D.K.M. COLLEGE FOR WOMEN

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eRESOURCES

Digital Learning

E CONTENT TITLE : BANK MANAGEMENT

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BANK

SYLLABUS

UNIT-I

Banking structure in India - banking functions and services - Foreign commercial banks - Private commercial banks - capital adequacy.

UNIT-II

Principles of lending - financial adequacy assessing the borrower - project appraisal - structural and Infrastructural analysis - legal formalities - follow up loans, asset management companies.

UNIT-III

Non Performing Assets (NPAs) - Early Warning Signals - Management of NPAs- Remedies Available - Recent Measures - loan recovery tribunals - Provisions of Revenue Recovery Act.

UNIT-IV

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UNIT –I

BANKING STRUCTURE AND FUNCTIONS

1. INTRODUCTION TO BANKING

1.1 MEANING

A bank is an institution which deals with money and credit. It accept deposits from the public, makes the funds available to those who need them and helps in the remittance of money from one place to another.

1.2 DEFINITIONS

According to **Prof. Sayers**, "A bank is an institution whose debts are widely accepted in settlement of other people's debts to each other".

According to **Crowther**, "a bank collects money from those who have it to spare or who are saving it out of their income and lends the money so collected to those who require it"

1.3 ORIGIN OF BANK

The word bank is derived from the word "bancus or banque" that is a bench. It is referred to a bench for keeping, lending and exchanging of money or coins in the market place by money lenders and money changers. In India banking industry has its foundations in the 18th century, and has had a varied evolutionary experience since then. The initial banks in India were primarily trader banks engaged only in financing activities. Banking industry in the pre independence era developed with the Presidency bank, which were transformed into the Imperial bank of India and subsequently into the State Bank of India.

2. BANKING STRUCTURE IN INDIA

RBI is the central bank of our country. It was found on 1.4.1935. Accordance with the provisions of the Reserve Bank of India Act, 1934, it holds the apex position in the banking structure. RBI performs various functions like developmental, promotional, supervision and control the banking structure.

In India Banks are classified into Schedule banks and Non-Schedule banks. The scheduled Commercial banks are further classified into Private banks, Public banks, Foreign banks, Regional Rural banks and Co-operative banks which include Urban and Rural Co-operative banks.

2.1 SCHEDULE BANKS

Schedule banks are those which are protected in the second schedule of the RBI Act 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs.5 Lakhs.

2.1.1 TYPES OF SCHEDULE BANKS

Scheduled banks are further categorized as

2.1.1.a. PUBLIC SECTOR BANKS

These are the banks owned and controlled by the government.

2.1.1.b. PRIVATE SECTOR BANKS

The banks which are comes under the control of private ownership and not owned by the Government or Co-operative societies called private banks. These banks acquire larger parts of stake or congruity is maintained by the private shareholders and not by government. Thus, banks where maximum amount of capital is in private hands are considered as private-sector banks. In India, we have two types of private-sector banks namely

- Old Private-Sector Banks
- New Private-Sector Banks

2.1.1.b.i. OLD PRIVATE SECTOR BANKS

The old private-sector banks were set up before nationalization in 1969. They had their own independence. These banks were either too small or specialist to be incorporated in nationalization. The following is a list of old private-sector banks in India. They are

- Catholic Syrian Bank
- City Union Bank
- Dhanalaxmi Bank
- Federal Bank ING
- Vysya Bank
- Jammu and Kashmir Bank
- Karnataka Bank
- Karur Vysya Bank
- Lakshmi Vilas Bank
- Nainital Bank
- Ratnakar Bank
- South Indian Bank
- Tamilnadu Mercantile Bank

From the above mentioned banks, the Neonatal Bank is an auxiliary or branch of the Bank of Baroda, which has 98.57% stake in it. A few old generation private-sector banks merged with other banks. For example, in the year 2007, Lord Krishna Bank merged with Centurion Bank of Punjab. Sangli Bank merged with ICICI Bank in 2006. Yet again, Centurion Bank of Punjab merged with HDFC in 2008.

2.1.1.b.ii. NEW PRIVATE-SECTOR BANKS

Banks which started their operations after liberalization in the 1990s are the new private-sector banks. These banks were permitted entry into the Indian banking sector after the amendment of the Banking Regulation Act in 1993.

At present, the following new private-sector banks are operational in India −

- Axis Bank Development
- Credit Bank (DCB Bank Ltd)
- HDFC Bank
- ICICI Bank
- IndusInd Bank
- Kotak Mahindra Bank
- Yes Bank

In addition to these seven banks, there are two more banks which are yet to commence operation. They got the ‘in-principle’ licenses from RBI. These two banks are IDFC and Bandhan Bank of Bandhan Financial Services.

2.1.1.c. FOREIGN BANKS

If any banks registered and having their head office in any one the foreign country then it is called as foreign bank.

2.1.1.d. REGIONAL RURAL BANKS

The Government of India setup RRBs on October 2,1975. The banks provide credit to the weaker sections of the rural areas, particularly for farmers and agricultural labourers.

2.1.1.e. CO-OPERATIVES BANKS

The main objective of Co-operative bank is to provide financial assistance to the economically weaker sections of the society. It was set up into the year

1904. They provide short and medium term loans mainly for agriculturists and artisans like weavers, and spinners. Co-operative Banks are divided into Urban Co-operatives and Rural Co-operatives.

2.2 NON SCHEDULE BANKS

Non-Scheduled Bank refers to the banks which are not listed in the Second Schedule of Reserve Bank of India. Non-Scheduled Banks are also required to maintain the cash reserve requirement, not with the RBI, but with themselves. They are not entitled to borrow from the RBI for normal banking purposes, though they may approach the RBI for accommodation under abnormal circumstances.

There are 5 Non-Scheduled Urban Cooperative Banks in India. They are

1 Akhand Anand Co-Operative Bank Ltd

2 Alavi Co-Operative Bank Ltd

3 Amarnath Co-operative Bank Ltd

4 Amod Nagrik Sahakari Bank Ltd

5 Amreli Nagrik Sahakari Bank Ltd

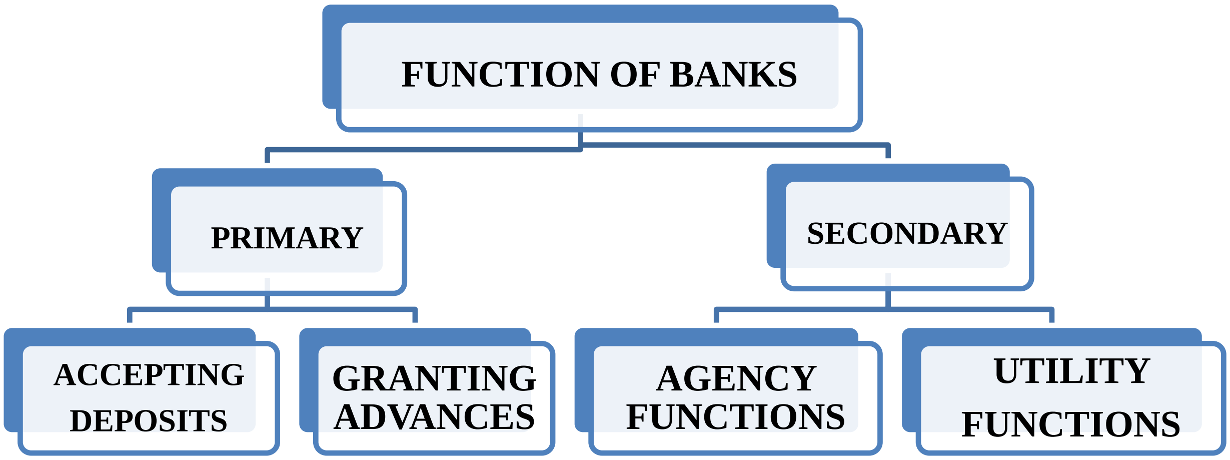
Along with this 4 local area banks in India which forms under non-scheduled list of Banking as per RBI are

1. Coastal Local Area Bank Ltd
2. Capital Local Area Bank Ltd
3. Krishna Bhima Samruddhi Local Area Bank Ltd
4. Subhadra Local Area Bank Ltd

After 2017, there was more number of non-scheduled banks coming up after issuing licenses to the cash surplus corporate which were interested to serve the rural and under banking areas.

3. FUNCTIONS OF BANKS

Function of banks is classified in to two parts namely primary and secondary functions. The primary function is further divided in to accepting deposits and granting advances. The secondary function is further classified as agency functions and utility functions.



3.1 PRIMARY FUNCTIONS OF BANKS

The primary functions of a bank are also known as banking functions. These are the main functions of a bank.

3.1.1 ACCEPTING DEPOSITS

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

3.1.1.a. Saving Deposits

This type of deposits encourages saving habit among the public. The rate of interest is low. At present it is about 4% p.a. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names.

3.1.1.b. Fixed Deposits

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

3.1.1.c. Current Deposits

This type of account is operated by businessmen and withdrawals are freely allowed. No interest is paid. The customers can get the benefit of overdraft facility and also charges for services.

3.1.1.d. Recurring Deposits

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

3.1.2 GRANTING LOANS AND ADVANCES

3.1.2.a. Overdraft: these types of advances are given to current account holders. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time.

3.1.2.b. Cash credits: A cash credit limit is prescribed for the customer up to which he may draw cheques upon the banks by providing security.

3.1.2.c. Loans: These loans differ from overdraft and cash credit in that the loan amount is paid to the borrower to his account.

3.1.2.d. Discounting of Bills: Banks provide financial help to their customers by discounting their bills of exchange which are due for maturity at a future date.

3.2 SECONDARY FUNCTIONS OF BANKS

3.2.1 AGENCY FUNCTIONS

3.2.1.a. Transfer of Funds: The bank transfer funds from one branch to another or from one place to another.

3.2.1.b. Collection of Cheques: the banker to collect and clear cheque, dividends and interest warrants.

3.2.1.c. Periodic Payments: To make payment of rent, insurance premium etc.,

3.2.1.d. Portfolio Management: The bank undertakes to purchase and sell the shares and debentures on behalf of the clients.

3.2.1.e. Periodic Collections: The bank collects salary, pension and dividend for the periodic collection on behalf of the customers.

3.2.1.f. Other Agency Functions: To act as trusty, attorney, correspondent and executors.

3.1.2 UTILITY FUNCTIONS

- Safety locker facilities to the customers.
- Money transfer facility to the customers.
- Underwriting securities of different companies.
- Merchant banking and giving gift cheque facility
- Acting as a referee and accepting various bills for payment.

4. SERVICES OF BANKING

Bank offers services to the customers in the following ways. They are

4.1 LETTER OF CREDIT

It is a document issued by the bank that essentially acts as an irrevocable guarantee of payment to a beneficiary.

4.2 ELECTRONIC PAYMENT SERVICES

A new technology is being developed to introducing of E- cheque, which will eventually replace the conventional paper cheque.

4.3 REAL TIME GROSS SETTLEMENT (RTGS)

In this system electronics instructions can be given by banks to transfer funds from their account to the account of another bank.

4.4 ELECTRONIC FUNDS TRANSFER (EFT)

In this system whereby anyone who wants to make payment to another person or company etc., can approach his bank and make cash payment or give instruction to transfer funds directly from his own account to the bank account of the receiver or beneficiary.

4.5 ELECTRONIC CLEARING SERVICES (ECS)

It is a retail payment system that can be used to make bulk payment or receipts of similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount.

4.6 AUTOMATIC TELLER MACHINE

ATM is the most popular devise in India which enables the customers to with draw their money for 24X 7.

4.7 POINT OF SALE TERMINAL

It is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer.

4.8 ELECTRONIC DATA INTERCHANGE

EDI is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc.,

5. COMMERCIAL BANKS

A commercial bank is a type of financial institution that provides services like accepting deposits, making business loans, and offering basic investment products. The term commercial bank can also refer to a bank, or a division of a large bank, which precisely deals with deposits and loan services provided to corporations or large or middle-sized enterprises as opposed to individual members of the public or small enterprises. For example, Retail banking, or Merchant banks.

5.1 FUNCTIONS OF COMMERCIAL BANKS

These banks are controlled by the Federal Reserve System. A commercial bank is licensed to assist the following functions −

5.1.a. Accept deposits − Receiving money from individuals and enterprises known as depositors.

5.1.b. Dispense payments − Making payments according to the convenience of the depositors. For example, honoring a check.

5.1.c. Collections − Bank plays as an agent to collect funds from another banks receivable to the depositor. For example, when someone pays through check drawn on an account from a different bank.

5.1.d. Invest funds – Contributing or spending money in securities for making more money. For example, mutual funds.

5.1.e. Safeguard money – A bank is regarded as a safe place to store wealth including jewelry and other assets.

5.1.f. Maintain savings – The money of the depositors is maintained, and the accounts are checked and on a regular basis.

5.1.g. Maintain custodial accounts – These accounts are maintained under the supervision of one person but are actually for the benefit of another person.

5.1.h. Lend money – Lending money to companies, depositors in case of some emergency.

Commercial banks are apparently the largest source of financing for private capital investment in a nation, especially, like India. A capital investment can be defined as the purchase of a property with the purpose of either producing income from the property, increasing the value of the property over time, or both. Similar capital purchases made by enterprises may involve things like plants, tools and equipment. The scheduled commercial banks are those banks which are included in the second schedule of RBI Act, 1934. These banks accept deposits, lend loans and also offer other banking services. The major difference between scheduled commercial banks and scheduled cooperative banks is their holding pattern. Cooperative banks are registered as cooperative credit institutions under the Cooperative Societies Act of 1912.

6. CAPITAL ADEQUACY

Capital Adequacy Ratio (CAR) is defined as the ratio of banks capital to its risk assets. Capital Adquacy ratio (CAR) is also known as Capital to Risk Weighted Assets Ratio (CRAR).

6.1 CAPITAL ADEQUACY NORMS IN INDIA

The Government of India appointed the Narasimham Committee in 1991 to suggest reforms in the financial sector. In the year 1992 – 93 the Narasimham committee submitted its first report and recommended that all the banks are required to have a minimum capital of 8% to the risk weighted assets of the banks. The ratio is also known as Capital to Risk Assets Ratio.

The second report of committee was submitted in the year 1998-99. It recommended that the CRAR to be raised to 10% in a phased manner.

6.2 CONCEPTS OF CAPITAL ADEQUACY NORMS

- Tier – I Capital
- Tier – II capital
- Risk Weighted Assets
- Subordinated Debt

Let us see the concepts in detail

6.2.1 TIER – I CAPITAL

Capital which is first readily available to protect the unexpected losses is called as Tier – I Capital. It is also termed as core capital.

1. Paid – up capital.
2. Statutory Reserves.
3. Other disclosed free Reserves: Reserves which are not kept side for meeting any specific liability.
4. Capital Reserve: Surplus generated from sale of capital assets.

6.2.2 TIER – II CAPITAL

1. Undisclosed Reserves and paid up capital perpetual preference shares.
2. Revaluation Reserves (at discount of 55%).
3. Hybrid (Debt/Equity) capital.
4. Subordinate Debt.
5. General Provisions and Loss Reserves.

There is an important condition that Tier II Capital cannot Exceed 50% of Tier – I capital for arriving at the prescribed capital Adequacy Ratio.

6.2.3 RISK WEIGHTED ASSETS

Capital Adequacy Ratio is calculated based on the assets of the bank. The values of bank assets are not taken according to the book value of each asset is assigned with risk factor in percentage terms.

6.2.4 SUBORDINATED DEBT

These are bonds issued by bank for raising Tier II Capital.They are as follows:-

1. They should be fully paid up instruments.
2. They should be unsecured debt.
3. They should be subordinated to the claims of other creditors. This means that the banks holders claims for their money will be paid at last in order of performance as compared with the claims of the bank.
4. The bonds should not be redeemable at the option if the holders. This means the repayment of bond value will be decided only by the issuing bank.

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QUESTIONS

1. What is capital adequacy? Explain in detail the concept of capital adequacy norms.

2. Elaborately discuss about the functions of banking in India.

3. Elucidate the various services provided by the banks.

4. “The banks which are not owned by the Government or Co-operative societies called private banks”. Do you agree with this statement? In what ways it differs from other banks. Also explain its various types.

5. Describe the whole banking structure of India.

UNIT –II

LENDING AND ITS FORMALITIES

1. INTRODUCTION TO LENDING

Lending of funds to the constituents, mainly traders, business and industrial enterprises, constitutes the main business of a banking company. The major position of a banks funds is employed by way of loans and advances which is more profitable employment of its funds. The major part of a bank's income is earned from interest and discount on the funds.

According to L.C. Mathur "The ideal advance is one which is granted to a reliable customer for an approved purpose in which the customer has adequate experience, safe in the knowledge that the money will be used to advantage and repayment will be made within responsible period".

1.1 PRINCIPLES OF SOUND LEADING

1. **Safety:** This is the most important guiding principle of a banker. Bank's business deals with the public deposits. Bank has to ensure the safety of the funds lent. Safety means the borrowers should be in a position to repay the loan with interest.
2. **Security:** Security means any valuable give to support a loan or advance. A large variety of securities may be offered against loans from gold or silver to immovable property. The security accepted by a banker as a loan cover must be adequate.
3. **Liquidity:** Liquidity means a bank's ability to meet the claims of its customers. Banks should ensure that the money lent is not locked up for a long time. A bank would remain liquid with liquid advance. This is an important aspect of banking.
4. **Suitability:** Banker should concentrate lending activity on purpose desirable from the point of view of economic health of the nation. Due

consideration should be given to control inflation and raising the standard of living of the people.

5. **Risk Diversification:** Every loan has its own risk. So it is better to give an advance for different purposes and segments to spread the risk. Under this, the loan portfolio is concentrated over different maturity periods. So that, a certain amount of loans matures at regular intervals which can be utilized to meet the depositor's demand.
6. **Profitability:** Commercial banks are profit earning concerns so bank must earn sufficient income to pay interest to the depositors, meet establishment charges, salaries to staff, earn income for the future, and distribute dividends to the share-holders etc. The difference between the lending and borrowing rates constitutes the gross profit of the bank. A bank should possess liquidity, with surety of profit; banks should not ignore the safety or liquidity.
7. **Purpose:** A banker should inquire the purpose of the loan. Safety and liquidity of loan depend on the purpose of loan. Loan may be required for productive purposes, trading, agriculture, transport, self-employment etc. Loan for productive purpose would increase the chances of recovery.
8. **Margin:** The security offered against advance must be judged from the aspect of economic value and legal aspect. The market value of the security must be higher than the amount of advances proposed.

1.2 FINANCIAL ADEQUACY ASSESSING THE BORROWER

The business of sanctioning unsecured advances is comparatively more risky and needs special care and attention on the part of the banker. In the absence of a charge over any specific asset, the safety of advance depends upon the honesty and integrity of the borrower as much as upon the worth of his tangible assets.

The following creditworthiness is judged by the banker on the basis of character, capacity and capital.

Character: The work character implies and includes a number of personal characteristics of a person like honesty, integrity and regularity to fulfilling his promises and repaying his dues and responsibility.

Capacity: If the borrower possesses necessary technical skill, managerial ability and experience to run a particular industry or trade, success of unit may be taken for granted and the banker consider him a deserving case for granting an advance.

Capital: The importance attached by the banker to the adequacy of capital of the borrower is not without significance. Banks are the repositories of the public money and lend the borrowed money.

1.2.1 SECURED LOANS

Secured loan involves the attachment of collateral such as house, car, property or anything of value, on failure of repayment of loan amount the borrower runs the risk of confiscation of collateral. But the same time a secured personal loan will come to borrower at low Annual Percentage rate and a larger amount of loan will be sanctioned due to the collateral laid out to the lender in the form of security.

1.2.2 UNSERCURED LOAN

When the loan is not secured against any collateral security then consequently the lender would charge a higher rate of interest, taking into account the high risk involved in lending the sum without security.

1.3 PROJECT APPRAISAL

Project Appraisal is an important activity to evaluate the key factor of the project to decide and proceed with the project proposal and ability.

1.3.1 OBJECTIVES

- Assessment of a project in terms of its economic, social and financial viability
- Decide to Accept or reject a project
- It is a tool to check the viability of a project proposal.

1.3.2 METHOD OF PROJECT APPRAISAL

The four main aspects of project appraisal by financial institutions are: Financial Feasibility, Technical Feasibility, Economic Feasibility and Management Competence.

1.3.2.a Financial Feasibility

Assessment of the financial requirement both fixed capital and working capital. Fixed assets are those tangible material facilities which purchased once are used again and again. For example are land and building, plants and machinery etc. working capital means excess current assets and current liabilities.

1.3.2.b Technical Competence

The technology may be indigenous or imported through foreign collaboration. In the case of indigenous technology it should be ensured that suitable technical personnel are available.

(a) The standing of the collaborators and past experience concerning tie-up arrangements with them.

(b) Adequacy of the scope and competitiveness of the terms of the collaboration in relation to the requirements of the project, project engineering, equipment specifications, drawings, process know-how, erection and commissioning of the plant, trail-run operations and performance test, training facilities etc.

(c) Performance guarantee and it's adequacy in relation to rated capacity of plant and machinery.

(d) Reasonableness of financial and other costs by way of down payment, royalties etc.

1.3.2.c Economic Feasibility

The economic feasibility basically deals with the marketability of the product. Basic data regarding demand and supply of a product in the domestic market. Manmade shortages are not to be reckoned as genuine demand and the market analysis is an essential part of a full appraisal. Projection or forecasting of demand is no doubt a complicated matter but is of vital importance. Equally important is to examine the sales promotion proposed by the enterprise and its adequacy.

1.3.2.d Managerial Competence

The success of a business enterprise depends largely on the resourcefulness, competence and integrity of its management. However assessment of managerial competence has to be necessarily qualitative calling for understanding and judgment. The managerial requirements are the experience and capability of the principal promoters to implement and run the project.

The adequacy of the management set up for day-to-day operations like production, maintenance, marketing, finance etc. and also the homogeneity of the management set up.

1.4 LEGAL FORMALITIES FOR FOLLOW UP LOANS

The major steps needed to be completed by a loan processor in order to ensure a successful loan package.

1.4.1 The Loan File

The loan file is where it all begins. The loan file will contain the loan application. It includes comments made by anyone who has had their input in the loan application process as well as any notes about the potential borrower that was made during the loan interview process. If it is fulfilled by the potential borrower then the loan officer will be moving forward.

1.4.2 The Credit Report

The credit report may already be provided. The loan officer may have already run this report from the beginning before going any further with the loan application process.

1.4.3 Title Records and Information

The processing a loan request need to verify the title information (VOT: Verification of Title). Title verification helps to determine if there is a lien on the object that the borrower is requesting a loan on.

1.4.4 Verify Income Sources

Probably the most important step is to verify all the income, assets, and employment information of the borrower.

1.4.5 Appraisals, Insurances, and Inspections

To verify all the income and employment sources for the loan applicant and ready to continue with any necessary appraisals, proof of insurance or inspections.

1.4.6 Loan File Review

If there are any mistakes, errors, or oversights, this is where they need to be caught. At this point, the loan process is complete; you have obtained the credit reports for the loan applicant.

1.4.7 Certify and Deliver the File

To reviewed all the information in the loan file and are satisfied with the documentation to finalize the loan package and deliver it to the lender.

1.5 ASSET MANAGEMENT COMPANY (AMC)

An asset management company (AMC) is a firm that invests pooled funds from clients, putting the capital to work through different investments including stocks and bonds.

AMCs manage hedge funds and pension plans, and to better serve smaller investors create pooled structures such as mutual funds, index funds, or exchange-traded funds, which they can manage in a single.

1.5.1 STEPS IN AMC

1. Efficient Asset Allocation
2. Formulating an Investment Portfolio
3. Assessment of Performance

1.5.2 PROS OF ASSET MANAGEMENT COMPANY

- Assets managed by professionals
- Well-diversified portfolio
- Improvised investment options
- Specialized services to associations
- Brings economies of scale and buying power

1.5.3 CONS OF ASSET MANAGEMENT COMPANY

- Risk of underachieving market
- May arise conflicts of interest
- Risk of criminal liabilities
- Higher minimum investments.

1.5.4 WHO REGULATES AMC?

An Asset Management Company (AMC) is regulated by the capital market regulator, Securities and Exchange of India (SEBI). Further, AMCs are also passively regulated by the Association of Mutual Fund of India (AMFI) in order to protect the interests of the investors.

1.5.5 HOW AMC MANAGE THE FUNDS?

The company is principally responsible for driving the mutual fund and making decisions that benefit the investors. Under the leadership of a fund manager, it invests the money in line with the trust deed and the financial objective of the scheme. The process is broadly listed below.

1.5.5.a Asset Allocation

Each mutual fund comes with a particular financial goal or a theme, which helps the fund manager to decide on the assets on which the investments can be made

1.5.5.b Research and Analysis

Building the fund’s portfolio rides a lot on researching and analyzing the performance of the asset classes. Experts study the market, micro and macro-economic aspects and fund performances regularly, and pass the reports to the fund manager who will make decisions to generate good returns.

1.5.5.c Portfolio Construction

An AMC typically has researchers and analysts who report their market findings and trends to the fund manager. Based on these findings and investment objectives, the fund manager then chooses the securities to buy or sell. This is how a company builds a portfolio, which depends predominantly on the experience and expertise of the manager.

1.5.5.d Performance Review

Despite the disclaimers in the fine print, AMCs face a lot of hostility from the investors and trustees, when it is not able to justify its investment decisions. For instance, the company must provide unit holders with information that have a direct impact on their holdings. It must also send regular updates on sales and repurchases, NAV, portfolio details, and so on to investors.

UNIT –III

NON PERFORMING ASSETS (NPAs)

1. INTRODUCTION

A performing asset is an advance which generates income to the bank by way of interest and other charges. A non-performing asset in the banking sector may be referred to an asset not contributing to the income of the bank or which does not generate income for the bank. In other words, an advance account, which ceases to yield income, is a non-performing asset. If the customers do not repay principal amount and interest for a certain period of time then such loans become Non-performing assets (NPA).Thus non-performing assets are basically non-performing loans. Banks are not allowed to book any income from NPAs. They have to make provision for NPAs or keep money aside in case they cannot collect from the borrower, which affects profitability adversely.

1.1 DEFINITION OF NPAS

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A Non-Performing Asset (NPA) was defined as a credit facility in respect of which the interest and or installment of principal has remained past due or a specified period of time.

1.2 TYPES OF NON – PERFORMING ASSETS (NPA)

Although the most common nonperforming assets are term loans, there are other forms non – performing assets as well.

- Overdraft and cash credit (OD/CC) accounts left out of order for more than 90 days.
- Agricultural advances of whose interest or principal installment payments remain due for two crop / harvest seasons for short duration crops or due for long duration crops.
- Expected payment on any other type of account is overdue for more than 90 days.

1.3 RECORDING NON-PERFORMING ASSETS (NPA)

Banks are required to classify nonperforming assets into one of three categories according to how long the asset has been non-performing: sub-standard assets, doubtful assets, and loss assets.

A sub-standard asset is an asset classified as an NPA for less than 12 months. A doubtful asset is an asset that has been non-performing for more than 12 months. Loss assets are loans with losses identified by the bank, auditor, or inspector that need to be fully written off. They typically have an extended period of non-payment, and it can be reasonably assumed that it will not be repaid.

1.4 EARLY WARNING SIGNALS OF NON-PERFORMING ASSETS

No loans change NPA overnight. It is generally make a long discussion. The failure of the banks to notice the warning signals lead to repayment problems or prospective cases of NPA. It can become progressively worse of cash position ongoing basis or lacking sufficient cash management and the resultant liquidity problems or poor risk management. So also it decreases the profitability and deteriorating asset position or unfavorable conditions current asset / sales ratio.

While the bank should be and usually be alert to warning signal in financial areas, there are certain non-financial warning signals. It is important for the bank to focus attention and make inquiries and take remedial measures to prevent failure.

1. Evidence of legal action against borrower by other creditors.
2. Deteriorating relationships with trade suppliers and
3. Indication of speculative tendencies are some of the common signals.

1.4.1 OTHER WARNING SIGNALS OF NON PERFORMING ASSETS

1. Changes in the timing of seasonal credit requirements and an increase in the size of credit requirement of the borrower.
2. Delay in adapting to decrease market or unfavorable economic policy developments by the borrower.
3. Speculative stock purchases, inconsistent with normal purchases.
4. Frequent failure to comply with the terms and conditions of the loan agreement with the bank.
5. Another disturbing development of non – performing assets is concurrent outside borrowing, especially, in case where assets are subsequently pledged to the new lenders to create a secured position in preference to the existing bank.

1.5 MANAGEMENT OF NPA

1. Systematic appraisal of loan proposals.
2. Effective follow up supervision.
3. Rehabilitation of sick but viable accounts.
4. Compromise settlement with internal arrangement or external intervention.
5. Filling case with civil court, Debt Recovery Tribunals, Lok Adalat and proceedings under Sarfaesi Act.
6. Debt restructuring.
7. Debt asset swap.
8. Sale of NPA to Asset Reconstruction Companies.
9. Sale of NPA to other banks.

10. Submission of claims to credit guarantee corporation/insurance companies.

These are all the steps to management of NPAs.

1.6 RBI REMEDIAL MEASURES

The remedial measures to prevent NPAs by RBI are as follows

1. Asset restructuring.
2. Divestment through sell off of stressed assets.
3. Reformed bankruptcy norms.
4. RBI has asked banks to accelerate provisioning of stress assets.
5. This provisioning measure has reflected heavily on the profitability of the banks with banks recording huge losses or low profits.
6. RBI has eased the NPA redressed norms.
7. RBI Revised guidelines on strategic debt restructuring (SDR).
8. RBI relaxed joint Lenders Forum (JLF) by bringing down the divestment limit to 26% to 51 %
9. RBI has released corrective action plan (CAP) on defaulters.
10. RBI has initiated criminal action on willful defaulters.
11. RBI has recognized Common Equity Tier I (CETI) capital for deferred tax assets.
12. Public sector banks will get an infusion of 35000 crore from RBI.
13. Private sector banks will get an infusion of 5000crore from RBI.

1.7 LOAN OR DEBT RECOVERY TRIBUNALS (DRT)

Debt Recovery Tribunals were established to facilitate the debt recovery involving banks and other financial institutions with their customers. DRTs were set up after the passing of Recovery of Debts due to Bank and Financial Institutions Act (RDBBFI), 1993.

1.7.1 RECENT ISSUES RELATED WITH DRTS

The leading issue related with debt recovery through DRTs is the slow process of resolution (settling debts and finding end to defaults). Like several other debt recovery mechanisms, the DRTs are slow to work out on pending disputes. Nearly 93000 cases are pending in front of all the DRTs in the country at the end of 2016. The World Bank estimated that it took 4.3 years on average in India to resolve insolvency under the old laws, more than twice as long as in China. Similarly, the average recoveries were just 25.7 cents on the dollar in India. This is one of the worst among the similar economies. The number of DRTs are small given the increasing number of cases

- Delay in settling the cases are long.
- The DRTs were not able to handle cases related to large borrowers.
- Timely appointment of officials for DRT has not been made.

1.7.2 RECENT EFFORTS TO REJUVENATE DRTS: THE RDBBFI AMENDMENT 2016

To correct the situation, government has made several efforts. Major one is the amendment to the RDBBFI Act 1993 in 2016. Similarly, the new Insolvency and Bankruptcy Code give powers to DRTs to consider cases of Bankruptcy from individuals and unlimited liability partnerships. Following are the main changes made to the RDBBFI Act in 2016 though the amendments are yet to be enforced.

The amendment gives timelines for various steps in the adjudication process before the debt recovery tribunals. Time limit for filing of written statements, passing of orders, appeals etc., have been reduced. The Act Empowers the Central Government to provide for uniform procedural rules for the proceedings in the Debts Recovery Tribunals and Appellate Tribunals.

The amendment increases the retirement age of Presiding Officers of Debt Recovery Tribunals from 62 years to 65 years and that of the

Chairpersons of Appellate Tribunals from 65 years to 67 years. It also makes Presiding Officers and Chairpersons eligible for reappointment to their positions.

The amendment allows banks to file cases in DRTs having jurisdiction over the area of bank branch where the debt is pending, instead in the DRT which have jurisdiction over the defendant's area of residence or business.

Similarly, to reduce delays, the he cost on a borrower to delay recovery timelines through protracted appeals and proceedings has been increased. Borrowers will have to deposit at least 25% of the outstanding amounts with the debt recovery appellate tribunal (DRAT) under the DRT Act to avail an appeal. Previously, this provision was required only under the SARFAESI Act.

1.8 REVENUE RECOVERY ACT

1.8.1 TITLE AND EXTENT

This Act may be called the Revenue Recovery Act, 1890.

It extends to the whole of India except the State of Jammu and Kashmir.

1.8.2 DEFINITIONS

In this Act, unless there is something repugnant in the subject or context,--

(1) "District" includes a presidency-town;

(2) "Collector" means the chief officer in charge of the land-revenue administration of a district; and

(3) "defaulter" means a person from whom an arrear of land-revenue, or a sum recoverable as an arrear of land-revenue, is due, and includes a person who is responsible as surety for the payment of any such arrear or sum.

1.8.3 RECOVERY OF PUBLIC DEMANDS BY ENFORCEMENT OF PROCESS IN OTHER DISTRICTS THAT THOSE IN WHICH THEY BECOME PAYABLE

(1) Where an arrear of land-revenue, or a sum- recoverable as an arrear of land-revenue, is payable to a Collector by a defaulter being or having property in a district other than that in which the arrear accrued or the sum is payable, the Collector may send to the Collector of that other district a certificate in the form as nearly as may be of the schedule, stating-

(a) The name of the defaulter and such other particulars as may be necessary for his identification, and

(b) The amount payable by him and account on which it is due.

(2) The certificate shall be signed by the Collector making it or by any officer to whom such Collector may, by order in writing, delegate this duty, and, save as otherwise provided by this Act, shall be conclusive proof of the matters therein stated.

The Collector of the other district shall, on receiving the certificate, proceed to recover the amount stated therein as if it were an arrear of land-revenue which had accrued in his own district.

1.8.4 REMEDY AVAILABLE TO PERSON DENYING LIABILITY TO PAY AMOUNT RECOVERED UNDER LAST FOREGOING

(1) When proceedings are taken against a person under the last foregoing section for the recovery of an amount stated in a certificate, that person may, if he denies his liability to pay the amount or any part thereof and pays the same under protest made in writing at the time of payment and signed by him or his agent, institute a suit for the repayment of the amount or the part thereof so paid.

(2) A suit under sub-section *(1)* must be instituted in a Civil Court having jurisdiction in the local area in which the office of the Collector who made the

certificate is situate, and the suit shall be determined in accordance with the law in force at the place where the arrear accrued or the liability for the payment of the sum arose.

(3) In the suit the plaintiff may, notwithstanding anything in the last foregoing section, but subject to the law in force at the place aforesaid, give evidence with respect to any matter stated in the certificate.

(4) This section shall apply if under this Act as in force as part of the law of Pakistan or Burma, or under any other similar Act forming part of the law of Pakistan or Burma, proceedings are taken against a person in Pakistan or Burma, as the case may be for the recovery of an amount stated in a certificate made by a Collector in any State to which this Act extends.

1.8.5 RECOVERY BY COLLECTORS OF SUMS RECOVERABLE AS ARREARS OF REVENUE BY OTHER PUBLIC OFFICERS OR BY LOCAL AUTHORITIES

Where any sum is recoverable as an arrear ,of land-Revenue of any public officer other than a Collector or by local authority, the Collector of the district in which the office of that officer or authority is situate shall, on the request of the officer or authority, proceed to recover the sum as if it were an arrear of land-revenue which had accrued in his own district, and may send a certificate of the amount to be recovered to the Collector of another district under the foregoing provisions of this Act, as if the sum were payable to himself.

1.8.6 PROPERTY LIABLE TO SALE UNDER THIS ACT

1) When the Collector of a district receives a certificate under this Act, he may issue a proclamation prohibiting the transfer or charging of any immovable property belonging to the defaulter in the district.

(2) The Collector may at any time, by order in writing, withdraw the proclamation, and it shall be deemed to be withdrawn when either the amount stated in the certificate has been recovered or the property has been sold for the recovery of that amount.

(3) Any private alienation of the property or of any interest of the defaulter therein, whether by sale, gift, mortgage or otherwise, made after the issue of the proclamation and before the withdrawal thereof, shall be void as[1][against the [2][Government]] and any person who may purchase the property at a sale held for the recovery of the amount stated in the certificate.

(4) Subject to the foregoing provisions of this section, when proceedings are taken against any immovable property under this Act for the recovery of an amount stated in a certificate, the interest of the defaulter alone therein shall be so proceeded against, and no incumbrances created, grants made or contracts entered into by him in [3]good faith shall be rendered invalid by reason only of proceedings being taken against those interests.

(5) A proclamation under this section shall be made by beat of drum or other customary method and by the posting of a copy thereof on a conspicuous place in or near the property to which it relates.

1.8.7 SAVING OF LOCAL LAWS RELATING TO REVENUE.

Nothing in the foregoing sections shall be construed--

(a) To impair any security provided by, or affect the provisions of, any other enactment for the time being in force for the recovery of land-revenue or of sums recoverable as arrears of landrevenue, or

(b) To authorise the arrest of any person for the recovery of any tax payable to the corporation, commissioner, committee, board, council or person having authority over a municipality under any enactment for the time being in force.

1.8.8 RECOVERY IN INDIA OF CERTAIN PUBLIC DEMANDS ARISING BEYOND INDIA

When this Act has been applied to any local area which is under the administration of the Central Government but which is not part of India, an arrear of land-revenue accruing in that local area, or a sum recoverable as an arrear of land-revenue and payable to a Collector or other public officer or to a local authority in that local area, may be recovered under this Act in India.

1.8.9 RECOVERY IN INDIA OF LAND REVENUES ETC., ACCRUING IN BURMA

(1) The Central Government may direct that an arrear of land-revenue accruing in Burma or a sum recoverable in Burma as an arrear of land-revenue and payable to a Collector or other public officer or to a local authority in Burma may be recovered under this Act in India and thereupon such arrear or sum shall be so recoverable:

Provided that the Central Government shall not give any such direction unless it is satisfied that the remedy available under section 4 of this Act in India to a person paying under protest in India an arrear accruing in India is available under Burma law in Burma to a person paying under protest in India an arrear accruing in Burma.

(2) For recovering by virtue of this section any arrears of tax, penalty due under the enactments relating to income-tax or super-tax in force in Burma, the Collector shall have such additional powers as he has in the case of Indian income-tax and super-tax under the proviso to section 46*(2)* of the Income-tax Act, 1922 (11 of 1922).

(3) Sub-sections *(1)* and *(2)* shall apply in relation to Pakistan as they apply in relation to Burma.

1.8.10 DUTY OF COLLECTORS TO REMIT MONEYS COLLECTED IN CERTAIN CASES

Where a Collector receives a certificate under this Act from, a Collector of another State or a Collector in Pakistan or Burma, he shall remit any sum recovered by him by virtue of that certificate to that Collector, after deducting his expenses in connection with the matter.

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UNIT –IV

INVESTMENT MANAGEMENT

1. INTRODUCTION TO INVESTMENT

The term investment is a commitment of funds for earning additional income. In investment management is the professional asset management of various securities like shares, bonds and other securities.

1.1 PRIORITY IN ALLOCATION OF BANK FUNDS

Priority Sector Lending is an important role given by the (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. This is essentially meant for an all round development of the economy as opposed to focusing only on the financial sector.

1.1.1 CATEGORIES OF PRIORITY SECTOR

1.1.1.a INVESTMENTS

Investments by banks in securitized assets, representing loans to agriculture (direct or indirect), small scale industries (direct or indirect) and housing, shall be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitized assets are originated by banks and financial institutions and fulfill the Reserve Bank of India guidelines on securitization.

(i) Agriculture and Allied Activities (Direct and Indirect finance)

Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporate, partnership firms and institutions) up to Rs. 20 lakh, for taking up agriculture/allied activities.

Indirect finance to agriculture shall include loans given for agriculture and allied activities as specified in Section I.

(ii) Small Scale Industries (Direct and Indirect Finance)

Direct finance to small scale industries (SSI) shall include all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts specified in Section I, appended.

Indirect finance to SSI shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, hand-looms and to cooperatives of producers in this sector.

(iii) Small Business/ Service Enterprises

Small Business which includes retail trade, professional & self-employed persons, small road & water transport operators and other service enterprises as per the definition given in Section I and other enterprises that are engaged in providing or rendering of services, and whose investment in equipment does not exceed the amount specified in Section I, appended.

(iv) Micro Credit

Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas.

(v) Education Loans

Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad.

(vi) Housing Loans

Loans up to Rs. 35 lakh in metropolitan cities where population is above 10 lakh and Rs. 25 Lakh at other center s for construction/purchase of a dwelling unit per family provided total cost of the unit in metropolitan centres and at other centres does not exceed Rs. 45 Lacs and Rs. 30 Lacs respectively. (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs.5 lakh in metropolitan centres and Rs. 2 Lakh at other centres.

1.1.1.b UNDER WEAKER SECTIONS

Priority sector loans to the following borrowers are considered under Weaker Sections category:-

(a) Small and marginal farmers.

(b) Artisans, village and cottage industries where individual credit limits do not exceed Rs 1 Lakh.

(c) Beneficiaries of Swarnajayanti Gram Swarozgar Yojana (SGSY), now National Rural Livelihood Mission (NRLM).

(d) Scheduled Castes and Scheduled Tribes.

(e) Beneficiaries of Differential Rate of Interest (DRI) scheme, Swarna Jayanti Shahari Rozgar Yojana (SJSRY), The Scheme for Rehabilitation of Manual Scavengers (SRMS).

(h) Loans to Self Help Groups and to distressed farmers indebted to non-institutional lenders.

(j) Loans to distressed persons other than farmers not exceeding Rs 1 Lakh per borrower to prepay their debt to non-institutional lenders.

(k) Loans to individual women beneficiaries up to Rs 1 Lakh per borrower and to known as priority sector advancement (PSA).

(m) Account holders under Pradhan Mantri Jan Dhan Yojana (PMJDY).

(vii) Renewable energy sector has also been added to priority sector lending in the year 2015.

1.2 INVESTMENT IN GOVERNMENT SECURITIES

A Government Security (G-Sec) is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the

Government's debt obligation. Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more.

1.2.1 INSTRUMENTS

1.2.1.a Treasury Bills (T-bills)

Treasury bills or T-bills, which are money market instruments or short term debt instruments issued by the Government of India are presently issued in three purpose, namely, 91 day, 182 day and 364 day. Treasury bills are zero coupon securities and pay no interest. Instead, they are issued at a discount and redeemed at the face value at maturity.

1.2.1.b Cash Management Bills (CMBs)

Government of India, in consultation with RBI introduced a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government of India. The CMBs have the generic character of T-bills but are issued for maturities less than 91 days.

1.2.1.c Dated G-Secs

Dated G-Secs are securities which carry a fixed or floating coupon (interest rate) which is paid on the face value, on half-yearly basis. Generally, the tenor of dated securities ranges from 5 years to 40 years.

1.2.1.d Other Instruments

1. Fixed Rate Bonds

These are bonds on which the coupon rate is fixed for the entire life (i.e. till maturity) of the bond. Most fixed rate bonds are issued by government of India.

2. Floating Rate Bonds (FRB)

FRBs are securities which do not have a fixed coupon rate. Instead it has a variable coupon rate which is re-set at pre-announced intervals (say, every six months or one year). FRBs were first issued in September 1995 in India.

3. Capital Indexed Bonds

These are bonds, the principal of which is linked to an accepted index of inflation with a view to protecting the Principal amount of the investors from inflation.

4. Inflation Indexed Bonds (IIBs)

IIBs are bonds wherein both coupon flows and principal amounts are protected against inflation. The inflation index used in IIBs may be Whole Sale Price Index (WPI) or consumer Price Index (CPI).

1.2.2 FEATURES OF GOVERNMENT SECURITIES

- Securities issued by the Government of India.
- Issued through Reserve Bank of India on behalf of the Central Government of India.
- Treasury bills have maturity of 91 days, 182 days and 365 days.
- Treasury bills are zero coupon bonds. They are issued by discount and redeemed at face value.
- Government bonds or dated securities have maturities of up to 40 years.
- Government bonds pay interest every six months.

1.2.3 ADVANTAGES OF INVESTING IN GOVERNMENT SECURITIES

- Safety: Being Sovereign security, no default risk.
- Ease of exit: Investor can sell the government bonds in the secondary market.
- Fixed income investment available across the maturities.

- No TDS applicable on interest.
- Can be held in existing demat account.

1.3 PROFITABILITY MANAGEMENT

Profitability Management means knowing where you earn your money, and finding out how to improve your profitability, i.e., how to affect the bottom line. The trend is clear and not likely to stop. Increased requirements on Operations combined with the fee pressure on distribution and the sales increase the pressure on your margin from both ends. To meet this challenge and to be able to sustainably manage your performance, it is an absolute must to understand the revenue and cost drivers in detail.

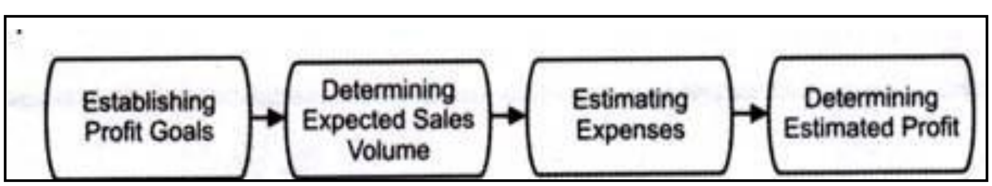
1.4 PROFIT PLANNING

Profit is considered as a significant element of a business activity. According to Peter Drucker, "profit is a condition of survival.

It is the cost of the future, the cost of staying in a business." Thus, profit should be planned and managed properly.

An organization should plan profits by taking into consideration its capabilities and resources. Profit planning lays foundation for the future income statement of the organization. The profit planning process begins with the forecasting of Les and estimating the desired level of profit taking in view the market conditions.

1.4.1 THE STEPS INVOLVED IN THE PROFIT PLANNING PROCESS



The steps involved in profit planning process are explained as follows:

1.4.1.a Establishing profit goals:

Implies that profit goals should be set in alignment with the strategic plans of the organization. Moreover, the profit goals of an organization should be realistic in nature based on the capabilities and resources of the organization.

1.4.1.b Determining expected sales volume:

Constitutes the most important step of the profit planning process. An organization needs to forecast its sales volume so that it can achieve its profit goals. The sales volume can be anticipated by taking into account the market and industry trends and performing competitive analysis.

1.4.1.c Estimating expenses:

An organization needs to estimate its expenses for the planned volume of sales. Expenses can be determined from the past data. If an organization is new, then the data of similar organization in same industry can be taken. The expense forecasts should be adjusted to the economic conditions of the country.

1.4.1.d Determining profit:

Help in estimating the exact value of sales.

It is calculated as:

Estimated Profit = Projected Sales Income – Expected Expenses

After planning profit successfully, an organization needs to control profit. Profit control involves measuring the gap between the estimated level and actual level of profit achieved by an organization. If there is any deviation, the necessary actions are taken by the organization.

Profit control involves two steps, which are as follows:

1. Comparing estimates with the goal: Involves comparing the estimated profit with the expected profit. If there is a large gap between the estimated profits and the expected profits, the measures should be taken.

2. Using alternatives to achieve the desired profit: a. Making changes in planned sales volume by increasing sales promotion, improving product quality, providing better service, and providing after sales support to customers.b. Reducing planned expenses by minimizing losses, implementing better control systems, improving product quality, and increasing the productivity of human resource and machines.

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UNIT –V

E-BANKING

1. INTRODUCTION

E-Banking now-a-days is the common trend here in our country. E-banking refers to electronic banking. It's like e-business in the banking industry. Electronic banking is also known as "Virtual Banking" or "Online Banking". Electronic banking is based on banking based on information technology. Under this I.T system, banking services are delivered through a computer-controlled system. This system involves a direct interface with customers. Customers do not have to visit the bank's facilities.

1.2 POPULAR SERVICES COVERED UNDER E-BANKING

1. ATMs,
2. Credit cards,
3. Debit Cards,
4. Smart Cards,
5. Electronic Funds Transfer System (EFT),
6. Check the truncation payment system,
7. Mobile Banking,
8. Internet Banking,
9. Telephone Banking, etc.

1.3 DIFFERENCES BETWEEN INTERNET BANKING AND TRADITIONAL BANKING

The differences between traditional banking and Internet banking on the basis of presence, time, accessibility, security, finance control, expensive, cost, customer service and contact are differentiated as follows

Basis of Difference	**Traditional Banking**	**Internet Banking**
Presence	Banks exist physically for serving the customers,	It does not consume time as customers do not have to visit banks to check bank balances or to transfer money from one account to another. Customers can access their account readily from anywhere with a computer and internet access.
Time	It consumes a lot of time as customers have to visit banks to carry out bank transactions like — checking bank balances, transferring money from one account to another.	Internet banking is available at any time and it provides 24 hours access.
Accessibility	People have to visit banks only during the working hours.	Online banking is the tempting target for hackers. Security is one of the problems faced by customers in accessing accounts throu h internet.
Security	Traditional banking does not encounter e-security threats.	Customers who often travel abroad can have greater control over their finances.
Finance Control	Customers who often travel abroad cannot pay close	Customers do not have to spend money for visiting

	attention and control of their finances.	banks. They can avoid bank charges that may be charged for certain teller transactions or when they pay bills electronically — directly from their account to the merchant. It helps to save money on postal charges.
Expensive	Customers have to spend money for visiting banks.	Such costs are eliminated as the banks do not have physical presence.
Cost	Cost incurred by traditional banks includes a lot of operating and fixed costs.	In online banking, the customers do not have to stand in queues to carry out certain bank transactions.
Customer Service	ln traditional banks, the employees and clerical staff of the bank can attend only few customers at a time.	Customers can have only electronic contacts.
Contact	Customers can have face to face contact in traditional banking.	It does not consume time as customers do not have to visit banks to check bank balances or to transfer money from one account to another. Customers can access their account readily from anywhere with a computer and internet access.

1.4 INTRODUCTION TO E-PROCUREMENT

In layman's term, **e-procurement is nothing but electronic data transfer to support operational, tactical and strategic procurement**. E-procurement has been existence for long time in one form or the other earlier it was done through electronic data interchange. In today's environment, most of the e-procurement is done through the Internet.

Traditionally, procurement of supplies and material was done through paper, which slowly migrated to usage of an electronic medium for order printing and storing. With the advent of the Internet e-commerce flourished, and procurement was done through email and websites. As the Internet technology evolved e-catalogue came in the forefront thus traditional procurement was getting done through the Internet. In the current market with data security and advanced tools whole process of e-procurement is done through the Internet.

1.4.1 PROCUREMENT AS A FUNCTION

Procurement departments are found in most of the organization. There are responsible for purchase of raw material, office supplies, office equipment, facility maintenance, etc. It is important for them to know and understand the e-procurement concept so that they can add efficiency and effectiveness to the whole process.

Procurement managers must have complete understanding of various e-procurement applications. He must be able to identify processes, which can make procurement effective. He should have understanding of e-procurement benefit. He should understand risk associated with e-procurement implementation.

1.4.2 E-PROCUREMENT TOOLS AND APPLICATIONS

There are several tools and application which fall under e-procurement some of them are as follows:

- In electronic data interchange system, procurement messages are exchange between computers of two separate organizations. Message is exchange in batch and can be easily transmitted and stored. EDI is mostly used for order transmission, order confirmation, logistic information and order invoicing.
- Enterprise resource planning system have separate module to handle the procurement function.
- Internet based tools and resources help in the process of procurement. Some of the common applications are email, internet based EDI, XML based data exchange via the internet etc. Internet provides tools for e-sourcing, e-tendering, e-auctioning, e-ordering and e-catalogue.
- E-sourcing tool is used to identify potential suppliers during the selection phase. E-tendering tool is used to send out tenders with procurement requirements, supply schedule, contracting terms, etc. E-auctioning tools bring together potential supplier identified during selection phase under one umbrella to undertake auctioning process. E-auctioning tools operate under two separate mechanism, upward price mechanism for selling organization and downward price mechanism for the buying organization. E-ordering tool is used procurement of office supplies and services; it is accessible by all employees within the organization and is mainly used for ad-hoc purchases. A web-based ERP tool is used for product-related purchases, is exclusively used by the procurement department, and falls under a planned process.

A traditional procurement process starts with phase requirement definition, sourcing, solicitation, evaluation, contracting and contract management. In the internet based this steps are replaced by e-sourcing, e-tendering, e-reverse auction, e-ordering and web based ERP.

1.4.3 E-PROCUREMENT BENEFITS

E-procurement influences the following:

- The cost incurred on goods and services associated with production.
- The cost incurred on procurement process such as ordering, administrative support etc.
- The cost incurred on specification formulation, supplier selection etc.
- The cost benefit in establishing relationship with suppliers.
- It promotes transparency in the process and therefore improves accountability.

1.5 E-BANKING TRANSACTIONS

The facility of e-banking provided by the banks to their customers uses the internet as a medium. The services under this facility include funds transfer, payment of bills, opening bank accounts online, and much more.

There are mainly two methods to deliver e-banking to the customers:

1. Banks with physical presence offering electronic transaction
2. Virtual banks offering transaction services

Most of the banks have a physical presence and offer banking facility online. But, there are some banks that don't have any physical presence anywhere. They are virtual banks.

1.6 ELECTRONIC DELIVERY CHANNELS

Electronic Delivery Channels are

- Touch point terminals,
- smart ATM machines,
- Telephone banking
- Internet banking
- Electronic fund transfer at point of sales (POS) and
- PC banking

1.7 TRUNCATED CHEQUE

1.7.1 DEFINITION

The Cheque Truncation System or CTS is the cheque clearance system introduced by RBI to fasten up the clearing of cheques. In this system, instead of producing the physical cheques to the payee bank, just the electronic image of the cheque along with the MICR code and other cheque credentials are transmitted to the drawee bank for the payment through a clearing house.

1.7.2 BENEFITS OF CHEQUE TRUNCATING SYSTEM

1. The speed of cheque clearance process has been increased manifold since there is no need for the physical transfer of cheques between the banks.
2. As there is no physical movement of cheques from one bank to the other, there is no fear of loss of cheque due to mishandling by either bank.
3. The Cheque Truncation system has helped the banks to have a superior verification and an effective reconciliation process.
4. The CTS system has eradicated the geographical restrictions as to the jurisdictions. Earlier the clearance was restricted to the banks operating within the restricted geographical area, but now with this system, the cheques even drawn on upcountry banks can be cleared electronically with ease.

5. The CTS-compliant cheques are prone to fewer frauds and hence are more secured than the old cheques.

The Cheque Truncation System was evolved to overcome the limitations of the earlier cheque clearing system that required several days of clearance. Earlier, the cheques deposited in the collection bank were supposed to be physically transferred to the drawee bank to get the amount credited to the drawer's account, which was a cumbersome process and resulted in the delay in the clearing of cheques.

Thus, in order to overcome this delay, the cheque truncation system came into practice, wherein the electronic image of the cheque is sent to the payee bank, which further sends it to the RBI for the final settlement. This whole process of cheque clearance gets completed either on the same day or on the very next working day.

1.8 CENTRALIZED BANKING SOLUTIONS

Banking Solutions (CBS) or Centralized Banking Solutions is the process which is completed in a centralized Core environment i.e. under which the information relating to the customer's account (i.e. financial dealings, profession, income, family members etc.) is stored in the Central Server of the bank (that is available to all the networked branches) instead of the branch server. Depending upon the size and needs of a bank, it could be for the all the operations or for limited operations. This task is carried through advanced software by making use of the services provided by specialized agencies. Due to its benefits, a no. of banks in India in recent years have taken steps to implement the Core Banking Solutions with a view to build relationship with the customer based on the information captured and offering to the customer, the customized financial products according to their need.

1.8.1 ADVANTAGES

1. For Customers

- Transaction of business from any branch,
- Lower incidence of errors. Hence accuracy in transactions.
- Better funds management due to immediate availability of funds.

2. For Banks

- Standardization of process within the bank.
- Better customer service leading to retention of customer and increased customer traffic.
- Availability of accurate data & Better use of available infrastructure.

1.8.2 SERVICES UNDER CBS

Following are some of the Core Banking Services provided by Indian public and private sector banks.

1. Internet Banking

Net banking facility is provided to customers in order to meet the information requirements of the customers and gradually it ventured into fund transfers and third party transfers.

2. Automatic Teller Machine

The introduction of ATM's has given the customers the facility of round the clock banking. The ATM's are used by banks for making the customers dealing easier. ATM card is a device that allows customer who has an ATM card to perform routine banking transaction at any time without interacting with human teller. It provides exchange services. This service helps the customer to withdraw money even when the banks are closed. This can be done by inserting the card in the ATM and entering the Personal Identification Number and secret Password. ATM's are currently becoming popular in India that enables the customer to withdraw their money 24 hours a day and 365 days. It provides the customers with the ability to withdraw or deposit funds, check account balances, transfer funds and check statement information. The advantages of ATM's are many. It increases existing business and generates new business.

It allows the customers:

- To transfer money to and from accounts.
- To view account information.
- To receive cash.

3. Mobile Banking

Mobile Banking (also known as M-Banking or SMS Banking) is a term used for performing balance checks, account transactions, payments, etc., via a mobile device such as a mobile phone. It was Internet Banking, which ushered in a new era in banking convenience by bringing the entire operations to the computer, and now mobile banking promises to take it to the next level.

Mobile Banking addresses this fundamental limitation of Internet Banking, as it reduces the customer requirement to just a mobile phone. Mobile usage has seen an explosive growth in most of the Asian economies like India, China and Korea. The main reason that Mobile Banking scores over Internet Banking is that it enables 'Anywhere Anytime Banking'.

4. Telebanking

Telebanking refers to banking on phone services. A customer can access information about his/her account through a telephone call and by giving the coded Personal Identification Number (PIN) to the bank. Telebanking is extensively user friendly and effective in nature.

Telebanking offers the following services to its customers:

- To get a particular work done through the bank, the users may leave his instructions in the form of message with bank.
- Facility to stop payment on request. One can easily know about the cheque status.
- Information on the current interest rates.
- Information with regard to foreign exchange rates.
- Request for a DD or pay order.
- Demat Account related services.

5. Multi City Cheques

"Multi City Cheques" or MCC is a facility wherein the customer can issue cheques drawn at the base branch and payable at any branch at remote center. These cheques will be treated as local cheques at the remote branch. There will be no collection charges and the credit will be given on the same day, as applicable to local cheques. Even if the cheque is dropped at any other bank other than the base bank, there will not be any collection charges. For example, if Mr. A is paid a Multi city cheque by Mr. B at SBI branch in Delhi, Mr. A can drop the same at any bank in Mumbai where he holds an account, and there will not be any collection charges.

6. Credit Cards

The credit card can be defined as a small plastic card that allows its holder to buy goods and services on credit and to pay at fixed intervals through card issuing agency. The credit card releases the customers form botheration of carrying cash and ensures safety.

7. Debit Cards

Debit cards will offer direct withdrawal of funds from a customer's bank account. The spending limit is determined by the user's bank depending upon available balance in the account of the user. It is a special plastic card connected with electromagnetic identification that one can use to pay for things purchased directly from its bank account. Under the system, cardholder's accounts are immediately debited against purchase or service to the computer network. Hence, under debit card the card holder must have adequate balance in his account. The system is intended to replace cheque system of payment.

8. Demat Accounts

In India, a demat account, the abbreviation for dematerialised account, is a type of banking account which dematerializes paper-based physical stock shares. The dematerialised account is used to avoid holding physical shares: the shares are bought and sold through a stock broker.

This account is popular in India. The Securities and Exchange Board of India (SEBI) mandates a demat account for share trading above 500 shares. As of April 2006, it became mandatory that any person holding a demat account should possess a Permanent Account Number (PAN),

- Fill demat request form (DRF) (obtained from a depository participant or DP with the customer's depository account is opened).
- Deface the share certificate(s) customer wants to dematerialise by writing across Surrendered for dematerialisation.
- Submit the DRF & share certificate(s) to DP. DP would forward them to the issuer / their R&T Agent.
- After dematerialisation, customer's depository account with DP would be credited with the dematerialised securities.

The following are some of the benefits of demat accounts -

- A safe and convenient way to hold securities;
- Immediate transfer of securities;
- No stamp duty on transfer of securities;
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.;
- Reduction in paperwork involved in transfer of securities;
- Reduction in transaction cost;
- Nomination facility.

1.9 FEATURES OF CCS

1. Opening new accounts in the bank
2. Processing and recording money deposits and cash withdrawal
3. Calculating loan interest
4. Processing loans
5. Cheque clearance
6. Payment clearance
7. Managing customer information
8. Calculating and managing interest rate
9. Maintaining customer relationship
10. Assists in developing new banking products
11. Banking analytics
12. Banking products like mobile banking, internet banking, ATMs and more.

1.10 ADVANTAGES OF E-BANKING

All the advantages of e-banking are closely related to each other; from convenience to efficiency.

- Benefits and Rewards
- Notifications and Alerts

- Faster Transactions
- Convenience
- Security
- Easy Access
- Speed and Efficiency
- Lesser Limitations
- More Features
- Better Customer Service

1. Benefits and Rewards

A lot of online banks offer more benefits and rewards to their customers that not only benefit the bank but also benefit their customers. Online banks are willing to offer higher interest rates and better transfer services to their customers who regularly use online banking. This happens partly due to the fact that the banks have to bear reduced costs when serving online customers. Therefore, the overall banking experience is obviously better than that of visiting a physical bank branch and handling the same transaction.

2. Notifications and Alerts

Customers are instantly alerted or notified about new changes in the system. From changes in the policy to logins from new devices, customers get instant notifications and alerts. Banks also endorse new products, services and schemes like new investment options, changes in the loan policies, etc. to online customers first.

3. Faster Transactions

Funds from one account will be transferred to another in a matter of a few seconds. Anything that requires quick payments can be done with the help of e-banking.

4. Convenience

E-banking is extremely convenient and easy access to the website from anywhere without actually having to visit the bank.

5. Security

Online accounts are protected with encryption software that ensures complete safety to the user. Alerts related to passwords and digital signatures are sent periodically to maintain the security of the account.

6. Easy Access

Customers can enjoy easy access with online accounts by simply typing in the log-in credentials. In addition to that, customers can also handle several accounts at a time. Since the internet remains the medium of connection, users can also access different accounts in different banks from a single device.

7. Speed and Efficiency

There’s no waiting nor to rush through anything –all banking transactions are performed with patience and it will be done in nearly 1/10th the time spent on actually driving down to the bank and getting it done.

8. Lesser Limitations

Traditional banks have several constraints like operating hours, the physical location of the bank branch, holidays, etc. Banking App or website is available twenty-four hours a day, throughout the year.

9. More Features

Apart from being flexible, some banks go out of their way to satisfy their customers by not penalizing on withdrawals on the certificate of deposits, letting customers maintain accounts with no minimum balance, etc. Moreover, banks generally offer more offers and discounts on credit and debit cards used by customers who have online accounts.

10. Better Customer Service

Banking websites and apps come with customized web pages to solve customer queries and often have a dedicated 'Frequently Asked Question' (FAQs) section that helps in answering common customer queries. This not only saves the time of the customers but also that of the bank employees who can shift their focus to more important things.

1.11 DISADVANTAGES OF E-BANKING

Everyone and everything has some shortcomings.

Similarly, there are some limitations of net banking; from security to technology issues.

- Difficult for Beginners
- Trust and Responsibility
- Inconvenience
- Inability to Handle Complex Transactions
- Financial Jargon
- Security Issues
- Technology Issues
- Virtual Assistance
- Complicated Websites
- Other Limitations

1. Difficult for Beginners

Initially, customers are scared of losing their money and are often hesitant to explore all the options and features that are available on the website or on the app. New users often give up and stick to traditional banking if timely assistance isn't provided.

2**. Trust and Responsibility**

Fake websites and phishing sites are common in this age of technology. There is trust between the bank and their customers because they take responsibility for your money. Real banks are permanent and reliable while some websites are not.

3. Inconvenience

Few online banks don't allow cash deposits. To deposit cash, it is required to email a check and transfer money from another account or bank, or use their e-check deposit service.

4. Inability to Handle Complex Transactions

When a large sum of money is involved, it is advisable to visit a real bank and sort it out in-person rather than doing it online. Some financial transactions also need a document verification (like buying a house) so it is better to submit them physically than digitally.

5. Financial Jargon

Though financial literacy can't be achieved overnight, it can be helped along by a grasp of the basic terms that are commonly used by advisors, analysts, economists, and commentators.

6. **Security Issues**

There's always a risk of actual and/or identity theft. It's also possible to get unauthorized access to your account through stolen or hacked log-in credentials.

7. Technology Issues

Bugs in the software, power cut, server problems and crash of websites are some of the technological issues faced by the customers.

8. Virtual Assistance

When assistance is needed during e-banking, concern is generally assigned to an anonymous customer service agent who is unlikely to know you.

9. Complicated Websites

Websites are complicated and confusing. With pop-ups, errors, links, interlinks and redirections to probably a million pages, makes the people really difficult to understand.

10. Other Limitations

E-banking isn't for everyone. Illiterate and the elderly cannot use online banking.

1.12 ESSENTIAL SECURITY MEASURES TO KEEP ONLINE BANKING SAFE

1. Never click on suspicious links
2. Only bank on secure wifi networks
3. Only use official banking apps
4. Never lose your mobile device
5. Create an un crack able password

6. Keep your software up to date
7. Log out when your session is finished
8. Create banking notifications
9. Don't over share online
10. Lock down your smart phone and tablet.

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