

Banking Updates

Very Informative..Must Read...

Santa: I have heard recently that Mr. Rajan has reduced Repo Rate by 50 basis points and everyone is saying that this is good for the market. Loan EMI may also come down. What is this rate cut means actually? I want to understand this.

Banta: To understand this you first need to know, how does a bank function.

Santa: Why?

Banta: Because all these are inter-related. Tell me – what does a bank do?

Santa: Bank takes money from depositors and gives loan to earn interest. That way they keep everyone happy and make a profit also.

Banta: Correct, but there are more to it. Let me explain this in a very simplistic way. Bank needs money. Bank can get money from depositors like you and me and also from RBI. But bank also needs to pay certain interest to us and also to RBI.

Santa: Ok.

Banta: Let us try to understand first – what happens when we deposit, say, Rs. 100 with a bank.

Santa: I know that. Bank gives that Rs. 100 to someone who needs a loan.

Banta: No, it is not that simple. Remember, though bank can earn interest by giving away loans, but it is also very risky. There are many cases of loan defaults. This way banks can put all our money into high risk areas. It has to be protected.

Santa: How?

Banta: Ok, RBI has made it mandatory that upon receiving, say, Rs. 100 – banks first have to deposit Rs. 4 with RBI. RBI keeps this Rs. 4 in its current a/c and hence banks do not receive any interest on this money. This is known as Cash Reserve Ratio or CRR, which is currently at 4%.

Santa: Hmmm, then?

Banta: RBI has also made it mandatory that upon receiving, say, Rs. 100 – banks need to compulsorily buy

central and state govt. securities of Rs. 21.50. Of course banks will earn some interest income here. This is known as Statutory Liquidity Ratio (SLR), which is currently at 21.50%.

Santa: Ok, so you mean to say that upon receiving Rs. 100, banks can spend only Rs. 74.50 at its own will.

Banta: Correct. $100 - (4 + 21.50) = 100 - 25.50 = 74.50$

Santa: But you were saying that banks can also borrow from RBI. What interest banks pay to RBI?

Banta: Before 30th September, banks were paying 8.25% interest to RBI when it borrows money from RBI. Now this rate has been reduced by 50 basis points. So banks now need to pay interest to RBI, if it borrows from RBI, at the rate of 7.75%. This is known as Repo Rate.

Santa: Can fixed deposit rate be affected by reduction of Repo Rate?

Banta: Of course. If banks get money from RBI @7.75%, why will banks pay higher interest to you and me? One year FD rate is already revised by many banks and it is equal to or very close to 7.75%.

Santa: But as now banks are getting money at a cheaper rate, then they should reduce the loan interest rate i.e. passing on the benefits it receives.

Banta: Correct. They should. And on that hope market is cheering. If companies get loan at a cheaper rate, they will likely to expand their businesses. That will create more jobs, more income and boost the economy.

Santa: How is inflation linked to this?

Banta: See, when loan becomes cheaper, people tends to borrow more. That means people will have more money to spend. This will increase the demand for goods, and if supply does not increase to match this demand, then prices will increase.

Santa: So there is a chance, that inflation may rise also?

Banta: Well, yes. But inflation depends on many other factors as well, like production (industrial and agricultural), manufacturing, export – import, foreign currency movement etc. So inflation may increase or may not.

Santa: One last question. Like we deposit our money with banks, can banks also deposit their money with someone?

Banta: Yes, they can deposit with RBI and earn interest too. This interest is typically 1% less than the repo rate. This rate is known as Reverse Repo Rate.

Santa: Great! So now I understand CRR, SLR, Repo Rate, Reverse Repo Rate and their impact on deposit rate, loan interest rate and on inflation. Thanks.

Banta: Welcome!

Important Banking Awareness Questions :

1. MICR code consists of how many digits?

Ans: 9 digits.

(First three digits denotes city, next three digits representing the bank and the last three digits representing the bank branch)

2. What is the minimum limit in RTGS system?

Ans: 2 lakhs (there is no upper limit in RTGS)

3. What is full form of CTS?

Ans: Cheque Truncation System

4. Under which service, customers may access their bank account and perform basic transactions from any of the member branch offices.

Ans: Core Banking Solution (CBS)

5. Exchange of cash flow in different currency is known as:

Ans: Currency Swap

6. Assets or loans which stop performing after 90 days is known as:

Ans: Non Performing Asset (NPA)

7. Who controls the Monetary Policy in India?

Ans: RBI (Reserve Bank of India)

8. Which card is issued by NPCI (National Payments Corporation of India)?

Ans: RuPay Card

9. Definition of Current Account deficit:

Ans: A measurement of a country's trade in which the value of goods and services it imports exceeds the value of goods and services it exports.

10. Full form IFSC –

Ans: Indian Financial System Code

11. Commercial paper can be issued for a maximum period of:

Ans: 365 days or 1 year.

12. The Mutual funds in India follow

accounting standards laid by: Ans: SEBI (Securities and Exchange Board of India)

13. Minimum amount for Certificate of Deposit has been fixed at:

Ans: Rs. 1 Lakh

14. AML is a term mainly used in the financial and legal industries. Expand the term AML:

Ans: Anti Money Laundering

15. PIN is a number allocated to an individual and used to validate electronic transactions. Expand PIN:

Ans: Personal Identification Number

16. What is Repo rate?

Ans: It is the rate at which RBI lends money to the commercial banks.

17. What is Stale Cheque?

Ans: A cheque which is presented to a bank after 3 months from date of issue is considered as stale cheque and will often not be honored for cash or deposit at a bank.

18. What is Bancassurance?

Ans: The selling of life assurance and other insurance products and services by banking institutions.

19. The objective of KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. What is the full form of KYC?

Ans: Know Your Customer (KYC)

20. Know Your Customer (KYC) guidelines are issued under:

Ans: Section 35A of the Banking Regulation Act, 1949

21. In BSBDA (Basic Savings Bank Deposit Account) the credits in a financial year does not exceed rupees: Ans: Rs. 1 lakh

22. In BSBDA (Basic Savings Bank Deposit Account) the balance at any point of time does not exceed rupees: Ans: Rs. 50,000

23. In BSBDA (Basic Savings Bank Deposit Account) the withdrawals and transfers in a month does not exceed rupees:
Ans: Rs. 10,000

24. At which rate RBI give loans to commercial banks?
Ans: Repo rate

25. Full form of CASA:
Ans: Current Account Saving Account

26. In what denominations Commercial Paper (CP) can be issued?
Ans: Rs. 5 lakh

27. What is the minimum denomination of Treasury bills to issue in India?
Ans: Rs. 25,000

28. Who cannot issue Certificate of Deposit (CD)?
Ans: Regional Rural Banks (RRBs) and Local Area Banks (LABs)

29. Expand ASBA:
Ans: Application Supported by Blocked Amount

30. Depositor Education and Awareness Fund (DEAF) is maintained with:
Ans: RBI

31. Cash Reserve Ratio (CRR) is the amount of funds that the banks have to keep with:
Ans: Central Bank (RBI)

32. What is the maximum amount per transaction NEFT limit for cash-based remittances to Nepal?
Ans: Rs. 50,000

33. What does CAR stands for?
Ans: Capital Adequacy Ratio

34. IFSC code consists of _____ alpha numeric code.
Ans: 11 digits(The IFSC is an 11 digit alpha numeric code, with the first four digits identifying the bank, fifth is numeric (kept 0) and the last six digits represent the bank branch.)

35. When money is lent or borrowed for one day or on overnight basis it is known as:
Ans: Call Money

36. When money is lent or borrowed for between 2 days and 14 days it is known as:
Ans: Notice money

37. When money is lent or borrowed for a period of more than 14 days, it is known as:
Ans: Term money

38. Treasury Bills and Certificate of Deposit are considered as the _____ instruments.
Ans: negotiable money market

39. Commercial Paper (CP) is an unsecured money market instrument issued in the form of a _____.
Ans: Promissory note.

40. What is the upper limit in Public Provident Fund (PPF)?
Ans: Rs. 1.5 lakhs

41. As per RBI guidelines, with effect from April 1, 2012, the validity period of Cheques, Demand Drafts, Pay Orders and Banker's Cheques is _____.
Ans: 3 months

42. What is the time limit for an asset or loan to be declared as Non-Performing Asset?
Ans: 90 days

43. Deposit Insurance and Credit Guarantee Corporation (DICGC) does not cover:
Ans: Primary co-operative societies

44. RBI measure to liquidate the market:
Ans: Repo rate.

45. Full form of EFT:
Ans: Electronic Fund Transfer

46. Fastest mode of transaction:
Ans: RTGS

47. Alphanumeric code on cheque is known as:
Ans: Indian Financial System Code (IFSC)

48. Bank pays interest on savings account?

Ans: Daily Basis

49. What is the loan limit for education under priority sector for studies abroad?

Ans: Rs. 20 lakh

(Loans to individuals for educational purposes including vocational courses upto Rs.10 lakh for studies in India and Rs. 20 lakh for studies abroad are included under priority sector.)

50. RuPay Card is an Indian version of credit/debit card is launched by which organization:

Ans: NPCI (National Payments Corporation of India)

51. Fixed Deposit (FD) Account may be opened for a minimum period of:

Ans: 7 days

52. What is the minimum amount required to open a Fixed Deposit (FD)?

Ans: Rs.1000

53. The Banks has converted all 'no - frills' accounts' into:

Ans: Basic Savings Bank Deposit Accounts

54. 'Pradhan Mantri Jan Dhan Yojana' is a Scheme for:

Ans: Financial inclusion

55. How much overdraft facility to be provided in 'Pradhan Mantri Jan Dhan Yojana' scheme?

Ans: Rs. 5,000

56. In CBS, C stands for:

Ans: Core

57. In CRAR, A stands for:

Ans: Assets (Capital to Risk Weighted Assets Ratio)

58. IMPS - Immediate Payment Service is an interbank electronic instant mobile money transfer service through mobile phones in India, the facility is provided by:

Ans: NPCI (National Payment Corporation of India)

59. The Central Bank of India has adopted new measure of inflation:

Ans: Consumer Price Index (CPI)

60. When a cheque is torn into two or more pieces and presented for payment, such a cheque is called:

Ans: mutilated cheque

61. How much fee charged to file a complaint under Banking Ombudsman?

Ans: Banking Ombudsman does not charge any fee

62. Who is the appellate authority in Banking Ombudsman?

Ans Deputy Governor of RBI

63. If any customer is not satisfied by the decision of Banking Ombudsman, customer can appeal against the award before the appellate authority within how many days from the date of receipt?

Ans 30 days

64. ATMs or Cash Dispensing machine which are owned and operated by Non-Banking Financial Companies are called:

Ans: White Label ATMs.

65. RBI gave in-principle for Banking license to:

Ans: IDFC and Bandhan

66. Minimum capital requirement for new banks in private sector is:

Ans: Rs. 500 crore

67. A Non-Banking Financial Company (NBFC) is a company registered under the:

Ans: Companies Act, 1956

68. Minimum capital requirement for Non-Banking Financial Company (NBFC) is:

Ans: Rs. 500 crore

69. The NBFCs are allowed to accept/renew public deposits for a minimum period of:

Ans: 12 months (and maximum period of 60 months)

70. A NBFCs cannot offer interest rates higher than the ceiling rate prescribed by RBI? What is the present ceiling?

Ans: 12.5 per cent per annum

71. Minimum capital requirement for Foreign banks that want to set up operations in India is:

Ans: Rs. 500 crore

72. What is the minimum paid-up capital requirement of both small banks and payments banks in India?

Ans: Rs. 100 crore