



**Certified Debt Recovery
Agent
VS-1097**

V-Skills Certifications

**A Government of India
&
Government of NCT Delhi Initiative**

V-Skills



1. BASICS OF BANKING

A bank is a financial institution which acts as an intermediary between savers and users of funds. A bank offers various services like

- ✓ Accepting deposits from public in the form of Savings, Current or Term Deposits
- ✓ Customer remits money from one place to another by Demand Draft or Money transfer.
- ✓ Makes on behalf of customers, payments to utilities like electricity bill, school fees etc.
- ✓ Accepts, on behalf of Government, tax payments.
- ✓ Lends money for business, agriculture, purchase of house, purchase etc.
- ✓ Transacts in foreign exchange and helps business people by buying and selling foreign currency as per customer's needs.
- ✓ Offers safe deposit vault facilities for safe keeping of customer's valuables
- ✓ Operates ATM machines, to withdraw funds anytime by customer
- ✓ Offers credit/debit and charge card facilities which helps customer payments, as also borrow money.

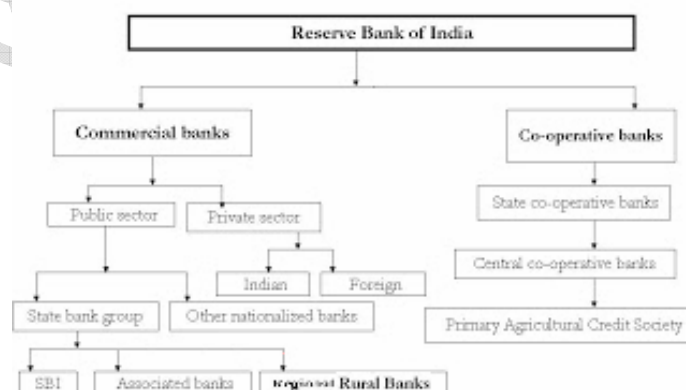
1.1. Principles of Banking

A bank accepts deposits and makes loans. It derives a profit from the difference between the costs (including interest payments) of attracting and servicing deposits and the income it receives through interest charged to borrowers or earned through securities. Many banks provide related services such as financial management and products such as mutual funds and credit cards.

The core function of banking consists of borrowing and lending. Banks use the funds obtained through deposits and, as a precaution, maintain capital and reserve accounts to protect against losses on their loans and investments and to provide for unanticipated cash withdrawals.

1.2. Structure of Banking

The entire banking system comprises of scheduled and non-scheduled banks. Banking needs of the financially excluded population is catered by unorganized entities like, moneylenders.



Banks can be either scheduled or non-scheduled. Banks which are listed in the schedule of the Reserve Bank of India Act, 1934 are known as Scheduled Bank banks and are further classified as:

Public Sector banks

- ✓ State Bank and its seven Banking Subsidiaries
- ✓ Nationalized Banks
- ✓ Regional Rural Banks

Private Sector Banks

- ✓ Old private sector banks
- ✓ New private sector banks
- ✓ Foreign Banks

State Co-operative Banks

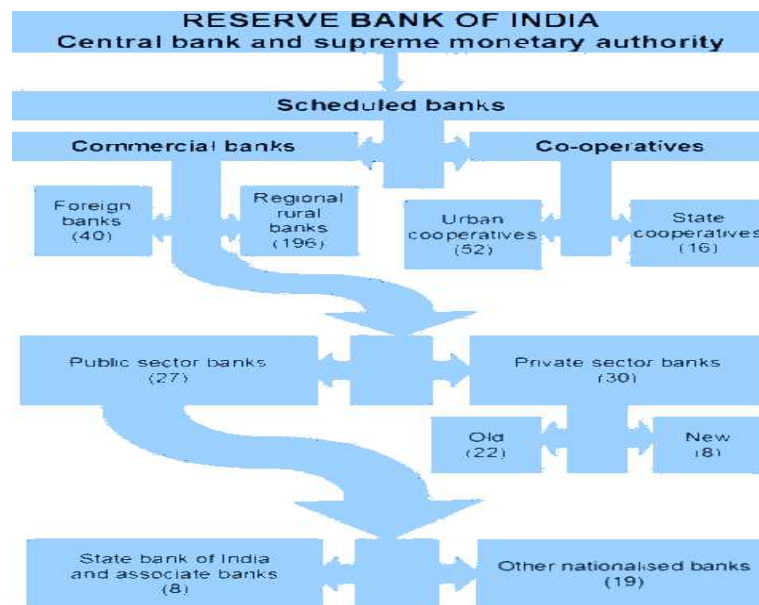
Urban Co-operative Banks

Scheduled Banks

A scheduled bank is a bank that is listed under the second schedule of the RBI Act, 1934. Banks have to fulfill certain conditions such as having a paid up capital and reserves of at least 0.5 million and satisfying the Reserve Bank about its affairs. Scheduled banks are further classified into commercial and cooperative banks with difference being in their holding pattern. Scheduled cooperative banks are registered under the Cooperative Societies Act.

Scheduled Commercial Banks (SCBs): The scheduled commercial banks are those banks which are included in the second schedule of RBI Act 1934 and which carry out the normal business of banking such as accepting deposits, giving out loans and other banking services. The major difference between Scheduled Commercial Banks and Scheduled Cooperative Banks is their holding pattern, since cooperatives are registered under the Cooperative Societies Act as cooperative credit institutions. Scheduled Commercial Banks can be further divided into four groups: Public Sector Banks: This includes:

- ✓ Public Sector Banks like SBI & Associates Nationalized Banks
- ✓ Private Banks
- ✓ Foreign Banks
- ✓ Regional Banks
- ✓ Rural Banks



Regional Rural Banks (RRBs): These banks were set up in September 1975 in order to develop the rural economy by providing banking services in such areas by combining the cooperative speciality of local orientation and the sound resource base which is the characteristic of commercial banks. Their equity holding is jointly held by the central government, the concerned state government and the sponsor bank (in the ratio 50:15:35), which is responsible for assisting the RRB by providing financial, managerial and training aid and also subscribing to its share capital.

RRBs cover 585 out of the 622 districts of the country, by the end of June 2008. As a result of state wise amalgamation of RRBs, the number of RRBs fell to 86 by end March 2009.

Scheduled Cooperative Banks: can be broadly classified into urban credit cooperative institutions and rural cooperative credit institutions. Rural cooperative banks undertake long term as well as short term lending. Credit cooperatives in most states have a three tier structure (primary, district and state level).

Non-Scheduled Banks

Non-scheduled banks function in the form of Local Area Banks (LAB). As at end-March 2009 there were only 4 LABs operating in India. Local area banks are banks that are set up under the scheme announced by the government of India in 1996, for the establishment of new private banks of a local nature; with jurisdiction over a maximum of three contiguous districts. LABs aid in the mobilization of funds of rural and semi urban districts. Six LABs were originally licensed, but the license of one of them was cancelled due to irregularities in operations, and the other was amalgamated with Bank of Baroda in 2004 due to its weak financial position.

1.3. Function of Banking

Various functions of the banks are classified as primary and secondary and are explained as

Primary Functions

The primary functions of a bank are also known as banking functions. They are the main functions of a bank and include:

- ✓ Accepting Deposits - The bank collects deposits from the public. These deposits can be of different types, like saving deposits, fixed deposits, current deposits and recurring deposits.
- ✓ Loans and Advances Granting - The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit. The types of bank loans and advances are overdraft, cash credits, loans and discounting of bill of exchange.

Secondary Functions

The bank performs various secondary functions, also called as non-banking functions which are:

- ✓ Agency Functions - The bank acts as an agent of its customers. The bank performs a number of agency functions like Transfer of Funds, Collection of Cheques, Periodic Payments, etc.
- ✓ General Utility Functions - The bank also performs general utility functions, such as Issue of Drafts, Letter of Credits, Locker Facility, Dealing in Foreign Exchange, etc.

1.4. Deposits Opening and Operations

Deposit Opening

A person who wants to open a deposit account in a bank, has to fill up and sign the account opening/application form and furnish the following details

- ✓ Introductory reference of an acceptable person
- ✓ Acceptable proof of his/her identity and residential address,
- ✓ His or her- photographs, and
- ✓ Deposit of an amount not less than the prescribed minimum

Need for Identity proof: Identity proof is needed by banks as it is the process by means of which banks satisfy themselves that this a genuine (not fictitious or benami) person of certain standing. This process also ensures banks of the protection under the Negotiable Instruments Act, 1881 - which confer to all acts done 'in good faith and without negligence' - on to the account holder. As per RBI guidelines, all banks have to get acceptable direct proof of the identity of the person like passport, voter's ID card, Income Tax PAN Card, etc. In 2002, RBI issued directive for complying with the procedure of 'know customer or KYC' for new and existing customers.

Specimen signature and PIN: Specimen signature of account holder is obtained during account opening on the application form in presence of bank staff and attested by an authorized bank officer. A customer is recognized mainly by his/her signature on the cheques. The specimen signature is compared for verification of genuineness of customer's signature. Customers with credit or debit cards are given special PIN numbers for verifying the genuineness and customers use the initial PIN for first transaction and which is usually changed by the customer for consecutive electronic transactions. Signature and PIN are essential to ensure safe customers' funds and avoid misuse.

Power of Attorney: Customer or depositor can transact with bank through another person by, a power of attorney (POA) which is a document, duly stamped as per Stamp Act, given by customer, to bank for authorizing the attorney or agent, named therein, to operate the account. Power of attorney could be general or specific.

Account Operations

A deposit involves various types of operations which the account holder can undertake and which usually includes the following

- ✓ Account balance check
- ✓ Cash withdrawal
- ✓ Cash deposit
- ✓ Cheque Payment
- ✓ ATM based cash or payment withdrawal
- ✓ Statement generation for a period
- ✓ Account closure

Account Closure

It is a challenge to retain multiple savings accounts, both operationally as well as economically. Hence, it is advisable to close it. The common reasons for closing an account are change in residence or employer, dissatisfaction with the services or an alteration in the residential status of the account holder. Closure can be due to customer's request or by bank (Due to not keeping a minimum balance or receipt of notice listing death of account holder or not paying maintenance charges) and even due to the order of the court.

1.5. Commonly Used Terms in Banking

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

- ✓ **Overdraft:** This type of advances is given to current account holders. No separate account is maintained. All entries are made in the current account. A certain amount is sanctioned as overdrafts which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.
- ✓ **Cash Credits:** The client is allowed cash credit up to a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash credit is given against the security of tangible assets and / or guarantees. The advance is given for a longer period and a larger amount of loan is sanctioned than that of overdraft.
- ✓ **Loans:** It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term. Repayment of money can be in the form of installments spread over a period of time or in a lump sum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits. Loans are normally secured against tangible assets of the company.

Discounting of Bill of Exchange: The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or

the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

- ✓ **Interest:** It is the cost of borrowing money, and it is normally expressed in terms of a percentage of the overall loan. Specifically, the interest rate (I/m) is a percent of principal (P) paid a certain amount of times (m) per period (usually quoted per annum).
- ✓ **Fixed interest rate:** It will not change during the period (term) of the fixed rate that was chosen. At the end of the fixed interest rate term borrower can either choose a new one from the rates available at that time, or change to a floating interest rate.
- ✓ **Floating interest rate:** It will go up or down as interest rates in the market change. Borrower can change to a fixed interest rate at any time, although some types of loans are only available with a floating interest rate.
- ✓ **Simple interest:** It is calculated on the original principal only. Accumulated interest from prior periods is not used in calculations for the following periods. Simple interest is normally used for a single period of less than a year, such as 30 or 60 days. It can be expressed as

$$\text{Simple Interest} = p * i * n$$

where:

p = principal (original amount borrowed or loaned)

i = interest rate for one period

n = number of periods

Compound interest: It is calculated each period on the original principal and all interest accumulated during past periods. Although the interest may be stated as a yearly rate, the compounding periods can be yearly, semiannually, quarterly, or even continuously.

It can be thought as a series of back-to-back simple interest contracts. The interest earned in each period is added to the principal of the previous period to become the principal for the next period.

Front ended interest: It is the interest (flat rate) is collected upfront and the party gets net amount.

Equated Monthly Instalment: (EMI) It is a common method of repayment of loan which involves principal and interest repayment in equal monthly installment over fixed period. It is determined as per the loan amount, interest rate and the duration. The formula for calculation of EMI is given as

$$\text{EMI} = (P \times r) (1 + r)^n / (1 + r)^n - 1$$

Where P = principal, r = rate of interest per installment period (i.e., if interest is 12% p.a., no. of installments in a year is 12, then $r = 1/100 = 0.01$), n = number of installments in the loan duration.

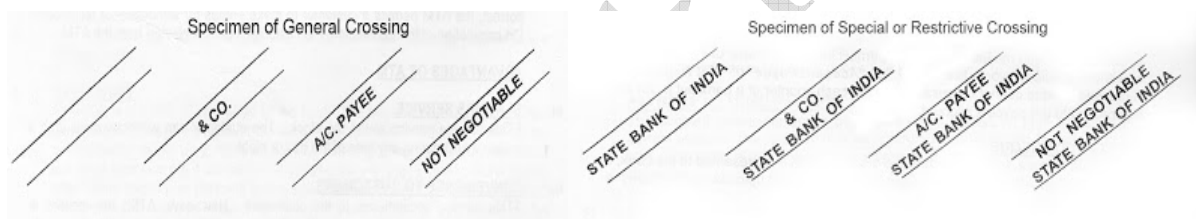
Cheques

A cheque (or check in American English) is a document that orders a payment of money from a bank account. The person writing the cheque, the drawer, usually has a current account where their money was previously deposited. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the drawee, to pay that person or company the amount of money stated.

Cheques are a type of bill of exchange and were developed as a way to make payments without the need to carry large amounts of money.

Crossing of cheques: A crossed cheque is a cheque that has been marked to specify an instruction to specify that it may only be deposited directly into an account with a bank and cannot be immediately cashed by a bank over the counter. It can be done in two ways, as

- ✓ **General Crossing:** A crossed cheque can be made bearer cheque by cancelling the crossing and affixing the full signature of drawer. Generally, cheques are crossed when there are two transverse parallel lines, marked across its face or the cheque bears an abbreviation "& Co." between the two parallel lines or the cheque bears the words "Not Negotiable" between the two parallel lines or the cheque bears the words "A/c. Payee" between the two parallel lines.
- ✓ **Special or Restrictive Crossing:** When a particular bank's name is written in between the two parallel lines the cheque is said to be specially crossed. In addition to the word bank, the words "A/c. Payee Only", "Not Negotiable" may also be written. The payment of such cheque is not made unless the bank named in crossing is presenting the cheque. The effect of special crossing is that the bank makes payment only to the banker whose name is written in the crossing. Specially crossed cheques are safer than a generally crossed cheques.



Certifications

► Accounting, Banking & Finance

- Certified AML- KYC Compliance Officer
- Certified Business Accountant
- Certified Commercial Banker
- Certified Equity Research Analyst
- Certified Foreign Exchange Professional
- Certified Hedge Fund Manager
- Certified Merger and Acquisition Analyst
- Certified Tally 9.0 Professional
- Certified Treasury Markets Professional
- Certified Wealth Manager

► Foreign Trade

- Certified Export Import (Foreign Trade) Professional

► Hospitality

- Certified Restaurant Team Member (Hospitality)

► Human Resources

- Certified HR Compensation Manager
- Certified HR Staffing Manager
- Certified Human Resources Manager
- Certified Performance Appraisal Manager

► Logistics & Supply Chain Management

- Certified International Logistics Professional
- Certified Logistics & SCM Professional
- Certified Purchase Manager

► Law

- Certified IPR & Legal Manager

► Life Skills

- Certified Business Communication Specialist
- Certified Public Relations Officer

► Media

- Certified Advertising Manager
- Certified Advertising Sales Professional

► Office Skills

- Certified Data Entry Operator
- Certified Office Administrator

► Project Management

- Certified Project Management Professional

► Real Estate

- Certified Real Estate Consultant

► Information Technology

- Certified Android Apps Developer
- Certified ASP.NET Programmer
- Certified Basic Network Support Professional
- Certified Business Intelligence Professional
- Certified C# Professional
- Certified CAD Professional
- Certified Cloud Computing Professional
- Certified Computer Fundamentals (MS Office) Professional
- Certified Core Java Developer
- Certified CSS Designer
- Certified Data Mining and Warehousing Professional
- Certified DHTML & Javascript Developer
- Certified Django Developer
- Certified DTP operator
- Certified E-commerce Professional
- Certified E-Governance Professional
- Certified Enterprise Applications Integration Specialist (Biztalk)
- Certified Ethical Hacking and Security Professional
- Certified Facebook Apps Developer
- Certified Grid Computing Professional
- Certified Hadoop and Mapreduce Professional
- Certified HTML Designer
- Certified HTML5 Developer
- Certified iPhone Apps Developer
- Certified IT Support Professional
- Certified J2ME Programmer
- Certified Joomla Developer
- Certified Linux Administrator
- Certified Magento Professional
- Certified MySQL DB Administrator
- Certified Network Security Professional
- Certified Open Source CMS (Drupal) Professional
- Certified PHP Professional
- Certified PL/SQL Developer
- Certified Python Professional
- Certified Router Support Professional
- Certified Selenium Professional
- Certified SEO Professional
- Certified Software Quality Assurance Professional
- Certified Software Security Professional
- Certified Software Testing Professional
- Certified SQL Server 2008 Programmer
- Certified WiMax(4G) Professional
- Certified Wordpress Developer
- Certified XML Developer

► Sales, BPO

- Certified Telesales Executive

Contact us at:

V-Skills

011-473 44 723 or info@vskills.in

Intelligent Communication Systems India Limited

DSIIDC Administrative Building,
Okhla Industrial Estate-III, New Delhi-110020

www.vskills.in