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eBook

BANKING

AWARENESS

BANKING AWARENESS E-BOOK

All bank exams such as SBI PO, IBPS PO, IBPS RRB etc. have one thing in common, and that is questions on banking awareness. Not only is it important from the exam point of view, but it is also crucial at the interview stage.

Why is Banking Awareness so important?

Due to the nature of banking awareness questions, they:

- Provide 100% accuracy (unless you indulge in blind guesswork)
- Are highly time-efficient (no calculation or revision required)
- Highly scoring

Thus, these banking awareness questions could help you clear those overall cut-offs and seal the deal.Considering the importance, we have prepared this e-book on some important banking awareness topics, that will help you prepare better for this section.

Topics:

- International Financial Institutions
- Indian Financial System
- Reserve Bank of India
- SEBI & IRDA
- TransUnion CIBIL

INTERNATIONAL FINANCIAL INSTITUTIONS

What are International Financial Institutions?

An international financial institution (IFI) is a financial institution that has been established (or chartered) by more than one country, and hence are subjects of international law. Its owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders.

International financial institutions include public banks, such as the World Bank, Internationa l Monetary Fund, and regional development banks. They provide loans, grants, and technical assistance to governments, as well as loans to private businesses investing in developing countries.

NOTE: Development Financial Institutions (DFIs) occupy the space between public aid and private investment. They are financial institutions, which provide finance to the private sector for investments that promote development. They focus on developing countries and regions where access to private sector funding is limited.

The following table shows everything you need to know about the most prominent international financial institutions.

Name of the Institution	Year	Headquarters	President	Functions
African Development Bank (ADB)	1964	Abidjan, Côte d'Ivoire	Akinwumi Adesina	It is established to contribute to the economic development and social progress of African countries. The primary function is to provide loans and equity investments for the socio-economic advancement, technical assistance for development projects, and assists in organizing the development policies.
Asian Development Bank (ADB)	1966	Mandaluyong, Philippines	Takehiko Nakao	It works on reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration. This is carried out through investments in the form of loans, grants and information sharing.
Asian Infrastructure Investment Bank (AIIB)	2015	Beijing, China	Jin Liquin	Its function is to support the building of infrastructure in the Asia-Pacific region. The bank has 50 member states (all "Founding Members") and was proposed as an initiative by the government of China.

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Asian Infrastructure Investment Bank (AIIB)	2015	Beijing, China	Jin Liquin	Its function is to support the building of infrastructure in the Asia-Pacific region. The bank has 50 member states (all "Founding Members") and was proposed as an initiative by the government of China.
European Bank for Reconstruction and Development (EBRD)	1991	London	Suma Chakrabarti	It offers project financing for banks, industries and businesses, for new ventures or existing companies. It works with publicly owned companies to support their privatization, as advocated by the WTO since the 1980 and in the improvement of municipal services
European Investment Bank (EIB	1958	Luxembourg	Werner Hoyer	It is a "policy-driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to bring about European integration and social cohesion.

Name of the Institution	Year	Headquarters	President	Functions
International Monetary Fund (IMF)	1944	Washington D.C. United States	Christine Lagarde	Promote international monetary co-operation, facilitate international trade, foster sustainable economic growth, make resources available to members experiencing balance of payments difficulties.
Islamic Development Bank (IDB)	1975	Jeddah Saudi Arabia	Ahamad Mohamed Ali Al Madani	This is a multilateral development financing institution which helps in the development of member states . The basic condition for membership is that the prospective member country should be a member of the Organization of Islamic Cooperation.
World Bank Group (WBG)	1944	Washington D.C. United States	Jim Yong Kim	The World Bank focuses on developing countries in fields such as: human development, agriculture and rural development, environmental protection, infrastructure, large industrial construction projects, and governance.

INDIAN FINANCIAL SYSTEM

What is a financial system?

While performing economic activities some units (such as shops, companies etc.) will be placed in surplus /deficit/balanced budgetary situations.

A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities.

In other terms,

A financial system helps in wealth creation by linking savings with investments. It facilitates the flow of funds from the households (savers) to business firms (investors) and thus aids the development of both sides.

The financial system is mostly concerned about money, credit and finance – these terms are related but differ from each other as well. The Indian financial system primarily consists of the following:-

- Financial Services
- Financial Assets/Instruments
- Financial Markets
- Financial Intermediaries

The following sections discuss each of these in detail.

Financial Services

These refer to the activities concerning the design and delivery of financial instruments to individuals and businesses within the area of banking and related institutions, personal financial planning,leasing, investment, assets, insurance etc. These include:-

- Operations & services provided by the banks
- Currency exchange, foreign exchange banking or the wire transfer
- Asset management, hedge fund management and the custody services
- Selling insurance policies, brokerages, insurance underwriting or the reinsurance

Financial Markets

It is defined as the market in which financial assets are created or transferred. Financial markets can be categorized as follows:-

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

- **Unorganized Market:** money lenders, chit funds etc.
- **Organized Money Market:** Instruments include: treasury bills, commercial papers, certificate of deposit etc. Organized Markets work as per the rules and regulations of RBI. RBI controls the Organized Financial Market in India.

2. Capital Market – The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year. It can be classified into three groups:-

- **Corporate Securities Market:** Corporate securities are equity and preference shares, debentures and bonds of companies. The corporate security market is a very sensitive and active market. It can be divided into two groups: primary and secondary.
- **Government Securities Market:** In this market government securities are bought and sold. The securities are issued in the form of bonds and credit notes. The buyers of such securities are Banks, Insurance Companies, Provident funds, RBI and Individuals.
- **Long-Term Loans Market:** Banks and Financial institutions that provide long-term loans to firms for modernization, expansion and diversification of business. It is further categorized into: Term Loans Market, Mortgages Market and Financial Guarantees Market

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

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

Financial Assets / Instruments

Financial Assets or Financial Instruments represents a claim to the payment of a sum of money sometime in the future and /or periodic payment in the form of interest or dividend.A financial transaction involves creation or transfer of a financial asset (as against a real transaction that involves exchange of money for real goods or services).

Some important financial assets / instruments are briefly discussed below :-

1. Call /Notice-Money Market

- It's money borrowed or lent on demand for a very brief period.
- Thus, money borrowed on a day and repaid on the next working day is called call money.
- When money is borrowed or lent for more than a day and up to 14 days it is called notice money.
- No collateral is required to cover these transactions.

2. Inter-Bank Term Money

Deposits with maturity period beyond 14 days is referred as the term money. The entry restrictions are the same as that of Call/Notice Money. However, lending beyond 14 days is not allowed.

3. Treasury Bills

These are short term (up to one year) borrowing instruments of the union government. It is an IOU by the Government (i.e. a promise by the Government to pay a sum of money after expiry of the stated period in less than one year).
They are issued at a discount to the face value, and on maturity the face value is paid to the holder. The rate of discount and the corresponding issue price are determined at each auction.

4. Certificate of Deposits

It is a negotiable money market instrument and is issued in a de-materialized form or as a Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period.

These can be issued by:

- Scheduled commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs).
- Select pan India financial institutions that have been permitted by RBI to raise short-term resources within the fixed limit.
- Banks have the freedom to issue CoDs depending on their requirements.

3. Commercial Paper

CP is a note in evidence of the debt obligation of the issuer. It is thus an unsecured promissory note privately placed with investors at a discount rate to face value determined by market forces.

A company shall be eligible to issue CP provided-

- The tangible net worth of the company is not less than Rs. 4 crores
- The working capital (fund-based) limit of the company from the banking system is not less than Rs.4 crore and
- The borrowal account of the company is classified as a Standard Asset by the financing bank/s.
- The minimum maturity period of a commercial paper is 7 days.

Capital Market Instruments

It consists of the following long term period (i.e. more than one year period) financial instruments:

- Equity shares, preference shares, convertible preference shares, non-convertible preference shares etc.
- Zero coupon bonds, deep discount bonds etc.

Financial Intermediation

The role of the financial intermediary is to distribute funds from people who have extra inflow of money to those who don't have enough money to fulfill the needs.The best example of an intermediary is a bank which transforms the bank deposits to bank loans. Some of the important intermediaries operating in the financial markets include: investment bankers, underwriters, stock exchanges, registrars, depositories, custodians, portfolio managers, mutual funds, financial advertisers financial consultants, primary dealers, satellite dealers, self regulatory organizations, etc.

Intermediary	Market	Role
Stock Exchange	Capital Market	Secondary Market to securities
Investment Bankers	Capital Market, Credit Market	Corporate advisory services, Issue of securities
Underwriters	Capital Market, Money Market	Corporate advisory services, Issue of securities
Registrars, Depositories, Custodians	Capital Market	Issue securities to the investors on behalf of the company and handle share transfer activity
Primary Dealers Satellite Dealers	Money Market	Market making in government securities
Forex Dealers	Forex Market	Ensure exchange ink currencies

RESERVE BANK OF INDIA

The **Reserve Bank of India (RBI)** is India's central bank and controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935. The RBI was nationalized on 1 January, 1949.

A central bank is a vital financial apex institution of an economy and the key objects of central banks may differ from country to country still they perform activities and functions with the goal of maintaining economic stability and growth of an economy

RBI : Structure

The general superintendence and direction of the RBI is entrusted with the 21-member Central Board of Directors: the Governor, 4 Deputy Governors, 2 Finance Ministry representatives, 10 government- nominated directors to represent important elements of India's economy, and 4 directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. Each of these local boards consists of 5 members who represent regional interests, the interests of co-operative and indigenous banks.

The Governor heads the RBI . The present governor of the RBI is economist **Urjit Patel.**

The 4 Deputy Governors are :

- BP Kanungo
- S S Mundra
- N S Vishwanathan
- Viral Acharya

Two of the four Deputy Governors are traditionally from RBI ranks and are selected from the Bank's Executive Directors. One is nominated from among the Chairpersons of public sector banks and the other is an economist. An Indian Administrative Service officer can also be appointed as Deputy Governor of RBI and later as the Governor of RBI as with the case of Y. Venugopal Reddy. Other persons forming part of the central board of directors of the RBI are Dr. Nachiket Mor, Y C Deveshwar, Prof Damodar Acharya, Ajay Tyagi and Anjuly Duggal

The RBI has 4 zonal and 19 regional offices. The four zonal offices are located in :
Chennai, Delhi, Kolkata & Mumbai.

The RBI has four regional representations: North in New Delhi, South in Chennai, East in Kolkata and West in Mumbai. The representations are formed by five members, appointed for four years by the central government and with the advice of the Central Board of Directors serve as a forum for regional banks and to deal with delegated tasks from the Central Board.

RBI : Main Functions

1. Issuer of Currency Notes

It is responsible for issuing currency notes. It brings uniformity in notes issue thus making it easier to control and regulate credit in accordance with the requirements in the economy. This also helps in keeping the faith of the public in the paper currency.

2. Banker to the Government

As banker to the government the Reserve Bank manages the banking needs of the government. It maintains and operates the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

3. Custodian of Cash Reserves of Commercial Banks

The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.The institution is also the regulator and supervisor of the financial system and prescribes broad parameters of banking operations within which the country's banking and financial system functions. Its objectives are to maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public. It decides policy rates and reserve ratios.

4. Custodian of Country's Foreign Currency Reserves

The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

5. Lender of Last Resort

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties,and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

6. Central Clearance and Accounts Settlement

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank

7. Controller of Credit

Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

8. Detection of Fake Currency

Reserve Bank is expected to unearth black money held in cash. As the new currency notes (demonetization) have added security features, they would help in curbing the menace of fake currency.

SEBI

Security Exchange Board of India (SEBI) (Capital Market Regulator)

Established	Sector	Headquarters	Chairperson
April,1992	**Securities market**	**Mumbai**	**Ajay Tyagi**

Functions

- The issuers of securities
- The investors
- The market intermediaries.

SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity.

Major Functions of SEBI

- To promote the development of Securities Market and to regulate the Securities Market.
- To Protect the Interest of Investor in Securities.
- To overview the market operations, organizational structure and administrative control of exchange.
- Registration and regulation of the working of the intermediaries.
- For prohibit the unfair trade practices in the market.
- Promoting and regulating self regulatory organizations.
- To provide education for the investors and to give training for the intermediaries.
- To regulate substantial acquisition of shares and to take over it.
- Performing such functions and exercising such powers under the provisions of the securities contracts (Regulations) Act 1956 as may be delegated to it by the central government.

For the discharge of its functions efficiently, SEBI is vested with the following powers:

- To approve by—laws of stock exchanges.
- To require the stock exchange to amend their by—laws.
- Inspect the books of accounts and call for periodical returns from recognized stock exchanges.
- Inspect the books of accounts of financial intermediaries.
- Compel certain companies to list their shares in one or more stock exchanges.
- Registration brokers.

IRDA

Insurance Regulatory Development Authority (IRDA) (Insurance Sector)

Established	Sector	Headquarters	Chairperson
1999	**Insurance**	**Hyderabad, Telangana**	**T.S.Vijayan**

The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous, statutory agency tasked with regulating and promoting the insurance and re-insurance industries in India. It was constituted by the Insurance Regulatory and Development Authority Act, 1999, (IRDAI).

Functions & Duties of IRDA (As per the IRDAI Act of 1999):-

- Ensure orderly growth of Insurance industry.
- Protection of interest of policy holders.
- Issue consumer protection guidelines to insurance companies.
- Grant, modify, and suspend license for insurance companies.
- Lay down procedure for accounting policies to be adopted by the Insurance companies.
- Inspect and audit of Insurance companies and other related agencies.
- Regulation of capital adequacy, solvency, and prudential requirements of Insurance business.
- Regulation of product development and their pricing including free pricing of products.
- Promote and regular self regulating organizations in the insurance industry.

- Re-insurance limit monitoring.
- Monitor investments.
- Vetting of accounting standards, transparency requirements, in reporting.
- Ensure the health of the industry by preventing sickness through appropriate action.
- Publish information about the industry.
- Prescribe qualification and training needs of agent.
- Monitor the charges for various services by Insurance companies.
- Regulating intermediaries like – Agents, Brokers, Surveyors, TPA Health services.

TRANSUNION CIBIL

Insurance Regulatory Development Authority (IRDA) (Insurance Sector)

TransUnion CIBIL Limited is India's first Credit Information Company (CIC) founded in August 2000. The organisation was created to play a critical role in India's financial system by helping loan providers manage their business.

"CIBIL" stands for 'Credit Information Bureau India Limited'.

Headquarters	Chairperson & MD
Mumbai, Maharashtra	**Mr. Satish Pillai**

Functions of TransUnion CIBIL

- Collects and maintains records of an individual's payments pertaining to loans and credit cards.
- This information is provided to CIBIL by member banks and credit institutions.
- The information is then used to create Credit Information Reports (CIR) and credit scores which are provided to credit institutions in order to help evaluate and approve loan applications.

Credit Scores

It is a numerical expression to represent the creditworthiness of an individual. Banks and credit card companies, use credit scores to evaluate the potential risk posed by lending money to consumers and to mitigate losses due to bad debt.Lenders use credit scores to determine who qualifies for a loan, at what interest rate, and what credit limits. Lenders also use credit scores to determine which customers are likely to bring in the most revenue.

Divisions of CIBIL

CIBIL houses credit on over 220 million trades across individuals and businesses, organized into two divisions:

1. Consumer Bureau
2. Commercial Bureau and MFI Bureau

The CIBIL Score and Report help loan providers identify consumers who are likely to be able to pay back their loans. For instance, an individual with a credit score above 750 has better bargaining power with the lenders, since he is perceived as a responsible borrower. Consumers can now access their Credit Scores and CIRs directly from CIBIL and can see for themselves how they are perceived by the lenders before applying for a loan.Hence, CIBIL empowers both loan providers and individuals to see their financial and credit history more clearly and hence, take better and more informed decisions.

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