercial paper being the profit to the investor.

Only institutions with a high credit rating can issue commercial paper, and it is therefore considered a safe investment. Commercial paper is issued in denominations of $100,000 and above. Individual investors can invest in the commercial paper market indirectly through money market funds. Commercial paper comes with a maturity date between one month and nine months.

4. Banker's Acceptance

A banker's acceptance is a form of short-term debt that is issued by a firm but guaranteed by a bank. It is created by a drawer, providing the bearer the rights to the money indicated on its face at a specified date. It is often used in international trade because of the benefits to both the drawer and the bearer.

The holder of the acceptance may decide to sell it on a secondary market, and investors canprofit from the short-term investment. The maturity date usually lies between one month and six months from the issuing date.

5. Repurchase Agreements

Are purchase agreement (repo) is a short-term form of borrowing that involves selling a security with an agreement to repurchase it at a higher price at a later date. It is commonly used by dealers in government securities who sell Treasury bills to a lender and agree to repurchase them at an agreed price at a later date.

The Federal Reserve buys repurchase agreements as a way of regulating the money supply and bank reserves. The agreements" date of maturity ranges from overnight to 30 days or more.

CAPITALMARKET

The Capital Market is a marketplace that acts as the meeting point for the suppliers and the interested parties in savings and investments. Suppliers referred to here are the parties that are willing to invest their capital or lend it to parties in need of such loans. These suppliers include banks and investors. In this market, companies, governments, and the general public are looking for funds. In technical terms, it is a place where buyers and sellers of financial securities meet to engage in trading these securities. Both individuals and institutions participate in the trading procedure.

Primary and secondary markets make up capital markets. The stock market and the bond market are the two most popular capital markets. By connecting suppliers with people looking for money and offering a platform where they may trade securities, they aim to provide transactional efficiency. Most securities traded on the Indian capital market are long-term ones. Because the scale of a country's capital markets closely relates to the size of its economy, little movements in one area can have significant effects elsewhere.

FUNCTIONS OF CAPITAL MARKET

Formation of Capital: There are two types of individuals in the capital markets: investors who don't need money right away and debtors who do. The capital markets enable leftover funds to be invested and put to use rather than just hanging around. Therefore, it gives firms the chance to borrow money and invest in new machinery or other capital equipment rather than having ₹1 crore sitting in the locker. In exchange, the investor obtains a dividend and the company has access to more effective machinery. This capital market role looks at the economy at a macro level.

Absence of Entry and Exit Barriers: Today's investors generally trade on the capital markets using their mobile devices, making them more accessible than ever. The spread of technologyhas virtually made financial markets accessible to everyone. Investors are practically prepared to invest as soon as they open an account with a broker. Additionally, there are now worldwide

marketplaces. Due to the increased demand for assets, people can leave the market just asquickly as they entered.

Economic Growth: The capital market promotes a marketplace for borrowers and lenders, which results in a more effective flow of cash. Businesses in need of corporate loans can apply on the capital market, and an underwriter will then issue the loan. As an alternative, it can raise money by offering a portion of its business on the stock market. Due to the fact that idle capital is put to use elsewhere in the economy, this promotes economic growth. Simply put, it increases demand. Businesses that require credit can make investments if they are granted it. The company that offers the capital equipment that it invested in receives that money in return. The economy can then continue to grow as a result of that money's circulation. This aspect is considered to be one of the most important roles of capital market.

Capital Liquidity: People with money can invest it owing to the financial markets. They receive ownership of a bond or stock in exchange. However, they cannot use a bond certificate to purchase a car, food, or other assets, thus it could be essential to liquidate them. It is fairly simple for investors to sell their assets to a third party on the capital markets in exchange for liquid funds (cash). There is nearly always a buyer if one wishes to sell an item at the current market price, enabling you to convert the asset into actual cash.

Price Regulation: Making sure the price of an asset is accurate is one of the capital markets' primary objectives. A share's price may spike after receiving favorable news or plunge after reading an unsatisfactory annual report. The prices fluctuate to the point where the equity worth is represented in its price at that moment due to the thousands of traders. Bond prices can change and adapt more quickly as a result of supply and demand at the same time. For instance, during a recession, investors typically choose bonds since they are perceived as a safer investment.

Provides Opportunity to Investors: If an investor wants a high level of risk or a low level of risk, there are enough financial instruments available in the capital markets to fit their needs. At the same time, capital markets give investors a chance to increase their capital yield. Savings accounts pay very little interest, especially when compared to the rates on most equities. Therefore, the capital market offers investors the chance to earn a higher rate of return, though there is also some risk involved. This function of capital market stands in the favour of the

investors participating in it.

NEW ISSUE MARKET

A new issue is a stock or bond which is being offered for the first occasion to investors. This new issue may be a corporation's Initial Public Offering (IPO)or a new issue floated by an entity that has previously floated several similar issues.

Where this issue will come is known as the new issue market. The new issue market is compared to the secondary market, which interacts with existing shares and bonds.

NEW ISSUE MARKET FUNCTIONS

Here are the major functions of New Issue Market:

1. A new issue is a method of obtaining capital for a business. Companies can choose between issuing debt (i.e. borrowing) or issuing equity (i.e. stock) (i.e., selling a portion of the organization).
2. Irrespective of the path they follow, when those securities are presented for sale they will be issuing a new issue. To collect funds for government activities, governments will issue new sovereign debt issues in the shape of Treasury securities.
3. The new issue would be scrutinized using the debt route (i.e., issuing bonds) depending on the issuer's creditworthiness to repay its commitments and entire economic capacity. Issuing bonds could be a choice that is not easily accessible if the company is a startup with no sales.

TYPES OF ISSUES IN THE NEW ISSUE MARKET

- **Initial Public Offering (IPO)**

A prospectus is issued by a corporation in this fashion to inform and attract the general public. In a prospectus, a corporation describes the purpose for which funds are being raised, the firm's previous financial record, history, and future prospects. The prospectus‟ content informs the public about the firm's risk and earning potential, allowing them to make an informed decision about whether or not to invest in it. Through an IPO, a firm can reach out to a wide number of people and the general public. To raise cash from the general public, firms can use middlemen such as bankers, brokers, and underwriters.

- **Offer For Sale (OFS)**

✓ New securities are issued to the general public via this approach, although not directly by the firm, but rather through an intermediary who purchases a large number of stocks from the firm.

✓ Brokerage businesses are commonly used as intermediaries. As a result, the sale of stocks occurs in two stages: first, the corporation sells securities to middlemen at face value, and second, middlemen issue shares to the general public at a higher price in order to profit.

✓ The corporation avoids the legalities and complexity of issuing stocks straight to the public using this strategy.

- **Private Placements**

✓ In this strategy, the corporation sells shares to a facilitator at a specified price, and the facilitator then sells these stocks at a higher price to specified investors rather than the broader public.

✓ The issuing firm prepares a prospectus to provide information about its goals and future prospects so that reputable clients opt to purchase the security through an adviser.

✓ Institutions use this strategy to sell shares to specific clients, such as UTI, LIC, and General Insurance.

✓ The private placement approach saves money because the firm avoids paying underwriting costs, manager fees, agents‟ commissions, and registering the firm „s name on the stock exchange.

✓ Small and young businesses choose private placement because they cannot afford to seek funds through a public offering.

- **Rights Issue**

✓ This is when fresh stocks are issued to current share holders. It’s labeled aright issue because it’s the shareholders‟ pre-emptive right to demand that the corporation provide them with the new issue before selling it to outsiders.

✓ Every shareholder has the option of subscribing to new stocks in proportional to the

number of shares he presently owns.

- ✓ Firms must issue a right issue under the Companies Act of 1956. The stock exchange does not enable existing firms to go for a new issue without giving current shareholders preemptive rights since if a new issue is issued straight to new subscribers, existing equity shareholders may lose their share of capital and ownership of the organization, i.e., their equity will be diluted.

- **Electronic Initial Public Offering**
- ✓ It is a novel technique of issuing stocks through the stock exchange‟s on-line system. For the goal of receiving applications and placing orders, this firm must select registered brokers.]
- ✓ The firm issuing the security must seek to have its securities listed on any exchange other than the one where it previously sold its securities.

Banking Legislation In India

BANKING REGULATION ACT 1949

The Banking Regulation Act 1949 as amended up to date contains the following five parts :-

Part I : Preliminary (Sec 1 to 5A)

Part II : Business of Banking Company (Sec 6 to 36A)

Part II A : Control and Management (Sec 6 to 36 A)

Part II B : Prohibition of Certain Activities in Relation to banking Companies (Sec 36 AD)

Part II C : Acquisition of the Undertakings of Banking Companies in Certain cases (Sec 36 AE to 36 AJ)

Part III : Suspension of Business and winding up of Banking Companies (Sec 36 to 45)

Part III A : Special Provision of speedy disposal of winding up proceedings (sec 45 A to 45 X)

Part III B : Provisions relating to certain Operations of Banking Companies (sec 45 Y to 45 ZF)

Part IV : Miscellaneous (Sec 46 to 55)

Part V : Main Provisions as applicable to Cooperative Banks (Sec 56)

We give below some of the important provisions of the act:

1. **Definition of a Banking Company** : The act defines the term 'Banking' as "accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise". It also defines a banking company as "any company which transacts the business of banking in India". As such it performs the functions of accepting deposits and lending or investing the same.
2. **Minimum Capital Requirements** : The act prescribes minimum capital requirements for banking companies. A banking company incorporated outside India (i.e. Foreign bank) is required to have its paid up capital and reserves of the aggregate value of not less than Rs. 15 Lakhs, but if it has a place of places of business in the city of Bombay, Calcutta, or both , Rs. 20 Lakhs. It is also required to deposit with RBI either in cash or in the form of unencumbered approved securities or both. On the other hand , a banking company incorporated within India is required to have paid up capital and reserves of an aggregate values of not less than Rs 5 lakhs . If it has business more than one state and if any such place is situated in the city of Bombay or Calcutta or both, Rs. 10 Lakhs.

3. Reserve Fund :

Every banking company incorporated within India is required to create a Reserve Fund and to transfer to such Fund, before any dividend is declared, 20 percent of its profits.

4. Cash Reserve :Every scheduled bank is required to keep 3 percent of the total of its time and demand liabilities with the RBI as cash reserves which is interest free.

5. Maintenance of Liquid Assets: Maintenance of adequate liquid assets is essential for sound banking. The act requires every bank to main in cash, gold or unecumbered approved securities not less than 25 percent of total demand and time liabilities in India.

6. Maintenance Assets in India :Every banking company is required to maintain its assets equivalent to not les than 75% of its demand and time liabilities in India at the close of business on the last Friday of every quarter.

7. Management of Banking Company :

It lays down that no banking company can employ or to be managed by a managing agent, or any person who has been declared as insolvent, or has been convicted by a criminal court or is a director of any other company, or engaged in any other business or whose remuneration is excessive in the opinion of RBI.

What are Development Banks?

- Development banks are nothing but financial institutions providing long-term funds for capital-intensive investments for a long period of time. Their lending yields low rates of returns, such as irrigation systems, urban infrastructure, mining, and heavy industries, etc.
- They are also known as development finance institutions (DFI) or long-term lending institutions.
- These banks lend at low and stable interest rates so as to promote long-term investments along with social benefits.
- Development banks are not the same as commercial ones. Instead, development banks mobilize short to medium-term deposits and lend for similar periods of tenure to avoid a maturity mismatch, which causes a bank's solvency and liquidity.

Features

- Unlike commercial banks, the development banks do not accept deposits from the public. Hence, they do not entirely depend upon saving mobilization.
- Development banks are specialized institutions that provide medium and long-term credit lending facilities.
- Their main objective is to serve the public interest instead of earning profits.
- They provide financial assistance to both public as well as private sector institutions.

Importance of Development Banks

- Lays the foundation for industrial growth and development in the country
- Meets long-term capital needs
- Undertakes promotional activities
- Helps small and medium sectors

Various Types of Development Banks in India

In this section, we shall learn more about the different types of development banks in India. These include:

- SIDBI (Small Industries Development Bank of India)
- EXIM (Export-Import Bank of India)
- NABARD (National Bank for Agriculture & Rural Development)
- NHB (National Housing Bank)
- IFCI (Industrial Finance Corporation of India)
- IDBI (Industrial Development Bank of India)

Below, let us see in detail about all the above-listed banks in terms of their functions and objectives.

SIDBI

The *Small Industries Development Bank of India (SIDBI)* was set up in 1990 under an Act of Parliament. It was a wholly-owned subsidiary of the Industrial Development Bank of India. Presently, SIDBI's ownership is held by 33 government of India-owned/ controlled institutions. SIDBI is headquartered in Lucknow.

SIDBI Functions:

- To take initiatives for technical upgradation and modernization of the existing units.
- To expand the channels for marketing the small-scale industry products in both domestic as well as international markets.
- To promote employment-generating industries, particularly in the semi-urban areas for creating more employment opportunities.
- To keep a check on the migration of the people to urban areas.

NABARD

The *National Bank for Agriculture & Rural Development (NABARD)* is the prime development bank in India. Under the special act by the parliament, the NABARD was set up on 12th July 1982.

Its main focus is to uplift rural India by increasing the credit flow for the promotion of the agriculture and non-farm sector. NABARD is headquartered in Bombay (Maharashtra). It is considered as the apex bank of the country, which takes care of the cottage industry, small and village industries, and other rural establishments.

Role:

- To undertake to monitor and evaluating projects it has been refinancing
- Refinancing the financial institutions that finance the rural sector
- Regulating the institutions that provide financial assistance to the rural economy
- Providing training facilities to the institutions assisting the rural development
- Regulating the cooperative banks and the Regional Rural Banks (RRBs) in India

EXIM Bank

The *Export-Import Bank of India (EXIM Bank)* is a financial institution created by the Export-Import Bank of India Act of 1981. It is a public sector financial institution. The main aim of the EXIM Bank is to finance the Indian exports that generate foreign exchange for the country. It also extends term loans for foreign trade.

The EXIM Bank is a statutory corporation wholly owned by the government of India. It was established on 01st January 1982 with an aim to finance, facilitate, and promote *foreign trade in India*.

Functions:

- **To finance imports and exports of goods and or services in India as well as in the developing countries in the world.**
- To provide a lease for exports and imports of machinery and equipment
- To finance joint ventures in the foreign countries
- To undertake limited merchant banking operations like the issue of shares, bonds, stocks, debentures, etc. of the Indian companies involved in the international trade.
- To provide technical, financial, and administrative assistance to businesses that carry out export and import.

National Housing Bank

The National Housing Bank (NHB) is a state-owned bank and regulatory authority in India established under section 6 of the National Housing Bank Act of 1987. It was created on 08th July 1988. The NHB is headquartered in New Delhi.

The NHB is responsible for regulating and re-financing social housing activities including research, etc. It is owned by the Reserve Bank of India and was established to promote private real estate acquisition. The institution further aims to promote inclusive expansion with stability in the housing finance sector.

Functions

One of the major activities of the NHB includes extending financial assistance to various eligible bodies in the housing sector through:

Refinance: The NHB extends refinancing to various primary lending firms like scheduled banks, housing finance companies, cooperative sector bodies, etc.

Direct Finance: NHB also offers direct finance for integrated land development and shelter projects of public agencies in respect of land development and shelter projects, housing infrastructure projects, etc.

IFCI

The IFCI (Industrial Finance Corporation of India) was the first specialized financial institution to provide term finance to large businesses in India. It was set up under the Industrial Finance Corporation Act (1948) on 01st July 1948.

Objectives of IFCI

The primary objective of the IFCI is to provide long and medium-term financial offerings to large-scale businesses. It especially offers its services when ordinary bank accommodation does not suit the undertaking or the finance cannot be raised in a profitable manner from the issue of shares.

Functions of IFCI

- Setting up a new industrial undertaking
- Expansion and/ or diversification of existing industrial business
- Renovation and modernization of existing businesses
- Meeting the working capital needs of the industries, with some exceptions

What is an investment institution?

An investment institution is a corporation or trust company that manages, sells and markets investment products to the public. They can be privately or publicly owned (listed on the stock market).

What services do investment institutions offer?

The main function of an investment company is investing, administering or managing funds or money on behalf of their clients. However, they can offer a variety of other investment services, such as;

- portfolio management, selecting and overseeing a group of investments,
- record keeping,
- legal,
- accounting, and
- tax management services.

Types of investment institutions

There are different kinds of investment institutions. These include:

- banks and trust companies,
- credit unions,
- investment firms.

Specialised Financial Institutions

Specialised Financial Institutions means the financial institutions established by specific law, namely Government Savings Bank, Bank for Agriculture and Agricultural Co-operatives, Government Housing Bank etc.

Role of Specialised Financial Institutions

Specialised Financial Institution have the following functions:

1. Lending: To provide industrial establishments with longer-term financing,

2. The formation of business units: To assist in the formation of business units that require a substantial sum of money and have a long gestation period.

3. Economic progress: To assist the rapid growth of the economy in general and backward regions in particular.

4. Consulting services: To provide specialised services in the areas of marketing, project help, technical aid, and entrepreneur training and development.

5. Assist with new projects: To assist in the identification, appraisal, and implementation of new initiatives by providing technical and professional management services.

Types of Specialised Financial Institutions:

- **Industrial Credit and Investment Corporation of India (ICICI) :**

This was founded in 1955 as a public limited company under the Companies Act of 1956 for the purpose of providing long-term loans to companies for up to 15 years and subscribing to their shares and debentures for the sole purpose of the creation, expansion, and modernization of private sector industrial enterprises. The proprietary and partnership businesses were also eligible for ICICI loans. It has also attracted foreign money to invest in the nation.

- **Industrial Finance Corporation of India (IFCI):**

It was founded as a statutory company in July 1948 under the Industrial Finance Corporation Act of 1948, with the primary goal of providing long- and medium-term financing to big industrial firms. Its goals include assisting in the establishment of a balanced regional economy, encouraging new entrepreneurs to enter key industries, and expanding management education throughout the country. With effect from June 1, 1993, IFCI has been renamed IFCI Ltd. to ensure more flexibility in meeting the demands of the developing financial sector.

- **Industrial Development Bank of India (IDBI):**

It was established in 1964 as a subsidiary of the Reserve Bank of India with the goal of coordinating the activities of other financial institutions, including commercial banks, and providing financial assistance to all types of industrial enterprises without regard to the type of finance or the amount of funds available. It also does underwriting of public offerings and discounts and rediscounts commercial bills of exchange. IDBI has changed its name to IDBI Ltd. as of October 1, 2004.

- **State Financial Corporations (SFCs):**

  Most of our country's states have established SFCs under the State Financial Corporations Act of 1951 to give financial support to proprietary and partnership enterprises as well as corporations. SFCs provide financing in the form of long-term loans or debenture subscriptions, provide guarantee for loans acquired from other sources, and underwrite company public stock and debenture offerings. They are, however, unable to subscribe to the firms' shares directly.

- **Life Insurance Corporation of India (LIC):**

  LIC was set up in 1956 under the LIC Act, 1956 after nationalising 245 existing insurance companies. It mobilises the community's savings in the form of insurance premium and makes it available to industrial concerns, both public as well as private, in the form of direct loans and underwriting of and subscription to shares and debentures.

- **Small Industries Development Bank of India (SIDBI):**

  It was set up in 1990 for the promotion, financing and development of small-scale industrial enterprises. It is an apex institution of all the banks providing credit facility to small-scale industries in our country and offers refinancing of bills, rediscounting of bills, and several other support services to Small Scale Industries (SSI).

International Financial Institutions

- BSTDB - Black Sea Trade and Development Bank (Greece)
- CEB - Council of Europe Development Bank (France)
- EBRD - European Bank for Reconstruction and Development (UK)
- EFP - European Financing Partners (Luxembourg)
- EIB - European Investment Bank (Luxembourg)
- NIB - Nordic Investment Bank (Finland)
- OFID - OPEC Fund for International Development (Austria)

The International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development (IBRD) is a global development cooperative owned by 189 member countries. As the largest development bank in the world, it supports the World Bank Group's mission by providing loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries, as well as by coordinating responses to regional and global challenges.

Created in 1944 to help Europe rebuild after World War II, IBRD joins with IDA, our fund for the poorest countries, to form the World Bank. They work closely with all institutions of the World Bank Group and the public and private sectors in developing countries to reduce poverty and build shared prosperity.

IFC is the largest global development institution focused on the private sector in developing countries.

IFC, a member of the World Bank Group, advances economic development and improves the lives of people by encouraging the growth of the private sector in developing countries. We apply our financial resources, technical expertise, global experience, and innovative thinking to help our partners overcome financial, operational, and other challenges.

We achieve this by investing in impactful projects, mobilizing other investors, and sharing expertise. In doing so, we create jobs and raise living standards, especially for the poor and vulnerable. Our work supports the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity.

What is IDA?

The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing zero to

low-interest loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.

NABARD INFRASTRUCTURE DEVELOPMENT ASSISTANCE (NIDA)

Core Functions:

NIDA is a line of credit for funding rural infrastructure projects under the following three channels:

- Funding rural infrastructure projects directly to State Government and State-owned Institutions.
- Funding PPP infrastructure projects in rural areas, developed directly or through Special Purpose Vehicles promoted by State-owned Institutions, Co-operatives, Producer Organizations, Corporates etc.
- Funding non-PPP, rural infrastructure projects developed by Registered entities like Companies and Co-operatives.

Achievements:

Since inception in 2010-11 till 30 April 2022, cumulative loans sanctioned under NIDA stand at Rs.65849.60 crore with a cumulative disbursement of Rs.30297.12 crore.

Progress during the last 5 years and the current year has been impressive as indicated below:

MICROFINANCE INSTITUTIONS

The term "microfinance institutions" is generally used to refer to **those financial institutions**. **that are characterized by their commitment to assisting typically poor households and small**. **enterprises in gaining access to financial service**.

History of Microfinance

The evolution of microfinance in India can be traced back to the 1800s. This is when small credit to entrepreneurs and farmers were used to help people emerge out of

poverty. Microfinancing was first used in 1970; at the time of the development of Grameen Bank of Bangladesh. The bank was founded in 1976 by Muhammad Yunus, who institutionalized the approach of microfinance.

The salient features of microfinance include:

1. Loan borrowers are from low-income groups
2. Loans are of a very small amount – microloans
3. Loans are offered for a short duration
4. These are collateral-free loans
5. High frequency of repayment
6. Loans are generally taken for income-generation purpose

Microfinance institutions in India

Due to low security and increasing operating costs, many traditional banks were not willing to provide loans to the poor in India. This led to the development & growth of microfinance institutions in the country. They worked as an alternative, with an aim to create financial equality. In India, there are two channels through which microfinance operates:
SHG – Bank Linkage Programme (SBLP) and Microfinance Institutions (MFIs)

In 1974, SEWA (Self-Employed Women's Association) Bank, a cooperative bank, was established in Ahmedabad; as one of the first modern-day microfinance institutions in the country. The National Bank for Agriculture and Rural Development (NABARD) was established in 1982 to provide & regulate credit and other facilities for the promotion & development of various economic activities in rural India. The western and southern states of India have attracted the largest number of microfinance loans in the country. The SHGs are self-sustaining in nature; and can function on their own with limited support from NGOs and institutions like NABARD and SIDBI (Small Industries Development Bank of India).

The microfinance institutions lend through the concept of Joint Liability Group (JLG). JLGs are a group of 5-10 members who join hands to avail of a bank loan, either individually, or collectively. The loan is provided against a mutual guarantee.

The top 10 microfinance institutions in India are:

1. Annapurna Microfinance Pvt Ltd
2. Arohan Financial Services Pvt Ltd
3. Asirvad Microfinance Pvt Ltd
4. Bandhan Financial Services Pvt Ltd
5. BSS Microfinance Pvt Ltd
6. Cashpor Micro Credit
7. Disha Microfin Pvt Ltd
8. Equitas Microfinance Pvt Ltd
9. ESAF Microfinance and Investments Pvt Ltd
10. Fusion Microfinance Pvt Ltd

Indian Financial System – An Overview

The services that are provided to a person by the various Financial Institutions including banks, insurance companies, pensions, funds, etc. constitute the financial system.

Given below are the features of the Indian Financial system:

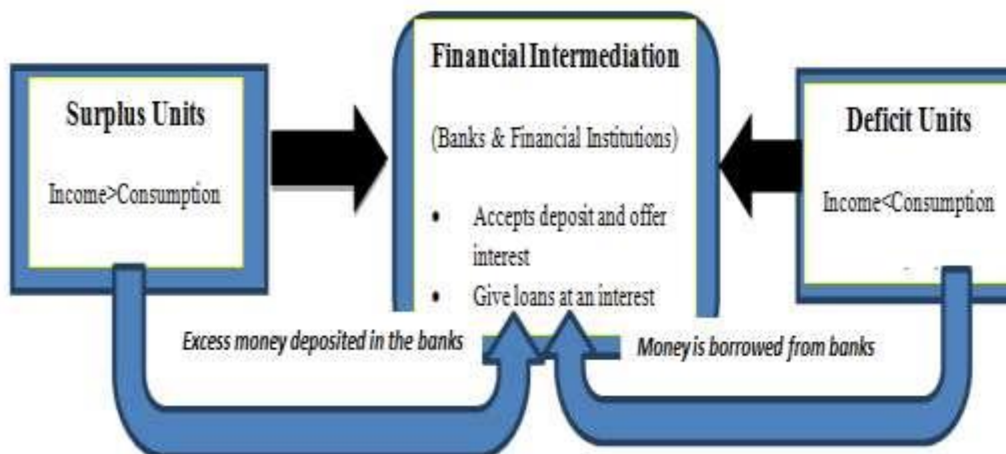
- It plays a vital role in the economic development of the country as it encourages both savings and investment
- It helps in mobilising and allocating one's savings
- It facilitates the expansion of financial institutions and markets
- Plays a key role in capital formation
- It helps form a link between the investor and the one saving
- It is also concerned with the Provision of funds

Components of Indian Financial System

1. Financial Institutions
2. Financial Assets
3. Financial Services
4. Financial Markets

Definition

The financial intermediation process channels funds between third parties with a surplus and those with a lack of funds.
A financial intermediary does not only act as an agent for other institutional units, but places itself at risk by acquiring financial assets and incurring liabilities on its own account (for example banks, insurance corporations, investments funds).



What Are Financial Markets?

Financial markets refer broadly to any marketplace where the trading of securities occurs, including the stock market, bond market, forex market, and derivatives market, among others. Financial markets are vital to the smooth operation of capitalist economies.

Types of Financial Markets

Stock Markets

Perhaps the most ubiquitous of financial markets are stock markets. These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO), with shares subsequently traded among various buyers and sellers in what is known as a secondary market.

Stocks may be traded on listed exchanges, such as the New York Stock Exchange (NYSE) or Nasdaq, or else over-the-counter (OTC). Most trading in stocks is done via regulated exchanges, and these play an important role in the economy as both a gauge of the overall health of the economy as well as providing capital gains and dividend income to investors, including those with retirement accounts such as IRAs and 401(k) plans.

Typical participants in a stock market include (both retail and institutional) investors and traders, as well as market makers (MMs) and specialists who maintain liquidity and provide two-sided markets. Brokers are third parties that facilitate trades between buyers and sellers but who do not take an actual position in a stock.

Over-the-Counter Markets

An over-the-counter (OTC) market is a decentralized market—meaning it does not have physical locations, and trading is conducted electronically—in which market participants trade

securities directly between two parties without a broker. While OTC markets may handle trading in certain stocks (e.g., smaller or riskier companies that do not meet the listing criteria of exchanges), most stock trading is done via exchanges. Certain derivatives markets, however, are exclusively OTC, and so they make up an important segment of the financial markets. Broadly speaking, OTC markets and the transactions that occur on them are far less regulated, less liquid, and more opaque.

Bond Markets

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. You may think of a bond as an agreement between the lender and borrower that contains the details of the loan and its payments. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the United States Treasury, for example. The bond market also is called the debt, credit, or fixed-income market.

Money Markets

Typically the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers. Individuals may also invest in the money markets by buying short-term certificates of deposit (CDs), municipal notes, or U.S. Treasury bills, among other examples.

Derivatives Markets

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. In and of itself a derivative is worthless. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products, that derive their value from underlying instruments like bonds, commodities, currencies, interest rates, market indexes, and stocks.

Futures markets are where futures contracts are listed and traded. Unlike forwards, which trade OTC, futures markets utilize standardized contract specifications, are well-regulated, and utilize clearinghouses to settle and confirm trades. Options markets, such as the Chicago Board Options Exchange (CBOE), similarly list and regulate options contracts. Both futures and options exchanges may list contracts on various asset classes, such as equities, fixed-income securities, commodities, and so on.

Forex Market

The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than $6.6 trillion in daily transactions, which is more than the futures and equity markets combined. 1

As with the OTC markets, the forex market is also decentralized and consists of a global network of computers and brokers from around the world. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

Commodities Markets

Commodities markets are venues where producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money.

The bulk of trading in these commodities, however, takes place on derivatives markets that utilize spot commodities as the underlying assets. Forwards, futures, and options on commodities are exchanged both OTC and on listed exchanges around the world such as the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE).

Cryptocurrency Markets

The past several years have seen the introduction and rise of cryptocurrencies such as Bitcoin and Ethereum, decentralized digital assets that are based on blockchain technology. Today, thousands of cryptocurrency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another, or for fiat monies such as dollars or euros.

Because the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud. Decentralized exchanges are also available that operate without any central authority. These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies.

The primary market is where securities are created, while the secondary market is where those securities are traded by investors. In the primary market, companies sell new stocks and bonds to the public for the first time, such as with an initial public offering (IPO).

Comparison Chart

BASIS FOR COMPARISON	PRIMARY MARKET	SECONDARY MARKET
Meaning	The market place for new shares is called primary market.	The place where formerly issu securities are traded is known Secondary Market.
Another name	New Issue Market (NIM)	After Market
Type of Purchasing	Direct	Indirect
Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification.	It does not provide funding companies.
How many times a security can be sold?	Only once	Multiple times
Buying and Selling between	Company and Investors	Investors
Who will gain the amount on the sale of shares?	Company	Investors
Intermediary	Underwriters	Brokers
Price	Fixed price	Fluctuates, depends on the dema and supply force
Organizational difference	Not rooted to any specific spot or geographical location.	It has physical existence.

What is Fiscal Policy? Fiscal Policy deals with the revenue and expenditure policy of the Govt. The word fiscal has been derived from the word 'fisk' which means public treasury or Govt funds.

Latest Update about Fiscal Policy of India:

1. The Union Budget 2021 has signalled the emphasis on the Development Financial Institutions (DFIs) in the pursuit of long-term infrastructure creation for the revival of the economy.
2. The establishment of the Dispute Resolution Committee (DRC) has been proposed in the Union Budget 2021 that can help provide quick relief to taxpayers in tax disputes.

This is an important topic for the IAS Exam.

Fiscal Policy (UPSC Notes):

Objectives of Fiscal Policy

The following are the objectives of the Fiscal Policy:

1. Higher Economic Growth
2. Price Stability
3. Reduction in Inequality

The above objectives are met in the following ways:

1. Consumption Control – This way, the ratio of savings to income is raised.
2. Raising the rate of investment.
3. Taxation, infrastructure development.
4. Imposition of progressive taxes.
5. Exemption from the taxes provided to the vulnerable classes.
6. Heavy taxation on luxury goods.
7. Discouraging unearned income.

What are the components of Fiscal Policy?

There are three components of the Fiscal Policy of India:

1. Government Receipts
2. Government Expenditure
3. Public Debt

government receipts

The categorisation of the government receipts is given below:

1. Revenue Receipt
    - Tax Revenue

    - Direct Tax
    - Indirect Tax
  - Non Tax Revenue
    - Fees
    - License and Permits
    - Fines and Penalties, etc
2. Capital Receipt
  - Loans Recovery
  - Disinvestments
  - Borrowing and other liabilities

Government expenditure

There are two classifications of public expenditure:

1. Revenue Expenditure – It is a recurring expenditure:
  - Interest Payments
  - Defence Expenses
  - Salaries to Central Government employees, etc are examples of revenue expenditure
2. Capital Expenditure – It is a non-recurring expenditure
  - Loans repayments
  - Loans to public enterprises, etc.

Candidates must note that plan and non-plan expenditure have been scrapped with the abolishing of the Planning Commission of India.

FOREIGN CAPITAL

Foreign capital refers to the inflow of capital into the home country through international nations either in the form of foreign investment (FDI or FPI), loans from multilateral agencies, including the World Bank, or loans from the governments of international countries.

Foreign capital is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and the planned investment necessary to achieve developmental targets.

TYPES OF FOREIGN INVESTMENT IN INDIA

Any investment that is made in India with the source of funding that is from outside of India is a foreign investment. By this definition, the investments that are made by Foreign Corporates, Foreign Nationals, as well as Non-Resident Indians would fall into the category of Foreign Investment.

TYPES OF FOREIGN INVESTMENTS

Funds from foreign country could be invested in shares, properties, ownership / management or collaboration. Based on this, Foreign Investments are classified as below.

Foreign Direct Investment (FDI)

Foreign Portfolio Investment (FPI)

Foreign Institutional Investment (FII)

Details on each of the foreign investment type can be found below :

1. Foreign Direct Investment (FDI)

FDI is an investment made by a company or individual who us an entity in one country, in the form of controlling ownership in business interests in another country. FDI could be in the form of either establishing business operations or by entering into joint ventures by mergers and acquisitions, building new facilities etc.

Know more about FDI in Company and FDI in LLP.

2. Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) is an investment by foreign entities and non-residents in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The intention is to ensure a controlling interest in India at an investment that is lower than FDI, with flexibility for entry and exit.

3. Foreign Institutional Investment (FII)

Foreign Portfolio Investment (FPI) is an investment by foreign entities in securities, real property and other investment assets. Investors include mutual fund companies, hedge fund companies etc. The intention is not to take controlling interest, but to diversify portfolio ensuring hedging and to gain high returns with quick entry and exit.

The differences in FPI and FII are mostly in the type of investors and hence the terms FPI and FII are used interchangeably.

The Securities Market in India is regulated by Securities and Exchange Board of India (SEBI). Refer to the article on **SEBI** to get more information on this topic.

FOREIGN CAPITAL

Major Sources are

- Foreign Direct Investment (FDI)
- Direct Investment by Residents in Joint Venture/wholly owned subsidiaries
- External Commercial Borrowings (ECB)
- Euro Issues (FCCB/GDR/ADR)
- Foreign Currency Exchangable Bonds
- Foreign Institutional Investor Investment (FIIIs)
- Off-shore funds
- Overseas Venture Capital Investments

FEATURES OF FOREIGN COLLABORATION

The nine important features of foreign collaboration are depicted below.

1. A type of partnership

Foreign collaboration is a type of partnership (alliance) between a domestic entity and an abroad based entity. In such an alliance, each partner plays some crucial roles, which are as follows:

Generally, an abroad based entity provides support for finance, technology, engineering, management, etc.

On the other hand, a domestic based entity provides cheap labour, high-quality raw materials, land and so on.

Here, domestic and abroad based entity share their profits as per profit-sharing ratio mentioned in their contract (legally enforceable agreement).

2. Requires an approval of the government

Before initiating foreign collaboration, collaborating entities (domestic and abroad) must seek permission from the government of the domestic country.

The government gives approval only when the contract of foreign collaboration is prepared in accordance with the industrial or foreign policy of its country.

3. Entities are from developed and developing country

In foreign collaboration, one or more abroad entities are generally from developed countries like U.S.A., Germany, Japan, etc. Whereas, a domestic entity is from a developing country or less-developed country (LDC). Some examples of developing countries are India, Sri-Lanka, Indonesia, and so on.

4. Benefits to developed country

The benefits of foreign collaboration to a developed country are as follows:

Foreign collaboration helps a developed country earn good returns on its overall investments made in a domestic country.

It also aids a developed country earn a good reputation for providing financial and technical assistance (support) to the developing country.

5. Benefits to developing country

The benefits of foreign collaboration to a developing country are as follows:

Foreign collaboration helps a developing country to get finance, technology, machinery, know-how, management and technical expertise, etc. from a developed country.

It also assists a developing country to achieve a faster economic growth.

6. Establishes business relationships

Foreign collaboration establishes business (trade) relationships among different countries. It removes their economic gaps (hurdles) and brings them closer to each other.

7. Initiation of foreign collaboration

A foreign collaboration is initiated at the government and/or corporate level.

At governmental level foreign collaboration, a government of some abroad country collaborates with the government of a domestic country.

Similarly, at corporate level foreign collaboration, a company from some abroad country collaborates with the company from a domestic country. These companies may be either private or public in nature.

8. Better utilization of resources

Though developed countries are good with finance, technology, management and technical expertise, generally, they face difficulties to meet a continuous supply of low-cost labour and quality raw materials.

On the other hand, generally, a developing country has more availability of low-cost labour and plenty of quality raw materials.

Foreign collaboration brings developed and developing country together and helps them to satisfy each other's needs by exchanging their excess resources. Finally, this leads to a better utilization of available resources.

9. Scope of foreign collaboration

The scope of foreign collaboration is very wide. It covers core business activities such as:

Finance,

Production,

Management and Technical consultancy,

Advertising and Marketing, etc.

10. Miscellaneous features

Miscellaneous features of foreign collaboration are listed as follows:

Foreign collaboration reduces unemployment in a developing country.

It improves infrastructure in a developing country.

It helps to increase revenue of the governments in the form of taxes and duties.

It also aids to achieve economic growth (progress) of developed and developing country.

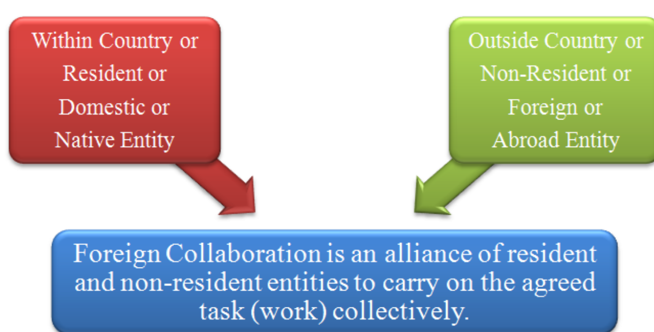
DEFINITION OF FOREIGN COLLABORATION

In general, the definition of foreign collaboration can be stated as follows.

"Foreign collaboration is an alliance incorporated to carry on the agreed task collectively with the participation (role) of resident and non-resident entities."

Alliance is a union or association formed for mutual benefit of parties.

Foreign collaboration is such an alliance of domestic (native) and abroad (non-native) entities like individuals, firms, companies, organizations, governments, etc., that come together with an intention to finalize a contract on some tasks or jobs or projects.



In finance, the definition of foreign collaboration can be specified as follows.

"Foreign collaboration includes ongoing business activities of sharing information related to financing, technology, engineering, management consultancy, logistics, marketing, etc., which are generally, offered by a non-resident (foreign) entity to a resident (domestic or native) entity in exchange of cheap skilled and semi-skilled labour, inexpensive high-quality raw-materials, low cost hi-tech infrastructure facilities, strategic (favourable) geographic location, and so on, with an approval (permission) from a governmental authority like the ministry of finance of a resident country."

Foreign collaboration is thus an alliance (a union or an association) formed for mutual benefit of collaborating parties.

MEANING OF FOREIGN COLLABORATION

The meaning of foreign collaboration is depicted in the following chart.

Following important points convey the meaning of foreign collaboration:

Foreign collaboration is a mutual co-operation between one or more resident and non-resident entities. In other words, for example, an alliance (a union or an association) between an abroad based company and a domestic company forms a foreign collaboration.

It is a strategic alliance between one or more resident and non-resident entities.

Only two or more resident (native) entities cannot make a foreign collaboration possible. For its formation and as per above definitions, it is mandatory that one or more non-resident (foreign) entities must always collaborate with one or more resident (domestic) entities.

Before starting a foreign collaboration, both entities, for example, a resident and non-resident company must always seek approval (permission) from the governmental authority of the domestic country.

During an ongoing process of seeking permission, the collaborating entities prepare a preliminary agreement.

According to this preliminary agreement, for example, the non-resident company agrees to provide finance, technology, machinery, know-how, management consultancy, technical experts, and so on. On the other hand, resident company promises to supply cheap labour, low-cost and quality raw-materials, ample land for setting factories, etc.

After obtaining the necessary permission, individual representative of a resident and non-resident entity sign this preliminary agreement. Signature acts as a written acceptance to each other's expectations, terms and conditions. After signatures are exchanged, a contract is executed, and

foreign collaboration gets established. Contract is a legally enforceable agreement. All contracts are agreements, but all agreements need not necessarily be a contract.

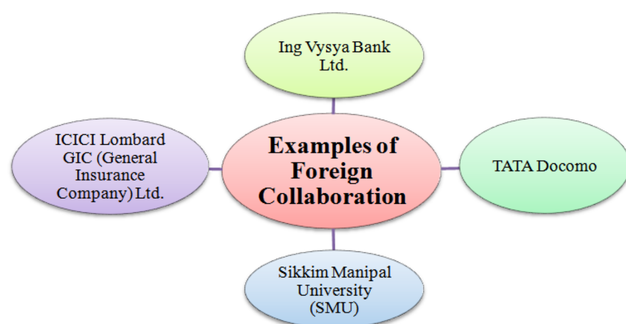
After establishing foreign collaboration, resident and non-resident entity start business together in the domestic country.

Collaborating entities share their profits as per the profit-sharing ratio mentioned in their executed contract.

The tenure (term) of the foreign collaboration is specified in the written contract.

EXAMPLES OF FOREIGN COLLABORATION

Some prominent examples of foreign collaboration are depicted below.



The examples of foreign collaboration between an indian and abroad entity:

ICICI Lombard GIC (General Insurance Company) Limited is a financial foreign collaboration between ICICI Bank Ltd., India and Fairfax Financial Holdings Ltd., Canada.

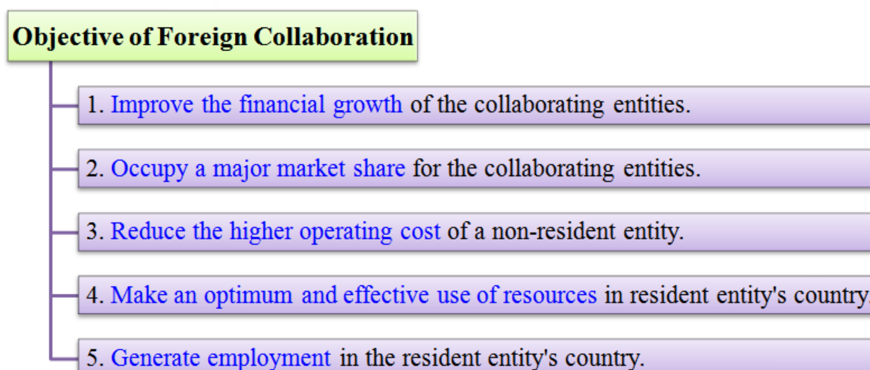
ING Vysya Bank Ltd. is a financial foreign collaboration formed between ING Group from Netherlands and Vysya Bank from India.

Tata DOCOMO is a technical foreign collaboration between Tata Teleservices from India and NTT Docomo, Inc. from Japan.

Sikkim Manipal University (SMU) from India runs some academic programs through an educational foreign collaboration with abroad universities like Liverpool School of Tropical Medicine from UK, Loma Linda and Louisiana State Universities from USA, Kuopio University from Finland, and University of Adelaide from Australia.

OBJECTIVES OF FOREIGN COLLABORATION

The objectives of foreign collaboration are listed in the following image.



The main intention or prime goal or objective of foreign collaboration is to:

Improve the financial growth of the collaborating entities.

Occupy a major market share for the collaborating entities.

Reduce the higher operating cost of a non-resident entity.

Make an optimum and effective use of resources available in the resident entity's country.

Generate employment in the resident entity's country.

Offshore Mutual Funds

Offshore mutual funds are mutual fund schemes that make investments in international markets and hence, are also often referred to as 'international funds'. These schemes invest in stocks of overseas firms or MNCs (multinational companies). They may also invest in fixed income securities of a country or a region. Offshore funds are required to comply with the mutual fund guidelines issued by the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI). The asset management company managing the offshore funds also need to comply with the regulations of the foreign country where they are registered.

Offshore funds are structured similar to an open-ended investment fund, as an offshore firm, partnership, or a unit trust. In India, offshore funds are available to investors in the form of thematic, country-specific, and region-specific funds. If you are an Indian resident and wish to invest in offshore funds, you can do so only in Indian rupees.

Benefits of investing in Offshore funds

- Offshore funds, because of their international incorporation, make establishing and administering the funds easy due to the lower regulation levels. This translates to the fund being able to reinvest the gains as the income is tax-free.
- The management fees and operating costs of offshore funds are lower.
- Offshore funds shield investors' capital from the high tax burden which they would have incurred if they invested in their home country.
- Offshore funds aid investors in diversification across geographies and can fetch them higher returns when the home economy is not doing great.
- Since offshore funds are usually incorporated in countries that offer tax rebates to foreign investors (tax havens), investors can expect attractive returns on their investment.
- Investors get an opportunity to invest in international brands and businesses.

Disadvantages of investing in Offshore Funds

- Negative movement of the offshore currency can impact the returns.
- Returns can also be impacted by the market fluctuations, tax laws, policies, and other developments in both the offshore country and home country.
- Setting up an offshore fund requires a huge investment.
- A higher risk is associated with investing in offshore funds

Things to bear in mind before investing in an Offshore Fund

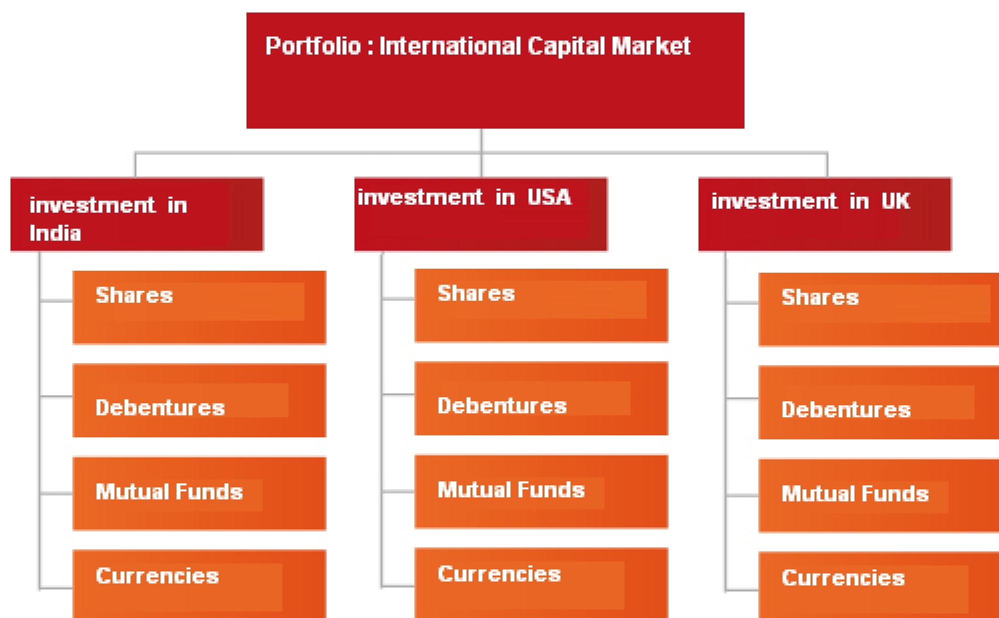
- Before investing in an offshore fund, ensure that you start small by allocating a small portion.
- Research on the political and economic conditions of the offshore location in which the asset firm is planning to allocate your investments on.
- Instead of being country-specific, choose funds that will expose your investments to global opportunities.
- Invest in funds that have a transparent transaction process and are financially strong.

Challenges faced by offshore funds in India

International investment inflows to India are collected and managed by offshore authorities as the fund managers who are based in India are not allowed to manage offshore mutual funds as per the guidelines issued by the RBI and SEBI. As a result, many asset managers who were employed to handle the offshore funds of Indian investors had to move to offshore sites. This posed a challenge in the way of growth of offshore funds in India.

Industry experts suggest that the above challenge can be curbed by adopting 2 solutions. The first one where funds houses should be permitted to manage offshore mutual funds from India itself without any tax being levied on them. The second solution is to allow overseas investors to invest in offshore funds set up in India directly. This has been approved by RBI in November 2015 following which REITs (Real Estate Investment Trusts) and AIFs can receive investments from international investors. Also, after the Finance Bill passed in 2016, taxation rules have been made transparent and simpler.

INTERNATTIONAL CAPITAL MARKET



nternational **capital market** is that financial market or world financial center where shares, bonds, debentures, currencies, hedge funds, mutual funds and other long term securities are purchased and sold. International capital market is the group of different country's capital market. They associate with each other with Internet. They provide the place to international

companies and investors to deal in shares and bonds of different countries.

After invention of computer and Internet and revolution of financial market in 2010, almost all financial markets are converted in international capital markets. We can give the example of Hong Kong, Singapore and New York world trade centre. International capital market was started with dealing of foreign exchange. After globalization of financial sector, companies have to take certificate for dealing in international market. Suppose, Indian company wants to sell shares in France, for this, Indian company should take certificate named global depository receipt (GDR).

International capital market's daily turnover has crossed $ 5 trillion. International capital market is very helpful for reducing the risk of small company because in international market, you can buy different countries companies shares, debentures and mutual funds. Different countries have different business environment, so if any country is facing loss and due to financial crisis, your investment in that country may suffer losses but you can fulfill this loss from other country's investment. So, overall risk will be reduced by this technique.

International Capital Markets

- In the **Eurobond market**, corporations and governments typically issue bonds denominated in dollars and sell them to investors located outside the United States.
- The **foreign bond market** is a market for bonds issued by a foreign corporation or government that is denominated in the investor's home currency sold in the investor's home market.
- The **international equity market** allows corporations to sell blocks of shares to investors in a number of different countries simultaneously.