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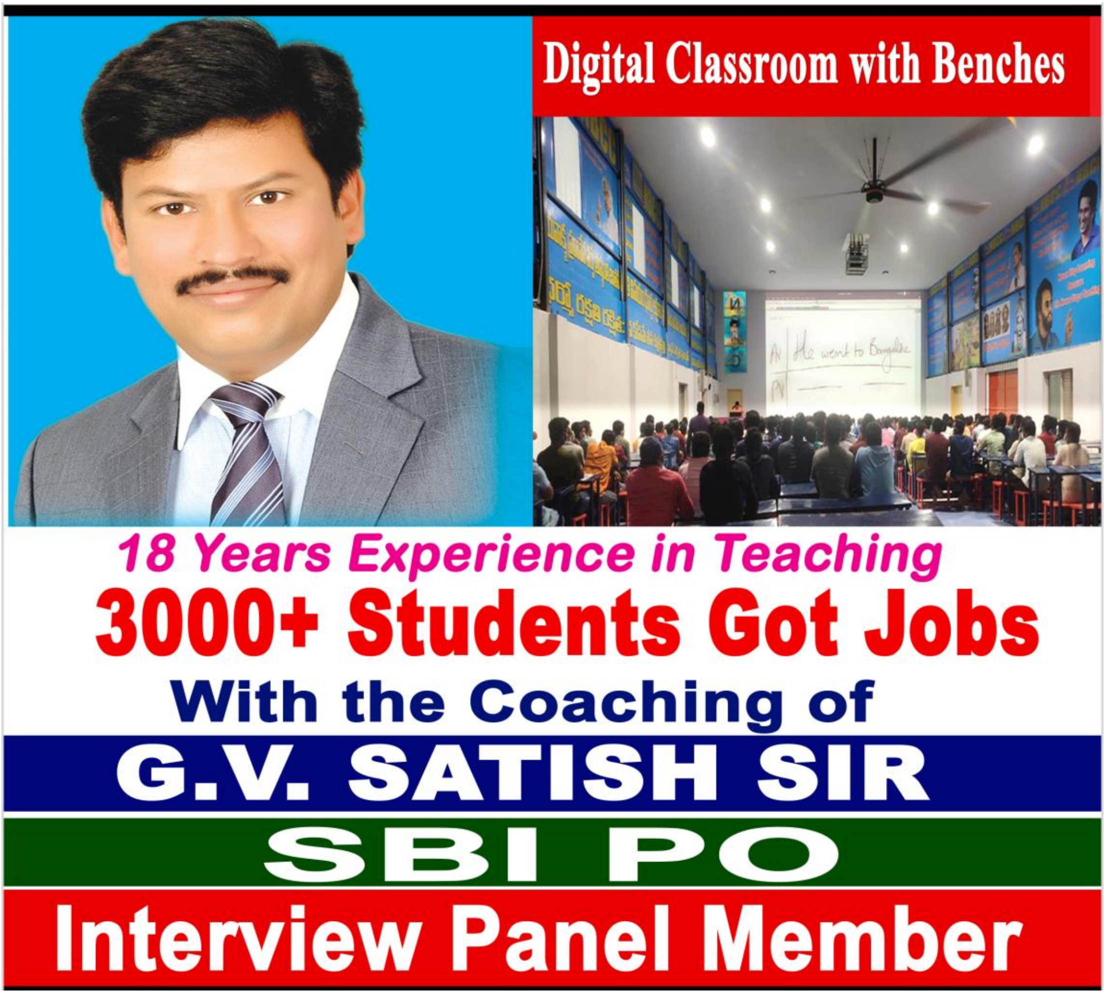

1. History of Banking in India

1. The Early Phase of Banking in India – Up to 1947 (Pre-independence Period)

1.1 Foundations of the Banking System

- **Historical Context:**
  The period leading up to Indian independence laid the foundation for the modern banking system.
- **Origins of Joint Stock Banking:**
  - Traced back to the early 18th century.
  - Introduced to India by the English agency houses in Calcutta and Bombay (present-day Kolkata and Mumbai).

1.2 Key Early Banks and Their Features

- **Bank of Bombay (1720):**
  - The first joint stock bank established in Bombay.
- **Bank of Hindustan (1770):**
  - Established in Calcutta by Alexander and Co. based on the European system.
  - Failed and liquidated in 1832.
- **Oudh (Awadh) Commercial Bank (1881):**
  - Founded in Faizabad, Uttar Pradesh; first commercial bank with limited liability and an Indian board (though it also had foreign capital), later failed in 1958.
- **Punjab National Bank (1895):**
  - Recognized as the first bank started solely with Indian capital that continues to operate.
- **Central Bank of India (1911):**
  - Marked as the first "truly swadeshi" bank, wholly owned and managed by Indians.

1.3 Presidency Banks

- **Bank of Bengal (1806):**
  - Established in Calcutta with a capital of Rs.50 lakh; the Government held a 20% stake.
  - Granted note-issuing powers in 1823.
- **Bank of Bombay (1840) and Bank of Madras (1843):**
  - Known collectively as Presidency banks because they were set up in the three administrative units (Presidencies) of the East India Company.
  - Their note issuance ceased with the enactment of the Paper Currency Act, 1861, transferring that function to the Government.

1.4 Regulatory Developments

- **Companies Act of 1850:**
  - First formal regulation; based on a British model (from 1844).
  - Initially stipulated unlimited liability for banking and insurance companies until reforms in 1860 introduced the concept of limited liability.
  - Limited liability spurred the growth of joint stock banks.
- **Subsequent Developments:**
  - Following the collapse of the Bank of Bombay, the New Bank of Bombay was established in 1868.

1.5 Emergence of Co-operative Banking

- **Co-operative Credit Movement:**
  - The Swadeshi Movement (1905–06) spurred the development of joint stock banks of Indian ownership.
  - Alongside, the co-operative credit movement gained momentum:
    - **Urban Co-operative Banks:**
      - Pioneered in Baroda in 1889 by Shri Vithal L. Kavthekar.
      - **Examples:**
        - The Conjeevaram Urban Co-operative Bank (first registered in the then Madras Presidency)
        - The Peoples' Co-operative Society in Bangalore (1905)
    - **Objective:**
      - To provide credit facilities for people with limited means and protect them from exploitation by moneylenders.

1.6 Other Banking Entities

- **Non-traditional "Banks":**
  - Included loan companies, indigenous bankers, and nidhis.

  - These entities were numerous and sometimes registered under the Companies Act, complicating a strict legal definition of organized banking before 1913.

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2. Impact of World War I on Banking in India

2.1 Economic Conditions during the War (1913–1918)

- **Economic Turbulence:**
  - Global inflation due to war financing.
  - Neglect of agriculture and consumer needs.
- **Urban-Rural Imbalance:**
  - Banking activity was concentrated in urban areas, leaving rural regions largely unbanked and dependent on moneylenders.

2.2 Bank Failures during the War

- **Capital Issues:**
  - Banks with a low capital base were particularly vulnerable.
  - **Statistics:**
    - Average capital of failed banks was about Rs.2.9 lakh compared to Rs.12 lakh for healthier Class A and B banks.
- **Examples:**
  - Indian Specie Bank, a British bank with a paid-up capital of Rs.75.6 lakh, failed due to involvement in silver speculation.
- **Contributing Factors:**
  - Inadequate liquidity (low proportion of cash/other liquid assets).
  - Mismanagement, fraudulent practices, and absence of regulatory safeguards.

2.3 The Role of Co-operative Banks

- **Deposit Flight:**
  - In times of crisis, depositors moved funds from joint stock banks to urban co-operative banks.
- **Maclagan Committee's Observation:**
  - Noted that the crisis had the opposite effect on co-operatives, which maintained depositor confidence due to their small size and local control.

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3. Development of Modern Banking (Late Pre-Independence to Early Post-Independence)

3.1 The Formation of the Imperial Bank of India

- **Evolution:**
  - Began with the Bank of Calcutta (later re-designated as the Bank of Bengal in 1809), followed by the Bank of Bombay and the Bank of Madras.
- **Merger:**
  - In 1921, these three Presidency banks merged to form the Imperial Bank of India.
- **Functions:**
  - Acted as a commercial bank, a central bank (until 1935), and as the banker to the Government.
- **Transition:**
  - The Imperial Bank of India later became the State Bank of India (SBI) following recommendations of the AD Gorewala Committee.

3.2 Banking Regulation and the Reserve Bank of India (RBI)

- **Establishment of RBI:**
  - Founded in April 1935 as India's central banking authority.
- **Nationalization of RBI:**
  - RBI itself was nationalized on January 1, 1949.
- **Banking Regulation Act of 1949:**
  - Empowered the RBI to regulate, control, and inspect banks.
  - Imposed licensing requirements for opening new banks or branches and restricted common directorship among banks.

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4. The Post-Independence Period

4.1 Consolidation and Expansion

- **Bank Consolidation:**
  - To strengthen an initially fragile commercial banking system, the government consolidated banks:
    - In 1951 there were 566 banks; by 1967, only 91 remained.
- **Branch Expansion:**

- Despite the reduction in the number of banks, the total number of branches increased significantly (from 4,151 to 7,025), improving access.
- **Limitations:**
  - Expansion was largely urban; rural and semi-urban areas remained underserved.

4.2 Growing Criticisms of Private Banks

- **Profit Over Public Interest:**
  - A prevalent view was that private banks were excessively profit-oriented and unwilling to lend to small-scale or priority sectors.
- **Political and Economic Pressures:**
  - Fiscal strains due to wars (e.g., 1962 war, post-war challenges) and political instability (including succession battles following Nehru's death in 1964) intensified the debate on bank ownership and control.

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5. Bank Nationalization

5.1 The 1967 Elections and Political Context

- **Election Dynamics:**
  - The 1967 elections were crucial for Indira Gandhi, who faced the challenge of differentiating herself from the old Congress leadership ("the Syndicate").
- **Nationalization Debate:**
  - Two camps emerged:
    - One favored immediate nationalization to ensure adequate credit for agriculture, small-scale industries, and exports.
    - The other (led by figures such as Morarji Desai) preferred social control through regulation and gradual reform.

5.2 Nationalisation of 14 Banks (1969)

- **Key Move:**
  - On July 19, 1969, Indira Gandhi announced the nationalisation of 14 major commercial banks (each with deposits of over Rs.50 crores) that together held about 85% of the country's bank deposits.
- **List of Nationalised Banks (1969):**
  1. Allahabad Bank
  2. Canara Bank
  3. United Bank of India
  4. UCO Bank
  5. Syndicate Bank
  6. Indian Overseas Bank
  7. Bank of Baroda
  8. Punjab National Bank
  9. Bank of India
  10. Bank of Maharashtra
  11. Central Bank of India
  12. Indian Bank
  13. Dena Bank
  14. Union Bank

Rationale:
  - Nationalization was presented as a way to remove the concentration of economic power in the hands of a few, ensure credit availability to priority sectors, and bring professional management to banking.

Legal and Policy Developments:
  - The Supreme Court declared the act void on February 10, 1970 on grounds of discrimination and inadequate compensation.
  - A revised ordinance was issued on February 14, 1970, later replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

5.3 Subsequent Nationalisation

- **Second Round (1980):**
  - On April 16, 1980, six more banks were nationalised:
    1. Andhra Bank Limited
    2. Corporation Bank Limited
    3. The New Bank of India Limited
    4. The Oriental Bank of Commerce Limited
    5. The Punjab and Sind Bank Limited

6. Vijaya Bank Limited

- **Subsidiaries of SBI:**
  - In 1959, seven SBI subsidiaries were nationalised. Most were merged with SBI by 2017 (with a couple merging earlier).

5.4 Positives and Criticisms of Nationalisation

Positives

- **Improved Banking Penetration:**
  - More branches led to better coverage (e.g., one branch per 9,000 people).
- **Enhanced Rural Banking:**
  - Rural deposit share and credit to rural areas increased substantially (e.g., rural credit share rose from 3.3% to 15% between 1969 and 1991).
- **Support for Social Programs:**
  - Facilitated schemes like Jan Dhan Yojana and rapid fund transfers, benefiting millions and even aiding post-pandemic assistance.
- **Contribution to Agricultural and Green Revolutions:**
  - Improved credit flow contributed to major national economic initiatives.

Criticisms

- **Political Interference:**
  - Banks came under heavy political control, sometimes leading to inefficiencies.
- **Loan Quality Issues:**
  - Government-directed lending sometimes resulted in high non-performing assets (NPAs).
- **Operational Challenges:**
  - High statutory liquidity (CRR) and cash reserve ratios (SLR) hampered profitability and innovation.

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6. Reforms and Liberalisation (1991 – Till Date)

6.1 The Narasimham Committee and Banking Reforms

Narasimham Committee I (1991)

- **Recommendations:**
  - Consolidation into 3–4 large banks at the top, supported by numerous rural banks.
  - Phased reduction of CRR and SLR.
  - Adoption of an 8% capital adequacy ratio.
  - Emphasis on proper asset classification and full disclosure.
  - Granting banks freedom to set interest rates.
  - Reduction of government shareholding in public sector banks.
  - Encouraging entry of private and foreign banks.
  - Abolition of branch licensing and removal of dual control (between RBI and Ministry of Finance).

Implementation Measures

- **Reduction in CRR & SLR:**
  - CRR reduced from 15% (1991) to 4.1% (by 2003); SLR reduced from 38.5% (1991) to 25% (by 1997).
- **Establishment of Supervision and Recovery Mechanisms:**
  - RBI set up an independent Department of Supervision in 1993.
  - Legislation such as the Recovery of Debts and Bankruptcy Act (1993) and later the SARFAESI Act (2002) were introduced.
- **Additional Reforms:**
  - Guidelines for Local Area Banks (first licensed in 1999).

Narasimham Committee II (1998)

- **Focus:**
  - Addressing slow debt recovery (DRTs) and restructuring.
- **Key Recommendations:**
  - Introduction of a Voluntary Retirement Scheme (VRS) in public sector banks.
  - Enhancement of the minimum capital to risk asset ratio (CRAR) to 9% from 2000.
  - Proposal for Asset Reconstruction Companies (ARCs) and permitting banks to issue bonds for Tier II capital.
  - Introduction of the Base Rate System (evolving from the Benchmark Prime Lending Rate in 2003, later replaced by the Base Rate from July 1, 2010).

6.2 Liberalisation and the Entry of Private Banks

- **Licensing Rounds Post-Liberalisation:**
  - **First Round (1993–94):**

- RBI issued licenses to 10 private sector banks (e.g., Global Trust Bank, ICICI, HDFC, UTI Bank [later Axis Bank], Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank, and Development Credit Bank).
- Notable mergers: Times Bank merged with HDFC Bank (February 2000); Global Trust Bank later merged with Oriental Bank of Commerce (2004); Bank of Punjab was acquired by Centurion Bank, and then Centurion merged with HDFC Bank (2008).

- **Subsequent Rounds:**
  - In 2003–04, additional licenses were granted (e.g., Kotak Mahindra Bank, Yes Bank).
  - In 2013–14, the third round included licenses to IDFC Bank and Bandhan Bank.
  - From 2015 onwards, RBI also started licensing payment banks (per the Nachiket Mor Committee) and small finance banks (per the Usha Thorat Committee).
  - **Examples:**
    - Capital Small Finance Bank (launched in April 2016) and Airtel Payment Bank (launched in 2017).

6.3 Bank Mergers and Consolidation

Merger Details by Year

- **1993:**
  New Bank of India merged with Punjab National Bank (PNB).
- **2004:**
  Global Trust Bank merged with Oriental Bank of Commerce (OBC) due to financial instability.
- **2010:**
  State Bank of Indore merged with State Bank of India (SBI) as part of the consolidation process.
- **2017:**
  Five associate banks (State Bank of Bikaner and Jaipur, State Bank of Travancore, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala) and Bharatiya Mahila Bank merged with SBI.
- **2019:**
  Vijaya Bank and Dena Bank merged with Bank of Baroda, positioning it as the third-largest bank in India.
- **2020:**
  - Punjab National Bank (PNB) merged with Oriental Bank of Commerce (OBC) and United Bank of India.
  - Canara Bank merged with Syndicate Bank.
  - Union Bank of India merged with Andhra Bank and Corporation Bank.
  - Indian Bank merged with Allahabad Bank.

6.4 FDI and Sectoral Reforms in the BFSI Sector

- **FDI Limits:**
  - Infrastructure companies in the securities market: up to 49% (automatic route).
  - Insurance: up to 100% (automatic route).
  - Pension funds: up to 74% (automatic route).
  - Public sector banks: limited to 20% under the government route.
  - Insurance intermediary services: 100% under automatic route.
  - Private sector banking: up to 49% automatically, with a possibility of 74% under government approval.

6.5 Mission Indradhanush 2015

- **Purpose:**
  A comprehensive initiative aimed at transforming Public Sector Banks (PSBs).
- **Components and Details:**
  - **Appointments:**
    Separation of the roles of Chief Executive Officer (CEO) and Managing Director (MD) to reduce excessive concentration of power.
  - **Bank Board Bureau:**
    Replace the Appointments Board with the BBB to manage top appointments and advise on capital raising, mergers, and acquisitions.
  - **Capitalization:**
    Infuse Rs 70,000 crore into PSBs over four years to help them meet Basel III norms and manage non-performing assets effectively.
  - **De-stressing:**
    Focus on de-stressing bank balance sheets by improving infrastructure sector lending and addressing bad loans.

- **Empowerment:**
  Provide PSBs with greater autonomy, including more flexibility in hiring and empowering management for commercial decision-making.
- **Framework of Accountability:**
  Introduce new performance monitoring metrics such as Key Performance Indicators (KPIs) to enhance efficiency and accountability.
- **Governance Reforms:**
  Implement reforms to improve governance, risk management, and appoint Chief Risk Officers in every PSB.

1. Which bank is considered the first joint stock bank established in India?
   (1)Bank of Hindustan (2)Bank of Bombay (3)Punjab National Bank (4)Central Bank of India
2. In which year was the Bank of Bombay established?
   (1)1720 (2)1770 (3)1806 (4)1911
3. Who established the Bank of Hindustan in 1770?
   (1)The East India Company (2)Government of Bengal (3)Alexander and Co. (4)Bank of Bombay
4. Which bank is recognized as the first Indian-owned bank started solely with Indian capital?
   (1)Central Bank of India (2)Punjab National Bank (3)Bank of Hindustan (4)Bank of Bombay
5. Which bank is known as the first "truly swadeshi" bank?
   (1)Punjab National Bank (2)Bank of Hindustan (3)Bank of Bengal (4)Central Bank of India
6. The first Presidency bank in India, established in 1806, was:
   (1)Bank of Bengal (2)Bank of Madras (3)Bank of Bombay (4)Bank of Hindustan
7. Which Presidency bank was established with a capital of Rs.50 lakh and had the government subscribe to 20% of its shares?
   (1)Bank of Madras (2)Bank of Bombay (3)Bank of Bengal (4)Bank of Hindustan
8. In what year did the Bank of Bombay become the second Presidency bank?
   (1)1806 (2)1840 (3)1843 (4)1911
9. The Bank of Madras, the third Presidency bank, was established in which year?
   (1)1809 (2)1840 (3)1843 (4)1861
10. The note-issuing powers of the Presidency banks were abolished in 1861 due to which act?
    (1)Banking Regulation Act (2)Companies Act (3)Reserve Bank Act (4)Paper Currency Act
11. Which act of 1850 laid the foundations for the formal regulation of banks in India?
    (1)Banking Regulation Act (2)Companies Act (3)Indian Companies Act (4)Paper Currency Act
12. What significant change did the 1860 Indian law permit concerning liability?
    (1)Limited liability (2)Unlimited liability (3)No liability (4)Shared liability
13. The Swadeshi Movement of 1905–06 had what impact on Indian banking?
    (1)It decreased the number of banks (2)It nationalized banks (3)It promoted the establishment of joint stock banks (4)It led to the collapse of banks
14. Who pioneered the urban co-operative credit movement in Baroda in 1889?
    (1)Jagjivan Ram (2)Vithal L. Kavthekar (3)Morarji Desai (4)K. Kamaraj
15. The first registered urban co-operative credit society was organized in which location?
    (1)Calcutta (2)Bombay (3)Bangalore (4)Conjeevaram
16. What was the main reason for bank failures during World War I in India?
    (1)Low capital base and low liquidity (2)High profitability (3)Excessive regulation (4)Foreign competition
17. What was the average capital of failed banks in 1913 compared to healthier banks?
    (1)Rs.1 lakh vs. Rs.5 lakh (2)Rs.5 lakh vs. Rs.15 lakh (3)Rs.2.9 lakh vs. Rs.12 lakh (4)Rs.10 lakh vs. Rs.20 lakh
18. Which British bank with a paid-up capital of Rs.75.6 lakh failed due to its involvement in silver speculation?
    (1)Bank of Hindustan (2)Indian Specie Bank (3)Bank of Bombay (4)Bank of Madras
19. In 1921, which three Presidency banks merged to form the Imperial Bank of India?
    (1)Bank of Bengal, Bank of Bombay, and Bank of Madras (2)Bank of Hindustan, Bank of Bombay, and Bank of Madras (3)Bank of Bengal, Punjab National Bank, and Bank of Hindustan (4)Bank of Bombay, Central Bank of India, and Bank of Madras
20. The Imperial Bank of India later became which modern bank?
    (1)Punjab National Bank (2)Bank of Baroda (3)State Bank of India (4)Canara Bank
21. In which year was the Reserve Bank of India established?
    (1)1921 (2)1935 (3)1949 (4)1969
22. The RBI was nationalized on which date?
    (1)January 1, 1947 (2)July 19, 1969 (3)April 16, 1980 (4)January 1, 1949

23. Which act empowered the RBI to regulate, control, and inspect banks after independence?
(1)Banking Regulation Act of 1949 (2)Reserve Bank Act (3)Companies Act (4)Paper Currency Act
24. How many commercial banks existed in India in 1951, and how many by 1967?
(1)1000 to 500 (2)566 to 91 (3)300 to 50 (4)800 to 200
25. During 1951–67, the number of bank branches increased from 4,151 to approximately:
(1)5,000 (2)6,500 (3)7,025 (4)8,000
26. Which major political event in 1964 impacted the banking sector in India?
(1)The Swadeshi Movement (2)Jawaharlal Nehru's death (3)The first general elections (4)The nationalization of banks
27. Which election is considered crucial for Indira Gandhi's rise in relation to banking reforms?
(1)1951 (2)1962 (3)1980 (4)1967
28. On July 19, 1969, Indira Gandhi announced the nationalization of how many commercial banks?
(1)10 (2)12 (3)14 (4)16
29. Which of the following is NOT one of the 14 banks nationalized in 1969?
(1)HDFC Bank (2)Allahabad Bank (3)Canara Bank (4)Indian Overseas Bank
30. What was the primary rationale behind the nationalization of banks in 1969?
(1)To increase profits (2)To remove control from a few and provide credit to priority sectors (3)To promote foreign investment (4)To reduce the number of banks
31. Which group led the opposition to immediate nationalization, favoring social control instead?
(1)Jagjivan Ram's camp (2)Y B Chavan's group (3)K. Kamaraj's team (4)Morarji Desai's camp
32. Which event occurred on February 10, 1970, regarding the nationalization act?
(1)It was fully implemented (2)The Supreme Court declared it void (3)It was amended (4)It was extended
33. Which act replaced the voided nationalization ordinance in 1970?
(1)Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (2)Banking Regulation Act (3)Reserve Bank of India Act (4)Companies Act
34. In 1980, how many additional banks were nationalized?
(1)4 (2)8 (3)6 (4)10
35. Which of the following banks was nationalized in the second round (1980)?
(1)Punjab National Bank (2)Bank of Baroda (3)Canara Bank (4)Vijaya Bank
36. The Narasimham Committee I was appointed in which year?
(1)1980 (2)1991 (3)1998 (4)2003
37. One key recommendation of the Narasimham Committee I was to:
(1)Consolidate banks into 3–4 large institutions (2)Increase the number of banks (3)Maintain high CRR and SLR (4)Nationalize all banks
38. The Narasimham Committee I recommended a phased reduction in which ratios?
(1)Interest rate and inflation (2)Debt-to-equity (3)CRR and SLR (4)Capital adequacy and liquidity ratio
39. What capital adequacy ratio did the Narasimham Committee I propose?
(1)6% (2)8% (3)10% (4)12%
40. Which act provided for the establishment of Debts Recovery Tribunals (DRTs)?
(1)Banking Regulation Act (2)Companies Act (3)Reserve Bank Act (4)Recovery of Debts and Bankruptcy Act, 1993
41. The SARFAESI Act, which came into force in 2002, is primarily related to:
(1)Asset reconstruction (2)Bank mergers (3)Co-operative banking (4)FDI in banks
42. In the first round of post-liberalization, how many private sector bank licenses were issued?
(1)5 (2)8 (3)10 (4)12
43. Which bank among these was one of the private banks licensed in 1993–94?
(1)State Bank of India (2)ICICI Bank (3)Punjab National Bank (4)Bank of Baroda
44. Times Bank, one of the banks licensed in the 1990s, later merged with which bank?
(1)HDFC Bank (2)ICICI Bank (3)Axis Bank (4)Yes Bank
45. What is the maximum FDI limit for insurance companies as per the latest data?
(1)49% (2)20% (3)100% (4)74%
46. In the BFSI sector, what is the FDI limit for insurance intermediary services?
(1)49% (2)74% (3)100% (4)20%
47. For public sector banks, what is the FDI cap?
(1)74% (2)20% (3)49% (4)100%
48. In private sector banking, what is the maximum FDI limit, with additional government approval needed for a higher stake?
(1)20% automatically (2)74% automatically (3)100% with approval (4)49% automatically with possibility up to 74% with approval

49. Which committee's recommendations led to the introduction of the Base Rate System in interest rates?
(1)Narasimham Committee II (2)Narasimham Committee I (3)Maclagan Committee (4)Gorewala Committee
50. What major initiative, launched in 2018, aimed at improving the consumer experience in public sector banks?
(1)NABARD reforms (2)Digital India initiative (3)EASE reforms (Enhanced Access and Service Excellence) (4)Jan Dhan Yojana

Answers:

1	2	6	1	11	2	16	1	21	2	26	2	31	4	36	2	41	1	46	3
2	1	7	3	12	1	17	3	22	4	27	4	32	2	37	1	42	3	47	2
3	3	8	2	13	3	18	2	23	1	28	3	33	1	38	3	43	2	48	4
4	2	9	3	14	2	19	1	24	2	29	1	34	3	39	2	44	1	49	1
5	4	10	4	15	4	20	3	25	3	30	2	35	4	40	4	45	3	50	3

2. First Bank in India to achieve something

A. Early Banking Establishments

1. **Bank of Hindustan**
   - **Establishment:** 1770 in Calcutta
   - **Basis:** Founded on the European banking system by Alexander and Co.
   - **Outcome:** Failed to operate and was liquidated in 1832.
2. **Oudh (Awadh) Commercial Bank**
   - **Establishment:** 1881 in Faizabad, Uttar Pradesh
   - **Distinction:** First commercial bank in India with limited liability and an entirely Indian board (though it also had foreign capital).
   - **Outcome:** Ceased operations in 1958.
3. **Punjab National Bank (PNB)**
   - **Establishment:** 1895 in Lahore
   - **Distinction:** First Indian-owned bank set up solely with Indian capital that has survived to the present day.

B. Types of Banks & Their Pioneering Examples

1. **Joint-Stock Banks**
   - **Definition:** Banks that have multiple shareholders.
   - **Examples:**
     - **Bank of Bombay:**
       • Established in 1720 in Bombay; recognized as the first joint-stock bank.
     - **Allahabad Bank:**
       • Established in 1865; noted as India's oldest joint-stock bank and the oldest public sector bank still operating.
2. **Presidency Banks**
   - **Definition:** Banks established in the three administrative units (Presidencies) of the East India Company; governed by Royal Charters.
   - **Key Examples:**
     - **Bank of Bengal:**
       • Established on June 2, 1806 in Calcutta with a capital of Rs.50 lakh.
       • Granted the power to issue notes in 1823.
     - **Bank of Bombay:**
       • Established in 1840 in Bombay with a capital of Rs.52 lakh; the second Presidency bank.
     - **Bank of Madras:**
       • Established in July 1843 in Madras with a capital of Rs.30 lakh; the third Presidency bank.
   - **Currency Note Issuance:**
     • The Presidency banks issued currency notes until the enactment of the Paper Currency Act, 1861, which transferred that authority to the Government.
3. **Small Finance Banks**

- **Capital Small Finance Bank Ltd:**
  • Founded in 2016; headquartered in Jalandhar, Punjab.
  • Recognized as India's first Small Finance Bank.
- **Shivalik Small Finance Bank:**
  • First to transition from an Urban Co-operative Bank (UCB).
  • Commenced operations as a small finance bank from April 26, 2021.
  • **Eligibility for Transition:** UCBs with a minimum net worth of Rs.500 million and a Capital to Risk (Weighted) Assets Ratio of 9% or above.

4. **Private Sector Banks**
   - **Nedungadi Bank:**
     • Established in 1899 in Kozhikode by Rao Bahadur T.M. (Thalakodi Madathil) Appu Nedungadi.
     • Later acquired by Punjab National Bank in 2003.
5. **Innovations in ATM & Payment Services**
   - **White Label ATMs:**
     • Tata Communications Payment Solutions Limited (TCPSL):
     – First company authorized by the RBI to open White Label ATMs.
     – Opened the first white label ATM at Chandrapada, a tier-V town near Mumbai.
   - **ATMs:**
     • HSBC Bank:
     – Set up the first ATM in India in 1987 at Andheri East, Mumbai.
   - **Payments Banks:**
     • Airtel Payments Bank Ltd:
     – Founded in 2017; headquartered in New Delhi.
6. **Foreign Banks & Their Operations in India**
   - **Comptoire d'Escompte de Paris (France):**
     • Established in 1860 in Calcutta; recognized as the first foreign bank in India.
   - **Standard Chartered:**
     • First foreign bank to launch operations at the International Financial Services Centre (IFSC) in Gujarat (GIFT City).
   - **SBM Bank (India) Limited:**
     • First foreign bank to set up a Wholly Owned Subsidiary (WOS) in India.
     • Operates as a full-fledged universal bank and holds a banking licence from the RBI.
7. **Co-operative & Urban Cooperative Credit Societies**
   - **Anyonya Co-operative Bank Limited (ACBL):**
     • Located in Vadodara (formerly Baroda), Gujarat.
     • Established in 1889 under the name "Anyonya Sahayakari Mandali Co-operative Bank Limited."
   - **Urban Cooperative Credit Society:**
     • The Cooperative Credit Societies Act, 1904, spurred the movement, with the first urban cooperative credit society registered in Canjeevaram (Kanjivaram) in October 1904.
8. **Innovations in Consumer Banking Products**
   - **Credit Cards:**
     • Central Bank of India:
     – Launched the first bank credit card in 1980.
     – Andhra Bank also launched a Visa-branded card in the same year.
     – Later, MasterCard was introduced to the Indian market by Vijaya Bank in 1988.
   - **Internet & Mobile Banking:**
     • ICICI Bank:
     – Introduced internet banking in 1998.
     – Launched mobile banking (via the iMobile app) in 2008—the first mobile banking app in India.
     – In 1999, became the first Indian bank and company to be listed on the New York Stock Exchange.
   - **Cheque System:**
     • Bengal Bank:
     – Introduced the cheque system in India in 1833.
   - **ISO Certification:**
     • Canara Bank:
     – Became the first Indian bank to receive ISO certification in 1996.
   - **Mobile ATM:**
     • ICICI Bank:
     – Launched "ATM on Wheels" in Mumbai in 2002, India's first mobile ATM.

- **Mutual Fund Introduction:**
  • **State Bank of India:**
  – Introduced mutual fund schemes.
- **Inclusive Technology:**
  • **Union Bank of India:**
  – Inaugurated India's first 'talking' ATM for visually impaired customers.

9. **Regional, International, and National Milestones**
   - **Regional Rural Bank:**
     • **Prathama Bank:**
     – The first regional rural bank in India with an authorized capital of Rs.5 crore, sponsored by Syndicate Bank, based in Moradabad, Uttar Pradesh.
   - **Savings Account System:**
     • Initiated by Presidency Bank in 1833.
   - **International Expansion:**
     • **Bank of India:**
     – Opened the first branch outside India in London in 1946 and the first branch in continental Europe (Paris) in 1974.
   - **Nationalization of Banks:**
     • **Reserve Bank of India:**
     – Became the first bank in India to be nationalized in January 1949.
     • **State Bank of India:**
     – Incorporated on July 1, 1955 following the nationalization of the Imperial Bank of India in 1955.
   - **Merchant Banking:**
     • Initiated by Grindlays Bank in 1967, followed by Citi Bank in 1970.
     • The State Bank of India established the first dedicated merchant banking division in 1972.

10. **Recent Technological & Innovative Milestones**
    - **Blockchain Technology:**
      • **ICICI Bank:**
      – First to introduce blockchain technology in banking transactions.
    - **Account Aggregator Ecosystem:**
      • **Union Bank of India:**
      – First public sector bank to join this ecosystem.
    - **Banking Robotics:**
      • **City Union Bank (Kumbakonam-based):**
      – Launched "Lakshmi," India's first banking robot.
    - **Voice Biometrics:**
      • **Citi Bank:**
      – First to roll out voice biometrics authentication.
    - **Bond Issuance:**
      • **HDFC Bank:**
      – First to issue rupee-denominated "masala bonds" on the London Stock Exchange. • **Axis Bank:**
      – Launched India's first certified green bonds on the London Stock Exchange.
    - **Sale of Indian Gold Coins (IGC):**
      • **Indian Overseas Bank (IOB):**
      – First to commence the sale of Indian Gold Coins in the domestic market.
      • **Federal Bank:**
      – Recognized as the first private bank to do so.
    - **Aadhaar-Based ATM:**
      • **DCB Bank:**
      – Launched India's first Aadhaar-based ATM usage facility.
    - **Swadeshi Banking:**
      • **Central Bank of India:**
      – Established in 1911 as the first truly Swadeshi bank (wholly owned and managed by Indians).
    - **International Branching by Domestic Banks:**
      • **SBI:**
      – First domestic bank to open a branch in Myanmar.
    - **Local Area Banking:**
      • **Coastal Bank:**

– Licensed as the first Local Area Bank by the RBI in 1999, operating in Krishna, Guntur, and West Godavari districts, with its head office in Vijayawada, Andhra Pradesh.

- **Universal Banking:**
  • Industrial Credit and Investment Corporation of India (ICICI):
  – Recognized as India's first institution to adopt the universal banking system, offering a one-stop shop for financial products and services.

1. Which bank is considered the first bank established in India based on the European banking system?
(1)Punjab National Bank (2)Bank of Hindustan (3)Allahabad Bank (4)Oudh Commercial Bank
2. In which year was the Bank of Hindustan established?
(1)1770 (2)1832 (3)1881 (4)1895
3. Which bank is recognized as the first Indian owned bank started solely with Indian capital that has survived till today?
(1)Allahabad Bank (2)Oudh Commercial Bank (3)Punjab National Bank (4)Bank of Bombay
4. Which of the following banks was the first joint-stock bank established in India?
(1)Allahabad Bank (2)Bank of Bombay (3)Punjab National Bank (4)Bank of Hindustan
5. Allahabad Bank, known as India's oldest joint-stock bank, was established in which year?
(1)1720 (2)1770 (3)1865 (4)1895
6. Which bank was the first "Presidency bank" established in Calcutta in 1806?
(1)Bank of Madras (2)Bank of Bengal (3)Bank of Bombay (4)Allahabad Bank
7. With what capital was the Bank of Bengal established in 1806?
(1)Rs.30 lakh (2)Rs.52 lakh (3)Rs.60 lakh (4)Rs.50 lakh
8. In which year did the Presidency banks lose their authority to issue currency notes?
(1)1770 (2)1881 (3)1861 (4)1832
9. Which bank is recognized as India's first Small Finance Bank?
(1)Shivalik Small Finance Bank (2)Capital Small Finance Bank Ltd (3)Nedungadi Bank (4)Punjab National Bank
10. Where is Capital Small Finance Bank Ltd headquartered?
(1)Mumbai (2)New Delhi (3)Jalandhar (4)Kozhikode
11. Which bank is the first small finance bank to transition from an Urban Co-operative Bank?
(1)Shivalik Small Finance Bank (2)Capital Small Finance Bank Ltd (3)Anyonya Co-operative Bank Limited (ACBL) (4)Nedungadi Bank
12. When did Shivalik Small Finance Bank commence operations as a small finance bank?
(1)2016 (2)April 26, 2021 (3)2017 (4)2002
13. Which bank was the first private sector bank in India?
(1)Punjab National Bank (2)Allahabad Bank (3)Nedungadi Bank (4)Bank of Hindustan
14. In what year was Nedungadi Bank established?
(1)1895 (2)1899 (3)1904 (4)1958
15. Which bank was acquired by Punjab National Bank in 2003?
(1)Allahabad Bank (2)Nedungadi Bank (3)Bank of Bombay (4)Oudh Commercial Bank
16. Which company was the first authorized by RBI to open White Label ATMs in India?
(1)ICICI Bank (2)Standard Chartered (3)HSBC Bank (4)Tata Communications Payment Solutions Limited (TCPSL)
17. Where was the first white label ATM in India opened?
(1)Andheri East, Mumbai (2)Chandrapada (3)Calcutta (4)New Delhi
18. Which bank set up the first ATM in India in 1987?
(1)ICICI Bank (2)HSBC Bank (3)SBI (4)Bank of Hindustan
19. Who was the first governor of the Reserve Bank of India?
(1)CD Deshmukh (2)Osborne Smith (3)M Narasimham (4)Alexander and Co.
20. Who was the first Indian governor of the Reserve Bank of India, appointed in August 1943?
(1)Osborne Smith (2)M Narasimham (3)Alexander and Co. (4)CD Deshmukh
21. Which governor was the first to be appointed from the Reserve Bank cadre?
(1)Osborne Smith (2)CD Deshmukh (3)M Narasimham (4)Alexander and Co.
22. Which bank is recognized as the first payments bank in India?
(1)Airtel Payments Bank Ltd (2)ICICI Bank (3)HDFC Bank (4)SBI
23. In which year was Airtel Payments Bank Ltd founded?
(1)2016 (2)2017 (3)2018 (4)2019
24. Which foreign bank was the first to operate in India?
(1)Standard Chartered (2)HSBC Bank (3)Comptoire d'Escompte de Paris (4)SBM Bank (India) Limited

25. In which year was Comptoire d'Escompte de Paris established in Calcutta?
(1)1860 (2)1895 (3)1881 (4)1770
26. Which bank was the first foreign bank to launch operations at the International Financial Services Centre (IFSC) in India?
(1)HSBC Bank (2)SBM Bank (India) Limited (3)Standard Chartered (4)ICICI Bank
27. Which bank became the first foreign bank to set up a Wholly Owned Subsidiary (WOS) in India?
(1)HSBC Bank (2)Standard Chartered (3)Comptoire d'Escompte de Paris (4)SBM Bank (India) Limited
28. Which bank is known as the first co-operative bank in India?
(1)Bank of Hindustan (2)Punjab National Bank (3)Anyonya Co-operative Bank Limited (ACBL) (4)Allahabad Bank
29. In which year was Anyonya Co-operative Bank Limited established?
(1)1889 (2)1904 (3)1770 (4)1833
30. When was the first urban cooperative credit society registered in India?
(1)October 1904 (2)1899 (3)1861 (4)1881
31. Which bank launched the first bank credit card in India in 1980?
(1)Andhra Bank (2)Central Bank of India (3)Vijaya Bank (4)ICICI Bank
32. Which bank introduced MasterCard to the Indian market in 1988?
(1)Andhra Bank (2)Central Bank of India (3)Vijaya Bank (4)SBI
33. Which bank introduced internet banking in India in 1998?
(1)ICICI Bank (2)HDFC Bank (3)SBI (4)Axis Bank
34. In which year did ICICI Bank launch mobile banking through its iMobile app?
(1)1998 (2)2002 (3)2008 (4)2016
35. Which bank was the first Indian company and bank to be listed on the New York Stock Exchange?
(1)ICICI Bank (2)SBI (3)HDFC Bank (4)Axis Bank
36. Which bank introduced the cheque system in India in 1833?
(1)Bengal Bank (2)Bank of Hindustan (3)Allahabad Bank (4)Punjab National Bank
37. Which bank became the first Indian bank to receive ISO certification in 1996?
(1)Canara Bank (2)ICICI Bank (3)Central Bank of India (4)Allahabad Bank
38. Which bank launched "ATM on Wheels", India's first mobile ATM, in 2002?
(1)HDFC Bank (2)ICICI Bank (3)SBI (4)Axis Bank
39. Which bank was the first to introduce mutual fund schemes in India?
(1)Punjab National Bank (2)State Bank of India (3)ICICI Bank (4)Canara Bank
40. Which bank inaugurated India's first "talking" ATM for visually impaired customers?
(1)Union Bank of India (2)HDFC Bank (3)ICICI Bank (4)SBI
41. Which bank is recognized as the first regional rural bank in India?
(1)Prathama Bank (2)Allahabad Bank (3)Nedungadi Bank (4)Capital Small Finance Bank Ltd
42. Which institution started the savings account system in India in 1833?
(1)Bank of Hindustan (2)Presidency Bank (3)Punjab National Bank (4)Allahabad Bank
43. Which bank was the first Indian bank to open a branch outside India, doing so in London in 1946?
(1)Bank of India (2)State Bank of India (3)ICICI Bank (4)Allahabad Bank
44. Which bank was the first to open a branch in continental Europe (Paris) in 1974?
(1)Bank of Hindustan (2)State Bank of India (3)Bank of India (4)Punjab National Bank
45. Which bank was the first in India to be nationalized in January 1949?
(1)State Bank of India (2)Imperial Bank of India (3)Bank of India (4)Reserve Bank of India
46. On what date was the State Bank of India incorporated following nationalization?
(1)January 1949 (2)July 1, 1955 (3)December 27, 1999 (4)October 1904
47. Which bank set up the first dedicated merchant banking division in India in 1972?
(1)Grindlays Bank (2)Citi Bank (3)State Bank of India (4)ICICI Bank
48. Which bank was the first in India to introduce blockchain technology in banking transactions?
(1)SBI (2)ICICI Bank (3)HDFC Bank (4)Axis Bank
49. Which public sector bank was the first to join the Account Aggregator Ecosystem in India?
(1)Union Bank of India (2)State Bank of India (3)Canara Bank (4)Allahabad Bank
50. Which bank launched India's first banking robot named "Lakshmi"?
(1)ICICI Bank (2)City Union Bank (3)Axis Bank (4)HDFC Bank

Answers:

1	**2**	**6**	**2**	**11**	**1**	**16**	**4**	**21**	**3**	**26**	**3**	**31**	**2**	**36**	**1**	**41**	**1**	**46**	**2**
2	**1**	**7**	**4**	**12**	**2**	**17**	**2**	**22**	**1**	**27**	**4**	**32**	**3**	**37**	**1**	**42**	**2**	**47**	**3**
3	**3**	**8**	**3**	**13**	**3**	**18**	**2**	**23**	**2**	**28**	**3**	**33**	**1**	**38**	**2**	**43**	**1**	**48**	**2**
4	**2**	**9**	**2**	**14**	**2**	**19**	**2**	**24**	**3**	**29**	**1**	**34**	**3**	**39**	**2**	**44**	**3**	**49**	**1**
5	**3**	**10**	**3**	**15**	**2**	**20**	**4**	**25**	**1**	**30**	**1**	**35**	**1**	**40**	**1**	**45**	**4**	**50**	**2**

3. Know Everything about RBI

1. Introduction and Establishment

- **Basis of Establishment:**
  The RBI was set up based on the recommendations of the **Royal Commission on Indian Currency and Finance** (also known as the **Hilton-Young Commission**).
- **Date & Legal Foundation:**
  - **Established on April 1, 1935** in accordance with the **Reserve Bank of India Act, 1934**.
  - Initially, the **Central Office** was located in **Kolkata** and was permanently moved to **Mumbai in 1937**. This office is where the **Governor sits** and where policies are formulated.
- **Ownership and Capital:**
  - Although it started as a **privately held bank**, following nationalisation in **1949**, the RBI became fully owned by the **Government of India**.
  - It began with a **share capital of Rs. 5 Crore**, divided into shares of **Rs. 100 each (fully paid up)**.
    - Out of this, **Rs. 4,97,8000** was subscribed by **private shareholders** and **Rs. 2,20,000** by the **central government**.

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2. Preamble and Fundamental Mandate

- **Preamble Description:**
  The preamble sets out the basic functions of the RBI:
  - **Regulating the issue of bank notes** and maintaining adequate reserves.
  - Operating the **currency and credit system** in a manner that secures monetary stability.
  - Establishing a **modern monetary policy framework** to meet the challenges of an increasingly complex economy.
  - Maintaining **price stability** while also keeping in mind the objective of growth.
- **Legal Authority for Currency Issuance:**
  Under **Section 22 of the RBI Act, 1934**, the RBI is granted the **sole right to issue bank notes in India**.

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3. Currency Management and Reserve System

- **Minimum Reserve System (MRS):**
  - Currency printing in India is carried out on the basis of the **Minimum Reserve System**, which has been applicable since **1956**.
  - Under MRS, the RBI is required to maintain assets worth at least **Rs. 200 crore** at all times:
    - **Rs. 115 crore** must be held in **gold or gold bullion**.
    - The remaining **Rs. 85 crore** is to be maintained in **foreign currencies**.
- **Backing of Banknotes:**
  All banknotes issued by the RBI are backed by assets such as **gold, Government Securities, and Foreign Currency Assets** (as defined in Section 33 of the RBI Act, 1934).
- **"I Promise to Pay" Clause:**
  - Printed on every banknote is the promissory note: **"I promise to pay the bearer the sum of Rupees …"**.
  - According to **Section 26 of the RBI Act, 1934**, this clause signifies the RBI's liability to pay the value of the banknote on demand.

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4. Board Structure and Governance

Central Board of Directors

- **Governance:**
  - The affairs of the RBI are overseen by a **Central Board of Directors** appointed by the **Government of India** for a **four-year period**.
- **Composition:**

- **Official Directors:**
  - Includes the **Governor** (who is the key policymaker) and up to **four Deputy Governors** (all full-time).
- **Non-Official Directors:**
  - The **Central Government** nominates **14 directors**.
  - This group includes one director from each of the **four Local Boards** and **ten directors representing sectors** such as agriculture, industry, trade, and professions.
- **Additional Nominations:**
  - Apart from the above, there are **four directors** (one each from the four Local Boards) who serve to represent regional interests.

Local Boards

- **Structure:**
  - Constituted for the **Western, Eastern, Northern, and Southern Areas**.
  - Each board consists of **five members** who are appointed by the **Central Government** and serve for **four years**.

Board for Financial Supervision (BFS)

- **Purpose:**
  - Established in **November 1994** under the RBI (Board for Financial Supervision) Regulations, 1994.
  - Its **primary objective** is to undertake **consolidated supervision** of the entire financial sector, including:
    - Scheduled Commercial Banks, Co-operative Banks, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies, and Primary Dealers.
- **Composition and Functioning:**
  - The board is constituted by **co-opting four directors** from the Central Board and is **chaired by the Governor**.
  - **Deputy Governors** serve as ex-officio members; traditionally, the Deputy Governor in charge of supervision acts as the **Vice-Chairman**.
  - In **April 2018**, a **Sub-committee** was formed under the BFS to handle the supervision and inspection for select categories like Payments Banks and Small Finance Banks.
  - **Meetings:**
    - The BFS is required to meet **monthly** to review inspection reports, conduct periodic reviews of both banking and non-banking sectors, and deliberate on policy matters.

Tenure and Removal of the RBI Governor

- **Term:**
  - The official term is **three years**, with the possibility of an extension by **two additional years** under exceptional circumstances.
- **Historical Tenures:**
  - **Longest-serving Governor: Benegal Rama Rau** (7 years and 197 days).
  - **Shortest Tenure: Amitav Ghosh** (only 20 days in office).
- **Removal Conditions:**
  - A governor may be removed only in **two scenarios**:
    - When the **President dismisses** a governor.
    - When the governor voluntarily **submits a letter of resignation** to the President.

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5. Main Functions of the RBI

Monetary Authority

- **Policy Formulation:**
  - The RBI formulates, implements, and monitors **monetary policy**.
- **Primary Objective:**
  - To maintain **price stability** while fostering economic growth.

Regulator and Supervisor of the Financial System

- **Banking Regulation:**
  - It prescribes the broad operational parameters for the banking system.
- **Objectives:**
  - Maintain **public confidence** in the financial system.
  - Protect **depositors' interests**.
  - Ensure the provision of **cost-effective banking services**.

Manager of Foreign Exchange

- **Foreign Exchange Management:**
  - Administers the **Foreign Exchange Management Act, 1999**.
- **Objective:**
  - To facilitate external trade and payments and to promote the orderly development of the foreign exchange market.

Issuer of Currency

- **Currency Management:**
  - Responsible for issuing, exchanging, and destroying currency notes.
  - Also oversees the circulation of coins minted by the **Government of India**.
- **Objective:**
  - To ensure an adequate and quality supply of banknotes and coins.

Developmental Role

- **Promotion:**
  - Undertakes a wide range of **promotional functions** to support national economic objectives.

Supervisor of Payment and Settlement Systems

- **System Enhancement:**
  - Introduces and upgrades **safe and efficient payment systems**.
- **Objective:**
  - To maintain public confidence in the payment and settlement framework.

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6. Related Functions

- **Banker to the Government:**
  - Acts as the **merchant banker** for the central and state governments.
  - Handles transactions on behalf of various government departments.
- **Banker to Banks:**
  - Known as the **"banker's bank"** because it provides:
    - Loans to banks.
    - Maintenance of banks' cash reserves.
    - Remittance facilities.
  - Functions as a **lender of last resort**.

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7. Infrastructure and Training

RBI Offices

- The RBI maintains **31 offices** across the country.

Training Establishments

- **Reserve Bank Staff College (RBSC):**
  - Established on **July 3, 1963** in Chennai; serves as the apex training institution.
- **RBI Academy, Mumbai:**
  - Provides training for central bankers, regulators, and supervisors.
  - Offers flagship courses since **2016** on subjects such as:
    - **Macroeconomics, Microeconomics, Corporate Finance, Statistics, Econometrics, Information Technology, Risk Management, Financial Markets, Human Resource Analytics, Cyber Security, DSGE Modelling,** and **Big Data**.
- **College of Agricultural Banking:**
  - Initially established as the **Cooperative Bankers' Training College** in Pune on **September 29, 1969**; renamed in **1974**.
- **Institute for Development & Research in Banking Technology (IDRBT):**
  - Established in **1996** in Hyderabad.
  - Focuses on **banking technology** and operates at the intersection of banking and technology.

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8. Institutes Funded by the RBI

- **Centre for Advanced Financial Research and Learning (CAFRAL), Mumbai**
- **Indira Gandhi Institute of Development Research, Mumbai**
- **Indian Institute of Bank Management (IIBM), Guwahati** (formerly known as the North Eastern Institute of Bank Management)
- **The National Institute of Bank Management, Pune**
  - These institutes focus on research, training, education, and consultancy in bank management and contribute to the evolving role of India in the global economy.

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9. Fully Owned Subsidiaries of the RBI

Deposit Insurance and Credit Guarantee Corporation of India (DICGC)

- **Establishment:**
  - Set up on **July 15, 1978** under the **Deposit Insurance and Credit Guarantee Corporation Act, 1961**.
- **Function:**
  - Provides **insurance for bank deposits** (saving, fixed, current, recurring) up to **Rs. 500,000 per depositor** (increased from Rs. 1 lakh to Rs. 5 lakh on February 4, 2020).

Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

- **Establishment:**
  - Founded on **February 3, 1995** as a wholly owned subsidiary of the RBI.
- **Legal Status:**
  - Registered as a **Private Limited Company** under the **Companies Act, 1956**.
- **Operations:**
  - Manages two presses: one at **Mysore, Karnataka** and one at **Salboni, West Bengal**.
  - Combined capacity of **16 billion note pieces per year** (on a 2-shift basis).
- **Ink Manufacturing Unit:**
  - Operates an ink manufacturing unit called **"Varnika"** in Mysuru with an annual capacity of **1,500 MT** to enhance banknote security.

Security Printing and Minting Corporation of India Limited (SPMCIL)

- **Incorporation:**
  - Incorporated on **January 13, 2006** as a **wholly owned Schedule 'A' Miniratna Category-I company**.
- **Operations:**
  - Manages production of currency and bank notes, security paper, non-judicial stamp papers, postal stamps, travel documents (e.g., passports and visas), security certificates, cheques, bonds, warrants, special certificates with security features, security inks, circulation and commemorative coins, medallions, refining of gold & silver, and assay of precious metals.
- **Historical Transfer:**
  - Assumed management of nine production units from the Government of India as of **February 10, 2006**.

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10. Conditions of Banknotes

- **Soiled Note:**
  - A banknote that becomes dirty due to normal wear and tear.
  - Includes a note that is **pasted together from two pieces** (if no essential features are missing).
- **Mutilated Banknote:**
  - A banknote that is missing a portion or is composed of more than two pieces.
- **Imperfect Banknote:**
  - A note that is wholly or partially obliterated, shrunk, washed, altered, or indecipherable, but which is **not considered mutilated**.

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11. Coins and Denominations

Current Coin Denominations

- **In Circulation:**
  - **50 paise, 1 rupee, 2 rupees, 5 rupees, 10 rupees, and 20 rupees**.
- **Classification:**
  - Coins up to **50 paise** are known as **small coins**.
  - Coins of **1 rupee and above** are called **rupee coins**.
- **Legal Issuance:**
  - Under the **Coinage Act, 2011**, coins can be issued up to a denomination of **₹1000**.

Withdrawn Denominations

- **25 paise coins** were withdrawn from circulation as of **June 30, 2011**.
- Coins of denominations below **25 paise** were withdrawn earlier.
- All other denominations, as minted by the Government under the Coinage Act, 2011, continue to remain **legal tender**.
- **₹1 notes** issued by the Government also remain legal tender.

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12. Mobile Aided Note Identifier (MANI)

- **Purpose:**
  - MANI is a **mobile application** developed by the RBI to assist visually impaired individuals in identifying the denomination of Indian banknotes.
- **Features:**
  - The app is **free of cost**, works offline (without requiring an internet connection), and can identify banknotes from both the **Mahatma Gandhi Series** and the **Mahatma Gandhi (New) Series**.

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13. Banknotes in Circulation and Issuance

Current Denominations Issued by the RBI

- **Issued Banknotes:**
  - **₹10, ₹20, ₹50, ₹100, ₹200, ₹500, and ₹2000** notes are currently issued by the RBI.
- **Discontinued Denominations:**
  - The printing of **₹2 and ₹5 notes** has been discontinued and these denominations have been **coinised** because their printing and servicing costs were not viable.
  - However, previously issued **₹2 and ₹5 notes** still remain **legal tender**.
- **Flexibility in Issuance:**
  - Under **Section 24 of the RBI Act, 1934**, banknotes can be issued in denominations of **2, 5, 10, 20, 50, 100, 500, 1000, 5000, and 10000 rupees** (or other values not exceeding 10,000 rupees) as recommended by the **Central Board**.

Highest Denomination Note

- The highest denomination note ever printed by the RBI was the **₹10000 note**:
  - First issued in **1938**, then demonetized in **January 1946**.
  - Reintroduced in **1954** and finally demonetized in **1978**.

Language Panel on Banknotes

- **Language Diversity:**
  - Banknotes display **Hindi** prominently on the front and **English** on the reverse.
  - Additionally, the **language panel** includes **15 other languages**.

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14. Currency Distribution: Currency Chests and Small Coin Depots

- **Currency Chests:**
  - Authorized by the RBI, currency chests are storehouses where banknotes and coins are stocked for distribution to bank branches.
  - As of **March 31, 2021**, there were **3,054 currency chests**.
- **Small Coin Depots:**
  - These depots are set up by authorized banks to distribute coins of denominations **below 1 rupee**.
  - As of **March 31, 2021**, there were **2,504 small coin depots**.

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15. Additional Fully Owned IT and Innovation Subsidiaries

- **Reserve Bank Information Technology Private Limited (ReBIT), Navi Mumbai:**
  - Established as a wholly owned subsidiary to manage the RBI's **IT requirements and cyber security needs**.
  - Focuses on both internal and system-wide IT projects.
- **Indian Financial Technology and Allied Services (IFTAS), Mumbai:**
  - A wholly owned subsidiary that designs, deploys, and provides **essential IT-related services** for the RBI, banks, and financial institutions.
  - Plays a critical role in India's financial infrastructure.
- **Reserve Bank Innovation Hub (RBIH), Bengaluru:**
  - Recently inaugurated to encourage and nurture **financial innovation**.
  - Established as a **Section 8 company** under the Companies Act, 2013 with an initial capital contribution of **Rs. 100 crore**.
  - Functions as a wholly owned subsidiary of the RBI.

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16. Publications

- The RBI issues various publications detailing its policies, regulatory measures, and research. (Specific titles are not listed in the documents, but references are made to **"Publications of RBI"**.)

Multiple Choice Questions

1. Which commission's recommendation led to the establishment of the RBI?

(1)Narasimha Rao Commission (2)Hilton-Young Commission (3)Lal Bahadur Shastri Commission (4)Manmohan Singh Commission

2. On what date was the RBI established?
(1)January 1, 1935 (2)April 1, 1935 (3)August 15, 1947 (4)July 3, 1963

3. Where was the RBI's Central Office originally located?
(1)Mumbai (2)New Delhi (3)Kolkata (4)Chennai

4. After nationalisation in 1949, what became the ownership status of the RBI?
(1)Privately held bank (2)Joint venture between private shareholders and the government (3)Fully owned by the Government of India (4)Owned by multinational financial institutions

5. Which of the following is a key function mentioned in the RBI's preamble?
(1)Managing the national budget (2)Regulating the issue of bank notes and ensuring monetary stability (3)Supervising international trade (4)Operating commercial banks

6. Under which section of the RBI Act, 1934, is the RBI granted the sole right to issue bank notes?
(1)Section 26 (2)Section 33 (3)Section 24 (4)Section 22

7. What is the minimum asset requirement under the Minimum Reserve System (MRS) for the RBI?
(1)Rs. 100 crore (2)Rs. 150 crore (3)Rs. 200 crore (4)Rs. 250 crore

8. According to the MRS, how is the Rs. 200 crore required by the RBI allocated?
(1)Rs. 100 crore in gold and Rs. 100 crore in foreign currencies (2)Rs. 85 crore in gold and Rs. 115 crore in foreign currencies (3)Rs. 115 crore in gold (or gold bullion) and Rs. 85 crore in foreign currencies (4)Entirely in government securities

9. What does the "I promise to pay" clause on RBI banknotes signify?
(1)A promise to provide loans to the public (2)A guarantee of converting notes into gold (3)A legal disclaimer regarding note value (4)The RBI's liability to pay the value of the banknote on demand

10. What is the official term for an RBI governor?
(1)2 years (2)3 years (with a possible extension of 2 years) (3)5 years (4)7 years

11. Which institution is commonly referred to as the "banker's bank"?
(1)State Bank of India (2)Punjab National Bank (3)Bank of Baroda (4)Reserve Bank of India

12. Which is the apex training institution of the RBI established in 1963?
(1)RBI Academy, Mumbai (2)College of Agricultural Banking (3)Reserve Bank Staff College (RBSC) (4)Institute for Development & Research in Banking Technology

13. Which fully owned subsidiary of the RBI provides insurance for bank deposits?
(1)Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL) (2)Security Printing and Minting Corporation of India Limited (SPMCIL) (3)Deposit Insurance and Credit Guarantee Corporation of India (DICGC) (4)Reserve Bank Information Technology Private Limited (ReBIT)

14. Which subsidiary is primarily responsible for the printing of banknotes in India?
(1)IFTAS (2)ReBIT (3)RBI Innovation Hub (RBIH) (4)Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

15. Under the Coinage Act, 2011, up to what denomination can coins be issued?
(1)₹100 (2)₹500 (3)₹1000 (4)₹2000

16. What is the name of the mobile application developed by the RBI to help visually impaired individuals identify banknotes?
(1)RBI Finder (2)NoteCheck (3)Currency ID (4)MANI (Mobile Aided Note Identifier)

17. Which of the following banknote denominations is currently issued by the RBI?
(1)₹2 and ₹5 (2)₹10, ₹20, ₹50, ₹100, ₹200, ₹500, and ₹2000 (3)₹1, ₹2, ₹5, and ₹10 (4)₹10, ₹50, ₹100, and ₹1000

18. What is the highest denomination note ever printed by the RBI?
(1)₹5000 (2)₹10000 (3)₹2000 (4)₹1000

19. How many languages appear in the language panel of Indian banknotes (excluding the prominently displayed Hindi and English)?
(1)10 (2)12 (3)15 (4)20

20. What are currency chests as per RBI operations?
(1)Training centers for bank employees (2)IT hubs for financial technology (3)Storehouses authorized by the RBI to stock banknotes and coins for distribution (4)Government-owned commercial banks

21. Which subsidiary of the RBI is set up to manage its IT and cyber security requirements?
(1)IFTAS (2)Reserve Bank Information Technology Private Limited (ReBIT) (3)RBI Innovation Hub (RBIH) (4)DICGC

22. Which RBI subsidiary is focused on nurturing financial innovation?
(1)ReBIT (2)IFTAS (3)Reserve Bank Innovation Hub (RBIH) (4)BRBNMPL

Answers:

1	2	6	4	11	4	16	4	21	2
2	2	7	3	12	3	17	2	22	3
3	3	8	3	13	3	18	2	23	
4	3	9	4	14	4	19	3	24	
5	2	10	2	15	3	20	3	25	

4. Banking Regulation Act 1949

1. General Overview of the Act

- **Historical Background & Evolution:**
  - **Originally Passed as:** Banking Companies Act, 1949
  - **Applicability Changes:**
    - In 1956, the Act became applicable to the state of Jammu & Kashmir.
    - From 1 March 1966, it was changed to the "Banking Regulation Act, 1949."
    - In 1965, an amendment (adding Section 56) extended the Act's purview to include cooperative banks.
  - **Structural Note:** The Act comprises a total of 56 sections.
  - **Cooperative Banks:**
    - Registered under the Cooperative Societies Act.
    - Managed under a dual control system (by RBI and the Registrar of Cooperative Societies).
  - **Effective Date:** Came into force on 16 March 1949.
  - **Geographical Extent:** Extends to the whole of India.
  - **Exclusions:** Not applicable to Primary Agricultural Credit Societies and Cooperative Land Mortgage Banks.

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2. Detailed Section-by-Section Content

Section 5 (b): Definition of "Banking" & CASA Ratio

- **Definition of Banking:**
  - Accepting deposits from the public for lending or investment.
  - Deposits may be repayable on demand or otherwise.
  - Involves withdrawals by cheque, draft, order, or other means.
- **Purpose of the Definition:**
  - Differentiates banks from Non-Banking Financial Companies (NBFCs):
    - **NBFCs:** Cannot accept demand deposits, do not participate in the payment and settlement system, and cannot issue cheques.
- **CASA Ratio:**
  - **Definition:** The ratio of current and savings account deposits to the total deposits of the bank.
  - **Significance:** A higher CASA ratio indicates a larger share of low-cost funds and reflects better operating efficiency.

Section 6: Forms of Business in Which Banking Companies May Engage

- **Permissible Activities:**
  - Acting as agents for any Government, local authority, or any other persons.
  - Effecting, insuring, guaranteeing, underwriting, and participating in or managing issues.
  - Acquisition, construction, maintenance, and alteration of any building or works necessary or convenient for the company's purposes.

Section 7: Use of the Terms "Bank", "Banker", "Banking", or "Banking Company"

- **Key Provisions:**
  - Only a registered banking company may use these words as part of its name.
  - No firm, individual, or group is allowed to include these words in their business name for carrying on any business.

Section 8: Prohibition of Trading

- **Regulation:**
  - A banking company shall not, directly or indirectly, engage in the buying, selling, or bartering of goods.

  - **Exception:** Such activities are permitted only in connection with the realization of security provided to or held by the bank.

Section 9: Disposal of Non-Banking Assets
- **Rule:**
  - A bank cannot hold immovable property for a period exceeding 7 years (except for its own property).
  - **Extension:** RBI may extend this period by an additional 5 years if needed.

Section 10B: Management by a Whole-Time Chairman
- **Management Structure:**
  - The Chairman of the Board must be appointed on a whole-time basis.
  - Every Managing Director's term is limited to a maximum of 5 years (subject to re-election under the provisions of this section).

Section 11: Minimum Paid-Up Capital and Reserves
- **Capital Requirements:**
  - **Domestic Banks:** Minimum of 5 Lakh.
  - **Foreign Banks:** Minimum of 15 Lakh.
  - **Foreign Banks in Key Cities (Mumbai, Kolkata, Chennai, Delhi):** Minimum of 20 Lakh.

Section 12: Regulation of Capital Structure
- **Capital Structure Ratio:** Authorized Capital : Subscribed Capital : Paid-Up Capital = 4 : 2 : 1.
- **Mandatory Conditions:**
  - The subscribed capital must not be less than half of the authorized capital.
  - The paid-up capital must not be less than half of the subscribed capital.

Section 13: Restriction on Commission, Brokerage, and Discounts
- **Limitations:**
  - The maximum permissible brokerage or commission on the sale of shares is capped at 2.5% of the paid-up value per share.

Section 14: Prohibition of Charge on Unpaid Capital
- **Key Rule:**
  - No banking company is allowed to create any charge on its unpaid capital. Any such charge is deemed invalid.

Section 15: Restrictions on Payment of Dividend
- **Dividend Policy:**
  - No dividend may be paid on the bank's shares until all capitalized expenses—including preliminary expenses, organizational expenses, share-selling commission, brokerage, and losses (or any other non-tangible expenditure)—have been fully written off.

Section 16: Prohibition of Common Directors
- **Restriction:**
  - A banking company in India cannot have any director who is simultaneously a director in another banking company.

Section 17: Reserve Fund
- **Requirement:**
  - Every banking company must create a reserve fund.
- **Profit Transfer:**
  - 25% of the net profit (before dividend distribution) must be transferred to the reserve and surplus.

Section 18: Cash Reserve Ratio (CRR)
- **Mandatory Provision:**
  - Every banking company (except scheduled banks) must maintain a daily cash reserve.
  - The reserve can be maintained either in cash on hand or as a balance in a current account with the RBI.

Section 19: Restrictions on Shareholding

- **Limitation:**
    - A banking company is prohibited from holding shares in any other company.
    - The holding must not exceed 30% of either the other company's paid-up share capital or the bank's own paid-up share capital and reserves, whichever is less.

Section 20: Restrictions on Loans and Advances

- **Prohibited Activity:**
    - No banking company is permitted to grant any loans or advances secured solely by its own shares.

Section 21: Power of RBI to Control Advances

- **RBI Authority:**
    - RBI is empowered to determine policies regarding advances by banking companies.
    - This includes setting limits on margins, the maximum amount, and the rate of interest.
    - Such action is taken when it is deemed necessary in the public interest, to protect depositors, or in the interest of sound banking policy.

Section 22: Licensing of Banking Companies

- **License Requirement:**
    - No company shall carry on banking business in India without a license issued by the RBI.
    - Licenses are issued subject to conditions as the RBI may deem fit.

Section 23: Restrictions on Opening New or Transferring Existing Business Locations

- **Requirements:**
    - Prior permission from RBI is required for opening a new branch.
    - A banking company shall not open a new place of business in India (or transfer an existing one) to a location other than within the same city, town, or village.
    - Opening a branch outside India or relocating requires adherence to additional regulations.

Section 24: Maintenance of Statutory Liquidity Ratio (SLR)

- **Key Details:**
    - **SLR Requirement:** 18.00%
    - **Compliance Format:** As per Form-VIII.
    - **Submission Frequency:** Must be maintained on each alternate Friday of the month.

Section 26: Return of Unclaimed Deposits

- **Procedure:**
    - Unclaimed deposits (i.e. those held for 10 years or more) must be returned to the RBI within 30 days after the end of each calendar year.
    - Also involves the establishment of a Depositor Education and Awareness Fund.

Section 28: Power to Publish Information

- **Authority to Publish:**
    - The RBI or the National Bank (or both) may publish any information obtained under this Act.
    - The published information may include consolidated data or credit information (including that under the Credit Information Companies (Regulation) Act, 2005).

Section 29: Accounts and Balance-Sheet Preparation

- **Financial Reporting:**
    - The Balance Sheet and Profit & Loss account must be prepared as of the last working day of the financial year.
    - The format is prescribed (as per Schedule III of the Act).

Section 30: Audit

- **Audit Requirements:**
    - The financial statements (Balance Sheet and Profit & Loss account) must be audited by a person qualified under the applicable laws.

Section 31: Submission of Returns

- **Filing Guidelines:**
  - The audited accounts, along with the auditor's report, must be published in the prescribed manner.
  - Three copies must be furnished to the RBI within 3 months from the end of the accounting period.
  - RBI may extend this period by an additional 3 months.
  - Regional Rural Banks (RRBs) must also submit returns to the National Bank.

Section 35: Inspection

- **Inspection Powers of the RBI:**
  - The RBI may, at any time (or when directed by the Central Government), inspect any banking company's books and accounts.
  - A copy of the inspection report must be provided to the banking company.
  - Inspectors are typically officials deputed from nearby RBI offices.

Section 35A: Power of the RBI to Give Directions

- **Directive Authority:**
  - RBI may issue directions if it finds that a banking company's affairs are being conducted in a manner:
    - Detrimental to the interests of depositors,
    - Prejudicial to the banking company,
    - Contrary to public interest or banking policy.
  - **Notable Outcome:** Introduction of the Banking Ombudsman Scheme (effective from 1995).

Section 36AA: Power of the RBI to Remove Managerial and Other Personnel

- **Removal Authority:**
  - In the public interest or to secure proper management, RBI may remove from office:
    - The whole-time Chairman,
    - Directors,
    - The Chief Executive Officer (or equivalent),
    - Any other officer or employee.
  - Such removal is effected by an RBI order (with reasons recorded in writing).

Section 36AB: Power of the RBI to Appoint Additional Directors

- **Appointment Provision:**
  - RBI may appoint one or more additional directors to the board if it considers this necessary for:
    - The public interest,
    - The interests of the banking company,
    - The protection of depositors.

Section 37: Suspension of Business (Moratorium)

- **Moratorium Provision:**
  - If a banking company is temporarily unable to meet its obligations, it may apply to the High Court.
  - The application is for a moratorium—a suspension of legal proceedings—for a period not exceeding 6 months.
  - During this period, all actions and proceedings against the bank are stayed.

Section 38: Winding Up / Suspension of Business

- **Winding Up Criteria:**
  - The High Court is required to order the winding up of a banking company if:
    - The bank is unable to pay its debts, or
    - The bank is under a moratorium and the RBI applies for its winding up on grounds that its affairs are being conducted detrimentally to depositors' interests.

Section 44A: Procedure for Amalgamation of Banking Companies

- **Amalgamation Requirements:**
  - For amalgamation, a detailed scheme (including the terms of amalgamation) must be formulated.
  - The scheme requires approval in a General Meeting by a majority representing at least two-thirds of the value of the shareholders.

Nomination and Related Banking Accounts

- **Specific Provisions and Forms:**

- **45ZA – Deposit (Demand & Term):**
  - **Forms:** DA1 (Request), DA2 (Cancellation), and DA3 (Variation) for bank deposits.
- **45ZC – Safe Custody Account (for Gold, CDs, Shares):**
  - **Forms:** SC1 (Request), SC2 (Cancellation), and SC3 (Variation) for articles left in safe custody.
- **45ZE – Locker Account (Locker on Rent):**
  - **Forms:** SL1 or SL1A (Request), SL2 (Cancellation), SL3, and SL3A (Variation) for safety lockers.
  - **Note:** SL1 is designated for a sole hirer; SL1A is used for joint hirers

1. What was the original name of the Banking Regulation Act, 1949?
   (1)Banking Companies Act, 1949 (2)Reserve Bank Act, 1949 (3)Indian Banking Act, 1949 (4)Banking Supervision Act, 1949
2. In which year did the Banking Regulation Act, 1949 become applicable to the state of Jammu & Kashmir?
   (1)1949 (2)1956 (3)1966 (4)1965
3. From which date was the Act renamed to "Banking Regulation Act, 1949"?
   (1)15th August 1947 (2)16th March 1949 (3)1st January 1950 (4)1st March 1966
4. Which section was added in 1965 to include cooperative banks under the Act's purview?
   (1)Section 56 (2)Section 35A (3)Section 18 (4)Section 44A
5. How many sections does the Banking Regulation Act, 1949 contain?
   (1)45 (2)50 (3)56 (4)60
6. Under which Act are all cooperative banks registered?
   (1)Companies Act (2)Cooperative Societies Act (3)Banking Companies Act (4)Indian Trusts Act
7. What does a higher CASA ratio indicate for a bank?
   (1)Higher operating expenses (2)Lower deposit costs (3)Increased risk exposure (4)A greater share of low-cost deposits and improved operating efficiency
8. Which of the following is NOT a permitted activity under Section 6 of the Act?
   (1)Acting as an agent for a government or local authority (2)Underwriting and managing issues (3)Issuing cheques on itself (4)Acquiring and constructing necessary buildings
9. According to Section 7, who is allowed to use the word "bank" in its name?
   (1)Any financial institution (2)All cooperative societies (3)Only NBFCs (4)Only a registered banking company
10. Which activity is prohibited for banking companies under Section 8 of the Act?
    (1)Trading in foreign exchange (2)Engaging in the buying or selling of goods (3)Underwriting public issues (4)Accepting deposits from the public
11. Under Section 9, for how many years (excluding its own property) may a bank hold immovable property?
    (1)5 years (2)7 years (3)10 years (4)12 years
12. Which section mandates that a banking company must be managed by a whole-time Chairman?
    (1)Section 10B (2)Section 11 (3)Section 15 (4)Section 16
13. What is the minimum paid-up capital required for a domestic bank as per Section 11?
    (1)10 Lakh (2)2 Lakh (3)8 Lakh (4)5 Lakh
14. For foreign banks operating in major cities like Mumbai, Kolkata, Chennai, and Delhi, what is the minimum paid-up capital requirement?
    (1)25 Lakh (2)15 Lakh (3)20 Lakh (4)30 Lakh
15. What is the prescribed ratio for Authorized Capital : Subscribed Capital : Paid-Up Capital as per Section 12?
    (1)4 : 2 : 1 (2)3 : 2 : 1 (3)5 : 3 : 1 (4)6 : 4 : 1
16. As per Section 13, what is the maximum commission allowed on the sale of shares?
    (1)1.5% (2)2% (3)2.5% (4)3%
17. Which section prohibits a banking company from creating any charge on its unpaid capital?
    (1)Section 14 (2)Section 15 (3)Section 16 (4)Section 17
18. Prior to paying dividends, what must a bank do according to Section 15?
    (1)Increase its capital reserve (2)Write off all its capitalized expenses (3)Obtain RBI approval (4)Reduce its operational costs
19. What restriction does Section 16 impose regarding directors?
    (1)Directors cannot be re-elected (2)A director of one bank cannot serve on another bank's board (3)All directors must be independent (4)Directors must be approved by the RBI
20. What percentage of net profit (before dividend) must be transferred to the reserve fund as per Section 17?
    (1)10% (2)15% (3)25% (4)30%
21. Which section requires that banks maintain a daily Cash Reserve Ratio (CRR) with the RBI?

(1)Section 17 (2)Section 18 (3)Section 19 (4)Section 20
22. Under Section 19, what is the maximum percentage of shares a bank may hold in another company?
(1)25% (2)20% (3)35% (4)30%
23. What is restricted under Section 20 of the Act?
(1)Granting loans or advances on the security of a bank's own shares (2)Accepting demand deposits (3)Investing in government securities (4)Opening additional branches
24. Who is empowered to set policies regarding advances by banks under Section 21?
(1)Ministry of Finance (2)Reserve Bank of India (RBI) (3)Securities and Exchange Board of India (SEBI) (4)NABARD
25. According to Section 22, what is mandatory for a company to carry on banking business in India?
(1)A government guarantee (2)A license issued by the RBI (3)A minimum paid-up capital of 10 Lakh (4)Approval from the Ministry of Commerce
26. Under Section 23, what must a bank obtain before opening a new branch in India?
(1)Shareholder consent (2)RBI permission (3)Board resolution (4)Ministry clearance
27. What is the Statutory Liquidity Ratio (SLR) that banks are required to maintain as per Section 24?
(1)16.00% (2)17.00% (3)18.00% (4)19.00%
28. How often must banks maintain and report their SLR as per Section 24?
(1)Weekly (2)Every alternate Friday (3)Monthly (4)Quarterly
29. What does Section 26 require banks to do with unclaimed deposits?
(1)Invest them in the market (2)Transfer them to a Depositor Education and Awareness Fund (3)Return them to the RBI within 30 days after year-end (4)Distribute them among shareholders
30. Which section empowers the RBI to publish information obtained under the Act?
(1)Section 28 (2)Section 29 (3)Section 30 (4)Section 31
31. Under which section must banks prepare their Balance Sheet and Profit & Loss account on the last working day of the financial year?
(1)Section 29 (2)Section 30 (3)Section 31 (4)Section 35
32. Who is qualified to conduct the audit of a bank's financial statements as per Section 30?
(1)An RBI official (2)A person qualified under applicable law (3)A government-appointed auditor (4)The bank's internal auditor
33. Within what time frame must banks submit their audited returns (with the auditor's report) to the RBI according to Section 31?
(1)1 month (2)2 months (3)3 months (4)6 months
34. What power does Section 35 grant the RBI regarding the operations of banking companies?
(1)To set interest rates (2)To inspect any bank's books and accounts at any time (3)To mandate mergers (4)To appoint bank managers
35. Which section introduced the Banking Ombudsman Scheme by empowering the RBI to give directions?
(1)Section 34 (2)Section 35A (3)Section 36AA (4)Section 37
36. Under Section 36AA, what authority does the RBI have over a bank's managerial personnel?
(1)To reassign managerial roles (2)To remove managerial and other personnel from office (3)To promote them based on performance (4)To conduct regular performance reviews
37. What does Section 36AB empower the RBI to do?
(1)Remove board members (2)Appoint additional directors (3)Dissolve board committees (4)Approve new business ventures
38. For how long may a bank apply for a moratorium under Section 37 if it is temporarily unable to meet its obligations?
(1)3 months (2)6 months (3)9 months (4)12 months
39. Under Section 38, what action is mandated if a bank is unable to pay its debts?
(1)Restructuring of its loans (2)The High Court must order its winding up (3)RBI must inject additional capital (4)The bank must merge with another institution
40. What aspect of banking regulation is addressed by Section 44A of the Act?
(1)Branch relocation procedures (2)Amalgamation of banking companies (3)Audit and reporting standards (4)Capital adequacy norms
41. Which form is used for requesting a bank deposit (Demand & Term) under the nomination provisions?
(1)DA1 (2)SC1 (3)SL1 (4)DA3
42. Under the nomination provisions, which form is used for safe custody accounts (for gold, CDs, and shares)?
(1)DA2 (2)SC1 (3)SL2 (4)DA3
43. For locker accounts under the nomination provisions, which form is used to request a locker?
(1)SL1 or SL1A (2)DA1 (3)SC1 (4)SL3

44. Which section specifically restricts unauthorized entities from using the words "bank", "banker", "banking" or "banking company"?
    (1)Section 7 (2)Section 8 (3)Section 9 (4)Section 10B
45. What is the purpose of the dual control system for cooperative banks?
    (1)To enhance profitability (2)To ensure regulation by both the RBI and the Registrar of Cooperative Societies (3)To facilitate international expansion (4)To reduce operational costs
46. Which entity is exempt from the applicability of the Banking Regulation Act, 1949?
    (1)All cooperative banks (2)Primary Agricultural Credit Societies (3)Foreign banks (4)Scheduled banks
47. In the context of the Act, what does "CRR" stand for?
    (1)Credit Reserve Ratio (2)Cash Reserve Ratio (3)Capital Reserve Ratio (4)Cooperative Reserve Ratio
48. Which section mandates the return of unclaimed deposits to the RBI?
    (1)Section 24 (2)Section 26 (3)Section 28 (4)Section 30
49. Which section grants the RBI the power to inspect banking companies and issue inspection reports?
    (1)Section 29 (2)Section 31 (3)Section 35 (4)Section 37

Answers:

1	1	**6**	2	**11**	**2**	**16**	**3**	**21**	**2**	**26**	**2**	**31**	**1**	**36**	**2**	**41**	**1**	**46**	**2**
2	2	**7**	4	**12**	**1**	**17**	**1**	**22**	**4**	**27**	**3**	**32**	**2**	**37**	**2**	**42**	**2**	**47**	**2**
3	4	**8**	3	**13**	**4**	**18**	**2**	**23**	**1**	**28**	**2**	**33**	**3**	**38**	**2**	**43**	**1**	**48**	**2**
4	1	**9**	4	**14**	**3**	**19**	**2**	**24**	**2**	**29**	**3**	**34**	**2**	**39**	**2**	**44**	1	**49**	**3**
5	3	**10**	2	**15**	**1**	**20**	**3**	**25**	**2**	**30**	**1**	**35**	**2**	**40**	**2**	**45**	**2**		

5. Negotiable Instruments Act, 1881

Introduction

- **Enactment and Commencement:**
  The Negotiable Instruments Act, 1881 was enacted on 9 December 1881 and came into force on 1 March 1882.
- **Purpose:**
  The Act governs the legal framework for instruments that are "negotiable"—i.e. those documents that create a right (or liability) and are freely transferable.

Definition and Scope of a Negotiable Instrument

Definition (Section 13(a)):

- "Negotiable instrument" means a promissory note, bill of exchange, or cheque payable either to order or to bearer (regardless of whether the words "order" or "bearer" appear).
- It is a written document that creates a right in favour of a person and is transferable without further authority.
- **Criteria:**
  Not every document qualifies as a negotiable instrument; it must be capable of creating a right or imposing a liability.

Exclusions:

- Instruments that are not covered include:
  – T-Bills
  – Share certificates
  – Share warranties
  – Currency notes
  – Hundis (even though technically an unconditional order, they are part of the informal system and have no legal status under this Act)
  – Post Office Money Orders

Structure of the Act

- The Act is primarily divided into the following sections concerning different instruments:

Section 4: Promissory Note
Section 5: Bill of Exchange
Section 6: Cheque

Bill of Exchange (Section 5)

a)Definition and Examples:

Definition:

- A bill of exchange is a written order by the drawer directing the drawee to pay a specified sum either to the drawer or to a third party.

Examples:

1. **Example 1:**
   – *Scenario:* Arjun sells goods worth Rs.10,000 to Ankit.
   – *Process:*
   • Arjun, acting as the seller and drawer, instructs the drawee (usually a bank or another party) to pay.
   • The bill of exchange is then drawn for payment.
2. **Example 2:**
   – *Scenario:* Same as Example 1 but with an additional instruction directing the payment to Adarsh.
   – *Implication:* The drawer's instruction is modified so that the cheque is payable to a third party.

b) Parties Involved

Drawer:

- The person who creates (draws) the bill; typically also the payee.
- Liability is primary and unconditional until the bill is accepted.

Drawee:

- The person (often a bank) on whom the bill is drawn.
- Upon acceptance (and notifying the drawer), the drawee's liability becomes primary.

Beneficiary/Payee:

- The person to whom the bill of exchange is payable.

c) Additional Concepts

Endorsement:

- The process of transferring the bill (or promissory note) to another person, often used to settle debts.

Renewal of a Bill:

- If the holder cannot meet the payment on the due date, the drawee may request an extension from the drawer.
- Upon agreement, the old bill is cancelled and replaced by a new one with revised payment terms.

Essential Characteristics:

- Must be in writing, signed by the drawer, contain an express and unconditional order to pay, specify a certain sum, be stamped, and—importantly—cannot originally be made payable to bearer on demand.

Promissory Note (Section 4)

a) Definition

- A promissory note is a written instrument (other than a bank-note or currency note) in which the maker unconditionally undertakes to pay a certain sum of money either to a specific person, to order, or to bearer.

b) Nature and Function

- **Informal Loan:**
  • It functions like an informal loan document.
- **Key Characteristics:**
  1. **Writing:** Must be written (printed or handwritten); an oral promise is not sufficient.
  2. **Promise to Pay:** Must include an unconditional promise or undertaking to pay.
  3. **Definiteness:** The promise must be both definite and unconditional.
  4. **Signature:** Must be signed by the maker or an authorized agent.
  5. **Payee Specification:** The instrument must clearly specify the payee; omission invalidates the note.
  6. **Certain Sum:** The amount promised must be capable of being determined with certainty.
  7. **Money Only:** It must be solely a promise to pay money.
  8. **Stamped & Dated:** The note should be appropriately stamped and dated (if undated, it is presumed to be the date of delivery).
  9. **Not Payable to Bearer on Demand:** As per the RBI Act, 1934, promissory notes cannot be issued to bearer on demand except by the RBI or Central Government.

c) Examples: Correct vs. Incorrect Statements

- **Correct Statement:**
  • "I acknowledge myself to be indebted to Arjun in Rs. 10,000, to be paid on demand, for value received."
- **Incorrect Variations:**
  – Statements adding extra conditions (e.g., deducting amounts, conditional on marriage) which render the note invalid.

Cheque (Section 6)

a) Definition and Evolution

- **Definition:**
  • A cheque is a bill of exchange drawn on a specified banker and is expressed to be payable otherwise than on demand.
- **Modern Amendments (2002):**
  • The definition was broadened to include:
  – **E-cheque:** The electronic image of a paper cheque.
  – **Truncated Cheque:** A cheque that, during the clearing process, is converted to an electronic image for faster transmission, eliminating the need for physical movement.

b) Cheque Truncation System (CTS)

- **Purpose:**
  • Introduced for faster clearing of cheques by capturing cheque images and MICR data electronically.
- **Implementation:**
  • Implemented in major cities (New Delhi, Chennai, Mumbai) on specified dates.
  • **Grid-Based Approach:**
  – The country's cheque clearing is consolidated into three grids:
  * **New Delhi Grid:** Covers the National Capital Region, Haryana, Punjab, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Rajasthan, and Chandigarh.
  * **Mumbai Grid:** Covers Maharashtra, Goa, Gujarat, Madhya Pradesh, and Chhattisgarh.
  * **Chennai Grid:** Covers Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Odisha, West Bengal, Assam, and Puducherry.

c) MICR Code

- **Definition:**
  • A Magnetic Ink Character Recognition (MICR) code is a 9-digit code printed on cheques that uniquely identifies the bank and branch.
- **Structure:**
  • The first three digits: City Code.
  • The next three digits: Bank Code.
  • The last three digits: Branch Code.
- **Example:**
  • IFSC Code: SBIN0016019
  • MICR Code: 110002383

d) Relationship with Bill of Exchange

- **General Note:**
  • All cheques are bills of exchange, but not all bills of exchange are cheques.
- **Differences:**
  • In a cheque, the drawee is always a banker; no grace period is allowed; acceptance is not required; and cheques need not be stamped (in India).

e) Types and Characteristics

1. **Types of Cheques:**
   - **Open Cheque:** Can be cashed over-the-counter.
   - **Crossed Cheque:** Must be deposited into a bank account (cannot be cashed directly).
2. **Parties Involved:**
   - **Drawer:** The person who issues the cheque; holds primary liability.
   - **Drawee:** The bank on which the cheque is drawn; responsible for payment.
   - **Payee:** The recipient of the cheque.
3. **Key Characteristics:**
   - Must contain all the essential elements of a valid bill of exchange.
   - As a peculiar instrument, it does not require acceptance and is always payable on demand.
4. **Additional Points:**
   - Cheques may be "crossed" to restrict negotiation and ensure the money is deposited directly into the holder's bank account.
   - A cheque's authority may be revoked by countermanding or by stopping payment.

Holder and Holder in Due Course

A. Holder (Section 8)

- **Definition:**
  • The "holder" is any person in whose name the instrument is in possession and who is entitled to receive or recover the amount due.
- **Special Note:**
  • If the note, bill, or cheque is lost or destroyed, the person in possession at that time is considered the holder.

B. Holder in Due Course (Section 9)

- **Definition:**
  • A holder in due course is someone who acquires the instrument for value, in good faith, before its maturity, and without knowledge of any defect in the title of the person from whom it was acquired.
- **Implication:**
  • Such a holder obtains an indisputable title to the instrument.

Inland and Foreign Instruments

- **Inland Instrument (Section 11):**
  • Any negotiable instrument drawn or made in India and payable in India is deemed an inland instrument.
- **Foreign Instrument (Section 12):**
  • Any instrument not meeting the criteria of an inland instrument is considered a foreign instrument.

Additional Provisions

A. Section 18 – Difference in Figures and Words

- **Rule:**
  • If the amount stated in figures and in words differ, the amount in words shall prevail.
- **Terminology:**
  • The "legal amount" is the amount in words; the "courtesy amount" is the amount in figures.

B. Section 20 – Inchoate Stamped Instruments

- **Definition:**
  • When a person signs and delivers a stamped paper (blank or incompletely filled), they give prima facie authority to the holder to complete the instrument up to the amount covered by the stamp.
- **Liability:**
  • The person who delivered the instrument is liable for the completed amount as specified.

C. Section 14 – Negotiation

- **Concept:**
  • When a negotiable instrument (promissory note, bill of exchange, or cheque) is transferred to another person, making that person the holder, the instrument is said to be negotiated.

D. Section 15 – Endorsement

- **Definition:**
  • Endorsement occurs when the maker or holder signs the instrument (other than as the original maker) for the purpose of transferring it.
- **Types of Endorsement:**
  1. **Blank (General) Endorsement:**
     – Only the signature is provided; the instrument becomes payable to bearer.
  2. **Special (Full) Endorsement:**
     – The endorser signs and specifies the name of the person to whom payment is to be made.
  3. **Restrictive Endorsement:**
     – Places restrictions on further negotiation.
  4. **Partial Endorsement:**
     – Transfers only part of the amount payable (invalid under Section 56).
  5. **Conditional Endorsement:**
     – Subject to certain conditions being fulfilled.

Crossing of Cheques

A. Types of Crossing

1. **General Crossing (Section 123):**
   • Involves drawing two parallel lines and placing words between them. This indicates that the cheque must be paid only through the collecting bank.
2. **Account Payee Crossing:**
   • Similar in appearance to general crossing; used in practice though not defined in the Act.

3. **Special or Restricted Crossing (Section 124):**
   • The cheque bears the name of a specific bank (with or without the phrase "not negotiable"), restricting payment to that bank.
4. **Not Negotiable Cheque Crossing (Section 130):**
   • When the words "Not Negotiable" are written between the two parallel lines.
   • **Effect:**
   – The transferee does not obtain the holder in due course rights unless the transferor's title is good.
   – Any defect in the title of one endorser can affect the title of subsequent transferees.

Dishonour of Cheque (Section 138)

- **Definition:**
  • If a cheque drawn on an account is returned unpaid due to insufficient funds or because the amount exceeds the arranged limit, the drawer is deemed to have committed an offence.
- **Penalty:**
  • The offence is punishable by imprisonment (which may extend to two years), a fine (which may extend to twice the cheque's amount), or both.

Comparative Summary

A. Bill of Exchange vs. Promissory Note

Feature	Bill of Exchange	Promissory Note
Issuer	Issued by the creditor	Issued by the debtor
Parties Involved	Three parties: Drawer, Drawee, Payee	Two parties: Maker and Payee
Acceptance Requirement	Drawee must accept before liability	No acceptance required
Liability	Drawer's liability is secondary (after acceptance) and conditional	Maker's liability is primary and absolute
Copies	Can have copies	Does not allow copies
Drawer vs. Payee	The same person can be both	The same person cannot serve both

B. Cheque vs. Bill of Exchange

Aspect	Cheque	Bill of Exchange
Drawee	Always a banker	May be any party
Grace Period	No grace period allowed	May allow a grace period
Acceptance	Does not require acceptance	Requires acceptance
Stamping Requirement	In India, cheques do not require stamping	Must be stamped
Negotiability	Can be crossed to restrict payment methods	Cannot be "crossed" in the same way

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1. Negotiable Instruments – Overview

A. General Definition and Concept

- **Definition:**
  Negotiable Instruments are written contracts whose benefits can be passed from the original holder to a new holder. They are transferable, signed documents that promise to pay the bearer or a specified person a sum of money either on demand or at a future date.
- **Key Point:**
  Once transferred, the holder obtains full legal title to the instrument.

B. Legal Definition (as per the Negotiable Instruments Act, 1881)

- **Section 13(i):**
  A negotiable instrument is defined as a signed document that promises a sum of payment to a specified person or the assignee.
- **Additional Explanation:**
  - It is a transferable, signed document promising payment to the bearer or a named payee.
  - Examples include cheques, money orders, promissory notes, bills of exchange, and certificates of deposit.

C. Additional Legal Provisions

- **Transferability:**
  Instruments are transferable by endorsement and delivery.
- **Bank Holidays (Section 25):**
  If the day of maturity is a public holiday, the instrument is deemed to be due on the next preceding business day.
- **Amendments:**
  The Act was amended in 1988 (to align with changing business practices) and in 2015 (which now includes provisions for cheque defaulters and allows filing cheque bounce cases at the place of presentation).

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2. Payment Modes in Negotiable Instruments

A. Payable to Order vs. Payable to Bearer

- **Payable to Order:**
  - Expressly stated to be payable to a specified person.
  - Must be transferable by endorsement and delivery.
- **Payable to Bearer:**
  - Expressly stated as "pay bearer."
  - Transfer occurs through an endorsement in blank.

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3. Essential Characteristics of Negotiable Instruments

1. **Written Form:** Must be in writing.
2. **Signature:** Must be signed by the issuer.
3. **Transferability:** Freely transferable from one person to another.
4. **Holder's Title:** The title obtained by the holder must be free from defects.
5. **Multiple Transfers:** Can be transferred any number of times until the instrument is satisfied.
6. **Unconditional Promise/Order:** Must contain an unconditional promise or order to pay money.
7. **Payment in Money Only:** The sum payable must be in money only and must be a certain amount.

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4. Structure of the Negotiable Instruments Act, 1881

- **Effective Date:** 1st March, 1882.
- **Composition:**
  - 17 chapters
  - 147 sections
- **Key Sections:**
  - **Section 4:** Promissory Note
  - **Section 5:** Bill of Exchange
  - **Section 6:** Cheque
  - **Section 7:** Drawer and Drawee
  - **Section 8:** Holder/Payee
  - **Section 13:** Negotiable Instruments
  - **Section 25:** Bank Holidays
  - **Section 31:** Liability of the drawee bank to honour a cheque
  - **Section 85(A):** Demand Draft
  - **Section 138:** Dishonour of Cheque due to insufficient funds

Types of Negotiable Instruments (per Section 13)

- Promissory Note
- Bill of Exchange
- Cheque

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5. Detailed Discussion on Types of Negotiable Instruments

A. Promissory Notes

- **Definition:**
  A written promise to pay a specified sum of money to the person named in the document.
- **Legal Definition (Section 4):**
  "A promissory note is an instrument in writing (not being a bank-note or a currency-note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument."
- **Key Features:**
  - Written, signed, and stamped.
  - Transferable by endorsement and delivery.

  - Contains terms such as principal amount, interest rate, maturity date, and place of issuance.
  - In cases where it is used with a mortgage, it is referred to as a mortgage note.
- **Parties Involved:**
  - **Maker/Drawer:** The person making the promise (debtor).
  - **Payee:** The person to whom the payment is promised (creditor).

B. Certificate of Deposit (CD)

- **Definition:**
  A legal agreement between the depositor and the bank for a fixed amount of money over a predetermined period.
- **Features:**
  - Issued in Demat form.
  - Can be redeemed for principal and interest after maturity.
  - Maturity periods vary: 7 days to 1 year for commercial banks, and 1 to 3 years for financial institutions.
  - Minimum issuance amount is Rs.1 Lakh.
  - Regulated by the Reserve Bank of India and the Federal Deposit Insurance Corporation (FDIC).

C. Bills of Exchange

- **Definition:**
  A written order by the drawer instructing the drawee to pay a certain sum to a third party (the payee).
- **Parties Involved:**
  1. **Drawer:** The person who issues the order.
  2. **Drawee:** The person (or bank) to whom the payment order is directed.
  3. **Payee:** The person who receives the payment.
- **Key Features:**
  - Must be written, signed, and unconditional.
  - Transferable by endorsement and delivery.
  - Commonly used in international trade.

  Legal Definition (Section 5):

An instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money either to order or to bearer.

D. Cheques

- **Definition:**
  A written order by the drawer instructing a bank to pay a specified amount of money to the payee or their authorized representative.
- **Legal Definition (Section 6):**
  "A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. It also includes the electronic image of a truncated cheque and a cheque in electronic form."
- **Key Points:**
  - Transferable by endorsement and delivery.
  - The bank must honour the cheque even if the drawer has insufficient funds (as upheld in case law such as Canara Bank vs. Nuclear Power Corporation of India Ltd).
- **Features of a Cheque:**
  - Must be written, dated, and duly signed by the drawer.
  - Contains an unconditional order.
  - States the amount in both figures and words.
  - Issued by a specified banker.
  - Clearly indicates the payee.

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6. Types of Cheques

6.1. Bearer Cheque

- **Definition:**
  A cheque that contains the words "or bearer" (provided they are not struck out).
- **Characteristics:**
  - Payment can be received by anyone who presents it.
  - Also known as an "open" cheque.
  - Considered risky because if misplaced, any holder can withdraw the amount.

6.2. Crossed Cheque / Account Payee / Not Negotiable

- **Definition:**
  A cheque that is crossed by drawing two parallel lines (with or without words such as "& CO.", "Account Payee", or "Not Negotiable").
- **Key Characteristics:**
  - The cheque cannot be encashed over the counter.
  - Payment is credited only to the payee's bank account.
- **Types of Crossing:**
  - **General Crossing:**
    - Defined under Section 123 of the NI Act.
    - Two parallel lines are drawn (often on the top left of the cheque).
    - May include words like "& Company", "Not Negotiable", or "A/C. Payee."
    - Does not require the name of a banker; the cheque may be processed by any bank.
  - **Special Crossing:**
    - Defined under Section 124 of the NI Act.
    - Involves adding the name of a banker (with or without "& Co.", "Account Payee", or "Not Negotiable") on the face of the cheque.
    - Payment can only be processed through the specified banker.
  - **Double Crossing:**
    - Occurs when a cheque is crossed specially to more than one banker.
    - As per Section 127, if not clearly indicated that the second banker is acting as an agent for the first, payment may be refused.
  - **Restrictive Crossing:**
    - Ensures that payment is credited only to the payee's bank account and prevents further negotiation.

6.3. Order Cheque

- **Definition:**
  A cheque becomes an "order" cheque when the words "or bearer" are removed (or replaced with "or order").
- **Characteristics:**
  - Payment is made only to the named payee.
  - Offers greater security as it restricts payment solely to the specified person.
  - May include provisions for authorizing a representative to collect the amount.

6.4. Ante-Dated Cheque

- **Definition:**
  A cheque where the date on the cheque is earlier than the presentation date.
- **Validity:**
  Valid up to three months from the date mentioned on the cheque.

6.5. Post-Dated Cheque

- **Definition:**
  A cheque where the date mentioned is a future date.
- **Validity:**
  Not valid for payment until the specified future date is reached.

6.6. Stale Cheque

- **Definition:**
  A cheque presented for payment after 3 months (or 90 days) from the date of issue.
- **Outcome:**
  Banks will not honour a stale cheque.

6.7. Self Cheque

- **Definition:**
  A cheque drawn by the account holder for personal cash withdrawal.
- **Characteristics:**
  - The drawer writes "SELF" in place of the payee's name.
  - The drawer and the payee are the same.
  - It is always treated as a bearer cheque.

6.8. Traveller's Cheque

- **Definition:**
  A cheque designed for use abroad, where the local currency is not accepted.
- **Usage:**
  Can be encashed in foreign countries by travelers.

6.9. Mutilated Cheque

- **Definition:**
  A cheque that has been physically damaged (torn or mutilated).
- **Handling:**
  - If critical information is missing due to the damage, the cheque is rejected.
  - If only minor damage is present and the key details remain intact, the bank may process it further.

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7. Positive Pay System

A. Overview and Purpose

- **Definition:**
  A measure introduced by the RBI to prevent fraud through the tampering or alteration of cheque payments.
- **Purpose:**
  The drawer reconfirms key cheque details which are then cross-checked at the time of cheque presentation.

B. Process and Details

- **Information Required:**
  - Customer's account number
  - Cheque number
  - Cheque date
  - Amount
  - Beneficiary name
- **Process:**
  - The account holder submits the above details via registered email, by visiting the branch, or through internet/mobile banking.
  - It is recommended that these details be submitted a day before the cheque is presented.
  - The bank cross-checks the submitted information with the cheque details before processing the payment.
- **Application Note:**
  Some banks require the positive pay system to be used compulsorily for cheques valued at Rs.50,000 and above.
- **Additional Recommendation:**
  For high-value fund transfers, alternative methods like RTGS or NEFT are advisable. All details must be filled in English.

<u>Multiple Choice Quetions</u>

1. Which of the following best defines a negotiable instrument under the Act?
   (1)A document transferring ownership of tangible assets. (2)An oral promise to pay a debt. (3)A written document that creates a right in favor of a person and is freely transferable. (4)A certificate evidencing share ownership.
2. Which of the following is NOT considered a negotiable instrument under the Act?
   (1)T-Bill (2)Promissory note (3)Bill of exchange (4)Cheque
3. On what date was the Negotiable Instruments Act, 1881 enacted?
   (1)1 March 1882 (2)15 March 1882 (3)1 January 1882 (4)9 December 1881
4. When did the Negotiable Instruments Act, 1881 come into force?
   (1)1 March 1882 (2)9 December 1881 (3)15 March 1882 (4)1 April 1882
5. Which one of the following instruments is covered under the Act?
   (1)Currency note (2)Promissory note (3)Share certificate (4)Hundi
6. Under which section is the promissory note defined in the Act?
   (1)Section 6 (2)Section 5 (3)Section 4 (4)Section 7
7. Under which section is the bill of exchange defined?
   (1)Section 5 (2)Section 6 (3)Section 4 (4)Section 8
8. Under which section is the cheque defined in the Act?
   (1)Section 5 (2)Section 6 (3)Section 4 (4)Section 7
9. A promissory note is best described as:
   (1)A document that acknowledges debt without a promise of repayment. (2)An instrument used only for international transactions. (3)An oral commitment to pay money. (4)A written and signed unconditional undertaking to pay a specified sum.
10. In a bill of exchange, who is the drawer?

(1)The person who accepts the bill. (2)The person who draws or creates the bill (often also the payee). (3)The bank that processes the payment. (4)The person endorsing the bill.

11. In a bill of exchange, the drawee is:
(1)The person who draws the bill. (2)The eventual payee. (3)The person on whom the bill is drawn and who becomes liable upon acceptance. (4)The instrument's endorser.
12. Who is the beneficiary (payee) in a bill of exchange?
(1)The person to whom the bill is payable. (2)The person who draws the bill. (3)The drawee. (4)The bank's agent.
13. What does "endorsement" mean in the context of negotiable instruments?
(1)Cancellation of the instrument. (2)Renewal of the payment period. (3)Modification of the terms of the instrument. (4)Transfer of the instrument to another person.
14. Renewal of a bill of exchange occurs when:
(1)The drawer transfers the bill to a new payee. (2)The bill is canceled after dishonor. (3)The holder, unable to pay on the due date, requests an extension and a new bill is drawn. (4)The drawee changes the payment method.
15. Which of the following is NOT a characteristic of a valid bill of exchange?
(1)It must be in writing. (2)It must be signed by the drawer. (3)It can be made orally. (4)It must contain a definite and unconditional order to pay.
16. A bill of exchange cannot be originally made payable to bearer on demand because:
(1)It violates the Act's requirement for a named payee. (2)It does not allow for endorsement. (3)Banks do not accept bearer instruments. (4)Section 31 of the RBI Act, 1934 prohibits it.
17. Which statement best describes a promissory note?
(1)It is a written document promising to pay money and acts like an informal loan. (2)It is an oral agreement to pay a debt. (3)It transfers ownership of property. (4)It is used exclusively for international trade finance.
18. Which of the following is true about a valid promissory note?
(1)It may be given orally by the maker. (2)It must be in writing, signed by the maker, and include an unconditional promise to pay a specific sum. (3)It does not require the specification of a payee. (4)It must be accepted by a bank before issuance.
19. In a promissory note, who is the maker?
(1)The person who promises to pay the specified sum. (2)The person receiving the money. (3)The bank that issues the note. (4)The person endorsing the note.
20. For a promissory note to be valid, which of the following is required?
(1)It must be stamped and dated. (2)It can be a verbal agreement. (3)It must be payable to bearer. (4)It requires acceptance by the drawee.
21. Consider the following statement made by Ankit on a promissory note:
"I acknowledge myself to be indebted to Gaurav in Rs. 10,000, to be paid on demand, for value received."
Which of the following is correct regarding this statement?
(1)It is incorrect because it promises payment after a delay. (2)It is incorrect because it includes deductions. (3)It is incorrect because it is not unconditional. (4)It is correct as it clearly states the unconditional promise to pay on demand.
22. How is a cheque defined under the Negotiable Instruments Act, 1881?
(1)As a written order to pay money on a fixed date. (2)As a bill of exchange drawn on a specified banker and payable otherwise than on demand. (3)As a document used to transfer shares. (4)As an oral promise to a bank.
23. Under which section is the cheque defined?
(1)Section 4 (2)Section 5 (3)Section 6 (4)Section 7
24. What is an E-cheque?
(1)A cheque in electronic form generated with a digital signature. (2)A cheque issued only for e-commerce transactions. (3)A cheque that requires physical endorsement. (4)A cheque that is payable only after a verification call.
25. A truncated cheque is defined as:
(1)A cheque issued without a specified date. (2)A cheque truncated during the clearing cycle by generating an electronic image for transmission. (3)A cheque that is payable only after endorsement. (4)A cheque issued solely for large transactions.
26. What is the Cheque Truncation System (CTS)?
(1)A method for printing cheques on demand. (2)A procedure for verifying signatures on cheques. (3)A system for physical movement of cheques between banks. (4)An RBI project that enables image-based clearing of cheques.
27. Under the new grid-based approach to CTS implementation, which of the following is NOT one of the three grids?
(1)New Delhi Grid (2)Mumbai Grid (3)Chennai Grid (4)Kolkata Grid
28. What is the purpose of the MICR code printed on cheques?

(1)To identify the bank and branch participating in the Electronic Clearing System. (2)To serve as the cheque's digital signature. (3)To indicate the cheque's date of issuance. (4)To specify the cheque amount in figures.

29. How many digits are there in a standard MICR code?
(1)8 (2)9 (3)10 (4)7

30. The IFSC code primarily indicates:
(1)The cheque number. (2)The amount in words on the cheque. (3)The account holder's identity. (4)The bank branch in the electronic clearing system.

31. An open cheque is best defined as one that:
(1)Is payable over-the-counter by the collecting bank. (2)Must be deposited directly into a bank account. (3)Does not require the drawer's signature. (4)Is valid only after endorsement.

32. A crossed cheque is characterized by which of the following?
(1)It can be cashed immediately at any bank counter. (2)It is payable to bearer on demand. (3)It must be deposited directly into the holder's bank account. (4)It does not require a MICR code.

33. In the context of cheques, who is the drawer?
(1)The bank that processes the cheque. (2)The person who writes or draws the cheque. (3)The payee receiving the funds. (4)The individual who endorses the cheque.

34. In a cheque, the drawee refers to:
(1)The bank on which the cheque is drawn. (2)The person who issues the cheque. (3)The individual who receives the cheque. (4)The government authority.

35. Who is typically the payee in a cheque?
(1)The bank that processes the cheque. (2)The person drawing the cheque. (3)The account holder's agent. (4)The person in whose favor the cheque is drawn.

36. Which of the following is NOT a requirement for a valid cheque in India?
(1)It must be drawn on a specified banker. (2)It must contain all essential elements of a bill of exchange. (3)It does not require stamping. (4)It must be payable on demand.

37. What characteristic of a cheque makes it a revocable mandate?
(1)Its non-transferable nature. (2)Its ability to be stopped or countermanded by the drawer. (3)Its requirement for physical endorsement. (4)Its printed MICR code.

38. Section 8 of the Negotiable Instruments Act, 1881 defines:
(1)The "holder" of a negotiable instrument. (2)The process for endorsing a cheque. (3)The method of renewing a bill of exchange. (4)The legal requirements for stamping an instrument.

39. "Holder in due course" as per Section 9 is defined as a person who:
(1)Simply holds the instrument regardless of how it was obtained. (2)Is the maker of the instrument. (3)Endorses the instrument without receiving any value. (4)Acquires the instrument for consideration, in good faith, and before its maturity.

40. According to Section 18, if an amount is stated differently in figures and in words on a cheque, which prevails?
(1)The amount in figures. (2)The amount in words. (3)The higher amount between the two. (4)The lower amount between the two.

41. Which of the following is considered a non-negotiable instrument under the Act?
(1)Promissory note (2)Cheque (3)Share certificate (4)Bill of exchange

42. In the context of a cheque, what does "crossing" imply?
(1)The cheque must be endorsed before payment. (2)The cheque can only be deposited into a bank account rather than cashed over the counter. (3)The cheque is valid only when issued on a specific date. (4)The cheque's amount is subject to change after issuance.

43. The term "inland instrument" refers to an instrument that:
(1)Is drawn outside India. (2)Is drawn or made in India and payable in India to a resident. (3)Is only used for domestic trade in specific states. (4)Requires endorsement by an Indian bank.

44. Which statement best describes a "holder in due course" under Section 9?
(1)A person who obtains the instrument without any consideration. (2)A person who acquires the instrument for value, in good faith, and before its maturity. (3)The maker of the instrument who signs it. (4)A person who only endorses the instrument after maturity.

45. Under which section is the provision related to incomplete stamped instruments (inchoate instruments) dealt with?
(1)Section 20 (2)Section 15 (3)Section 14 (4)Section 12

46. Which of the following statements regarding cheque crossing is NOT true?
(1)It restricts the payment to the bank on which the cheque is drawn. (2)It renders the cheque non-transferable, preventing the transferee from obtaining a better title. (3)It ensures the cheque is processed only by the collecting bank. (4)It may be either general or special in nature.

47. Which type of endorsement is NOT typically mentioned under the Act?

(1)Blank (general) endorsement (2)Special (full) endorsement (3)Restrictive endorsement (4)Unconditional endorsement

48. For a document to qualify as a negotiable instrument, it must:
(1)Create a right or impose a liability and be freely transferable. (2)Be issued by a government authority only. (3)Always require a bank's verification. (4)Be executed orally and witnessed by two parties.

49. What is the effect of a "not negotiable" crossing on a cheque?
(1)It prohibits any form of endorsement. (2)It restricts the transferee's ability to obtain a better title than the transferor. (3)It mandates that the cheque must be re-issued on a later date. (4)It immediately cancels the cheque.

50. In the process of negotiation, what is the primary action taken with a negotiable instrument?
(1)Signing it to transfer ownership to another party. (2)Verbal confirmation of its terms. (3)Destroying the instrument after settlement. (4)Sending it back to the drawer for amendment.

Answers:

1	3	6	3	11	3	16	4	21	4	26	4	31	1	36	3	41	3	46	2
2	1	7	1	12	1	17	1	22	2	27	3	32	3	37	2	42	2	47	4
3	4	8	2	13	4	18	2	23	3	28	1	33	2	38	1	43	2	48	1
4	1	9	4	14	3	19	1	24	1	29	2	34	1	39	4	44	2	49	2
5	2	10	2	15	3	20	1	25	2	30	4	35	4	40	2	45	1	50	1

6. Basel Norms

1. Fundamentals of Banking

a) How a Bank Works:

Role as a Financial Intermediary:

- Banks manage the flow of money between people and businesses.
- They offer secure deposit accounts where individuals can store money.
- Funds from deposits are used to provide loans to borrowers.

Profit Mechanism:

- Banks lend money at interest rates higher than what they pay on deposits, earning the difference as profit.

b) What is Credit Risk?

Definition:

- Credit risk is the possibility of loss resulting from a borrower's failure to repay a loan.

Key Points:

- It involves the risk that a lender may not receive the due principal and interest, leading to cash flow interruptions and increased collection costs.
- To mitigate this risk, lenders generally assess the borrower's credibility and background.

c) Lending Constraints and Capital Requirements:

Lending 100% of Deposits?

- Banks cannot lend 100% of their deposits because they must retain a portion as their own money (Equity/Capital) to ensure depositors can be repaid.

Importance of Bank Capital:

- Adequate capital helps a bank withstand defaults and avoid insolvency.
- Insufficient capital can lead to reputational damage, a loss of consumer confidence, and a risk of bank runs.

Trade-off – More Capital vs. Higher Return on Equity:

Example Calculation:

Scenario 1: A bank starts with 1000 crore in capital and receives 9000 crore in deposits (total 10,000 crore).

- Lends at 10% interest → Earnings = 1000 crore.
- Pays 5% on deposits → Interest cost = 450 crore.
- **Profit = 550 crore**;

Return on Equity (ROE) = 550/1000 × 100 = 55%.

Return on Investment (ROI) = 1000/10,000 × 100 = 10%.

Scenario 2: If the bank uses only 100 crore of its own capital (with 9900 crore from depositors), then:

- Profit becomes 505 crore (after increased interest costs).

New ROE = 505/100 × 100 = 505% (while ROI remains at 10%).

Interpretation:

- Keeping more capital reduces the risk of bankruptcy but lowers the ROE.
- Conversely, using less capital boosts ROE but increases risk.
- Banks must balance profitability with the need for adequate capitalization to safeguard consumer interests.

2. Overview of Basel Norms

a) Purpose and Background:

Basel Accords:

- Also known as Basel Norms or Basel Accords, these are international banking regulations issued by the Basel Committee on Banking Supervision (BCBS).
- The committee was originally established in 1974 by central bank governors from the Group of Ten (G10) countries following international financial disturbances (e.g., the failure of Bankhaus Herstatt in West Germany).

Institutional Framework:

- The committee meets several times a year and is headquartered at the Bank for International Settlements (BIS) in Basel, Switzerland.
- The BIS, along with the Financial Stability Institute (FSI) (established in 1998), plays a key role in promoting global financial stability and enhancing banking supervision.

3. Basel I Norms

a)Introduction

- **Launch:** Introduced in 1988; adopted in India in 1999.
- **Focus:** Concentrates solely on credit risk.

b)Risk-Weighted Assets (RWA)

Concept:

- A bank's assets are weighted according to their risk.
- For instance, secured loans (backed by collateral) are deemed less risky than unsecured personal loans.

Classification of Assets (Four Classes):

- **Class S:** Sovereign debt to OECD countries and their central banks – **0% risk weight.**
- **Class B:** Loans to other banks and public sector institutions in OECD countries – **20% risk weight.**
- **Class R:** Loans secured by residential property – **50% risk weight.**
- **Class O:** All other loans – **100% risk weight.**

c)Example Calculation (Bank ABC)

Loan Distribution:

- 200 crore to RBI (0% risk), 200 crore to ONGC (20% risk), 200 crore secured loan (50% risk), 400 crore personal loan (100% risk).

RWA Calculation:

- (0% × 200) + (20% × 200) + (50% × 200) + (100% × 400)
- = 0 + 40 + 100 + 400 = **540 crore.**

Capital Requirement:

- Banks must hold capital equal to at least 8% of their RWA.
- The formula is: **(Tier 1 + Tier 2 Capital) / RWA > 8%,** with at least 4% coming from Tier 1.

d) Capital Components

Tier 1 Capital (Core Capital):

- Includes shareholders' equity, disclosed reserves, and retained earnings.
- It is the most reliable and liquid form of capital, with the highest capacity to absorb losses.

Tier 2 Capital (Supplementary Capital):

- Consists of revaluation reserves, hybrid capital instruments, subordinated term debt, general loan-loss reserves, and undisclosed reserves.
- Considered less reliable due to valuation and liquidity challenges.

e) Pros and Cons of Basel I

Pros:

- **Simplicity:** Very easy to calculate.
- **Sound Framework:** Provides a clear method for determining risk and calculating the Capital Adequacy Ratio (CAR).

Cons:

- **Oversimplification:** Considers only credit risk with only four broad risk weights (0%, 20%, 50%, 100%).
- **Limitations:** Does not account for varying risks associated with different currencies, macroeconomic factors, or complex risk factors (e.g., individual credit history in home loans).

- **Potential Bias:** May favor government loans (due to lower risk weighting) and overlook nuances in corporate lending.

4. Basel II Norms

a) Introduction and Pillars

Introduction: Introduced in 2004 as an update to Basel I.

Three Pillars:

1. **Minimum Capital Requirements:**
   - Maintains an 8% minimum capital ratio.
   - Requires that at least 4% of the capital reserve is Tier 1, with 2% of that in the form of common equity (CET1).
2. **Supervisory Review:**
   - Provides a framework for regulators to assess banks' risk management (covering systemic, pension, concentration, strategic, reputational, liquidity, and legal risks).
3. **Market Discipline & Disclosure:**
   - Requires regular public disclosure (at least every two years) to allow market participants to assess an institution's capital adequacy.

b) Expanded Risk Coverage

Risks Addressed:

- **Credit Risk:** (as in Basel I)
- **Market Risk:** Losses from market price movements, including interest rate, equity, foreign exchange, and commodity risks.
- **Operational Risk:** Risks arising from failures in internal processes, people, systems, including cybersecurity, fraud (internal and external), and business disruptions.

c) Key Innovations

Credit Rating Impact:

- The risk weight of an asset is now influenced by its credit rating.
- Higher-rated assets attract lower risk weights, providing an incentive for better credit quality.

d) Shortcomings of Basel II

Underestimation of Risk:

- The framework underestimated the risks in modern banking practices, leading to undercapitalization.

Limitations in Risk Estimation:

- Difficulties in estimating rare but large-scale events.

Disclosure and Rating Issues:

- Market disclosures may not be thoroughly scrutinized by investors.
- External credit rating agencies might not fully capture the inherent risks in banks' operations.

5. Basel III Norms

a) Introduction and Context

Background:

- Introduced in 2010 in response to the 2008 financial crisis.

Capital Structure Adjustments:

- Minimum capital requirement remains at 8% (with some jurisdictions, like India, mandating 9%).
- **Tier 1 Capital:** Increased to at least 6% (or 7% as per local regulations).
- **Common Equity (CET1):** Must account for 4.5% of RWA (or 5.5% in some cases).
- **Tier 2 Capital:** Reduced to 2%.

b) Additional Capital Buffers

Capital Conservation Buffer:

- An extra 2.5% of RWA must be maintained in the form of common equity on top of the minimum capital ratio (ensuring a total of 9% in some jurisdictions).

Counter-Cyclical Buffer:

- Ranges from 0% to 2.5% to protect banks during periods of excess credit growth.

c) Leverage and Liquidity Requirements

Leverage Ratio:

- Defined as Tier 1 capital as a percentage of total exposures.
- **Minimum Requirements:** 4% for Domestic Systemically Important Banks (DSIBs) and 3.5% for other banks.
- A higher leverage ratio reduces profit potential but strengthens a bank's resilience.

Liquidity Coverage Ratio (LCR):

- Banks must hold sufficient High-Quality Liquid Assets (HQLA) to cover net cash outflows for 30 days under stress.

Net Stable Funding Ratio (NSFR):

d) Comparative Summary: Basel II vs. Basel III

Requirement	Basel II	Basel III
Minimum Total Capital to RWA	8%	10.5% (combined with buffers)
Common Equity to RWA	2%	4.5%
Tier 1 Capital to RWA	4%	6%
Capital Conservation Buffer	–	2.5% (CET1 only)
Counter-Cyclical Buffer	0%	0–2.5%
Leverage Ratio	Not specified	4% for DSIBs; 3.5% for other banks
Liquidity Coverage Ratio (LCR)`–	Required (30-day HQLA)	
Net Stable Funding Ratio (NSFR)	–	100%

Multiple Choice Questions

1. Which statement best explains how a bank functions as a financial intermediary?
   (1)It manufactures and sells financial products exclusively. (2)It manages the flow of money between people and businesses by accepting deposits and providing loans. (3)It primarily invests in stocks and bonds for its own account. (4)It offers consultancy services to corporations.
2. How do banks primarily earn a profit?
   (1)By charging fees for maintaining deposit accounts. (2)By investing all deposits into high-risk ventures. (3)By lending money at higher interest rates than those paid on deposits, thereby earning the spread. (4)By relying solely on government subsidies.
3. Credit risk is defined as:
   (1)The possibility of loss due to a borrower's failure to repay the loan. (2)The risk that market prices will fluctuate unfavorably. (3)The risk of operational failures within the bank. (4)The potential for losses from cyber-attacks on banking systems.
4. Why can a bank not lend out 100% of its deposits?
   (1)Because doing so would result in higher deposit interest rates. (2)Because regulations require banks to invest in government bonds. (3)Because it must hold all deposits as cash in a vault. (4)Because banks must retain a portion as their own capital (equity) to ensure liquidity and protect depositors.
5. In the example provided, if a bank starts with 1000 crore in capital and earns 550 crore profit, what is its Return on Equity (ROE)?
   (1)10% (2)505% (3)55% (4)5.5%
6. What effect does using less of its own capital have on a bank’s ROE, assuming the same total investment?
   (1)ROE decreases while risk decreases. (2)ROE remains unchanged. (3)ROE increases dramatically even though the Return on Investment (ROI) stays the same. (4)ROE becomes negative.
7. What is the trade-off involved in maintaining higher levels of capital in a bank?
   (1)Higher capital increases ROE but also increases risk. (2)Higher capital reduces risk of insolvency but lowers ROE. (3)Higher capital eliminates the need for deposit insurance. (4)There is no trade-off; higher capital improves both profitability and safety.
8. Basel Accords are also known as:
   (1)International Banking Guidelines (2)Global Financial Protocols (3)Basel Norms (4)Financial Stability Rules
9. In what year was the Basel Committee on Banking Supervision originally established?
   (1)1974 (2)1988 (3)2004 (4)2010
10. Where is the Basel Committee headquartered?
   (1)New York, USA (2)Tokyo, Japan (3)Basel, Switzerland (4)London, UK
11. Which Basel Norm specifically focuses solely on credit risk using only four risk-weight categories?
   (1)Basel II (2)Basel I (3)Basel III (4)Basel IV
12. Under Basel I, what risk weight is assigned to sovereign debt issued by OECD countries and their central banks?
   (1)0% (2)20% (3)50% (4)100%

13. Consider a bank with the following loan distribution: 200 crore to RBI (0% risk), 200 crore to ONGC (20% risk), 200 crore secured loan (50% risk), and 400 crore personal loan (100% risk). What is the total Risk-Weighted Assets (RWA)?
(1)480 crore (2)600 crore (3)540 crore (4)500 crore
14. What is the minimum Capital Adequacy Ratio (CAR) required under Basel I?
(1)4% (2)6% (3)8% (4)10%
15. Which of the following is included in Tier 1 Capital?
(1)Subordinated term debt and undisclosed reserves. (2)Revaluation reserves and hybrid instruments. (3)Shareholders' equity, disclosed reserves, and retained earnings. (4)General loan-loss reserves only.
16. Basel II introduced a three-pillar framework. Which of the following is NOT one of the three pillars?
(1)Minimum Capital Requirements (2)Supervisory Review (3)Market Discipline & Disclosure (4)Liquidity Risk Management
17. Under Basel II, how does a higher credit rating on an asset affect its risk weight?
(1)It increases the risk weight. (2)It has no effect on the risk weight. (3)It reduces the risk weight. (4)It makes the risk weight irrelevant.
18. One key shortcoming of Basel II mentioned in the content is that it:
(1)Overestimated the risk in modern banking practices. (2)Did not require any public disclosure. (3)Underestimated the risks, potentially leading to undercapitalization. (4)Focused exclusively on liquidity risk.
19. Which Basel Norm was introduced in response to the 2008 financial crisis to enhance capital and liquidity requirements?
(1)Basel I (2)Basel II (3)Basel III (4)Basel IV
20. Under Basel III, what is the additional Capital Conservation Buffer that banks must maintain in the form of common equity on top of the minimum capital ratio?
(1)1% (2)2.5% (3)4% (4)0.5%

Answers:

1	2	6	3	11	2	16	4
2	3	7	2	12	1	17	3
3	1	8	3	13	3	18	3
4	4	9	1	14	3	19	3
5	3	10	3	15	3	20	2

7. Important Banking Committees

1. RV Gupta Committee

- **Focus:** Agricultural finance.
- **Key Recommendation/Action:**
  - Introduction of the Kisan Credit Card (KCC) scheme in August 1998 to provide term loans for farmers.
  - The KCC model was prepared by NABARD and meets the recommendations of the RV Gupta Committee.
  - The scheme is available across all Indian banks, including regional rural and cooperative banks.

2. RN Malhotra Committee

- **Focus:** Insurance sector reforms.
- **Key Recommendations/Actions:**
  - Set up in 1993 under the chairmanship of a former RBI Governor.
  - Recommended allowing the private sector and foreign companies (through joint ventures with Indian companies) to enter the insurance industry.
  - Led to the formation of the Insurance Regulatory and Development Authority (IRDA) in 1999.

3. Bimal Jalan Committees

- **Focus:** RBI surplus and bank licensing.
- **Key Points:**
  - Recommended that the RBI transfer its surplus funds to the central government (as per the Economic Capital Framework (ECF)).
  - Also recommended new bank licenses; for example, IDFC and Bandhan Bank were licensed in 2014 on the basis of the 2013 recommendations.

4. P J Nayak Committee

- **Focus:** Governance of bank boards.
- **Key Recommendations/Actions:**
    - Officially known as the Committee to Review Governance of Boards of Banks in India.
    - Established by the RBI in 2014 and chaired by P J Nayak (former CEO & Chairman of Axis Bank).
    - Its recommendations led to the creation of the Banks Board Bureau for governance reforms in Public Sector Banks (PSBs).

5. USHA THORAT Committee

- **Focus:** Small Finance Banks.
- **Key Outcome:**
    - Recommendations led to the opening of Small Finance Banks.

6. NACHIKET MOR Committee

- **Focus:** Payment Banks.
- **Key Outcome:**
    - Recommendations were the basis for the launch of Payment Banks.

7. CRAFICARD (B. Sivaraman) Committee

- **Focus:** Institutional credit for agriculture.
- **Key Points:**
    - NABARD was set up following this committee's review of arrangements for institutional credit in agriculture and rural development.
    - The committee was formed on 30 March 1979 under the chairmanship of Shri B. Sivaraman.

8. AD GOREWALA Committee

- **Focus:** Evolution of Indian banking.
- **Key Historical Milestones:**
    - The Bank of Calcutta was established on 2 June 1806.
    - It was re-designated as the Bank of Bengal on 2 January 1809.
    - The Bank of Bombay (15 April 1840) and Bank of Madras (1 July 1843) followed.
    - The three banks amalgamated to form the Imperial Bank of India on 27 January 1921, which later became SBI on this committee's recommendation.

9. N. S. Vishwanathan Committee

- **Focus:** Urban Cooperative Banks (UCBs).
- **Key Recommendations:**
    - Suggested restructuring UCBs into four categories based on deposit size:
        - **Tier-1:** Deposits up to Rs 100 crore.
        - **Tier-2:** Deposits between Rs 100 crore and Rs 1000 crore.
        - **Tier-3:** Deposits between Rs 1000 crore and Rs 10,000 crore.
        - **Tier-4:** Deposits exceeding Rs 10,000 crore.

10. S. Padmanabhan Committee

- **Focus:** Bank rating systems.
- **Key Recommendations:**
    - For Indian banks: Recommended six rating factors (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Systems & Controls — commonly abbreviated as CAMELS).
    - For Foreign banks: Recommended four rating factors (Capital Adequacy, Asset Quality, Compliance, and Systems & Controls — abbreviated as CACS).
- **Year:** 1995.

11. VAGHUL Committee

- **Focus:** Money market analysis.
- **Key Outcome:**
    - Recommendations related to improving money market operations and analysis.

12. Direct & Indirect Tax Reform Committees

- **Components:**
    - **Raja Chelliah Committee (1991):**
        - Known as the "father of tax reforms in India."
    - **Rekhi Committee (1992):**
        - Focused on reforms in the indirect taxation system.
    - **Vijay Kelkar Committee (2002):**
        - Addressed reforms in the direct taxation system.

13. Shri M. Narasimha Rao Committee

- **Focus:** Rural credit institutions.

- **Key Outcome:**
  - Its recommendations led to the establishment of Regional Rural Banks (RRBs) in 1975 following the Banking Commission 1972's suggestion to create a separate institution for rural credit.

14. Siddiqui Committee
- **Focus:** Credit information.
- **Key Recommendations/Outcome:**
  - Led to the incorporation of TransUnion CIBIL Limited (formerly Credit Information Bureau (India) Limited).
  - Introduced the concept of a CIBIL score—a 3-digit number (ranging from 300 to 900) representing a borrower's creditworthiness.

15. Licensing Policy of New Urban Cooperative Banks
- **Basis:**
  - The RBI's existing licensing policy is broadly based on recommendations of the Satish Marathe Committee.

16. Advisory Committee on Ways and Means Advances to State Governments
- **Key Person:**
  - Chaired by Shri Sudhir Shrivastava.
- **Focus:**
  - Provides recommendations on ways and means advances to state governments.

17. Committee to Review the Working of Asset Reconstruction Companies
- **Key Person:**
  - Chaired by Shri Sudarshan Sen.
- **Focus:**
  - Reviews the functioning and effectiveness of Asset Reconstruction Companies.

18. Working Group on Digital Lending
- **Focus:**
  - Analyzes digital lending, including platforms through online and mobile apps.
- **Key Person:**
  - Chaired by Shri Jayant Kumar Dash.

19. Regulations Review Authority 2.0
- **Key Person:**
  - Chaired by Shri M. Rajeshwar Rao.
- **Focus:**
  - Reviews and suggests updates to the regulatory framework.

20. Internal Working Group on Ownership Guidelines & Corporate Structure for Indian Private Sector Banks
- **Key Person:**
  - Chaired by PK MOHANTY.
- **Focus:**
  - Reviews extant ownership guidelines and corporate structures.

21. Expert Committee on Resolution Framework for Covid-19 Related Stress
- **Key Person:**
  - Chaired by Shri K.V. Kamath (focused on loan restructuring).
- **Focus:**
  - Addresses resolution frameworks amid Covid-19–related financial stress.

22. Committee on the Analysis of QR (Quick Response) Code
- **Key Person:**
  - Chaired by Prof. D.B. Phatak.
- **Focus:**
  - Analyzes the application and implications of QR codes in banking.

23. Committee to Review the ATM Interchange Fee Structure
- **Key Person:**
  - Chaired by Shri V G Kannan.
- **Focus:**
  - Evaluates and recommends changes to ATM fee structures.

24. Committees on MSMEs (Micro, Small and Medium Enterprises)
- **Components:**
  - **Committee on Micro, Small and Medium Enterprises:**
    - Chaired by Shri U.K. Sinha.
  - **MSME (Credit) Committee:**

            - Known as the SL Kapur Committee.
    - **SS Kohli Committee:**
        - Focused on sick rehabilitation of small scale industries.
    - **Additional Committees:**
        - Abid Hussain Committee and SP Gupta Committee also addressed issues related to MSMEs.

25. Committees on Digital Payments
- **Components:**
    - **High Level Committee on Deepening of Digital Payments:**
        - Chaired by Shri Nandan Nilekani.
    - **Ratan P Watal Committee:**
        - Recommended a medium-term strategy to accelerate the growth of digital payments in India.

26. Internal Study Group on the Marginal Cost of Funds Based Lending Rate System
- **Key Person:**
    - Chaired by Dr. Janak Raj.
- **Focus:**
    - Reviews the working of the marginal cost-based lending rate system.

27. High Level Task Force on Public Credit Registry for India
- **Key Person:**
    - Chaired by Y. M. Deosthalee.
- **Focus:**
    - Develops strategies for a public credit registry.

28. A C Shah Committee on Deposit Insurance for NBFCs
- **Focus:**
    - Recommended that General Insurance Corporation (GIC) and Deposit Insurance and Credit Guarantee Corporation (DICGC) provide risk cover.
    - The committee favoured voluntary risk cover rather than mandatory insurance.

29. Disinvestment Commission (August 1996)
- **Key Person:**
    - Chaired by G V Ramakrishna.
- **Focus:**
    - Set up to advise, supervise, monitor, and publicize the gradual disinvestment of Indian Public Sector Undertakings (PSUs).

30. Narasimham Committees
- **Components:**
    - **Narasimham Committee on Financial System (1991).**
    - **Narasimham Committee on Banking Sector Reforms (1998).**

31. K S Shree Committee for Setting up Legal Framework for Electronic Banking
- **Focus:**
    - In 1995, the RBI established this committee to propose legislation on Electronic Funds Transfer and other electronic payment systems.

32. Ghosh Committee
- **Focus:**
    - Recommended a weaker section target for the priority sector lending quota.

33. Committees for Improvement in Customer Service in Banks
- **Components:**
    - **RBI-Set Up Committees:**
        - In 1990, a committee headed by Shri M.N. Goiporia (then Chairman of SBI) was formed to improve customer service.
    - **Government Appointments:**
        - The Talwar Committee (appointed in 1975) on customer service.
    - **Tarapore Committee (2004):**
        - Its recommendations led to the formation of board-level committees for monitoring customer service.
    - **Additional Initiative (2010):**
        - RBI constituted a committee under the chairmanship of Shri M. Damodaran (former Chairman, SEBI) to focus on customer service aspects.

34. Working Group on Wilful Defaulters (WGWD)
- **Key Person:**
    - Chaired by Shri S. S. Kohli.

- **Focus:**
    - Reviews cases of wilful default and recommends remedial measures.

35. The Raghuram Rajan Committee on Financial Sector Reforms
- **Focus:**
    - Constituted by the Government of India in 2007.
    - Tasked with proposing the next generation of financial sector reforms.

36. Committee on Urban Cooperative Banks (1977)
- **Focus:**
    - Appointed by the RBI under the chairmanship of then Executive Director Shri K Madhav Das.
    - Evaluated the role of primary (urban) cooperative banks and suggested lines for their future growth.

37. Prof. D R GADGIL Committee (1969)
- **Focus:**
    - Recommended that public sector banks discharge their social responsibilities by concentrating on specific districts as "Lead Banks."
    - Led to the inception of the Lead Bank Scheme in December 1969.

38. Dr. C. Rangarajan Committees
- **Components:**
    - **Computerization in Banks (1988):**
        - RBI set up a committee on computerization in banks headed by Dr. C. Rangarajan.
        - Also addressed issues on poverty estimation and calculation.
    - **Financial Inclusion (2006):**
        - Government of India constituted a "Committee on Financial Inclusion" chaired by Dr. C. Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister.

39. Technical Committee on Mobile Banking
- **Focus:**
    - Constituted by the RBI under the chairmanship of Shri B. Sambamurthy, Director of the Institute for Development and Research in Banking Technology.
    - Studied current challenges in mobile banking.

40. Urjit Patel Committee
- **Focus:**
    - Established by the RBI in 2013.
    - Tasked with revising and strengthening the monetary policy framework.

41. Hurun Rashid Khan Committee
- **Focus:**
    - Chaired the RBI Internal Group on Rural Credit and Microfinance (popularly known as the Khan Committee).
    - Its recommendations led to guidelines that expanded banking outreach via the Business Correspondent model supported by ICT, significantly enhancing financial inclusion.

42. Kalyana Sundaram Committee
- **Focus:**
    - Recommended the introduction of factoring in 1989.
    - Following its recommendations, the Banking Regulation Act, 1949 was amended in 1991 to enable banks to set up factoring services.

43. Jilani Working Group on Internal Controls and Audit Systems (1995)
- **Focus:**
    - Identified key risks associated with IT systems.
    - Recommended various internal control measures to mitigate these risks.

44. V. R. Pillais Committee
- **Focus:**
    - Addressed the standardisation of pay scales, allowances, and perquisites for officers in nationalised banks.

45. Sunil Mehta Committee
- **Focus:**
    - Set up to restructure stressed assets and create more value for Public Sector Banks (PSBs).
    - Proposed "Project Sashakt" based on its recommendations.

46. YV Reddy Committee
- **Focus:**
    - Constituted for reforms in Small Savings schemes.

47. W.S. Saraf Committee (1994)

- **Focus:**
    - Dealt with technology issues relating to the payments system, cheque clearing, and securities settlement in the banking industry.

48. Santhanam Committee (1962)

- **Focus:**
    - The Committee on Prevention of Corruption.
    - Recommended the constitution of the Central Vigilance Commission.

1. Which committee introduced the Kisan Credit Card (KCC) scheme in 1998 to provide term loans for farmers?
(1)RN Malhotra Committee (2)RV Gupta Committee (3)Siddiqui Committee (4)Bimal Jalan Committee
2. Which committee recommended reforms in the insurance sector by permitting private sector participation and allowing foreign companies to enter through joint ventures?
(1)Bimal Jalan Committee (2)RV Gupta Committee (3)P J Nayak Committee (4)RN Malhotra Committee
3. Which committee recommended that the RBI transfer its surplus funds to the central government?
(1)Bimal Jalan Committee (2)N. S. Vishwanathan Committee (3)P J Nayak Committee (4)CRAFICARD Committee
4. Which committee was set up to review the governance of bank boards and led to the creation of the Banks Board Bureau?
(1)RN Malhotra Committee (2)VAGHUL Committee (3)P J Nayak Committee (4)RV Gupta Committee
5. Which committee's recommendations led to the establishment of Small Finance Banks in India?
(1)Bimal Jalan Committee (2)USHA THORAT Committee (3)NACHIKET MOR Committee (4)Siddiqui Committee
6. Which committee's recommendations resulted in the opening of Payment Banks in India?
(1)NACHIKET MOR Committee (2)USHA THORAT Committee (3)P J Nayak Committee (4)RN Malhotra Committee
7. Which committee—chaired by B. Sivaraman and also known as the CRAFICARD committee—led to the formation of NABARD?
(1)RN Malhotra Committee (2)RV Gupta Committee (3)Bimal Jalan Committee (4)CRAFICARD Committee
8. Which committee recommended that the Imperial Bank of India be re-designed and eventually transformed into the State Bank of India (SBI)?
(1)Bimal Jalan Committee (2)RN Malhotra Committee (3)AD GOREWALA Committee (4)RV Gupta Committee
9. Which committee recommended categorizing Urban Cooperative Banks (UCBs) into four tiers based on deposit amounts?
(1)P J Nayak Committee (2)N. S. Vishwanathan Committee (3)Siddiqui Committee (4)VAGHUL Committee
10. Which committee recommended the introduction of bank rating factors—CAMELS for Indian banks and CACS for foreign banks?
(1)Bimal Jalan Committee (2)RV Gupta Committee (3)P J Nayak Committee (4)S. Padmanabhan Committee
11. Which committee is associated with the analysis of money market operations in India?
(1)VAGHUL Committee (2)P J Nayak Committee (3)RN Malhotra Committee (4)RV Gupta Committee
12. Which tax reform committee is widely regarded as the "father of tax reforms in India"?
(1)Rekhi Committee (2)Vijay Kelkar Committee (3)Raja Chelliah Committee (4)Narasimha Rao Committee
13. Which committee's recommendations led to the establishment of Regional Rural Banks in 1975?
(1)Raja Chelliah Committee (2)S. Padmanabhan Committee (3)RN Malhotra Committee (4)Shri M. Narasimha Rao Committee
14. Which committee was responsible for the incorporation of TransUnion CIBIL Limited and introduced the concept of a three-digit CIBIL score?
(1)RV Gupta Committee (2)Siddiqui Committee (3)P J Nayak Committee (4)Bimal Jalan Committee
15. The licensing policy for new Urban Cooperative Banks in India is broadly based on the recommendations of which committee?
(1)Satish Marathe Committee (2)RV Gupta Committee (3)N. S. Vishwanathan Committee (4)USHA THORAT Committee
16. Which committee on ways and means advances to state governments is chaired by Shri Sudhir Shrivastava?
(1)Internal Working Group on Ownership Guidelines (2)Committee to Review Asset Reconstruction Companies (3)Advisory Committee on Ways and Means Advances to State Governments (4)Regulations Review Authority 2.0
17. Which committee, chaired by Shri Sudarshan Sen, reviewed the working of Asset Reconstruction Companies?

(1)Advisory Committee on Ways and Means Advances (2)Committee to Review the Working of Asset Reconstruction Companies (3)Narasimham Committee on Financial System (4)CRAFICARD Committee

18. Which working group, chaired by Shri Jayant Kumar Dash, focuses on digital lending through online platforms and mobile apps?
(1)Technical Committee on Mobile Banking (2)Internal Working Group on Ownership Guidelines (3)Regulations Review Authority 2.0 (4)Working Group on Digital Lending
19. Which committee, chaired by Shri M. Rajeshwar Rao, is known as the Regulations Review Authority 2.0?
(1)High Level Task Force on Public Credit Registry (2)Internal Study Group on Lending Rates (3)Regulations Review Authority 2.0 (4)Advisory Committee on Ways and Means Advances
20. Which internal working group—chaired by PK MOHANTY—reviews the extant ownership guidelines and corporate structure for Indian private sector banks?
(1)Internal Working Group on Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks (2)Working Group on Digital Lending (3)Regulations Review Authority 2.0 (4)Committee on ATM Interchange Fee Structure
21. Which committee, chaired by Shri K.V. Kamath, was established to develop a resolution framework for Covid-19 related stress in the banking sector?
(1)Hurun Rashid Khan Committee (2)Technical Committee on Mobile Banking (3)P J Nayak Committee (4)Expert Committee on Resolution Framework for Covid-19 Related Stress
22. Which committee, chaired by Prof. D.B. Phatak, focuses on analyzing Quick Response (QR) codes in banking?
(1)Committee on ATM Interchange Fee Structure (2)Committee on the Analysis of QR Code (3)Working Group on Digital Lending (4)Internal Working Group on Lending Rates
23. Which committee is responsible for reviewing the ATM Interchange Fee Structure in India?
(1)Committee to Review the ATM Interchange Fee Structure (2)Regulations Review Authority 2.0 (3)Internal Working Group on Ownership Guidelines (4)Committee on Digital Payments
24. Which committee on MSMEs is chaired by Shri U.K. Sinha?
(1)MSME (Credit) Committee – SL Kapur Committee (2)Abid Hussain Committee (3)Committee on Micro, Small and Medium Enterprises (4)SS Kohli Committee on Sick Rehabilitation
25. Which committee on digital payments is chaired by Shri Nandan Nilekani?
(1)Ratan P Watal Committee (2)High Level Committee on Deepening of Digital Payments (3)Committee on Digital Lending (4)Internal Study Group on Lending Rates
26. Which committee on digital payments recommended a medium-term strategy to accelerate the growth of digital payments in India?
(1)Ratan P Watal Committee (2)High Level Committee on Deepening of Digital Payments (3)Working Group on Digital Lending (4)Internal Study Group on Lending Rates
27. Which internal study group is tasked with reviewing the working of the Marginal Cost of Funds Based Lending Rate System?
(1)Technical Committee on Mobile Banking (2)Advisory Committee on Ways and Means Advances (3)Internal Study Group to Review the Working of the Marginal Cost of Funds Based Lending Rate System (4)Committee on Digital Lending
28. Which task force, chaired by Y. M. Deosthalee, focuses on establishing a Public Credit Registry for India?
(1)Internal Study Group on Lending Rates (2)Advisory Committee on Ways and Means Advances (3)High Level Task Force on Public Credit Registry for India (4)Committee on Digital Payments
29. Which committee recommended that deposit insurance for NBFCs be provided on a voluntary basis by GIC and DICGC?
(1)P J Nayak Committee (2)A C Shah Committee (3)RN Malhotra Committee (4)Santhanam Committee
30. Which commission, chaired by G V Ramakrishna, was established in August 1996 to supervise the disinvestment of Indian PSUs?
(1)Narasimham Committee (2)Technical Committee on Mobile Banking (3)Internal Study Group on Lending Rates (4)Disinvestment Commission
31. Which pair of committees are collectively known as the Narasimham Committees?
(1)Narasimham Committee on Financial System (1991) and Narasimham Committee on Banking Sector Reforms (1998) (2)RN Malhotra Committee and RV Gupta Committee (3)CRAFICARD Committee and AD GOREWALA Committee (4)Siddiqui Committee and P J Nayak Committee
32. Which committee, established by the RBI in 1995, proposed a legal framework for electronic funds transfer and other electronic payments?
(1)Narasimham Committee on Banking Sector Reforms (2)A C Shah Committee (3)K S Shree Committee for Setting up Legal Framework for Electronic Banking (4)Satish Marathe Committee
33. Which committee recommended a weaker section target for the priority sector lending quota?
(1)Rekhi Committee (2)Narasimham Committee (3)P J Nayak Committee (4)Ghosh Committee

34. Which RBI committee, constituted in 2010 under the chairmanship of Shri M. Damodaran, was formed to address customer service issues in banks?
(1)Tarapore Committee (2)RBI Committee on Customer Service (Damodaran Committee) (3)Talwar Committee (4)Goiporia Committee
35. Which working group, chaired by Shri S. S. Kohli, is focused on identifying and addressing wilful defaults in banks?
(1)Working Group on Wilful Defaulters (WGWD) (2)Internal Study Group on Lending Rates (3)Committee on Digital Payments (4)Technical Committee on Mobile Banking
36. Which committee on financial sector reforms, associated with Raghuram Rajan, was constituted by the Government of India in 2007?
(1)Narasimham Committee (2)Hurun Rashid Khan Committee (3)Raghuram Rajan Committee on Financial Sector Reforms (4)Siddiqui Committee
37. Which committee, appointed by the RBI in September 1977, evaluated the role and future growth of urban cooperative banks?
(1)Narasimham Committee (2)P J Nayak Committee (3)Technical Committee on Mobile Banking (4)Committee on Urban Cooperative Banks (chaired by Shri K Madhav Das)
38. Which committee, formed in 1969, recommended that public sector banks act as "Lead Banks" in selected districts to discharge their social responsibilities?
(1)Prof. D R GADGIL Committee (2)Tarapore Committee (3)RN Malhotra Committee (4)Bimal Jalan Committee
39. Which committee, chaired by Dr. C. Rangarajan in 1988, focused on the computerization of banks and also addressed poverty estimation?
(1)Committee on Digital Payments (2)Technical Committee on Mobile Banking (3)Dr. C. Rangarajan Committee on Computerization in Banks (4)P J Nayak Committee
40. Which committee on financial inclusion, constituted in 2006 by the Government of India, was chaired by Dr. C. Rangarajan?
(1)Tarapore Committee (2)Committee on Financial Inclusion (2006) (3)Technical Committee on Mobile Banking (4)Narasimham Committee on Banking Sector Reforms
41. Which technical committee, chaired by Shri B. Sambamurthy, was set up by the RBI to study challenges in mobile banking?
(1)Technical Committee on Mobile Banking (2)Working Group on Digital Lending (3)Committee on ATM Interchange Fee Structure (4)Regulations Review Authority 2.0
42. Which committee, established by the RBI in 2013, was tasked with revising and strengthening the monetary policy framework?
(1)Narasimham Committee (2)Raghuram Rajan Committee (3)Technical Committee on Mobile Banking (4)Urjit Patel Committee
43. Which committee, led by Hurun Rashid Khan, influenced the expansion of banking outreach through the Business Correspondent model with ICT support?
(1)Siddiqui Committee (2)Hurun Rashid Khan Committee (3)Bimal Jalan Committee (4)P J Nayak Committee
44. Which committee recommended the introduction of factoring in 1989, resulting in amendments to the Banking Regulation Act, 1949?
(1)Bimal Jalan Committee (2)RN Malhotra Committee (3)Kalyana Sundaram Committee (4)VAGHUL Committee
45. Which working group, established in 1995, identified key risks associated with IT systems in banks and recommended appropriate control measures?
(1)VAGHUL Committee (2)P J Nayak Committee (3)Regulatory Review Authority 2.0 (4)Jilani Working Group on Internal Controls and Inspection/Audit Systems
46. Which committee focused on standardizing pay scales, allowances, and perquisites for officers in nationalised banks?
(1)V. R. Pillais Committee (2)Jilani Working Group (3)Hurun Rashid Khan Committee (4)Sunil Mehta Committee
47. Which committee was set up to restructure stressed assets in public sector banks and proposed "Project Sashakt"?
(1)Narasimham Committee (2)P J Nayak Committee (3)Sunil Mehta Committee (4)RBI Committee on Customer Service
48. Which committee was constituted for reforms in Small Savings schemes?
(1)Hurun Rashid Khan Committee (2)YV Reddy Committee (3)RN Malhotra Committee (4)Kalyana Sundaram Committee
49. Which committee addressed technology issues related to payments, cheque clearing, and securities settlement in the banking industry in 1994?

(1)Narasimham Committee (2)Jilani Working Group (3)Sunil Mehta Committee (4)W.S. Saraf Committee

50. Which committee in 1962 recommended the constitution of the Central Vigilance Commission?
(1)Santhanam Committee (2)Tarapore Committee (3)P J Nayak Committee (4)RN Malhotra Committee

Answers:

1	**2**	**6**	**1**	**11**	**1**	**16**	**3**	**21**	**4**	**26**	**1**	**31**	**1**	**36**	**3**	**41**	**1**	**46**	**1**
2	**4**	**7**	**4**	**12**	**3**	**17**	**2**	**22**	**2**	**27**	**3**	**32**	**3**	**37**	**4**	**42**	**4**	**47**	**3**
3	**1**	**8**	**3**	**13**	**4**	**18**	**4**	**23**	**1**	**28**	**3**	**33**	**4**	**38**	**1**	**43**	**2**	**48**	**2**
4	**3**	**9**	**2**	**14**	**2**	**19**	**3**	**24**	**3**	**29**	**2**	**34**	**2**	**39**	**3**	**44**	**3**	**49**	**4**
5	**2**	**10**	**4**	**15**	**1**	**20**	**1**	**25**	**2**	**30**	**4**	**35**	**1**	**40**	**2**	**45**	**4**	**50**	**1**

8. Prompt Corrective Action

1. Introduction and Background

- **Historical Context:**
  • In 2002, the Reserve Bank of India (RBI) introduced the Prompt Corrective Action (PCA) Framework for Scheduled Commercial Banks.
  • The framework has been periodically reviewed in light of gained experience and ongoing developments in the banking system.
- **Purpose and Rationale:**
  • **Timely Supervisory Intervention:** Designed to trigger supervisory actions at an appropriate time.
  • **Remedial Measures:** Mandates that the affected (supervised) entity must initiate and implement remedial steps promptly to restore financial health.
  • **Market Discipline:** Acts as an instrument to enforce effective market discipline.
  • **Flexibility:** The framework does not prevent the RBI from taking additional measures as it deems necessary.

Scope and Applicability

- **Coverage of the PCA Framework:**
  • Applies to all banks operating in India, including foreign banks functioning through branches or subsidiaries.
- **Criteria for Initiation:**
  • Banks are generally placed under the PCA Framework based on:
  – **Audited Annual Financial Results**
  – **Ongoing Supervisory Assessments** by the RBI
- **Exclusions:**
  • Payments banks and Small Finance Banks (SFBs) have been specifically excluded from the list of lenders where PCA can be initiated.

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3. Exit from PCA and Withdrawal of Restrictions

- **Conditions for Exiting the PCA Framework:**
  Once a bank is placed under PCA, exit or the withdrawal of imposed restrictions will be considered if both of the following conditions are met:
  - **(a) No Breaches in Risk Thresholds:**
    • Continuous monitoring over four quarterly financial statements shows no breach in any risk parameter.
    • At least one of these four statements must be the Audited Annual Financial Statement (subject to RBI's assessment).
  - **(b) Supervisory Comfort:**
    • The RBI's ongoing supervisory assessment confirms that the bank's profitability is sustainable and that its financial health has been restored.

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4. Specific Monitoring Indicators for Different Entities

- **For NBFCs (Non-Banking Financial Companies):**
  • **NBFCs-D and NBFCs-ND:**
  – Capital to Risk Weighted Assets Ratio (CRAR)
  – Tier I Capital Ratio
  – Net NPA Ratio (NNPA)

- **For CICs:**
  (Typically referring to Core Investment Companies or a similar category)
  • Adjusted Net Worth/Aggregate Risk Weighted Assets
  • Leverage Ratio
  • Net NPA Ratio (NNPA)

These indicators are critical for assessing the financial stability and risk exposure of the institutions under the PCA framework.

1. What year did the Reserve Bank of India introduce the Prompt Corrective Action (PCA) Framework for Scheduled Commercial Banks?
   (1)1998 (2)2002 (3)2005 (4)2010
2. What is the primary objective of the PCA Framework as introduced by the RBI?
   (1)To provide immediate financial aid to banks in distress. (2)To merge underperforming banks with stronger institutions. (3)To enable timely supervisory intervention and require remedial measures to restore financial health. (4)To standardize interest rates across all scheduled banks.
3. Which category of banks is specifically excluded from the PCA Framework?
   (1)Payments banks and Small Finance Banks (SFBs) (2)All foreign banks operating in India (3)Scheduled commercial banks with high profitability (4)Co-operative banks
4. To which institutions does the PCA Framework apply?
   (1)Only Indian public sector banks (2)All banks operating in India, including foreign banks via branches or subsidiaries (3)Only private sector banks (4)Only Non-Banking Financial Companies (NBFCs)
5. Which of the following conditions must be met for a bank to exit the PCA Framework?
   (1)Achieving profitability within one quarter (2)Voluntarily restructuring its management (3)Merging with another financial institution (4)No breaches in risk thresholds over four continuous quarterly financial statements—including an audited annual statement—and obtaining RBI supervisory comfort
6. Which set of indicators is monitored for NBFCs-D and NBFCs-ND under the PCA Framework?
   (1)Leverage Ratio, Adjusted Net Worth/Aggregate RWA, and NNPA (2)Interest coverage ratio, liquidity ratio, and capital adequacy ratio (3)Capital to Risk Weighted Assets Ratio (CRAR), Tier I Capital Ratio, and Net NPA Ratio (NNPA) (4)Gross NPA ratio, return on assets, and operational efficiency
7. For CICs under the PCA Framework, which indicators are tracked?
   (1)Adjusted Net Worth/Aggregate Risk Weighted Assets, Leverage Ratio, and NNPA (2)CRAR, Tier I Capital Ratio, and NNPA (3)Liquidity ratio, profitability ratio, and operational risk ratio (4)Net interest margin, cost-to-income ratio, and credit growth
8. How is the PCA Framework reviewed over time?
   (1)Annually without exception (2)Periodically, based on experiences and developments in the banking system (3)Only when a bank is under severe distress (4)Every five years
9. Who is responsible for the implementation and oversight of the PCA Framework in India?
   (1)Ministry of Finance (2)Securities and Exchange Board of India (SEBI) (3)Insurance Regulatory and Development Authority (IRDA) (4)Reserve Bank of India (RBI)
10. Which financial document is essential among the quarterly statements to assess the exit conditions from the PCA Framework?
    (1)Quarterly unaudited summary (2)Interim financial report (3)Audited Annual Financial Statement (subject to RBI assessment) (4)Internal management report
11. According to the PCA Framework, what is expected from the supervised entity when PCA measures are triggered?
    (1)To immediately seek a government bailout (2)To delay remedial actions until further guidance is provided (3)To restructure its management solely (4)To initiate and implement remedial measures in a timely manner to restore financial health
12. Which statement best reflects the flexibility inherent in the PCA Framework?
    (1)It does not preclude the RBI from taking additional actions as necessary. (2)It strictly limits the RBI to only the actions defined within the framework. (3)It prohibits any further regulatory intervention once PCA is initiated. (4)It automatically triggers bank mergers upon threshold breaches.
13. Which option best describes the market discipline goal of the PCA Framework?

(1)To centralize banking operations under a single authority (2)To provide immediate liquidity support to distressed banks (3)To serve as a tool for enforcing effective market discipline (4)To privatize state-owned banks

14. Under the PCA Framework, which aspect is primarily used to evaluate if a bank has breached its risk thresholds?
(1)Shareholder returns (2)Continuous quarterly financial performance (3)Customer satisfaction indices (4)Employee turnover rates
15. Which criterion in the exit process from PCA is directly assessed by the RBI's supervisory comfort?
(1)Sustainability of the bank's profitability (2)The overall size of the bank's asset portfolio (3)The number of branches in operation (4)Market share within the private sector
16. Which types of banks have been explicitly removed from the list of lenders where PCA can be initiated?
(1)All private sector banks (2)Foreign banks operating through subsidiaries (3)Non-Banking Financial Companies (NBFCs) (4)Payments banks and Small Finance Banks (SFBs)
17. What does the abbreviation NBFC stand for in the context of the PCA Framework?
(1)National Bank Financial Corporation (2)New Banking Finance Committee (3)Non-Banking Financial Companies (4)National Banking & Finance Council
18. Which ratios are critical for evaluating NBFCs under the PCA Framework?
(1)Liquidity and interest coverage ratios (2)Capital to Risk Weighted Assets Ratio (CRAR), Tier I Capital Ratio, and Net NPA Ratio (NNPA) (3)Profit margins and return on equity (4)Cost-to-income ratio and operational efficiency
19. In the context of the PCA Framework, what does CRAR stand for?
(1)Capital to Risk Weighted Assets Ratio (2)Credit Ratio and Risk Assessment (3)Cumulative Revenue and Asset Ratio (4)Current Ratio and Asset Reserve

Answers:

1	2	6	3	11	4	16	4
2	3	7	1	12	1	17	3
3	1	8	2	13	3	18	2
4	2	9	4	14	2	19	1
5	4	10	3	15	1		

9. Export-Import Bank of India (EXIM)

1. Overview & History of India Exim Bank

- **Primary Aim:**
  - To promote India's international trade.
  - The Bank's logo symbolically depicts "two-way significance" with the export arrow being thicker than the import arrow—signifying the aim of adding value to exports.
- **Historical Context & Establishment:**
  - **Debate & Need:**
    - The concept of an export–import bank was debated for more than two decades.
    - During the 1950s and early 1960s, Indian exports were mainly primary commodities (e.g., jute, cotton textiles) with a prevailing belief that domestic demand could drive economic growth.
  - **Shift in Export Profile:**
    - Over time, industrial development via import substitution led to a diversified industrial base (especially in engineering).
    - The export profile began to change slowly in the 1960s with an increasing share of non-traditional manufactured goods and value-added products.
  - **Catalyst for Formation:**
    - In 1978–79, the Ministry of Finance held meetings that recognized the need for a specialized export credit agency.
    - By 1980, engineering goods exports had grown to constitute 13% of Indian exports, and project exports were buoyant.
    - On June 18, 1980, in his Parliament budget speech, then Finance Minister Shri R. Venkataraman announced the decision to establish the Exim Bank.

- **Legal Foundation & Operations:**
  - The Export–Import Bank of India Act was passed in September 1981.
  - The bank commenced operations in March 1982.

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2. Management & Governance of Exim Bank

- **Key Management Personnel:**
  - **R C Shah** – First Managing Director (MD)
  - **Tarjani Vakil** – First Woman Managing Director
- **Board of Directors Structure:**
  - **Appointments:**
    - A chairman and a managing director are appointed by the Central Government (the same person may hold both positions).
    - Two whole-time directors are appointed by the Central Government.
    - One director is nominated by the Reserve Bank of India.
    - One director is nominated by the Development Bank.
    - One director is nominated by the Export Credit and Guarantee Corporation Limited (a Government Company as per section 617 of the Companies Act, 1956).
  - **Additional Nominations:**
    - Not more than twelve directors are nominated by the Central Government with the following constraints:
      - **Five** directors shall be officials of the Central Government.
      - **Not more than three** directors shall be from the scheduled banks.
      - **Not more than four** directors shall be persons with special knowledge or professional experience in export, import, or financing thereof.
  - **Term Limits:**
    - The chairman and managing director (or whole-time director) hold office for a term not exceeding **five years** and are eligible for reappointment.
  - **Ownership & Capital:**
    - Exim Bank is fully owned by the Government of India.
    - The authorised capital was initially **ten thousand crores** of rupees, which was doubled to **twenty thousand crores** in 2019.

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3. Key Services & Schemes Offered by Exim Bank

A. Buyer's Credit

- **Definition & Mechanism:**
  - A unique credit facility programme designed to motivate Indian exporters to explore new markets.
  - An overseas buyer can open a "letter of credit" in favor of the Indian exporter, allowing the importer to purchase goods and services from India on deferred payment terms.
- **Benefits:**
  - **For Exporters:** Reduced transaction costs, simplified international trade operations, and continued utilization of working capital.
  - **For Foreign Buyers:** Access to medium and long-term financing at competitive interest rates, particularly where local borrowing costs are high.

B. National Export Insurance Account Scheme (NEIA)

- **Establishment & Purpose:**
  - NEIA Trust was established in 2006.
  - Aims to promote project exports from India that are strategically and nationally significant.
- **Features:**
  - Supports medium and long-term/project exports.
  - Provides partial or full support to covers issued by Exim Bank for Buyer's Credit (known as BC-NEIA) tied to project exports.

C. Research & Development (R&D) Finance for Export Oriented Units

- **Objective:**
  - To encourage Indian exporters to invest in R&D for developing new products and processes that enhance export capabilities.
- **Eligibility & Funding:**
  - Applicable to export-oriented firms with actual or projected exports amounting to at least 20% of their annual turnover.
  - Up to 80% of the total project cost can be financed.

D. Lines of Credit (LOC)

- **Purpose:**
  - To help Indian exporters enter new geographies or expand in existing markets without facing payment risk from overseas importers.
- **Mechanism:**
  - LOCs are extended to overseas financial institutions, regional development banks, sovereign governments, and other entities.
  - They facilitate the import of developmental and infrastructure projects, equipment, goods, and services on deferred credit terms.
  - Exim Bank provides these facilities both independently and with the support of the Government of India.

E. The Ubharte Sitaare Programme (USP)

- **Aim & Focus:**
  - Identifies Indian companies that show promise as future export champions.
  - The programme targets companies with inherent advantages in technology, product quality, or processes—even if they are currently underperforming.
- **Support Provided:**
  - A mix of financial (equity and debt) and advisory (technical) assistance.
  - The Ubharte Sitaare fund has been established jointly by Exim Bank and SIDBI to support eligible companies.

F. Grassroots Initiative and Development (GRID)

- **Target Group:**
  - Small entrepreneurs and NGOs, particularly in the handloom and handicraft sectors.
- **Objective & Approach:**
  - To make products exportable by assisting with technology upgrades, packaging improvements, and presentation.
  - Involves organizing workshops and study groups with industry experts.

G. Clusters of Excellence Programme

- **Introduction & Purpose:**
  - Launched during the year 1994–95.
  - Aims to upgrade quality standards and facilitate ISO 9000 certification across various regions of the country.

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4. Institutional Footprint

- **Headquarters:**
  - EXIM Bank's headquarters is located in **Mumbai**.
- **Visual Identity & Presentation:**
  - The bank's logo and visual elements (such as the depiction of arrows in the logo) are designed to reflect its core mission of promoting exports and adding value to Indian trade.

1. Who was the first Managing Director (MD) of the Exim Bank of India?
   (1)Tarjani Vakil (2)Dr. Gaurav Garg (3)R C Shah (4)Shri R. Venkataraman
2. In which year did the Exim Bank of India commence its operations?
   (1)1980 (2)1981 (3)1979 (4)1982
3. What is the primary function of the Buyer's Credit scheme?
   (1)Provides research and development funding (2)Offers lines of credit for domestic buyers (3)Extends export credit on deferred payment terms (4)Grants capital conservation buffers
4. What is the primary objective of India Exim Bank ?
   (1)To manage government budgets (2)To promote India's international trade (3)To provide personal loans (4)To promote domestic banking
5. How does the Exim Bank's logo symbolically represent its mission?
   (1)It depicts a rising sun (2)It features a map of India (3)It shows a thick export arrow and a thinner import arrow (4)It includes the national flag
6. In which month and year was the Exim Bank of India Act passed?
   (1)June 1980 (2)September 1981 (3)March 1982 (4)December 1979
7. What is the maximum number of directors that can be nominated by the Central Government on the Exim Bank's board?
   (1)Ten (2)Twelve (3)Fifteen (4)Eight
8. To what amount was the authorised capital of Exim Bank increased in 2019?

(1)10,000 crores (2)15,000 crores (3)20,000 crores (4)25,000 crores

9. The Lines of Credit (LOC) scheme helps Indian exporters primarily to:
(1)Increase domestic sales (2)Enter new geographies and expand market presence (3)Reduce production costs (4)Increase tariff barriers

10. Which two entities jointly established the Ubharte Sitaare fund?
(1)Exim Bank and NABARD (2)Exim Bank and SIDBI (3)Exim Bank and NHB (4)Exim Bank and NaBFID

11. What is the main aim of the Grassroots Initiative and Development (GRID) programme?
(1)To support large multinational corporations (2)To assist small entrepreneurs and NGOs in making their products exportable (3)To provide high-tech training to engineers (4)To finance domestic infrastructure projects

12. During which period was the Clusters of Excellence programme introduced?
(1)1990–91 (2)1994–95 (3)1985–86 (4)2000–01

13. What unique feature does the Buyer's Credit scheme offer?
(1)It offers only short-term loans (2)It allows foreign buyers to import on deferred payment terms (3)It is exclusively for domestic exporters (4)It requires immediate repayment

14. Which of the following services is NOT provided by Exim Bank?
(1)Buyer's Credit (2)Export Insurance via NEIA (3)R&D Finance (4)Personal savings accounts

15. Which scheme is primarily aimed at supporting project exports from India?
(1)R&D Finance (2)NEIA Trust (3)Buyer's Credit (4)Lines of Credit

16. Which key benefit does the Buyer's Credit scheme offer to foreign customers?
(1)High transaction costs (2)Competitive interest rates (3)Immediate cash disbursement (4)Short-term financing only

Answers:

1	**3**	**6**	**2**	**11**	**2**	**16**	**2**	**21**		**26**		**31**		**36**		**41**		**46**	
2	**4**	**7**	**2**	**12**	**2**	**17**		**22**		**27**		**32**		**37**		**42**		**47**	
3	**3**	**8**	**3**	**13**	**2**	**18**		**23**		**28**		**33**		**38**		**43**		**48**	
4	**2**	**9**	**2**	**14**	**4**	**19**		**24**		**29**		**34**		**39**		**44**		**49**	
5	**3**	**10**	**2**	**15**	**2**	**20**		**25**		**30**		**35**		**40**		**45**		**50**	

10. NABARD

I. Introduction to All India Financial Institutions

- **Institutions Covered:**
    1. NABARD
    2. NaBFID
    3. EXIM Bank
    4. NHB
    5. SIDBI
- **Changing Role:**
    - AIFIs have undergone significant change in their business models over the years.
    - They are now seen as key institutions for promoting both direct and indirect credit flow to various economic sectors.
    - An extension of the Basel III Capital framework to these institutions has been decided.

Note on Implementation (NHB):
- For NHB, where the accounting year is July–June, the Basel III framework implementation is set to commence on July 1, 2022.

II. Capital Requirements Under Basel III

- **Minimum Total Capital (MTC):**
    - Must be at least **9% of total risk-weighted assets (RWAs)** (also known as the Capital to Risk-Weighted Assets Ratio or CRAR).
- **Common Equity Tier 1 (CET1) Capital:**
    - Must be a minimum of **5.5% of RWAs** (covering credit risk, market risk, and operational risk on an ongoing basis).
- **Tier 1 Capital:**
    - Should be at least **7% of RWAs**.

  - Within Tier 1, Additional Tier 1 capital is allowed up to a maximum of **1.5% of RWAs**.
- **Total Capital (Tier 1 + Tier 2):**
  - Must total at least **9% of RWAs** on an ongoing basis.
  - Within this, Tier 2 capital is capped at a maximum of **2% of RWAs**.
- **Capital Conservation Buffer (CCB):**
  - In addition to the CET1 requirement, a buffer of **2.5% of RWAs** (maintained in the form of CET1) is required.

III. NABARD – History, Formation, and Structure

A. Background and Formation

- **Purpose:**
  - The importance of institutional credit in boosting the rural economy was recognized early by the Government of India.
- **Genesis through CRAFICARD:**
  - The Reserve Bank of India (RBI), at the Government's insistence, formed a Committee (CRAFICARD) on **30 March 1979** under the chairmanship of Shri B. Sivaraman.
  - The committee's interim report (submitted on **28 November 1979**) emphasized the need for a dedicated development financial institution to focus on rural development and credit issues.
- **Parliamentary Approval:**
  - The formation of a unique institution for agriculture and rural development was approved by Parliament through **Act 61 of 1981**.
- **Establishment of NABARD:**
  - **NABARD came into existence on 12 July 1982** by transferring the agricultural credit functions of the RBI and the refinance functions of the Agricultural Refinance and Development Corporation (ARDC).
  - Historical antecedents include:
    - **ARC (Agricultural Refinance Corporation):** Established in 1963, later renamed ARDC in 1975.
    - **RPCC (Rural Planning and Credit Cell):** Had been working with Regional Rural Banks since 1979.
- **Dedication & Ownership:**
  - The institution was dedicated to the nation by the late Prime Minister Indira Gandhi on **05 November 1982**.
  - NABARD was established during the **6th Five Year Plan (1980–1985)** and aligned with the **7th Finance Commission** (formed in 1978 with Shri J. M. Shelat as Chairman).
  - The **first Chairman** of NABARD was **M RAM Krishannaya**.
  - It is **wholly owned by the Government of India**.
- **Additional Establishments:**
  - **College of Agriculture Banking** in Pune.
  - The **NABARD (Amendment) Act, 2018** enabled an increase in the authorized capital from Rs.5,000 crore to Rs.30,000 crore.
  - Initially set up with a capital of **Rs.100 crore**, contributed equally (50:50) by the Government of India and the RBI.
  - **Bankers Institute of Rural Development (BIRD):** Located in Lucknow, established in 1983 to provide training and research on behalf of NABARD.

B. Supervisory Role

- **Legal Empowerment:**
  - Under **Section 35(6) of the Banking Regulation Act, 1949**, NABARD is empowered to inspect:
    - State Cooperative Banks (StCBs)
    - District Central Cooperative Banks (DCCBs)
    - Regional Rural Banks (RRBs)
- **Technological Initiative:**
  - NABARD has designed and maintains a web-based portal called **"ENSURE"** to review the performance of Cooperative Banks.

IV. Key Schemes and Organizational Setup of NABARD

A. NABARD Infrastructure Development Assistance (NIDA)

- **Purpose:**
  - Provides a line of credit for funding rural infrastructure projects.

- **Three Channels of Funding:**
    1. **Direct Funding:** For rural infrastructure projects provided directly to State Governments and State-owned institutions.
    2. **PPP Infrastructure Projects:** Funding through Special Purpose Vehicles (SPVs) promoted by State-owned institutions, cooperatives, producer organizations, corporates, etc.
    3. **Non-PPP Projects:** Funding for rural infrastructure projects developed by registered entities such as companies and cooperatives.

  Achievements:
    - Since its inception (2010–11) till **30 April 2022**, cumulative loans sanctioned under NIDA stand at **Rs.65,849.60 crore** with cumulative disbursements of **Rs.30,297.12 crore**.
    - Recent progress over the last five years has been particularly impressive.

B. Rural Infrastructure Development Fund (RIDF)

- **Establishment:**
    - Created by the Government of India in NABARD in **1995–96** with an initial corpus of **Rs.2,000 crore**.
- **Recent Allocations:**
    - Under RIDF XXVII for 2021–22, an allocation of **Rs.40,000 crore** has been made, pushing the cumulative allocation to **Rs.4,18,408.73 crore** (including **Rs.18,500 crore** under Bharat Nirman).
- **Eligible Activities:**
    - Currently, **39 eligible activities** are approved by the Government of India, categorized under:
        1. Agriculture and related sectors
        2. Social sectors
        3. Rural connectivity
- **Additional Provisions:**
    - If banks do not meet the **Priority Sector Lending (PSL)** target (with agriculture PSL at 18% of Adjusted Net Bank Credit), the shortfall is invested in RIDF.
    - **Mode of Finance:**
        - Sanctioned funds are released on a reimbursement basis.
        - An initial mobilisation advance is provided at **30%** for North Eastern & Hilly States and **20%** for other States.

  Interest and Repayment:
        - Interest rates on deposits and loans (from RIDF) have been linked to the prevailing Bank Rate since **01 April 2012**.
        - Repayment is structured as equal annual installments over **7 years** (with a **2-year grace period**) and interest is paid quarterly.

C. Producers Organisation Development Fund (PODF)

- **Objective:**
    - Supports producer organizations (POs) by adopting a flexible approach to meet producers' needs.
- **Launch Details:**
    - Set up with an initial corpus of **Rs.50 crore**, effective **from 01 April 2011**.
- **Eligibility:**
    - Any registered producer organization such as:
        - Producers Company (as per Section 581 A of the Companies Act, 1956)
        - Producers Cooperatives
        - Registered Farmer Federations
        - MACS (Mutually Aided Cooperative Societies)
        - Other registered federations, PACS, etc.

D. 'Producers' Organization Development and Upliftment Corpus' (PRODUCE) Fund

- **Creation:**
    - Established in **2014–15** with a corpus of **Rs.200 crore**.
- **Objective:**
    - To build **2,000 Farmer Producer Organizations (FPOs)**, making them creditworthy, commercially vibrant, and sustainable business enterprises.

E. Central Sector Scheme for Promotion and Nurturing of Farmers Producers Organisations (FPOs)

- **Scheme Announcement:**
    - The Government of India announced a scheme for the formation and promotion of **10,000 FPOs** with NABARD as one of the implementing agencies.
- **Key Features:**
    - **Training Institute:** BIRD, Lucknow serves as the nodal training institute.

- **Credit Guarantee:** A Credit Guarantee Fund of **Rs.1,000 crore** has been set up under NABSANRAKSHAN.
- **Equity Grant:** Matching grants up to **Rs.2,000 per farmer member**, subject to a maximum of **Rs.15 lakh per FPO**.
- **Minimum Membership:**
  - **300 members** in plain areas
  - **100 members** in North Eastern and hilly areas

F. Micro Irrigation Fund (MIF)

- **Operational Details:**
  - Operationalized from **2019–20** with a corpus of **Rs.5,000 crore**.
- **Objective and Funding:**
  - Facilitates State Government efforts to expand micro irrigation.
  - Loans are provided at an interest rate **3% below the cost of funds**, with the Government of India compensating for the 3% interest subvention.

G. Watershed Development Programme

- **Announcement:**
  - Declared in the Union Finance Minister's budget speech for **1999–2000**.
- **Fund Details:**
  - The Watershed Development Fund (WDF) in NABARD is created with a contribution of **Rs.100 crore each** by the Ministry of Agriculture, Government of India (GoI) and NABARD.

H. Tribal Development Programme & Wadi Project

- **Tribal Development Focus:**
  - NABARD has a longstanding association with tribal development and sustainable livelihoods, particularly through orchard-based farming systems.
- **Tribal Development Fund (TDF):**
  - Created with an initial corpus of **Rs.50 crore** (from profits of 2003–04), later augmented over time.
- **Wadi (Wasteland Development in India) Project:**
  - **Concept:**
    - A "wadi" typically covers **one acre per beneficiary**, intended for marginal farmers.
    - Intercropping strategy: Combines fruit trees (such as cashews, mangoes, litchis) with agricultural crops to minimize climatic, biological, and marketing risks.
  - **Definitions:**
    - **Small Farmers:** Those owning less than **two hectares (5 acres)**.
    - **Marginal Farmers:** Those owning less than **one hectare (2.5 acres)**.
  - **Objectives:**
    - Enhance economic upliftment through sustainable agriculture.
    - Promote social empowerment and improved quality of life (including health and women empowerment) in tribal regions.

V. NABARD Subsidiaries

NABARD operates several subsidiaries to expand its developmental and financial services:

1. **NABKISAN Finance Limited**
   - **Establishment:** Incorporated on **14 February 1997**.
   - **Ownership:** Subsidiary of NABARD with equity participation from NABARD, the Government of Tamil Nadu, and several banks (e.g., Indian Bank, Indian Overseas Bank, Tamilnadu Mercantile Bank, Canara Bank, ICICI Bank, Federal Bank, Lakshmi Vilas Bank).
   - **Objective:** Provide credit for the promotion, expansion, and commercialization of enterprises in agriculture, allied sectors, and rural non-farm activities; support for livelihood and income generation through on-lending to FPOs, NBFCs, MFIs, trusts, societies, and Section 25 companies.
2. **NABSAMRUDDHI Finance Limited (NSFL)**
   - **Establishment:** Incorporated on **17 February 1997**.
   - **Ownership:** Promoted by NABARD (90.68%) with participation from the Governments of Andhra Pradesh and Telangana (4.74%), Andhra Bank (1.72%), Canara Bank (0.69%), and others (2.17%).
   - **Objective:** Provide credit facilities for promotion, expansion, commercialization, and modernization of enterprises in both agricultural and off-farm sectors (including microfinance, MSME, housing, education, and transport). Focused on addressing the "missing middle" – tiny, small, and medium enterprises with limited access to financial services.
3. **NABFINS Limited**
   - **Establishment:** Incorporated in 1997; registered as an NBFC-mFI with RBI.

- **Ownership:** Subsidiary of NABARD with equity participation from NABARD, the Government of Karnataka, and various banks (Canara Bank, Union Bank of India, Bank of Baroda, Dhanalakshmi Bank, Federal Bank).
- **Mandate:** Provide a wide range of financial services in microfinance and rural livelihoods, targeting disadvantaged sections in both rural and urban areas.

4. **NABFOUNDATION**
    - **Nature:** A Section 8, not-for-profit company fully owned by NABARD.
    - **Establishment:** Formed in August 2019.
    - **Objectives:**
        - Complement the efforts of NABARD's development departments.
        - Support NABARD's agenda through networked partnerships and collaborative CSR projects (e.g., My Pad-My Right).
5. **NABCONS (NABARD Consultancy Services)**
    - **Establishment:** Created in 2003 as a wholly owned subsidiary.
    - **Objective:** Provide consultancy services across agriculture, rural development, and allied sectors with a wide presence across India (corporate, zonal, and principal consultant offices).
6. **NABVENTURES Limited**
    - **Role:** Wholly owned subsidiary acting as the Investment Manager for NABVENTURES Fund I (target corpus of **INR 500 crore**).
    - **Focus Areas:** Agriculture, biotechnology in food and agriculture, agri-tech, animal husbandry, fisheries, agri inputs, financial services, supply chain services, climate resilient agriculture, and agri waste management.
7. **NABSanrakshan Trustee Private Limited**
    - **Establishment:** Wholly owned subsidiary with an authorised capital of **Rs.100 crore**.
    - **Role:** Acts as a trustee company managing various credit guarantee funds, enabling the independent implementation of multiple credit guarantee schemes.

VI. Additional Initiatives and Information

- **Digital and Outreach Initiatives:**
    - **Eshakti:** A pilot project launched in 2015 for the digitization of Self-Help Groups (SHGs).
    - **Grameena Habba (Karnataka):** A platform to help rural artisans market agricultural, handicraft, and handloom products.
- **International and Export Initiatives:**
    - The Ministry of External Affairs and NABCONS set up the **India-Africa Institute of Agriculture and Rural Development (IAIARD)** in Malawi.
    - In collaboration with the Maharashtra Chamber of Commerce, NABARD launched India's first **Agricultural Export Facilitation Centre** in Pune.
- **Farmer Distress Index:**
    - An index developed by NABARD to track, identify, and support truly distressed farmers.
    - The index is not uniform across the country—it varies by region depending on the intensity of stress.
    - Depending on the nature and severity of distress, support may include unconditional grants, loan restructuring, and/or a complete debt waiver.

1. In which year did NABARD come into existence?
   (1)1980 (2)1982 (3)1984 (4)1986
2. Which committee's report led to the formation of NABARD?
   (1)CRIB (2)CRAFICARD (3)CARE (4)CRAD
3. Who was the first Chairman of NABARD?
   (1)Shri B. Sivaraman (2)M RAM Krishannaya (3)Indira Gandhi (4)Shri J. M. Shelat
4. NABARD was approved by Parliament through which Act?
   (1)Act 45 of 1980 (2)Act 61 of 1981 (3)Act 32 of 1982 (4)Act 21 of 1979
5. Before NABARD was established, which of the following institutions handled agricultural credit functions?
   (1)RBI's Agricultural Credit Department (2)Agricultural Refinance Corporation (ARC) (3)Rural Planning and Credit Cell (RPCC) (4)All of the above
6. In which year was the NABARD (Amendment) Act passed to increase its authorized capital?
   (1)2017 (2)2018 (3)2019 (4)2020
7. What was NABARD's initial capital at the time of its establishment?
   (1)Rs.50 crore (2)Rs.75 crore (3)Rs.100 crore (4)Rs.150 crore

8. Under Section 35(6) of the Banking Regulation Act, which institution is empowered to inspect State Cooperative Banks?
(1)RBI (2)NABARD (3)NHB (4)SIDBI
9. What is the name of the web-based portal maintained by NABARD to review Cooperative Banks' performance?
(1)INSIGHT (2)ENLIGHT (3)ENSURE (4)ENCORE
10. What does the acronym NIDA stand for?
(1)NABARD Infrastructure Development Assistance (2)National Infrastructure Development Agency (3)NABARD Investment and Development Assistance (4)National Investment and Development Authority
11. In which financial year was the Rural Infrastructure Development Fund (RIDF) established in NABARD?
(1)1992–93 (2)1995–96 (3)2000–01 (4)2005–06
12. What was the initial corpus of the RIDF?
(1)Rs.1,000 crore (2)Rs.2,000 crore (3)Rs.5,000 crore (4)Rs.10,000 crore
13. What is the repayment period for loans disbursed through RIDF, including the grace period?
(1)5 years (2)7 years (3)10 years (4)12 years
14. Under the Central Sector Scheme for Promotion of FPOs, what is the minimum membership required in plain areas?
(1)100 members (2)200 members (3)300 members (4)400 members
15. For FPOs in the North Eastern and hilly areas, what is the minimum membership requirement under the scheme?
(1)50 members (2)75 members (3)100 members (4)150 members
16. What is the corpus of the Micro Irrigation Fund (MIF) operationalized from 2019–20?
(1)Rs.2,000 crore (2)Rs.3,500 crore (3)Rs.5,000 crore (4)Rs.7,000 crore
17. Under the Micro Irrigation Fund, at what rate below the cost of funds are loans provided?
(1)1% below (2)2% below (3)3% below (4)4% below
18. In which budget speech was the Watershed Development Programme announced?
(1)1995–96 (2)1997–98 (3)1999–2000 (4)2001–02
19. What is the contribution made by both the Ministry of Agriculture and NABARD towards the Watershed Development Fund?
(1)Rs.50 crore each (2)Rs.75 crore each (3)Rs.100 crore each (4)Rs.150 crore each
20. The Wadi project is primarily aimed at which group of farmers?
(1)Large-scale commercial farmers (2)Small and marginal farmers (3)Urban farmers (4)Export-oriented farmers
21. Under the Wadi project, a typical Wadi plot covers how many acres?
(1)0.5 acre (2)1 acre (3)2 acres (4)5 acres
22. In the context of the Wadi project, which definition best describes a "small farmer"?
(1)Owns less than 1 hectare (2)Owns less than 2 hectares (3)Owns less than 3 hectares (4)Owns less than 5 hectares
23. What defines a "marginal farmer" in the Wadi project context?
(1)Owns less than 0.5 hectare (2)Owns less than 1 hectare (3)Owns less than 2.5 acres (4)Owns less than 3 acres
24. What is the primary function of NABSAMRUDDHI Finance Limited?
(1)Providing microfinance services (2)Catering to the "missing middle" (SMEs) (3)Investment in real estate (4)Managing government bonds
25. NABFINS Limited primarily focuses on which of the following?
(1)Large corporate financing (2)Micro finance and rural livelihoods (3)Infrastructure development (4)Retail banking services
26. Which subsidiary of NABARD provides consultancy services?
(1)NABCONS (2)NABFINS (3)NABKISAN (4)NABVENTURES
27. Which pilot project was launched by NABARD in 2015 for digitizing SHGs?
(1)Grameena Habba (2)Eshakti (3)Digital SHG Initiative (4)Rural Tech Drive
28. Which initiative in Karnataka provides a platform for rural artisans to sell their products?
(1)Grameena Habba (2)Digital Artisans (3)Rural Bazaar (4)Artisan Connect
29. India's first Agricultural Export Facilitation Centre in Pune was launched by NABARD in collaboration with which organization?
(1)Maharashtra Chamber of Commerce (2)SIDBI (3)EXIM Bank (4)NHB
30. What is the primary purpose of the Farmer Distress Index developed by NABARD?
(1)Evaluating market trends (2)Tracking and supporting distressed farmers (3)Monitoring crop yields (4)Assessing rural infrastructure quality

Answers:

1	2	**6**	2	**11**	**2**	**16**	**3**	**21**	**2**	**26**	**1**
2	2	**7**	3	**12**	**2**	**17**	**3**	**22**	**2**	**27**	**2**
3	2	**8**	2	**13**	**2**	**18**	**3**	**23**	**3**	**28**	**1**
4	2	**9**	3	**14**	**3**	**19**	**3**	**24**	**2**	**29**	**1**
5	4	**10**	1	**15**	**3**	**20**	**2**	**25**	**2**	**30**	**2**

11. National Housing Bank (NHB)

1. Background and Rationale for Establishment

Key Points:

• **Identification of a Gap:**

– During the 7th Five Year Plan (1985–90), a Sub-Group on Housing Finance identified that the non-availability of long-term finance to individual households was a major lacuna hindering the progress of the housing sector.

- This gap led to the recommendation for establishing a national level institution.

• **Government Action & Expert Recommendations:**

– The Committee of Secretaries set up a High Level Group (chaired by Dr. C. Rangarajan, then Deputy Governor of the RBI) to examine the proposal.

– The Group recommended establishing the National Housing Bank as an autonomous housing finance institution.

• **Political Endorsement:**

– Prime Minister Rajiv Gandhi, while presenting the Union Budget for 1987–88 on February 28, 1987, announced the decision to set up NHB as the apex institution for housing finance.

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2. Legislative and Institutional Framework

Formation Process:

• **Legislative Enactment:**

– The National Housing Bank Bill (Bill No. 91 of 1987) was passed by Parliament during the winter session of 1987.

– With the assent of the President of India on December 23, 1987, the Bill became an Act of Parliament.

• **National Housing Policy, 1988:**

– The policy envisaged NHB as the apex institution for housing finance.

• **Establishment Date and Capital Contribution:**

– NHB was formally set up on July 9, 1988 under the National Housing Bank Act, 1987.

– The Reserve Bank of India (RBI) contributed the entire paid-up capital at the time of its establishment.

Governance Structure:

• The overall management, supervision, and direction of NHB's affairs are vested in a Board of Directors.

• The Head Office of NHB is located in New Delhi.

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3. Objectives and Functions of NHB

Primary Objectives:

• To operate as the principal agency for promoting housing finance institutions (HFIs) at both local and regional levels.

• To provide financial and other support that is incidental to these institutions and related housing matters.

Specific Functions and Regulatory Role:

• **Housing Finance Companies (HFCs):**

– NHB registers, regulates, and supervises HFCs through on-site and off-site surveillance.

– It also coordinates with other regulators.

- *Definition:* As per the RBI, an HFC is an NBFC whose financial assets dedicated to housing finance constitute at least 60% of its total assets.

– **Eligibility Requirement:** HFCs must have a minimum paid-up capital of at least Rs. 10 crores to be eligible for loans from NHB.

• **Disbursement Role:**

– NHB serves as the Central Nodal Agency for disbursing loans under the credit-linked subsidy scheme (e.g., under the Pradhan Mantri Awas Yojana [PMAY]-Urban).

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4. Regulatory Developments and Changes

Changes Triggered by Market Events:

• **2019 Developments:**

– In 2019, due to the default of Infrastructure Leasing & Financial Services Limited (IL&FS) and the resulting liquidity crisis in the housing finance sector, the RBI proposed tighter regulation for HFCs.

– HFCs were brought under the purview of the RBI through an amendment (via the Finance Act, 2019) to the National Housing Bank Act, 1987.

Critical Lending Guidelines (LTV Ratios):

• **For Housing Loans:**

– For individuals borrowing up to ₹30 lakh: LTV ratio must not exceed 90%.
– For loans above ₹30 lakh and up to ₹75 lakh: LTV ratio must not exceed 80%.
– For loans above ₹75 lakh: LTV ratio must not exceed 75%.
– Additionally, for loans secured by gold jewellery, the LTV ratio must not exceed 75%.

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5. Changes in Ownership and Capital Structure

Divestment by RBI:

• On March 19, 2019, the RBI divested its entire stake in NHB, amounting to ₹1450 crore.
• Consequently, the Government of India now holds 100% stake in NHB.
• This divestment was in line with the recommendations of the Narasimham Committee II, which also influenced divestment policies in NABARD.

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6. NHB RESIDEX – Housing Price Index

Overview:

• NHB RESIDEX is India's first official housing price index.

• **Launch and Evolution:**

– It was launched in July 2007.
– Initially computed using market data, it was switched in 2010 to valuation data received from banks and HFCs.
– From 2013 to 2015, data was sourced from the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI).

Current Scope and Coverage:

• NHB RESIDEX is now available online and covers a wider geographical area.
• The brand has expanded to include:
– Housing Price Indices (HPI)
– Land Price Indices (LPI)
– Building Materials Price Indices (BMPI)
– Housing Rental Index (HRI)
• It currently covers 50 cities.

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7. Credit Risk Guarantee Fund for Low Income Housing

Scheme Details:

• **Name:** Credit Risk Guarantee Fund Scheme for Low Income Housing (CRGFS).

• **Formulation:**

– Developed by the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) in consultation with the Department of Financial Services (DFS) and Ministry of Finance (MOF).

• **Objective:**

– To provide credit guarantee support to housing loans that are collateral-free or do not have a third-party guarantee.
– The scheme covers loans up to Rs. 5 lakhs for eligible lending institutions, specifically targeting low income housing in urban areas.

• **NHB's Role:**

– NHB has been mandated to manage the Fund Trust set up under this scheme by the government.

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8. NHB SUVRIDDHI (Tax Saving) Term Deposit Scheme

Scheme Overview:

• **Purpose:**

– A tax-saving deposit scheme available to individuals and Hindu Undivided Families (HUFs) under Section 80C of the Income Tax Act.

• **Key Features:**

– Minimum deposit: Rs. 10,000 (deposits are made in multiples of Rs. 10,000).

– Fixed maturity period: 60 months.
– Maximum investment allowed: Rs. 1,00,000.

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9. Special Refinance Facility (2020 Announcement)

Context and Details:

• **Announcement by RBI (2020):**
– The RBI decided to extend a special refinance facility totaling ₹50,000 crore to support sectoral credit needs.

• **Beneficiary Institutions:**
– National Bank for Agriculture and Rural Development (NABARD)
– Small Industries Development Bank of India (SIDBI)
– National Housing Bank (NHB)

Allocation Breakdown:

• ₹25,000 crore allocated to NABARD for refinancing Regional Rural Banks (RRBs), cooperative banks, and Microfinance Institutions (MFIs).
• ₹15,000 crore allocated to SIDBI for on-lending and refinancing purposes.
• ₹10,000 crore allocated to NHB for supporting Housing Finance Companies (HFCs).

1. During which Five Year Plan was the non-availability of long-term finance for individual households identified as a major lacuna impeding progress in the housing sector?
(1)5th Five Year Plan (2)7th Five Year Plan (3)9th Five Year Plan (4)11th Five Year Plan
2. Who chaired the High Level Group that recommended the establishment of the National Housing Bank?
(1)Dr. Manmohan Singh (2)Dr. Raghuram Rajan (3)Dr. Arundhati Bhattacharya (4)Dr. C. Rangarajan
3. On which date did Prime Minister Rajiv Gandhi announce the decision to establish the National Housing Bank in the Union Budget?
(1)February 28, 1987 (2)March 15, 1987 (3)January 26, 1987 (4)December 23, 1987
4. Which Act of Parliament provided the legislative framework for establishing the National Housing Bank?
(1)Housing Finance Act, 1985 (2)National Housing Policy, 1988 (3)National Housing Bank Act, 1987 (4)RBI Act, 1934
5. In which year was the National Housing Bank formally established?
(1)1985 (2)1988 (3)1990 (4)1987
6. Which institution contributed the entire paid-up capital when NHB was set up?
(1)Government of India (2)Small Industries Development Bank of India (SIDBI) (3)NABARD (4)Reserve Bank of India (RBI)
7. Where is the head office of the National Housing Bank located?
(1)Mumbai (2)Kolkata (3)New Delhi (4)Chennai
8. Which entity is primarily responsible for the registration, regulation, and supervision of Housing Finance Companies (HFCs) in India?
(1)National Housing Bank (NHB) (2)Reserve Bank of India (RBI) (3)NABARD (4)Ministry of Housing and Urban Affairs
9. According to the RBI definition, what percentage of an NBFC's total assets must be dedicated to housing finance for it to qualify as a Housing Finance Company (HFC)?
(1)40% (2)50% (3)70% (4)60%
10. What is the minimum paid-up capital required for Housing Finance Companies (HFCs) to be eligible to take loans from NHB?
(1)Rs. 5 crores (2)Rs. 10 crores (3)Rs. 15 crores (4)Rs. 20 crores
11. In 2019, which major infrastructure NBFC default triggered a liquidity crisis in the housing finance sector?
(1)Infrastructure Leasing & Financial Services Limited (IL&FS) (2)Housing Development Finance Corporation (HDFC) (3)Dewan Housing Finance Ltd (DHFL) (4)LIC Housing Finance Ltd (LICHFL)
12. Under which section of the RBI Act did Housing Finance Companies (HFCs) come under the purview of the RBI in 2019?
(1)Section IIIA (2)Section IVB (3)Section IIIB (4)Section V
13. What is the maximum Loan-to-Value (LTV) ratio allowed for housing loans up to ₹30 lakh?
(1)90% (2)80% (3)75% (4)85%
14. For housing loans above ₹30 lakh and up to ₹75 lakh, what is the maximum permissible LTV ratio?
(1)95% (2)85% (3)70% (4)80%
15. What is the maximum LTV ratio for housing loans above ₹75 lakh?
(1)90% (2)80% (3)75% (4)70%
16. For loans granted against the collateral of gold jewellery, what is the maximum LTV ratio that Housing Finance Companies must maintain?

(1)90% (2)75% (3)80% (4)70%

17. Which organization divested its entire stake in NHB on March 19, 2019?
(1)Government of India (2)Reserve Bank of India (RBI) (3)NABARD (4)SIDBI
18. Approximately how much was the RBI's stake in NHB valued at when divested in 2019?
(1)₹1000 crore (2)₹1200 crore (3)₹1600 crore (4)₹1450 crore
19. Which committee's recommendation formed the basis for the divestment of RBI's stake in NHB?
(1)Kelkar Committee (2)Raghuram Committee (3)Narasimham Committee II (4)Manmohan Committee
20. What is NHB RESIDEX?
(1)India's first official housing price index (2)A regulatory framework for HFCs (3)A term deposit scheme (4)A refinancing facility
21. In which year was NHB RESIDEX launched?
(1)2005 (2)2006 (3)2007 (4)2008
22. After 2010, NHB RESIDEX started using which type of data for its computation?
(1)Census data (2)Valuation data from banks and HFCs (3)Consumer price indices (4)Satellite imagery
23. Between 2013 and 2015, from which source did NHB RESIDEX obtain data?
(1)Ministry of Housing (2)Indian Statistical Institute (3)Real Estate Regulatory Authority (RERA) (4)Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)
24. How many cities does NHB RESIDEX currently cover?
(1)50 (2)25 (3)75 (4)100
25. What additional indices have been included under the NHB RESIDEX brand?
(1)Consumer Price Index and Wholesale Price Index (2)Land Price Index, Building Materials Price Index, and Housing Rental Index (3)Industrial Production Index and Export Price Index (4)Manufacturing PMI and Service PMI
26. What does CRGFS stand for?
(1)Credit Regulation and Guarantee Financial Scheme (2)Credit Risk Guarantee Financial Support (3)Credit Risk Guarantee Fund Scheme for Low Income Housing (4)Collateral Risk Guarantee Fund Scheme
27. Which government ministry formulated the Credit Risk Guarantee Fund Scheme for Low Income Housing?
(1)Ministry of Housing and Urban Poverty Alleviation (MoHUPA) (2)Ministry of Finance (3)Ministry of Rural Development (4)Ministry of Commerce
28. What is the maximum loan amount eligible for credit guarantee under the CRGFS?
(1)Rs. 10 lakhs (2)Rs. 7 lakhs (3)Rs. 2 lakhs (4)Rs. 5 lakhs
29. Who manages the Fund Trust established under the CRGFS?
(1)Reserve Bank of India (RBI) (2)National Housing Bank (NHB) (3)NABARD (4)Ministry of Housing
30. Which tax section is associated with the NHB SUVRIDDHI (Tax Saving) Term Deposit Scheme?
(1)Section 80D (2)Section 80G (3)Section 80C (4)Section 24(b)
31. What is the minimum deposit amount for the NHB SUVRIDDHI Term Deposit Scheme?
(1)Rs. 5,000 (2)Rs. 7,500 (3)Rs. 15,000 (4)Rs. 10,000
32. How must deposits in the NHB SUVRIDDHI scheme be made after the initial deposit?
(1)In multiples of Rs. 10,000 (2)In multiples of Rs. 5,000 (3)Annually (4)Monthly
33. What is the fixed maturity period for the NHB SUVRIDDHI Term Deposit Scheme?
(1)36 months (2)60 months (3)48 months (4)72 months
34. What is the maximum investment limit under the NHB SUVRIDDHI scheme?
(1)Rs. 50,000 (2)Rs. 75,000 (3)Rs. 90,000 (4)Rs. 1,00,000
35. In 2020, the RBI announced a special refinance facility to meet sectoral credit needs. What is the total amount of this facility?
(1)₹25,000 crore (2)₹15,000 crore (3)₹50,000 crore (4)₹10,000 crore
36. Which of the following institutions was NOT a beneficiary of the 2020 special refinance facility announced by the RBI?
(1)State Bank of India (SBI) (2)NABARD (3)SIDBI (4)NHB
37. What amount was allocated to NHB under the RBI's 2020 special refinance facility?
(1)₹25,000 crore (2)₹15,000 crore (3)₹5,000 crore (4)₹10,000 crore
38. How much was allocated to SIDBI for on-lending and refinancing purposes in the 2020 refinance facility?
(1)₹10,000 crore (2)₹15,000 crore (3)₹25,000 crore (4)₹50,000 crore
39. Which of the following best describes the primary role of the National Housing Bank (NHB)?
(1)To promote and support housing finance institutions at local and regional levels (2)To directly provide housing loans to individuals (3)To manage commercial banks (4)To regulate the stock market
40. Under which scheme does NHB act as the Central Nodal Agency for the disbursement of loans?
(1)PMAY – Rural (2)CRGFS (3)PMAY – Urban (4)NHB SUVRIDDHI

41. In which document is NHB's objective to operate as the principal agency for promoting housing finance institutions stated?
(1)The National Housing Policy, 1988 (2)The RBI Act, 1934 (3)The Housing Finance Regulation Act (4)The National Housing Bank Act, 1987
42. Which event led the RBI to propose taking over the regulation of Housing Finance Companies (HFCs) in 2019?
(1)The global financial crisis (2)IL&FS default and subsequent liquidity crunch (3)A government directive (4)A change in leadership at RBI
43. The credit guarantee provided under the CRGFS aims to support housing loans that are what type of loans?
(1)Collateral free or third-party guarantee free loans (2)High-value secured loans (3)Loans with high interest rates (4)Long-term commercial loans
44. The divestment of RBI's stake in NHB resulted in which entity holding 100% ownership?
(1)Private investors (2)The Reserve Bank of India (3)The Government of India (4)NABARD
45. What was the primary recommendation of the Sub-Group on Housing Finance for the 7th Five Year Plan?
(1)To reduce housing loan interest rates (2)To increase short-term finance availability (3)To establish a national-level institution for long-term housing finance (4)To privatize housing finance institutions
46. Which document laid down the vision of NHB as the apex institution for housing finance as envisaged in 1988?
(1)The NHB Annual Report (2)The RBI Quarterly Bulletin (3)The Housing Finance Code (4)The National Housing Policy, 1988
47. Which aspect is NOT a function of the National Housing Bank?
(1)Supervising Housing Finance Companies (2)Directly providing loans to individual home buyers (3)Promoting housing finance institutions (4)Providing financial support to housing-related entities
48. The refinancing facility announced in 2020 allocated ₹25,000 crore to which institution?
(1)NABARD (2)SIDBI (3)NHB (4)RBI

Answers:

1	2	6	4	11	1	16	2	21	3	26	3	31	4	36	1	41	4	46	4
2	4	7	3	12	3	17	2	22	2	27	1	32	1	37	4	42	2	47	2
3	1	8	1	13	1	18	4	23	4	28	4	33	2	38	2	43	1	48	1
4	3	9	4	14	4	19	3	24	1	29	2	34	4	39	1	44	3	49	
5	2	10	2	15	3	20	1	25	2	30	3	35	3	40	3	45	3	50	

12. SIDBI

1. Introduction to SIDBI

- **Definition and Establishment**
– SIDBI stands for Small Industries Development Bank of India
– Established on April 2, 1990, through an Act of Parliament (making it a statutory body)
– Headquartered in Lucknow, Uttar Pradesh
,
- **Core Mandate**
– Principal development financial institution for the promotion, financing, and development of the Micro, Small, and Medium Enterprises (MSME) sector in India
– Plays a critical role in addressing the credit needs and supporting the growth of MSMEs

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2. SIDBI's Operational Framework

2.1 Modes of Execution

SIDBI executes its mandate through several key channels:

- **Indirect Lending**
– Utilizes the multiplier effect and reaches a broader MSME base
– Works through intermediary institutions such as Banks, Small Finance Banks (SFBs), Non-Banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs), and New Age Fintechs
- **Direct Lending**
– Aims to fill existing credit gaps in the MSME sector
– Uses demonstrative and innovative lending products that can be further scaled up by the credit delivery ecosystem

- **Fund of Funds**
  – Supports emerging startups by channeling funds through the Fund of Funds mechanism
  – Encourages entrepreneurship culture
- **Promotion and Development**
  – Engages in initiatives that promote entrepreneurship and provide holistic development support to budding entrepreneurs
  – Implements "credit-plus" initiatives (i.e., providing both financial and non-financial support)
- **Facilitator Role**
  – Acts as a nodal agency for various government schemes oriented towards the MSME sector
  – Facilitates the effective implementation of these schemes

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3. Key Products, Schemes, and Initiatives

The document lists a broad range of products and schemes offered or supported by SIDBI:

3.1 Loan Products and Financial Instruments

- **Direct Loan Products**
  – **Examples:**
  • Term Loan
  • Secured Business Loan
  • SANGAM
  • STEP
  • Ubharte Sitaare Programme
  • STHAPAN
  • ARISE
  • TULIP
  • STAR
  • SPEED PLUS and SPEED
  • CASH Credit
  • Loans with OEMs
  • SMILE and SMILE Equipment Finance
- **Udyami Mitra Portal**
  – A portal regulated by SIDBI that simplifies the process of availing credit facilities for MSMEs
  – For loans up to Rs. 10 lakh, collateral security is not required
- **Scheduled Commercial Banks' Mandate**
  – Banks are required to disburse 7.5% of their Adjusted Net Bank Credit (ANBC) to the MSME sector

3.2 Specialized Reports and Funds

- **MSME Pulse Report**
  – Jointly published by SIDBI and TransUnion CIBIL
  – Provides in-depth analysis and insights into the MSME segment for policymakers
- **Ubharte Sitaare Alternative Investment Fund**
  – Established jointly by Exim Bank and SIDBI
  – Targets investments in export-oriented units across manufacturing and services

3.3 Technological and Digital Initiatives

- **NTREES (Trade Receivables Engine for E-discounting)**
  – An e-platform promoted by SIDBI in association with NSE
  – Facilitates discounting of MSME bills for large purchasers
- **PSBLoansin59min Portal**
  – Launched in November 2018
  – Provides credit up to Rs. 1 crore in just 59 minutes by integrating advanced fintech solutions, ensuring minimal human intervention

3.4 Collaborative and Support Programs

- **PSIG Programme**
  – Funded by the Department for International Development (DFID), UK
  – Full name: Poorest States Inclusive Growth (PSIG) Program
  – Aims to improve income and employment opportunities for poor women and men in eight low-income states by expanding access to finance and markets
- **SIDBI and Google Partnership (SANGAM)**
  – Offers term loans and working capital loans up to Rs. 1 crore
  – Provides competitive interest rates: as low as 6.40% p.a. for women borrowers and 6.90% p.a. for others

- **Swavalamban Challenge Fund**
  – Launched in partnership with the Foreign, Commonwealth & Development Office (FCDO), UK
  – Provides financial support to non-profit organizations, educational institutions, and social startups focused on sustainable livelihoods, financial inclusion, and entrepreneurship
- **SHWAS and AROG Schemes**
  – Designed to help MSMEs during the COVID-19 pandemic
  – SHWAS: Assistance to the Healthcare sector in the war against COVID-19
  – AROG: Assistance for Recovery & Organic Growth of MSMEs
  – Offer 100% funding up to Rs. 2 crore at attractive interest rates (4.50%–6% p.a.)
  – Implemented under government guidance for production and services related to essential healthcare supplies

3.5 Other Supporting Entities and Instruments

- **SMERA**
  – A division of Acuité Ratings & Research Limited that provides rating and grading services for MSMEs
- **UK SINHA Committee on MSMEs**
  – Recommended expanding SIDBI's role
  – Suggested that SIDBI deepen credit markets in underserved regions and develop additional debt and equity instruments
- **SIDBI Term-Loan Assistance for Rooftop Solar Photovoltaic (PV) Plants (STAR)**
  – **Purpose:** To help MSMEs reduce their power bills by financing solar projects (25 KW to 500 KW)
  – **Details:**
  • Interest Rate: 10.00% – 11.10% p.a.
  • Loan Amount: Rs. 10 lakh to Rs. 2.5 crore
- **Make in India Soft Loan Fund for Micro Small and Medium Enterprises (SMILE)**
  – Targets new enterprises in both the services and manufacturing sectors
  – Loan amounts vary:
  • Minimum Rs. 10 lakh for Equipment Finance
  • Rs. 25 lakh for other requirements
- **Government of India and SIDBI Collaboration: Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**
- **India SME Technology Services Ltd (ISTSL)**
  – Incorporated by SIDBI along with four other banks (State Bank of India, Indian Bank, Indian Overseas Bank, Oriental Bank of Commerce)
  – Focuses on creating synergy between technology and finance in the MSME sector
  – Works in areas such as energy efficiency, consultancy, renewable energy (especially solar), and loan syndication
- **India SME Asset Reconstruction Company Ltd (ISARC)**
  – India's first Asset Reconstruction Company (ARC)
  – Sponsored by SIDBI and focuses on speedy resolution of NPAs with a focus on MSMEs
- **SIDBI Venture Capital Limited (SVCL)**
  – A wholly owned subsidiary of SIDBI
  – Established in July 1999 to oversee SIDBI's venture capital operations
- **RXIL (Receivables Exchange of India Ltd)**
  – Formed as a joint venture between SIDBI and the National Stock Exchange of India (NSE)
  – Operates the Trade Receivables Discounting System (TReDS) Platform
  – Notably, RXIL was the first entity to receive RBI approval in December 2016 to launch India's first TReDS exchange
- **MUDRA**
  – A subsidiary of SIDBI, entirely funded by SIDBI
  – **Capital Details:** Authorized capital of Rs. 1000 crores with a paid-up capital of Rs. 750 crores
  – **Loan Categories:**
  • **Shishu:** Loans up to Rs. 50,000
  • **Kishor:** Loans above Rs. 50,000 up to Rs. 5 lakh
  • **Tarun:** Loans above Rs. 5 lakh up to Rs. 10 lakh
- **Entrepreneurship and Awareness Campaigns**
  – **Udyam Abhilasha:** A national-level entrepreneurship awareness campaign by SIDBI
  – **Swavalamban Express:** A train-based initiative that visited 11 entrepreneurial cities (from Lucknow to Varanasi) to promote an entrepreneurial culture
  – **CriSidEx:** Launched in collaboration with CRISIL, this is India's first MSE Sentiment Index

4. Priority Sector Lending and Related Instruments

- **Challenges in Priority Sector Lending**
  – Many banks (both Indian and foreign) often fall short of their mandated Priority Sector Lending (PSL) quotas
  – In such cases, banks are required to invest any remaining amount in specific funds:
  - **For Indian Banks + Foreign Banks (with 20 or more branches):**
    • Investment in NABARD's RIDF (Rural Infrastructure Development Fund)
  - **For Foreign Banks (with fewer than 20 branches):**
    • Contribution to SEDF (Small Enterprises Development Fund), which is managed by SIDBI
- **Issue with Long-Term Investments**
  – The investments under RIDF or SEDF are typically locked in for around 20 years, limiting liquidity
- **Priority Sector Lending Certificates (PSLCs)**
  – Instruments that enable banks to meet their PSL targets without directly disbursing loans to sectors outside their expertise
  – Banks with surplus loans in the priority sector can sell these certificates to banks that have not met their targets, earning a fee in the process

1. What does SIDBI stand for?
   (1)Small Industries Development Bank of India (2)State Industrial Development Bank of India (3)Small Investment Development Bank of India (4)State Industries Development Bureau of India
2. In which year was SIDBI established?
   (1)1985 (2)1990 (3)1995 (4)2000
3. Where is the headquarters of SIDBI located?
   (1)Mumbai (2)New Delhi (3)Lucknow (4)Kolkata
4. SIDBI was established through which legal instrument?
   (1)Presidential Order (2)Act of Parliament (3)Supreme Court Directive (4)Government Resolution
5. What is the primary mandate of SIDBI?
   (1)To provide insurance services for industrial units (2)To promote, finance, and develop the MSME sector (3)To regulate the stock market (4)To manage foreign trade policies
6. Which of the following is NOT a method used by SIDBI to execute its mandate?
   (1)Indirect Lending (2)Direct Lending (3)Fund of Funds (4)Equity Investment in Government Bonds
7. How is "Indirect Lending" by SIDBI best described?
   (1)Lending directly to MSMEs (2)Multiplying the impact of funds by channeling loans through intermediaries such as banks and NBFCs (3)Investing solely in government bonds (4)Providing consultancy without transferring funds
8. What distinguishes "Direct Lending" as used by SIDBI?
   (1)Providing loans only through partner banks (2)Lending directly to MSMEs to fill existing credit gaps (3)Investing in international securities (4)Offering non-financial advisory services
9. The purpose of SIDBI's "Fund of Funds" mechanism is to:
   (1)Provide subsidies to government institutions (2)Boost entrepreneurship by supporting emerging startups (3)Consolidate bank deposits (4)Finance large-scale infrastructure projects
10. In its role as a facilitator, SIDBI primarily acts as a:
    (1)Nodal agency for various government schemes targeted at MSMEs (2)Regulatory body for stock market operations (3)Credit rating agency (4)Insurance provider for industrial units
11. What is the main function of the Udyami Mitra Portal?
    (1)To provide a digital platform for MSMEs to access credit facilities (2)To offer online trading in securities (3)To manage international remittances (4)To serve as a news portal for industrial updates
12. Under the Udyami Mitra Portal, what is the collateral requirement for loans up to Rs. 10 lakh?
    (1)Full collateral is mandatory (2)Partial collateral is acceptable (3)No collateral is required (4)Only fixed deposits can be used as collateral
13. Scheduled Commercial Banks are mandated to lend what percentage of their ANBC to the MSME sector?
    (1)5% (2)7.5% (3)10% (4)12.5%
14. Which of the following is NOT one of the direct loan products offered by SIDBI?
    (1)Term Loan (2)Secured Business Loan (3)SMILE Equipment Finance (4)Equity Shares Purchase
15. The PSBLoansin59min portal is notable for its ability to:
    (1)Provide agricultural loans exclusively (2)Approve loans in just 59 minutes using advanced fintech (3)Offer loans without any interest (4)Manage long-term infrastructure investments
16. NTREES stands for:

(1)National Trade Receivables Exchange for Electronic Services (2)Network for Trade Receivables and Electronic E-discounting (3)Trade Receivables Engine for E-discounting (4)New Trade Receivables Enterprise System

17. Which partnership offers micro-enterprises term loans and working capital loans at competitive rates?
(1)SIDBI–NABARD Partnership (2)SIDBI–Google Partnership (SANGAM) (3)SIDBI–EXIM Collaboration (4)SIDBI–CRISIL Association
18. Under the SANGAM scheme, what is the interest rate offered to women borrowers?
(1)6.40% per annum (2)6.90% per annum (3)7.50% per annum (4)8.00% per annum
19. PSIG stands for:
(1)Poorest States Inclusive Growth Program (2)Public Sector Investment Grant (3)Priority Sector Initiative for Growth (4)Professional Skills Improvement Guide
20. Which organization funds the PSIG programme?
(1)World Bank (2)Department for International Development (DFID), UK (3)International Monetary Fund (IMF) (4)Asian Development Bank
21. The primary objective of the Swavalamban Challenge Fund is to:
(1)Finance large industrial projects (2)Provide financial support to non-profit organizations, educational institutions, and social startups (3)Support government infrastructure development (4)Offer subsidized loans for agricultural development
22. Which SIDBI scheme helps MSMEs reduce their power bills by financing solar projects?
(1)SMILE (2)STAR (3)SANGAM (4)NTREES
23. What is the interest rate range for SIDBI's STAR scheme?
(1)8.00% – 9.00% per annum (2)9.00% – 10.00% per annum (3)10.00% – 11.10% per annum (4)11.50% – 12.00% per annum
24. The SMILE scheme primarily aims to:
(1)Provide equipment finance for new enterprises in the services and manufacturing sectors (2)Offer insurance services for MSMEs (3)Consolidate bank loans (4)Facilitate foreign direct investments
25. CGTMSE stands for:
(1)Credit Guarantee Trust for Micro and Small Enterprises (2)Credit Growth Trust for Manufacturing and Service Enterprises (3)Commercial Guarantee Trust for Micro and Small Enterprises (4)Central Guarantee Trust for MSMEs
26. Which entity was set up to create synergy between technology and finance for the MSME sector?
(1)ISARC (2)ISTSL (3)SVCL (4)RXIL
27. The main focus of ISARC is to:
(1)Facilitate asset reconstruction and speedy resolution of NPAs in the MSME sector (2)Provide microloans to startups (3)Develop fintech solutions for rural areas (4)Manage venture capital operations
28. SIDBI Venture Capital Limited (SVCL) was incorporated in:
(1)1995 (2)1997 (3)1999 (4)2001
29. RXIL, which operates the TReDS platform, was established in collaboration with:
(1)NSE (2)BSE (3)SEBI (4)RBI
30. MUDRA is best described as:
(1)A credit rating agency for MSMEs (2)A wholly owned subsidiary of SIDBI providing microloans (3)A venture capital fund (4)An insurance subsidiary of SIDBI
31. Under the MUDRA scheme, the 'Shishu' category covers loans up to:
(1)Rs. 50,000 (2)Rs. 1 lakh (3)Rs. 5 lakh (4)Rs. 10 lakh
32. Under MUDRA, the 'Kishor' category covers loans that are:
(1)Up to Rs. 50,000 (2)Above Rs. 5 lakh up to Rs. 10 lakh (3)Above Rs. 50,000 and up to Rs. 5 lakh (4)Above Rs. 10 lakh
33. In the MUDRA scheme, the 'Tarun' category is for loans between:
(1)Rs. 1 lakh and Rs. 3 lakh (2)Rs. 50,000 and Rs. 5 lakh (3)Above Rs. 5 lakh and up to Rs. 10 lakh (4)Above Rs. 10 lakh
34. What is Udyam Abhilasha?
(1)A technological portal for MSMEs (2)A national-level entrepreneurship awareness campaign by SIDBI (3)A direct lending scheme for rural enterprises (4)A subsidy program for large corporations
35. The Swavalamban Express initiative is best described as:
(1)A financial product targeting export units (2)A train-based campaign to promote entrepreneurship among youth (3)An online loan application platform (4)A rural infrastructure project
36. CriSidEx refers to:
(1)A digital payment platform (2)India's first MSE Sentiment Index launched in collaboration with CRISIL (3)A credit scoring system for banks (4)A startup accelerator program
37. What challenge do banks often face regarding Priority Sector Lending (PSL) targets?

(1)Excess demand for loans in the large enterprise sector (2)Inability to meet PSL quotas, forcing them to invest in long-term funds (3)A surplus of liquidity in the priority sector (4)Regulatory restrictions on disbursing loans

38. RIDF stands for:
(1)Regional Industrial Development Fund (2)Rural Infrastructure Development Fund (3)Retail Investment Development Fund (4)Resource Investment and Development Fund

39. In the SIDBI context, SEDF stands for:
(1)Small Enterprises Development Fund (2)Standard Economic Development Fund (3)State Enterprise Discount Fund (4)Special Equity Distribution Fund

40. Which instrument allows banks to achieve their PSL targets without directly disbursing additional loans?
(1)Government Bonds (2)Equity Shares (3)Priority Sector Lending Certificates (PSLCs) (4)Commercial Papers

41. How do Priority Sector Lending Certificates (PSLCs) operate?
(1)They allow banks to secure low-interest loans from international markets (2)Banks with surplus priority sector loans sell certificates to those that have not met their targets (3)They are used to pay dividends to shareholders (4)They function as tradable bonds on the stock exchange

42. What is the statutory status of SIDBI?
(1)A private financial institution (2)A statutory body established by an Act of Parliament (3)A cooperative society (4)A non-governmental organization

43. With which organization does SIDBI jointly publish the MSME Pulse Report?
(1)CRISIL (2)TransUnion CIBIL (3)NSE (4)RBI

44. The Ubharte Sitaare Alternative Investment Fund is intended to:
(1)Finance large-scale infrastructure projects (2)Provide financial support to export-oriented units in manufacturing and services (3)Support urban development initiatives (4)Offer low-interest loans to farmers

45. Which digital platform promoted by SIDBI facilitates the discounting of MSME bills?
(1)NTREES (2)PSIG (3)Udyami Mitra Portal (4)SWIFT

46. What distinguishes the PSBLoansin59min portal from traditional loan processes?
(1)It offers zero processing fees (2)It uses advanced fintech to process loans in just 59 minutes with minimal human intervention (3)It is exclusive to government employees (4)It requires extensive physical documentation

47. Which authority guides the SHWAS and AROG schemes launched by SIDBI?
(1)Ministry of Finance (2)Ministry of Agriculture (3)Government of India (GoI) (4)Ministry of External Affairs

48. The promotion and development initiatives of SIDBI primarily aim to:
(1)Enhance the global competitiveness of large corporations (2)Provide holistic support and development to budding entrepreneurs in the MSME sector (3)Regulate international trade policies (4)Finance infrastructure projects in urban areas

49. One of the key functions of SIDBI's fund of funds mechanism is to:
(1)Consolidate deposits from commercial banks (2)Boost entrepreneurship by supporting emerging startups (3)Manage government bond portfolios (4)Issue credit ratings for private companies

50. What is the main objective of the Udyami Mitra Portal under SIDBI?
(1)To streamline the process of providing credit facilities to MSMEs (2)To offer online trading platforms for securities (3)To facilitate international remittances (4)To provide comprehensive insurance services

Answers:

1	**1**	**6**	**4**	**11**	**1**	**16**	**3**	**21**	**2**	**26**	**2**	**31**	**1**	**36**	**2**	**41**	**2**	**46**	**2**
2	**2**	**7**	**2**	**12**	**3**	**17**	**2**	**22**	**2**	**27**	**1**	**32**	**3**	**37**	**2**	**42**	**2**	**47**	**3**
3	**3**	**8**	**2**	**13**	**2**	**18**	**1**	**23**	**3**	**28**	**3**	**33**	**3**	**38**	**2**	**43**	**2**	**48**	**2**
4	**2**	**9**	**2**	**14**	**4**	**19**	**1**	**24**	**1**	**29**	**1**	**34**	**2**	**39**	**1**	**44**	**2**	**49**	**2**
5	**2**	**10**	**1**	**15**	**2**	**20**	**2**	**25**	**1**	**30**	**2**	**35**	**2**	**40**	**3**	**45**	**1**	**50**	**1**

13. FSIB (Financial Services Institutions Bureau)

1. Overview of FSIB (Financial Services Institutions Bureau)

- **Establishment:**
  - Constituted effective from **July 01, 2022** by the Central Government.
- **Secretariat:**
  - Comprises the **Secretary** and **four officers**.
- **Primary Role:**
  - FSIB will select the chiefs of public sector banks and insurance companies.

2. Functions of FSIB

FSIB is entrusted with multiple functions, including:

- **(a) Appointment Recommendations:**
  - Acts as the single entity for recommending appointments of:
    - **WTD (Whole-time Director)**
    - **NEC (Non-executive Chairman)**
  - This applies to Public Sector Banks (PSBs), Financial Institutions (FIs), and Public Sector Insurers (PSIs).
- **(b) Advisory Role on Personnel Matters:**
  - Advises the Government on:
    - Appointments, transfers, or extensions of term of office.
    - Termination of services of directors.
- **(c) Management Structure:**
  - Advises on the desired management structure at the board level for PSBs, FIs, and PSIs.
- **(d) Performance Appraisal System:**
  - Recommends a suitable performance appraisal system for WTDs and NECs.
- **(e) Databank Development:**
  - Responsible for building a databank containing performance data related to PSBs, FIs, and PSIs.
- **(f) Code of Conduct & Ethics:**
  - Advises on the formulation and enforcement of a code of conduct and ethics for whole-time directors.
- **(g) Training & Development:**
  - Advises on evolving suitable training and development programmes for management personnel.
- **(h) Business Strategies & Capital Raising:**
  - Helps PSBs, FIs, and PSIs in developing business strategies and capital raising plans.

3. Chairman of FSIB

- **Appointment:**
  - **Bhanu Pratap Sharma** has been approved by the ACC as the **initial chairperson** for a term of **two years**.
  - Notably, he is the former Chairman of the Banks Board Bureau (BBB).

4. Composition of FSIB

The structure of FSIB is clearly defined, with separate roles and criteria for membership:

A. Core Members

1. **Chairperson of FSIB:**
   - Nominated by the Central Government.
   - Must be either:
     - A retired official from the banking sector or a regulatory institution,
     - A reputed business person with sufficient knowledge of the financial sector, or
     - A person with at least 25 years' experience in public administration with banking/financial sector exposure.
2. **Secretary in Charge of the Department of Financial Services.**
3. **Secretary in Charge of the Department of Public Enterprises.**
4. **Chairperson of IRDAI (Insurance Regulatory and Development Authority of India):**
   - If the Chairperson's office is vacant, the senior-most whole-time member of IRDAI will serve.
5. **A Deputy Governor of the Reserve Bank of India (RBI).**

B. Subject Matter Experts

6. **Three Persons with Expertise on PSBs and FIs:**
   - Nominated by the Central Government.
   - Conditions:
     - At least two should be ex-bankers from either the public or private sector.
     - One may be an academician, former regulator, businessperson, or former administrator with experience in business management, information technology, human resource management, finance, or accounting.
7. **Three Persons with Expertise on PSIs:**
   - Nominated by the Central Government.
   - Conditions:

        - At least two must be either formerly from the public sector or insurance sector experts (with specialization in life insurance, non-life insurance, reinsurance, or actuarial science).
        - One may be an academician, former regulator, businessperson, or former administrator with relevant management or technical experience.

C. Search Committee for Nominations

- **For Chairperson and Part-Time Members with Expertise on PSBs and FIs:**
    - **Members of the Search Committee:**
        - The Governor of RBI.
        - The Secretary in Charge of the Department of Financial Services.
        - The Secretary in Charge of the Department of Personnel and Training (or another Secretary approved by the Appointments Committee of the Cabinet).
- **For Part-Time Members with Expertise on PSIs:**
    - **Members of the Search Committee:**
        - The Chairperson of IRDAI (or the senior-most whole-time member if the Chairperson is vacant).
        - The Secretary in Charge of the Department of Financial Services.
        - The Secretary in Charge of the Department of Personnel and Training (or another Secretary approved by the Appointments Committee of the Cabinet).

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5. Banks Board Bureau (BBB) Overview

A. Establishment & Mandate

- **Establishment:**
    - Set up in **February 2016** on the recommendations of RBI's PJ Nayak Committee.
    - It was part of **Mission Indradhanush 2015** aimed at revamping Public Sector Banks.
- **Primary Role:**
    - To recommend appointments for:
        - Whole-time directors.
        - Non-executive chairpersons of Public Sector Banks (PSBs) and state-owned financial institutions.
    - The final decision rests with the Ministry of Finance in consultation with the Prime Minister's Office.

B. Composition of BBB

- **Members:**
    - **Chairman**
    - **Three Ex-Officio Members:**
        - Secretary, Department of Public Enterprises.
        - Secretary, Department of Financial Services.
        - Deputy Governor of RBI.
    - **Five Expert Members:**
        - At least two from the private sector.
- **Public Authority:**
    - BBB is defined as a public authority under the Right to Information Act, 2005.
- **Decision Authority:**
    - The Ministry of Finance retains the final decision-making authority on appointments.

C. Additional Functions & Issues

- **Extended Mandate:**
    - Recommends personnel for appointment as directors in government-owned insurance companies.
    - Engages with the board of directors of all PSBs to formulate strategies for growth and development.
- **Judicial and Operational Issues:**
    - **Delhi High Court Ruling (2020):**
        - The court ruled that BBB could not select general managers and directors of state-run general insurers, stating that it was not a competent body for that purpose.
    - **Operational Concerns:**
        - *New India Assurance*, the country's largest general insurer, has been operating without a regular CMD for nearly 100 days.
        - The CMD post of Agriculture Insurance Company has also been vacant.
    - **Legal Case:**
        - A case was filed by the General Manager of National Insurance Company Ltd, Ravi, alleging that individuals junior to him were twice (August 2020 and May 2021) selected by BBB for director positions in public sector general insurers.

- The court held that the circulars empowering BBB to select the GM and directors for government-owned general insurers are not legally valid.

1. When was the Financial Services Institutions Bureau (FSIB) constituted?
(1)July 01, 2022 (2)February 2016 (3)January 01, 2020 (4)March 15, 2021
2. What is the primary role of FSIB?
(1)To monitor bank transactions (2)To manage foreign exchange reserves (3)To select the chiefs of public sector banks and insurance companies (4)To regulate monetary policy
3. Who comprises the Secretariat of FSIB?
(1)Only the Secretary (2)Secretary and four officers (3)Two officers (4)Three officers and one advisor
4. Which function is performed by FSIB in relation to appointments?
(1)Conducting bank audits (2)Issuing bank licenses (3)Recommending appointments of Whole-time Directors (WTD) and Non-executive Chairmen (NEC) (4)Setting interest rates
5. FSIB advises the Government on which personnel matters?
(1)Loan approvals (2)Appointments, transfers, extensions, and terminations of directors (3)Only salary revisions (4)Branch expansion plans
6. What advisory role does FSIB have concerning board-level matters?
(1)Advise on the desired management structure at the board level (2)Advise on customer service protocols (3)Advise on tax policy (4)Advise on branch management strategies
7. FSIB is tasked with advising on establishing which system?
(1)Digital banking platform (2)Customer feedback system (3)Performance appraisal system for WTDs and NECs (4)Credit scoring system
8. Which function involves creating a databank in FSIB's responsibilities?
(1)To store bank transaction data (2)To build a databank containing performance data of PSBs, FIs, and PSIs (3)To archive regulatory policies (4)To maintain customer records
9. What ethical advisory role does FSIB undertake?
(1)Enforcing tax laws (2)Advising on the formulation and enforcement of a code of conduct for whole-time directors (3)Setting employee remuneration (4)Managing corporate social responsibility programs
10. Which function of FSIB is related to personnel development?
(1)Conducting employee performance reviews (2)Organizing recruitment drives (3)Developing training and development programmes for management personnel in PSBs, FIs, and PSIs (4)Overseeing labor unions
11. FSIB assists institutions in developing which type of strategy?
(1)IT infrastructure strategies (2)Business strategies and capital raising plans (3)Customer acquisition strategies (4)International expansion strategies
12. Who is the initial chairperson of FSIB?
(1)Dinesh Kumar (2)Rajiv Malhotra (3)Bhanu Pratap Sharma (4)Sunil Mehta
13. What previous position did the initial FSIB chairperson hold?
(1)Former Chairman of Banks Board Bureau (BBB) (2)Chief Financial Officer at RBI (3)Director at a leading private bank (4)Head of a regulatory agency
14. Who nominates the Chairperson of FSIB?
(1)The Ministry of Finance (2)The Reserve Bank of India (3)The Central Government (4)The Banking Ombudsman
15. Which of the following is NOT a core member in FSIB's composition?
(1)Chairperson of FSIB (2)Secretary in charge of the Department of Public Enterprises (3)Auditor General of India (4)Deputy Governor of RBI
16. How many subject matter experts on PSBs and FIs are to be nominated by the Central Government in FSIB?
(1)Two (2)Four (3)Three (4)One
17. For subject matter experts on PSBs and FIs, which condition must be met?
(1)All must be from academic backgrounds only (2)They must have international banking experience (3)At least two should be ex-bankers from the public or private sector (4)They must have a legal background
18. Regarding subject matter experts for PSIs, what specialization is required for at least two nominees?
(1)Expertise in software development (2)Specialisation in life insurance, nonlife insurance, reinsurance, or actuarial science (3)Experience in retail banking (4)Background in economics research
19. Which of the following is part of the search committee for nominating the Chairperson and part-time members with expertise on PSBs and FIs?
(1)The Minister of Finance (2)The Director of the Securities and Exchange Board of India (3)The Governor of RBI (4)The Chairman of IRDAI
20. Who is included in the search committee for nominating part-time members with expertise on PSIs?

(1)Secretary in charge of the Department of Personnel and Training (2)The Finance Minister (3)The CEO of a public sector bank (4)The Chief Economic Advisor

21. Which of the following is NOT a function of FSIB?
(1)Advising on appointments of directors in PSBs, FIs, and PSIs (2)Building a databank of performance data (3)Regulating monetary policy (4)Advising on training programmes for management personnel
22. When was the Banks Board Bureau (BBB) established?
(1)2018 (2)July 2022 (3)February 2016 (4)2020
23. What is the primary mandate of BBB?
(1)To conduct financial audits (2)To manage international trade policies (3)To recommend appointments for whole-time directors and non-executive chairpersons in PSBs (4)To oversee loan disbursement in public banks
24. Which body holds the final decision on the appointments recommended by BBB?
(1)RBI (2)Ministry of Finance in consultation with the Prime Minister's Office (3)FSIB (4)Securities and Exchange Board of India
25. How many ex-officio members are part of the BBB composition?
(1)Three (2)Two (3)Four (4)One
26. Under which act is the Banks Board Bureau defined as a public authority?
(1)The Banking Regulation Act, 1949 (2)The Right to Information Act, 2005 (3)The Companies Act, 2013 (4)The Securities Contract Regulation Act, 1956
27. Apart from PSB appointments, what additional role does BBB have?
(1)It sets banking fees (2)It recommends personnel for appointments as directors in government-owned insurance companies (3)It regulates interest rates (4)It monitors foreign exchange reserves
28. What was the ruling of the Delhi High Court in 2020 regarding BBB?
(1)BBB is authorized to select general managers of all banks (2)BBB should merge with FSIB (3)BBB cannot select the general managers and directors of state-run general insurers (4)BBB can select directors for state-run general insurers
29. Which insurer has been functioning without a regular CMD for nearly 100 days?
(1)Life Insurance Corporation (2)New India Assurance (3)General Insurance Corporation (4)ICICI Lombard
30. Which insurance company's CMD post was reported as vacant?
(1)New India Assurance (2)National Insurance Company Ltd (3)Agriculture Insurance Company (4)General Insurance Company
31. Who filed a case regarding the selection of directors in public sector general insurers by BBB?
(1)A bank customer (2)The Ministry of Finance (3)National Insurance Company Ltd General Manager, Ravi (4)A private sector banker
32. In FSIB, what does the acronym WTD stand for?
(1)Whole-time Director (2)Working Time Division (3)Westward Trade Department (4)Wireless Technology Director
33. In FSIB terminology, what does NEC stand for?
(1)National Executive Council (2)Non-executive Chairman (3)New Economic Commission (4)Non-enforcement Committee
34. Which personnel matter is FSIB specifically tasked with advising the Government on?
(1)Salary revisions for bank tellers (2)Transfer and extension of term of office for directors (3)Branch relocation plans (4)Marketing strategies
35. Which departmental secretary is part of the core FSIB composition?
(1)Secretary in charge of the Department of Information Technology (2)Secretary in charge of the Department of Public Enterprises (3)Secretary in charge of the Department of Agriculture (4)Secretary in charge of the Department of Home Affairs
36. Who is responsible for nominating the FSIB Chairperson?
(1)The Reserve Bank of India (2)The Securities and Exchange Board of India (3)The Ministry of Commerce (4)The Central Government
37. Which official from the Reserve Bank of India is included as a core member in FSIB?
(1)The Governor of RBI (2)A Deputy Governor of RBI (3)The Chief Economist of RBI (4)The Director of Banking Supervision
38. What is one qualification required for the subject matter experts in PSBs and FIs?
(1)Must have worked in the IT sector (2)Must have a background in law (3)Should be an ex-banker from the public or private sector (4)Should have international banking experience
39. What is one role of the search committee in FSIB nominations?
(1)To approve bank mergers (2)To set financial regulations (3)To nominate the Chairperson and part-time members with subject matter knowledge (4)To audit public sector banks
40. Which Secretary is included in the search committee for PSBs and FIs nominations?

(1)Secretary in charge of the Department of Health (2)Secretary in charge of the Department of Personnel and Training (3)Secretary in charge of the Department of Finance (4)Secretary in charge of the Department of Commerce

41. In the search committee for PSIs, if the Chairperson of IRDAI is vacant, who assumes the role?
(1)The youngest member of IRDAI (2)The Secretary in charge of Financial Services (3)The senior-most whole-time member of IRDAI (4)A nominated academician
42. BBB was set up as part of which mission for revamping public sector banks?
(1)Mission Revamp (2)Mission Indradhanush 2015 (3)Mission Banking Reform (4)Mission Growth 2020
43. Which committee's recommendations led to the establishment of BBB?
(1)Financial Stability Committee (2)Banking Regulation Committee (3)PJ Nayak Committee (4)Economic Advisory Council
44. BBB is involved in formulating strategies for the growth and development of which institutions?
(1)Private sector companies only (2)International banks only (3)Public Sector Banks (PSBs) and state-owned financial institutions (4)Public Sector Banks (PSBs) only
45. Which ministry has the final decision-making authority on the appointments recommended by BBB?
(1)Ministry of Home Affairs (2)Ministry of Finance (3)Ministry of External Affairs (4)Ministry of Corporate Affairs
46. FSIB was constituted by which level of government?
(1)State Government (2)Local Government (3)International Consortium (4)Central Government
47. FSIB is primarily focused on leadership appointments in which sectors?
(1)Technology and retail sectors (2)Real estate and construction sectors (3)Public Sector Banks, Financial Institutions, and Public Sector Insurers (4)Agricultural and educational sectors
48. Which key function of FSIB is related to ethics?
(1)Regulating tax policies (2)Managing international compliance (3)Advising on the formulation and enforcement of a code of conduct for whole-time directors (4)Setting guidelines for market competition
49. Which of the following is NOT a responsibility of FSIB?
(1)Recommending top-level appointments in PSBs (2)Advising on board-level management structure (3)Conducting monetary policy operations (4)Building a performance databank
50. What is the term duration for the initial chairperson of FSIB?
(1)One year (2)Three years (3)Two years (4)Four years

Answers:

1	**1**	**6**	**1**	**11**	**2**	**16**	**3**	**21**	**3**	**26**	**2**	**31**	**3**	**36**	**4**	**41**	**3**	**46**	**4**
2	**3**	**7**	**3**	**12**	**3**	**17**	**3**	**22**	**3**	**27**	**2**	**32**	**1**	**37**	**2**	**42**	**2**	**47**	**3**
3	**2**	**8**	**2**	**13**	**1**	**18**	**2**	**23**	**3**	**28**	**3**	**33**	**2**	**38**	**3**	**43**	**3**	**48**	**3**
4	**3**	**9**	**2**	**14**	**3**	**19**	**3**	**24**	**2**	**29**	**2**	**34**	**2**	**39**	**3**	**44**	**3**	**49**	**3**
5	**2**	**10**	**3**	**15**	**3**	**20**	**1**	**25**	**1**	**30**	**3**	**35**	**2**	**40**	**2**	**45**	**2**	**50**	**3**

14. Local area Banks and RRBs

1. Regional Rural Banks (RRBs)

1.1. Background & Establishment

- **Genesis:**
  - **Recommendation:** In 1972, the Banking Commission recommended an alternative institution for rural credit.
  - **Committee Influence:** The Narasimham Committee (1975) and subsequent recommendations by the Shri M. Narasimha Rao committee laid the groundwork.
- **Formation Dates:**
  - The first five RRBs were set up under a Presidential Ordinance on 26th September 1975, with additional banks established on Gandhi Jayanti (2nd October) 1975.
- **Legislative Framework:**
  - The Regional Rural Banks Act was introduced in April 1976, formalizing their creation.

1.2. Regulatory Framework & Legal Status

- **Banking Identification:**
  - RRBs are recognized as scheduled commercial banks under the Reserve Bank of India (RBI) Act, 1934.

- They are authorized to carry out banking business as per the Banking Regulation Act, 1949.
- **Income Tax Classification:**
  - For Income Tax purposes (Income Tax Act, 1961), RRBs are deemed to be co-operative societies.

1.3. Growth & Expansion

- **Expansion:**
  - By March 2004, there were 196 RRBs operating with 14,446 branches in 518 districts.
- **Role in Rural Finance:**
  - The branch network expansion helped extend banking services to unbanked areas and mobilize rural savings.
- **Viability Concerns:**
  - In 2001, the RBI constituted the Dr. V S Vyas Committee to address the sustainability and operational challenges of RRBs.

1.4. Consolidation & Amalgamation

- **Initial Consolidation:**
  - **Phase I (2005):** Amalgamation was initiated on a Sponsor Bank-wise basis within a State.
  - **Phase II (2012):** Further consolidation occurred across Sponsor Banks within a State.
- **Impact:**
  - The number of RRBs reduced from 196 to 82, then to 56 by 2016, and finally to 43 as of 1 April 2020.
- **Further Trends:**
  - In the early 1990s, over 190 RRBs existed; successive phases (including mergers in 2013 and 2016) streamlined operations.
  - There is also a vision of "One State-One RRB" aimed at further reducing the number for efficiency.

1.5. Ownership Structure

- **Equity Distribution:**
  - **Central Government:** 50%
  - **Sponsor Bank:** 35%
  - **State Government:** 15%
- **Role of Sponsor Banks:**
  - Beyond holding shares, sponsor banks provide managerial support, recruitment and training assistance, and regular oversight through inspections and audits.

1.6. Amendments & Capital Requirements

- **RRBs Amendment Act, 2015:**
  - **Effective Date:** 4th February 2016.
  - **Capital Increase:** Authorized capital was raised from Rs. 5 crore to Rs. 2,000 crore.
  - **Additional Provisions:**
    - RRBs may now raise capital from sources other than the existing shareholders (central government, state government, and sponsor banks).
    - The combined shareholding of the central government and sponsor bank cannot fall below 51%.
    - The act stipulates minimum levels for both authorized and issued capital (e.g., authorized capital cannot be reduced below Rs. 1 crore).

1.7. Functions & Objectives

- **Primary Objective:**
  - To provide credit and facilities to small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs.
- **Broader Goals:**
  - To promote agricultural, trade, commerce, and industrial development in rural areas.
- **Specific Functions:**
  - **Priority Sector Lending:** RRBs must provide 75% of their total adjusted net bank credit as priority sector lending.
  - **Government Operations:** Handling disbursement of wages (e.g., under MGNREGA), pension distributions, and other government-related payments.
  - **Para-Banking Services:** Offer additional services such as locker facilities, debit/credit cards, mobile and internet banking, and UPI.

1.8. Regulatory & Supervisory Bodies

- **Key Regulators:**
  - **Reserve Bank of India (RBI):** Regulates RRB operations.

  - **National Bank for Agricultural and Rural Development (NABARD):** Supervises and monitors the performance and development of RRBs.
- **Supervisory Functions:**
  - Monitoring capital adequacy (CRAR), ensuring adherence to priority sector lending targets, and guiding recapitalization needs.

1.9. Key Historical Milestones & Examples

- **Notable Personalities & Banks:**
  - **K R Puri:** RBI Governor (20th August 1975 to 2nd May 1977) during whose tenure RRBs were set up; at that time, Indira Gandhi was PM and Chidambaram Subramaniam was Finance Minister.
  - **Prathama Grameen Bank:**
    - The first RRB established on 2nd October 1975.
    - Sponsored by Syndicate Bank.
- **First Five RRBs (Examples):**
  1. **Prathama Bank** (Syndicate Bank, Uttar Pradesh – Moradabad)
  2. **Gorakhpur Kshetriya Gramin Bank** (State Bank of India, Uttar Pradesh – Gorakhpur & Deoria)
  3. **Haryana Krishi Gramin Bank** (PNB, Haryana – Bhiwani)
  4. **Gaur Gramin Bank** (United Bank of India, West Bengal – Malda, Dinajpur & Murshidabad)
  5. **Jaipur-Nagpur Anchalik Gramin Bank** (United Commercial Bank, Rajasthan – Jaipur & Nagpur)

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2. Local Area Banks (LABs)

2.1. Background & Introduction

- **Introduction:**
  - The Local Area Bank Scheme was introduced in August 1996 following an announcement by then Finance Minister P Chidambaram.
- **Purpose:**
  - To create institutional mechanisms for promoting rural savings and providing credit for viable economic activities in local areas.
  - To bridge gaps in credit availability and enhance the overall institutional credit framework in rural and semi-urban regions.

2.2. Objectives

- **Key Goals:**
  - Promote rural savings.
  - Provide credit facilities to small entrepreneurs and local economic activities.
  - Strengthen the local banking framework in rural and semi-urban areas.

2.3. Legal & Regulatory Framework

- **Registration & Licensing:**
  - LABs are registered under the Companies Act, 1956 (as public limited entities).
  - They are licensed under the Banking Regulation Act, 1949.
- **Bank Classification:**
  - Typically categorized as non-scheduled banks; however, they are eligible for inclusion in the 2nd Schedule of the RBI Act, subject to meeting specific criteria.
  - **Comparison:**
    - **Scheduled Banks:** Listed in the 2nd schedule, with a minimum paid-up capital (Rs. 5 lakhs), must maintain CRR with RBI, and can borrow funds from RBI.
    - **Non-Scheduled Banks:** Do not have these privileges and usually manage CRR internally.

2.4. Capital & Operational Norms

- **Minimum Capital:**
  - The start-up capital is fixed at Rs. 5 crore.
- **Promoter Requirements:**
  - Promoters may be firms, societies, or individuals, and must bring the entire minimum share capital upfront.
  - The promoters' family is not allowed to hold more than 40% of the bank's equity.
- **Branching Norms:**
  - Each LAB is permitted to open only one branch in an urban center per district.
  - Additional branches must be located in rural or semi-urban areas.
- **Jurisdiction:**
  - LABs have a jurisdiction over a maximum of three contiguous districts.
- **Capital Adequacy:**

- They are required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9% at all times.

2.5. List of Local Area Banks (Examples)

- **Examples of LABs:**
  1. **Coastal Local Area Bank Ltd.**
  2. **Krishna Bhima Samruddhi LAB Ltd.**
  3. **Subhadra Local Bank Ltd.**
  4. **Capital Small Finance Bank:**
     - Initially started as Capital Local Area Bank and later converted into India's first Small Finance Bank (operations commenced in April 2016).

2.6. Operational Guidelines & Committee Recommendations

- **Ramachandran Committee (2002):**
  - Reviewed the performance of existing LABs and recommended that no further LAB licences be issued until stability is achieved among the current banks.
- **Priority Sector Lending:**
  - LABs must also adhere to a priority sector lending target of 40% of net bank credit, similar to other domestic banks.

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3. Exam-Oriented Q&A and Critical Points

3.1. Key Facts & Figures

- **Establishment & Act:**
  - RRBs were set up under the RRB Act of 1976, with the first bank (Prathama Grameen Bank) established on 2nd October 1975.
- **Equity Structure:**
  - Ownership is shared as follows: Central Government – 50%, Sponsor Bank – 35%, and State Government – 15%.
- **Tax Treatment:**
  - For Income Tax purposes, RRBs are treated as co-operative societies.
- **Consolidation:**
  - The consolidation process reduced the number of RRBs from over 190 (in the early 1990s) to 67 in phase 1, further to 56 by March 2016, and then to 43 by 2020-21.

3.2. Regulatory & Operational Highlights

- **Functions:**
  - Provide basic banking services in rural/semi-urban areas, disburse government payments (e.g., MGNREGA wages, pensions), and offer para-banking services.
- **Priority Sector Lending:**
  - RRBs have a PSL target of 75% compared to 40% for scheduled commercial banks.
- **Management Structure:**
  - Boards typically include one Chairman, three Directors nominated by the Central Government, up to two by the State Government, and up to three by the Sponsor Bank.
- **Funding Sources:**
  - Include own funds, deposits, borrowings from NABARD, Sponsor Banks, SIDBI, and the National Housing Bank.

3.3. Sample Exam Questions (MCQs)

1. **Which committee recommended the establishment of RRBs?**
   - *Answer:* Narasimham Committee.
2. **What is the share of Sponsor Banks in the equity of RRBs?**
   - *Answer:* 35%.
3. **Which bank sponsored the first RRB, Prathama Grameen Bank?**
   - *Answer:* Syndicate Bank.
4. **Which RRB was the first to achieve Core Banking Solution (CBS) in 2011?**
   - *Answer:* Rushikulya Gramya Bank.
5. **For the purpose of the Income Tax Act, 1961, RRBs are treated as:**
   - *Answer:* Co-operative societies.
6. **In which states are RRBs not operational?**
   - *Answer:* Goa and Sikkim.
7. **What is the priority sector lending target for RRBs?**
   - *Answer:* 75% of total adjusted net bank credit.
8. **What are the main objectives of RRBs?**

- *Answer:* To provide credit and other facilities to small/marginal farmers, agricultural laborers, artisans, and to promote overall rural development.

3.4. Additional Critical Points

- **Consolidation Rationale:**
    - Aimed at reducing overhead expenses, optimizing technology use, enhancing the capital base, and expanding the area of operation.
- **Recapitalization Efforts:**
    - During FY 2021-22 and FY 2022-23, the Government infused ₹10,890 crore into RRBs.
- **Sustainable Viability & PCA:**
    - Emphasis on business diversification, NPA reduction, cost rationalization, and corporate governance improvements, along with supervisory frameworks like the Prompt Corrective Action (PCA).

1. What does the abbreviation "RRB" stand for?
(1)Regional Reserve Bank (2)Rural Regional Bank (3)Regional Rural Bank (4)Reserve Rural Bank
2. In which year was the first Regional Rural Bank established?
(1)1974 (2)1975 (3)1976 (4)1977
3. Which bank sponsored the first RRB, known as Prathama Grameen Bank?
(1)Bank of Baroda (2)Punjab National Bank (3)Syndicate Bank (4)State Bank of India
4. Under which Act were Regional Rural Banks formally established?
(1)Reserve Bank of India Act, 1934 (2)Regional Rural Banks Act, 1976 (3)Banking Regulation Act, 1949 (4)Companies Act, 1956
5. What is the prescribed ownership ratio for RRBs among the Central Government, Sponsor Bank, and State Government?
(1)50:35:15 (2)40:30:30 (3)60:20:20 (4)45:35:20
6. Which committee's recommendation in 1975 was pivotal in the establishment of RRBs?
(1)Keller Committee (2)Narasimham Committee (3)Mehta Committee (4)Basu Committee
7. What is the primary objective of Regional Rural Banks?
(1)To provide urban investment services (2)To extend credit and banking facilities to rural areas (3)To serve as profit centers for multinational investors (4)To offer exclusive digital banking solutions
8. Which legislation provides the formal legal framework for RRBs in India?
(1)Regional Rural Banks Act, 1976 (2)Banking Regulation Act, 1949 (3)Reserve Bank of India Act, 1934 (4)Companies Act, 1956
9. As of 1 April 2020, how many Regional Rural Banks were operational in India?
(1)45 (2)56 (3)43 (4)40
10. Which regulatory body, apart from the RBI, is primarily responsible for supervising RRBs?
(1)SEBI (2)NABARD (3)Ministry of Finance (4)IBRA
11. What is the minimum Capital to Risk-Weighted Assets Ratio (CRAR) that Local Area Banks must maintain?
(1)8% (2)9% (3)10% (4)7%
12. Under which Act are Local Area Banks licensed?
(1)Banking Regulation Act, 1949 (2)Companies Act, 1956 (3)RBI Act, 1934 (4)Regional Rural Banks Act, 1976
13. What is the minimum start-up capital fixed for a Local Area Bank?
(1)Rs 1 crore (2)Rs 2 crore (3)Rs 5 crore (4)Rs 10 crore
14. What is the typical geographical jurisdiction of a Local Area Bank?
(1)An entire state (2)Multiple noncontiguous districts (3)A maximum of 3 contiguous districts (4)The whole country
15. Which committee, formed in 2002, reviewed the performance of Local Area Banks?
(1)V S Vyas Committee (2)Ramachandran Committee (3)Narasimham Committee (4)K.C. Chakrabarty Committee
16. Which of the following is NOT a function of Regional Rural Banks?
(1)Providing rural credit (2)Conducting international remittances (3)Mobilizing rural savings (4)Facilitating government wage disbursements
17. Which legislative amendment raised the authorized capital of RRBs from Rs 5 crore to Rs 2,000 crore?
(1)RRB Amendment Act, 2015 (2)Banking Regulation Act, 1949 (3)Companies Act, 1956 (4)RBI Act, 1934
18. What is one of the key objectives of Regional Rural Banks?
(1)To serve as investment banks (2)To provide credit to small and marginal farmers (3)To offer high-risk investment products (4)To focus solely on urban sectors
19. Apart from providing credit, what additional role do Sponsor Banks play for RRBs?
(1)They offer managerial and technical support (2)They determine the interest rates for all banks (3)They control the overall national banking policy (4)They manage international branch networks

20. The consolidation of RRBs was primarily aimed at:
(1)Increasing the total number of RRBs (2)Enhancing overhead expenses (3)Optimizing the capital base and reducing overhead costs (4)Expanding exclusively into urban areas
21. Which para-banking service is typically offered by RRBs?
(1)Mobile banking (2)Corporate investment advisory (3)International remittance services (4)Derivatives trading
22. The recommendation of which committee was crucial for the creation of RRBs?
(1)It led to the establishment of RRBs (2)It resulted in the privatization of all rural banks (3)It mandated the merger of urban and rural banks (4)It introduced digital-only banking services
23. How are RRBs treated under the Income Tax Act, 1961?
(1)As scheduled commercial banks (2)As co-operative societies (3)As non-scheduled banks (4)As tax-exempt entities
24. Local Area Banks were primarily established to promote:
(1)Urban credit expansion (2)International trade financing (3)Rural savings and credit (4)High-tech financial services
25. Which bank, originally a Local Area Bank, later converted into India's first Small Finance Bank?
(1)Coastal Local Area Bank (2)Krishna Bhima Samruddhi LAB (3)Capital Local Area Bank (4)Subhadra Local Bank
26. Which characteristic does NOT apply to a scheduled bank as per RBI guidelines?
(1)Listed in the RBI Act's 2nd schedule (2)Maintaining a mandated cash reserve ratio with RBI (3)Eligible to borrow funds from the RBI (4)Managing its CRR internally without RBI oversight
27. Under the Local Area Bank system, who may serve as a promoter?
(1)Only government entities (2)Only individual entrepreneurs (3)Firms, societies, or individuals (4)Only multinational corporations
28. What is the maximum percentage of equity that promoters' families are allowed to hold in a Local Area Bank?
(1)25% (2)50% (3)40% (4)60%
29. Which document outlines the detailed guidelines for the structure and functioning of RRBs?
(1)Regional Rural Banks Act, 1976 (2)Companies Act, 1956 (3)Banking Regulation Act, 1949 (4)RBI Annual Report
30. One of NABARD's key responsibilities regarding RRBs is to:
(1)Establish international branches (2)Monitor performance and advise on recapitalization (3)Set interest rates for rural lending (4)Handle all corporate mergers
31. The consolidation process of RRBs was initiated mainly to:
(1)Increase the number of banks (2)Reduce operational inefficiencies (3)Expand branch networks into urban centers (4)Lower the capital base requirements
32. Which role is NOT typically performed by a sponsor bank for an RRB?
(1)Providing managerial assistance (2)Conducting internal audits (3)Setting national government policies (4)Offering training and recruitment support
33. Which of the following is considered a para-banking service offered by RRBs?
(1)Locker facilities (2)Corporate bond underwriting (3)Venture capital funding (4)Mergers and acquisitions advisory
34. Who served as the RBI Governor during the initial setup of RRBs?
(1)K R Puri (2)Duvvuri Subbarao (3)Raghuram Rajan (4)Y. V. Reddy
35. What is the mandated priority sector lending target for RRBs?
(1)40% of net bank credit (2)50% of total deposits (3)75% of total adjusted net bank credit (4)60% of overall advances
36. Which statement best describes the branch network expansion of RRBs?
(1)They operate exclusively in urban areas (2)Expansion enabled banking in previously unbanked rural regions (3)Their network has always been limited (4)They focus solely on digital channels
37. A feature of the RRB Amendment Act, 2015 is that it allows RRBs to:
(1)Decrease their authorized capital (2)Raise capital from sources beyond the traditional shareholders (3)Exit the rural banking segment (4)Eliminate government shareholding entirely
38. The first phase of RRB consolidation in 2005 was conducted on the basis of:
(1)Sponsor Bank-wise amalgamation within a state (2)Merging across different states (3)International banking partnerships (4)Complete privatization of RRBs
39. Which statement best describes the service area of a Local Area Bank?
(1)It covers the entire country (2)It is restricted only to urban centers (3)It serves rural and semi-urban areas within up to three contiguous districts (4)It focuses on international markets
40. Under the RRB ownership structure, which entity holds the largest share?

(1)State Government (2)Sponsor Bank (3)Central Government (4)Private investors

41. Which regulatory act governs the banking business of RRBs?
(1)Banking Regulation Act, 1949 (2)Companies Act, 1956 (3)Income Tax Act, 1961 (4)Partnership Act, 1932

42. What was the primary focus of the Dr. V S Vyas Committee with respect to RRBs?
(1)Increasing branch numbers only (2)Addressing viability issues and guiding consolidation (3)Advising on international expansion (4)Focusing exclusively on digital transformation

43. One key advantage of consolidating RRBs is:
(1)Increased regional fragmentation (2)Reduced operational overheads (3)A lower capital base (4)Decreased regulatory oversight

44. Which of the following is NOT a characteristic of Local Area Banks?
(1)Eligibility for inclusion in the RBI Act's 2nd schedule (2)Jurisdiction over a maximum of three contiguous districts (3)Permission to open multiple branches in the same urban center (4)Maintenance of a minimum CRAR of 9%

45. Which bank is recognized as the first licensed Local Area Bank by the RBI?
(1)Coastal Local Area Bank Ltd. (2)Krishna Bhima Samruddhi LAB Ltd. (3)Subhadra Local Bank Ltd. (4)Capital Small Finance Bank

46. What was the key recommendation of the Ramachandran Committee regarding LABs?
(1)Immediate expansion of LAB licences (2)Hold off on issuing new LAB licences until stability is achieved (3)Merge LABs with urban banks (4)Convert LABs into RRBs

47. In the context of RRBs, what does "CRAR" stand for?
(1)Cash Reserve Account Ratio (2)Capital to Risk-Weighted Assets Ratio (3)Credit Risk Assessment Ratio (4)Capital Reserve and Asset Ratio

48. Which of the following is a primary source of funds for RRBs?
(1)Foreign direct investment (2)Deposits (3)Solely government grants (4)Cryptocurrency investments

49. What is the main function of Regional Rural Banks?
(1)To offer high-end investment advisory services (2)To mobilize rural savings and extend credit (3)To provide comprehensive insurance products (4)To manage large-scale corporate mergers

50. Which of the following is NOT considered a source of funds for RRBs?
(1)Customer deposits (2)Borrowings from NABARD (3)Capital contributions from Sponsor Banks (4)Venture capital from private equity firms

Answers:

1	3	6	2	11	2	16	2	21	1	26	4	31	2	36	2	41	1	46	2
2	2	7	2	12	1	17	1	22	1	27	3	32	3	37	2	42	2	47	2
3	3	8	1	13	3	18	2	23	2	28	3	33	1	38	1	43	2	48	2
4	2	9	3	14	3	19	1	24	3	29	1	34	1	39	3	44	3	49	2
5	1	10	2	15	2	20	3	25	3	30	2	35	3	40	3	45	1	50	4

15. Small Finance Banks & Payment Banks

1. Differentiated (Niche) Banks

- **Definition:**
  Differentiated banks, also known as niche banks, are financial institutions that serve a specific demographic segment or market niche. They tailor their operations to meet the particular needs of that group.
- **Key Characteristics:**
  - **Targeted Market:** They focus on serving specific customer segments with unique financial needs.
  - **Limited Range of Services:** They may offer a restricted range of products/services or operate under a different regulatory dispensation.
  - **Capital/Operational Focus:** The differentiation may be due to capital requirements, scope of activities, or the geographic area of operations.
- **Types of Differentiated Banks (Current Four):**
  1. **Regional Rural Banks**
  2. **Local Area Banks**
  3. **Small Finance Banks (SFBs)**
  4. **Payment Banks**

2.Small Finance Banks (SFBs)

Small Finance Banks are designed to increase financial inclusion and offer tailored financial services, especially in rural and semi-urban areas. They come with a robust regulatory framework and specific operational guidelines.

2.1. Regulatory & Operational Framework

- **Licensing & Eligibility:**
  - Opened on the recommendations of the **USHA THORAT Committee**.
  - Licensed under **Section 22 of the Banking Regulation Act, 1949**.
  - Eligible entities include existing NBFCs, microfinance institutions (MFIs), and local area banks (LABs) that can convert to SFBs.
  - Promotion can be by individuals, corporates, trusts, or societies.
- **Corporate Structure:**
  - Established as public limited companies in the private sector under the **Companies Act, 2013**.
  - Must adhere to **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)** requirements.
- **Conversion Possibility:**
  - Payment banks can apply for conversion into SFBs after 5 years of operations if eligible per guidelines.
- **Microfinance Component:**
  - Provide collateral-free loans (microfinance) to households with an annual income of up to **Rs. 3 lakh**.

2.2. Objectives & Operational Guidelines

- **Primary Objectives:**
  - Promote rural and semi-urban savings through institutional mechanisms.
  - Provide credit for viable economic activities in local areas.
- **Lending Guidelines:**
  - **75%** of net credits must be allocated to priority sector lending.
  - **50%** of the loans in the portfolio must be less than **₹25 lakh**.
- **Capital & Ownership Requirements:**
  - Minimum capital of at least **₹300 crore**.
  - Promoters are required to have at least **10 years' experience** in banking and finance.
  - If promoter shareholding exceeds 40% of paid-up voting equity capital initially, it must be reduced:
    - To **40%** within 5 years,
    - To **30%** in the first 10 years,
    - And finally to **26%** in 12 years.
  - **Joint ventures** are not permitted.
  - **Foreign shareholding** is allowed as per FDI rules for private banks (with an overall limit of up to **74%**).
- **Listing & Branch Requirements:**
  - If the bank reaches a net worth of **₹500 crore**, listing is mandatory within 3 years; those with net worth below this may list voluntarily.
  - At least **25% of branches** must be located in unbanked rural centers.
- **Capital Adequacy & Loan Limits:**
  - SFBs must maintain a minimum **Capital Adequacy Ratio (CAR)** of **15%** (compared to 9% for universal banks).
  - **Tier I capital** should be at least **7.5%** of Risk-Weighted Assets (RWAs).
  - Maximum loan size:
    - To a single person: Not to exceed **10%** of total capital funds.
    - To a group: Not to exceed **15%** of total capital funds.

2.3. List of Small Finance Banks & Their Details

1. **Au Small Finance Bank Ltd.**
   - **Founded:** 1996
   - **Headquarters:** Jaipur, Rajasthan
   - **Tagline:** "Chalo Aage Badhein, चलो आगे बढ़ें"
2. **Capital Small Finance Bank Ltd – India's 1st Small Finance Bank**
   - **Founded:** 2016
   - **Headquarters:** Jalandhar, Punjab
   - **Tagline:** "Vishwas se Vikaas tak, विश्वास से विकास तक"
3. **Fincare Small Finance Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** Ahmedabad

- **Tagline:** "A New Era in Smart Banking Begins"

4. **Equitas Small Finance Bank Ltd.**
   - **Founded:** 2016
   - **Headquarters:** Chennai
   - **Tagline:** "It's fun banking"
5. **ESAF Small Finance Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** Thrissur, Kerala
   - **Tagline:** "Joy of banking"
6. **Suryoday Small Finance Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** Navi Mumbai
   - **Tagline:** "A bank of smiles"
7. **Ujjivan Small Finance Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** Bangalore
   - **Tagline:** "Build a Better Life"
8. **Utkarsh Small Finance Bank Ltd.**
   - **Founded:** 2016
   - **Headquarters:** Varanasi
   - **Tagline:** "Aapki Umeed Ka Khata, आपकी उम्मीद का खाता"
9. **North-East Small Finance Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** Guwahati
   - **Tagline:** "Your doorstep banker"
10. **Jana Small Finance Bank Ltd.**
    - **Founded:** 2018
    - **Headquarters:** Bangalore
    - **Tagline:** "Likho Apni Kahaani, लिखो अपनी कहानी"
11. **Shivalik Small Finance Bank Ltd.**
    - **Founded:** 2021
    - **Headquarters:** Noida
    - **Tagline:** "A bank for your welfare"
12. **Unity Small Finance Bank Ltd.**
    - **Founded:** 2021
    - **Headquarters:** New Delhi
    - *(Promoted by a joint venture – details provided in the document)*

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3. Payment Banks

Payment Banks are designed to promote financial inclusion by offering basic banking services primarily through technology-driven channels. They are subject to strict operational restrictions.

3.1. Regulatory & Operational Framework

- **Registration & Licensing:**
  - Registered as public limited companies under the **Companies Act, 2013**.
  - Licensed under **Section 22 of the Banking Regulation Act, 1949** with conditions that restrict activities mainly to acceptance of demand deposits and provision of payment/remittance services.
- **Primary Objective:**
  - To further financial inclusion by providing:
    - **Small savings accounts** and
    - **Payments/remittance services**

      targeting the migrant labour force, low-income households, small businesses, and other unorganised sector entities.
- **Eligible Applicants:**
  - Non-bank Pre-paid Payment Instrument (PPI) issuers authorized under the Payment and Settlement Systems Act, 2007.
  - Other eligible entities include individuals, professionals, NBFCs, corporate Business Correspondents (BCs), mobile companies, supermarket chains, real sector cooperatives, and public sector entities.
  - Existing PPI license holders may opt for conversion into a payments bank, though it is not mandatory.

3.2. Key Operational Details

- **Deposit Acceptance:**
  - Can accept current and savings deposits from individuals and small businesses.
  - **Limitation:** A maximum balance of **Rs. 200,000** per customer is allowed.
  - Deposits are covered under the deposit insurance scheme by the **Deposit Insurance and Credit Guarantee Corporation of India (DICGC)**.
  - **Note:** NRI deposits are not accepted.
- **Service Limitations:**
  - **Cards:** Can issue ATM/debit cards; credit cards are not permitted.
  - **Business Correspondence:** May choose to become a Business Correspondent for another bank.
  - **Subsidiaries & Lending:** Cannot set up subsidiaries for non-banking financial activities and are not permitted to undertake lending activities.
- **Investment & Liquidity Management:**
  - Must invest at least **75%** of its demand deposit balances in Government securities/treasury bills (with maturities up to one year).
  - Must hold no more than **25%** of deposits in current or fixed deposits with other scheduled commercial banks.
- **Capital & Regulatory Requirements:**
  - **Minimum Paid-up Capital:** Rs. **100 crore**.
  - Must maintain a minimum **Capital Adequacy Ratio (CAR)** of **15%** and have **Tier I capital** of at least **7.5%** of RWAs.
  - **Promoter Requirement:** Promoters must hold at least **40%** of the paid-up equity capital for the first five years.
  - **Listing:** When the net worth reaches **Rs. 500 crore**, listing is mandatory within three years.
  - **FDI:** Foreign Direct Investment is permitted as per the guidelines for private sector banks, with an aggregate limit of up to **74%** of the paid-up capital.
- **Operational Model:**
  - Payment banks primarily operate in remote areas using Business Correspondents (BCs), ATMs, and other networks.
  - Unlike SFBs, they are not required to open a certain percentage of branches in unbanked rural centres; however, at least **25% of physical access points** (including BCs) must be in rural areas.

3.3. Comparison: Small Finance Banks vs. Payment Banks

Aspect	Small Finance Banks (SFBs)	Payment Banks
Deposit Acceptance	Can accept deposits of any amount	Limited to **Rs. 2 lakh** per customer
Lending Activity	Can lend (subject to guidelines on loan sizes and sector focus)	Not permitted to undertake lending
Credit Card Issuance	Can issue credit cards	Not permitted to issue credit cards
Minimum Paid-up Capital	Minimum **₹300 crore**	Minimum **₹100 crore**

3.4. List of Payment Banks in India & Their Details

1. **Airtel Payments Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** New Delhi
   - **Tagline:** “Banking is now at your fingertips”
2. **India Post Payments Bank Ltd.**
   - **Operated by:** Department of Posts, Ministry of Communication
   - **Founded:** 2018
   - **Headquarters:** New Delhi
   - **Tagline:** “Aapka Bank Aapke Dwar, आपका बैंक आपके द्वार”
3. **FINO Payments Bank Ltd.**
   - **Founded:** 2017
   - **Headquarters:** Mumbai
   - **Tagline:** “Qadar Aapki Mehnat Ki, कद्र आपकी मेहनत की”
4. **Paytm Payments Bank Ltd.**

- **Founded:** 2015
- **Headquarters:** Noida
- **Tagline:** "Simplifying payments for India"

5. **Jio Payments Bank Ltd.**
   - **Partnership:** 70:30 partnership between Reliance Industries and State Bank of India
   - **Founded:** 2018
   - **Headquarters:** Navi Mumbai
   - **Tagline:** "YOUR EVERYDAY BANK"
6. **NSDL Payments Bank Ltd.**
   - **Founded:** 2018
   - **Headquarters:** Mumbai
   - **Tagline:** "Technology, Trust and Reach"

1. Which type of bank specifically caters to a particular demographic segment by offering tailored services and a limited range of products?
   (1)Universal Banks (2)Differentiated (Niche) Banks (3)Cooperative Banks (4)Investment Banks
2. Which of the following is NOT considered one of the four differentiated banks mentioned in the lecture?
   (1)Regional Rural Bank (2)Local Area Bank (3)Small Finance Bank (4)Commercial Bank
3. Under which section of the Banking Regulation Act, 1949 are Small Finance Banks licensed?
   (1)Section 22 (2)Section 10 (3)Section 35 (4)Section 50
4. Which committee's recommendations led to the establishment of Small Finance Banks?
   (1)USHA THORAT Committee (2)NACHIKET MOR Committee (3)RBI Policy Committee (4)Financial Inclusion Committee
5. Which of the following entities is eligible to apply for conversion into a Small Finance Bank?
   (1)Only public sector banks (2)NBFCs, MFIs, and Local Area Banks (3)Only cooperative societies (4)Only commercial banks
6. What is the minimum paid-up capital required for a Small Finance Bank?
   (1)₹100 crore (2)₹200 crore (3)₹300 crore (4)₹500 crore
7. A Small Finance Bank's promoters must reduce their initial shareholding if it exceeds a specific limit. What is that initial threshold?
   (1)30% (2)40% (3)50% (4)60%
8. If a promoter's shareholding is above the threshold in a Small Finance Bank, to what percentage must it be reduced by the end of 12 years?
   (1)26% (2)30% (3)35% (4)40%
9. What is the minimum Capital Adequacy Ratio (CAR) that Small Finance Banks are required to maintain?
   (1)9% (2)12% (3)15% (4)18%
10. Small Finance Banks must maintain Tier I capital at a minimum percentage of Risk-Weighted Assets (RWAs). What is that percentage?
   (1)5% (2)7.5% (3)10% (4)12.5%
11. What is the maximum loan size that can be extended to a single individual, as a percentage of the bank's total capital funds?
   (1)5% (2)10% (3)15% (4)20%
12. For a group of borrowers, what is the maximum loan size allowed as a percentage of total capital funds in Small Finance Banks?
   (1)10% (2)12% (3)15% (4)20%
13. Which of the following is the oldest Small Finance Bank mentioned in the lecture?
   (1)Capital Small Finance Bank Ltd. (2)Fincare Small Finance Bank Ltd. (3)Au Small Finance Bank Ltd. (4)Ujjivan Small Finance Bank Ltd.
14. Where is Capital Small Finance Bank Ltd. headquartered?
   (1)Jaipur (2)Jalandhar (3)Chennai (4)Ahmedabad
15. Which Small Finance Bank was formed by the merger of two NBFCs?
   (1)Equitas Small Finance Bank Ltd. (2)Fincare Small Finance Bank Ltd. (3)ESAF Small Finance Bank Ltd. (4)Suryoday Small Finance Bank Ltd.
16. What is the tagline of Au Small Finance Bank Ltd.?
   (1)"Vishwas se Vikaas tak" (2)"Chalo Aage Badhein" (3)"It's fun banking" (4)"Build a Better Life"
17. Which Small Finance Bank uses the tagline "Build a Better Life"?
   (1)Ujjivan Small Finance Bank Ltd. (2)Utkarsh Small Finance Bank Ltd. (3)Capital Small Finance Bank Ltd. (4)Shivalik Small Finance Bank Ltd.

18. For Payment Banks, what is the minimum percentage of paid-up equity capital that promoters must hold for the first five years?
(1)30% (2)35% (3)40% (4)45%
19. What is the maximum deposit limit per individual customer in a Payment Bank?
(1)Rs. 100,000 (2)Rs. 200,000 (3)Rs. 300,000 (4)Rs. 500,000
20. What is the minimum paid-up capital requirement for Payment Banks?
(1)₹50 crore (2)₹100 crore (3)₹150 crore (4)₹300 crore
21. Payment Banks are required to maintain a minimum Capital Adequacy Ratio (CAR) of:
(1)9% (2)12% (3)15% (4)18%
22. What two key services do Payment Banks primarily offer to promote financial inclusion?
(1)Loans and insurance (2)Current accounts and credit cards (3)Small savings accounts and remittance services (4)Investment and wealth management services
23. Which of the following activities is NOT permitted for Payment Banks?
(1)Issuing ATM/debit cards (2)Accepting demand deposits (3)Issuing credit cards (4)Investing in government securities
24. Payment Banks must invest a minimum of what percentage of their demand deposit balances in Government securities?
(1)50% (2)65% (3)75% (4)85%
25. What is the maximum percentage of deposits that Payment Banks are allowed to hold in current or fixed deposits with other scheduled commercial banks?
(1)15% (2)25% (3)35% (4)45%
26. Which Payment Bank was established in 2015?
(1)Airtel Payments Bank Ltd. (2)India Post Payments Bank Ltd. (3)Paytm Payments Bank Ltd. (4)Jio Payments Bank Ltd.
27. Which Payment Bank is a joint venture between Reliance Industries and the State Bank of India?
(1)FINO Payments Bank Ltd. (2)Jio Payments Bank Ltd. (3)NSDL Payments Bank Ltd. (4)Airtel Payments Bank Ltd.
28. Which Payment Bank is operated under the Department of Posts, Ministry of Communication?
(1)NSDL Payments Bank Ltd. (2)India Post Payments Bank Ltd. (3)Airtel Payments Bank Ltd. (4)FINO Payments Bank Ltd.
29. What is the tagline of Airtel Payments Bank Ltd.?
(1)“Simplifying payments for India” (2)“Banking is now at your fingertips” (3)“YOUR EVERYDAY BANK” (4)“Technology, Trust and Reach”
30. In which city is FINO Payments Bank Ltd. headquartered?
(1)New Delhi (2)Mumbai (3)Chennai (4)Bangalore
31. Which statement best describes the lending activity of Small Finance Banks compared to Payment Banks?
(1)Both can lend without restrictions. (2)Only Payment Banks can lend, not Small Finance Banks. (3)Only Small Finance Banks can lend, while Payment Banks cannot lend at all. (4)Neither type of bank is permitted to lend.
32. What percentage of a Small Finance Bank’s net credits must be allocated to priority sector lending?
(1)50% (2)60% (3)75% (4)80%
33. In Small Finance Banks, what percentage of loans in the portfolio should be less than ₹25 lakh?
(1)25% (2)40% (3)50% (4)60%
34. Which of the following is a key objective of Small Finance Banks?
(1)Providing high-value corporate loans (2)Promoting rural and semi-urban savings (3)Offering investment banking services (4)Managing international trade finance
35. In the context of Payment Banks, what does the term “Business Correspondent” refer to?
(1)An outsourced IT support team (2)A retail agent providing banking services outside the branch network (3)A correspondent specializing in international finance (4)A branch manager
36. Which regulatory requirement ensures that Payment Banks maintain adequate liquidity for operational purposes?
(1)They must keep 100% of deposits in government securities. (2)They must hold no more than 25% of deposits in current/fixed deposits with other banks. (3)They are not allowed to invest in any securities. (4)They must allocate 50% of deposits to foreign investments.
37. Once a Payment Bank reaches a net worth of Rs.500 crore, what mandatory action must it take?
(1)Begin offering lending services (2)List on a stock exchange within 3 years (3)Reduce the maximum deposit limit (4)Merge with a commercial bank
38. Which statement regarding Foreign Direct Investment (FDI) in Small Finance Banks is correct?
(1)FDI is not permitted in Small Finance Banks. (2)FDI is allowed up to 74% of the paid-up capital. (3)FDI is capped at 50% of the paid-up capital. (4)FDI must comprise 100% foreign investment.
39. What is the primary difference in deposit acceptance between Small Finance Banks and Payment Banks?

(1)Small Finance Banks accept deposits of any amount, whereas Payment Banks limit deposits per customer. (2)Both accept deposits without any limits. (3)Payment Banks accept unlimited deposits, unlike Small Finance Banks. (4)Neither accepts individual deposits.

40. Which type of bank is required to cover its eligible deposits under the deposit insurance scheme of the DICGC?
(1)Small Finance Banks only (2)Payment Banks only (3)Both Small Finance Banks and Payment Banks (4)Neither type of bank
41. According to the comparison, what is the minimum paid-up capital for Payment Banks?
(1)₹50 crore (2)₹100 crore (3)₹300 crore (4)₹500 crore
42. Which Small Finance Bank uses the tagline "Joy of banking"?
(1)Equitas Small Finance Bank Ltd. (2)ESAF Small Finance Bank Ltd. (3)Suryoday Small Finance Bank Ltd. (4)Capital Small Finance Bank Ltd.
43. Which Small Finance Bank is noted for having transitioned from an Urban Co-operative Bank?
(1)Jana Small Finance Bank Ltd. (2)Shivalik Small Finance Bank Ltd. (3)Unity Small Finance Bank Ltd. (4)Utkarsh Small Finance Bank Ltd.
44. What is the tagline of Capital Small Finance Bank Ltd.?
(1)"Chalo Aage Badhein" (2)"It's fun banking" (3)"Vishwas se Vikaas tak" (4)"Build a Better Life"
45. Which Payment Bank has the tagline "Technology, Trust and Reach"?
(1)Airtel Payments Bank Ltd. (2)India Post Payments Bank Ltd. (3)NSDL Payments Bank Ltd. (4)FINO Payments Bank Ltd.
46. Which key operational restriction applies to Payment Banks?
(1)They are not allowed to accept any deposits. (2)They cannot undertake any lending activities. (3)They must issue credit cards. (4)They can only operate in urban areas.
47. What is the main function of Payment Banks as described in the lecture?
(1)To provide high-value corporate loans (2)To facilitate high-volume, low-value transactions (3)To offer comprehensive investment services (4)To manage wealth and advisory services
48. Which Small Finance Bank is recognized as India's first Small Finance Bank?
(1)Fincare Small Finance Bank Ltd. (2)Capital Small Finance Bank Ltd. (3)Equitas Small Finance Bank Ltd. (4)ESAF Small Finance Bank Ltd.
49. Small Finance Banks primarily focus on which type of lending?
(1)Large corporate loans (2)High-value personal loans (3)Microfinance and small lending (4)International trade finance
50. What distinguishes the operational model of Payment Banks from traditional banks?
(1)Payment Banks primarily use physical branches in urban areas. (2)Payment Banks focus on digital, technology-driven channels and remote access points. (3)Payment Banks offer a full range of credit facilities. (4)Payment Banks invest heavily in corporate bonds.

Answers:

1	**2**	**6**	**3**	**11**	**2**	**16**	**2**	**21**	**3**	**26**	**3**	**31**	**3**	**36**	**2**	**41**	**2**	**46**	**2**
2	**4**	**7**	**2**	**12**	**3**	**17**	**1**	**22**	**3**	**27**	**2**	**32**	**3**	**37**	**2**	**42**	**2**	**47**	**2**
3	**1**	**8**	**1**	**13**	**3**	**18**	**3**	**23**	**3**	**28**	**2**	**33**	**3**	**38**	**2**	**43**	**2**	**48**	**2**
4	**1**	**9**	**3**	**14**	**2**	**19**	**2**	**24**	**3**	**29**	**2**	**34**	**2**	**39**	**1**	**44**	**3**	**49**	**3**
5	**2**	**10**	**2**	**15**	**2**	**20**	**2**	**25**	**2**	**30**	**2**	**35**	**2**	**40**	**2**	**45**	**3**	**50**	**2**

16. International Banks

Institution	Year Established	Headquarters	Focus Area	India's Role
World Bank	1944	Washington, D.C., USA	Poverty reduction, infrastructure	Member since 1947, major funding recipient
International Monetary Fund (IMF)	1944	Washington, D.C., USA	Monetary stability, trade	Member since 1947, policy advice during crises
Asian Development Bank (ADB)	1966	Manila, Philippines	Economic growth in Asia-Pacific	Founding member, largest funding recipient
Bank for International Settlements (BIS)	1930	Basel, Switzerland	Global monetary and financial stability	Participates in Basel Norms implementation

Institution	Year Established	Headquarters	Focus Area	India's Role
New Development Bank (NDB)	started operations on July 21, 2015	Shanghai, China	Infrastructure in BRICS and emerging economies	Founding member, receives project funding
Asian Infrastructure Investment Bank (AIIB)	2015	Beijing, China	Infrastructure development in Asia	Founding member, major funding recipient

1. Which of the following components of the International Banks provides concessional loans and grants to the poorest countries?
   (1)International Bank for Reconstruction and Development (IBRD) (2)International Monetary Fund (IMF) (3)International Development Association (IDA) (4)Asian Infrastructure Investment Bank (AIIB)
2. Which institution is known for financing infrastructure projects like dams, roads, and schools, and for publishing the Ease of Doing Business Report?
   (1)World Bank (2)International Monetary Fund (IMF) (3)Asian Development Bank (ADB) (4)New Development Bank (NDB)
3. Which organization offers Special Drawing Rights (SDR) as an international reserve asset and provides policy advice during economic crises?
   (1)World Bank (2)Asian Development Bank (ADB) (3)Bank for International Settlements (BIS) (4)International Monetary Fund (IMF)
4. Which institution, established in 1966 and headquartered in Manila, Philippines, focuses on fostering economic growth in the Asia-Pacific region and counts India as a founding member?
   (1)International Monetary Fund (IMF) (2)Asian Development Bank (ADB) (3)New Development Bank (NDB) (4)Bank for International Settlements (BIS)
5. Which entity acts as a bank for central banks by offering a forum for exchanging information on financial stability and supporting the implementation of Basel Norms?
   (1)Asian Infrastructure Investment Bank (AIIB) (2)World Bank (3)Bank for International Settlements (BIS) (4)International Monetary Fund (IMF)
6. Which bank is known for promoting local currency financing to reduce dependence on the USD and is considered an alternative to traditional Western-dominated financial institutions?
   (1)International Monetary Fund (IMF) (2)Asian Development Bank (ADB) (3)World Bank (4)New Development Bank (NDB)
7. Which institution, characterized by its open membership that includes non-Asian countries, focuses on environmentally sustainable and economically viable projects, with India being one of its largest borrowers?
   (1)Asian Infrastructure Investment Bank (AIIB) (2)New Development Bank (NDB) (3)Bank for International Settlements (BIS) (4)International Monetary Fund (IMF)
8. Since 1947, India has been a member of which organization that also provides policy advice during economic crises?
   (1)World Bank (2)International Monetary Fund (IMF) (3)Asian Infrastructure Investment Bank (AIIB) (4)Asian Development Bank (ADB)

Answers:

1	**3**	**6**	**4**
2	**1**	**7**	**1**
3	**4**	**8**	**2**
4	**2**	**9**	
5	**3**	**10**	

17. Bank ATMs

1. What is an Automated Teller Machine (ATM)?

- **Definition:**
  An ATM is a computerized machine that provides bank customers with the facility to access their accounts. It allows users to withdraw cash and carry out both financial and non-financial transactions without having to visit a bank branch.

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2. Financial & Non-Financial Transactions

- **Financial Transactions:**

  - Involve the transfer of funds between accounts.
- **Non-Financial Transactions (NFTs):**
  - Do not involve any transfer of funds.
  - **Examples:**
    - Change of user details
    - Balance inquiry
    - Mini statement printing
    - PIN change
    - Cheque book request

3. Types of ATMs

- **Onsite ATMs:**
  - Located within or very near the bank branch premises.
- **Offsite ATMs:**
  - Situated away from the branch (e.g., shopping malls, airports, railway stations, petrol pumps).
- **Worksite ATMs:**
  - Installed within an organization's premises and primarily meant for that organization's employees.
- **Cash Dispenser (CD):**
  - Allows only cash withdrawals, balance inquiry, and mini statement requests.
  - **Limitation:**
    - Does not support cash or cheque deposits.
- **Mobile ATMs:**
  - Machines that move to different locations to serve customers.
- **Online ATMs:**
  - Always connected to the bank's database.
  - Offer real-time transactions with constant monitoring of withdrawal limits and account balances.
- **Offline ATMs:**
  - Not connected to the bank's database.
  - Have a fixed, predefined withdrawal limit regardless of the actual account balance.
- **Stand Alone ATMs:**
  - Not connected with any ATM network.
  - Transactions are limited to the ATM's own branch and linked branches.
  - **Contrast:**
    - Networked ATMs are connected on a broader ATM network.

4. White Label ATMs (WLAs)

- **Definition:**
  - ATMs that are set up, owned, and operated by non-banking entities.
- **Regulatory Framework:**
  - Operated under the Payment & Settlement Systems Act, 2007 as authorised by the Reserve Bank of India (RBI).
- **Rationale:**
  - To increase the geographical spread of ATMs and enhance customer service, especially in semi-urban and rural areas.
- **Examples & Historical Note:**
  - **TCPSL:**
    - Tata Communications Payment Solutions Limited (a subsidiary of Tata Communications Limited) was the first to obtain an RBI license for WLAs.
    - Launched **Indicash** – India's first network of white label ATMs. The first Indicash ATM was inaugurated in a rural village (Chandrapada, Thane district, Maharashtra).
- **Additional Details:**
  - In 2015, the government permitted 100% FDI for white label ATMs under the automatic route.
  - Only non-bank entities with a minimum net worth of Rs 100 crore can open WLAs.
  - **Operational Features:**
    - WLAs do not allow cash deposit or cash acceptance.
    - They do not display any bank logo.
    - RBI mandates that WLA operators must deploy at least 1,000 ATMs annually and maintain a deployment ratio of 1:2:3 (metro/urban : semi-urban : rural).

5. Brown Label ATM

- **Definition:**
  - An ATM where the money management and connectivity to financial systems are provided by a bank (referred to as the sponsor bank), while the machine itself is owned by a manufacturer (service provider/vendor) and leased to the bank.
- **Unique Selling Point (USP):**
  - Cost savings for banks.
- **Financial Model:**
  - The service provider bears the capital expenditure.
  - Banks compensate the service provider either per transaction or via a monthly fee.
  - Services covered include cash management, network monitoring, security, and housekeeping.

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6. Historical Aspects & Milestones

- **World's First ATM:**
  - **Inventor:** John Shepherd-Barron, a Scottish citizen (born in India, Meghalaya, later a British citizen).
  - **Installation:** Outside a Barclays branch in Enfield, north London.
  - **Date:** June 27, 1967.
- **India's ATM Milestones:**
  - **First ATM in India:**
    - Set up in 1987 by HSBC in Mumbai.
  - **ATM on Wheels:**
    - Launched by ICICI Bank in Mumbai.
    - Mobile ATM stationed at specific locations (Vile Parle, Juhu, Andheri, Kandivali).
  - **Shared ATM Network:**
    - In 1997, the Indian Banks' Association (IBA) launched Swadhan, the first shared ATM network in India, managed by India Switch Company (ISC).
    - Allowed cardholders to withdraw cash from any ATM in the network (with applicable fees for non-account holders).

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7. National Financial Switch (NFS)

- **Definition:**
  - The largest network of shared ATMs in India.
- **Development & Deployment:**
  - Designed, developed, and deployed by the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad in 2004.
- **Current Management:**
  - Now operated by the National Payments Corporation of India (NPCI).
  - NPCI took over the NFS network from IDRBT on December 14, 2009.
- **Note:**
  - All ATM transactions are primarily processed through this network.

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8. Other Types of ATMs / Additional Information

- **Other Labelled ATMs:**
  - **Green Label ATMs:**
    - Used for agricultural purposes.
  - **Yellow Label ATMs:**
    - Used for e-commerce transactions.
  - **Orange Label ATMs:**
    - Used for share transactions.
  - **Pink Label ATMs:**
    - Specifically designed for females to help avoid long queues.
  - **(Brown Label ATMs are also mentioned above.)**
- **Expansion of ATM Network:**
  - Emphasizes the need to further expand the ATM network to meet the cash withdrawal demands of Pradhan Mantri Jan Dhan Yojana beneficiaries.
- **Innovative Developments:**
  - India's first "talking" ATM for the visually impaired was inaugurated in Ahmedabad.
- **Transaction Fees and Free Transaction Limits:**
  - **Fee Policy (from January 1, 2022):**

- Customers must pay Rs. 21 per transaction if they exceed the allocated number of free monthly transactions.
- **RBI Mandated Free Transaction Limits:**
  - **At a bank's own ATM (any location):**
    - Minimum of five free financial transactions per month for savings account holders (non-cash withdrawal transactions are free regardless of count).
  - **At other banks' ATMs in Metro locations (Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi):**
    - Minimum of three free transactions per month (covering both financial and non-financial transactions).
  - **At other banks' ATMs in Non-Metro locations:**
    - Minimum of five free transactions per month (covering both financial and non-financial transactions).

9. On-Us vs. Off-Us Transactions

- **On-Us Transaction:**
  - A transaction performed at an ATM belonging to the card issuing bank.
- **Off-Us Transaction:**
  - A transaction carried out at an ATM that does not belong to the card issuing bank.

10. RBI ATM Guidelines for Non-Card Withdrawals

- **Overview:**
  - Enables individuals to withdraw cash without using a debit card.
- **Limits:**
  - **Minimum:** Rs. 100 per transaction.
  - **Maximum:**
    - Rs. 10,000 per day, or
    - Rs. 25,000 per month, as per regulatory guidelines.

11. Scheme of Penalty for Non-Replenishment of ATMs

- **Purpose:**
  - To ensure that sufficient cash is available to the public through ATMs.
- **Implementation Date:**
  - Effective from October 01, 2021.
- **Penalty Details:**
  - If cash-out at any ATM exceeds ten hours in a month, a flat penalty of Rs. 10,000 per ATM is levied.
  - In the case of White Label ATMs (WLAs), the penalty is charged to the bank responsible for meeting the cash requirement of that particular ATM.

1. What is an Automated Teller Machine (ATM)?
   (1)A manual cash counting machine. (2)A device for printing bank statements. (3)A computerized machine that provides banking services such as cash dispensing and account access without visiting a branch. (4)A computer used solely for internal banking processes.
2. Which statement best differentiates financial from non-financial transactions at an ATM?
   (1)Financial transactions include balance inquiry only. (2)Financial transactions only allow cash withdrawal. (3)Non-financial transactions involve no transfer of funds. (4)Financial transactions involve transferring funds between accounts, whereas non-financial transactions do not.
3. Which of the following is an example of a non-financial transaction at an ATM?
   (1)Depositing cash into the account. (2)Changing the user's PIN. (3)Transferring funds between different bank accounts. (4)Making a loan payment.
4. Which statement correctly distinguishes an onsite ATM from an offsite ATM?
   (1)Offsite ATMs are located within the bank branch. (2)Onsite ATMs are located far from the bank branch. (3)Onsite ATMs are located within or very near the bank branch premises. (4)Offsite ATMs do not perform any transactions.
5. A Worksite ATM is best described as:
   (1)An ATM exclusively for government employees. (2)An ATM located within an organization primarily for its employees. (3)An ATM located in a shopping mall. (4)An ATM connected only to a single bank's network.
6. Which of the following best describes a Cash Dispenser (CD)?

(1)It permits depositing cash but not withdrawing cash. (2)It processes only non-financial transactions. (3)It allows only cash withdrawals, balance inquiry, and mini statement requests. (4)It allows both cash withdrawals and deposits.

7. What is the primary characteristic of a Mobile ATM?
(1)It can only dispense cash. (2)It is accessible only through mobile banking apps. (3)It moves across various locations to serve customers. (4)It remains fixed at one location.

8. How does an Online ATM differ from an Offline ATM?
(1)Offline ATMs are used exclusively for non-financial transactions. (2)Online ATMs are constantly connected to the bank's database, allowing real-time monitoring. (3)Online ATMs are not connected to the bank's database. (4)Offline ATMs provide real-time processing.

9. Which feature characterizes an Offline ATM?
(1)It offers enhanced security features. (2)It permits unlimited cash withdrawals. (3)It allows a fixed, predefined withdrawal amount irrespective of account balance. (4)It is connected to the bank's database for real-time processing.

10. What is a key limitation of Stand Alone ATMs compared to Networked ATMs?
(1)They do not require a card to operate. (2)They can only perform transactions in foreign currencies. (3)Their transactions are limited to the ATM's own branch and linked branches. (4)They offer more services than networked ATMs.

11. White Label ATMs (WLAs) are best described as:
(1)ATMs that allow cash deposits. (2)ATMs operated exclusively by banks. (3)ATMs set up, owned, and operated by non-bank entities. (4)ATMs that display multiple bank logos.

12. Under which act are non-bank ATM operators authorized to set up White Label ATMs?
(1)The Reserve Bank of India Act, 1934. (2)The Financial Transactions Act, 2005. (3)The Banking Regulation Act, 1949. (4)The Payment & Settlement Systems Act, 2007.

13. What is the primary rationale behind permitting non-bank entities to set up White Label ATMs?
(1)To improve security at bank branches. (2)To reduce transaction fees. (3)To standardize ATM software across banks. (4)To increase ATM network coverage and enhance customer service in semi-urban and rural areas.

14. Which company was the first to obtain an RBI license for opening White Label ATMs?
(1)HDFC Bank. (2)Tata Communications Payment Solutions Limited (TCPSL). (3)State Bank of India. (4)ICICI Bank.

15. What was the name of India's first-ever network of white label ATMs launched by TCPSL?
(1)ATM Express. (2)Indicash. (3)SwipeNet. (4)CashNet.

16. As per the policy introduced in 2015, what is the maximum FDI allowed in white label ATMs under the automatic route?
(1)25%. (2)50%. (3)100%. (4)75%.

17. What is the minimum net worth required for non-bank entities to operate White Label ATMs?
(1)Rs 150 crore. (2)Rs 50 crore. (3)Rs 100 crore. (4)Rs 200 crore.

18. Which of the following is NOT permitted on White Label ATMs?
(1)Cash deposit. (2)Mini statement printing. (3)Cash withdrawal. (4)Balance inquiry.

19. Which branding characteristic is associated with White Label ATMs?
(1)They display the RBI logo. (2)They prominently display the operating bank's logo. (3)They do not display any bank logo. (4)They display multiple bank logos.

20. According to RBI guidelines, what is the minimum number of ATMs that WLA operators must deploy each year?
(1)1,000. (2)500. (3)750. (4)1,500.

21. A Brown Label ATM is characterized by:
(1)The machine only allowing cash deposits. (2)The ATM being fully owned and operated by a bank. (3)The machine being owned by a service provider and leased to a bank—with the bank handling money management. (4)The machine being operated by non-bank entities.

22. In the Brown Label ATM model, how does the bank compensate the service provider?
(1)There is no compensation; it is government-subsidized. (2)By paying a fixed annual amount regardless of transactions. (3)Through a one-time purchase. (4)Via a per-transaction fee or a monthly fee.

23. Who is credited with setting up the world's first ATM?
(1)John Shepherd-Barron. (2)Ratan Tata. (3)Gaurav Garg. (4)Anita Reddy.

24. Where and when was the world's first ATM installed?
(1)In a shopping mall in Paris in 1965. (2)At a State Bank branch in New Delhi in 1975. (3)Outside a Barclays branch in Enfield, north London on June 27, 1967. (4)Inside an HSBC branch in Mumbai in 1987.

25. Which bank set up the first ATM in India and in what year?
(1)HDFC Bank in 1995. (2)SBI in 1985. (3)HSBC in 1987. (4)ICICI Bank in 1990.

26. Which bank launched 'ATM on Wheels', India's first mobile ATM?

(1)HDFC Bank. (2)Axis Bank. (3)State Bank of India. (4)ICICI Bank.
27. What was the name of the first shared ATM network established in India?
(1)BankLink. (2)Swadhan. (3)CashNet. (4)ATM Connect.
28. Which organization managed the first shared ATM network (Swadhan) in India for five years?
(1)RBI. (2)India Switch Company (ISC). (3)NPCI. (4)IDRBT.
29. What is the National Financial Switch (NFS)?
(1)A mobile application for ATM location tracking. (2)A government body regulating ATM operations. (3)A network connecting ATMs in India for shared transactions. (4)A type of ATM exclusively for foreign transactions.
30. Which institution originally designed, developed, and deployed the National Financial Switch (NFS) in 2004?
(1)TCPSL. (2)IBA. (3)IDRBT. (4)NPCI.
31. Who currently operates the National Financial Switch (NFS)?
(1)India Switch Company (ISC). (2)National Payments Corporation of India (NPCI). (3)HDFC Bank. (4)RBI.
32. What is the primary purpose of Green Label ATMs?
(1)To handle share transactions. (2)To provide services exclusively for women. (3)To process e-commerce payments. (4)To facilitate agricultural transactions.
33. Yellow Label ATMs are designed for which type of transaction?
(1)Share transactions. (2)Cash deposit only. (3)Agricultural purposes. (4)E-commerce transactions.
34. Orange Label ATMs are primarily used for:
(1)E-commerce transactions. (2)Agricultural financing. (3)Mobile banking. (4)Share transactions.
35. What is the main purpose of Pink Label ATMs?
(1)To provide enhanced security features. (2)To allow deposits of foreign currency. (3)To offer special discounts on transactions. (4)To serve female customers and reduce waiting times.
36. Which innovation in ATMs was introduced to assist visually impaired users in India?
(1)Touchscreen ATMs. (2)Biometric ATMs. (3)Voice-activated deposit ATMs. (4)Talking ATMs.
37. According to RBI guidelines, what is the minimum withdrawal amount for non-card ATM withdrawals?
(1)Rs. 500. (2)Rs. 200. (3)Rs. 100. (4)Rs. 50.
38. What is the maximum withdrawal limit per day for non-card ATM withdrawals as per RBI guidelines?
(1)Rs. 15,000. (2)Rs. 5,000. (3)Rs. 20,000. (4)Rs. 10,000.
39. What is the maximum withdrawal limit per month for non-card ATM withdrawals?
(1)Rs. 30,000. (2)Rs. 25,000. (3)Rs. 15,000. (4)Rs. 20,000.
40. An On-Us transaction at an ATM refers to:
(1)A transaction that occurs during non-banking hours. (2)A transaction involving international fund transfer. (3)A transaction performed at the ATM of the card issuing bank. (4)A transaction performed at an ATM not belonging to the card issuing bank.
41. What is an Off-Us transaction?
(1)A transaction using a mobile banking app. (2)A transaction that is reversed after processing. (3)A transaction carried out at the ATM of the card issuing bank. (4)A transaction performed at an ATM that does not belong to the card issuing bank.
42. What is the main benefit of allowing non-bank entities to operate ATMs (i.e. White Label ATMs)?
(1)To reduce the need for digital banking. (2)To centralize ATM operations under the RBI. (3)To limit competition among banks. (4)To increase ATM network coverage, especially in underserved areas.
43. How does the branding of White Label ATMs differ from that of traditional bank ATMs?
(1)White Label ATMs display the sponsoring bank’s logo. (2)White Label ATMs display the RBI logo. (3)White Label ATMs display multiple bank logos. (4)White Label ATMs display no bank logo.
44. What is the primary cost-saving benefit of the Brown Label ATM model for banks?
(1)Banks get a discount on currency printing. (2)Banks save on software licensing costs. (3)Banks do not need to invest in ATM infrastructure since the service provider bears the capital expenditure. (4)Banks can avoid regulatory fees.
45. What is the RBI-mandated minimum number of free financial transactions per month at a bank’s own ATM?
(1)Seven transactions. (2)Three transactions. (3)Five transactions. (4)Ten transactions.
46. For ATMs of other banks in metro areas, what is the RBI-mandated minimum number of free transactions per month?
(1)Five transactions. (2)Two transactions. (3)Three transactions. (4)Four transactions.
47. For ATMs of other banks in non-metro locations, what is the RBI-mandated minimum number of free transactions per month?
(1)Four transactions. (2)Six transactions. (3)Three transactions. (4)Five transactions.
48. Under the Scheme of Penalty for non-replenishment of ATMs, what penalty is imposed if cash-out exceeds ten hours in a month?
(1)Rs. 15,000 per ATM. (2)Rs. 5,000 per ATM. (3)Rs. 10,000 per ATM. (4)Rs. 20,000 per ATM.

49. In the case of White Label ATMs, who bears the penalty for non-replenishment if the cash-out exceeds the allowed duration?
(1)The RBI. (2)The ATM service provider. (3)The bank responsible for meeting the cash requirement. (4)The ATM manufacturer.
50. What is the primary purpose of the National Financial Switch (NFS) in India?
(1)To monitor ATM maintenance schedules. (2)To regulate mobile banking applications. (3)To provide exclusive services to private banks. (4)To interconnect ATMs across the country for shared transactions.

Answers:

1	**3**	**6**	**3**	**11**	**3**	**16**	**3**	**21**	**3**	**26**	**4**	**31**	**2**	**36**	**4**	**41**	**4**	**46**	**3**
2	**4**	**7**	**3**	**12**	**4**	**17**	**3**	**22**	**4**	**27**	**2**	**32**	**4**	**37**	**3**	**42**	**4**	**47**	**4**
3	**2**	**8**	**2**	**13**	**4**	**18**	**1**	**23**	**1**	**28**	**2**	**33**	**4**	**38**	**4**	**43**	**4**	**48**	**3**
4	**3**	**9**	**3**	**14**	**2**	**19**	**3**	**24**	**3**	**29**	**3**	**34**	**4**	**39**	**2**	**44**	**3**	**49**	**3**
5	**2**	**10**	**3**	**15**	**2**	**20**	**1**	**25**	**3**	**30**	**3**	**35**	**4**	**40**	**3**	**45**	**3**	**50**	**4**

18. Digital Payment

1. Introduction to Digital Payments

Definition:
Digital payments are transactions conducted electronically without the exchange of physical currency. These systems leverage advanced technologies to facilitate seamless and efficient payment processing.

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2. Key Terminologies in Digital Payments

The document explains several core terms essential to understanding the digital payment ecosystem:

2.1 Digital Wallets

- **Definition:** Applications or services that allow users to store payment methods (such as cards and bank accounts) and make electronic transactions.
- **Examples:** Paytm, Google Pay, PhonePe.

2.2 Payment Gateway

- **Definition:** A technology that captures and transfers payment data from the customer to the acquirer, ensuring secure transactions.
- **Examples:** Razorpay, PayU.

2.3 Unified Payments Interface (UPI)

- **Definition:** A real-time payment system developed by NPCI (National Payments Corporation of India) that enables instant money transfers between bank accounts using mobile devices.
- **Example Apps:** BHIM, Google Pay.

2.4 Near Field Communication (NFC)

- **Definition:** A contactless communication technology that enables payment by tapping or waving a device near a compatible terminal.

2.5 Quick Response (QR) Code

- **Definition:** A two-dimensional code that stores payment details, allowing customers to make instant payments by scanning.

2.6 Two-Factor Authentication (2FA)

- **Definition:** A security process that requires users to provide two different authentication factors (for example, OTPs) to verify their identity.

2.7 Merchant Discount Rate (MDR)

- **Definition:** The fee charged to merchants for accepting digital payments.

2.8 Tokenization

- **Definition:** The process of replacing sensitive card details with a unique identifier or "token" to enhance security.

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3. Modes of Digital Payment

Digital payments are categorized by functionality and underlying technology. The document divides them into several groups:

3.1 Banking-based Payments

- **Net Banking:**

 - **Definition:** Online access to bank accounts for transactions.
 - **Features:** Fund transfers, utility bill payments, and account management.
- **Mobile Banking:**
 - **Definition:** Bank-specific mobile applications allowing customers to conduct banking transactions on smartphones.
- **Immediate Payment Service (IMPS):**
 - **Definition:** A real-time interbank electronic fund transfer service accessible via mobile, ATMs, or internet banking.
- **NEFT and RTGS:**
 - **NEFT (National Electronic Funds Transfer):** Batch-processed, time-bound fund transfers.
 - **RTGS (Real-Time Gross Settlement):** Continuous, real-time transfer of large-value funds.

3.2 Mobile-based Payments

- **Unified Payments Interface (UPI):**
 - **Features:** Instant transfers, no need to share bank account details, available 24/7.
- **Mobile Wallets:**
 - **Definition:** Digital wallets that store money for transactions and can link with cards or bank accounts.
- **USSD-based Payments:**
 - **Definition:** Payment services via Unstructured Supplementary Service Data, which are especially useful on feature phones without internet access.
- **Debit and Credit Cards:**
 - **Definition:** Payments made using card networks such as Visa, MasterCard, and RuPay.
 - **Features:** Include POS (Point of Sale) transactions, online payments, and options like EMI (Equated Monthly Installments).
- **Prepaid Cards:**
 - **Definition:** Preloaded cards that are used for specific transactions or set spending limits.

3.3 Card-based Payments

- **Note:** This category is listed separately, underscoring traditional card usage for payments, though further details are not elaborated beyond the debit/credit and prepaid examples mentioned above.

3.4 Contactless Payments

- **NFC-based Payments:**
 - **Examples:** Samsung Pay, Apple Pay.
- **QR Code Payments:**
 - **Definition:** Using mobile wallets or UPI by scanning QR codes to initiate and complete transactions.

3.5 Aadhaar-enabled Payments

- **Aadhaar Enabled Payment System (AePS):**
 - **Definition:** Facilitates transactions using Aadhaar authentication combined with biometric verification.
- **Aadhaar Pay:**
 - **Definition:** A system where merchants receive payments directly into their bank accounts using Aadhaar verification.

3.6 Cryptocurrency Payments

- **Definition:** Involves the use of digital currencies like Bitcoin and Ethereum for decentralized transactions.

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4. Advantages of Digital Payments

The document outlines several benefits:

1. **Convenience:**
 - Transactions are fast and accessible around the clock.
2. **Transparency:**
 - Digital records help ensure accountability in transactions.
3. **Cost-Effectiveness:**
 - Reduction in overhead costs related to cash handling.
4. **Security:**
 - Enhanced safety through methods such as tokenization, encryption, and two-factor authentication.
5. **Economic Boost:**
 - Encourages the formalization of the economy and reduces reliance on cash.

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5. Challenges in Digital Payments

Key challenges include:

1. **Cybersecurity Threats:**

- Risks include hacking, phishing, and fraud.

2. **Digital Divide:**
   - Limited access in rural and remote areas may inhibit widespread adoption.
3. **Awareness and Literacy:**
   - There is a need for increased financial and digital literacy.
4. **Infrastructure Gaps:**
   - Inconsistent network connectivity and power supply issues can disrupt services.
5. **Fraudulent Activities:**
   - Potential misuse of UPI and digital wallets.

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6. Initiatives Promoting Digital Payments

Several initiatives are highlighted, each with a brief description and stated objective/impact:

6.1 Unified Payments Interface (UPI)

- **Description:** A platform that enables instant money transfers between bank accounts using mobile devices.
- **Objective/Impact:** Increased ease of digital transactions and reduced dependency on cash.

6.2 BHIM App

- **Description:** A mobile app developed by NPCI that supports simple and quick UPI-based transactions across multiple languages.
- **Objective/Impact:** Promoted digital payment adoption among diverse demographic groups.

6.3 e-RUPI

- **Description:** A voucher-based digital payment system that facilitates the delivery of benefits without requiring bank accounts or payment apps.
- **Objective/Impact:** Ensures leak-proof and targeted delivery of welfare services.

6.4 Digital Rupee (e₹)

- **Description:** A Central Bank Digital Currency (CBDC) launched by the RBI aimed at enhancing the digital payment ecosystem.
- **Objective/Impact:** Reduces cash dependency and supports the evolution of a digital economy.

6.5 RuPay Debit Cards & BHIM-UPI Incentives

- **Description:** Schemes designed to encourage both merchants and consumers to adopt RuPay cards and engage in low-value UPI transactions.
- **Objective/Impact:** Boosted digital payment adoption across small merchants and consumer segments.

6.6 Pradhan Mantri Gramin Digital Saksharta Abhiyaan (PMGDISHA)

- **Description:** A program aimed at promoting digital literacy in rural India.
- **Objective/Impact:** Empowers citizens to actively participate in the digital payment ecosystem.

6.7 Integration with National Consumer Helpline (NCH)

- **Description:** An initiative by MeitY to address grievances related to digital payments through the National Consumer Helpline.
- **Objective/Impact:** Enhances consumer trust and provides efficient grievance redressal.

1. What is digital payment?
   (1)Electronic transactions conducted without physical currency exchange. (2)Transactions involving physical cash. (3)Barter-based exchange of goods. (4)Manual bank transfers.
2. Which of the following is an example of a digital wallet?
   (1)IMPS (2)Paytm (3)NEFT (4)Digital Rupee
3. Which technology is responsible for capturing and securely transferring payment data from the customer to the acquirer?
   (1)Tokenization (2)QR Code (3)Payment Gateway (4)Two-Factor Authentication
4. Who developed the Unified Payments Interface (UPI)?
   (1)RBI (2)MeitY (3)BHIM (4)NPCI
5. Which of the following is an example app specifically designed for UPI transactions?
   (1)Digital Rupee (2)Paytm (3)BHIM (4)NEFT
6. What does NFC stand for in digital payment technology?
   (1)Near Field Communication (2)Network Financial Code (3)New Financial Currency (4)National Fund Converter
7. In QR Code payments, QR stands for:
   (1)Quick Record (2)Query Response (3)Quality Rate (4)Quick Response
8. Two-Factor Authentication (2FA) in digital payments requires:
   (1)Two identical passwords (2)Two different authentication factors (3)Only biometric data (4)A single secure PIN

9. What does Merchant Discount Rate (MDR) refer to in digital payments?
(1)Fee charged to merchants for accepting digital payments (2)A discount offered to customers (3)A penalty for late payments (4)An interest rate on digital transactions
10. Tokenization in digital payments means:
(1)Converting cash into digital currency (2)Encrypting data using complex algorithms (3)Replacing sensitive card details with a unique identifier (4)Generating digital receipts automatically
11. Which of the following is an example of a banking-based payment method?
(1)UPI (2)Mobile Wallets (3)NFC-based Payments (4)Net Banking
12. What distinguishes mobile banking from net banking?
(1)Mobile banking uses bank-specific mobile applications (2)Mobile banking is conducted only on desktops (3)Net banking does not support fund transfers (4)Mobile banking requires physical bank visits
13. Which service offers a real-time interbank electronic fund transfer?
(1)NEFT (2)RTGS (3)IMPS (4)UPI
14. NEFT stands for:
(1)National Electronic Funds Transfer (2)Network Electronic Funds Transaction (3)National E-Funds Transaction (4)New Electronic Funds Transfer
15. RTGS is an acronym for:
(1)Real-Time Gross Settlement (2)Rapid Transfer Global System (3)Registered Transaction Guarantee Service (4)Real-Time Gateway System
16. USSD-based payments are primarily used on:
(1)Smartphones with high-speed internet (2)Feature phones without internet connectivity (3)Desktop computers (4)NFC-enabled devices
17. Which method involves the use of debit and credit cards?
(1)Mobile-based Payments (2)Cryptocurrency Payments (3)Card-based Payments (4)Aadhaar-enabled Payments
18. Prepaid cards in digital payments are characterized by:
(1)Being linked directly to a bank account (2)Being preloaded with a fixed amount of money (3)Requiring biometric authentication (4)Being exclusively used for online purchases
19. Which of the following is a contactless payment method?
(1)NFC-based Payments (2)Net Banking (3)IMPS (4)USSD-based Payments
20. QR Code payments operate by:
(1)Tapping a card on a terminal (2)Entering card details manually (3)Using biometric verification (4)Scanning a two-dimensional code
21. Aadhaar-enabled Payment System (AePS) uses which form of authentication?
(1)Mobile OTP verification (2)Aadhaar and biometric authentication (3)Digital wallet PIN (4)Credit card verification
22. Aadhaar Pay enables merchants to:
(1)Accept payments via UPI only (2)Receive payments directly into their bank accounts using Aadhaar verification (3)Use cryptocurrency for transactions (4)Process payments solely offline
23. Cryptocurrency payments involve transactions using:
(1)Digital currencies like Bitcoin and Ethereum (2)Traditional bank transfers (3)Only QR Code payments (4)Physical cash converted digitally
24. One key advantage of digital payments is their:
(1)Dependence on physical currency (2)24/7 accessibility (3)Requirement for manual processing (4)Slower transaction times
25. Digital payment records enhance transparency by:
(1)Eliminating the need for transaction records (2)Maintaining digital records that ensure accountability (3)Hiding transaction details (4)Requiring paper-based documentation
26. Digital payments are considered cost-effective because they:
(1)Eliminate all transaction fees (2)Reduce overhead costs related to cash handling (3)Require expensive hardware investments (4)Depend on manual processes
27. Which set of security features is commonly used in digital payments?
(1)Tokenization, encryption, and two-factor authentication (2)Only manual PIN verification (3)Physical security measures (4)Sole reliance on passwords
28. Digital payments can boost the economy by:
(1)Encouraging increased cash usage (2)Formalizing transactions and reducing cash dependency (3)Limiting digital record-keeping (4)Increasing manual processes
29. Cybersecurity threats in digital payments include risks such as:
(1)Hacking and phishing (2)Increased use of physical cash (3)Manual processing errors (4)Network latency issues

30. The term "digital divide" in the context of digital payments refers to:
(1)Differences in mobile wallet interfaces (2)Variations in UPI functionalities (3)Inconsistent encryption standards (4)A gap in access to digital payment services between urban and rural areas
31. The need for financial and digital literacy in digital payments addresses:
(1)Cybersecurity threats (2)Fraudulent bank transfers (3)Lack of awareness and understanding of digital payment systems (4)Excessive reliance on physical currency
32. Infrastructure gaps in digital payments typically include:
(1)Too many digital wallets (2)High transaction fees (3)Inconsistent network connectivity and power issues (4)Lack of tokenization methods
33. Fraudulent activities in digital payments most often involve misuse of:
(1)Traditional bank cheques (2)UPI and digital wallets (3)Manual bank transfers (4)NEFT systems
34. Which initiative is a platform enabling instant money transfers between bank accounts using mobile devices?
(1)e-RUPI (2)UPI (3)BHIM App (4)Digital Rupee (e₹)
35. The BHIM App was developed by:
(1)MeitY (2)RBI (3)NPCI (4)Digital Payment Authority
36. e-RUPI is best described as:
(1)A mobile wallet for retail shopping (2)A voucher-based digital payment system for targeted benefit delivery (3)A cryptocurrency exchange platform (4)A card-based payment solution
37. Which initiative is a Central Bank Digital Currency (CBDC) launched by RBI?
(1)e-RUPI (2)UPI (3)BHIM App (4)Digital Rupee (e₹)
38. RuPay Debit Cards & BHIM-UPI Incentives are designed to:
(1)Promote cryptocurrency trading (2)Encourage merchants and consumers to adopt digital payments (3)Replace digital payments with traditional methods (4)Facilitate only high-value transactions
39. What is the focus of the Pradhan Mantri Gramin Digital Saksharta Abhiyaan (PMGDISHA)?
(1)Promoting digital literacy in urban areas (2)Reducing transaction fees for digital payments (3)Promoting digital literacy in rural India (4)Enhancing digital payment security measures
40. Integration with the National Consumer Helpline (NCH) in digital payments is an initiative by:
(1)NPCI (2)RBI (3)BHIM (4)MeitY
41. Which payment method involves using a device by tapping or waving near a terminal?
(1)Net Banking (2)NFC-based Payments (3)USSD-based Payments (4)NEFT
42. Which of the following is NOT a mobile-based payment method?
(1)UPI (2)Mobile Wallets (3)USSD-based Payments (4)NEFT
43. A key feature of net banking is:
(1)Online access to bank accounts for transactions (2)Exclusive use on mobile devices (3)Requirement of biometric authentication (4)Scanning of QR codes
44. Mobile banking primarily involves the use of:
(1)Desktop banking platforms (2)Physical branch visits (3)Digital vouchers (4)Bank-specific mobile applications
45. Which digital payment mode is specifically designed for feature phones without internet access?
(1)USSD-based Payments (2)NFC-based Payments (3)Mobile Banking (4)Cryptocurrency Payments
46. In digital payments, encryption is used to:
(1)Increase processing fees (2)Replace the need for tokens (3)Secure data and protect sensitive information (4)Ensure manual record-keeping
47. Digital payment records help ensure transparency by:
(1)Creating a paper trail (2)Allowing manual corrections (3)Eliminating the need for digital logs (4)Maintaining digital logs of transactions
48. The term "contactless payments" refers to methods that:
(1)Require physical cash exchange (2)Depend solely on manual entries (3)Do not require physical currency exchange (4)Involve only mobile banking
49. Which of the following is NOT listed as a challenge in digital payments?
(1)Cybersecurity threats (2)Digital divide (3)Excessive reliance on physical cash usage (4)Infrastructure gaps
50. Which initiative specifically targets reducing cash dependency in the economy?
(1)Digital Rupee (e₹) (2)BHIM App (3)UPI (4)Net Banking

Answers:

1	**1**	**6**	**1**	**11**	**4**	**16**	**2**	**21**	**2**	**26**	**2**	**31**	**3**	**36**	**2**	**41**	**2**	**46**	**3**
2	**2**	**7**	**4**	**12**	**1**	**17**	**3**	**22**	**2**	**27**	**1**	**32**	**3**	**37**	**4**	**42**	**4**	**47**	**4**
3	**3**	**8**	**2**	**13**	**3**	**18**	**2**	**23**	**1**	**28**	**2**	**33**	**2**	**38**	**2**	**43**	**1**	**48**	**3**
4	**4**	**9**	**1**	**14**	**1**	**19**	**1**	**24**	**2**	**29**	**1**	**34**	**2**	**39**	**3**	**44**	**4**	**49**	**3**
5	**3**	**10**	**3**	**15**	**1**	**20**	**4**	**25**	**2**	**30**	**4**	**35**	**3**	**40**	**4**	**45**	**1**	**50**	**1**

19. RTGS IMPS NEFT

1. National Electronic Fund Transfer (NEFT)

- **Definition & Introduction:**
  - NEFT is a **retail payment system** introduced in **November 2005**.
  - It uses a straight-through process operating in **48 half-hourly batches**.
  - Effective **December 16, 2019**, the system operates **24x7x365**.
- **Key Characteristics:**
  - **No floor or ceiling** on the amount that can be transferred.
  - Has emerged as a popular **hybrid payment system**.
- **Critical Argument:**
  - The **Nandan Nilekani panel** recommended a 24x7 availability for RTGS & NEFT to promote digital payments in India.

2. Real Time Gross Settlement (RTGS) System

- **Definition & Introduction:**
  - RTGS is India's **Large Value Payment System**, introduced in **March 2004**.
  - Transactions settle **in real time**.
- **Availability & Changes:**
  - Available **round the clock** on all days of the year, with full availability effective from **December 14, 2020**.
  - From **June 2019**, the RBI directed banks **not to levy any charges** for transactions processed through RTGS and NEFT.

3. Payments Using IFSC Code

- **Definition of IFSC Code:**
  - An **11-digit alphanumeric code** used for both NEFT and RTGS payments.
- **Structure of IFSC Code:**
  - **First 4 characters:** Represent the bank.
  - **Fifth digit:** Always a zero.
  - **Last 6 digits:** Represent the bank branch code.
- **Example:**
  - **SBIN0004384**
    - **SBIN:** State Bank of India.
    - **0:** The fixed zero.
    - **004384:** Branch Code (indicating the Dwarka, Sector 10, New-Delhi branch).

4. Immediate Payment Service (IMPS)

- **Definition & Launch:**
  - IMPS is an **instant interbank electronic fund transfer service**.
  - Public launch on **22nd November 2010** by Smt. Shyamala Gopinath, DG RBI at Mumbai.
- **Service Characteristics:**
  - Provides **robust, real-time fund transfer**.
  - Accessible **24x7** on multiple channels: Mobile, Internet, ATM, and SMS.
  - The service is facilitated by NPCI using its **existing NFS switch**.
- **Eligibility:**
  - Banks must have a **valid banking or prepaid payment instrument license** from the RBI.
- **Transaction Limits:**
  - **Minimum transfer:** Rs 1.
  - **Maximum transfer:** Rs 5,00,000.
  - **Per-transaction limit (SMS/IVRS channels):** ₹5000.
- **Transfer Methods:**
  - Funds can be transferred by providing either:

    - **MMID and mobile number details**, or
    - **Account number and IFSC code**.
- **MMID (Mobile Money Identifier):**
  - A **7-digit number** allocated by the bank.
  - If you have multiple accounts, each account gets a separate MMID.
  - **Structure:** The **first 4 digits** identify the bank; the **last 3 digits** identify the account.

5. NUUP (National Unified USSD Platform)

- **Definition & Function:**
  - A **USSD-based mobile banking service** provided by NPCI.
  - Allows both **financial and non-financial transactions** on standard mobile phones **without an internet connection**.
  - Commonly known as **"*99#"**.

6. MICR Code

- **Definition:**
  - MICR stands for **Magnetic Ink Character Recognition**.
  - It is a code **printed on cheques** that aids in their identification and faster processing.
- **Structure:**
  - A **9-digit code** that uniquely identifies the bank and branch in an **Electronic Clearing System (ECS)**.
  - **Breakdown:**
    - **First 3 digits:** Represent the **city (City Code)**.
    - **Next 3 digits:** Represent the **bank code**.
    - **Last 3 digits:** Represent the **branch code**.
- **Example:**
  - **MICR Code for the Fort Branch of DBS Bank: 400641002**
    - **400:** City Code for Mumbai.
    - **641:** Represents DBS Bank.
    - **002:** Branch Code for the Fort branch.

7 .RBI's Payments Vision 2025

- **Key Targets:**
  - Achieve an **annualised growth of 20%** for IMPS/NEFT.
  - Reduce the volume of **cheque-based payments** to less than **0.25% of total retail payments**.
  - Grow the **registered customer base** for mobile-based transactions by **50% CAGR**.

1. NEFT is a retail payment system introduced in which year?
(1)2004 (2)2005 (3)2010 (4)2003
2. RTGS was introduced in which month and year?
(1)March 2004 (2)November 2005 (3)December 2019 (4)January 2010
3. NEFT processes transactions through how many half-hourly batches per day?
(1)24 (2)48 (3)12 (4)36
4. From which date did NEFT start operating 24x7x365?
(1)December 14, 2020 (2)December 16, 2019 (3)June 2019 (4)November 2005
5. From which date is RTGS available round the clock every day?
(1)December 14, 2020 (2)December 16, 2019 (3)March 2004 (4)January 2020
6. What is the structure of a typical IFSC code?
(1)First 4 characters represent the bank, the fifth digit is zero, and the last 6 digits represent the branch code (2)First 3 characters represent the bank, the next 4 represent the branch, and the last 4 are random (3)The first 2 digits indicate the bank and the remaining 9 represent the branch (4)It is entirely numeric with 11 digits
7. Which of the following is an example of an IFSC code?
(1)SBIN0004384 (2)400641002 (3)RTGS1234567 (4)IMPS007000
8. In the IFSC code "SBIN0004384," what does "SBIN" stand for?
(1)State Bank of India (2)Standard Bank of India (3)South Bank of India (4)Secure Bank of India
9. What is the upper limit for transferring funds via NEFT?
(1)Rs 1,00,000 (2)Rs 5,00,000 (3)No ceiling limit (4)Rs 10,00,000
10. RTGS stands for which of the following?
(1)Real Time Gross Settlement (2)Real Transfer Gross System (3)Rapid Transaction Guarantee Service (4)Real-Time General Settlement
11. What directive did RBI issue regarding charges on RTGS and NEFT transactions from June 2019?
(1)Banks must charge a minimal fee (2)Banks must levy standard fees (3)Banks should not levy any charges (4)Banks may increase fees as needed

12. When was the public launch of IMPS?
(1)November 22, 2010 (2)December 16, 2019 (3)March 2004 (4)November 2005
13. Who launched the IMPS service?
(1)Mr. Nandan Nilekani (2)Smt. Shyamala Gopinath (3)Dr. Ramesh Chandra (4)The RBI Governor
14. Which channels are available to access IMPS?
(1)Only Mobile (2)Mobile, Internet, ATM, and SMS (3)Only Internet and ATM (4)Only SMS and IVRS
15. What is the maximum amount that can be transferred using IMPS?
(1)Rs 1,00,000 (2)Rs 5,00,000 (3)Rs 10,00,000 (4)No maximum limit
16. What is the per-transaction limit for IMPS via SMS and IVRS channels?
(1)₹1,000 (2)₹2,500 (3)₹5,000 (4)₹7,500
17. In the context of IMPS, what does MMID stand for?
(1)Mobile Money Identifier (2)Multi Mode Identification (3)Mobile Merchant ID (4)Money Market Intermediary
18. How many digits does an MMID consist of?
(1)5 (2)6 (3)7 (4)8
19. Which best describes the structure of an MMID?
(1)First three digits identify the bank, last four identify the account (2)First four digits identify the bank, last three identify the account (3)First two digits identify the bank, last five are random (4)All seven digits are assigned randomly
20. What does NUUP stand for?
(1)National Unified USSD Platform (2)National Universal UPI Portal (3)New Unified User Protocol (4)National User Utility Program
21. Under which dialing code is the NUUP service commonly known?
(1)*99# (2)*88# (3)*77# (4)*66#
22. What does MICR stand for?
(1)Magnetic Ink Character Recognition (2)Magnetic Identification Code Reader (3)Multi-Interface Cheque Recognition (4)Money Identification Code Regulation
23. How many digits are there in a standard MICR code?
(1)7 (2)8 (3)9 (4)10
24. In the MICR code “400641002”, what do the first three digits represent?
(1)Bank code (2)Branch code (3)City code (4)Service code
25. As per RBI’s Payments Vision 2025, what is the targeted annualised growth rate for IMPS/NEFT?
(1)10% (2)15% (3)20% (4)25%
26. RBI’s Payments Vision 2025 aims to reduce cheque-based payments to what percentage of total retail payments?
(1)1% (2)0.25% (3)0.5% (4)2%
27. What is the target growth for the registered customer base for mobile-based transactions under RBI’s Payments Vision 2025?
(1)30% CAGR (2)40% CAGR (3)50% CAGR (4)60% CAGR
28. How many half-hourly batches does NEFT process in a day?
(1)24 (2)36 (3)48 (4)60
29. NEFT operates on which schedule?
(1)Weekdays only (2)24x7x365 (3)Business hours only (4)Weekends only
30. RTGS is primarily designed for which type of transactions?
(1)Small-value transactions (2)Large-value transactions (3)Online bill payments (4)Cheque deposits
31. What does “real-time settlement” in RTGS imply?
(1)Transactions are settled at the end of the day (2)Transactions are settled immediately (3)Transactions are delayed by 30 minutes (4)Transactions are batched hourly
32. Which service’s 24x7 operation became effective on December 16, 2019?
(1)RTGS (2)IMPS (3)NEFT (4)NUUP
33. Which service became available round the clock from December 14, 2020?
(1)RTGS (2)NEFT (3)IMPS (4)MICR
34. Which organization’s directive led banks to not levy any charges on RTGS and NEFT transactions?
(1)NPCI (2)RBI (3)SEBI (4)Ministry of Finance
35. To participate in IMPS, banks must hold which type of license?
(1)Software license (2)Valid banking or prepaid payment instrument license (3)Trading license (4)Insurance license
36. What is the minimum amount that can be transferred using IMPS?
(1)Rs 0 (2)Rs 1 (3)Rs 10 (4)Rs 100
37. Which system is most suitable for large-value transactions?
(1)IMPS (2)NEFT (3)RTGS (4)NUUP

38. What does IFSC stand for?
(1)International Financial Security Code (2)Indian Financial System Code (3)Immediate Fund Settlement Code (4)Integrated Fund Service Code
39. How many characters are present in a standard IFSC code?
(1)10 (2)11 (3)12 (4)9
40. Which of the following statements is true about NEFT transaction limits?
(1)There is a fixed ceiling limit (2)There is a fixed floor limit (3)There is no ceiling limit (4)Both ceiling and floor limits apply
41. Which payment system uses a straight-through processing method?
(1)RTGS (2)IMPS (3)NEFT (4)MICR
42. Who suggested the 24x7 availability of RTGS and NEFT to promote digital payments in India?
(1)RBI Governor (2)Nandan Nilekani panel (3)Ministry of Electronics (4)SEBI
43. Which of the following is NOT an access channel for IMPS?
(1)Mobile (2)Internet (3)ATM (4)Cheque
44. Which organization provides the NFS switch used in IMPS?
(1)RBI (2)NPCI (3)SEBI (4)Ministry of Finance
45. NUUP enables transactions without the need for which of the following?
(1)Electricity (2)Mobile internet connection (3)ATM card (4)Bank branch visit
46. On which item is the MICR code printed?
(1)Passbook (2)Cheque (3)ATM receipt (4)Bank statement
47. The primary purpose of printing the MICR code on cheques is to enable what?
(1)Faster cheque processing (2)Enhanced security (3)Cheque tracking (4)Bank account linking
48. RTGS was introduced in which year?
(1)2003 (2)2004 (3)2005 (4)2006
49. What is the IMPS transaction limit per SMS/IVRS channel?
(1)₹2,500 (2)₹5,000 (3)₹7,500 (4)₹1,000

Answers:

1	**2**	**6**	**1**	**11**	**3**	**16**	**3**	**21**	**1**	**26**	**2**	**31**	**2**	**36**	**2**	**41**	**3**	**46**	**2**
2	**1**	**7**	**1**	**12**	**1**	**17**	**1**	**22**	**1**	**27**	**3**	**32**	**3**	**37**	**3**	**42**	**2**	**47**	**1**
3	**2**	**8**	**1**	**13**	**2**	**18**	**3**	**23**	**3**	**28**	**3**	**33**	**1**	**38**	**2**	**43**	**4**	**48**	**2**
4	**2**	**9**	**3**	**14**	**2**	**19**	**2**	**24**	**3**	**29**	**2**	**34**	**2**	**39**	**2**	**44**	**2**	**49**	**2**
5	**1**	**10**	**1**	**15**	**2**	**20**	**1**	**25**	**3**	**30**	**2**	**35**	**2**	**40**	**3**	**45**	**2**		

20. Payment Settlement

Definition:
Payment Settlement refers to the process of transferring funds between parties to complete a financial transaction. It ensures that:
- The payer's account is debited.
- The payee's account is credited.
- The transfer is finalized through systems managed by financial institutions or central banks, ensuring security, accuracy, and reliability.

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1. NEFT (National Electronic Funds Transfer)
Introduction:
- Introduced in 2005 by the RBI.
- Enables one-to-one funds transfers across India.

Key Characteristics:
- Operates on a deferred settlement basis.
- Transactions are processed in half-hourly batches.
- No minimum or maximum transaction limits.
- Available 24x7, 365 days (expanded from previous business hours).
- Suitable for transferring any value.

Features:
- **Charges:** Low transaction fees compared to other modes.

- Widely used for both business and personal transfers.
- Promotes a cashless economy.

Significance:

- Emphasizes cost-effectiveness and accessibility in digital transactions.

---

2. RTGS (Real-Time Gross Settlement)

Introduction:

- Introduced by the RBI in 2004.
- Designed for real-time processing of high-value transactions.

Key Characteristics:

- Processes fund transfers in real time (immediate settlement).
- Minimum transaction limit of ₹2 lakhs.
- No maximum transaction limit.
- Available 24x7, catering to high-value transactions.
- Primarily used by businesses and corporations.

Features:

- **Charges:** Higher fees due to instant settlement.
- Ideal for large-value and urgent transactions.
- Enhances liquidity and reduces systemic risk.

Significance:

- Essential for high-value transfers requiring immediate clearing.

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3. IMPS (Immediate Payment Service)

Introduction:

- Launched by NPCI in 2010.
- Facilitates instant fund transfers.

Key Characteristics:

- Operates 24x7, including holidays.
- Enables instantaneous fund transfers.
- Accessible through mobile banking, internet banking, or ATMs.
- Maximum transaction limit of ₹2 lakhs (for most banks).
- Requires details such as account number, IFSC, or mobile number with MMID.

Features:

- **Charges:** Minimal fees for small-value transactions.
- Widely used for retail payments and by small businesses.
- Supports financial inclusion, particularly in rural areas.

Significance:

- Provides an accessible and immediate payment solution for everyday transactions.

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4. UPI (Unified Payments Interface)

Introduction:

- Developed by NPCI in 2016.
- A revolutionary real-time payment system.

Key Characteristics:

- Facilitates instant money transfers using mobile devices.
- Operates 24x7, including bank holidays.
- Requires only a Virtual Payment Address (VPA), removing the need for bank account details.
- No fixed minimum or maximum transaction limits (limits may vary by bank).
- Ensures high security with two-factor authentication.

Features:

- **Charges:** Zero transaction fees (at present).
- Simplifies digital payments for both individuals and merchants.
- Drives the digital economy and supports initiatives like Digital India.

Significance:

- Instrumental in promoting real-time, secure, and user-friendly digital transactions.

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5. CBDC (Central Bank Digital Currency)

Introduction:

- A digital currency issued by the central bank.

- Currently being piloted by the RBI.

Features:

- Represents legal tender in digital form.
- Offers an alternative to physical cash.
- **Types:**
    - **Retail CBDC:** Accessible to individuals and businesses.
    - **Wholesale CBDC:** Intended for financial institutions.
- Distributed through traditional banking channels.

Benefits:

- Reduces cash handling costs.
- Enhances the efficiency of the monetary system.
- Promotes financial inclusion.

Challenges:

- Requires a robust digital infrastructure.
- Raises concerns over privacy and cybersecurity.

Global Context:

- Several countries are exploring or piloting CBDCs.
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Comparison Table of Payment Systems

The key parameters across the five payment systems:

Parameter	NEFT	RTGS	IMPS	UPI	CBDC
Settlement	Batch	Real-time	Instant	Instant	Instant
Availability	24x7	24x7	24x7	24x7	24x7
Min Transaction	None	₹2 lakhs	None	None	None
Max Transaction	None	None	₹2 lakhs (most banks)	Varies by bank	None
Charges	Low	High	Minimal	Zero	TBD
Use Cases	Regular Transfers	High-Value Transfers	Small Retail Payments	Everyday Payments	Digital Currency Use
()					

Importance in Governance

This section highlights the role of these payment systems in modern governance and economic strategy:

- **Digital Economy:**
    - Promotes cashless transactions.
    - Enhances economic transparency.
- **Financial Inclusion:**
    - Provides affordable, accessible, and secure payment methods.
- **Efficient Governance:**
    - Supports government schemes such as Direct Benefit Transfer (DBT).
- **Global Competitiveness:**
    - Aligns India with global digital payment standards.

1. What does the term Payment Settlement refer to?
   (1)The process of transferring funds between parties to complete a financial transaction. (2)The process of issuing loans and managing credit facilities. (3)The procedure for reconciling bank statements manually. (4)The system for verifying customer identities before transactions.
2. Which payment system operates on a deferred settlement basis and processes transactions in half-hourly batches?
   (1)RTGS (2)IMPS (3)UPI (4)NEFT
3. Introduced by RBI in 2004, which system processes fund transfers in real time and requires a minimum transaction limit of ₹2 lakhs?
   (1)CBDC (2)NEFT (3)RTGS (4)UPI
4. Which system, launched by NPCI in 2010, operates 24x7 (including holidays) and can be accessed through mobile banking, internet banking, or ATMs?

(1)NEFT (2)UPI (3)IMPS (4)RTGS

5. CBDC stands for Central Bank Digital Currency. Which statement accurately describes CBDCs based on the document?
(1)They are physical cash alternatives used in retail stores. (2)They are digital representations of legal tender issued by the central bank as an alternative to physical cash. (3)They operate exclusively on a deferred settlement basis like NEFT. (4)They are designed solely for high-value corporate transactions.
6. According to the comparison table in the document, which payment system imposes a minimum transaction limit of ₹2 lakhs?
(1)UPI (2)NEFT (3)IMPS (4)RTGS
7. What is one of the primary roles of modern payment systems in governance as outlined in the document?
(1)They encourage increased reliance on cash-based transactions. (2)They promote cashless transactions and enhance economic transparency while supporting government schemes like DBT. (3)They focus exclusively on high-value, corporate transfers. (4)They increase the operational complexity of central banks.
8. Which payment system is noted for promoting financial inclusion, particularly by being accessible in rural areas?
(1)CBDC (2)RTGS (3)UPI (4)IMPS
9. Which system typically incurs higher transaction charges due to its instant settlement feature?
(1)RTGS (2)NEFT (3)UPI (4)IMPS
10. What is the primary purpose of introducing a Central Bank Digital Currency (CBDC) as described in the document?
(1)To replace traditional banking systems entirely. (2)To provide a digital alternative to physical cash and reduce cash handling costs. (3)To offer instant high-value transactions exclusively for corporations. (4)To support deferred settlements in international markets.
11. Which system uses a Virtual Payment Address (VPA) as its main identifier for transactions?
(1)NEFT (2)CBDC (3)RTGS (4)UPI
12. Which payment system is known for having minimal charges, especially for small-value transactions?
(1)RTGS (2)IMPS (3)UPI (4)NEFT
13. What key aspect of the NEFT system contributes to promoting a cashless economy, according to the document?
(1)Its capability to process high-value transactions in real time. (2)Its low transaction fees and absence of any minimum or maximum limits. (3)Its requirement for manual batch processing by bank officials. (4)Its exclusive use for international fund transfers.
14. What is one significant benefit of using CBDC?
(1)It completely removes the need for physical banks. (2)It reduces costs associated with cash handling and enhances the efficiency of the monetary system. (3)It is designed only for large-scale international transactions. (4)It automatically adjusts interest rates in real time.
15. Which best describes the transaction processing speed for RTGS?
(1)Settles transactions in half-hourly batches. (2)Processes transactions instantly in real time. (3)Requires manual verification before settlement. (4)Delays settlement until the next business day.
16. Which system supports both individual and business transactions by issuing a digital form of legal tender directly from the central bank?
(1)UPI (2)CBDC (3)IMPS (4)RTGS

Answers:

1	1	**6**	4	**11**	4	**16**	2
2	4	**7**	2	**12**	2	**17**	
3	3	**8**	4	**13**	2	**18**	
4	3	**9**	1	**14**	2	**19**	
5	2	**10**	2	**15**	2	**20**	

21. Prepaid Payment Instruments

Legal Framework and Overview

- **Legal Authority:**
  - In exercise of the powers conferred under **Section 18** read with **Section 10(2) of the Payment and Settlement Systems Act, 2007 (PSS Act)**, the RBI has issued Master Directions with respect to prepaid payment instruments (PPIs).
- **Definition & Purpose of PPIs:**
  - **Prepaid Payment Instruments (PPIs)** are financial instruments that:

- Facilitate the purchase of goods and services.
- Enable the conduct of financial services.
- Provide remittance facilities.
- Operate against a stored value.

Issuance and Holders

- **Issuers:**
    - **Banks:**
        - Banks can issue PPIs after obtaining approval from the RBI.
    - **Non-Banks:**
        - Companies incorporated in India and registered under the Companies Act, 1956/2013.
        - Must receive RBI authorization to operate a payment system for issuing PPIs.
- **PPI Holder:**
    - The holder is the individual who obtains or purchases the PPI from the issuer.
    - In the case of a **gift PPI**, the intended beneficiary (even if not the purchaser) may be considered the holder.

Classification of PPIs Requiring RBI Approval

PPIs that require RBI approval/authorization prior to issuance are broadly classified into two main types:

1. Small PPIs (or Minimum-Detail PPIs)

- **Purpose & Use:**
    - Issued after obtaining only the minimum details of the PPI holder.
    - These instruments are used exclusively for the **purchase of goods and services**.
    - **Funds transfer or cash withdrawal is not permitted.**
- **Sub-Classifications of Small PPIs:**

  a. With Cash Loading Facility (Up to ₹10,000):
    - **Conditions/Constraints:**
        - **Monthly Loading Limit:** Not more than ₹10,000.
        - **Financial Year Loading Limit:** Not more than ₹1,20,000.
        - **Outstanding Balance Limit:** Must not exceed ₹10,000 at any point.
        - **Monthly Debit Limit:** Total debits not to exceed ₹10,000.
        - **Conversion Requirement:** These PPIs shall be converted into full-KYC PPIs within **24 months**.
        - **Reloading:** Permitted via cash or electronic means.
    - **Duration Limit:**
        - A Small PPI (with cash loading) can be held for a **maximum of 24 months** (counted from the day of opening).
        - Within this period, conversion into a full-KYC PPI is mandatory; otherwise, no further credit is allowed (though the existing balance remains usable).

  b. With No Cash Loading Facility (Up to ₹10,000):
    - **Conditions/Constraints:**
        - **Monthly Loading Limit:** Not more than ₹10,000.
        - **Financial Year Loading Limit:** Not more than ₹1,20,000.
        - **Outstanding Balance Limit:** Not more than ₹10,000.
        - **Source of Loading:** Must be from a bank account, credit card, or full-KYC PPI.
        - **Conversion Option:** Existing Small PPIs (with cash loading) as on December 24, 2019 can be converted to this type if desired.
- **Important Q&A (Small PPIs):**
    - **Q:** Can a closed Small PPI (with cash loading facility) be reopened after the maximum time limit of 24 months is exhausted?

      A: Reissuing such PPIs using the same mobile number and the same minimum details is **not allowed**.

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2. Full-KYC PPIs

- **Issuance:**
    - Issued by banks and non-banks after the complete **Know Your Customer (KYC)** process is completed for the PPI holder.
- **Usage:**
    - These PPIs can be used for:
        - Purchase of goods and services.

    - Funds transfer.
    - Cash withdrawal.

- **Limitations:**
  - The outstanding amount on a Full-KYC PPI shall not exceed **₹2,00,000** at any time.
  - There is **no prescribed limit** on the total credits or debits during a month.
- **Cash Withdrawal Limits (Q&A):**
  - **For Bank-Issued PPIs:**
    - Cash withdrawals are allowed at ATMs, PoS devices, BCs, etc.
    - **At PoS devices:** Limited to **₹2,000 per transaction**, with an overall monthly limit of **₹10,000** across all locations (Tier 1 to 6 centres).
  - **For Non-Bank Issued PPIs:**
    - Cash withdrawal is allowed up to **₹2,000 per transaction** within an overall monthly limit of **₹10,000 per PPI** across all channels (agents, ATMs, PoS devices, etc.).

Additional Characteristics of PPIs

- **No Interest:**
  - No interest is payable on PPI balances.
- **Issuance Mode:**
  - PPIs can be issued on a **solo basis** by a PPI issuer or on a **co-branded basis** with another entity.
- **Other Types of PPIs (Apart from Small and Full-KYC PPIs):**

  1. Gift PPIs:
  - **Features:**
    - Maximum value per prepaid gift instrument must not exceed **₹10,000**.
    - These instruments are **not reloadable**.
    - **Cash-out or fund transfer is not permitted;** however, funds may be transferred "back to source account" (the account from which the PPI was loaded) with the consent of the PPI holder.
    - **AFA/2FA:** Additional or two-factor authentication is **not mandatory** for transactions using Gift PPIs.

  2. PPIs for Mass Transit Systems (PPI-MTS):
  - **Features:**
    - Issued by Mass Transit System (MTS) operators.
    - Usage is restricted to merchants whose activities are allied to, related to, or conducted within the premises of the transit system.
    - They are **reloadable**.
    - The maximum outstanding balance at any time cannot exceed **₹3,000**.
    - **Cash-out, refund, or fund transfer is not permitted.**
    - **AFA/2FA:** Not mandatory for transactions using PPI-MTS.

Payments Vision 2025

- **Targets:**
  - **Increase in PPI transactions by 150%.**
  - **Increase in debit card transactions at PoS by 20%.**

Classification of PPIs by RBI Systems

According to RBI, PPIs in India can be issued under three distinct systems:

1. Closed System

- **Characteristics:**
  - Issued by an entity solely for facilitating the purchase of its own goods and services.
  - The PPI becomes invalid if used to purchase from a different provider.
  - **Cash withdrawals are not permitted.**
  - Not intended for third-party payments or settlements.
  - Such instruments are not classified as payment systems requiring RBI approval and are **not regulated/supervised by the RBI.**
- **Examples:**
  - Metro railcards, Amazon vouchers, Ola Money.

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2. Semi-Closed System

- **Characteristics:**

- Can be used in **multiple, but not all, establishments.**
- Issued only by banking institutions approved by the RBI or by non-banking institutions authorized by the RBI.
- **Require prior RBI approval/authorization.**
- Usage is limited to a group of clearly identified merchants (by location or contractual agreement) who have agreed to accept the PPIs as payment.

- **Examples:**
  - Paytm, PhonePe.

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3. Open System

- **Characteristics:**
  - Can only be issued by banking institutions that have been approved by the RBI.
  - PPIs under this system can facilitate purchases, remittances, cash withdrawals, etc.
- **Examples:**
  - Debit cards and credit cards.

Financial Requirements for Non-Bank Entities

- **Net-Worth Requirements:**
  - All non-bank entities seeking RBI authorization under the PSS Act must have a minimum positive net-worth of **₹5 crore** (as per the latest audited balance sheet) at the time of submitting the application.
  - By the end of the **third financial year** from the date of final authorization, they must achieve and maintain a minimum positive net-worth of **₹15 crore**.

1. What are Prepaid Payment Instruments (PPIs) primarily used for?
   (1)To deposit money in banks. (2)To store value for purchasing goods and services and enable various financial transactions. (3)To withdraw cash from ATMs only. (4)To invest in the stock market.
2. Who can issue PPIs?
   (1)Only banks. (2)Only non-bank financial companies. (3)Only RBI-approved financial institutions. (4)Both banks and non-bank entities.
3. What approval is required for banks to issue PPIs?
   (1)Approval from RBI. (2)Approval from SEBI. (3)Approval from the Ministry of Finance. (4)Approval from local authorities.
4. Which types of PPIs require RBI approval before issuance?
   (1)Gift PPIs and PPIs for Mass Transit Systems. (2)Small PPIs and Full-KYC PPIs. (3)Debit and credit cards. (4)Only Full-KYC PPIs.
5. What is the maximum value for a Small PPI (with cash loading facility)?
   (1)₹5,000. (2)₹15,000. (3)₹10,000. (4)₹20,000.
6. Within what period must a Small PPI (with cash loading facility) be converted into a Full-KYC PPI?
   (1)12 months. (2)18 months. (3)36 months. (4)24 months.
7. Can a closed Small PPI (with cash loading facility) be reopened after the 24-month period?
   (1)No, it cannot be reissued using the same mobile number and details. (2)Yes, if a new mobile number is used. (3)Yes, after conversion to Full-KYC PPI. (4)Yes, after a mandatory cooling period.
8. What is the maximum outstanding balance allowed for Full-KYC PPIs at any time?
   (1)₹1,00,000. (2)₹50,000. (3)₹2,00,000. (4)₹10,000.
9. What is the cash withdrawal limit at PoS devices per transaction for bank-issued PPIs?
   (1)₹1,000. (2)₹2,000. (3)₹5,000. (4)₹10,000.
10. For non-bank issued PPIs, what is the overall monthly cash withdrawal limit per PPI?
    (1)₹5,000. (2)₹7,500. (3)₹15,000. (4)₹10,000.
11. Is any interest payable on the balances maintained in PPIs?
    (1)Yes, interest is credited monthly. (2)Yes, but only for full-KYC PPIs. (3)No, interest is not payable on PPI balances. (4)Yes, only on gift PPIs.
12. Can PPIs be issued on a co-branded basis?
    (1)Yes, they can be issued either on a solo basis or co-branded with another entity. (2)No, PPIs must be issued only on a solo basis. (3)Only banks are allowed to issue co-branded PPIs. (4)Only non-bank entities can offer co-branded PPIs.
13. Apart from Small PPIs and Full-KYC PPIs, what other categories of PPIs exist?

(1)Only Gift PPIs. (2)Only PPIs for Mass Transit Systems. (3)Debit and credit cards. (4)Gift PPIs and PPIs for Mass Transit Systems (PPI-MTS).

14. What is the maximum value of each Gift PPI?
(1)₹5,000. (2)₹15,000. (3)₹10,000. (4)₹20,000.
15. Are Gift PPIs reloadable?
(1)Yes, they can be reloaded at any time. (2)Yes, but only by authorized banks. (3)They can be reloaded after a conversion period. (4)No, Gift PPIs are not reloadable.
16. Is cash-out or fund transfer permitted with Gift PPIs?
(1)No, cash-out or fund transfer is not permitted with Gift PPIs. (2)Yes, cash-out is allowed with a fee. (3)Only cash-out is permitted. (4)Only fund transfer is allowed.
17. What is the maximum outstanding limit for PPIs designed for Mass Transit Systems (PPI-MTS)?
(1)₹1,000. (2)₹3,000. (3)₹5,000. (4)₹10,000.
18. Are PPIs for Mass Transit Systems (PPI-MTS) reloadable?
(1)No, they are one-time use only. (2)Only after completing KYC. (3)Only if issued in partnership with a bank. (4)Yes, they are reloadable.
19. Is cash-out or refund permitted for PPI-MTS?
(1)Yes, but with certain restrictions. (2)Yes, if the balance is below the limit. (3)No, cash-out or refund is not permitted. (4)Yes, after a 24-hour waiting period.
20. According to Payments Vision 2025, by what percentage should PPI transactions increase?
(1)150% (2)100% (3)200% (4)50%
21. What is the targeted increase in debit card transactions at PoS as per Payments Vision 2025?
(1)10% (2)15% (3)20% (4)25%
22. Under RBI guidelines, into how many systems can PPIs be categorized in India?
(1)Two. (2)Three. (3)Four. (4)One.
23. Which of the following is NOT one of the three systems under which PPIs are issued?
(1)Hybrid. (2)Closed. (3)Semi-closed. (4)Open.
24. Which PPI system restricts usage solely to the issuing entity's goods and services?
(1)Semi-closed system. (2)Open system. (3)Gift system. (4)Closed system.
25. Which PPI system does not permit cash withdrawals?
(1)Open system. (2)Closed system. (3)Semi-closed system. (4)All systems permit withdrawals.
26. Which of the following is an example of a Closed System PPI?
(1)Debit card. (2)PhonePe wallet. (3)Amazon voucher. (4)Credit card.
27. Which example is typically associated with Semi-Closed System PPIs?
(1)Paytm. (2)Metro railcard. (3)Amazon voucher. (4)Debit card.
28. Which example best represents an Open System PPI?
(1)Metro railcard. (2)Gift card. (3)PhonePe wallet. (4)Debit card.
29. What is the minimum positive net-worth required for non-bank entities at the time of applying for PPI issuance?
(1)Rs.5 crore. (2)Rs.10 crore. (3)Rs.2 crore. (4)Rs.15 crore.
30. By the end of the third financial year from final authorization, what minimum net-worth must non-bank entities achieve?
(1)Rs.5 crore. (2)Rs.10 crore. (3)Rs.12 crore. (4)Rs.15 crore.
31. Which type of PPI requires the completion of the Know Your Customer (KYC) process?
(1)Small PPI. (2)Full-KYC PPI. (3)Gift PPI. (4)PPI-MTS.
32. Which PPI type allows the use of funds for purchasing goods and services as well as for funds transfer or cash withdrawal?
(1)Full-KYC PPI. (2)Small PPI. (3)Gift PPI. (4)PPI-MTS.
33. What is the overall monthly cash withdrawal limit across all locations for bank-issued PPIs?
(1)₹5,000. (2)₹7,500. (3)₹10,000. (4)₹12,000.
34. Which PPI type does not permit cash-out or fund transfer?
(1)Full-KYC PPI. (2)Gift PPI. (3)Small PPI (with cash loading facility). (4)PPI-MTS.
35. In the case of a Gift PPI, who can be considered its holder?
(1)Only the individual who purchases the PPI. (2)Only the designated beneficiary. (3)Only an individual who completes full KYC. (4)Either the purchaser or any intended/targeted beneficiary.
36. Which statement best describes the authentication requirement for transactions using Gift PPIs?
(1)Additional Factor of Authentication (AFA) is not mandatory. (2)Two-factor authentication is strictly required. (3)Biometric authentication must be used. (4)Only password-based authentication is accepted.
37. Who issues PPIs for Mass Transit Systems (PPI-MTS)?
(1)Banks. (2)Non-bank financial institutions. (3)MTS operators. (4)Government transport agencies.
38. Which PPI system is not regulated or supervised by RBI?

(1)Open system. (2)Closed system. (3)Semi-closed system. (4)All systems are under RBI regulation.

39. Which of the following PPIs can be issued without prior RBI approval?
(1)Full-KYC PPIs. (2)Small PPIs. (3)Open system PPIs. (4)Closed system PPIs.
40. For a Small PPI with cash loading facility, what is the maximum amount that can be loaded during any month?
(1)₹10,000. (2)₹5,000. (3)₹15,000. (4)₹20,000.
41. What is the total loading limit during the financial year for a Small PPI with cash loading facility?
(1)₹1,00,000. (2)₹1,50,000. (3)₹1,20,000. (4)₹2,00,000.
42. Which feature distinguishes Full-KYC PPIs from Small PPIs?
(1)They have a lower loading limit. (2)They permit funds transfer and cash withdrawal. (3)They are not issued by banks. (4)They do not require any KYC.
43. Which PPI system is typically used for remittance and cash withdrawal services?
(1)Closed system. (2)Semi-closed system. (3)Gift PPI. (4)Open system.
44. What is a key regulatory requirement for non-bank entities applying to issue PPIs?
(1)They must have a minimum positive net-worth of Rs.5 crore. (2)They must be government-owned. (3)They must offer interest on PPI balances. (4)They must be listed on a stock exchange.
45. What does RBI require regarding merchant contracts for Semi-Closed PPIs?
(1)No contracts are required. (2)Contracts with all merchants nationwide are mandatory. (3)Merchants must be clearly identified by location or through individual specific contracts with the issuer. (4)Only online merchant contracts are accepted.
46. Which PPIs must be converted to Full-KYC PPIs within 24 months?
(1)Gift PPIs. (2)Small PPIs with cash loading facility. (3)PPIs for Mass Transit Systems. (4)Open system PPIs.
47. In the context of PPIs, what does "KYC" stand for?
(1)Keep Your Currency. (2)Key Your Credit. (3)Know Your Compliance. (4)Know Your Customer.
48. Which characteristic is true for an Open System PPI?
(1)It can be used for purchases, remittances, and cash withdrawals. (2)It is limited only to the issuing entity's services. (3)It does not require any KYC verification. (4)It cannot be used for cash transactions.
49. Who can issue PPIs according to RBI guidelines?
(1)Only Closed System PPIs can be issued by banks. (2)Only Full-KYC PPIs are issued by non-banks. (3)Both banks and non-bank entities (after receiving RBI authorization) can issue PPIs. (4)Only non-bank entities are eligible.
50. Who is considered the holder of a PPI?
(1)Only the individual who purchases the PPI. (2)An individual who obtains the PPI—including the intended beneficiary in case of a gift. (3)Only a person who has completed the full KYC process. (4)Only the entity that issues the PPI.

Answers:

1	2	6	4	11	3	16	1	21	3	26	3	31	2	36	1	41	3	46	2
2	4	7	1	12	1	17	2	22	2	27	1	32	1	37	3	42	2	47	4
3	1	8	3	13	4	18	4	23	1	28	4	33	3	38	2	43	4	48	1
4	2	9	2	14	3	19	3	24	4	29	1	34	2	39	4	44	1	49	3
5	3	10	4	15	4	20	1	25	2	30	4	35	4	40	1	45	3	50	2

22. RBI Monetary Policy

1. RBI Monetary Policy Framework

1.1. Amendments and the Flexible Inflation Targeting Framework

- **May 2016 Amendment:**
  – The RBI Act, 1934 was amended to provide a statutory basis for the flexible inflation targeting framework.
  – This amendment formally introduced inflation targeting as a guiding principle for monetary policy.
- **Inflation Target Definition (Section 45ZA):**
  – **Role of the Central Government:**
  • In consultation with the RBI, the Central Government sets the inflation target (expressed in terms of the Consumer Price Index or CPI) once every five years and publishes it in the Official Gazette.
  – **Target Details:**
  • On August 5, 2016, the target was notified as 4% CPI inflation with an upper tolerance of 6% and a lower tolerance of 2% for the period up to March 31, 2021.

• On March 31, 2021, the same target and tolerance band were retained for the next 5-year period (April 1, 2021 to March 31, 2026).

1.2. Failure to Achieve the Inflation Target

- **Criteria for Failure:**
  – The Central Government has defined failure as:
  • (a) When the average inflation exceeds the upper tolerance limit for any three consecutive quarters, or
  • (b) When the average inflation falls below the lower tolerance limit for any three consecutive quarters.
- **Obligations upon Failure (Section 45ZN):**
  – If the inflation target is missed, the RBI must report to the Central Government detailing:
  1. The reasons for not achieving the target.
  2. Proposed remedial actions.
  3. An estimated time period for meeting the target with the proposed measures.

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2. The Monetary Policy Committee (MPC)

2.1. Constitution and Composition

- **Legal Provision:**
  – Established under Section 45ZB of the RBI Act, 1934 (as amended).
- **Members (Six in Total):**
  1. **Governor of the RBI** – Chairperson (ex officio).
  2. **Deputy Governor (Monetary Policy)** – Member (ex officio).
  3. **RBI Officer Nominated by the Central Board** – Member (ex officio).
  4. **External Expert:** Dr. Nagesh Kumar, Director and Chief Executive, Institute for Studies in Industrial Development, New Delhi
  5. **External Expert:** Shri Saugata Bhattacharya, Economist
  6. **External Expert:** Prof. Ram Singh, Director, Delhi School of Economics, University of Delhi
- **Historical Note:**
  – The first MPC was constituted on September 29, 2016.

2.2. Meeting Frequency and Voting Procedures

- **Meeting Frequency:**
  – The MPC is required to meet at least four times a year.
- **Quorum:**
  – A minimum of four members must be present for a valid meeting.
- **Voting:**
  – Each member has one vote. In the event of a tie, the Governor has a casting (second) vote.
- **Decision Accountability:**
  – Every MPC member must issue a statement explaining the rationale behind their vote (in favor of or against a resolution).

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3. Tools of RBI Monetary Policy

The RBI employs a mix of quantitative and qualitative instruments to steer monetary policy. These tools are designed to manage liquidity, control inflation, and maintain financial stability.

3.1. Quantitative Tools

3.1.1. Liquidity Adjustment Facility (LAF)

- **Definition:**
  – Operations by which the RBI injects or absorbs liquidity in the banking system.
- **Components and Features:**
  – Instruments:
  • Overnight as well as term repo and reverse repo operations (both fixed and variable rate).
  • Supplementary instruments: Standing Deposit Facility (SDF) and Marginal Standing Facility (MSF).
  • Other liquidity management measures include outright Open Market Operations (OMOs), forex swaps, and the Market Stabilisation Scheme (MSS).
  – Operational Mechanism:
  • Transactions are carried out through daily auctions at a predetermined time.

3.1.2. Repo Rate

- **Definition:**
  – The interest rate at which the RBI lends funds (provides liquidity) to banks under the LAF against government and other approved securities.

3.1.3. Reverse Repo Rate

- **Definition:**
  – The rate at which the RBI absorbs liquidity from banks (lending funds from banks) under the LAF, using eligible government securities as collateral.

3.1.4. Standing Deposit Facility (SDF) Rate

- **Definition and Role:**
  – The rate at which the RBI accepts uncollateralized deposits overnight from banks.
  – It serves both as a liquidity management tool and a financial stability instrument.
- **Key Features:**
  – Positioned 25 basis points below the policy repo rate.
  – Introduced in April 2022, replacing the fixed reverse repo rate as the floor of the LAF corridor.
  – Can be invoked by banks at any time (unlike repo/reverse repo operations which require RBI initiation).

3.1.5. Marginal Standing Facility (MSF) Rate

- **Definition:**
  – The penal rate at which banks can borrow funds overnight by pledging their Statutory Liquidity Ratio (SLR) securities.
- **Key Feature:**
  – Set at 25 basis points above the policy repo rate to act as a safety valve against liquidity shocks.

3.1.6. Cash Reserve Ratio (CRR)

- **Definition:**
  – The minimum percentage of a bank's Net Demand and Time Liabilities (NDTL) that must be maintained with the RBI as a daily average.
- **Compliance:**
  – The specific CRR is notified periodically by the RBI in the Official Gazette.

3.1.7. Statutory Liquidity Ratio (SLR)

- **Definition:**
  – The percentage of a bank's total liabilities that must be maintained in the form of liquid assets (typically unencumbered government securities, cash, and gold).
- **Purpose:**
  – To ensure that banks have enough liquid assets to meet their obligations.

3.1.8. Bank Rate

- **Definition:**
  – The rate at which the RBI is prepared to purchase or rediscount bills of exchange or other commercial papers.
- **Usage:**
  – Acts as a penal rate for banks failing to meet their CRR and SLR requirements.
- **Penalty Mechanism:**
  – The penalty is usually set as Bank Rate plus an additional 3% on the first day of non-compliance.

3.1.9. Open Market Operations (OMOs)

- **Definition:**
  – The outright purchase or sale of government securities by the RBI to regulate liquidity in the banking system.
- **Purpose:**
  – To inject or withdraw durable liquidity from the financial system.

3.2. Qualitative Tools

3.2.1. Margin Requirement

- **Definition:**
  – The difference between the current market value of collateral and the value of the loan granted.
- **Usage:**
  – Adjusted by the RBI to manage credit conditions during periods of inflation or deflation.

3.2.2. Regulation of Consumer Credit

- **Definition:**
  – Measures to control personal debt for the purchase of goods and services.
- **Purpose:**
  – To influence spending patterns during different phases of the economic cycle (inflation or deflation).

3.2.3. Rationing of Credit / Selective Credit Control

- **Definition:**
  – The imposition of ceilings on loans and advances in specific sectors or for certain categories.
- **Implementation:**
  – RBI may specify limits on credit exposure for commercial banks.

3.2.4. Moral Suasion

- **Definition:**
  – An informal method where the RBI persuades banks through verbal or media communication to adhere to policy guidelines.
- **Examples:**
  – Direct meetings, conferences, speeches, or media statements urging banks to refrain from certain lending practices.

3.2.5. Direct Action

- **Definition:**
  – Regulatory measures that the RBI may enforce if banks fail to follow prescribed guidelines.
- **Example:**
  – Prompt Corrective Action (PCA) taken against banks not maintaining adequate standards.

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4. Additional RBI Act and Currency-Related Exam Content

This section—primarily drawn from the third document—is aimed at exam candidates and covers broader aspects of the RBI Act, historical facts on currency, and important regulatory provisions.

4.1. Structure and Key Provisions of the RBI Act, 1934

- **Overall Structure:**
  – The Act is divided into 61 sections and four schedules.
- **Important Sections:**
  - **Section 3:** Establishment and incorporation of the RBI.
  - **Section 4:** Capital requirements of the RBI.
  - **Section 6:** Establishment of offices, branches, and agencies.
  - **Section 7:** Provision for the Central Government to issue directions in matters of public interest (after consulting the RBI Governor).
  - **Section 17:** Specifies the range of business the RBI may transact.
  - **Section 18:** Outlines emergency provisions for regulating credit in support of trade, commerce, industry, and agriculture.
  - **Section 21:** Entrusts the RBI with managing public debt and providing loans to the Central Government.
  - **Section 22:** Confers the right to issue bank notes.
  - **Section 24:** Specifies denominations of bank notes (including provisions for various values up to a prescribed limit).
  - **Section 25:** Provides that the design and material of bank notes shall be approved by the Central Government, based on RBI recommendations.
  - **Section 26:**
    • (1) Defines legal tender of bank notes.
    • (2) Provides for the withdrawal of legal tender.
  - **Section 28:** Recovery of bank notes that are lost, stolen, mutilated, or imperfect.
  - **Section 31:** Empowers the RBI and the Central Government to issue demand bills and promissory notes.
  - **Section 42:** Details the requirement for scheduled banks to maintain cash reserves (CRR) with the RBI.
  - **Section 45:** Grants the RBI powers to collect credit information, set monetary policy, issue directions, constitute the MPC, and target inflation.
  - **Section 46:** Pertains to the reserve funds that the Central Government must maintain with the RBI.
  - **Section 58:** Empowers the RBI Board to make regulations.
  - **Section 45ZB & 45ZN:** (Discussed earlier) – Cover MPC formation and actions when inflation targets are missed.

4.2. Currency, Coinage, and Historical Facts

- **Currency Note Denominations & History:**
  - The highest denomination note ever printed was the ₹10,000 note in 1938.
    • It was demonetized in January 1946, reintroduced in 1954, and again demonetized in 1978.
  - Denominations such as ₹500, ₹1,000, and ₹10,000 have undergone demonetization as part of policy reforms.
  - The Mahatma Gandhi Series notes of ₹500 and ₹1,000 were withdrawn from circulation as of November 8, 2016.
- **Coinage:**
  – The Government of India has the sole right to mint coins under the Coinage Act, 1906.

– Banknotes typically display Hindi (centrally) and English (on the reverse), along with multiple other languages on the panel.

4.3. Exam-Focused Content and Sample Questions

- **Key Exam Topics Include:**
  - **RBI Nationalisation:**
    • Candidates may be asked on the nationalisation date of the RBI.
  - **Digital Banking Units (DBUs):**
    • New guidelines require a specific percentage of banking outlets opened in a financial year to be located in unbanked rural centers (Tier 5 and Tier 6). Options in sample questions include 10%, 20%, 25%, or 30%.
  - **Banking Regulation Act, 1949:**
    • Overview of its evolution, its application (including in Jammu and Kashmir), and recent amendments that brought more cooperative banks under RBI supervision.
  - **MPC Functioning & Reporting:**
    • Detailed aspects of the MPC's constitution, meeting frequency, voting procedures, and the publication of the Monetary Policy Report every six months.
  - **Other Important RBI Act Provisions:**
    • Sections relating to the RBI's right to issue bank notes, recovery of imperfect notes, foreign exchange transactions, and cash reserve requirements.

1. In which month and year was the RBI Act amended to provide a statutory basis for the flexible inflation targeting framework?
   (1)May 2016 (2)March 2014 (3)January 2015 (4)July 2017
2. Who is primarily responsible for implementing RBI's monetary policy in consultation with the Central Government?
   (1)The RBI Governor alone (2)The Finance Ministry (3)The Monetary Policy Committee (MPC) (4)The Central Board of Directors of RBI
3. What are the tolerance limits for the inflation target notified in August 2016?
   (1)1% lower and 5% upper (2)2% lower and 6% upper (3)3% lower and 7% upper (4)2.5% lower and 6.5% upper
4. Which section of the RBI Act provides for the constitution of the Monetary Policy Committee (MPC)?
   (1)Section 45ZA (2)Section 45ZN (3)Section 42 (4)Section 45ZB
5. How many members constitute the Monetary Policy Committee (MPC)?
   (1)7 (2)6 (3)5 (4)4
6. Who serves as the Chairperson of the MPC?
   (1)Deputy Governor of RBI (2)A nominated RBI officer (3)Governor of RBI (4)An academic expert
7. Which of the following is NOT a quantitative monetary policy tool?
   (1)Liquidity Adjustment Facility (LAF) (2)Repo Rate (3)Moral Suasion (4)Open Market Operations (OMOs)
8. The Liquidity Adjustment Facility (LAF) is primarily used to:
   (1)Inject or absorb liquidity into/from the banking system (2)Set the statutory liquidity ratio (3)Regulate foreign exchange transactions (4)Determine government fiscal policy
9. The Repo Rate refers to the rate at which:
   (1)Banks deposit funds with the RBI (2)The RBI earns on its investments (3)Banks pay on their savings accounts (4)The RBI provides liquidity to banks under LAF
10. The Reverse Repo Rate is defined as the rate at which the RBI:
    (1)Provides liquidity to banks (2)Absorbs liquidity from banks (3)Offers long-term loans (4)Conducts open market operations
11. By how many basis points is the Standing Deposit Facility (SDF) rate set below the policy repo rate?
    (1)50 basis points (2)10 basis points (3)15 basis points (4)25 basis points
12. In which month and year was the Standing Deposit Facility (SDF) introduced?
    (1)January 2020 (2)July 2021 (3)April 2022 (4)March 2021
13. The Marginal Standing Facility (MSF) rate is positioned at how many basis points above the policy repo rate?
    (1)25 basis points (2)15 basis points (3)50 basis points (4)10 basis points
14. What is the primary purpose of the Cash Reserve Ratio (CRR)?
    (1)To determine lending rates (2)To ensure banks maintain a minimum balance with the RBI (3)To control inflation directly (4)To manage government borrowing
15. The Statutory Liquidity Ratio (SLR) requires banks to maintain a minimum percentage of their net demand and time liabilities in:

(1)Specified assets such as unencumbered government securities, cash, and gold (2)Cash only (3)Gold only (4)Foreign currencies

16. The Bank Rate signifies the rate at which the RBI is prepared to:
(1)Accept deposits from banks (2)Provide emergency funding (3)Set deposit rates (4)Buy or rediscount bills of exchange
17. How is the penalty on banks determined under the Bank Rate?
(1)Bank Rate + 2% on the first day (2)Bank Rate – 3% (3)Bank Rate + 3% on the first day (4)Bank Rate + 5%
18. Open Market Operations (OMOs) primarily involve:
(1)Regulating bank branch networks (2)Outright purchase/sale of government securities for liquidity management (3)Adjusting the statutory liquidity ratio (4)Issuing new currency notes
19. Which of the following is considered a qualitative tool in RBI's monetary policy?
(1)Repo Rate adjustments (2)Cash Reserve Ratio changes (3)Statutory Liquidity Ratio modifications (4)Margin requirement adjustments
20. In the context of monetary policy, what does the term "margin" refer to?
(1)The difference between the current value of the collateral and the value of the loan granted (2)The difference between deposit and lending rates (3)The profit margin of banks (4)The spread between borrowing and lending rates
21. During periods of inflation, the RBI may increase which of the following to stabilize the economy?
(1)CRR (2)Bank Rate (3)Margin requirement (4)SLR
22. 'Moral suasion' by the RBI is best described as:
(1)Enforcing strict legal measures (2)Persuading banks through informal or psychological means (3)Imposing higher reserve requirements (4)Directly controlling bank lending
23. Which RBI monetary policy tool allows the absorption of liquidity without requiring any collateral?
(1)Reverse Repo (2)Repo Rate (3)Marginal Standing Facility (MSF) (4)Standing Deposit Facility (SDF)
24. When banks face a liquidity shortfall, they typically raise funds by entering into:
(1)Repo agreements (2)Open market operations (3)Direct borrowing from the government (4)Issuing long-term bonds
25. In the event of a tie in the MPC voting, who holds the casting vote?
(1)The Deputy Governor (2)The nominated RBI officer (3)The Governor of RBI (4)A consensus vote among members
26. How often is the Monetary Policy Committee (MPC) required to meet?
(1)Once a year (2)At least four times a year (3)Twice a year (4)Monthly
27. Under which section of the RBI Act must the bank report the reasons, remedial actions, and estimated time period if the inflation target is not met?
(1)Section 45ZN (2)Section 45ZB (3)Section 45ZA (4)Section 42
28. The RBI's report on failure to meet the inflation target should include all EXCEPT:
(1)An estimate of the time-period to achieve the target (2)Reasons for the failure (3)Only the remedial actions proposed (4)Both remedial actions and reasons for failure
29. Which committee's recommendations led to the introduction of the Liquidity Adjustment Facility (LAF) in 1998?
(1)Urjit Patel Committee (2)Narasimham Committee (3)Nirmala Sitaraman Committee (4)RBI Monetary Policy Committee
30. Which of the following is NOT an instrument used under the Liquidity Adjustment Facility (LAF)?
(1)Repo/Reverse Repo (2)Standing Deposit Facility (SDF) (3)Credit Default Swap (4)Marginal Standing Facility (MSF)
31. Which one of the following is an ex officio member of the MPC?
(1)Deputy Governor of RBI in charge of Monetary Policy (2)Professor Ashima Goyal (3)Dr. Shashanka Bhide (4)Professor Jayanth R. Varma
32. The primary objective of monetary policy is to control:
(1)Fiscal deficit (2)Unemployment (3)Exchange rates (4)Inflation
33. The flexible inflation targeting framework was introduced primarily to:
(1)Increase government revenue (2)Achieve price stability (3)Expand the banking network (4)Enhance tax collection
34. Open Market Operations (OMOs) are best described as:
(1)Measures to set lending limits (2)Adjustments to reserve requirements (3)Buying or selling government securities to manage liquidity (4)Directives to commercial banks on credit allocation
35. The Statutory Liquidity Ratio (SLR) mandates that banks hold a minimum percentage of their liabilities in:
(1)Government bonds only (2)A mix of specified assets (e.g., government securities, cash, gold) (3)Physical cash exclusively (4)Foreign currencies
36. Which document officially notifies the inflation target set by the government?

(1)Official Gazette (2)RBI Annual Report (3)Monetary Policy Report (4)Budget Document

37. When was the first Monetary Policy Committee (MPC) constituted?
(1)October 3, 2016 (2)March 31, 2021 (3)August 5, 2016 (4)September 29, 2016

38. Within the Liquidity Adjustment Facility (LAF) corridor, which instrument acts as the ceiling?
(1)Repo Rate (2)Standing Deposit Facility (SDF) (3)Marginal Standing Facility (MSF) (4)Reverse Repo Rate

39. What is the primary function of the RBI's repo auctions?
(1)To determine the bank's profitability (2)To conduct liquidity transactions at a predetermined time (3)To regulate the statutory liquidity ratio (4)To set government fiscal policies

40. Which section of the RBI Act empowers the Central Government to determine the inflation target?
(1)Section 45ZA (2)Section 45ZN (3)Section 45ZB (4)Section 42

41. Under what circumstance must the RBI submit a report on failure to maintain the inflation target?
(1)When inflation rises by 1% above the target (2)At the end of every fiscal year (3)Only upon a specific government request (4)When the average inflation exceeds or falls below the tolerance limits for three consecutive quarters

42. The operating framework of the monetary policy primarily aims to align which of the following?
(1)The fiscal deficit with economic growth (2)The weighted average call rate with the policy repo rate (3)The exchange rate with inflation (4)The statutory liquidity ratio with the cash reserve ratio

43. In the event that banks do not comply with RBI guidelines, which measure may the RBI resort to?
(1)Increasing the inflation target (2)Reducing the number of MPC meetings (3)Direct action against the non-complying banks (4)Lowering the repo rate

44. Which of the following is an example of a qualitative tool used by the RBI?
(1)Rationing of Credit (2)Adjustments to the Repo Rate (3)Changes in the Cash Reserve Ratio (4)Modifications to the Statutory Liquidity Ratio

45. The primary objective of selective credit control is to:
(1)Increase overall credit availability (2)Limit the maximum amount of loans for specific categories (3)Boost bank profits (4)Enhance foreign investment

46. Which instrument acts as a safety valve against unexpected liquidity shocks in the banking system?
(1)Open Market Operations (OMOs) (2)Cash Reserve Ratio (CRR) (3)Marginal Standing Facility (MSF) (4)Statutory Liquidity Ratio (SLR)

47. Which section of the RBI Act deals with the power to regulate credit and issue directions to financial institutions?
(1)Section 42 (2)Section 26 (3)Section 3 (4)Section 45

48. How frequently is the RBI required to publish the Monetary Policy Report?
(1)Once every six months (2)Quarterly (3)Annually (4)Monthly

49. Which instrument replaced the fixed reverse repo rate as the floor of the LAF corridor?
(1)Repo Rate (2)Standing Deposit Facility (SDF) (3)Marginal Standing Facility (MSF) (4)Cash Reserve Ratio (CRR)

Answers:

1	1	**6**	3	**11**	**4**	**16**	**4**	**21**	**3**	**26**	**2**	**31**	**1**	**36**	**1**	**41**	**4**	**46**	**3**
2	3	**7**	3	**12**	**3**	**17**	**3**	**22**	**2**	**27**	**1**	**32**	**4**	**37**	**4**	**42**	**2**	**47**	**4**
3	2	**8**	1	**13**	**1**	**18**	**2**	**23**	**4**	**28**	**4**	**33**	**2**	**38**	**3**	**43**	**3**	**48**	**1**
4	4	**9**	4	**14**	**2**	**19**	**4**	**24**	**1**	**29**	**2**	**34**	**3**	**39**	**2**	**44**	**1**	**49**	**2**
5	2	**10**	2	**15**	**1**	**20**	**1**	**25**	**3**	**30**	**3**	**35**	**2**	**40**	**1**	**45**	**2**	**50**	

23. BPLR, Base Rate, MCLR, EBLR

1. Overview: Internal Benchmark Lending Rate (IBLR)

- **Definition:**
  - Lenders maintain an internal benchmark rate—known as the Internal Benchmark Lending Rate (IBLR)—to determine the interest rates for all loans.
- **Linkage:**
  - Every loan's interest rate is linked to this internal rate.
- **Types of IBLR:**
  1. **BPLR** (Benchmark Prime Lending Rate)
  2. **Base Rate**
  3. **MCLR** (Marginal Cost of Fund based Lending Rate)

2. BPLR (Benchmark Prime Lending Rate)

- **Introduction & Purpose:**
  - Introduced by the Reserve Bank in **2003**.
  - It served as the benchmark rate for determining interest rates on advances/loans sanctioned **up to June 30, 2010**.
- **Key Characteristics:**
  - **Target Borrowers:**
    - BPLR is the rate charged by commercial banks to their **most creditworthy customers**.
  - **Creditworthiness Defined:**
    - A borrower is considered creditworthy if they are able and responsible enough to repay their debts in a timely manner.
    - A good credit score often leads to favorable (i.e., lower) interest rates, whereas a riskier profile may result in higher fees, lower loan limits, or even loan denial.
- **Practical Observation:**
  - In March 2007, about **77%** of banks' loan portfolios were at sub-BPLR rates.
- **Critical Issue:**
  - **Lack of Transparency:**
    - Banks could lend below the BPLR to privileged customers, which led to opacity in pricing.

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3. Base Rate System

- **Transition from BPLR:**
  - On **July 1, 2010**, the Reserve Bank of India introduced the Base Rate system to replace the BPLR system.
- **Definition and Objectives:**
  - **Minimum Rate:**
    - The Base Rate is defined as the **minimum interest rate** set by the RBI, below which banks are not permitted to lend (unless a government mandate applies).
  - **Goals:**
    - Increase **transparency** in lending.
    - Ensure that any benefit from lower interest rates is passed on to borrowers.
- **Operational Details:**
  - Banks are required to **review the Base Rate at least once per quarter**.
  - Loans are priced by adding a **spread** (which includes a credit risk premium) to the Base Rate.
  - Each bank is free to set its own Base Rate provided it follows RBI guidelines and norms.
- **Determinants of the Base Rate:**
  1. **Cost of Funds:**
     - Interest rate paid by the bank on deposits.
  2. **Operating Costs:**
     - Expenses incurred in running the bank.
  3. **Profit Motive (Minimum Rate of Returns):**
     - The minimum return a bank expects to earn.
  4. **Cost of the Cash Reserve Ratio (Negative Carry):**
     - The cost due to holding a required amount of cash without earning interest.

Additional Points:
  - The Base Rate is linked to the cost of raising funds, unallocated cost of resources, and return on net worth.
  - Even if the RBI changes the Repo Rate, the adjustment in lending rates is not automatically transferred to borrowers.
  - **Bank Argument:**
    - Banks contend that since they also raise funds from sources other than the RBI and because deposit interest rates do not drop proportionately, their overall cost does not decrease as much as the Repo Rate.
  - Despite the introduction of the Base Rate, challenges such as **ineffective monetary policy transmission** and **lack of transparency** continued.

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4. MCLR (Marginal Cost of Fund based Lending Rate)

- **Definition & Purpose:**
  - MCLR is the internal benchmark rate that banks use to determine the interest rate on **floating rate loans**.

  - Effective from **April 1, 2016**, all banks in India are required to price loans using MCLR.
- **Basic Formula:**
  - **Interest Rate = MCLR + Spread**
- **Components in MCLR Calculation:**
  1. **Tenure Premium:**
     - Reflects the increased risk (and thus cost) associated with longer loan tenures.
     - Banks charge a premium to cover the risk that increases as the loan period lengthens.
  2. **Negative Carry on CRR:**
     - When the return on the Cash Reserve Ratio (CRR) balance is zero, there is a negative carry because banks cannot earn income on this cash.
  3. **Marginal Cost of Funds:**
     - This is the average rate at which funds (from deposits of comparable maturities) were raised before the review date.
  4. **Operating Costs:**
     - All general operational expenses incurred by the bank.

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5. External Benchmark Lending Rate (EBLR)

- **Background & Implementation:**
  - EBLR was introduced based on recommendations from the **Janak Raj Committee**, which was set up to review the MCLR implementation.
  - With effect from **October 01, 2019**, the RBI mandated that all new floating rate personal/retail loans (e.g., housing, auto) and floating rate loans to Micro and Small Enterprises be linked to an external benchmark.
- **Definition:**
  - **External Benchmark:**
     - This is an interest rate anchor determined by an **independent entity** outside the bank.
- **Applicable Benchmarks:**
  - The new floating rate loans must be benchmarked against one of the following:
     - **RBI Policy Repo Rate**
     - **Government of India 3-Month Treasury Bill yield** (as published by the Financial Benchmarks India Private Ltd – FBIL)
     - **Government of India 6-Month Treasury Bill yield** (as published by the FBIL)
     - **Any other benchmark market interest rate** published by the FBIL
- **Operational Feature:**
  - The interest rate under EBLR is **reset at least once every three months** to ensure optimal monetary policy transmission.
  - An example is provided where the Base Rate is expressed as:
     - *Base rate = Repo Rate + (Profit motive + operational expenses + other bank-incurred expenses)*
- **Scope and Limitations:**
  - **Applicability:**
     - All Scheduled Commercial Banks (excluding Regional Rural Banks),
     - All Small Finance Banks, and
     - All Local Area Banks.
  - **Disadvantage:**
     - The external benchmarks tend to be **highly volatile**, leading to frequent changes in the lending rates offered to consumers.

1. What does BPLR stand for?
   (1)Benchmark Prime Lending Rate (2)Basic Prime Lending Rate (3)Bank Prime Lending Rate (4)Basic Percentage Lending Rate
2. In which year was BPLR introduced?
   (1)2000 (2)2005 (3)2003 (4)2010
3. Up to which date was the BPLR system used for determining loan rates?
   (1)December 31, 2010 (2)July 1, 2010 (3)June 30, 2010 (4)January 1, 2011
4. Which of the following is a major drawback of the BPLR system?
   (1)Excessive transparency (2)High complexity (3)Fixed interest rates (4)Lack of transparency
5. The Base Rate system was introduced to replace the BPLR system on which date?

(1)January 1, 2011 (2)April 1, 2016 (3)July 1, 2010 (4)October 1, 2019

6. Which regulatory authority set the Base Rate?
(1)Ministry of Finance (2)Securities and Exchange Board of India (3)Insurance Regulatory and Development Authority (4)Reserve Bank of India

7. What is the main objective of introducing the Base Rate system?
(1)Increase bank profits (2)Increase transparency and ensure benefits are passed to borrowers (3)Standardize credit scoring (4)Reduce operating costs

8. Which of the following is NOT one of the four determinants of the Base Rate?
(1)Inflation rate (2)Cost of funds (3)Operating costs (4)Profit motive

9. The Base Rate is linked to which of the following factors?
(1)Cost of funds alone (2)Only operating expenses (3)Only deposit rates (4)Unallocated cost of resources and return on net worth

10. How often are banks required to review their Base Rate?
(1)Annually (2)Monthly (3)At least once per quarter (4)Biannually

11. MCLR stands for:
(1)Market Cost Lending Rate (2)Marginal Cost of Fund based Lending Rate (3)Maximum Cost Lending Rate (4)Modified Cost Lending Rate

12. Since which date have all banks in India been required to price their loans using the MCLR system?
(1)January 1, 2015 (2)July 1, 2010 (3)October 1, 2019 (4)April 1, 2016

13. Which component is NOT considered in the calculation of MCLR?
(1)Government policy rate (2)Tenure premium (3)Negative carry on CRR (4)Operating costs

14. What is the primary purpose of adding a spread to MCLR?
(1)To determine deposit interest rates (2)To calculate the CRR (3)To adjust for the bank's profit and customer-specific risks (4)To compute operational expenses

15. Which component of MCLR accounts for the risk associated with the length of the loan?
(1)Negative carry on CRR (2)Operating costs (3)Marginal cost of funds (4)Tenure premium

16. In the context of MCLR, “Negative carry on CRR” refers to:
(1)A cost incurred because banks earn no interest on CRR balances (2)A bonus given by the RBI (3)The interest earned on CRR (4)A reduction in deposit rates

17. What does “Marginal cost of funds” in MCLR calculation represent?
(1)The maximum interest rate on deposits (2)The average rate at which funds were raised (3)The cost of borrowing from the government (4)The return on net worth

18. In MCLR, what do “Operating costs” refer to?
(1)Marketing expenses (2)Costs of funds (3)Costs incurred to maintain bank operations (4)Administrative fees

19. What does EBLR stand for?
(1)External Benchmark Lending Rate (2)Enhanced Bank Lending Rate (3)Extended Base Lending Rate (4)External Base Loan Rate

20. When was the EBLR implemented?
(1)April 1, 2016 (2)October 1, 2019 (3)July 1, 2010 (4)January 1, 2020

21. The EBLR system was introduced on the recommendations of which committee?
(1)Narasimham Committee (2)Mudaliar Committee (3)Raghuram Rajan Committee (4)Janak Raj Committee

22. Under EBLR, banks are required to link loans to an interest rate anchor set by:
(1)The bank’s internal rate (2)The RBI only (3)An independent entity outside the bank (4)The Ministry of Finance

23. Which of the following is a benchmark used under the EBLR system?
(1)LIBOR (2)Prime Rate (3)Discount Rate (4)RBI Policy Repo Rate

24. Under the EBLR system, how frequently is the interest rate reset?
(1)At least once every three months (2)Annually (3)Monthly (4)Every five years

25. EBLR is applicable to which type of loans?
(1)Only home loans (2)All new floating rate personal/retail loans and MSME loans (3)Only commercial loans (4)Only long-term loans

26. What is one disadvantage of the EBLR system mentioned in the document?
(1)Limited applicability (2)Lack of risk pricing (3)High volatility of external benchmarks (4)Excessive transparency

27. In the BPLR system, what determines if a borrower is charged a lower interest rate?
(1)The borrower’s creditworthiness (2)The borrower’s age (3)The loan amount (4)The borrower’s geographic location

28. What does “creditworthiness” mean?

(1)Ability to secure high loan amounts (2)Speed of loan processing (3)Approval based solely on collateral (4)Ability and responsibility to repay debts on time

29. Which system was designed to ensure that the benefits of lower interest rates are passed on to borrowers?
(1)BPLR (2)Base Rate (3)MCLR (4)EBLR

30. Banks can set their Base Rate provided they adhere to guidelines from which authority?
(1)Ministry of Finance (2)International Monetary Fund (3)Reserve Bank of India (4)Securities and Exchange Board of India

31. What does the "spread" in loan pricing represent?
(1)A processing fee (2)A tax imposed by the government (3)A reduction in deposit rates (4)An additional margin covering credit risk and bank-specific costs

32. In the Base Rate system, which rule ensures banks do not lend below a certain rate?
(1)Market competition rule (2)RBI rule (3)Customer protection rule (4)Credit scoring rule

33. Which statement is true regarding the transition from BPLR to Base Rate?
(1)Base Rate was introduced to address transparency issues inherent in the BPLR system (2)BPLR was more efficient than Base Rate (3)Both systems are identical (4)Base Rate increased the opacity of loan pricing

34. In determining the Base Rate, "cost of funds" refers to:
(1)The cost of government borrowing (2)The cost of international funds (3)The bank's operational expenses (4)The interest rate paid by banks on deposits

35. Which factor in the MCLR calculation reflects the risk due to longer loan tenure?
(1)Operating costs (2)Tenure premium (3)Negative carry on CRR (4)Marginal cost of funds

36. In the context of BPLR, what does "sub-BPLR" indicate?
(1)Loans priced at exactly the BPLR (2)Loans priced above the BPLR (3)Loans priced below the BPLR (4)Loans not linked to the BPLR

37. What is the significance of the Janak Raj Committee in the context of lending rate systems?
(1)It recommended the introduction of the Base Rate system (2)It set guidelines for MCLR calculation (3)It recommended linking new loans to external benchmarks (EBLR) (4)It revised the criteria for creditworthiness

38. Why did banks argue that monetary policy transmission remained ineffective under the Base Rate system?
(1)Because of reduced competition (2)Due to high operating costs only (3)Because deposit interest rates did not decrease proportionately to repo rate cuts (4)Because of rapid reviews

39. According to RBI guidelines, who approves the fixing of BPLR?
(1)The RBI directly (2)The bank's Board (3)The Ministry of Finance (4)The customer

40. Which statement best describes the Base Rate system?
(1)It is fixed for all banks (2)It is determined solely by the government (3)It eliminates the need for any spread (4)It is determined independently by each bank in adherence to RBI norms

41. What is the primary function of the "spread" added to either the Base Rate or MCLR?
(1)To cover additional margins for credit risk and bank-specific costs (2)To lower the overall interest rate (3)To reduce the loan tenure (4)To comply with international standards

42. Which system directly links new floating rate loans for personal or retail sectors to an external benchmark?
(1)BPLR (2)Base Rate (3)EBLR (4)MCLR

43. High volatility in external benchmarks under the EBLR system leads to:
(1)Consistent interest rates (2)Lower loan processing fees (3)Stable lending practices (4)Frequent changes in lending rates

44. Which component is common to both Base Rate determination and MCLR calculation?
(1)Tenure premium (2)Operating costs (3)Negative carry on CRR (4)Marginal cost of funds

45. Which of the following is NOT a source of external benchmarks used in the EBLR system?
(1)RBI Policy Repo Rate (2)Government of India 3-Month Treasury Bill yield (3)LIBOR (4)Government of India 6-Month Treasury Bill yield

46. What role does the Cash Reserve Ratio (CRR) play in MCLR calculation?
(1)Its zero return creates a negative carry (2)It sets the deposit rates (3)It determines the loan duration (4)It increases operating costs

47. Why might banks charge higher interest rates to less creditworthy borrowers?
(1)To increase profits (2)To compensate for the increased risk of default (3)Due to lower operating costs (4)Because of government mandates

48. In the Base Rate system, the "spread" is used to account for:
(1)Loan processing time (2)Market volatility exclusively (3)Reduction in deposit rates (4)Credit risk premium and additional customer-specific charges

49. Which statement accurately compares the BPLR and Base Rate systems?
(1)Base Rate was introduced to improve transparency compared to BPLR (2)BPLR was more efficient than Base Rate (3)Both systems are identical (4)Base Rate is used only for personal loans

Answers:

1	1	6	4	11	2	16	1	21	4	26	3	31	4	36	3	41	1	46	1
2	3	7	2	12	4	17	2	22	3	27	1	32	2	37	3	42	3	47	2
3	3	8	1	13	1	18	3	23	4	28	4	33	1	38	3	43	4	48	4
4	4	9	4	14	3	19	1	24	1	29	2	34	4	39	2	44	2	49	1
5	3	10	3	15	4	20	2	25	2	30	3	35	2	40	4	45	3	50	

24. Priority Sector Lending

Definition of Priority Sector Lending

"Priority Sector means those sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors."

Historical Background and Evolution

- **1966:**
  - The concept originated when Morarji Desai recognized the need to boost credit to agriculture and small industries.
- **July 1968:**
  - At a National Credit Council meeting, it was stressed that commercial banks should enhance financing for agriculture and small-scale industries.
- **1971:**
  - Establishment of the Credit Guarantee Corporation of India.
- **1972:**
  - Formal definition of priority sector lending was established based on an RBI report presented at the National Credit Council.
- **November 1974:**
  - Banks were advised to raise the share of advances to priority sectors to **33 1/3%** by March 1979.
- **1985:**
  - On the recommendation of the Dr. K S Krishnaswamy committee, banks were directed to increase priority sector lending to **40%**.

Regulatory Framework

- **RBI's Directional Powers:**
  In the public interest, the RBI issues directions to banks under the provisions of the Banking Regulation Act, 1949:
  - **Section 21:**
    - Grants the RBI the power to control advances made by banking companies.
  - **Section 35A:**
    - Empowers the RBI to direct banks and take action to prevent any banking company's affairs from being conducted in a manner detrimental to depositors or prejudicial to the bank's interests.

Categories of Priority Sector Lending

The documents list the following eight major categories:

1. **Agriculture**
2. **Micro, Small and Medium Enterprises (MSMEs)**
3. **Export Credit**
4. **Education**
5. **Housing**
6. **Social Infrastructure**
7. **Renewable Energy**
8. **Others**

Overall PSL Targets (Bank-Wise)

1. Scheduled Commercial Banks (SCBs) (including Public/Private Sector Banks and foreign banks with **≥20 branches**):

40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher. Within this:

Agriculture: **18%** of ANBC (of which **10%** of ANBC is earmarked for **Small and Marginal Farmers (SMFs)**)

Micro Enterprises: **7.5%** of ANBC
Weaker Sections: **12%** of ANBC
2. **Foreign Banks (< 20 branches):**
40% of ANBC or CEOBE, with flexibility in composition.
Unlike larger banks, they have **no specific sub-targets** for agriculture, micro enterprises or weaker sections. However, **up to 32%** of ANBC can be met through **export credit**, and at least **8%** of ANBC must come from other priority sectors. (This means export credit can form a major portion of their PSL, but they cannot fulfill the entire 40% solely with exports.)
3. **Regional Rural Banks (RRBs):**
75% of ANBC or CEOBE. Within this:
Agriculture: **18%** of ANBC with **10%** for SMFs (same as SCBs)
Micro Enterprises: **7.5%** of ANBC
Weaker Sections: **15%** of ANBC (a higher requirement for RRBs)
Note: For RRBs, credit to **Medium Enterprises, Social Infrastructure, and Renewable Energy** is counted towards PSL only up to **15% of ANBC** (to ensure focus on core sectors)
4. **Small Finance Banks (SFBs):**
75% of ANBC or CEOBE (similar to RRBs).
Key sub-targets for SFBs mirror those of SCBs: 18% Agriculture (with 10% SMFs), 7.5% Micro Enterprises, and 12% Weaker Sections. (Unlike RRBs, SFBs do not have the 15% cap on Medium Enterprises/Social Infrastructure/Renewables within PSL.)
5. Urban Co-operative Banks (UCBs):
PSL target for UCBs (Urban Co-operative Banks) shall stand revised, FY2024-25 onwards, to 60 per cent of ANBC or CEOBSE, whichever is higher.
UCBs are required to achieve an overall PSL target of 75 per cent of ANBC or CEOBSE, whichever is higher, by FY2025-26, with interim targets of 60 per cent (FY2023-24) and 65 per cent (FY2024-25).
UCBs also have sub-targets:
Micro Enterprises: **7.5%** of ANBC
Weaker Sections: 12% of ANBC
Note: The Small & Marginal Farmers sub-target is **not applicable** to UCBs. (since UCBs are urban-focused and less involved in direct agriculture lending).
(**ANBC** = Adjusted Net Bank Credit, basically the previous year's outstanding bank credit plus certain adjustments. **CEOBE** = Credit Equivalent of Off-Balance Sheet Exposures. Banks must meet the PSL % on either ANBC or CEOBE, whichever is higher)

Detailed Sectoral Guidelines

A. Agriculture

- **Small and Marginal Farmers (SMFs):**
  - **Marginal Farmers:**
    - Farmers with landholding of up to **1 hectare**.
  - **Small Farmers:**
    - Farmers with landholding of more than **1 hectare** but less than **2 hectares**.
- **Lending Targets:**
  - All domestic banks (except Urban Co-operative Banks) and foreign banks with more than 20 branches are directed to ensure that lending to Non-Corporate Farmers (NCFs) does not fall below the system-wide average of the last three years.
  - For applicable banks, loans to agriculture must form **18% of ANBC.** Within this, there is a focused sub-target for **Small and Marginal Farmers (SMFs)** – defined as farmers with landholding up to 2 hectares – at **10% of ANBC.**

B. Micro, Small and Medium Enterprises (MSMEs):
Under the earlier MSMED Act, 2006, MSMEs were classified primarily based on **investment in plant and machinery** (for manufacturing units) or **investment in equipment** (for service units).
Definition (Effective 1 April 2025):
To simplify and modernize the classification, the Government of India revised the definition by combining manufacturing and services into a single unified framework based on two key parameters:

- **Investment in Plant & Machinery (or Equipment):**
  - **Micro Enterprises:** Investment up to ₹2.5 crore. (enhanced from Rs.1 crore)
  - **Small Enterprises:** Investment between ₹2.5 crore and ₹25 crore.
  - **Medium Enterprises:** Investment between ₹25 crore and ₹100 crore.
- **Annual Turnover:**

- **Micro Enterprises:** Turnover up to ₹10 crore.
- **Small Enterprises:** Turnover between ₹10 crore and ₹100 crore.
- **Medium Enterprises:** Turnover between ₹100 crore and ₹500 crore.

All loans to MSMEs (manufacturing or services) that meet the Micro, Small and Medium enterprise definition (as per MSMED Act) qualify as priority sector.
Within MSME, there is a special sub-target for **Micro Enterprises**: banks must ensure **7.5% of ANBC** is lent to micro enterprises (e.g. very small businesses, micro units)
There is **no separate percentage target for "small" or "medium" enterprises**; however, lending to medium enterprises is fully counted under PSL up to the point a bank meets its overall PSL requirement (with RRBs having the 15% cap on medium + social + renewable categories as noted)

C. Export Credit:
Loans for export activities are part of PSL (with certain limits). **Export credit to agriculture and MSME exporters** is counted under the respective Agriculture/MSME categories with no special cap
Other export credit (e.g. to large exporters) can be counted under PSL up to specified ceilings: For domestic banks and foreign banks with ≥20 branches, **incremental export credit** (fresh export loans) *up to 2% of ANBC* (over the level as of the previous year) can be counted, **subject to a cap of ₹40 crore per borrower**
For foreign banks with <20 branches, export credit can constitute a much larger share – up to **32% of ANBC** can be export credit (as noted earlier, tied to their 40% overall target).

D. Education
Loan Eligibility for Educational Purposes:
- Loans for individuals for educational purposes (including vocational courses) up to **Rs 25 lakh** qualify for priority sector classification.

E. Housing:
Housing loans qualify as priority sector, subject to certain limits aimed at affordable housing:
Housing Loans for Purchase/Construction:
- **Centres with** population ≥ 50 lakh:
  - Loans up to **Rs 50 lakh** per family.
- **Centres with** population 10 lakhs and above below 50 lakh:
  - Loans up to **Rs 45 lakh** per family.
- **Centres with** population below 10 lakh:
  - Loans up to **Rs 35 lakh** per family.

- **Cost Conditions:**
  - The overall cost should not exceed **Rs 63 lakh** in **Centres with** population ≥ 50 lakh and **Rs 57 lakh** in Centres with population 10 lakhs and above below 50 lakh and **Rs. 44 lakh** in Centres with population below 10 lakh

Housing Loans for Repairs:
- **Centres with** population ≥ 50 lakh:
  - Loans up to **Rs 15 lakh** per family.
- **Centres with** population 10 lakhs and above below 50 lakh:
  - Loans up to **Rs 12 lakh** per family.
- **Centres with** population below 10 lakh:
  - Loans up to **Rs 10 lakh** per family.

Government / Affordable Housing Projects: Bank credit to any governmental agency for construction of houses or for slum rehabilitation is eligible if the housing units have carpet area ≤60 sq. m (affordable housing criterion). Similarly, loans for **affordable housing projects** (where at least 50% of Floor Area is for ≤60 sq. m units) qualify

F. Social Infrastructure
- **Loan Limits:**
  - **For Setting Up Facilities:**
    - Loans up to **Rs 8 crore** per borrower for establishing schools, drinking water facilities, sanitation, and related household improvements.
  - **For Health Infrastructure:**
    - Loans up to **Rs 12 crore** per borrower for constructing health care facilities (including facilities under the 'Ayushman Bharat' scheme) in Tier II to Tier VI centres.

G. Renewable Energy
- **Loan Limits and Eligibility:**

- **For Projects:**
  - Bank loans up to **Rs 35 crore** are available for projects such as solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, and other non-conventional energy utilities (including street lighting and rural electrification).
- **For Individual Households:**
  - The loan limit is **Rs 10 lakh** per borrower.

H. Weaker Sections
"Weaker Sections" refers to economically disadvantaged or marginalized groups within society. RBI requires banks to direct a portion of their priority sector lending to these groups. For SCBs and foreign banks (≥20 branches), the **Weaker Sections target is 12% of ANBC** (by FY2023-24)
RRBs have a higher Weaker Sections target of **15%** , while UCBs are moving towards **12%** by 2025-26 (with **11.75%** in FY 2024-25)
Weaker Sections include: **Small and Marginal Farmers**, **Artisans** and village cottage industries (with credit limit ≤ ₹2 lakh), beneficiaries of various government poverty-alleviation schemes, **Scheduled Castes/Scheduled Tribes**, **Self-Help Groups (SHGs)**, loans to distressed persons (≤ ₹2 lakh) to repay informal debt, **women beneficiaries** (loans ≤ ₹2 lakh), **persons with disabilities**, and minority communities notified by GoI
H. Others:
Loans to SHGs/JLGs: Direct loans to individuals or groups (Self Help Groups/Joint Liability Groups) under the RBI's microfinance guidelines qualify.
Also, loans up to **₹2 lakh** per SHG/JLG for activities other than agri or MSME (e.g. a group loan for a community venture, or for household-level social needs like building a toilet) are included
Loans to distressed persons: Loans up to **₹1 lakh** to **indebted individuals** (other than farmers) to help pay off their non-institutional lenders (moneylender debt) are considered priority sector
State-sponsored organizations for SC/ST: Credit for state-level SC/ST development corporations for onward lending – for purchase and supply of inputs or marketing of outputs of SC/ST beneficiaries – is PSL-eligible
Startups: A relatively recent addition – **Loans up to ₹50 crore to startups** (as defined by the Government of India's startup framework) engaged in activities other than agriculture or MSME are eligible under PSL

Guideline Changes Based on the UK Sinha Committee Recommendations:

- **New Categories Introduced:**
  - **Start-ups:**
    - Bank finance available for start-ups up to **Rs 50 crore**.
  - **Agricultural Innovations:**
    - Loans for farmers for installing solar power plants to solarise grid-connected agriculture pumps.
    - Loans for setting up Compressed Bio Gas (CBG) plants.
- **Increased Credit Limits:**
  - **Health Infrastructure:**
    - Loan limit increased to **Rs 10 crore**.
  - **Renewable Energy:**
    - Loan limit increased to **Rs 30 crore**.
  - Additionally, banks may extend loans up to **Rs 5 crore** for setting up schools, drinking water, and sanitation facilities.

Exclusions from Priority Sector Lending
Priority sector lending guidelines do **not** apply to the following entities:

- **Payment Banks**
- **AIFI Entities:**
  - Includes NHB, NABARD, SIDBI, Exim, and NaBFID.
- **Insurance Companies**
- **Non-Banking Financial Companies (NBFCs)**
- **MUDRA Bank**

Note: No loan related and ad hoc service charges/inspection charges shall be levied on priority sector loans up to ₹50,000.

1. What does the term "Priority Sector" refer to?
   (1)Sectors deemed important for the development of basic needs (2)Sectors offering high profit margins
   (3)Sectors with minimal regulatory oversight (4)Sectors with large-scale corporate investments
2. In which year did the concept of Priority Sector Lending originate?

(1)1971 (2)1972 (3)1966 (4)1985

3. Who recognized the need to boost credit to agriculture and small industries in 1966?
(1)Dr. K S Krishnaswamy (2)Morarji Desai (3)The RBI Governor (4)The National Credit Council
4. At the July 1968 meeting of the National Credit Council, what was emphasized for commercial banks?
(1)Increase financing for agriculture and small-scale industries (2)Reduce exposure to non-priority sectors (3)Focus on export credit exclusively (4)Decrease interest rates
5. Which institution was established in 1971 that is linked to priority sector lending?
(1)National Housing Bank (2)Reserve Bank of India (3)Small Finance Bank (4)Credit Guarantee Corporation of India
6. In which year was the formal definition of Priority Sector Lending established based on an RBI report?
(1)1972 (2)1966 (3)1974 (4)1985
7. In November 1974, banks were advised to raise their advances to priority sectors to what percentage by March 1979?
(1)25% (2)40% (3)50% (4)33 1/3%
8. The recommendation of which committee led banks to increase priority sector lending to 40% in 1985?
(1)Dr. K S Krishnaswamy committee (2)Morarji Desai committee (3)RBI Advisory Committee (4)National Credit Council
9. Under which section of the Banking Regulation Act, 1949, does the RBI have the power to control advances by banks?
(1)Section 35A (2)Section 21 (3)Section 42 (4)Section 15
10. What is the role of Section 35A of the Banking Regulation Act, 1949?
(1)To empower the RBI to direct banks and act against detrimental conduct (2)To set the statutory reserve ratio (3)To regulate foreign exchange (4)To monitor non-performing assets
11. Which of the following is NOT one of the eight major categories of Priority Sector Lending?
(1)Export Credit (2)Agriculture (3)Healthcare (4)Renewable Energy
12. For Scheduled Commercial Banks (SCBs), what percentage of ANBC must agriculture loans constitute?
(1)7.5% (2)10% (3)40% (4)18%
13. Within agriculture, what percentage of ANBC is earmarked for Small and Marginal Farmers (SMFs)?
(1)7.5% (2)18% (3)10% (4)12%
14. According to the revised definition effective Apr 2025, what is the maximum investment threshold for a Micro Enterprise?
(1)Up to ₹2.5 crore (2)₹1 crore to ₹10 crore (3)₹10 crore to ₹50 crore (4)Above ₹50 crore
15. Under the revised MSME definition, what is the maximum annual turnover for a Micro Enterprise?
(1)Up to ₹10 crore (2)₹5 crore to ₹50 crore (3)₹50 crore to ₹250 crore (4)Above ₹250 crore
16. What is the specific PSL target for micro enterprises as a percentage of ANBC?
(1)15% (2)10% (3)12% (4)7.5%
17. For domestic banks and foreign banks with ≥20 branches, what is the percentage cap for incremental export credit over the previous year's level?
(1)2% (2)32% (3)8% (4)10%
18. What is the maximum cap per borrower for export credit under the PSL norms?
(1)₹30 crore (2)₹50 crore (3)₹40 crore (4)₹20 crore
19. Up to what amount do loans for educational purposes qualify for priority sector classification?
(1)Rs 20 lakh (2)Rs 10 lakh (3)Rs 35 lakh (4)Rs 25 lakh
20. For centres with a population of 50 lakh and above, what is the maximum housing loan amount per family for purchase or construction?
(1)Rs 10 lakh (2)Rs 25 lakh (3)Rs 45 lakh (4)Rs 50 lakh
21. For a dwelling unit in a centre with a population of 50 lakh and above to qualify under PSL, what is the maximum overall cost?
(1)Rs 63 lakh (2)Rs 35 lakh (3)Rs 25 lakh (4)Rs 30 lakh
22. For repairs to damaged dwelling units in Centres with population below 10 lakh, what is the loan limit?
(1)Rs 6 lakh (2)Rs 10 lakh (3)Rs 25 lakh (4)Rs 35 lakh
23. What is the maximum loan limit per borrower for establishing social infrastructure facilities such as schools or drinking water systems?
(1)Rs 8 crore (2)Rs 10 crore (3)Rs 35 lakh (4)Rs 25 lakh
24. What is the maximum loan amount for constructing healthcare facilities under social infrastructure guidelines?
(1)Rs 30 crore (2)Rs 5 crore (3)Rs 12 crore (4)Rs 20 crore
25. What is the maximum loan limit available for renewable energy projects?
(1)Rs 35 crore (2)Rs 10 lakh (3)Rs 50 crore (4)Rs 5 crore
26. For individual households, what is the loan limit for renewable energy projects?

(1)Rs 10 lakh (2)Rs 30 crore (3)Rs 20 lakh (4)Rs 5 crore

27. What is the PSL target for Weaker Sections as a percentage of ANBC for SCBs and foreign banks (≥20 branches)?
    (1)7.5% (2)15% (3)12% (4)10%
28. For Regional Rural Banks (RRBs), what is the Weaker Sections target percentage of ANBC?
    (1)15% (2)12% (3)7.5% (4)18%
29. Which group is NOT included in the "Weaker Sections" as per PSL guidelines?
    (1)Large corporate borrowers (2)Artisans with credit limits ≤ ₹2 lakh (3)Scheduled Castes/Scheduled Tribes (4)Self-Help Groups (SHGs)
30. What is the maximum loan amount per SHG/JLG for activities other than agriculture or MSME that qualifies under PSL?
    (1)₹1 lakh (2)₹2 lakh (3)₹50 crore (4)₹20 lakh
31. Up to what amount are loans provided to distressed persons (excluding farmers) to repay informal debt under PSL?
    (1)₹1 lakh (2)₹2 lakh (3)₹5 lakh (4)₹10 lakh
32. Up to what loan amount can be extended to startups that are engaged in agriculture and allied services under the PSL guidelines?
    (1)Rs 10 crore (2)Rs 30 crore (3)Rs 40 crore (4)Rs 50 crore
33. Which new category introduced under the UK Sinha Committee recommendations specifically targets bank finance for new ventures?
    (1)Start-ups (2)Agricultural Innovations (3)Export Credit (4)Weaker Sections
34. What is one recommendation under the Agricultural Innovations category?
    (1)Loans for installing solar power plants for agriculture pumps (2)Increasing MSME credit target to 15% (3)Reducing education loan limits (4)Excluding export credit from PSL
35. What is the revised loan limit for health infrastructure under the new guidelines?
    (1)Rs 30 crore (2)Rs 12 crore (3)Rs 5 crore (4)Rs 50 crore
36. For centres with a population below 10 lakh, what is the maximum housing loan amount per family for purchase or construction?
    (1)Rs 35 lakhs (2)Rs 40 lakhs (3)Rs 25 lakhs (4)Rs 45 lakhs
37. Which type of bank is explicitly excluded from the Priority Sector Lending guidelines?
    (1)Regional Rural Banks (2)Payment Banks (3)Urban Co-operative Banks (4)Small Finance Banks
38. Which of the following is an example of an AIFI entity excluded from PSL?
    (1)NABARD (2)Scheduled Commercial Banks (3)Regional Rural Banks (4)Urban Co-operative Banks
39. Are insurance companies subject to Priority Sector Lending norms?
    (1)Only if they are public sector (2)Yes (3)No (4)Only if they offer banking services
40. Which entity is exempt from the Priority Sector Lending guidelines?
    (1)NBFCs (2)Scheduled Commercial Banks (3)Regional Rural Banks (4)Small Finance Banks
41. Is MUDRA Bank included under the PSL guidelines?
    (1)No (2)Yes (3)Only for agricultural lending (4)Only for MSME lending
42. What is the overall PSL target for Scheduled Commercial Banks (SCBs) in terms of ANBC or CEOBE?
    (1)65% (2)75% (3)40% (4)50%
43. For foreign banks with fewer than 20 branches, what flexibility is provided regarding export credit?
    (1)Up to 32% of ANBC can be met through export credit (2)They have no PSL targets (3)They must achieve a 75% target (4)They are restricted to education lending only
44. What is the overall Priority Sector Lending target for Regional Rural Banks (RRBs)?
    (1)50% (2)40% (3)65% (4)75%
45. Which bank category has an overall PSL target similar to RRBs but without the 15% cap on certain sectors?
    (1)Small Finance Banks (2)Foreign Banks (3)Urban Co-operative Banks (4)Scheduled Commercial Banks
46. What is the target PSL percentage for Urban Co-operative Banks (UCBs)?
    (1)60% (2)40% (3)75% (4)50%
47. For UCBs, what percentage of ANBC should be allocated to Weaker Sections?
    (1)7.5% (2)12% (3)15% (4)11.75%
48. Under the earlier MSMED Act, 2006, on what basis were MSMEs primarily classified?
    (1)Investment in plant and machinery (or equipment) (2)Annual turnover only (3)Number of employees (4)Geographical area served
49. According to the revised MSME definition effective April 2025, what is the investment range for Small Enterprises?
    (1)₹2.5 crore to ₹25 crore (2)Up to ₹1 crore (3)₹10 crore to ₹50 crore (4)Above ₹50 crore
50. What is the annual turnover range for Medium Enterprises under the revised MSME definition effective from April 2025?

(1)₹100 crore to ₹500 crore (2)Up to ₹50 crore (3)₹5 crore to ₹50 crore (4)Above ₹250 crore

Answers:

1	1	6	1	11	3	16	4	21	1	26	1	31	1	36	1	41	1	46	1
2	3	7	4	12	4	17	1	22	2	27	3	32	4	37	2	42	3	47	2
3	2	8	1	13	3	18	3	23	1	28	1	33	1	38	1	43	1	48	1
4	1	9	2	14	1	19	4	24	3	29	1	34	1	39	3	44	4	49	1
5	4	10	1	15	1	20	4	25	1	30	2	35	2	40	1	45	1	50	1

25. Capital Market

1. Overview of Capital Markets

- **Definition & Purpose:**
  • A Capital Market is a platform where long-term funds (more than 1 year) are borrowed and lent.
  • It channels surplus funds from investors to entities running a deficit.
  • Common instruments include shares, debentures, bonds, etc.
  • **Key Point:** There is no maximum limit for the maturity period.

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2. Regulatory Framework: SEBI

- **Securities and Exchange Board of India (SEBI):**
  • SEBI is the regulator for India's securities market.
  • **Establishment:** Set up on 12 April 1988 and granted statutory powers on 30 January 1992 through the SEBI Act, 1992.
  • **Headquarters:** Mumbai.
  • **Appellate Mechanism:**
  – A Securities Appellate Tribunal (SAT) has been constituted to protect the interests of those aggrieved by SEBI's decisions.
  – SAT also hears appeals against decisions from bodies such as PFRDA & IRDAI.
  • **SEBI Board Composition:**
  – A Chairman
  – Two members from the Ministry of Finance
  – One member from among the officials of the RBI
  – Five other members (with at least three being whole-time appointees by the central Government)

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3. Segments of the Corporate Securities Market

The market is broadly divided into two segments:

- **Primary Market**
- **Secondary Market**

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4. Primary Market

- **Definition:**
  • The market where new securities (shares, debentures, etc.) are sold for the first time to raise long-term capital.
  • Also known as the **New Issue Market**.
- **Key Components & Terms:**
  - **Initial Public Offering (IPO):**
    – A registered private company offers its shares to the public for the first time.
    – Through an IPO, a company raises funds and the public becomes shareholders by purchasing these new issues.
  - **Follow-on Public Offering (FPO):**
    – Conducted when a company that has already gone public offers additional shares to raise extra funds.
    – **Difference from IPO:**
    • In an IPO, a fixed price is decided by the merchant banker and the company; in an FPO, the share price is determined by the market.
    • An FPO is relatively less risky than an IPO.

- **Knowledge Process Outsourcing (KPO):**
  – Refers to outsourcing high-level, knowledge-based tasks (e.g., research, analysis, consultancy) to external companies or subsidiaries.
- **Merchant Bankers:**
  – Assist companies in raising money in the primary market, especially during the IPO process.
- **Draft Red Herring Prospectus (DRHP):**
  – A preliminary document prepared to introduce a new business or product to potential investors.
  – It outlines the product vision, target audience, current status, and associated risks; it is not the final offer document.
- **Rights Issue:**
  – A method for companies to raise additional capital by offering new shares at a discounted price to existing shareholders in proportion to their current holdings.
  – **Example:** A 1:4 rights issue means every 4 shares held entitles the shareholder to one additional share.
  – **South Indian Bank Example:** Announced a 1:3 rights issue at Rs.14 per share (30% lower than the market price of Rs.20 on the record date of 17 Feb 2017), offering 45.07 lakh shares.
- **Offer for Sale (OFS):**
  – An alternative approach where promoters sell shares to the whole market via stockbrokers rather than just to existing shareholders.
  – **Difference from FPO:** OFS is used to offload promoters' shares, while an FPO is primarily for raising new funds.
- **Private Placement:**
  – Securities are sold through a private offering to a small, selected group of investors (friends, family, accredited or institutional investors).
- **Asset Management Companies (AMC):**
  – Firms such as HDFC AMC, Reliance Capital, and SBI Capital collect funds from the public, pool them in a single account, and invest them to generate wealth (e.g., through mutual fund schemes).

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5. Secondary Market

- **Definition:**
  • The market where previously issued securities are traded among investors.
  • Here, investors purchase securities from other investors rather than directly from the issuing company.
- **Key Points:**
  - May include segments such as stock exchanges, equity markets, and debt markets.
  - **Clearing Corporations:**
    – Examples include NSE Clearing Limited and Indian Clearing Corporation (ICCL), which ensure the settlement of trades by matching buyer and seller transactions and preventing defaults.
  - **Settlement Process:**
    – **T Day (Trade Day):** The day when the transaction occurs.
    – **T+1 Settlement Cycle:** Funds and securities are transferred within one day (24 hours) after the trade.

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6. Instruments & Financial Products

- **Bonds vs. Stocks:**
  - **Bonds:**
    • Are debt instruments—loans made to an organization—and are recorded as liabilities on a balance sheet.
    • Provide fixed interest, determined by the coupon rate.
    • **Characteristics:**
      – The principal is returned on a predetermined maturity date.
      – May include a call option allowing the issuer to repurchase the bond at a set price.
  - **Stocks:**
    • Represent partial ownership in a company.
- **Dematerialization & Depositories:**
  - **CDSL / NDSL:**
    • Share certificates were once issued on paper; post-1996, they are converted to a digital form known as DEMAT.
    • The digital shares are stored in a DEMAT account provided by depositories.

• **Depositories:** Two main depositories offer these services: National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited.
  - **Stockbroker:**
    • Provides a trading account used for buying and selling securities.
- **What Happens When Buying a Stock:**
  • **Example:** On Day 1 (T Day), if you purchase 50 shares of HUL at Rs.1,000 per share, the total buy value is Rs.50,000.
  • The broker verifies the availability of funds.
  • Under the T+1 settlement cycle, the shares are credited to the investor's DEMAT account the next day.

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7. Market Conditions & Trading Concepts

- **Market Trends:**
  - **Bull Market (Bullish):**
    • When stock prices are expected to rise.
    • **Example:** The market was bullish from mid-2020 to early 2022.
  - **Bear Market (Bearish):**
    • When stock prices are expected to fall.
    • **Example:** The market was bearish from early 2008 to late 2009.
- **Circuit Limits:**
  • Exchanges set upper and lower circuits—a price band (e.g., 2%, 5%, 10%, or 20%)—to control excessive volatility on any given day.
- **Face Value of a Stock:**
  • The nominal value (par value) of a share, which is critical for calculating dividends (for instance, if the face value is 10 and the dividend is 30, the dividend is 300%).
- **Trading Positions:**
  • **Long Position:** Buying when expecting the market price to rise.
  • **Short Position:** Selling when expecting the market price to fall.

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8. Derivative Instruments: Futures & Options (F&O)

- **Underlying Security:**
  • The primary asset (stock, bond, currency, interest rate, index, or commodity) on which the derivative contract derives its value.
- **Futures:**
  • A contract to buy or sell an underlying asset at a predetermined price on a specific future date.
- **Options:**
  • A contract that gives the investor the right—but not the obligation—to buy or sell the underlying asset at a specific price on or before the expiry date.
- **Key Concept:**
  • These contracts are used to hedge market risks by locking in prices for a future date.

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9. Corporate Actions & Adjustments

- **Bonus Issue:**
  • Extra shares awarded to shareholders.
  • **Mechanism:** For example, a 1:1 bonus issue means one additional share for every share held.
  • **Example:** Easy Trip Limited announced a 3:1 bonus issue on October 10, 2022—if an investor held 100 shares pre-issue, they would hold 400 shares post-issue. The share price adjusts proportionately while the total investment remains unchanged.
- **Stock Split:**
  • Splitting a stock into more shares to make them more affordable for small investors without changing overall market capitalization.
  • **Example:** Bajaj Finserv Limited announced a 1:5 stock split, where a share with a face value of ₹5 splits into five shares with a face value of ₹1 each.
- **Dividends:**
  • Regular income paid to shareholders out of a company's profits and reserves.
  • **Example:** Vedanta Limited declared a dividend of ₹17.5 per share on November 22, 2022 (1750% of a ₹1 face value), resulting in an ex-dividend price adjustment.
- **Buyback of Shares:**
  • When a company repurchases its shares from the public, typically at a premium.
  • **Purpose:** To consolidate the promoter's stake, signal confidence, or boost the share price.

- **Preference Shares:**
  • A special class of shares that provide shareholders with preferential rights regarding dividend payments and capital repayment in the event of winding up over equity shareholders.

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10. Stock Exchanges & Market Indices

- **Stock Market/Exchange:**
  • A marketplace where buying and selling of shares occurs.
  • **Examples:**
  – NSE/BSE in India
  – Nasdaq in the USA
  – Saudi Stock Exchange (Tadawul)
  – Shenzhen in China
  – Deutsche Börse in Germany
- **FTSE 100 Index (Footsie):**
  • An index of the 100 companies listed on the London Stock Exchange.
- **Need for a Market Index:**
  • With thousands of listed companies, a sample of key companies is selected to indicate overall market trends (up, down, or sideways).
- **Sensex & Nifty:**
  • **Sensex:**
  – Base year: 1978-79 (assumed 100 points).
  – Launched on 01-Jan-1986 at 561 points, which means it grew 5.61 times in 7 years.
  – For example, Sensex at 55,000 points in 2022 is a comparative figure relative to the base of 100 points.
  • **Nifty:**
  – Differentiated primarily by the number of companies sampled (Nifty uses 50 companies, whereas Sensex uses 30).

1. What is the primary role of a capital market?
   (1)Facilitating short-term loans (2)Raising long-term capital (3)Currency exchange (4)Providing microfinance services
2. Which of the following is a common instrument used in the capital market?
   (1)Savings accounts (2)Certificates of deposit (3)Insurance policies (4)Debentures
3. What is the function of SEBI in the Indian securities market?
   (1)Regulating the securities market (2)Controlling inflation (3)Regulating financial institutions (4)Managing monetary policy
4. When was SEBI established and later granted statutory powers?
   (1)Established in 1992, statutory powers in 1995 (2)Established in 1990, statutory powers in 1993 (3)Established in 1988, statutory powers in 1992 (4)Established in 1985, statutory powers in 1990
5. Which city is home to the headquarters of SEBI?
   (1)New Delhi (2)Kolkata (3)Chennai (4)Mumbai
6. What does the term "IPO" stand for?
   (1)Initial Private Offering (2)Initial Public Offering (3)Internal Public Order (4)International Public Operation
7. Which of the following best describes an IPO?
   (1)A company issuing bonds for the first time (2)A merger of two private companies (3)A company offering its shares to the public for the first time (4)A company issuing dividends
8. What is a Follow-on Public Offering (FPO)?
   (1)An additional share sale by a company already listed (2)The initial sale of shares by a company (3)A type of private placement (4)A merger process
9. Which term describes the outsourcing of high-level, knowledge-based processes?
   (1)Business Process Outsourcing (2)Data Processing Outsourcing (3)Management Process Outsourcing (4)Knowledge Process Outsourcing
10. What role do Merchant Bankers play in the primary market?
    (1)They invest directly in the stock market (2)They assist companies in raising funds during the IPO process (3)They regulate the stock exchange (4)They act as custodians for shares
11. What does DRHP stand for?
    (1)Draft Red Herring Prospectus (2)Detailed Red Herring Prospectus (3)Draft Review of High Potential (4)Detailed Report on High Profits

12. Which document is used to introduce a new business to potential investors before an IPO?
(1)Final Prospectus (2)Annual Report (3)Memorandum of Association (4)Draft Red Herring Prospectus
13. A Rights Issue allows existing shareholders to:
(1)Sell their shares at a premium (2)Convert their bonds into shares (3)Purchase additional shares at a discounted price (4)Vote on corporate policies
14. Which example best illustrates a Rights Issue?
(1)Offering shares to the general public (2)Offering one extra share for every 4 shares held (3)Selling shares on a stock exchange (4)Issuing convertible bonds
15. What distinguishes an Offer for Sale (OFS) from an FPO?
(1)OFS is only for government companies (2)OFS is conducted through private placement (3)OFS is used for raising new funds (4)OFS allows promoters to sell their shares to the market
16. Which of the following best describes a private placement?
(1)Selling securities to a small group of selected investors (2)Selling securities to a large number of retail investors (3)Listing securities on a public stock exchange (4)Offering shares at a discounted price to all shareholders
17. What is the primary function of Asset Management Companies (AMCs)?
(1)To issue bonds (2)To regulate the stock market (3)To collect money from the public and invest it (4)To provide bank loans
18. In the secondary market, securities are:
(1)Issued for the first time (2)Traded among investors after issuance (3)Bought exclusively from the company (4)Not available for trading
19. Which entities are responsible for ensuring the settlement of trades in the secondary market?
(1)Central Banks (2)Stock Exchanges (3)Clearing Corporations (4)Investment Banks
20. What does the term “T+1 Settlement Cycle” imply?
(1)Settlement occurs one day after the trade (2)Settlement happens on the same day (3)Settlement is delayed by one week (4)Settlement occurs two days later
21. Which of the following is considered a debt instrument?
(1)Stocks (2)Bonds (3)Mutual funds (4)Options
22. In a company's balance sheet, bonds are classified as:
(1)Assets (2)Equity (3)Revenue (4)Liabilities
23. What is the coupon rate in relation to bonds?
(1)The maturity value of the bond (2)The bond’s call price (3)The rate at which interest is paid (4)The market value of the bond
24. What is “Dematerialization” in the context of securities?
(1)Converting paper share certificates to digital form (2)Converting digital shares to paper certificates (3)Removing shares from a portfolio (4)Splitting shares into smaller denominations
25. Which are the two primary depositories in India?
(1)RBI and SEBI (2)NSDL and CDSL (3)BSE and NSE (4)ICICI and HDFC
26. A stockbroker provides a trading account primarily for:
(1)Depositing funds (2)Managing bank loans (3)Issuing shares (4)Handling buy and sell transactions in the market
27. What is meant by a “Bull Market”?
(1)A market where prices are expected to rise (2)A market where prices are expected to fall (3)A stagnant market (4)A market with high volatility
28. A “Bear Market” is characterized by:
(1)Rising stock prices (2)Stable stock prices (3)Falling stock prices (4)High liquidity
29. Circuit limits are implemented in the stock market to:
(1)Encourage high-frequency trading (2)Control excessive volatility (3)Increase market liquidity (4)Determine dividend payouts
30. The face value of a stock is significant because it:
(1)Determines market price (2)Dictates trading volume (3)Affects settlement cycles (4)Is used in calculating dividends
31. A long position in the market indicates that an investor:
(1)Expects the price to decline (2)Is neutral about market movements (3)Expects the price to rise (4)Is taking a short-term position
32. A short position in the market indicates that an investor:
(1)Expects the price to rise (2)Expects the price to decline (3)Is uncertain about the market (4)Is planning a long-term investment
33. What is the underlying security in a derivative contract?

(1)The primary asset on which the derivative is based (2)The broker's fee (3)The interest rate (4)The settlement date

34. Which derivative contract gives the investor the right but not the obligation to buy or sell?
(1)Futures (2)Swaps (3)Forwards (4)Options
35. Futures contracts require:
(1)The investor to exercise the contract (2)The investor to have an option to cancel (3)The investor to fulfill the contract obligation at maturity (4)The investor to pay a premium upfront
36. What is a Bonus Issue?
(1)A share buyback program (2)Distribution of extra shares to existing shareholders (3)A type of dividend in cash (4)A method for reducing debt
37. In a bonus issue, if the ratio is 1:1, it means:
(1)One new share is given for every share held (2)One new share is given for every two shares held (3)Two new shares are given for every share held (4)One share is bought back for every share held
38. What is a Stock Split?
(1)A method of issuing dividends (2)Combining multiple shares into one (3)Dividing a stock into more shares to lower its market price (4)A process of repurchasing shares
39. Which example best illustrates a stock split?
(1)A company issuing additional bonds (2)A share with a face value of ₹5 splitting into five shares with a face value of ₹1 each (3)A company buying back its shares (4)A rights issue offering additional shares
40. Dividends are:
(1)Extra shares issued to shareholders (2)Interest paid on bonds (3)Fees charged by brokers (4)Regular income distributed to shareholders from profits
41. Which of the following is an example of a dividend event?
(1)Declaring a dividend of ₹17.5 per share (2)Issuing bonus shares (3)Conducting an IPO (4)Merging with another company
42. What is a Buyback of Shares?
(1)Issuing new shares to the public (2)A company repurchasing its own shares from the market (3)Offering shares at a discount (4)Issuing bonds to finance expansion
43. Preference Shares provide shareholders with:
(1)Voting rights only (2)Higher risk compared to equity shares (3)Preferential dividend and capital repayment rights (4)No benefits in terms of dividends
44. Which of the following best describes a stock exchange?
(1)A marketplace where shares are bought and sold (2)A platform for trading commodities only (3)A regulatory authority (4)A bank that issues loans
45. Which index is known as the "Footsie"?
(1)Sensex (2)FTSE 100 (3)Nifty (4)S&P 500
46. Sensex is based on a sample of how many companies?
(1)50 companies (2)75 companies (3)100 companies (4)30 companies
47. What differentiates Nifty from Sensex?
(1)Nifty includes international companies (2)Nifty is regulated by SEBI (3)Nifty is based on 50 companies while Sensex is based on 30 companies (4)Nifty is used only for derivative trading

Answers:

1	2	6	2	11	1	16	1	21	2	26	4	31	3	36	2	41	1	46	4
2	4	7	3	12	4	17	3	22	4	27	1	32	2	37	1	42	2	47	3
3	1	8	1	13	3	18	2	23	3	28	3	33	1	38	3	43	3	48	
4	3	9	4	14	2	19	3	24	1	29	2	34	4	39	2	44	1	49	
5	4	10	2	15	4	20	1	25	2	30	4	35	3	40	4	45	2	50	

26. Money Market Instruments

1. Overview of the Money Market

- **Definition:**
  The money market is a market for short-term funds with maturities ranging from overnight to one year. It includes financial instruments that are close substitutes for money.
  – **Key Features:**

• **Short maturity periods**
• **High liquidity**

- **Purpose:**
Instruments in this market provide a mechanism for the government, banks, and other institutions to meet their short-term funding needs and manage liquidity.

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2. Money Market versus Capital Market

- **Regulation:**
– Money Market: Regulated by the Reserve Bank of India (RBI).
– Capital Market: Regulated by the Securities and Exchange Board of India (SEBI).
- **Maturity:**
– Money Market Instruments: Maturities up to 1 year (short term).
– Capital Market Instruments: Maturities beyond 1 year (long term).

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3. Detailed Analysis of Money Market Instruments

Each instrument is discussed below with its definitions, issuance details, examples, and other critical points.

3.1 Treasury Bills (T-Bills)

- **Definition & Characteristics:**
– Short-term debt instruments issued by the Government of India.
– Issued in three tenors: 91 days, 182 days, and 364 days.
– They are **zero coupon securities**: no periodic interest payment; issued at a discount and redeemed at face value.
- **Example:**
A 91-day T-bill with a face value of ₹100 may be issued at ₹98.20 (i.e. at a discount of ₹1.80), with the investor's return being the difference between ₹100 (maturity value) and ₹98.20 (issue price).
- **Features:**
– Assured yield with negligible risk of default.
– Minimum investment: ₹25,000 (investments can be made in multiples of ₹25,000).
– Auction Process:
• RBI conducts auctions on behalf of the government using an electronic platform called **E-Kuber** (the RBI's Core Banking Solution).
– Historical Note:
• First issued in India in 1917.
– **Restrictions:**
• T-Bills cannot be issued by state governments.
- **Participants:**
– Individuals, firms, trusts, institutions, and banks can purchase T-Bills.
– They are also used to regulate the flow of money in the economy.
- **Taxation:**
– Short-term capital gains tax is applicable according to the investor's income tax slab.

3.2 Cash Management Bills (CMBs)

- **Introduction & Purpose:**
– Introduced in 2010 by the Government of India, in consultation with the RBI.
– Designed to meet temporary mismatches in the government's cash flow.
- **Features:**
– Similar in character to T-Bills but issued for maturities **less than 91 days**.
– Issued at a discount and redeemed at face value upon maturity.
– The tenor, notified amount, and issue date depend on the temporary cash requirements of the government.
- **Issuance Details:**
– Issued by the RBI on behalf of the Government of India.
– The first CMB was issued on May 12, 2010.
- **Announcement:**
– Auction announcements are made by the RBI via a press release on its website.
- **Investment Aspect:**
– Investments in CMBs are considered an eligible investment in government securities (G-Secs) for banks for SLR (Statutory Liquidity Ratio) purposes under Section 24 of the Banking Regulation Act, 1949.

3.3 Certificate of Deposit (CD)

- **Definition:**
  – A negotiable and unsecured money market instrument issued by a bank in the form of a promissory note.
  – It represents funds deposited at the bank for a maturity period of up to one year.
- **Issuance Details:**
  – Introduced in 1989.
  – Issued by Scheduled Commercial Banks, Regional Rural Banks, and Small Finance Banks.
  – CDs are issued in dematerialised form only (no physical certificates). – **Minimum Denomination:**
  • ₹5 lakh and in multiples thereafter. – **Tenor at Issuance:**
  • Must be not less than 7 days and not more than 1 year. – **Restrictions:**
  • Banks are not allowed to grant loans against CDs.
- **Secondary Market:**
  – CDs can be traded on Over-the-Counter (OTC) markets (including electronic trading platforms) or on recognized stock exchanges with RBI approval. – Issuing banks are permitted to buy back CDs before maturity under certain conditions: • Buyback only after 7 days from the date of issuance. • Buyback at prevailing market price. • CDs bought back are extinguished.
- **Other Characteristics:**
  – CD rates can be fixed or floating.
  – High interest rates attract investors.
  – Interest earned is taxable.
  – CDs may also be issued at a discount.
- **Comparison with Fixed Deposits (FDs):**
  – CDs do not offer a loan facility, while FDs do.
  – CDs are available only for a tenure of one year, whereas FDs can have durations ranging from 7 days to 10 years.
  – Opening a CD account requires a minimum investment of ₹5 lakh; the minimum deposit for FDs varies by bank.

3.4 Commercial Papers (CP)

- **Definition:**
  – Unsecured money market instruments issued in the form of promissory notes.
- **Purpose:**
  – Introduced in 1990 to enable highly rated corporate borrowers to diversify their sources of short-term borrowings.
  – Provides companies an alternative means to raise funds for working capital instead of borrowing from banks.
- **Key Features:**
  – Tenor: Generally between 7 days to 1 year.
- **Issuance Criteria:**
  – Only corporates with high debt ratings are allowed to issue CPs. – Eligible issuers include companies (including NBFCs), All India Financial Institutions (AIFIs), cooperative societies/unions, government entities, trusts, limited liability partnerships, or any body corporate with a net worth of ₹100 crore or higher. – Denominations: Generally issued in multiples of ₹5 lakh.
- **Investment Eligibility:**
  – All residents and non-residents (as permitted under FEMA, 1999) can invest in CPs.
- **Pricing & Ratings:**
  – CPs are issued at a discount to face value.
  – The minimum credit rating for CPs is ‘A3’ as prescribed by SEBI.

3.5 Call Money Market

- **Definition & Function:**
  – An important segment of the money market where surplus funds are traded daily.
- **Loan Durations:**
  – **Call Money:** Money lent for one day.
  – **Notice Money:** Money lent for more than one day but less than 15 days.
  – **Term Money:** Money lent for 15 days or more on the interbank market.
- **Participants:**
  – Eligible entities include Scheduled Commercial Banks (excluding Local Area Banks), Payment Banks, Small Finance Banks, Regional Rural Banks, State Co-operative Banks (including District Central and Urban Co-operative Banks), and Primary Dealers.

- **Trading and Limits:**
  – Trades are conducted both by telephone and via the **NDS Call System** – an electronic, screen-based platform set up by the RBI. – **Borrowing and Lending Limits:**
  • Scheduled Commercial Banks: Up to 50% of capital funds.
  • Cooperative Banks: No limit.
  • Primary Dealers: Up to 25% of net owned funds.
- **Mechanism:**
  – Loans are generally availed through auction/negotiation, where the highest bidder (offering the highest interest rate) gets the loan.
  – The average interest rate in this market is known as the **call rate**.
  – A rising call rate indicates liquidity stress, prompting the RBI to consider liquidity support measures (such as cutting CRR or providing additional repo facilities).

3.6 Collateralised Borrowing and Lending Obligations (CBLO)

- **Definition:**
  – A money market segment managed by the Clearing Corporation of India Ltd (CCIL).
- **Function:**
  – Allows financial institutions to avail short-term loans by providing prescribed securities as collateral.
- **Unique Feature:**
  – Both borrowers and lenders use collateral to secure their transactions.
- **Duration:**
  – Ranges from 1 day to 1 year.
- **Eligible Participants:**
  – Includes nationalized banks, private banks, foreign banks, cooperative banks, insurance companies, mutual funds, primary dealers (and bank-cum primary dealers), NBFCs, corporates, and provident/pension funds.
- **Trading Mechanism:**
  – Operates as an anonymous order matching platform via CCIL’s INFINET system.
  – CCIL acts as the counterparty, thereby eliminating settlement risk.

3.7 Ways and Means Advances (WMA)

- **Definition & Purpose:**
  – Temporary loan facilities provided by the RBI to the central and state governments to meet short-term mismatches in receipts and payments.
- **Legal Framework:**
  – Introduced under Section 17(5) of the RBI Act, 1934 (effective from 1st April 1997).
- **Repayment Terms:**
  – The center must return the borrowed funds within 90 days. If the duration exceeds 90 days, the facility is treated as an overdraft.
- **For State Governments/UTs:**
  – They can avail overdraft facilities for up to 14 consecutive days and may remain in overdraft for a maximum of 36 days in a quarter.

3.8 Banker’s Acceptance (BA)

- **Definition:**
  – A financial instrument where the bank guarantees payment (instead of the account holder) at a future date.
- **Usage:**
  – Commonly used in international trade to provide assurance to exporters against the risk of counterparty default.
- **Maturity:**
  – Generally ranges from 30 to 180 days.

3.9 Letter of Credit (LC)

- **Definition & Purpose:**
  – A credit limit instrument used primarily by businesses engaged in international trade. – Acts as a payment guarantee offered by banks or NBFCs to exporters.
- **Function:**
  – Provides assurance of payment to suppliers/exporters in the event of payment delays or defaults by the buyer.

- **Significance:**
  – Essential for businesses dealing with unfamiliar foreign suppliers, ensuring that transactions are backed by a guarantee from a reputable financial institution.

3.10 Repurchase Agreements (Repos)

- **Definition:**
  – Also known simply as "repos" or "reverse repos", these are short-duration loans secured by the sale and subsequent repurchase of securities.
- **Eligibility:**
  – Transactions are permitted only between RBI-approved parties. – Eligible securities typically include central/state government securities, treasury bills, and PSU bonds.
- **Types of Repo Arrangements:**
  – **Overnight Repo:** Lasts for one day.
  – **Term Repo:** Fixed and agreed in advance (commonly around one week); however, either party can call for termination with advance notice (one or two days).
  – **Open Repo:** No fixed maturity; the interest rate may vary daily with market conditions.
  – **Flexible Repo:** The lender places funds and the borrower withdraws as needed over an agreed period.

3.11 Commercial Bills

- **Definition:**
  – Negotiable instruments drawn by the seller (drawer) on the buyer (drawee) for the value of the goods delivered.
- **Process:**
  – When accepted by commercial banks, these instruments become **commercial bills**. – The bank discounts the bill (deducting a margin) and credits the proceeds to the seller's account. – Banks can also rediscount these bills with financial institutions (such as LIC, UTI, GIC, ICICI, and IRBI) when in need of funds.
- **Maturity:**
  – Typically varies from 30 to 90 days (commonly 30, 60, or 90 days) depending on industry credit terms.

1. Which of the following best defines the money market?
   (1)A market for long-term investment instruments. (2)A market for short-term funds with maturities up to one year. (3)A market for foreign currency trading. (4)A market for equity securities.
2. Which regulatory body is primarily responsible for the money market in India?
   (1)SEBI (2)Ministry of Finance (3)IRDA (4)RBI
3. What is a key feature of money market instruments?
   (1)Long-term maturities. (2)High volatility. (3)High liquidity and short maturities. (4)Speculative trading.
4. Treasury Bills (T-Bills) are characterized by which of the following?
   (1)They are zero coupon securities issued at a discount. (2)They pay periodic interest. (3)They are long-term securities. (4)They are issued by private corporations.
5. What best describes the discount mechanism for T-Bills?
   (1)Issued at a premium and redeemed at par. (2)Issued at par with no discount. (3)Issued at a discount and redeemed at face value. (4)Issued at a discount with variable redemption value.
6. What is the minimum investment amount for Treasury Bills?
   (1)₹10,000 (2)₹50,000 (3)₹5,000 (4)₹25,000
7. Through which electronic platform does the RBI auction T-Bills?
   (1)NDS-OM (2)E-Kuber (3)INFINET (4)CBS
8. In which year were Treasury Bills first issued in India?
   (1)1917 (2)1947 (3)1990 (4)1989
9. Which of the following entities cannot issue T-Bills?
   (1)Central Government (2)Public sector banks (3)State Government (4)Private banks
10. Cash Management Bills (CMBs) are issued for what typical maturity period?
    (1)More than one year. (2)Less than 91 days. (3)Exactly 182 days. (4)Between 1 and 2 years.
11. In which year were Cash Management Bills introduced in India?
    (1)1989 (2)1997 (3)2005 (4)2010
12. Which institution issues Cash Management Bills on behalf of the government?
    (1)RBI (2)SEBI (3)Ministry of Finance (4)Stock Exchanges
13. How are Cash Management Bills typically issued?
    (1)At a premium. (2)At par value. (3)At a discount and redeemed at face value. (4)With periodic coupon payments.

14. Certificate of Deposit (CD) is primarily a product offered by which type of institution?
(1)Investment banks (2)Scheduled Commercial Banks (3)Insurance companies (4)Mutual funds
15. What is the minimum denomination for a Certificate of Deposit?
(1)₹5 lakh (2)₹1 lakh (3)₹25,000 (4)₹10 lakh
16. For Certificate of Deposit issuance, what is the minimum tenor at issuance?
(1)1 day (2)30 days (3)90 days (4)7 days
17. In what form are Certificates of Deposit issued?
(1)Physical certificates only. (2)Both physical and dematerialised forms. (3)Dematerialised form only. (4)Paper bonds.
18. CDs can be traded in which market(s)?
(1)Only on stock exchanges. (2)Over-the-Counter (OTC) and recognized stock exchanges. (3)Only in the primary market. (4)Only in the secondary market.
19. What distinguishes a Certificate of Deposit from a Fixed Deposit?
(1)CDs are issued only for a tenure of up to one year and do not offer a loan facility. (2)CDs offer a loan facility. (3)CDs have a variable tenure of up to 10 years. (4)CDs require a lower minimum investment than FDs.
20. Commercial Papers (CP) are best described as:
(1)Secured instruments issued by the government. (2)Bonds issued by private companies. (3)Guaranteed by banks. (4)Unsecured money market instruments in the form of promissory notes.
21. In which year were Commercial Papers introduced in India?
(1)1917 (2)1990 (3)1989 (4)2010
22. Who is eligible to issue Commercial Papers?
(1)Only companies with high debt ratings. (2)Any company regardless of credit rating. (3)State governments. (4)Banks exclusively.
23. What is the typical minimum denomination for Commercial Papers?
(1)₹1 lakh (2)₹25,000 (3)₹5 lakh (4)₹10 lakh
24. Which regulatory rating is required for issuing a Commercial Paper?
(1)'A' rating (2)'AA' rating (3)'B' rating (4)'A3' rating
25. The Call Money market is primarily characterized by:
(1)Loans with long-term durations. (2)Trading of surplus funds on a daily basis. (3)Fixed deposit-like instruments. (4)Stock trading.
26. Money lent for one day in the call money market is referred to as:
(1)Call Money (2)Notice Money (3)Term Money (4)Repo Money
27. Money lent for more than one day but less than 15 days is known as:
(1)Term Money (2)Call Money (3)Notice Money (4)Overnight Money
28. Which of the following entities is NOT typically a participant in the call money market?
(1)Scheduled Commercial Banks (2)Insurance Companies (3)Regional Rural Banks (4)Payment Banks
29. Which system is used for negotiating call money market deals?
(1)E-Kuber (2)INFINET (3)Online Trading Platform (4)NDS Call system
30. In the call money market, a higher call rate typically indicates:
(1)Liquidity stress in the economy. (2)Abundance of liquidity. (3)Market stability. (4)Lower interest rates.
31. Collateralised Borrowing and Lending Obligations (CBLO) are operated by which organization?
(1)RBI (2)SEBI (3)CCIL (Clearing Corporation of India Ltd) (4)IRBI
32. What is the typical duration range for CBLO transactions?
(1)1 day to 1 year. (2)1 to 5 years. (3)7 days to 90 days. (4)1 to 6 months.
33. Which statement best describes the CBLO market?
(1)A market where only unsecured loans are transacted. (2)An anonymous order matching platform where collateral is used. (3)A market for long-term securities. (4)A stock market alternative.
34. Ways and Means Advances (WMA) are provided by the RBI to:
(1)Private corporations. (2)Banks only. (3)Individual investors. (4)Central and state governments.
35. Under the WMA scheme, the central government must repay the borrowed amount within:
(1)30 days. (2)60 days. (3)90 days. (4)180 days.
36. If a WMA exceeds 90 days, it is treated as:
(1)A normal loan. (2)An overdraft. (3)A long-term investment. (4)A bond issuance.
37. For state governments/UTs, the overdraft facility under WMA is available for a maximum of:
(1)14 consecutive days. (2)7 consecutive days. (3)21 consecutive days. (4)30 consecutive days.
38. Banker's Acceptance (BA) is mainly used in:
(1)Domestic retail banking. (2)Long-term investment planning. (3)International trade. (4)Government borrowing.
39. What is the typical maturity period for a Banker's Acceptance?
(1)7 to 30 days. (2)1 to 2 years. (3)Over 5 years. (4)30 to 180 days.

40. A Letter of Credit (LC) primarily serves as:
(1)A payment guarantee for exporters. (2)A form of collateral for personal loans. (3)A long-term investment instrument. (4)A type of fixed deposit.
41. Who typically offers a Letter of Credit?
(1)Exporters themselves. (2)Government agencies. (3)Banks or NBFCs. (4)Insurance companies.
42. Repurchase Agreements (Repos) involve:
(1)Issuance of new shares. (2)The sale and repurchase of securities. (3)Only long-term loan arrangements. (4)Stock market trading.
43. Which of the following is NOT a type of Repo?
(1)Overnight Repo. (2)Term Repo. (3)Open Repo. (4)Fixed Repo.
44. In an open repo, the interest rate:
(1)Changes daily based on market conditions. (2)Remains fixed throughout the term. (3)Is predetermined at the start. (4)Is set by the government.
45. Which best describes a flexible repo?
(1)Funds are withdrawn by the lender as needed. (2)Funds are placed by the lender and withdrawn by the borrower as per requirements. (3)It is identical to an overnight repo. (4)It has a fixed maturity period.
46. Commercial Bills become known as such when:
(1)They are issued by the government. (2)They are traded on stock exchanges. (3)They are accepted by commercial banks. (4)They are guaranteed by the RBI.
47. Which statement is true about Commercial Bills?
(1)Banks discount these bills and may also rediscount them. (2)They are always issued at par value. (3)They are not negotiable instruments. (4)Their maturity is fixed at exactly 90 days.
48. The maturity period for Commercial Bills can vary depending on:
(1)The issuing bank's credit rating. (2)Government regulations. (3)The type of collateral provided. (4)The credit extended in the industry.
49. Which feature is common to both T-Bills and Cash Management Bills?
(1)Both are issued with a coupon rate. (2)Both are issued at a discount and redeemed at face value. (3)Both are available for long-term investment. (4)Both are issued by state governments.
50. The primary purpose of money market instruments is to:
(1)Provide long-term funding for corporations. (2)Raise funds for large infrastructure projects. (3)Facilitate short-term funding and liquidity management. (4)Support equity market investments.

Answers:

1	**2**	**6**	**4**	**11**	**4**	**16**	**4**	**21**	**2**	**26**	**1**	**31**	**3**	**36**	**2**	**41**	**3**	**46**	**3**
2	**4**	**7**	**2**	**12**	**1**	**17**	**3**	**22**	**1**	**27**	**3**	**32**	**1**	**37**	**1**	**42**	**2**	**47**	**1**
3	**3**	**8**	**1**	**13**	**3**	**18**	**2**	**23**	**3**	**28**	**2**	**33**	**2**	**38**	**3**	**43**	**4**	**48**	**4**
4	**1**	**9**	**3**	**14**	**2**	**19**	**1**	**24**	**4**	**29**	**4**	**34**	**4**	**39**	**4**	**44**	**1**	**49**	**2**
5	**3**	**10**	**2**	**15**	**1**	**20**	**4**	**25**	**2**	**30**	**1**	**35**	**3**	**40**	**1**	**45**	**2**	**50**	**3**

27. Mutual Funds

1.Fundamental Concepts of Mutual Funds

1.1 What Is a Mutual Fund?

- **Definition:**
  – A collective investment vehicle that pools money from many investors
  – Invests in a diversified portfolio (e.g., equities, bonds, government securities, money market instruments)
- **Mechanism:**
  – Professional fund managers invest according to a scheme's stated objective
  – The income/gains are earned by the pooled investments and distributed proportionately after deducting fees and expenses
  – Investors own "units" of the fund rather than the underlying securities directly

1.2 Benefits for Investors

- **Ideal for:**
  – Investors lacking direct market knowledge or experience
  – Those who wish to grow wealth without spending extensive time researching
  – Investors preferring to invest in small amounts

2. Key Financial Metrics and Calculations

2.1 Net Asset Value (NAV)

- **Definition:**
  – The market value of a scheme's securities divided by the total number of units outstanding on a given date
- **Example:**
  – If the market value is ₹200 lakh and there are 10 lakh units, then
  NAV per unit = ₹200 lakh ÷ 10 lakh = ₹20

2.2 Repurchase/Redemption Price

- **Definition:**
  – The price per unit at which a mutual fund buys back (redeems) units from an investor
  – Includes any applicable exit load (a fee charged on redemption)
- **Calculation Formula:**
  – Redemption Price = Applicable NAV × (1 – Exit Load)
- **Example:**
  – If NAV is ₹10 and Exit Load is 2%, then
  Redemption Price = ₹10 × (1 – 0.02) = ₹9.80

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3. Institutional Structure of Mutual Funds in India

The structure is generally three-tiered:

3.1 The Fund Sponsor

- **Role & Definition:**
  – The first layer; the sponsor sets up the mutual fund (typically as a public trust under the Indian Trust Act, 1882) to earn money through fund management
  – Acts as the promoter of the associated company
- **Key Steps:**
  – Approaches SEBI for permission
  – After SEBI's approval, a trust is created and registered
  – An Asset Management Company (AMC) is later set up to manage the funds
- **Entry Criteria for Sponsors:**
  – Minimum five years of experience in the financial services industry
  – Must have a positive net worth (assets exceed liabilities)
  – Sponsor's net worth must exceed the capital contribution by the AMC
  – Demonstrated profitability for at least the previous three years
  – Must hold at least a 40% stake in the AMC

3.2 Trust and Trustees

- **Role:**
  – The second layer; trustees are responsible for managing the trust
  – Act as protectors of the investors' interests by ensuring compliance with SEBI regulations
- **Key Responsibilities:**
  – Oversee fund performance
  – Report to SEBI every six months
  – Appoint competent fund managers
  – Set up the mutual fund's office and back-office operations
  – Appoint a compliance officer/ombudsman

3.3 Asset Management Companies (AMC)

- **Role & Function:**
  – The third layer; responsible for day-to-day management of the fund
  – Launch new schemes and close old ones
  – Decide on aspects like the Total Expense Ratio (TER), assets allocation, etc.
- **Responsibilities:**
  – Ensure maximum returns for investors
  – Appoint auditors, registrars, share transfer agents, and custodians
  – Present accounts to the trustees
  – Conduct investor education
- **Regulatory Restrictions:**
  – AMCs cannot provide portfolio management services or manage funds of other mutual funds
  – They cannot invest in their own funds unless disclosed, nor can they act as trustees for other funds

3.4 Additional Entities

- **Custodians:**
  – Secure and manage the securities held by the fund to reduce fraud risks.
- **Registrar and Transfer Agent (RTA):**
  – Maintain and update investor records
  – Handle application processing, purchase, and redemption transactions
  – Ensure independent maintenance of scheme accounts (audited separately from the AMC)

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4. History of Mutual Funds in India

The evolution of mutual funds in India is divided into five distinct phases:

4.1 First Phase (1964–1987)

- **Highlights:**
  – Established in 1963 with the creation of UTI (Unit Trust of India) by an Act of Parliament
  – Operated under the regulatory control of the Reserve Bank of India (RBI)
  – First scheme: Unit Scheme 1964 (US '64)
  – By the end of 1988, UTI had an Assets Under Management (AUM) of ₹6,700 crores

4.2 Second Phase (1987–1993)

- **Highlights:**
  – Entry of public sector mutual funds set up by public sector banks, LIC, and GIC
  – Notable funds: SBI Mutual Fund (first non-UTI fund in June 1987), Canbank Mutual Fund, Punjab National Bank Mutual Fund, Indian Bank Mutual Fund, Bank of India, Bank of Baroda Mutual Fund
  – LIC and GIC launched their funds in 1989 and 1990 respectively
  – By 1993, industry AUM reached ₹47,004 crores

4.3 Third Phase (1993–2003)

- **Highlights:**
  – Entry of private sector mutual funds following the establishment of SEBI in April 1992
  – The first private sector mutual fund registered in July 1993 (Kothari Pioneer, later merged with Franklin Templeton)
  – SEBI issued the first set of mutual fund regulations (later revised in 1996)
  – By January 2003, there were 33 mutual funds with total AUM of ₹1,21,805 crores (UTI alone held ₹44,541 crores)

4.4 Fourth Phase (February 2003 – April 2014)

- **Highlights:**
  – Repeal of the UTI Act led to the bifurcation of UTI into SUUTI and UTI Mutual Fund
  – Consolidation in the industry through mergers, especially in the wake of the global financial crisis of 2009
  – The crisis led to investor losses and a period of sluggish growth (2010–2013)

4.5 Fifth (Current) Phase (Since May 2014)

- **Highlights:**
  – SEBI introduced progressive measures (from September 2012) to increase penetration in tier II/III cities and align stakeholder interests
  – Post-reforms, the industry witnessed steady inflows and a significant increase in AUM and investor folios
  – Milestones:
  • AUM crossed ₹10 trillion (₹10 lakh crores) on 31st May 2014
  • AUM exceeded ₹20 trillion in August 2017
  • AUM exceeded ₹30 trillion in November 2020
  • Overall growth: From ₹7.30 trillion (31st July 2012) to ₹37.75 trillion (31st July 2022)
  • Investor folios increased from 5.94 crore (July 2017) to 13.56 crore (July 2022)
  • SIP accounts grew, with over 1 crore accounts in April 2016 and 5.62 crore by July 2022

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5. Systematic Investment Strategies

5.1 Systematic Investment Plan (SIP)

- **Definition:**
  – Allows investors to invest a fixed amount (as low as ₹500) on a monthly basis
- **Mechanism:**
  – Units are purchased at the prevailing NAV on a predetermined date (e.g., 5th of every month)
  – Investment amount is automatically debited from the investor's bank account via a NACH mandate

5.2 Systematic Withdrawal Plan (SWP)

- **Definition:**
  – A strategy that enables investors to withdraw a fixed or variable amount periodically (monthly, quarterly, or semi-annually)

- **Purpose:**
  – To supplement income or manage liquidity needs

5.3 Systematic Transfer Plan (STP)

- **Definition:**
  – Allows investors to gradually transfer funds from one scheme to another (e.g., from a debt fund to an equity fund)
- **Benefit:**
  – Helps mitigate market volatility by spreading the transfer over a period

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6. Classification of Mutual Funds

6.1 Based on Investment Objectives & Asset Classes

- **Debt Funds:**
  – Invest exclusively in fixed-income instruments (corporate bonds, debentures, government securities)
  – Lower risk profile
- **Equity Funds (Stock Funds):**
  – Invest primarily in the stock market
  – Higher risk profile
- **Liquid Funds:**
  – Invest in short-term money market instruments (e.g., treasury bills, certificates of deposit)
  – Least risky
- **Hybrid Funds:**
  – Invest in a mix of equity and debt
  – Moderate risk profile

6.2 Based on Scheme Structure

- **Open-Ended Schemes:**
  – Perpetual schemes available for continuous subscription and repurchase at the current NAV
- **Close-Ended Schemes:**
  – Have a fixed maturity date with units issued only at the time of the initial offer; may be listed for trading on exchanges

6.3 Active vs. Passive Funds

- **Active Funds:**
  – Managed by professional fund managers aiming to outperform a benchmark index
  – Often associated with a higher expense ratio due to active management
- **Passive Funds:**
  – Track a specific benchmark index (e.g., Index Funds or ETFs)
  – Lower expense ratios and often better liquidity

6.4 Assets Under Management (AUM)

- **Definition:**
  – Represents the total value of money managed by the mutual fund
  – Calculated as: AUM = NAV per unit × Total number of units

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7. Additional Financial Terms and Concepts

7.1 Asset Allocation

- **Definition:**
  – Investment strategy of spreading investments across different asset classes (e.g., equities, bonds) to balance risk
- **Note:**
  – There is no fixed formula; it depends on the investor's goals and risk appetite

7.2 Corpus

- **Definition:**
  – The total amount of money invested in a fund by all investors
- **Example:**
  – If an equity fund has 1000 units priced at ₹10 each, the corpus is ₹10,000. A new investment of ₹2,000 increases the corpus to ₹12,000.

7.3 Load

- **Definition:**
  – A fee paid by the investor when buying (entry load) or selling (exit load) mutual fund units

7.4 Portfolio

- **Definition:**
  – The total collection of investments held by an investor
- **Diversification:**
  – Investors often hold multiple funds to reduce risk; if one fund underperforms, others may offset the losses

7.5 Investment Options

- **Growth Option:**
  – Reinvests dividends, interest, and capital gains into additional fund units
  – Benefits from compounding; no interim payouts are made
- **Dividend Option:**
  – Provides periodic dividend payments, although the NAV adjusts downward after a dividend is paid
- **New Fund Offer (NFO):**
  – An introductory offer for a new scheme, similar to an IPO, available for a limited period

7.6 Capitalization Categories in Equity Funds

- **Large-Cap Funds:**
  – Invest in companies ranking between 1 and 100 in market capitalization; considered more stable
- **Mid-Cap Funds:**
  – Invest in companies ranked between 101 and 250
- **Small-Cap Funds:**
  – Invest in companies ranked 251 and beyond; higher risk but may respond faster to market opportunities

7.7 Total Expense Ratio (TER)

- **Definition:**
  – The percentage of a mutual fund's daily net assets that is deducted for operating expenses (sales & marketing, administration, transaction costs, management fees, registrar, custodian, and audit fees)

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8. Advantages and Disadvantages of Mutual Funds

8.1 Advantages

1. **Diversification:**
   – Investment is spread across various securities, reducing risk.
2. **Expert Management:**
   – Managed by skilled professionals who conduct ongoing research and analysis.
3. **Liquidity:**
   – Investments can be redeemed within 1–3 working days.
4. **Convenience:**
   – Multiple channels available for investment (online platforms, demat accounts, etc.) and low minimum investment amounts.
5. **Reinvestment of Income:**
   – Dividends and interest can be reinvested to benefit from compounding.
6. **Wide Range of Options:**
   – Funds available for different risk profiles and investment horizons.
7. **Affordability:**
   – Investors can start with as little as ₹500.
8. **Transparency & Ease of Comparison:**
   – Fund performance is tracked daily, allowing easy comparison with peers and benchmarks.

8.2 Disadvantages

1. **Exit Loads:**
   – Penalties for redeeming investments within a specified timeframe.
2. **Management Fees/Expense Ratio:**
   – Ongoing charges reduce the net return to the investor.
3. **Market Risks:**
   – Returns are not guaranteed and are subject to market fluctuations.
4. **Too Many Options:**
   – The abundance of schemes can make selection confusing.
5. **Lack of Control:**
   – Investors have no say in the choice of securities; they must rely entirely on the fund manager's judgment.

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9. The Association of Mutual Funds in India (AMFI)

- **Definition & Role:**
  – AMFI is a non-profit organization incorporated on 22 August 1995
  – Comprises all Asset Management Companies registered with SEBI

– Works to develop the mutual fund industry on professional, ethical, and healthy lines
– Sets and maintains standards to protect and promote the interests of mutual funds and their unit holders

1. Which of the following best describes a mutual fund?
(1)A collective investment vehicle that pools money from investors. (2)A savings account with a fixed interest rate. (3)A government security with fixed returns. (4)A type of insurance policy.
2. What does NAV stand for in the context of mutual funds?
(1)Net Annual Value. (2)Net Asset Value. (3)National Asset Variable. (4)Net Aggregate Value.
3. How is the redemption price of a mutual fund unit calculated?
(1)NAV divided by the exit load. (2)NAV multiplied by the exit load. (3)NAV multiplied by (1 minus the exit load). (4)NAV plus the exit load.
4. What is the primary role of the fund sponsor in the mutual fund structure?
(1)To manage daily investments. (2)To calculate the fund's NAV. (3)To maintain investor records. (4)To set up the mutual fund and initiate its formation.
5. Which of the following is a key requirement for a mutual fund sponsor according to SEBI regulations?
(1)Must be a government entity. (2)Must operate without a public trust. (3)Must have at least five years of experience in the financial services industry. (4)Must hold 100% ownership in the AMC.
6. What is the main function of trustees in the mutual fund structure?
(1)To manage the trust and ensure compliance with SEBI regulations. (2)To invest funds in high-risk assets. (3)To calculate the Total Expense Ratio. (4)To manage investor portfolios directly.
7. Which entity is responsible for the day-to-day management of a mutual fund?
(1)The fund sponsor. (2)The custodian. (3)Asset Management Company (AMC). (4)The registrar.
8. Who is primarily responsible for securing and managing the securities held by the mutual fund?
(1)The AMC. (2)The trustee. (3)The sponsor. (4)The custodian.
9. Which organization maintains and updates investor records for a mutual fund?
(1)The AMC. (2)The Registrar and Transfer Agent (RTA). (3)The custodian. (4)The fund sponsor.
10. In which year was India's first mutual fund, UTI, established?
(1)1960. (2)1970. (3)1980. (4)1963.
11. What does AUM stand for in mutual fund terminology?
(1)Assets Under Management. (2)Annual Unit Measure. (3)Aggregate Unit Margin. (4)Average Unit Market.
12. Which investment strategy allows investors to invest a fixed amount periodically in a mutual fund?
(1)Systematic Withdrawal Plan (SWP). (2)Systematic Investment Plan (SIP). (3)Systematic Transfer Plan (STP). (4)Lump Sum Investment.
13. What is the primary purpose of a Systematic Withdrawal Plan (SWP)?
(1)To invest in new mutual funds. (2)To transfer funds between schemes. (3)To reinvest dividends. (4)To withdraw a fixed or variable amount periodically.
14. Which of the following best describes a Systematic Transfer Plan (STP)?
(1)A strategy to gradually transfer funds between schemes. (2)A plan to invest a fixed amount monthly. (3)A withdrawal plan for periodic income. (4)A method to calculate NAV.
15. Which category of mutual funds invests exclusively in fixed-income instruments?
(1)Equity Funds. (2)Hybrid Funds. (3)Liquid Funds. (4)Debt Funds.
16. Equity Funds are primarily characterized by investments in which of the following?
(1)Money market instruments. (2)Stock market equities. (3)Fixed-income securities. (4)Real estate.
17. What best describes Liquid Funds in the context of mutual funds?
(1)Funds investing in long-term bonds. (2)Funds investing exclusively in equities. (3)Funds investing in short-term money market instruments. (4)Funds investing only in international securities.
18. Which of the following best defines Hybrid Funds?
(1)Funds investing exclusively in government securities. (2)Funds that invest only in derivatives. (3)Funds with a fixed portfolio allocation. (4)Funds that combine investments in both equity and debt instruments.
19. What is an open-ended scheme in mutual funds?
(1)A scheme that allows continuous subscription and redemption. (2)A scheme with a fixed maturity date. (3)A scheme that can only be bought at launch. (4)A scheme exclusively for institutional investors.
20. Which of the following is a characteristic of close-ended mutual fund schemes?
(1)They allow continuous subscriptions. (2)They have no maturity date. (3)They have a fixed maturity date and are traded on exchanges. (4)They permit unlimited redemptions.
21. How do Active Funds differ from Passive Funds?

(1)Active Funds track a benchmark index precisely. (2)Passive Funds incur higher management fees. (3)Passive Funds are only available for institutional investors. (4)Active Funds are managed by professionals aiming to outperform a benchmark.

22. How is the Assets Under Management (AUM) of a mutual fund calculated?
(1)NAV per unit multiplied by the total number of units. (2)NAV per unit plus the number of units. (3)Total revenue divided by NAV. (4)Total expenses divided by the number of units.
23. What does the term "asset allocation" refer to in investment strategy?
(1)The calculation of a fund's NAV. (2)The determination of management fees. (3)The process of diversifying investments across different asset classes. (4)The issuance of new fund units.
24. In mutual fund terminology, what does "corpus" refer to?
(1)The annual return of a fund. (2)The fund's total liabilities. (3)The net asset value per unit. (4)The total amount of money invested in the fund by all investors.
25. What is meant by "load" in the context of mutual funds?
(1)A fee charged on buying or selling mutual fund units. (2)A tax levied on dividend payments. (3)The interest rate on the fund. (4)The bonus units provided on investment.
26. What does the term "portfolio" refer to for a mutual fund investor?
(1)Only the mutual fund units held by an investor. (2)The complete range of investments held by an investor. (3)A fixed interest bond. (4)A type of asset allocation model.
27. What is the Growth Option in a mutual fund?
(1)An option to receive periodic dividend payments. (2)An option to withdraw funds on a regular schedule. (3)An option where dividends and gains are reinvested into additional units. (4)An option to transfer funds to another scheme.
28. What characterizes the Dividend Option in mutual funds?
(1)Reinvestment of all income. (2)Automatic fund switching. (3)Higher capital gains. (4)Payment of dividends to investors, with subsequent reduction in NAV.
29. In the mutual fund context, what does NFO stand for?
(1)Net Fund Outcome. (2)New Fund Offer. (3)National Financial Option. (4)New Fiscal Operation.
30. Which of the following is a common risk associated with Small-Cap Funds?
(1)Low volatility. (2)Guaranteed returns. (3)Steeper declines during market downturns. (4)No market exposure.
31. Which type of mutual fund is generally considered the least risky?
(1)Equity Funds. (2)Debt Funds. (3)Small-Cap Funds. (4)Liquid Funds.
32. Which mutual fund category typically invests in mid-sized companies?
(1)Large-Cap Funds. (2)Mid-Cap Funds. (3)Small-Cap Funds. (4)Hybrid Funds.
33. Which of the following best describes Passive Funds?
(1)They are actively managed by a fund manager. (2)They charge higher fees for active management. (3)They mirror and track a benchmark index closely. (4)They are not regulated by SEBI.
34. What does Total Expense Ratio (TER) represent?
(1)The total profit of the fund. (2)The fund's net asset value. (3)The average return on investment. (4)The percentage of a fund's net assets deducted for operating expenses.
35. Which of the following is NOT typically considered an advantage of mutual funds?
(1)Guaranteed returns. (2)Diversification. (3)Expert management. (4)Liquidity.
36. Which of the following is listed as a disadvantage of mutual funds?
(1)Reinvestment of income. (2)Professional management. (3)Ease of tracking performance. (4)Lack of control over investment decisions.
37. Which regulatory authority is responsible for overseeing mutual funds in India?
(1)RBI. (2)IRDA. (3)SEBI. (4)MCA.
38. What does AMFI stand for?
(1)Asset Management Fund Initiative. (2)Annual Mutual Fund Index. (3)Accredited Mutual Fund Institution. (4)Association of Mutual Funds in India.
39. In which year was the Association of Mutual Funds in India (AMFI) incorporated?
(1)1985. (2)1995. (3)2000. (4)1990.
40. What is the primary function of the Asset Management Company (AMC) in a mutual fund?
(1)To issue mutual fund units. (2)To regulate the mutual fund industry. (3)To manage the fund's day-to-day operations and investment decisions. (4)To maintain investor records.
41. In which phase of the Indian mutual fund industry did private sector funds begin to enter the market?
(1)Third Phase. (2)First Phase. (3)Second Phase. (4)Fourth Phase.
42. The fourth phase of the mutual fund industry in India (Feb 2003 – Apr 2014) was marked by which event?
(1)Entry of public sector funds. (2)Introduction of SEBI regulations. (3)Entry of private sector funds. (4)Bifurcation of UTI and industry consolidation.

43. During which phase did the AUM of mutual funds in India first cross ₹10 trillion?
(1)First Phase. (2)Third Phase. (3)Fifth Phase. (4)Fourth Phase.
44. Which strategy allows investors to invest a fixed amount periodically, similar to recurring deposits?
(1)Systematic Transfer Plan (STP). (2)Systematic Withdrawal Plan (SWP). (3)Lump Sum Investment. (4)Systematic Investment Plan (SIP).
45. Which mutual fund strategy is designed to provide periodic cash withdrawals?
(1)Systematic Investment Plan (SIP). (2)Systematic Withdrawal Plan (SWP). (3)Systematic Transfer Plan (STP). (4)Dividend Option.
46. Which plan allows an investor to gradually transfer funds from a debt fund to an equity fund?
(1)Systematic Transfer Plan (STP). (2)Systematic Investment Plan (SIP). (3)Systematic Withdrawal Plan (SWP). (4)Growth Option.
47. Which entity is required to report to SEBI every six months regarding the fund's activities?
(1)The Asset Management Company. (2)The Custodian. (3)The Sponsor. (4)The Trustees.
48. What is the primary role of the custodian in a mutual fund?
(1)Managing investor portfolios. (2)Issuing new units. (3)Securing and managing the securities held by the fund. (4)Calculating the fund's NAV.
49. What is the minimum investment amount typically possible through a Systematic Investment Plan (SIP) as mentioned in the documents?
(1)₹500. (2)₹100. (3)₹1000. (4)₹5000.
50. Who is primarily responsible for investor education within the mutual fund structure?
(1)The Registrar and Transfer Agent. (2)The Custodian. (3)The Asset Management Company (AMC). (4)The Fund Sponsor.

Answers:

1	1	6	1	11	1	16	2	21	4	26	2	31	4	36	4	41	1	46	1
2	2	7	3	12	2	17	3	22	1	27	3	32	2	37	3	42	4	47	4
3	3	8	4	13	4	18	4	23	3	28	4	33	3	38	4	43	3	48	3
4	4	9	2	14	1	19	1	24	4	29	2	34	4	39	2	44	4	49	1
5	3	10	4	15	4	20	3	25	1	30	3	35	1	40	3	45	2	50	3

28. Non Banking Financial Companies (NBFCs)

1. What Is a Non-Banking Financial Company (NBFC)?

- **Definition:**
  - A company registered under the Companies Act, 1956 engaged in activities such as:
    - Loans and advances
    - Acquisition of shares, stocks, bonds, debentures, or securities (issued by the government, local authority, or similar marketable securities)
    - Leasing, hire-purchase, insurance business, chit business, etc.
  - **Exclusions:**
    - Institutions whose principal business is agricultural or industrial activity
    - Purchase/sale of goods (other than securities), provision of services, or sale/purchase/construction of immovable property
- **Key Concept – Principal Business & the 50-50 Test:**
  - **Principal Business Definition:** Financial activity is considered "principal" if:
    - More than 50% of the total assets are financial assets; and
    - More than 50% of the gross income comes from these financial assets.
  - **Implication:** A company that meets both criteria is registered by the RBI as an NBFC.

2. Difference Between Banks and NBFCs

- **General Similarity:**
  - Both lend and invest.
- **Key Differences:**
  1. **Deposit Acceptance:**
     - **NBFCs:** Cannot accept demand deposits.
     - **Banks:** Can accept demand deposits and issue Demand Drafts.
  2. **Payment & Settlement System:**

- NBFCs are not part of the payment and settlement system and cannot issue cheques drawn on themselves.

3. **Deposit Insurance:**
   - Depositors in NBFCs are not covered by the Deposit Insurance and Credit Guarantee Corporation.
4. **Card Business:**
   - NBFCs require prior RBI approval to undertake credit card business.
   - Without approval, they also cannot issue debit cards, credit cards, charge cards, or similar products (whether virtual or physical).
5. **Certificate of Registration:**
   - NBFCs require a Certificate of Registration and must meet a minimum net owned fund (NOF) threshold (e.g. Rs. 100 crore for certain activities).
6. **Term vs. Demand Deposits:**
   - **Term Deposit (FD):** Fixed period, no premature withdrawal, no cheque facility.
   - **Demand Deposit (Savings):** Withdrawals on demand and cheque facilities are typically available (features not available to NBFCs).

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3. Regulatory Framework and RBI Registration

- **Section 45-IA of the RBI Act, 1934:**
  - A non-banking financial company cannot start or carry on its business without:
    - Obtaining a certificate of registration from the RBI
    - Having a minimum Net Owned Funds (NOF) of ₹2 crores (applicable since April 1999)
- **Exemptions:**
  - Certain NBFC categories regulated by other bodies are exempt from RBI registration, such as:
    - Venture Capital Funds, Merchant Banking companies, and Stock broking companies registered with SEBI
    - Insurance companies (with valid IRDA registration)
    - Nidhi companies (under Section 620A of the Companies Act, 1956)
    - Chit companies (as per the Chit Funds Act, 1982)
    - Housing Finance Companies regulated by the National Housing Bank
    - Stock Exchanges or Mutual Benefit companies
- **Additional Registration Requirements:**
  - The company must be registered under Section 3 of the Companies Act, 1956
  - Must have a minimum net owned fund of ₹200 lakh (note: specialized NBFCs such as NBFC-MFIs, NBFC-Factors, and CICs may have different requirements)

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4. Systemically Important NBFCs

- **Definition:**
  - NBFCs with an asset size of ₹500 crore or more (based on the last audited balance sheet) are considered systemically important.
- **Rationale:**
  - Their activities have a significant impact on the overall financial stability of the economy.

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5. Regulatory Oversight: Who Regulates Financial Companies?

- **RBI's Role:**
  - The RBI regulates many financial institutions, but not all.
- **Other Regulators:**
  - Housing Finance Companies → National Housing Bank
  - Merchant Banking/Venture Capital Funds, Stock exchanges, and brokers → Securities and Exchange Board of India (SEBI)
  - Insurance companies → Insurance Regulatory and Development Authority (IRDA)
  - Chit Fund Companies → Regulated by respective State Governments
  - Nidhi Companies → Ministry of Corporate Affairs, Government of India
- **Dual Regulation:**
  - Companies regulated by bodies other than the RBI are given exemptions from certain RBI registration requirements to avoid dual regulation.

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6. Mortgage Guarantee Companies

- **Definition:**

  - Classified as NBFCs under Section 45 I(f)(iii) of the RBI Act, 1934.
  - "Mortgage guarantee" means a guarantee provided for the repayment (principal and interest) of an outstanding housing loan, subject to a trigger event.
- **Requirements:**
  - Minimum net owned fund of Rs.100 crore at the commencement of business
  - Capital Adequacy: Not less than 10% of aggregate risk weighted assets and at least 6% Tier I capital
  - At least 90% of business turnover or gross income must derive from mortgage guarantee business

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7. Categories of NBFCs

NBFCs are classified in several ways:

A. Based on Liabilities

- **Deposit-Accepting NBFCs vs. Non-Deposit-Accepting NBFCs**

B. Based on Size

- **Systemically Important NBFCs** (asset size of ₹500 crore or more)
- **Other Non-Deposit Holding Companies (NBFC-NDSI and NBFC-ND)**

C. Based on Business Activity

1. **Asset Finance Company (AFC)**
   - **Definition:** Finances physical assets (e.g. automobiles, tractors, industrial machinery).
   - **Criterion:** At least 60% of total assets and income must arise from financing these assets.
2. **Investment Company (IC)**
   - **Definition:** Engaged primarily in the acquisition of securities.
3. **Loan Company (LC)**
   - **Definition:** Provides finance (loans or advances) for activities other than its own. (Excludes AFCs)
4. **NBFC – Investment and Credit Company (NBFC-ICC)**
   - **Merger:** AFCs, LCs, and ICs are merged into this category.
   - **Additional Note:** NBFC-ICCs with an asset size of ₹1000 crore or above may undertake factoring business if RBI conditions are met.
5. **Net Owned Fund (NOF) Requirements:**
   - RBI has set a minimum NOF of Rs.10 crores (effective from October 1, 2022) for:
     - NBFC-ICC
     - NBFC – Micro Finance Institution (NBFC-MFI)
     - NBFC – Factor
   - **Exception:** For NBFC-Peer to Peer (P2P), NBFC-Account Aggregator (AA), and NBFCs with no public funds and no customer interface, the NOF remains INR 2 crores.
6. **Infrastructure Finance Company (IFC)**
   - **Criteria:**
     - At least 75% of assets in infrastructure loans
     - Minimum NOF of ₹300 crore
     - Credit rating of 'A' (or equivalent)
     - CRAR of 15% with Tier I capital at 10%
7. **Systemically Important Core Investment Company (CIC-ND-SI)**
   - **Criteria:**
     - Holds at least 90% of its assets in the form of investments (equity, preference shares, debt/loans in group companies)
     - At least 60% of total assets in equity investments in group companies
     - Asset size of ₹100 crore or above
   - **Additional Note:** CICs with asset sizes less than ₹100 crore or those not accessing public funds are not required to register under Section 45IA. CICs over ₹5,000 crore must appoint a Chief Risk Officer (CRO).
8. **Infrastructure Debt Fund NBFC (IDF-NBFC)**
   - **Entry Norms:**
     - Minimum NOF of Rs.300 crore
     - CRAR of 15%
     - Net NPAs less than 3% of net advances
     - Existence for at least 5 years and profitability over the last 3 years
     - Minimum credit rating of 'A' by accredited agencies (e.g. CRISIL, FITCH, CARE, ICRA)
9. **NBFC – Micro Finance Institution (NBFC-MFI)**
   - **Criteria:**
     - Non-deposit taking

        - At least 85% of assets must be in qualifying assets
        - Loans are guarantee-free and targeted at borrowers (typically rural households with annual income not exceeding 3 lakh)
        - Microfinance loans must constitute at least 75% of total assets; NBFCs that do not qualify cannot extend microfinance loans exceeding 25% of total assets.

10. **NBFC – Factor**
    - **Criteria:**
        - At least 75% of financial assets in factoring business
        - At least 75% of gross income from factoring
        - Minimum NOF of Rs.5 crore
        - Must be registered by RBI under the Factoring Regulation Act, 2011.
11. **NBFC – Peer to Peer (NBFC-P2P) & NBFC – Account Aggregator (AA)**
    - **NBFC-P2P:** Acts as an intermediary providing an online platform for peer-to-peer lending.
    - **NBFC-AA:** Facilitates secure digital access and sharing of financial information among institutions, with a NOF of INR 2 crores.

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8. Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

NBFCs are now regulated in four layers based on size, activity, and perceived risk:

1. **Base Layer (NBFC-BL)**
    - Includes:
        - Non-deposit taking NBFCs with asset size below ₹1000 crore
        - NBFCs engaged in activities such as:
            - NBFC-Peer to Peer Lending Platform (NBFC-P2P)
            - NBFC-Account Aggregator (NBFC-AA)
            - Non-Operative Financial Holding Company (NOFHC)
            - NBFCs not availing public funds and without customer interface
2. **Middle Layer (NBFC-ML)**
    - Includes:
        - All deposit-taking NBFCs (NBFC-Ds), irrespective of asset size
        - Non-deposit taking NBFCs with asset size of ₹1000 crore or more
        - NBFCs undertaking activities like:
            - Standalone Primary Dealers (SPDs)
            - Infrastructure Debt Fund NBFCs (IDF-NBFCs)
            - Core Investment Companies (CICs)
            - Housing Finance Companies (HFCs)
            - Infrastructure Finance Companies (NBFC-IFCs)
3. **Upper Layer (NBFC-UL)**
    - Comprises NBFCs that the RBI identifies as warranting enhanced regulatory requirements.
    - Typically, the top ten NBFCs (by asset size) reside in this layer.
4. **Top Layer (NBFC-TL)**
    - Ideally remains empty; however, if RBI perceives a substantial increase in systemic risk from specific NBFCs in the Upper Layer, they may be moved to the Top Layer.
    - **Note:** Any regulatory stipulation applicable to a lower layer automatically applies to a higher layer unless the RBI notifies otherwise.
    - **Additional Norm:** There is a ceiling of Rs.1 crore per borrower for financing subscription to an IPO.

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9. Changes to NPA (Non-Performing Asset) Classification Norms

- **Transition Period for Compliance:**
    - Overdue period must not exceed:
        - **150 days** by 31 March 2024
        - **120 days** by 31 March 2025
        - **90 days** by 31 March 2026

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10. Exposure Limits and Risk Management

- **Single Entity Exposure:**
    - The exposure of an NBFC to a single entity should not exceed 20% of its available capital base.
    - **Additional Exposure:**
        - With board approval, an extra 5% exposure may be allowed.
    - **Infrastructure Finance Exception:**

- NBFCs in infrastructure finance may have an exposure of 25%, with an option for an additional 5% of Tier I capital.
- For groups of connected counterparties, the exposure can go up to 35% of Tier-I capital.

11. Capital Adequacy and Other Regulatory Requirements

- **Capital Requirements:**
  - Minimum Capital Adequacy Ratio (CRAR) of 15% with at least 10% Tier-I capital.
  - NBFC-UL must maintain Common Equity Tier 1 (CET1) capital of at least 9% of Risk Weighted Assets.
- **Public Deposits:**
  - NBFCs are permitted to accept or renew public deposits for a period between 12 to 60 months.
  - They cannot accept deposits repayable on demand.
- **Interest Rate Regulations:**
  - NBFCs cannot charge interest rates higher than the ceiling rate set by the RBI (currently 12.5% per annum).
  - Interest rates are governed by the terms of the loan agreement between the borrower and the NBFC.
- **Technology Adoption:**
  - NBFCs with 10 or more branches are mandated to adopt a Core Banking Solution (E-KUBER).

1. What best defines a Non-Banking Financial Company (NBFC)?
   (1)A government-owned bank operating under RBI guidelines. (2)A company registered under the Companies Act, 1956 that engages in activities like loans, leasing, and investments. (3)A company exclusively involved in agriculture and industrial production. (4)A financial institution that only deals with immovable property transactions.
2. According to the 50–50 test, financial activity is considered the principal business when:
   (1)Over 50% of the employees are employed in the finance department. (2)More than 50% of the revenue comes from non-financial activities. (3)50% of the total assets are physical assets. (4)More than 50% of the total assets are financial assets and more than 50% of gross income is derived from them.
3. Which of the following activities is specifically excluded from the NBFC definition?
   (1)Providing loans and advances. (2)Engaging in leasing and hire-purchase. (3)Sale, purchase, or construction of immovable property. (4)Acquisition of marketable securities.
4. Under which Act is an NBFC registered?
   (1)The Banking Regulation Act, 1949. (2)The Companies Act, 1956. (3)The SEBI Act, 1992. (4)The RBI Act, 1934.
5. Under which section of the RBI Act, 1934 must an NBFC obtain a certificate of registration before commencing business?
   (1)Section 45–IA. (2)Section 3. (3)Section 45–IB. (4)Section 15–B.
6. As per Section 45–IA (since April 1999), what is the minimum Net Owned Fund (NOF) required for NBFC registration?
   (1)₹1 crore. (2)₹2 crores. (3)₹5 crores. (4)₹10 crores.
7. Which statement regarding deposit acceptance by NBFCs is correct?
   (1)NBFCs can accept both demand and term deposits without restrictions. (2)NBFCs are not permitted to accept demand deposits; they may accept only term deposits. (3)NBFCs can issue cheques drawn on themselves. (4)NBFCs can offer demand deposit services similar to commercial banks.
8. Which deposit facility is not available to NBFCs compared to banks?
   (1)Fixed deposits. (2)Demand deposits. (3)Term deposits. (4)Chit deposits.
9. For an NBFC to undertake credit card business, what is required?
   (1)No additional clearance is needed. (2)A partnership with a commercial bank must be established. (3)Prior approval from the RBI must be obtained. (4)A minimum asset size of ₹500 crores must be maintained.
10. How does a term deposit differ from a demand deposit?
    (1)Term deposits allow immediate withdrawals. (2)Term deposits offer lower interest rates compared to demand deposits. (3)Term deposits have a fixed tenure with no premature withdrawals, unlike demand deposits. (4)Demand deposits have a fixed tenure and cannot be withdrawn on demand.
11. Which pair of regulatory bodies can exempt certain NBFCs from mandatory RBI registration?
    (1)Ministry of Corporate Affairs and the National Housing Bank. (2)RBI and the Ministry of Finance. (3)SEBI and Ministry of Home Affairs. (4)SEBI and IRDA.
12. Which of the following companies is typically exempt from RBI registration under Section 45–IA?

(1)A company primarily providing retail loans. (2)A chit fund company defined under the Chit Funds Act, 1982. (3)A deposit-taking NBFC. (4)A scheduled commercial bank.

13. NBFCs with an asset size of at least _____ are considered systemically important.
(1)₹100 crores. (2)₹250 crores. (3)₹500 crores. (4)₹1000 crores.
14. Which institution regulates Housing Finance Companies?
(1)Reserve Bank of India. (2)Securities and Exchange Board of India. (3)National Housing Bank. (4)Ministry of Finance.
15. What is the primary function of a Mortgage Guarantee Company as per RBI guidelines?
(1)To guarantee repayment for commercial vehicle loans. (2)To provide a guarantee for the repayment of housing loans in the event of a trigger event. (3)To issue mortgage-backed securities. (4)To finance the construction of residential complexes.
16. At the time of commencement, what is the minimum Net Owned Fund required for a Mortgage Guarantee Company?
(1)Rs.50 crores. (2)Rs.75 crores. (3)Rs.100 crores. (4)Rs.150 crores.
17. Which of the following is NOT a basis for categorizing NBFCs?
(1)The type of liabilities they carry. (2)The kind of business activities they conduct. (3)The geographical location of their operations. (4)Their asset size.
18. Which three traditional categories of NBFCs were merged to form the NBFC–ICC?
(1)Asset Finance Companies, Loan Companies, and Investment Companies. (2)NBFC-MFIs, NBFC-Factors, and NBFC-P2P. (3)Housing Finance Companies, Merchant Banking Companies, and Chit Companies. (4)Infrastructure Finance Companies, NBFC-ICC, and NBFC-MFI.
19. As of October 1, 2022, which NBFC categories require a minimum NOF of Rs.10 crores?
(1)NBFC–ICC, NBFC–MFI, and NBFC–Factor. (2)NBFC–P2P and NBFC–Account Aggregator. (3)Only NBFC–ICC. (4)All NBFCs regardless of category.
20. For NBFC-Peer to Peer (P2P) and NBFC–Account Aggregator (AA), what is the stipulated Net Owned Fund?
(1)INR 1 crore. (2)INR 2 crores. (3)INR 5 crores. (4)INR 10 crores.
21. An Infrastructure Finance Company (IFC) must deploy what percentage of its total assets in infrastructure loans?
(1)50%. (2)60%. (3)75%. (4)90%.
22. What is the minimum credit rating required for an Infrastructure Finance Company?
(1)'AA' or equivalent. (2)'A' or equivalent. (3)'BBB' or equivalent. (4)'B' or equivalent.
23. In a Systemically Important Core Investment Company (CIC–ND–SI), at least what percentage of total assets must be in the form of investments?
(1)50%. (2)70%. (3)90%. (4)100%.
24. CICs with an asset size exceeding what value must appoint a Chief Risk Officer (CRO)?
(1)₹100 crores. (2)₹500 crores. (3)₹1000 crores. (4)₹5000 crores.
25. Which NBFC category is designed to facilitate the flow of long-term debt into infrastructure projects?
(1)NBFC–MFI. (2)NBFC–ICC. (3)Infrastructure Debt Fund NBFC (IDF–NBFC). (4)NBFC–Factor.
26. What is the minimum NOF required for an NBFC–Factor?
(1)Rs.2 crores. (2)Rs.5 crores. (3)Rs.10 crores. (4)Rs.15 crores.
27. Which NBFC serves as an intermediary providing an online marketplace for peer-to-peer lending?
(1)NBFC–ICC. (2)NBFC–P2P. (3)NBFC–MFI. (4)NBFC–Account Aggregator.
28. What is the primary role of an NBFC–Account Aggregator (AA)?
(1)To directly issue loans to consumers. (2)To help individuals securely access and share financial information among institutions. (3)To manage public deposits for NBFCs. (4)To provide investment advisory services.
29. How many layers are defined under the Scale Based Regulation (SBR) framework for NBFCs?
(1)Three. (2)Four. (3)Five. (4)Six.
30. Which SBR layer typically includes all deposit-taking NBFCs regardless of their asset size?
(1)Base Layer. (2)Middle Layer. (3)Upper Layer. (4)Top Layer.
31. In the SBR framework, NBFCs that warrant enhanced regulatory oversight are placed in which layer?
(1)Base Layer. (2)Middle Layer. (3)Upper Layer. (4)Top Layer.
32. What is the intended characteristic of the Top Layer in the SBR framework?
(1)It should include all NBFCs with high asset sizes. (2)It is reserved for NBFCs with minimal regulatory oversight. (3)It is ideally expected to remain empty unless systemic risks arise. (4)It consists of NBFCs exclusively accepting deposits.
33. By which date must NBFCs limit the overdue period for asset classification as NPA to no more than 150 days?
(1)31 March 2024. (2)31 March 2025. (3)31 March 2026. (4)31 December 2023.
34. What is the maximum permissible exposure of an NBFC to a single entity relative to its available capital base?
(1)10%. (2)20%. (3)30%. (4)40%.
35. With board approval, an NBFC may have an additional exposure of how much over its standard limit?

(1)2%. (2)3%. (3)5%. (4)7%.

36. NBFCs involved in infrastructure finance may have a single-counterparty exposure limit of what percentage (with additional Tier I capital option)?
(1)20%. (2)25%. (3)30%. (4)35%.

37. What is the minimum Capital to Risk Weighted Assets Ratio (CRAR) that NBFCs are required to maintain?
(1)10%. (2)12%. (3)15%. (4)20%.

38. NBFC–UL is mandated to maintain Common Equity Tier 1 (CET1) capital of at least what percentage of its Risk Weighted Assets?
(1)7%. (2)9%. (3)10%. (4)12%.

39. For what duration are NBFCs allowed to accept or renew public deposits?
(1)Between 6 and 36 months. (2)Between 12 and 60 months. (3)Only for 12 months. (4)For an unlimited period.

40. What is the current ceiling on the annual interest rate that NBFCs can offer?
(1)10%. (2)11.5%. (3)12.5%. (4)15%.

41. NBFCs with how many or more branches are required to adopt the Core Banking Solution E–KUBER?
(1)5 or more. (2)8 or more. (3)10 or more. (4)12 or more.

42. Which regulatory agency deregulated the interest rates charged to borrowers by financial institutions (excluding NBFC-MFIs)?
(1)Reserve Bank of India. (2)Securities and Exchange Board of India. (3)National Housing Bank. (4)Insurance Regulatory and Development Authority.

43. The rate of interest charged by NBFCs on loans is primarily governed by:
(1)The prevailing market rate only. (2)The specific terms and conditions of the loan agreement between the borrower and the NBFC. (3)A fixed rate prescribed by the RBI. (4)The customer's credit score alone.

44. Which of the following is NOT a typical business activity of an NBFC?
(1)Issuing loans and advances. (2)Acquiring marketable securities. (3)Operating a retail chain. (4)Providing leasing and hire-purchase services.

45. What is the principal business activity of an Asset Finance Company (AFC)?
(1)Offering retail banking services. (2)Financing physical assets that support productive economic activity. (3)Acquiring securities for investment purposes. (4)Providing insurance products.

46. Which type of NBFC primarily focuses on the acquisition of securities as its main business activity?
(1)Loan Company (LC). (2)Investment Company (IC). (3)Asset Finance Company (AFC). (4)NBFC–ICC.

47. What differentiates a Loan Company (LC) from an Asset Finance Company (AFC) among NBFCs?
(1)LC finances physical assets, whereas AFC provides loans for working capital. (2)LC provides finance for activities other than its own (excluding asset financing), while AFC specifically finances physical assets. (3)LC is regulated by RBI, but AFC is not. (4)LC accepts deposits while AFC does not.

48. The merged category NBFC–ICC is formed by combining which of the following?
(1)NBFC–MFI, NBFC–P2P, and NBFC–AA. (2)NBFC–IFC, NBFC–Factor, and NBFC–ICC. (3)Asset Finance Companies, Loan Companies, and Investment Companies. (4)NBFC–ICC, NBFC–Factor, and NBFC–P2P.

49. Which NBFC category maintains its Net Owned Fund requirement at INR 2 crores even when others have higher thresholds?
(1)NBFC–MFI. (2)NBFC–P2P. (3)NBFC–ICC. (4)NBFC–IFC.

50. In the context of IPO financing, what is a key regulatory requirement imposed on NBFCs regarding single-borrower exposure?
(1)A ceiling of Rs.50 lakhs per borrower. (2)A ceiling of Rs.1 crore per borrower. (3)No specific exposure limit is set. (4)Exposure is limited by a percentage of the NBFC's total assets.

Answers:

1	**2**	**6**	**2**	**11**	**4**	**16**	**3**	**21**	**3**	**26**	**2**	**31**	**3**	**36**	**2**	**41**	**3**	**46**	**2**
2	**4**	**7**	**2**	**12**	**2**	**17**	**3**	**22**	**2**	**27**	**2**	**32**	**3**	**37**	**3**	**42**	**1**	**47**	**2**
3	**3**	**8**	**2**	**13**	**3**	**18**	**1**	**23**	**3**	**28**	**2**	**33**	**1**	**38**	**2**	**43**	**2**	**48**	**3**
4	**2**	**9**	**3**	**14**	**3**	**19**	**1**	**24**	**4**	**29**	**2**	**34**	**2**	**39**	**2**	**44**	**3**	**49**	**2**
5	**1**	**10**	**3**	**15**	**2**	**20**	**2**	**25**	**3**	**30**	**2**	**35**	**3**	**40**	**3**	**45**	**2**	**50**	**2**

29. NaBFID (National Bank for Financing Infrastructure and Development)

A. Establishment and Legislative Background

- **Introduction of the Bill:**
  - The National Bank for Financing Infrastructure and Development Bill, 2021 was introduced in Lok Sabha on **March 22, 2021**.
- **Purpose of the Bill:**
  - To establish NaBFID as the principal Development Financial Institution (DFI) for infrastructure financing.

B. Role and Nature of DFIs

- **Definition:**
  DFIs are created to provide long-term finance for sectors where risks exceed the acceptable limits of commercial banks and other ordinary financial institutions.
- **Key Characteristics:**
  - **No Deposits:** Unlike banks, DFIs do not accept public deposits.
  - **Funding Sources:**
    They obtain funds from the market, government, and multilateral institutions and are often backed by government guarantees.

C. Infrastructure Financing Characteristics

- **Stable Returns:**
  Infrastructure investments generally generate predictable and stable returns in the long run.
- **Reliance on Debt Financing:**
  - Infrastructure projects primarily rely on **low-cost debt financing**.
  - **Debt Sources:**
    - **Banks:** Offer cheaper short-term liabilities, but their short-term nature creates a mismatch since infrastructure assets are long-term.
    - **Bond Markets:** Serve as an alternative source.
  - **Risk Issue:**
    The mismatch between long-term assets and short-term liabilities on banks' books makes bank financing inherently risky and may pose financial stability concerns.

D. NaBFID Act and Regulatory Framework

- **Legislative Milestones:**
  - **Presidential Assent:** Received on **March 28, 2021**.
  - **Effective Date:** Came into force with effect from **April 19, 2021**.
- **Purpose:**
  NaBFID is set up as a Development Financial Institution to support long-term infrastructure financing in India.
- **Regulatory Oversight:**
  - **Authority:** Regulated and supervised as an All India Financial Institution (AIFI) by the Reserve Bank of India (RBI).
  - **Statutory Sections:** Under Sections 45L and 45N of the RBI Act, 1934.
  - **Position:** It is the **fifth AIFI** after EXIM Bank, NABARD, NHB, and SIDBI.

E. Ownership and Shareholding Structure

- **Shareholding Possibilities:**
  Shares in NaBFID may be held by:
  1. Central government
  2. Multilateral institutions
  3. Sovereign wealth funds
  4. Pension funds
  5. Insurers
  6. Financial institutions
  7. Banks
  8. Any other institution prescribed by the central government
- **Initial Ownership:**
  - The central government will initially own **100% of the shares**.
  - This may later be reduced up to **26%**, allowing for participation by institutional investors.
  - **Rationale:** Full initial government ownership helps build credibility.

F. Leadership and Capital Structure

- **Key Appointments:**
  - **First Chairman:** KV Kamath
  - **First MD:** Rajkiran Rai G
- **Capital Details:**

- **Authorised Share Capital:** 1 lakh crore rupees.

G. Governance and Operational Principles

- **Board-Driven Structure:**
  NaBFID is designed to be run on sound business principles with a strong board orientation.
- **Leadership and Management:**
  - **Executive Structure:**
    - One MD
    - Up to three Deputy MDs
  - **Directorship:**
    - Up to three directors can be appointed by significant non-government shareholders.
    - The central government does not have unilateral power to appoint or remove the majority of board directors.
- **Attracting Talent:**
  - The Act enables the institution to offer market-level salaries to attract top management and skilled employees.
- **Protection for Decision Making:**
  - The Act mandates that prior sanctions must be obtained before initiating any investigation or prosecution against any director or employee.
  - **Objective:** To ensure decisions are made solely on commercial considerations.

H. Performance Review and Accountability

- **Review Process:**
  - NaBFID's performance is to be reviewed every **five years** by an external agency appointed by the central government.
- **Performance Metrics:**
  - The review will assess the extent to which NaBFID has achieved its statutory objectives.
  - The central government may prescribe key performance indicators (KPIs) for this review.
- **Reporting:**
  - The performance report is to be submitted to both the NaBFID board and the central government.

I. Competition and Regulatory Environment

- **Private Sector Participation:**
  - The RBI will license multiple private DFIs to compete with NaBFID.
- **Regulatory Fairness:**
  - Ownership-neutral regulations will ensure that all DFIs operate on a level playing field.
- **Incentives for Performance:**
  - Stiff competition and mandatory performance reporting are designed to create strong incentives for NaBFID to perform effectively despite its statutory privileges.

J. Financial and Funding Objectives

- **Fundraising Targets:**
  - The government expects NaBFID to raise as much as **Rs 3 trillion** over the next five years.
- **Capital and Grants:**
  - **Initial Equity Capital:** Rs **20,000 crore**
  - **Additional Grant:** Rs **5,000 crore** (in addition to the proposed equity)
- **Incentives:**
  - **Tax Concession:** NaBFID will benefit from a **10-year tax concession** to help it offer long-term funds at an affordable cost.
  - **Government Guarantees:**
    It is eligible for government guarantees at a concessional rate of up to **0.1%** for borrowing from multilateral institutions, sovereign wealth funds, and similar entities.

1. When was the National Bank for Financing Infrastructure and Development (NaBFID) Bill introduced in the Lok Sabha?
   (1)March 22, 2021 (2)March 28, 2021 (3)April 19, 2021 (4)March 15, 2021
2. What does the acronym NaBFID stand for?
   (1)National Bank for Financing Industrial Development (2)National Bank for Funding International Development (3)National Bank for Financing Infrastructure and Development (4)National Bank for Funding Infrastructure and Development
3. Which of the following is NOT one of the All India Financial Institutions mentioned in the documents?
   (1)NABARD (2)EXIM Bank (3)NHB (4)SBI

4. What is the primary purpose of Development Financial Institutions (DFIs) like NaBFID?
(1)To offer short-term loans to micro-enterprises (2)To accept public deposits and provide savings accounts (3)To provide long-term finance for sectors with risks beyond commercial banks' limits (4)To facilitate foreign exchange operations
5. DFIs are distinct from commercial banks because they do NOT:
(1)Source funds from the market (2)Accept deposits from the public (3)Receive government support (4)Obtain funds from multilateral institutions
6. Infrastructure typically generates which type of returns?
(1)Volatile and unpredictable returns (2)Rapid but inconsistent gains (3)Short-term high profits (4)Predictable and stable returns in the long run
7. What are the two main sources of debt financing for infrastructure projects?
(1)Banks and insurance companies (2)Government and banks (3)Banks and bond markets (4)Bond markets and stock markets
8. Why is bank financing considered risky for infrastructure projects?
(1)Because of the mismatch between long-term assets and short-term liabilities (2)Because banks charge excessively high interest rates (3)Due to unpredictable regulatory changes (4)Owing to limited market competition
9. On which date did the NaBFID Act receive the President's assent?
(1)April 19, 2021 (2)March 28, 2021 (3)March 22, 2021 (4)April 1, 2021
10. When did the NaBFID Act come into force?
(1)March 28, 2021 (2)March 22, 2021 (3)May 1, 2021 (4)April 19, 2021
11. Under which sections of the RBI Act, 1934, is NaBFID regulated?
(1)Sections 12 and 14 (2)Sections 33 and 35 (3)Sections 45L and 45N (4)Sections 22 and 24
12. Who initially holds 100% of the shares in NaBFID?
(1)Private investors (2)The central government (3)Multilateral institutions (4)Commercial banks
13. What is the maximum reduction in government shareholding allowed in NaBFID later on?
(1)26% (2)10% (3)50% (4)75%
14. Who is appointed as the first Chairman of NaBFID?
(1)Rajkiran Rai G (2)Dr. Gaurav Garg (3)Anil Kumar (4)KV Kamath
15. Who is the first Managing Director (MD) of NaBFID?
(1)KV Kamath (2)Rajkiran Rai G (3)Dr. Gaurav Garg (4)Ramesh Sharma
16. What is the authorised share capital of NaBFID?
(1)Rs 20,000 crore (2)Rs 3 trillion (3)1 lakh crore rupees (4)Rs 5,000 crore
17. How is NaBFID designed to operate?
(1)As a board-driven institution run on business principles (2)As a government-run entity with no board involvement (3)As a private enterprise under complete government control (4)As a non-profit organization
18. What is the maximum number of Deputy MDs that NaBFID may have?
(1)One (2)Two (3)Four (4)Three
19. Up to how many directors can be appointed by significant non-government shareholders in NaBFID?
(1)Up to 3 directors (2)Up to 2 directors (3)Up to 4 directors (4)Up to 1 director
20. Which authority licenses private DFIs to compete with NaBFID?
(1)Ministry of Finance (2)SEBI (3)Government of India (4)Reserve Bank of India
21. What is the government's target for funds to be raised by NaBFID over the next five years?
(1)Rs 20,000 crore (2)Rs 5,000 crore (3)Rs 3 trillion (4)1 lakh crore rupees
22. What is the proposed initial equity capital for NaBFID?
(1)Rs 5,000 crore (2)Rs 20,000 crore (3)Rs 3 trillion (4)1 lakh crore rupees
23. Besides the proposed equity, what additional grant has the government committed to NaBFID?
(1)A Rs 1 lakh crore grant (2)A Rs 3 trillion grant (3)A Rs 20,000 crore grant (4)A Rs 5,000 crore grant
24. For how many years is NaBFID eligible to receive a tax concession?
(1)10 years (2)5 years (3)7 years (4)15 years
25. At what concessional rate can NaBFID secure government guarantees for borrowing from multilateral institutions?
(1)1% (2)5% (3)0.1% (4)2%
26. Which feature distinguishes DFIs from regular commercial banks?
(1)They primarily focus on short-term finance (2)They do not accept deposits from the public (3)They offer consumer banking services (4)They rely solely on equity funding
27. Which factor is most responsible for the stable returns from infrastructure investments?
(1)Predictability and long-term stability (2)High market volatility (3)Frequent economic fluctuations (4)Short-term investment cycles
28. Which funding source is NOT used by DFIs such as NaBFID?

(1)Market funds (2)Government funding (3)Multilateral institutions (4)Deposits

29. What best describes the risk inherent in bank financing of infrastructure?
(1)High liquidity risk (2)Mismatch between long-term assets and short-term liabilities (3)Elevated credit risk (4)Low interest rate fluctuations
30. Which institution is specifically established as the principal development financial institution for infrastructure financing in India?
(1)NaBFID (2)NABARD (3)NHB (4)SIDBI
31. Under which regulatory framework does NaBFID operate?
(1)The Companies Act, 2013 (2)The Banking Regulation Act, 1949 (3)The SEBI Act, 1992 (4)The RBI Act, 1934 (Sections 45L and 45N)
32. What is one intended benefit of initial full government ownership of NaBFID?
(1)To ensure immediate privatization (2)To avoid external oversight (3)To build credibility in the institution (4)To maintain complete government control indefinitely
33. Which statement best describes the leadership structure of NaBFID?
(1)It includes one MD and up to three Deputy MDs (2)It is managed solely by a government-appointed director (3)It is run by a committee of private investors (4)It has no clearly defined leadership structure
34. What safeguard does the NaBFID Act provide for its directors and employees regarding legal actions?
(1)Immunity from all prosecutions (2)Prosecution under military law only (3)No legal protection is provided (4)Prior sanctions are required before initiating investigations or prosecutions
35. How frequently is NaBFID's performance review scheduled?
(1)Every 2 years (2)Every 3 years (3)Every 5 years (4)Every 10 years
36. Who is responsible for prescribing the key performance indicators for NaBFID's performance review?
(1)The central government (2)The NaBFID board alone (3)The Reserve Bank of India (4)Private sector investors
37. What is the primary objective of NaBFID as a Development Financial Institution?
(1)To support short-term trading operations (2)To offer consumer banking services (3)To facilitate international trade financing (4)To support long-term infrastructure financing in India
38. Which measure ensures a level playing field between NaBFID and private DFIs?
(1)Government subsidies (2)Ownership-neutral regulations (3)Exclusive government grants (4)Preferential tax treatments for NaBFID only
39. Which financial instrument, besides bank loans, is mentioned as a source of debt financing for infrastructure?
(1)Equity financing (2)Venture capital (3)Bond markets (4)Crowdfunding
40. In the NaBFID context, what does the term "AIFI" stand for?
(1)Accredited International Finance Institution (2)All India Financial Institution (3)All Inclusive Funding Initiative (4)Authorized Investment Fund Institution
41. Which key feature of infrastructure financing is highlighted in the documents?
(1)It primarily relies on low-cost debt financing (2)It mainly uses high-cost equity (3)It depends on high-frequency trading (4)It is exclusively funded by the government
42. What requirement does the NaBFID Act impose before any investigation or prosecution can be initiated against its directors or employees?
(1)Immediate investigation without oversight (2)Waiving of all legal procedures (3)Prior sanctions must be obtained (4)Only international bodies can authorize investigations
43. Which benefit helps NaBFID offer affordable long-term funds?
(1)Access to high-interest short-term loans (2)A 10-year tax concession (3)Unlimited borrowing without restrictions (4)No need for regulatory oversight
44. What role do multilateral institutions play in the funding of DFIs like NaBFID?
(1)They primarily provide deposit insurance (2)They regulate the operations of DFIs (3)They exclusively manage DFIs' portfolios (4)They serve as a funding source alongside market and government funds
45. Which of the following is NOT a function of NaBFID as described in the documents?
(1)Supporting long-term infrastructure financing (2)Being regulated as an All India Financial Institution (3)Accepting public deposits (4)Operating on sound business principles
46. What is the main reason for offering market-level salaries to top management in NaBFID?
(1)To attract top talent (2)To reduce operational expenses (3)To comply with minimum wage regulations (4)To maintain uniform salary structures
47. Who is responsible for reviewing NaBFID's performance every five years?
(1)The internal audit department (2)The Reserve Bank of India (3)An external agency appointed by the central government (4)A committee of private investors
48. Which description best fits the initial shareholding pattern of NaBFID?

(1)100% owned by private investors with future dilution (2)Majority owned by multilateral institutions (3)A 50:50 split between government and private sector (4)100% owned by the central government with potential reduction to 26%

49. What advantage does NaBFID have in terms of borrowing costs from foreign institutions?
(1)It receives government guarantees at a concessional rate of up to 0.1% (2)It borrows at standard market interest rates (3)It is subject to fixed high-interest rates (4)There are no specific borrowing cost benefits

50. Which statement best summarizes the overall objective of NaBFID as presented in the documents?
(1)To support rapid growth in short-term trade finance (2)To facilitate immediate consumer lending (3)To provide long-term finance for infrastructure development in India (4)To generate profits exclusively for private shareholders

Answers:

1	1	6	4	11	3	16	3	21	3	26	2	31	4	36	1	41	1	46	1
2	3	7	3	12	2	17	1	22	2	27	1	32	3	37	4	42	3	47	3
3	4	8	1	13	1	18	4	23	4	28	4	33	1	38	2	43	2	48	4
4	3	9	2	14	4	19	1	24	1	29	2	34	4	39	3	44	4	49	1
5	2	10	4	15	2	20	4	25	3	30	1	35	3	40	2	45	3	50	3

30. Types of Money

1. What is Money?

- **Definition:**
  Money is defined as something that is generally accepted by society as a medium of exchange. It also functions as:
  - A unit of account
  - A store of value
  - A means for the repayment of debt
- **Historical Context:**
  Money developed as a better alternative to the barter system that had been used across the world since ancient times.

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2. Evolution of Money

- **Barter System:**
  - **Definition:** Direct exchange of goods and services without using money or a credit medium.
  - **Historical Significance:** Used since the beginning of recorded history.
  - **Critical Issues:**
    - **Double Coincidence of Wants:** Both parties must want what the other has, which is difficult to achieve.
    - **Storage Issues:** Storing goods in large quantities is challenging as goods can lose quality and value over time.
- **Transition:**
  Due to the inefficiencies inherent in the barter system, societies developed money as a common, convenient medium for exchange.

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3. Major Functions of Money

1. **Medium of Exchange:**
   - Primary and unique function.
   - Resolves the issue of the double coincidence of wants, thereby facilitating economic exchanges.
2. **Unit of Account:**
   - Serves as a common standard for measuring the relative worth of goods and services.
   - Simplifies the process of comparing values and setting prices.
3. **Store of Value:**
   - Allows people to hold their wealth in the form of money.
   - Considered a liquid store of value because it is easy to spend and store.
4. **Standard of Deferred Payments:**

- Facilitates transactions that are settled in the future rather than immediately.

5. **Means of Payment:**
   - Used to settle debts and pay for obligations, including taxes, fees, and fines.

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4. Types of Money

a. Commodity Money

- **Description:**
  Possesses intrinsic value. The commodity itself has worth (e.g., gold, silver, copper) even without any governing body.
  In early economies, commodities were directly used or traded for goods and services based on their inherent value.
- **Examples:**
  Gold, Silver, Copper, Chocolate Beans

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b. Metallic Money

- **Description:**
  Made of superior metals like gold and silver.
  Replaced commodity money because it was more convenient—being easily portable, storable, and having a high value density.
  Retains intrinsic value due to the precious metals used, offering durability and efficiency for large transactions.
- **Examples:**
  Gold Coins, Silver Coins

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c. Paper Money

- **Description:**
  Consists of currency notes issued by the government or central bank.
  Unlike commodity or metallic money, paper money has no intrinsic value; its value is based on the trust and legal backing of the issuing authority.
  It is lightweight and easy to carry, making it practical for modern transactions.
- **Examples:**
  Indian Rupee Notes, US Dollar Bills

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d. Fiat Money

- **Description:**
  Government-issued money that is not backed by a physical commodity like gold or silver.
  Its value comes from the trust that people place in the issuing government.
  Although it has no intrinsic value, it is accepted as legal tender, enforceable by law.
  (For example, in India, currency notes carry a promise by the RBI Governor that they can be exchanged for their printed value.)
- **Examples:**
  Indian Currency Notes, Coins with RBI Guarantee

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e. Bank Money (Credit Money)

- **Description:**
  Refers to money held in the form of demand deposits at commercial banks.
  These deposits can be withdrawn via cheques.
  Although a cheque is not money by itself, it serves as a credit instrument to facilitate transactions.
  This type of money is sometimes called "near money" because it is not physical currency but can be quickly converted into it.
- **Examples:**
  Bank Demand Deposits, Cheques

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f. Plastic Money

- **Description:**
  Refers to hard plastic cards that substitute for physical cash.
  It comes in various forms such as credit cards, debit cards, and cash cards.
  Plastic money enables easy, cashless transactions and is popular for its convenience, security, and versatility in both online and offline purchases.

- **Examples:**
  Credit Cards, Debit Cards, Cash Cards

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g. Digital Money (Electronic Money)

- **Description:**
  Exists purely in electronic format and is intangible.
  It is widely used in online banking, mobile payments, and digital wallets.
  Its prevalence has grown with the rise of e-commerce and technology-driven financial transactions.
- **Examples:**
  Online Banking Transactions, Digital Wallets (e.g., Paytm, PayPal)

1. Which of the following best defines money?
   (1)A store of value used exclusively to hold wealth. (2)Something generally accepted as a medium of exchange, a unit of account, a store of value, and for the repayment of debt. (3)A digital asset used only in online transactions. (4)A government-issued instrument that represents physical wealth.
2. What major problem inherent in the barter system led to the development of money?
   (1)Double coincidence of wants. (2)Excess production of goods. (3)Inability to store perishable items. (4)Lack of standardized measurements.
3. Which of the following is NOT one of the major functions of money?
   (1)Source of profit. (2)Unit of account. (3)Medium of exchange. (4)Store of value.
4. Commodity money is primarily characterized by:
   (1)Being issued by a government authority. (2)Being easily portable in comparison to other forms. (3)Possessing intrinsic value independent of any governing body. (4)Its use predominantly in digital transactions.
5. Which type of money is characterized by having no intrinsic value and relies entirely on the trust placed in its issuing authority?
   (1)Fiat money. (2)Commodity money. (3)Metallic money. (4)Paper money.
6. In the context of the barter system, which issue makes direct exchange particularly challenging?
   (1)High transaction costs. (2)Requirement of a double coincidence of wants. (3)Inability to measure value accurately. (4)Difficulty in storing perishable goods.
7. Which type of money is most closely associated with electronic transactions and online banking?
   (1)Bank money (Credit money). (2)Plastic money. (3)Paper money. (4)Digital money (Electronic money).
8. Which function of money allows for transactions to be settled at a future date?
   (1)Unit of account. (2)Store of value. (3)Standard of deferred payments. (4)Medium of exchange.
9. Which of the following is used primarily to represent money held as demand deposits at commercial banks?
   (1)Plastic money. (2)Bank money (Credit money). (3)Digital money. (4)Fiat money.
10. Which type of money replaced commodity money because it was more portable and had a higher value density?
    (1)Metallic money. (2)Fiat money. (3)Digital money. (4)Plastic money.

Answers:

1	2	6	2	11		16		21		26		31		36		41		46	
2	1	7	4	12		17		22		27		32		37		42		47	
3	1	8	3	13		18		23		28		33		38		43		48	
4	3	9	2	14		19		24		29		34		39		44		49	
5	1	10	1	15		20		25		30		35		40		45		50	

31. Small Saving Schemes

1. Introduction to Small Savings Schemes

Definition and Purpose

- **Small Savings Schemes** are a group of savings instruments managed by the central government. Their main purpose is to encourage citizens to save regularly regardless of age.
- These schemes offer a **sovereign guarantee**, attractive interest rates, and tax exemptions/benefits. In many cases, returns are generally higher than those offered by traditional bank fixed deposits.
- All deposits under these schemes are pooled into the **National Small Savings Fund (NSSF)**, which was established in 1999 within the Public Account of India. The NSSF is administered by the Ministry of Finance under rules derived from Article 283(1) of the Constitution.

Key Features and Financial Linkages

- The money deposited in the NSSF is used by both the Centre and the states to finance fiscal deficits; any remaining funds are invested in central and state government securities.
- Since 2016, the interest rates on small savings schemes have been revised quarterly. These rates are now linked to the market yields on government securities (G-secs).
- The Shyamala Gopinath panel (set up in 2010) was tasked with recommending ways to make these schemes more market-linked.
- As per the 14th Finance Commission, all states use the NSSF funds for their financing needs with the exception of Kerala, Delhi, Arunachal Pradesh, and Madhya Pradesh (which secure loans at lower interest rates).

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2. Classification of Small Savings Schemes

The schemes are grouped into three main categories:

A. Post Office Deposits

These instruments are offered through the Post Office network and include several specific products.

1. Post Office Savings Account

- **Eligibility:**
  - Can be opened by a single adult, two adults (joint account – either Joint A or Joint B), a guardian on behalf of a minor, a guardian on behalf of a person of unsound mind, or by a minor (provided the minor is above 10 years old in his/her own name).
  - Only one account may be opened per individual as a single account and only one account per minor/unsound mind person.
  - In the event of a joint holder's death, if the surviving holder already has a single account, the joint account must be closed.
- **Account Rules:**
  - Conversion between single and joint accounts is not permitted.
  - Nomination is mandatory at the time of account opening.
  - A minor, upon attaining majority, must submit a fresh account opening form with updated KYC documents to convert the account into his/her own name.
- **Deposit and Withdrawal:**
  - Minimum initial deposit: Rs. 500 (subsequent deposits must be at least Rs. 10).
  - Minimum withdrawal amount: Rs. 50.
  - No withdrawal is allowed if it reduces the balance below Rs. 500.
  - If the balance does not reach Rs. 500 by the end of the financial year, Rs. 50 is deducted as an account maintenance fee; if the balance becomes nil, the account is automatically closed.
- **Interest and Tax Benefits:**
  - Interest up to ₹10,000 in the account qualifies for a deduction under section 80 TTA of the Income Tax Act.
  - The central government fixes the interest rate (currently 4% per annum).
- **Facilities Provided:**
  - Cheque book, ATM Card, e-banking/mobile banking, Aadhaar seeding, Atal Pension Yojana (APY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).

2. National Savings Recurring Deposit Account Scheme

(Also known as the Post Office Recurring Deposit Account)

- **Launch Date:** Announced on 12 December 2019.
- **Deposit Details:**
  - Minimum deposit: ₹100 per month.
  - Deposits must be made in multiples of ₹10.
  - No maximum deposit limit.
- **Eligibility:**
  - Can be opened as an individual account, a joint account (operated by up to three adults), or as a minor account (either operated by a legal guardian or by a minor who is at least 10 years old).
- **Account Features:**
  - Maturity period: 5 years.
  - After one year, withdrawal up to 50% of the existing balance is allowed.
  - Post-maturity, the account can continue (with or without additional deposits) for another five years.
  - Premature closure is allowed after 3 years with interest calculated at the rate of POSA.
- **Interest Rate:** 6.7% per annum (quarterly compounded) (From 01.01.2024).

3. National Savings Time Deposit Account Scheme

- **Launch Date:** Announced on 12 December 2019.
- **Account Variants:**
  - Four categories are available: 1-year, 2-year, 3-year, and 5-year time deposits.
- **Deposit Details:**
  - Minimum deposit: ₹1000.
  - Subsequent deposits must be in multiples of ₹100.
  - No maximum deposit limit.
- **Eligibility:**
  - A guardian may open an account on behalf of a minor or a person of unsound mind.
- **Early Withdrawal:**
  - An account may be closed after six months.
  - If withdrawn prematurely after six months but before one year, simple interest at the POSA rate is payable.
  - Deposits in the 5-year category qualify for deduction under Section 80-C of the Income Tax Act, 1961.

4. National Savings (Monthly Income Account) Scheme

- **Account Details:**
  - Maturity period: 5 years.
  - Minimum deposit: ₹1000 (with further deposits in the same multiples).
  - Maximum deposit limits: ₹4.5 Lakhs in a single account and ₹9 Lakhs in a joint account.
- **Early Closure Provisions:**
  - The account can be closed prematurely after one year but before three years.
    - If closed before three years, a 2% deduction is applied.
    - If closed after three years, a 1% deduction is applied.
- **Interest Rate:** 7.4% per annum payable monthly (From 01.01.2024).

B. Savings Certificates

These schemes are available in certificate form and often come with additional tax benefits.

1. National Savings Certificate (NSC)

- **Account Features:**
  - Maturity period: 5 years.
  - Minimum deposit: ₹1000 (subsequent deposits in multiples of ₹100).
  - No maximum deposit limit.
- **Eligibility:**
  - Can be opened by an adult for him/herself or on behalf of a minor.
  - A minor may also open an account after attaining the age of 10.
  - Joint accounts may be opened by up to three adults.
- **Additional Features:**
  - Loan facility is available by pledging the certificate with banks.
  - Deposits qualify for deduction under Section 80C of the Income Tax Act.
- **Interest Rate:** 7.7% per annum compounded annually but payable at maturity. (From 01.01.2024).

2. Kisan Vikas Patra (KVP) Scheme

- **Account Features:**
  - Minimum deposit: ₹1000 (with subsequent deposits in multiples of ₹100).
  - No maximum deposit limit.
- **Eligibility:**
  - A single holder type account can be opened by an adult for him/herself or on behalf of a minor.
  - A minor can also open an account after reaching 10 years of age.
  - Joint accounts may be opened by up to three adults.
- **Other Features:**
  - Accounts can be opened in post offices and authorized banks.
  - There is no limit to the number of accounts that can be opened.
  - KVP certificates can be transferred from one person to another and between post offices.
  - The certificate can be encashed after 2½ years from the date of investment.
  - No tax benefits are provided under this scheme.
- **Historical Note:**
  - Launched in 1988 as a saving certificate for farmers, it was discontinued in 2011 due to its misuse in money laundering, then re-launched in 2014 with modifications.

- **Interest Rate:** 7.5% per annum (From 01.01.2024). Amount Invested doubles in 115 months (9 years & 7 months)

C. Social Security Schemes

These schemes are designed to provide long-term financial security and are often used for retirement or specific social objectives.

1. Public Provident Fund (PPF)

- **Purpose:** A retirement savings scheme aimed at providing a secure post-retirement life.
- **Eligibility:**
  - Can be opened by a single adult (resident Indian) or by a guardian on behalf of a minor/person of unsound mind.
  - **Note:** Only one PPF account can be opened by an individual across the country (whether in a Post Office or a bank).
- **Deposit Details:**
  - Minimum deposit: ₹500.
  - Maximum deposit: ₹1,50,000 per financial year.
  - Deposits can be made in multiple installments (in multiples of ₹50).
- **Features:**
  - Interest is tax-free.
  - Offers an income tax rebate under Section 80 C.
  - Loan facility becomes available from the 3rd financial year up to the 6th financial year.
  - Withdrawals are permitted starting from the 7th financial year.
  - The account matures after fifteen complete financial years (from the end of the year in which the account was opened).
  - After maturity, the account can be extended in blocks of 5 years with further deposits or retained indefinitely with the prevailing rate of interest.
  - Deposits qualify for tax deductions under Section 80-C and the interest earned is exempt under Section 10.
- **Interest Rate:** 7.1% per annum (Compounded yearly) (From 01.01.2024).

2. Senior Citizens' Savings Scheme (SCSS)

- **Eligibility:**
  - An individual aged 60 years or above at the time of opening or an individual aged 55 years or more (if retired under Superannuation, VRS, or Special VRS) can open an account.
  - Accounts may be opened individually or jointly with a spouse.
- **Deposit Details:**
  - Minimum deposit: ₹1000 (with deposits in multiples thereof).
  - Maximum deposit: ₹30 lakhs.
- **Account Duration:**
  - The account can be closed after 5 years from the date of opening.
  - The account can be extended for an additional 3 years.
  - Premature closure is allowed subject to certain conditions.
- **Tax Benefits:** Deposits qualify for deductions under Section 80-C.
- **Interest Rate:** 8.2% per annum (From 01.01.2024).

3. Sukanya Samriddhi Account Scheme

- **Purpose:** Designed to promote the welfare of the girl child.
- **Eligibility:**
  - An account can be opened in the name of a girl child until she attains the age of 10.
  - Only one account per girl child is permitted, with a maximum of two accounts per family.
- **Deposit Details:**
  - Minimum deposit: ₹250.
  - Maximum deposit: ₹1.5 Lakh per financial year.
- **Features:**
  - The account may be opened in Post Offices and authorized banks.
  - Withdrawals are allowed for the purpose of funding higher education expenses.
  - The account can be prematurely closed in the event of the girl child's marriage after she turns 18.
  - The account is transferable from one Post Office/Bank to another anywhere in India.
  - Maturity occurs on completion of 21 years from the date of opening.
  - Deposits qualify for a deduction under Section 80-C, and interest earned is tax-free under Section 10.
- **Additional Withdrawal Conditions:**

- Withdrawal is permitted once the girl attains 18 years or after passing the 10th standard.
- Withdrawal may be up to 50% of the balance available at the end of the preceding financial year.

* **Interest Rate:** 8.2% per annum (From 01.01.2024).

1. What is the primary objective of Small Savings Schemes?
(1)To provide short-term investment opportunities. (2)To encourage citizens to save regularly. (3)To offer high-risk speculative investments. (4)To fund exclusively government infrastructure projects.
2. Which feature is NOT associated with Small Savings Schemes?
(1)Sovereign guarantee. (2)Attractive interest rates. (3)Exposure to high-risk investments. (4)Tax exemptions and benefits.
3. Which government body administers the National Small Savings Fund (NSSF)?
(1)Ministry of Finance. (2)Reserve Bank of India. (3)Ministry of Home Affairs. (4)Securities and Exchange Board of India.
4. In which year was the National Small Savings Fund (NSSF) established?
(1)1988 (2)2010 (3)1999 (4)2016
5. Which of the following is NOT a use of funds pooled in the NSSF?
(1)Financing fiscal deficits of the Centre and states. (2)Investing in government securities. (3)Supporting state financing needs. (4)Funding private corporate ventures.
6. Since which year have the interest rates on small savings schemes been revised quarterly?
(1)1999 (2)2010 (3)1988 (4)2016
7. Which panel, set up in 2010, was tasked with recommending market-linked improvements for these schemes?
(1)Shyamala Gopinath panel. (2)Narayana Murthy committee. (3)Ratan Tata commission. (4)Nirmala Sitharaman board.
8. After how many years does the Sukanya Samriddhi Account mature?
(1)18 years. (2)15 years. (3)21 years. (4)25 years.
9. Which product is offered through the Post Office network?
(1)Public Provident Fund (PPF). (2)National Savings Certificate (NSC). (3)Post Office Savings Account. (4)Senior Citizens' Savings Scheme (SCSS).
10. Who among the following is NOT eligible to open a Post Office Savings Account?
(1)A single adult. (2)A guardian on behalf of a minor. (3)A minor below 10 years of age. (4)A guardian on behalf of a person of unsound mind.
11. What is the minimum initial deposit required for a Post Office Savings Account?
(1)Rs. 500. (2)Rs. 100. (3)Rs. 50. (4)Rs. 1000.
12. What is the minimum withdrawal amount from a Post Office Savings Account?
(1)Rs. 500. (2)Rs. 100. (3)Rs. 50. (4)Rs. 10.
13. If the balance in a Post Office Savings Account does not reach Rs. 500 by the end of the financial year, what happens?
(1)The account is upgraded automatically. (2)Rs. 50 is deducted as an account maintenance fee. (3)Interest is credited at a higher rate. (4)The account is converted into a fixed deposit.
14. Which tax benefit is available on the interest earned in a Post Office Savings Account?
(1)Complete tax exemption on all interest earned. (2)Deduction under Section 80 TTA for interest up to ₹10,000. (3)Exemption from capital gains tax. (4)No tax benefits are provided.
15. Which facility is NOT provided with a Post Office Savings Account?
(1)Cheque book. (2)ATM Card. (3)e-Banking/mobile banking. (4)Personal cheque signing authority.
16. When was the National Savings Recurring Deposit Account Scheme launched?
(1)12 December 2019. (2)1 January 2020. (3)15 August 2018. (4)5 November 2019.
17. What is the minimum monthly deposit for the National Savings Recurring Deposit Account Scheme?
(1)₹50. (2)₹250. (3)₹500. (4)₹100.
18. After how many years is withdrawal of up to 50% of the balance allowed in the National Savings Recurring Deposit Account?
(1)After three years. (2)Immediately after the deposit. (3)After one year. (4)Only at maturity.
19. What is the initial maturity period for the National Savings Recurring Deposit Account Scheme?
(1)3 years. (2)7 years. (3)10 years. (4)5 years.
20. Which interest rate applies to the National Savings Recurring Deposit Account Scheme (from 01.01.2024)?
(1)6.7% per annum. (2)7.7% per annum. (3)8.2% per annum. (4)7.4% per annum.
21. How many deposit variants are available under the National Savings Time Deposit Account Scheme?
(1)Two. (2)Three. (3)Four. (4)Five.
22. What is the minimum deposit required for the National Savings Time Deposit Account Scheme?

(1)₹500. (2)₹1000. (3)₹1500. (4)₹2000.

23. Subsequent deposits in the National Savings Time Deposit Account Scheme must be made in multiples of:
(1)₹50. (2)₹100. (3)₹500. (4)₹1000.
24. What benefit do deposits in the 5-year category of the National Savings Time Deposit Account Scheme offer?
(1)They qualify for a tax deduction under Section 80-C. (2)They earn interest tax-free. (3)They allow unlimited premature withdrawals. (4)They offer bonus interest rates on maturity.
25. What is the maximum deposit limit for a single account under the National Savings (Monthly Income Account) Scheme?
(1)₹4.5 Lakhs. (2)₹9 Lakhs. (3)₹1 Lakh. (4)₹3 Lakhs.
26. What is the minimum deposit required to open a National Savings (Monthly Income Account) Scheme?
(1)₹500. (2)₹1000. (3)₹1500. (4)₹2000.
27. What is the applicable interest rate for the National Savings (Monthly Income Account) Scheme (from 01.01.2024)?
(1)7.4% per annum. (2)6.7% per annum. (3)7.7% per annum. (4)8.2% per annum.
28. If the National Savings (Monthly Income Account) is closed before three years, what deduction is applied?
(1)No deduction. (2)1% deduction. (3)2% deduction. (4)5% deduction.
29. What is the maturity period of the National Savings Certificate (NSC)?
(1)10 years. (2)5 years. (3)3 years. (4)7 years.
30. What is the minimum deposit required to open a National Savings Certificate (NSC) account?
(1)₹500. (2)₹100. (3)₹1000. (4)₹1500.
31. Which additional facility is provided to NSC certificate holders?
(1)Loan facility by pledging the certificate. (2)Complimentary life insurance. (3)Dividend payouts. (4)Overseas investment benefits.
32. Under which section do NSC deposits qualify for a tax deduction?
(1)Section 10. (2)Section 80C. (3)Section 24. (4)Section 80 TTA.
33. What is the interest rate for NSC effective from 01.01.2024?
(1)7.4% per annum. (2)8.2% per annum. (3)7.7% per annum. (4)6.7% per annum.
34. What is the minimum deposit amount for opening a Kisan Vikas Patra (KVP) account?
(1)₹500. (2)₹1000. (3)₹1500. (4)₹2000.
35. KVP certificates can be encashed after which period from the date of investment?
(1)1 year. (2)2 years. (3)2½ years. (4)5 years.
36. Which statement about the Kisan Vikas Patra (KVP) Scheme is NOT true?
(1)It offers tax benefits on deposits. (2)There is no limit to the number of accounts that can be opened. (3)Certificates are transferable between post offices. (4)It was re-launched in 2014 with modifications.
37. What is the interest rate for the Kisan Vikas Patra (KVP) Scheme (from 01.01.2024)?
(1)6.7% per annum. (2)7.7% per annum. (3)7.5% per annum. (4)8.2% per annum.
38. What is the primary purpose of the Public Provident Fund (PPF)?
(1)To provide short-term liquidity. (2)To serve as a retirement savings scheme. (3)To finance government deficits. (4)To offer loan facilities for housing.
39. What is the maximum annual deposit limit for a PPF account?
(1)₹1,00,000. (2)₹2,00,000. (3)₹2,50,000. (4)₹1,50,000.
40. How many PPF accounts can an individual open across the country?
(1)Only one account. (2)Two accounts. (3)One account per state. (4)Multiple accounts.
41. What is the minimum deposit required to open a PPF account?
(1)₹100. (2)₹50. (3)₹500. (4)₹250.
42. What is the maturity period of a PPF account?
(1)10 years. (2)15 financial years. (3)20 years. (4)25 years.
43. From which financial year does the loan facility become available in a PPF account?
(1)Immediately upon opening. (2)From the 1st financial year. (3)From the 3rd financial year. (4)After 10 years.
44. What is the applicable interest rate for a PPF account (from 01.01.2024)?
(1)6.7% per annum. (2)7.1% per annum. (3)7.7% per annum. (4)8.2% per annum.
45. Which scheme is specifically designed for senior citizens?
(1)Public Provident Fund (PPF). (2)Sukanya Samriddhi Account. (3)National Savings Certificate (NSC). (4)Senior Citizens' Savings Scheme (SCSS).
46. What is the maximum deposit limit for the Senior Citizens' Savings Scheme?
(1)₹10 lakhs. (2)₹20 lakhs. (3)₹30 lakhs. (4)₹40 lakhs.
47. What is the interest rate for the Senior Citizens' Savings Scheme (from 01.01.2024)?
(1)7.7% per annum. (2)8.2% per annum. (3)7.1% per annum. (4)8.5% per annum.
48. What is the primary objective of the Sukanya Samriddhi Account Scheme?

(1)To build a retirement corpus. (2)To promote small business investments. (3)To promote the welfare of the girl child. (4)To finance urban development projects.

49. What is the minimum deposit required for opening a Sukanya Samriddhi Account?
(1)₹100. (2)₹250. (3)₹500. (4)₹1000.

Answers:

1	**2**	**6**	**4**	**11**	**1**	**16**	**1**	**21**	**3**	**26**	**2**	**31**	**1**	**36**	**1**	**41**	**3**	**46**	**3**
2	**3**	**7**	**1**	**12**	**3**	**17**	**4**	**22**	**2**	**27**	**1**	**32**	**2**	**37**	**3**	**42**	**2**	**47**	**2**
3	**1**	**8**	**3**	**13**	**2**	**18**	**3**	**23**	**2**	**28**	**3**	**33**	**3**	**38**	**2**	**43**	**3**	**48**	**3**
4	**3**	**9**	**3**	**14**	**2**	**19**	**4**	**24**	**1**	**29**	**2**	**34**	**2**	**39**	**4**	**44**	**2**	**49**	**2**
5	**4**	**10**	**3**	**15**	**4**	**20**	**1**	**25**	**1**	**30**	**3**	**35**	**3**	**40**	**1**	**45**	**4**		

32. Important Financial Schemes

Overview of Covered Financial Schemes

The lecture details **seven major government schemes** focused on financial inclusion and social security. These are:

1. **Pradhan Mantri Jan Dhan Yojana (PMJDY)**
2. **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**
3. **Pradhan Mantri MUDRA Yojana (PMMY)**
4. **Atal Pension Yojana (APY)**
5. **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**
6. **Stand Up India Scheme**
7. **Pradhan Mantri Vaya Vandana Yojana (PMVVY)**

A. Pradhan Mantri Jan Dhan Yojana (PMJDY)

- **Launch & Purpose:**
  - Announced on **15th August 2014** by the Hon'ble Prime Minister in the Independence Day address.
  - Established as the **National Mission on Financial Inclusion** to ensure every household has access to banking facilities.
- **Key Features & Benefits:**
  - **Account Opening:**
    - A basic savings bank deposit (BSBD) account can be opened at any bank branch or via a Business Correspondent (Bank Mitra) by individuals with no prior account.
    - One account is provided per unbanked person.
  - **No Minimum Balance:**
    - There is no requirement to maintain a minimum balance.
  - **Interest & Debit Card:**
    - Interest is earned on deposits.
    - Rupay Debit Card is issued to account holders.
  - **Insurance & Overdraft Facilities:**
    - **Accident Insurance Cover:** Rs.1 lakh (enhanced to Rs.2 lakh for new accounts opened after 28.08.2018).
    - **Overdraft Facility:** Up to Rs.10,000 (previously Rs.5000) is available, with a special provision allowing up to Rs.2,000 without additional conditions.
    - **Age Criteria for Overdraft:** Minimum age is 18 years and maximum is 65 years; the minimum age to open a Jan Dhan account is 10 years.
    - **Death Benefit:** Rs.30,000 is provided in case of the account holder's death.
- **Digital Integration:**
  - **JAN DHAN DARSHAK:**

- A citizen-centric mobile application used to locate nearby bank branches, ATMs, Bank Mitras, post offices, and CSC centers.

- **Linkages with Other Schemes:**
  - PMJDY accounts are integrated with schemes like DBT, PMJJBY, PMSBY, APY, and the MUDRA scheme.
  - Benefits such as scholarships, subsidies, pensions, and COVID relief funds are credited directly into these accounts.

B. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- **Launch Details:**
  - Launched on **May 9, 2015** by PM Narendra Modi.
- **Eligibility & Enrollment:**
  - Open to individuals aged **18 to 50 years** with a bank account.
  - Participation requires consent for auto-debit.
  - **Aadhar** serves as the primary KYC document.
- **Coverage & Premium:**
  - **Life Cover:** Rs.2 lakh for a one-year period (renewable each year from 1st June to 31st May).
  - **Premium:** Rs.436 per annum is auto-debited from the subscriber's bank account.

C. Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- **Launch Details:**
  - Also launched on **May 9, 2015**.
- **Eligibility:**
  - Available to individuals aged **18 to 70 years** with a bank account.
  - Participation requires enabling auto-debit on or before 31st May for the coverage period (1st June to 31st May).
  - **Aadhar** is used for KYC.
- **Coverage & Premium:**
  - **Risk Coverage:**
    - Rs.2 lakh for accidental death and full disability.
    - Rs.1 lakh for partial disability.
  - **Premium:** Rs.20 per annum is deducted in one installment through the auto-debit facility.

D. Atal Pension Yojana (APY)

- **Launch Details:**
  - Launched on **May 9, 2015**.
- **Eligibility:**
  - Open to all savings bank or post office saving bank account holders aged **18 to 40 years**.
- **Features & Benefits:**
  - **Pension Options:**
    - Subscribers can choose a guaranteed minimum monthly pension from the options: Rs.1,000, Rs.2,000, Rs.3,000, Rs.4,000, or Rs.5,000 upon reaching 60 years.
  - **Survivor Benefits:**
    - In the event of premature death, the spouse may continue contributing to secure the same pension amount until their death.
    - Post the demise of both the subscriber and spouse, the accumulated pension corpus (up to age 60) is returned to the nominee.

E. Pradhan Mantri MUDRA Yojana (PMMY)

- **Launch Details:**
  - Launched by the Hon'ble Prime Minister on **April 8, 2015**.
- **Objective:**
  - To provide loans up to **Rs.10 lakh** to non-corporate, non-farm small/micro enterprises.
- **Loan Characteristics:**
  - **Classification:**
    - Loans under PMMY are known as **MUDRA loans**.
  - **Lending Institutions:**
    - Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks, Micro Finance Institutions (MFIs), and Non-Banking Financial Companies (NBFCs).

- **Application Process:**
  - Applicants can approach any of the lending institutions or apply online via www.udyamimitra.in.
- **About MUDRA:**
  - The Micro Units Development & Refinance Agency Ltd (MUDRA) was established by the Government of India as a wholly owned subsidiary of SIDBI.
  - **Capital Details:**
    - Authorized capital is Rs.1000 crores and paid-up capital is Rs.750 crores.
- **Loan Categories:**
  - **Shishu:** Loans up to Rs.50,000.
  - **Kishore:** Loans from Rs.50,001 up to Rs.5 lakh.
  - **Tarun:** Loans from Rs.5,00,001 up to Rs.10 lakh.
  - **Note:**
    - There is no minimum loan amount; however, the maximum sanctioned is Rs.10 lakh.
    - Borrowers are not required to pay processing fees or offer collateral.
- **Additional Details:**
  - There has been a significant increase in non-performing assets (NPAs) under MUDRA; for example, gross NPAs rose from Rs.26,078.43 crore in FY20 to Rs.34,090.34 crore in FY21—a 30.7% increase.

F. Stand Up India Scheme

- **Purpose:**
  - Designed to facilitate bank loans for setting up a greenfield enterprise by SC/ST and/or women entrepreneurs.
- **Key Features:**
  - **Loan Range:**
    - Bank loans between **Rs.10 lakh and Rs.1 crore**.
  - **Eligibility Criteria:**
    - The scheme requires that at least one borrower per bank branch is from the Scheduled Caste (SC) or Scheduled Tribe (ST) community, and at least one woman is included.
    - Applicable only for greenfield projects in manufacturing, services, or trading.
  - **Repayment Terms:**
    - Loan tenure is **7 years** with a moratorium period of **18 months**.

G. Pradhan Mantri Vaya Vandana Yojana (PMVVY)

- **Objective:**
  - To protect elderly persons (aged 60 years and above) against a future fall in interest income due to market uncertainties and to provide financial security during old age.
- **Implementation:**
  - The scheme is implemented through the Life Insurance Corporation of India (LIC).
- **Subscription & Return:**
  - **Subscription Deadline:**
    - Open for subscription up to **31st March 2023**.
  - **Assured Rate of Return:**
    - An assured rate of return of **7.40% per annum** for FY 2022-23 is offered for a policy duration of 10 years.
    - In subsequent years, there will be an annual reset of the assured rate effective from April 1st.
- **Payment Options & Purchase Price:**
  - **Mode of Pension Payment:**
    - Options include monthly, quarterly, half-yearly, or annual payouts, as chosen by the subscriber.
  - **Minimum & Maximum Purchase Prices:**
    - The minimum purchase price is **Rs.1,62,162** for a minimum pension of **Rs.1,000 per month**.
    - The maximum purchase price is **Rs.15 lakh**, which corresponds to a maximum pension of **Rs.9,250 per month**.
  - **Additional Eligibility and Policy Details:**
    - Minimum entry age is 60 years (completed); there is no maximum entry age.
    - Policy term is 10 years, and the scheme outlines detailed limits on the pension amounts payable on various frequencies (monthly, quarterly, etc.).

1. Which government scheme was announced on 15th August 2014 to ensure financial inclusion?
(1)PMJDY (2)PMVVY (3)PMMY (4)APY
2. What does PMJDY primarily aim to provide to unbanked individuals?
(1)Pension benefits (2)Micro-enterprise loans (3)Basic savings bank deposit accounts (4)Life insurance
3. Under PMJDY, what is the maximum overdraft facility available?
(1)Rs.5,000 (2)Rs.30,000 (3)Rs.10,000 (4)Rs.2,000
4. For PMJDY, what is the enhanced accident insurance cover for new accounts opened after 28.08.2018?
(1)Rs.1 lakh (2)Rs.30,000 (3)Rs.2 lakh (4)Rs.10,000
5. What digital application is associated with PMJDY to locate nearby banking service points?
(1)Bank Finder App (2)Jan Dhan Locator (3)Dhan Mitra (4)JAN DHAN DARSHAK
6. Which scheme is integrated with PMJDY accounts to provide life cover insurance?
(1)PMMY (2)Stand Up India Scheme (3)PMJJBY (4)APY
7. When was Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) launched?
(1)May 9, 2015 (2)April 8, 2015 (3)August 15, 2014 (4)March 21, 2022
8. What is the age range for eligibility under PMJJBY?
(1)10 to 65 years (2)18 to 70 years (3)18 to 50 years (4)18 to 40 years
9. What is the annual premium for PMJJBY?
(1)Rs.436 (2)Rs.20 (3)Rs.1,000 (4)Rs.30,000
10. Under PMJJBY, what is the life cover provided for a one-year period?
(1)Rs.10 lakh (2)Rs.1 lakh (3)Rs.5 lakh (4)Rs.2 lakh
11. Which scheme offers coverage for accidental death and disability with a premium of Rs.20 per annum?
(1)PMVVY (2)PMJDY (3)PMSBY (4)APY
12. What is the risk coverage under PMSBY for accidental death and full disability?
(1)Rs.1 lakh (2)Rs.2 lakh (3)Rs.5 lakh (4)Rs.3 lakh
13. For partial disability under PMSBY, what amount is covered?
(1)Rs.1 lakh (2)Rs.2 lakh (3)Rs.50,000 (4)Rs.10,000
14. What is the age eligibility range for PMSBY?
(1)18 to 70 years (2)18 to 50 years (3)10 to 65 years (4)60 years and above
15. Under which scheme can subscribers choose a guaranteed minimum monthly pension upon reaching 60 years?
(1)PMJDY (2)APY (3)PMSBY (4)PMVVY
16. What are the available pension options under Atal Pension Yojana?
(1)Rs.1,000, Rs.2,000, Rs.3,000, Rs.4,000, or Rs.5,000 (2)Rs.500, Rs.1,000, Rs.1,500, Rs.2,000 (3)Rs.2,000, Rs.3,000, Rs.4,000, Rs.5,000, Rs.6,000 (4)Rs.1,000, Rs.1,500, Rs.2,000, Rs.2,500, Rs.3,000
17. What happens under APY if the subscriber dies prematurely?
(1)The pension amount is increased (2)The policy is terminated (3)The spouse may continue contributing to secure the same pension (4)The nominee immediately receives a lump sum
18. Which scheme aims to provide loans up to Rs.10 lakh to non-corporate, non-farm small/micro enterprises?
(1)PMMY (2)PMVVY (3)APY (4)PMSBY
19. Under PMMY, what is the maximum sanctioned loan amount?
(1)Rs.10 lakh (2)Rs.5 lakh (3)Rs.50,000 (4)Rs.1 lakh
20. What are the three loan categories under PMMY?
(1)Shishu, Kishore, Tarun (2)Bronze, Silver, Gold (3)Basic, Standard, Premium (4)Micro, Small, Medium
21. Which portal can applicants use to apply online for a MUDRA loan under PMMY?
(1)www.jandhan.in (2)www.udyamimitra.in (3)www.mudra.gov.in (4)www.smefinance.in
22. What is the authorized capital of MUDRA as per the PMMY scheme?
(1)Rs.750 crores (2)Rs.1000 crores (3)Rs.500 crores (4)Rs.1500 crores
23. Which organization is MUDRA a wholly owned subsidiary of?
(1)RBI (2)SIDBI (3)ICICI Bank (4)State Bank of India
24. By what percentage did the gross NPAs under MUDRA increase from FY20 to FY21?
(1)20% (2)25.5% (3)30.7% (4)35%
25. What is the primary objective of the Stand Up India Scheme?
(1)To provide life insurance for the elderly (2)To facilitate bank loans for greenfield enterprises by SC/ST and/or women (3)To offer micro-loans to small enterprises (4)To integrate financial inclusion with direct benefit transfers
26. What is the loan range provided under the Stand Up India Scheme?
(1)Rs.10 lakh to Rs.1 crore (2)Rs.1 lakh to Rs.10 lakh (3)Rs.5 lakh to Rs.50 lakh (4)Rs.50,000 to Rs.5 lakh
27. What is the loan repayment tenure under the Stand Up India Scheme?
(1)5 years (2)7 years (3)10 years (4)15 years

28. What is the moratorium period offered under the Stand Up India Scheme?
(1)6 months (2)12 months (3)18 months (4)24 months
29. Approximately how many accounts have received advances under the Stand Up India Scheme?
(1)1,33,995 accounts (2)1,00,000 accounts (3)50,000 accounts (4)2,00,000 accounts
30. Which scheme specifically targets financial security for elderly persons?
(1)PMMY (2)PMVVY (3)PMJDY (4)PMJJBY
31. Under PMVVY, through which organization is the scheme implemented?
(1)LIC (2)SIDBI (3)RBI (4)ICICI Bank
32. What is the assured rate of return offered under PMVVY for FY 2022-23?
(1)5.50% per annum (2)6.80% per annum (3)7.40% per annum (4)8.00% per annum
33. For how many years is the policy duration under PMVVY?
(1)5 years (2)7 years (3)10 years (4)15 years
34. What is the minimum purchase price under PMVVY to secure a pension of Rs.1,000 per month?
(1)Rs.1,00,000 (2)Rs.1,62,162 (3)Rs.2,00,000 (4)Rs.15 lakh
35. What is the maximum purchase price under PMVVY?
(1)Rs.5 lakh (2)Rs.10 lakh (3)Rs.15 lakh (4)Rs.20 lakh
36. Which of the following is NOT a feature of PMJDY?
(1)No minimum balance requirement (2)Issuance of Rupay Debit Card (3)Overdraft facility up to Rs.10,000 (4)Guaranteed monthly pension
37. Which scheme requires the subscriber's consent for auto-debit for premium payments?
(1)PMJDY (2)APY (3)PMJJBY (4)PMVVY
38. Which scheme has a premium amount of only Rs.20 per annum?
(1)PMSBY (2)PMJJBY (3)PMMY (4)APY
39. The auto-debit premium for PMJJBY is taken from which of the following?
(1)The subscriber’s mobile wallet (2)The subscriber’s bank account (3)The subscriber’s credit card (4)Cash deposit at a bank branch
40. Which scheme allows a bank account holder to open an account even if they do not have any other existing account?
(1)PMJDY (2)PMMY (3)APY (4)PMSBY
41. What is the primary KYC document used in both PMJJBY and PMSBY?
(1)Passport (2)Voter ID (3)Aadhar (4)Driving License
42. Which scheme’s enrolment data was noted as being over 13.11 crore as of 30.06.2022?
(1)PMJDY (2)PMJJBY (3)PMSBY (4)APY
43. What is the minimum age to open a Jan Dhan account under PMJDY?
(1)5 years (2)10 years (3)15 years (4)18 years
44. Under PMSBY, by what mechanism is the premium deducted?
(1)Manual payment at the bank (2)Auto-debit facility (3)Credit card charge (4)Cheque submission
45. Which scheme requires the beneficiary to be an individual with a savings or post office saving bank account for eligibility?
(1)APY (2)PMJDY (3)PMSBY (4)PMVVY
46. Under the Stand Up India Scheme, what is one of the eligibility criteria regarding the composition of borrowers per bank branch?
(1)All borrowers must be from urban areas (2)At least one borrower must be from SC/ST and one must be a woman (3)Only male entrepreneurs are allowed (4)Borrowers must have a minimum net worth of Rs.1 crore
47. Which scheme specifically focuses on providing financial security to the elderly?
(1)APY (2)PMJDY (3)PMVVY (4)PMSBY
48. Which of the following schemes is primarily a social security scheme rather than a banking or loan scheme?
(1)PMMY (2)Stand Up India Scheme (3)APY (4)PMVVY
49. Which scheme offers a death benefit of Rs.30,000 in PMJDY?
(1)PMJJBY (2)PMSBY (3)PMJDY (4)APY
50. What distinguishes the loan repayment feature under the Stand Up India Scheme?
(1)It offers a repayment period of 3 years with no moratorium (2)It provides a 7-year repayment period with an 18-month moratorium (3)It requires repayment within 1 year (4)It allows indefinite repayment

Answers:

1	**1**	**6**	**3**	**11**	**3**	**16**	**1**	**21**	**2**	**26**	**1**	**31**	**1**	**36**	**4**	**41**	**3**	**46**	**2**
2	**3**	**7**	**1**	**12**	**2**	**17**	**3**	**22**	**2**	**27**	**2**	**32**	**3**	**37**	**3**	**42**	**2**	**47**	**3**
3	**3**	**8**	**3**	**13**	**1**	**18**	**1**	**23**	**2**	**28**	**3**	**33**	**3**	**38**	**1**	**43**	**2**	**48**	**4**

4	3	9	1	14	1	19	1	24	3	29	1	34	2	39	2	44	2	49	3
5	4	10	4	15	2	20	1	25	2	30	2	35	3	40	1	45	1	50	2

33. GOLD Schemes

1. Gold Monetization Scheme, 2015

- **Purpose & Objectives:**
  – Primary Aim:
  Mobilize gold held by households and institutions for productive use and, over the long run, reduce the country's reliance on gold imports.
  – Context:
  – Idle gold holdings in the country are estimated at about 23,000–24,000 tonnes.
  – India's gold imports, which affect the current account deficit (CAD), increased by 33.34% to USD 46.14 billion during fiscal 2021–22 due to higher demand.
- **Deposit Requirements & Eligibility:**
  – Minimum Deposit:
  – At any one time, a deposit of 10 grams of raw gold is required (accepted forms include bars, coins, or jewellery—but jewellery must exclude stones and other metals).
  – There is no maximum limit on the deposit. – **Eligible Depositors:**
  – Resident Indians including:
  • Individuals
  • Hindu Undivided Families (HUFs)
  • Proprietorship & Partnership firms
  • Trusts (including Mutual Funds/ETFs registered under SEBI regulations)
  • Companies
  • Charitable institutions
  • Central/State Governments or any entity owned by them
  – Joint deposits are allowed; the deposit is credited to a joint account opened in the names of the eligible depositors.
- **Types of Deposits & Tenure Options:**
  – Short Term Bank Deposit (STBD):
  – Duration: 1 to 3 years.
  – Interest: The designated banks are free to fix the interest rates. – **Medium Term Government Deposit (MTGD):**
  – Duration: 5 to 7 years. – **Long Term Government Deposit (LTGD):**
  – Duration: 12 to 15 years. – **Additional Flexibility:**
  – Deposits for broken periods (for example, 5 years 7 months; 13 years 4 months 15 days; etc.) are permitted.
- **Interest Rates & Lock-In Periods:**
  – Rate Determination:
  – The rate of interest on the deposits is decided by the Central Government and notified by the Reserve Bank of India (RBI).
  – Current Rates:
  • Medium term deposit: 2.25% per annum.
  • Long term deposit: 2.50% per annum. – **Lock-In Period:**
  – Medium Term Government Deposit (MTGD): Withdrawable any time after 3 years.
  – Long Term Government Deposit (LTGD): Withdrawable any time after 5 years.
- **Tax Benefits:**
  – The interest earned on these gold deposits is exempt from capital gains tax, wealth tax, and income tax.

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2. Sovereign Gold Bond (SGB) Scheme

- **Launch & Issuance:**
  – Launch Date:
  – The scheme was launched by the Government in November 2015.
  – Issuance Process:
  – Issues are opened for subscription in tranches by the RBI in consultation with the Government of India (GOI).
  – Bonds are issued by the RBI on behalf of the Government.

- **Key Features & Advantages:**
  – **Market Price Protection:**
  – The investor's payment is protected by receiving the ongoing market price at the time of redemption or premature redemption.
  – **Elimination of Physical Risks:**
  – Provides a superior alternative to holding physical gold by eliminating storage risks and costs.
  – No issues with making charges or concerns about gold purity (as opposed to jewellery). – **Investment Details:**
  – **Minimum Investment:** 1 gram of gold.
  – **Tenor:** 8 years with exit options available in the 5th, 6th, and 7th years (to be exercised on specified dates).
  – **Subscription Limits:**
  – Maximum subscribed per fiscal year (April–March):
  • 4 KG for individuals
  • 4 KG for HUF
  • 20 KG for trusts and similar entities (subject to government notifications). – **Interest & Repayment:**
  – Investors are compensated at a fixed rate of 2.50% per annum, payable semi-annually on the bond's nominal value.
  – Bonds can be used as collateral for loans. – **Taxation:**
  – No capital gains tax is applicable if the bonds are held till maturity; any capital gains at the time of redemption are tax-free.

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3. Gold ETF

The Gold ETF section explains how exchange-traded funds based on gold function as an alternative investment.

- **Definition & Structure:**
  – A Gold ETF is an exchange-traded fund that tracks the domestic physical gold price.
  – Each unit of a Gold ETF represents 1 gram of gold and is backed by physical gold of very high purity (typically 99.5%).
- **Trading & Investment Mechanism:**
  – **Listed Markets:**
  – Gold ETFs are listed and traded on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) just like any other stock.
  – **Trading Process:**
  – They are traded on the cash segment and can be bought or sold continuously at market prices.
  – Transactions are carried out via a dematerialised (Demat) account and through a broker. – **Redemption:**
  – Upon redemption, investors receive the cash equivalent of the gold, not the physical gold itself.
- **Advantages & Considerations:**
  – **Transparency & Cost Efficiency:**
  – The direct gold pricing mechanism provides complete transparency in the holdings and generally lower expenses compared to physical gold investments.
  – **Suitability:**
  – Ideal for investors who wish to invest in gold without the hassle of storage or concerns over gold purity.
  – No premium or making charges apply, and investors can purchase as low as one unit (1 gram). – **Market Risks:**
  – Like all investments, Gold ETFs are subject to market risks that can impact the price of gold.

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4. Gold Loans

- **Definition & Mechanism:**
  – Gold loans are secured loans where the borrower pledges gold as collateral.
- **Loan to Value (LTV) Ratio:**
  – **Key Determinant:**
  – LTV is the ratio of the loan amount to the value of the gold being pledged.
  – **Regulatory Cap:**
  – The LTV is capped at 75% by the Reserve Bank of India (RBI). – **Market Dependency:**
  – The LTV is inversely proportional to the current market rate of gold: • If the gold price rises, a higher loan amount may be available relative to the value of the gold. • If the gold price falls, borrowers may be required to pledge additional gold to secure the same loan amount.

1. Which scheme is designed to mobilise idle gold held by households and institutions for productive purposes?

(1)Gold ETF (2)Gold Loan Scheme (3)Sovereign Gold Bond Scheme (SGB) (4)Gold Monetization Scheme (GMS)

2. What is the minimum deposit of raw gold required under the Gold Monetization Scheme?
(1)5 grams (2)10 grams (3)20 grams (4)50 grams
3. The tenure for a Medium Term Government Deposit (MTGD) is:
(1)1–3 years (2)3–5 years (3)5–7 years (4)7–9 years
4. Under the scheme, a Long Term Government Deposit (LTGD) is available for which duration?
(1)3–5 years (2)5–7 years (3)8–10 years (4)12–15 years
5. A Medium Term Government Deposit (MTGD) can be withdrawn after how many years?
(1)1 year (2)2 years (3)3 years (4)5 years
6. Which of the following tax exemptions applies to the interest earned on gold deposits?
(1)Exempt from capital gains tax only (2)Exempt from wealth tax only (3)Exempt from income tax only (4)Exempt from capital gains, wealth, and income tax
7. In which month and year was the Sovereign Gold Bond Scheme launched?
(1)January 2010 (2)November 2015 (3)July 2018 (4)March 2020
8. Who is responsible for issuing the Sovereign Gold Bonds on behalf of the Government of India?
(1)State Bank of India (2)Ministry of Finance (3)Reserve Bank of India (RBI) (4)Securities and Exchange Board of India (SEBI)
9. What is the minimum permissible investment in the Sovereign Gold Bond Scheme?
(1)5 grams of gold (2)10 grams of gold (3)1 gram of gold (4)2 grams of gold
10. What is the tenor of the Sovereign Gold Bond?
(1)5 years (2)8 years (3)10 years (4)15 years
11. At what fixed rate are investors compensated on the nominal value of SGBs?
(1)2.00% per annum (2)2.25% per annum (3)2.50% per annum (4)3.00% per annum
12. Under the SGB(Sovereign Gold Bond) scheme, what is the maximum subscription limit for an individual per fiscal year?
(1)2 KG (2)4 KG (3)6 KG (4)8 KG
13. For trusts and similar entities, the maximum subscription limit under SGB(Sovereign Gold Bond)scheme per fiscal year is:
(1)4 KG (2)10 KG (3)20 KG (4)25 KG
14. Which payment method is NOT accepted for investing in Sovereign Gold Bonds?
(1)Cash (up to ₹20,000) (2)Cheque (3)Electronic fund transfer (4)Cryptocurrency
15. In a Gold ETF, one unit represents how much physical gold?
(1)0.5 gram (2)1 gram (3)5 grams (4)10 grams
16. On which stock exchanges are Gold ETFs primarily listed?
(1)NYSE and NASDAQ (2)London Stock Exchange and TSX (3)National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) (4)Tokyo Stock Exchange and Hong Kong Stock Exchange
17. How are transactions for Gold ETFs typically executed?
(1)Through physical delivery of gold (2)Via a dematerialised (Demat) account and broker (3)Only during government auctions (4)Through direct bank transfers
18. When a Gold ETF is redeemed, what does the investor receive?
(1)Physical gold coins (2)A gold certificate (3)The cash equivalent of the gold (4)Additional ETF units
19. In the context of gold loans, what does the abbreviation LTV stand for?
(1)Loan to Value (2)Lending Total Volume (3)Local Treasury Verification (4)Loan Time Variable
20. The Reserve Bank of India (RBI) has capped the Loan-to-Value (LTV) ratio for gold loans at:
(1)50% (2)60% (3)75% (4)80%
21. Which type of gold is acceptable for deposits under the Gold Monetization Scheme?
(1)Gold coins that include gemstones (2)Raw gold (bars, coins, jewellery excluding stones and other metals) (3)Gold-plated items (4)Recycled gold artifacts
22. At what points during its tenure does the SGB offer an exit option?
(1)Only at maturity (2)At any time without conditions (3)In the 5th, 6th, or 7th year (4)Only after 10 years
23. What is the primary objective of the Gold Monetization Scheme?
(1)To promote gold mining in India (2)To mobilise idle gold for productive use and reduce dependency on gold imports (3)To boost domestic gold prices (4)To encourage physical holding of gold
24. The physical gold backing in Gold ETFs is typically of what level of purity?
(1)95% (2)99.5% (3)90% (4)85%

Answers:

1	4	6	4	11	3	16	3	21	2	26		31		36		41		46	
2	2	7	2	12	2	17	2	22	3	27		32		37		42		47	
3	3	8	3	13	3	18	3	23	2	28		33		38		43		48	
4	4	9	3	14	4	19	1	24	2	29		34		39		44		49	
5	3	10	2	15	2	20	3	25		30		35		40		45		50	

34. Types of Account

1. Introduction

- **Overview of Account Types:**
  - **CASA Account:** Combines Current and Savings accounts.
  - **Term Deposit Account:** Encompasses Fixed Deposits and Recurring Deposits.
  - **NRI Account:** Includes NRE, NRO, and FCNR accounts.
  - **Specialty Account:** Covers accounts such as Salary, Demat, and Student accounts.
  - **Digital and Payment Account:** Pertains to accounts opened digitally and those offered by payment banks.

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2. Detailed Account Types

2.1 CASA Accounts

- **Definition:**
  - **CASA** stands for **Current Account Savings Account**. It is a combination of two types of accounts where banks pay interest on the savings portion, but not on the current account.
- **Key Features:**
  - **Savings Account:**
    - Designed for individuals to save money.
    - Offers moderate interest rates (usually 3–6%).
    - Permits a limited number of transactions.
    - Suitable for salaried employees and individuals.
  - **Current Account:**
    - Primarily designed for businesses and firms.
    - Has no transaction limits.
    - Does not earn any interest.
    - Requires a higher minimum balance.
- **Importance to Banks:**
  - **Low-Cost Deposits:** Savings accounts have lower interest costs, and current accounts do not incur interest, making them cost-effective.
  - **Funding Source:** These deposits provide banks with funds for lending and other operations.

2.2 Term Deposit Accounts

- **Definition:**
  - Accounts in which customers deposit money for a fixed tenure and earn higher interest rates compared to CASA accounts.
- **Types:**
  - **Fixed Deposit (FD):**
    - Money is deposited for a fixed tenure.
    - Offers guaranteed returns.
    - Premature withdrawals usually incur penalties.
  - **Recurring Deposit (RD):**
    - Requires fixed monthly installments over a predetermined period.

- Ideal for regular savings.
- Interest rates are similar to those of fixed deposits.

- **Key Features:**
  - **Higher Interest Rates:** Rates depend on the deposit tenure.
  - **Security:** Considered a safe and secure investment.
  - **Collateral:** Often used as collateral for loans.

2.3 NRI Deposits

- **Definition:**
  - Accounts tailored for Non-Resident Indians (NRIs) to manage income earned in India or abroad.
- **Types:**
  - **NRE Account (Non-Resident External):**
    - For foreign earnings converted to Indian Rupees.
    - Both principal and interest are fully repatriable.
    - Interest is tax-free in India.
  - **NRO Account (Non-Resident Ordinary):**
    - For income earned within India (e.g., rent, dividends).
    - Allows partial repatriation of funds.
    - Interest earned is taxable in India.
  - **FCNR Account (Foreign Currency Non-Resident):**
    - A fixed deposit account held in foreign currency.
    - Eliminates currency conversion risk.
    - Interest is tax-free in India.
- **Key Features:**
  - **Global Income Management:** Specifically designed to handle income from international sources.
  - **Repatriation:** Facilitates the easy transfer of funds back to the country of residence.
  - **Forex Protection:** Particularly in FCNR accounts, helps protect against foreign exchange risks.

2.4 Specialty Accounts

- **Components:**
  - **Salary Accounts:**
    - Zero-balance savings accounts for salaried employees.
    - Automatically convert to regular savings accounts if the salary is not credited within a specified period.
  - **Demat Accounts:**
    - Used for holding and transacting in securities (such as shares and bonds) electronically.
  - **Student Accounts:**
    - Feature low minimum balance requirements.
    - Often include benefits like educational loans and discounts on various transactions.

2.5 Digital and Payment Accounts

- **Digital Accounts:**
  - Opened online using e-KYC verification.
  - Typically have transaction and balance limits.
- **Payment Banks Accounts:**
  - Offered by payment banks.
  - Subject to a maximum deposit limit (₹2 lakh as per RBI guidelines).
  - Do not provide lending services; focus solely on deposits and payment transactions.

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3. Comparative Summary Table

Account Type	Purpose	Interest Rate	Withdrawal Limits	Repatriability
CASA	Savings & daily transactions	Low	Limited (Savings only)	Not Applicable
Term Deposits	Fixed investment	High	Penalty on premature withdrawals	Not Applicable

Account Type	Purpose	Interest Rate	Withdrawal Limits	Repatriability
NRE Deposits	Foreign income	Moderate to High	Unlimited	Fully repatriable
NRO Deposits	Indian income	Moderate	Limited	Partially allowed
FCNR Deposits	Foreign currency deposits	Moderate	Unlimited	Fully repatriable

1. Which of the following best defines CASA in banking terms?
   (1)Current Account Savings Account (2)Credit Account Savings Arrangement (3)Combined Account of Savings and Assets (4)Cash Account Secure Arrangement
2. Which feature best describes a Savings Account under a CASA account?
   (1)Unlimited transactions (2)High minimum balance requirement (3)Offers moderate interest rates (typically 3–6%) (4)Zero interest earnings
3. Term Deposit Accounts are characterized by which of the following?
   (1)Zero penalties for early withdrawals (2)Higher interest rates and secure investment (3)Daily liquidity and flexible withdrawals (4)Direct repatriability for all depositors
4. What distinguishes a Fixed Deposit (FD) from a Recurring Deposit (RD)?
   (1)FD allows fixed monthly installments while RD does not (2)FD offers higher interest than RD (3)FD is for short-term investment, while RD is for long-term (4)FD requires a one-time fixed deposit; RD requires fixed monthly installments
5. Which NRI account is fully repatriable and offers tax-free interest in India?
   (1)NRO Account (2)NRE Account (3)FCNR Account (4)Student Account
6. Which account type is primarily designed for businesses due to its unlimited transaction feature?
   (1)Recurring Deposit (2)Savings Account (3)Current Account (4)Digital Account
7. Digital Accounts are typically opened using which method?
   (1)Through a mobile app with biometric verification (2)Online with e-KYC verification (3)In-person with documentation (4)Via postal mail
8. Referring to the comparative summary table, what is the repatriability status of NRO Deposits?
   (1)Not applicable (2)Fully repatriable (3)Unlimited (4)Partially allowed
9. Which account automatically converts to a regular savings account if the salary is not credited within a specified period?
   (1)Student Account (2)Current Account (3)Salary Account (4)Demat Account
10. What is the primary purpose of a Demat Account?
   (1)To serve as a digital wallet (2)To offer fixed interest returns (3)To hold and transact in securities electronically (4)To manage recurring deposits

Answers:

1	**1**	**6**	**3**	**11**		**16**		**21**		**26**		**31**		**36**		**41**		**46**	
2	**3**	**7**	**2**	**12**		**17**		**22**		**27**		**32**		**37**		**42**		**47**	
3	**2**	**8**	**4**	**13**		**18**		**23**		**28**		**33**		**38**		**43**		**48**	
4	**4**	**9**	**3**	**14**		**19**		**24**		**29**		**34**		**39**		**44**		**49**	
5	**2**	**10**	**3**	**15**		**20**		**25**		**30**		**35**		**40**		**45**		**50**	

35. Inflation

1. What is Inflation?

- **Definition:**
  - Inflation refers to a steady rise in the prices of various goods and services in the economy.
  - It is measured on a year-on-year basis.
- **Example:**
  - An inflation of 6% in April 2024 indicates that prices of goods and services have increased by 6% compared to April 2023.
- **Measurement:**
  - Inflation is measured through Price Indices such as the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).

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2. Types of Inflation Based on Rate

2.1 Creeping Inflation (Mild or Low Inflation)

- **Description:**
  - The rise in prices is slow but continuous.
- **Rate:**
  - Generally between 2% and 3%.
- **Economic Impact:**
  - Considered manageable and even beneficial for economic growth.
  - Producers and traders earn reasonable profits, which encourages further investment.

2.2 Walking Inflation (Trotting Inflation)

- **Description:**
  - Occurs when the rate of price increase is higher than in creeping inflation.
- **Rate:**
  - Typically between 3% and 10%.
- **Note:**
  - Should serve as a warning for the government, as unchecked walking inflation may lead to more severe inflation.

2.3 Galloping Inflation (Hopping or Running Inflation)

- **Description:**
  - Price increases exceed 10% but remain below 50%.
- **Economic Impact:**
  - At this stage, incomes (both for businesses and employees) cannot keep up with rising costs.
  - Investment becomes unattractive as high inflation destabilizes the economy.

2.4 Hyperinflation

- **Description:**
  - An extreme form where prices rise at an alarmingly high rate.
- **Rate:**
  - More than 50% per month.
- **Causes and Effects:**
  - Typically occurs due to a large increase in the money supply.
  - In extreme cases, the domestic currency loses almost all its value, making even basic goods (like a loaf of bread) extremely expensive.
- **Examples:**
  - Zimbabwe (2004–09)
  - Venezuela (2019)

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3. Types of Inflation Based on Causes

3.1 Demand-Pull Inflation

- **Definition:**
  - A rise in prices resulting from an increase in aggregate demand and consumption.
- **Underlying Reason:**
  - Increased disposable income in households leads to a higher demand for goods and services.
- **Mechanism:**
  - While aggregate supply remains constant, a sharp rise in demand pushes prices upward.

3.2 Cost-Push Inflation

- **Definition:**
  - A rise in prices due to an increase in the costs of production factors.
- **Underlying Reason:**
  - Higher costs for inputs such as land, labor, capital, and entrepreneurship (e.g., a rise in wages).
- **Mechanism:**
  - The increased cost of production inputs results in a higher overall cost for goods and services, which is passed on to consumers.

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4. Measures of Inflation

To monitor and control inflation, several instruments are used by policymakers. In India, the primary measures include:

4.1 Price Indices

4.1.1 Wholesale Price Index (WPI)

- **Purpose:**
  - Measures the average change in the price of commodities traded in the wholesale market.

- **Scope:**
  - Focuses on the early stages of the transaction process in domestic markets.
- **Commodity Groups Covered:**
  - **Primary Products**
  - **Fuel and Power**
  - **Manufactured Products**
- **Notes:**
  - The WPI basket does not cover services.
  - Prices tracked include ex-factory prices (manufactured products), mandi prices (agricultural commodities), and ex-mines prices (minerals).
  - Weights are based on the value of production adjusted for net imports.
  - Compiled and released monthly by the Office of Economic Advisor, Ministry of Commerce and Industry.
  - **Base Year:** 2011–12

4.1.2 Consumer Price Index (CPI)

- **Purpose:**
  - Measures the average change in prices paid by consumers for a basket of goods and services over time.
- **Note:**
  - Multiple CPIs are calculated in India to reflect the different socioeconomic conditions of various consumer groups.
- **Types of CPIs:**

Type	Compiled By	Base Year	Purpose
CPI for Industrial Workers (CPI-IW)	Labour Bureau, Ministry of Labour & Employment	2016	Measures inflation for industrial workers; used for wage adjustments in the organized sector.
CPI for Agricultural Labourers (CPI-AL)	Labour Bureau, Ministry of Labour & Employment	1986–87	Tracks inflation for agricultural laborers; used to revise minimum wages in the agricultural sector.
CPI for Rural Labourers (CPI-RL)	Labour Bureau, Ministry of Labour & Employment	1986–87	Measures inflation affecting rural laborers; supports wage adjustments in rural areas.
CPI (Rural/Urban/Combined)	National Statistical Office (NSO), Ministry of Statistics and Programme Implementation	2012	Provides inflation data for both rural and urban populations; used for national inflation measurement and RBI policy.

4.1.3 GDP Deflator

- **Definition:**
  - The ratio between GDP at Current Prices and GDP at Constant Prices.
- **Formula:**
  - GDP Deflator = (GDP at Current Prices) / (GDP at Constant Prices)
- **Interpretation:**
  - **GDP Deflator = 1:** No change in the general price level.
  - **GDP Deflator > 1:** An increase in the general price level.
  - **GDP Deflator < 1:** A decrease in the general price level.
- **Comparison:**
  - Considered a better measure than WPI or CPI because it accounts for all goods and services.
- **Limitation:**
  - Not used for short-term inflation targeting as GDP data is typically not available monthly.

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5. Effects of Inflation

Inflation affects various economic and social dimensions. Below is a detailed breakdown:

Effect Area	Description
Redistribution of Income and Wealth	Income and wealth shift between different groups, resulting in gains for some and losses for others.

Effect Area	Description
Borrower (Debtor) vs. Lender (Creditor)	Borrowers benefit because inflation reduces the real value of the money repaid, whereas lenders lose as the purchasing power of repaid money is diminished.
Producer vs. Consumer	Producers may benefit from higher prices, but consumers lose purchasing power as they pay more for the same goods and services.
Flexible Income Group vs. Fixed Income Group	Flexible income earners (e.g., sellers, self-employed) can adjust to inflation, while fixed-income earners (e.g., daily-wage workers) experience losses in purchasing power.
Bond Holders vs. Issuers	Bond issuers benefit because fixed interest rates do not keep pace with inflation, while bondholders suffer from a reduction in real income.
Production and Consumption	Rising prices tend to reduce demand, which may lead to decreased production. Investments might shift towards sectors where prices are rising to capture higher profits.
Savings	Inflation discourages holding cash, prompting people to deposit in banks to protect the value of their savings.
Growth and Employment	In the short term, inflation can stimulate economic growth and employment, but it is not sustainable as a long-term effect.
Balance of Payments (BoP)	Inflation can decrease exports (due to high domestic prices) and increase imports from cheaper markets, thereby negatively impacting the BoP.
Exchange Rate	Increased imports and decreased exports lead to higher demand for foreign currencies, which may depreciate the domestic currency.
Social and Political Impacts	High inflation can trigger social and political unrest, such as strikes and protests.

6. Measures to Control Inflation

To manage inflation, various control measures are employed. The measures are categorized as follows:

Control Measure	Description
Monetary Measures	- The Reserve Bank of India (RBI) reduces the money supply using tools like interest rate hikes.

- By limiting demand, prices can be lowered.
- In extreme cases, measures such as demonetization may be implemented to quickly reduce the money supply. | | **Fiscal Measures** | - The government may cut spending to lower aggregate demand.
- Increasing direct taxes (e.g., Income Tax) can reduce disposable income.
- Lowering indirect taxes (e.g., Sales Tax) can directly reduce prices.
- A surplus budget can help curtail the money supply. | | **Trade Measures** | - Importing goods from foreign markets can boost domestic supply, thereby stabilizing or reducing prices by better meeting consumer demand. | | **Administrative Measures** | - Enforcing a rational wage policy helps control production costs.
- The government might impose direct price controls, set maximum price limits, or apply rationing to manage demand and stabilize prices. |

1. What is inflation?
   (1)A steady rise in the prices of goods and services. (2)A sudden fall in prices over a short period. (3)A temporary decline in consumer demand. (4)An increase only in the cost of imported products.
2. Inflation is typically measured on a:
   (1)Monthly basis. (2)Year-on-year basis. (3)Weekly basis. (4)Daily basis.
3. Which type of inflation is characterized by a gradual price increase between 2% and 3%?
   (1)Hyperinflation. (2)Walking (Trotting) Inflation. (3)Creeping (Mild/Low) Inflation. (4)Galloping (Running) Inflation.
4. What is the base year for the Wholesale Price Index (WPI) in India?
   (1)2011–12. (2)2016. (3)1986–87. (4)2012.
5. Which base year is used for the CPI (Rural/Urban/Combined) compiled by the National Statistical Office (NSO)?
   (1)2011–12. (2)2012. (3)1986–87. (4)2016.
6. Demand-pull inflation occurs primarily due to:
   (1)A decrease in aggregate supply. (2)A reduction in production costs. (3)An increase in aggregate demand and consumption. (4)A rise in input costs such as wages.

7. Which of the following is NOT a control measure for inflation as described in the document?
   (1)Fiscal measures (e.g., adjusting taxes). (2)Monetary measures (e.g., changing interest rates). (3)Trade measures (e.g., importing goods). (4)Using price indices (e.g., WPI, CPI) to measure inflation.
8. Hyperinflation is defined as a situation where prices rise:
   (1)More than 50% per month. (2)Between 10% and 50% per month. (3)Between 2% and 3% per month. (4)Between 3% and 10% per month.
9. Which of the following statements about the GDP Deflator is true?
   (1)It only measures price changes in the agricultural sector. (2)It is calculated as the ratio of GDP at constant prices to GDP at current prices. (3)A value of 1 indicates an increase in the general price level. (4)It is calculated as GDP at current prices divided by GDP at constant prices.
10. Which CPI index is specifically used to adjust wages for industrial workers in India?
   (1)CPI for Agricultural Labourers. (2)CPI for Industrial Workers (CPI-IW). (3)CPI for Rural Labourers. (4)CPI (Rural/Urban/Combined).

Answers:

1	1	**6**	3	**11**		**16**		**21**		**26**		**31**		**36**		**41**		**46**	
2	2	**7**	4	**12**		**17**		**22**		**27**		**32**		**37**		**42**		**47**	
3	3	**8**	1	**13**		**18**		**23**		**28**		**33**		**38**		**43**		**48**	
4	1	**9**	4	**14**		**19**		**24**		**29**		**34**		**39**		**44**		**49**	
5	2	**10**	2	**15**		**20**		**25**		**30**		**35**		**40**		**45**		**50**	

36. Insurance

1. INSURANCE – Overview

1.1 Introduction

- **Definition:**
  Insurance is a contract in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.
- **Key Concept:**
  Risk is transferred from the policyholder to the insurance provider in exchange for a premium.
- **Example:**
  A person buys health insurance. If they are hospitalized, the insurance company will cover the hospital bills up to the sum insured.

2. Terms, Definitions, and Examples

Term	Definition	Example
Premium	Amount paid by the insured to the insurer to keep the policy active.	Raj pays ₹10,000 annually for his health insurance.
Policyholder	The person who buys the insurance policy and pays the premium.	Rajesh buys a term life policy. Rajesh is the policyholder.
Insurer	The insurance company providing the insurance coverage.	LIC, ICICI Lombard, and HDFC Life.
Sum Assured	The fixed amount payable to the nominee/insured in case of loss.	A ₹50 lakh life policy pays this amount to the nominee on the insured's death.
Claim	A formal request for compensation from the insurer after a loss occurs.	Arjun claims his car insurance after an accident.
Nominee/Beneficiary	The person entitled to receive the policy benefits in case of an insured event.	Ravi names his wife as the nominee in his life insurance policy.
Deductible	Amount paid out-of-pocket by the insured before the claim is processed.	₹5,000 deductible for a car repair bill of ₹25,000. Insurer pays ₹20,000.
Rider	An additional benefit added to a basic insurance policy for extra premium.	Adding a critical illness rider to life insurance covers major diseases.

Term	Definition	Example
Grace Period	Extra time after the premium due date to make payment without policy lapse.	A 30-day grace period allows late payment of a premium due on Jan 1.
Maturity Date	The date on which the policy term ends, and benefits are paid to the insured.	A 20-year policy bought in 2020 will mature in 2040.

3. Key Terms

Key Term	Definition	Example
Surrender Value	The amount paid to the policyholder if the policy is terminated early.	Shweta cancels her endowment policy after 5 years and receives ₹50,000.
Free-Look Period	The time period during which a policy can be cancelled without penalty after purchase.	Rajesh cancels his new policy within the 15-day free-look period.
Underwriting	The process of assessing risk and deciding the premium amount.	A smoker pays a higher premium due to increased health risks.
Reinsurance	When an insurer transfers part of the risk to another insurance company.	An insurer shares 50% of a ₹100 crore project risk with another company.
Actuary	A professional who calculates risks, premiums, and reserves using statistical analysis.	An actuary calculates life insurance premiums based on age and health data.
Moral Hazard	Risky behavior by the insured because they are aware of the insurance coverage.	Leaving the house unlocked because home insurance is active.
Co-Payment	A fixed percentage of the claim that the insured must bear.	A health policy with 10% co-payment requires ₹2,000 on a ₹20,000 bill.
Lapse	Termination of the policy due to non-payment of premiums within the grace period.	Priya's life insurance lapses after she misses payment deadlines.
Endorsement	Written changes or additions to an existing policy.	Changing the nominee in a life insurance policy.
Renewal	Extending a policy's validity after its initial term by paying the premium.	Ramesh renews his car insurance policy annually to keep coverage active.

4. Principles of Insurance

The document explains that the basic concept of insurance is the distribution of risk among a group of people, built on cooperation. To ensure proper functioning, both parties must adhere to the following seven principles:

1. **Utmost Good Faith**
   - **Definition:** Both parties (insurer and insured) must act honestly and disclose all relevant facts related to the contract.
   - **Example:** Jacob, a smoker, fails to disclose his habit while taking health insurance. If he gets cancer, the claim is rejected.
2. **Proximate Cause**
   - **Definition:** The nearest or most direct cause of the loss is considered for claim settlement.
   - **Example:** A fire damages a wall, which collapses and damages an adjoining building. The fire is deemed the proximate cause, so the claim is payable.
3. **Insurable Interest**
   - **Definition:** The insured must have a financial interest in the subject matter of the insurance.
   - **Example:** A vegetable cart owner has an insurable interest in the cart as it provides income. After selling it, he no longer has this interest.
4. **Indemnity**
   - **Definition:** The insured is compensated only for the actual loss, not exceeding the loss amount.
   - **Example:** If a building sustains fire damage, the insurer reimburses the repair cost or reconstructs the damaged areas.
5. **Subrogation**
   - **Definition:** After compensation, the insurer obtains the rights to claim the loss amount from a third party responsible for the loss.

   - **Example:** If Mr. A is injured due to reckless driving, the insurer compensates him and sues the third party to recover the money.
6. **Contribution**
   - **Definition:** If the insured has multiple policies for the same subject, they can claim compensation proportionately from each insurer.
   - **Example:** A property insured for ₹5 lakhs with Company A (₹3 lakhs) and Company B (₹1 lakh) will receive proportionate compensation in case of loss.
7. **Loss Minimization**
   - **Definition:** The insured must take all reasonable steps to minimize the loss or damage to the insured property.
   - **Example:** If a fire breaks out in a factory, the owner must attempt to extinguish the fire rather than letting it burn completely.

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5. Types of Insurance

5.1 Life Insurance

- **Description:** Provides a payout in case of death or upon policy maturity.
- **Example:** Raj buys a ₹1 crore Term Insurance for 20 years. If Raj dies during the term, his family receives ₹1 crore.

5.2 General Insurance

- **Categories under General Insurance:**
  - **Health Insurance:** Covers medical bills.
    Example: Cashless treatment under Star Health.
  - **Motor Insurance:** Covers damages to vehicles.
    Example: Third-party car insurance is mandatory.
  - **Home Insurance:** Protects your house against risks such as fire and flood.
    Example: HDFC Home Insurance.

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6. Difference Between Life and General Insurance

Aspect	Life Insurance	General Insurance
Purpose	Provides life cover to protect the family of the insured in case of death.	Covers assets such as cars, homes, health, and property against financial loss.
Term	Long-term (10-30 years or the entire life of the insured).	Short-term (1 year, renewable annually).
Coverage	Covers human life and provides financial security to beneficiaries.	Covers physical assets or specific risks (fire, accidents, medical emergencies).
Premium Payment	Paid regularly (monthly, quarterly, or yearly).	Can be paid as a lump sum or annually.
Claim	Paid either on death (in a term plan) or on policy maturity.	Paid when the insured event (damage or loss) occurs.
Example	LIC Term Plan: Provides ₹1 crore coverage for the insured's family in case of death.	Tata AIG Motor Insurance: Covers damages to a car after an accident.

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7. Role of Insurance in the Economy

1. **Encourages Savings:**
   Life insurance motivates regular savings.
2. **Reduces Economic Burden:**
   Compensation helps individuals recover from losses.
3. **Financial Stability:**
   Insurance prevents financial distress by offering a safety net.
4. **Employment:**
   The insurance sector employs millions.
   Example: During COVID-19, the demand for health insurance increased, ensuring financial protection for families.

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8. IRDAI – Insurance Regulatory and Development Authority of India

8.1 Key Facts

- **Full Form:** Insurance Regulatory and Development Authority of India
- **Established:** 1999 (under the IRDA Act, 1999)
- **Headquarters:** Hyderabad, Telangana
- **Regulatory Authority:** Ministry of Finance, Government of India
- **Current Chairperson:** Debasish Panda (as of 2024)
- **Key Objective:** To regulate, promote, and ensure the orderly growth of the insurance sector
- **Types of Insurers Regulated:** Life Insurance, General Insurance, and Reinsurance Companies
- **Regulation Acts:** IRDA Act, 1999 and Insurance Act, 1938
- **Motto:** "Protecting Policyholder's Interest"

9. Government Insurance Schemes

Scheme Name	Type of Insurance	Coverage	Eligibility	Premium	Example
Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)	Life Insurance	₹2 lakh life cover in case of death (any cause).	Age: 18-50 years, Bank account holder	₹436 per year	A daily wager's family receives ₹2 lakh upon his sudden death, ensuring financial stability.
Pradhan Mantri Suraksha Bima Yojana (PMSBY)	Accidental Insurance	₹2 lakh for accidental death or full disability; ₹1 lakh for partial disability.	Age: 18-70 years, Bank account holder	₹20per year	A farmer injured in a road accident receives compensation for partial disability under PMSBY.
Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PM-JAY) (Odisha becomes the 34th state to implement Ayushman Bharat Pradhan Mantri Jan Arogya Yojana scheme)	Health Insurance	₹5 lakh annual health cover for secondary and tertiary care hospitalization.	Families identified based on SECC 2011 data	Fully government-funded	A BPL family receives free cancer treatment worth ₹4 lakh at a private empaneled hospital.
Pradhan Mantri Fasal Bima Yojana (PMFBY)	Crop Insurance	Insurance for crop failure due to natural calamities, pests, and diseases. (Rs. 60,000 Crop Insurance Cover to Farmers.)	Farmers (landowners and sharecroppers)	1.5% for Rabi; 2% for Kharif crops	A farmer whose crops are destroyed due to floods receives compensation under PMFBY.

10. Top Insurance Companies in India

10.1 Life Insurance Companies

- **Market Share:**
  Life insurance companies hold over 70% of the life insurance market in India.
- **Examples & Notable Companies:**
  - **LIC (Life Insurance Corporation of India):**
    Popular for its LIC Term Plan and Unit Linked Insurance Plans (ULIPs).
  - **HDFC Life Insurance:**
    Provides comprehensive life and investment products.
  - **ICICI Prudential Life Insurance**

10.2 General Insurance Companies

- **Notable Players:**
  - **New India Assurance:**
    The largest public sector general insurer offering health, motor, and property insurance.

- **Tata AIG General Insurance:**
  Known for innovative health insurance and home insurance plans.
- **Bajaj Allianz General Insurance**

1. Which of the following best defines insurance?
   (1)A type of investment fund (2)A contract where an insurer provides protection or reimbursement against losses (3)A savings account offered by a bank (4)A loan provided by a financial institution
2. In an insurance contract, what is transferred from the policyholder to the insurance provider?
   (1)Premium (2)Profit (3)Interest (4)Risk
3. What does the term "premium" refer to in insurance?
   (1)The amount paid by the insured to keep the policy active (2)The claim amount requested by the insured (3)The sum assured to be paid to the nominee (4)The amount deducted before claim processing
4. Who is the policyholder in an insurance contract?
   (1)The insurance agent who sells the policy (2)The person who receives the claim payment (3)The person who buys the insurance policy and pays the premium (4)The person responsible for processing claims
5. What does "sum assured" mean in the context of insurance?
   (1)The total profit of the insurance company (2)The premium paid by the policyholder (3)The out-of-pocket expense before claim processing (4)The fixed amount payable to the nominee/insured in case of a loss
6. Which term best describes a formal request for compensation after a loss occurs?
   (1)Deductible (2)Claim (3)Rider (4)Endorsement
7. Who is the nominee or beneficiary in an insurance policy?
   (1)The individual entitled to receive the policy benefits (2)The person who pays the premium (3)The insurance company (4)The claim adjuster
8. What is meant by "deductible" in an insurance policy?
   (1)The extra premium for additional benefits (2)The period allowed for late payment (3)The bonus received upon policy renewal (4)The amount paid by the insured out-of-pocket before claim processing
9. What is a rider in an insurance policy?
   (1)A penalty for late payment (2)A cancellation fee (3)A supplementary benefit added to a basic policy for an extra premium (4)A type of claim processing fee
10. Which of the following best describes a grace period?
    (1)The additional time allowed after the premium due date for payment without policy lapse (2)The period during which a policy can be cancelled without penalty (3)The period for claim investigation (4)The time until policy maturity
11. What is the maturity date in an insurance policy?
    (1)The date of the first premium payment (2)The deadline for filing a claim (3)The date on which the policy term ends and benefits are paid (4)The policy renewal date
12. Which principle of insurance requires both parties to act honestly and disclose all relevant facts?
    (1)Indemnity (2)Utmost Good Faith (3)Proximate Cause (4)Subrogation
13. What does the principle of "proximate cause" determine in insurance?
    (1)The insured's financial interest (2)The process of premium calculation (3)The insured's risk profile (4)The most direct cause of loss for claim settlement
14. What is meant by "insurable interest" in insurance?
    (1)The insured's financial stake in the subject matter of the insurance (2)The sum assured (3)The premium amount (4)The risk assessment score
15. Which principle ensures that the insured is compensated only for the actual loss incurred?
    (1)Subrogation (2)Indemnity (3)Contribution (4)Loss Minimization
16. The principle of "subrogation" in insurance allows the insurer to:
    (1)Cancel the policy after a claim (2)Transfer the risk to another insurer (3)Increase the premium for future policies (4)Claim the loss amount from a third party responsible
17. What does the principle of "contribution" imply in insurance when multiple policies cover the same risk?
    (1)The insured receives full claim from one insurer only (2)The insurer with the highest premium pays entirely (3)The claim amount is shared proportionately among insurers (4)The policy is automatically renewed
18. According to the principle of "loss minimization," what is expected from the insured?
    (1)To minimize risk by taking all reasonable preventive measures (2)To delay filing a claim (3)To pay an extra premium for additional coverage (4)To switch to a different insurer
19. Life insurance primarily provides coverage in the event of:
    (1)Medical emergencies only (2)Property damage (3)Vehicle accidents (4)Death or policy maturity
20. General insurance typically covers:

(1)Investment growth (2)Physical assets or specific risks like fire, accidents, and health (3)Retirement savings (4)Educational expenses

21. What is a major difference between life insurance and general insurance in terms of policy duration?
(1)Life insurance is long-term whereas general insurance is typically short-term (2)Both have the same duration (3)Life insurance is short-term while general insurance is long-term (4)General insurance policies never expire
22. Which payment method is typically associated with life insurance premiums?
(1)Lump sum payment only (2)Payment upon claim (3)Regular periodic payments (monthly, quarterly, or yearly) (4)No payment is required
23. Which of the following is an example of a life insurance policy mentioned in the document?
(1)Tata AIG Motor Insurance (2)HDFC Home Insurance (3)New India Assurance (4)LIC Term Plan
24. A car insurance claim example provided in the document illustrates which type of insurance?
(1)General Insurance (2)Life Insurance (3)Health Insurance (4)Crop Insurance
25. Failing to disclose that one is a smoker when applying for health insurance violates which principle?
(1)Insurable Interest (2)Contribution (3)Utmost Good Faith (4)Loss Minimization
26. What is the process of assessing risk and determining the premium called?
(1)Endorsement (2)Underwriting (3)Deductible calculation (4)Policy issuance
27. Which term describes the fixed percentage of a claim that the insured must bear in a health policy?
(1)Rider (2)Surrender Value (3)Premium (4)Co-Payment
28. What does "lapse" refer to in an insurance policy?
(1)Termination of the policy due to non-payment of premiums (2)A special discount during renewal (3)An optional add-on benefit (4)The period of grace for premium payment
29. What does an "endorsement" in an insurance policy signify?
(1)Cancellation of the policy (2)Renewal of the policy (3)Written changes or additions to an existing policy (4)A bonus for the policyholder
30. Which government scheme provides a ₹2 lakh life cover for individuals aged 18–50 years?
(1)PMSBY (2)PMJJBY (3)PM-JAY (4)RSBY
31. Under which scheme is accidental death or disability covered with a premium of ₹20 per year?
(1)PMSBY (2)PM-JAY (3)PMFBY (4)PMJJBY
32. Which scheme is fully government-funded and provides a ₹5 lakh annual health cover for hospitalization?
(1)RSBY (2)PMFBY (3)PMSBY (4)PM-JAY
33. What type of insurance does New India Assurance primarily provide?
(1)Life Insurance (2)Health Insurance only (3)General Insurance (4)Crop Insurance
34. Which general insurance company is recognized for innovative health and home insurance plans?
(1)Tata AIG General Insurance (2)ICICI Prudential Life (3)New India Assurance (4)HDFC Life
35. The Pradhan Mantri Fasal Bima Yojana (PMFBY) primarily covers risks related to:
(1)Crop failure due to natural calamities, pests, and diseases (2)Life insurance risks (3)Health emergencies (4)Vehicle accidents
36. Which organization regulates the insurance sector in India?
(1)RBI (2)SEBI (3)NSE (4)IRDAI
37. In which year was IRDAI established?
(1)1985 (2)1999 (3)2005 (4)2010
38. Where is the headquarters of IRDAI located?
(1)Bengaluru, Karnataka (2)New Delhi, Delhi (3)Hyderabad, Telangana (4)Mumbai, Maharashtra
39. Who is the current Chairperson of IRDAI as mentioned in the document?
(1)Ramesh Kumar (2)Rajesh Gupta (3)Shweta Singh (4)Debasish Panda
40. What is the key objective of IRDAI?
(1)To regulate and promote the orderly growth of the insurance sector (2)To maximize insurer profits (3)To provide direct financial aid to policyholders (4)To merge insurance companies
41. Which act governs the operations of IRDAI?
(1)Companies Act, 2013 (2)Banking Regulation Act, 1949 (3)IRDA Act, 1999 (4)Insurance Regulation Act, 2000
42. How does life insurance contribute to the economy?
(1)By encouraging high-risk investments (2)By encouraging regular savings (3)By reducing employment (4)By increasing financial instability
43. In addition to encouraging savings, what role does insurance play in the economy?
(1)It increases the economic burden (2)It eliminates all risks (3)It only benefits insurers (4)It reduces the economic burden
44. How does insurance contribute to financial stability?

(1)By preventing financial distress (2)By promoting high-interest rates (3)By offering low-interest loans (4)By eliminating the need for savings

45. The insurance sector creates employment opportunities by:
(1)Reducing the number of insurers (2)Increasing premium rates (3)Employing millions across various roles (4)Centralizing claim processing

46. Which company holds over 70% of the life insurance market in India?
(1)ICICI Prudential (2)LIC (3)HDFC Life (4)Bajaj Allianz

47. Which life insurance company is known for its Unit Linked Insurance Plans (ULIPs)?
(1)Tata AIG (2)Bajaj Allianz (3)HDFC Life (4)LIC

Answers:

1	**2**	**6**	**2**	**11**	**3**	**16**	**4**	**21**	**1**	**26**	**2**	**31**	**1**	**36**	**4**	**41**	**3**	**46**	**2**
2	**4**	**7**	**1**	**12**	**2**	**17**	**3**	**22**	**3**	**27**	**4**	**32**	**4**	**37**	**2**	**42**	**2**	**47**	**4**
3	**1**	**8**	**4**	**13**	**4**	**18**	**1**	**23**	**4**	**28**	**1**	**33**	**3**	**38**	**3**	**43**	**4**	**48**	
4	**3**	**9**	**3**	**14**	**1**	**19**	**4**	**24**	**1**	**29**	**3**	**34**	**1**	**39**	**4**	**44**	**1**	**49**	
5	**4**	**10**	**1**	**15**	**2**	**20**	**2**	**25**	**3**	**30**	**2**	**35**	**1**	**40**	**1**	**45**	**3**	**50**	

37. SARFAESI ACT & DRT

1. Overview of the SARFAESI Act, 2002

- **Title & Purpose**
  The Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (commonly known as the SARFAESI Act) is an Indian law. Its main purpose is to empower banks and other financial institutions to auction residential or commercial properties of defaulters to recover loans.
- **Effective Date & Applicability**
  - **Effective From:** 21st June 2002
  - **Geographical Scope:** Entire India (including Jammu & Kashmir)
- **Background Committees**
  The Act's framework was influenced by recommendations from the Narasimham Committee I and II as well as the Andhyarujina Committee.

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2. Key Provisions of the Act

2.1 Legal Framework

The Act provides a comprehensive legal framework for:

- **Creation of Securitization or Reconstruction Companies:**
  These companies (often referred to as Asset Reconstruction Companies or ARCs) are established to take over and dispose of stressed assets.
- **Enforcement of Security Interest:**
  The Act enables the creditor to enforce the security interest without needing to resort to lengthy court procedures.
- **Creation of a Central Registry:**
  Known as **CERSAI** (Central Registry of Securitization Asset Reconstruction and Security Interest), this is an online registry set up to reduce fraud by checking for multiple loans taken on the same asset.

2.2 Enforcement Mechanism

- **No Court Intervention Needed:**
  Under the SARFAESI Act, the creditor (usually a bank or financial institution) can take action directly without waiting for court orders.
- **Authorized Officer Requirement:**
  The action must be initiated by an officer of the bank who is at least of minimum scale IV or one appointed by the board (not below the rank of Chief Manager).

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3. The "Bad Bank" Concept (Asset Reconstruction)

3.1 Establishment and Role

- **ARCIL and NARCL:**
  - The first asset reconstruction company, ARCIL, was established under the Act.
  - The **National Asset Reconstruction Company Ltd (NARCL)** is incorporated to acquire and aggregate non-performing (NPA) accounts from banks and to dispose of stressed assets.

3.2 Transaction Structure

- **15:85 Structure:**
  NARCL purchases bad loans using a structure where:
  - **15%** of the sale consideration is paid in cash.
  - **85%** is paid by issuing security receipts (SRs) that are guaranteed by the government.
- **Ownership Distribution:**
  - **Public Sector Banks (PSBs):** Maintain 51% ownership in NARCL.
  - The remaining stake (49% or a mix with private-sector lenders) is held by other financial institutions, with a separate entity (India Debt Resolution Company Ltd or IDRCL) handling the debt resolution process.

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4. Scope and Limitations of the Act

The SARFAESI Act does **not** apply to:

- **Unsecured Loans:** Loans that do not have collateral.
- **Loans Below ₹100,000:** Small-value loans are excluded.
- **Low-Debt Cases:** Situations where the remaining debt is below 20% of the original principal.
- **Specific Assets:**
  - Security interest over agricultural land.
  - Security interest over aircraft or ships/vessels.

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5. Practical Example Illustrating the Provisions

Consider the following scenario (as provided in the lectures):

- **Example Scenario:**
  - **Debtor:** Reliance Pvt Ltd
  - **Creditor:** State Bank of India (SBI)
  - **Property Value:** ₹100 crore
  - **Loan Amount:** ₹50 crore
  - The loan is classified as a **Secured Loan**—a loan which is backed by an asset whose value is equal to or exceeds the amount of the loan.
- **Key Term – "Creation of Charge":**
  When an asset is used as collateral to secure a loan, this act is termed the "Creation of Charge."

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6. Forms of Creation of Charge (Collateral Mechanisms)

There are three common methods by which an asset can be charged as security:

6.1 Pledge

- **Definition:**
  As per Section 172 of the Indian Contract Act, 1872, a pledge is defined as the bailment of goods given as security for the payment of a debt or the performance of a promise.
- **Key Point:**
  The lender holds the physical possession of the goods until the debt is paid.

6.2 Hypothecation

- **Definition:**
  Under Section 2(n) of the SARFAESI Act 2022, hypothecation means a charge on any movable property (existing or future) created by the borrower in favor of a secured creditor, without the transfer of possession.
- **Additional Note:**
  This form includes the concept of a floating charge, which can crystallize into a fixed charge on the movable property.

6.3 Mortgage

- **Definition:**
  According to Section 58 of the Transfer of Property Act, 1882, a mortgage is the transfer of an interest in immovable property as security for a loan.

- **Key Point:**
  In a mortgage, the borrower retains possession of the property, but the title is transferred to the lender as security.

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7. Detailed Process Under the SARFAESI Act

7.1 Initiation of Enforcement Action

- **Demand Notice (Section 13(2)):**
  The bank or financial institution must send a demand notice to the borrower requiring payment within **60 days** from the date of receipt of the notice. This notice is statutory in nature and prevents the borrower from transferring or selling the secured asset during this period.
- **Objection Handling (Section 13(3A)):**
  If the borrower objects to the notice of possession, the bank is required to justify its decision within **15 days** (previously 7 days).
- **Borrower's Representation:**
  The borrower may write to the bank stating an inability to pay within the 60-day period; however, if the bank provides valid reasons and does not agree to a delay, the borrower loses further options under the Act.

7.2 Measures Following Non-Payment (Section 13(4))

If the borrower fails to discharge the liability within the stipulated 60 days:

- **Secured Creditor's Options:**
  - **Possession:** The creditor can take possession of the secured asset.
  - **Business Takeover:** The bank may take over the management of the borrower's business.
  - **Appointment of Manager:** The creditor can appoint a manager to manage the secured asset.
- **Publication of Possession Notice:**
  Once possession is taken, a notice must be published within **7 days** in two leading newspapers (one in English and one in a vernacular language) in the locality where the property is situated.

7.3 Appeal Mechanisms

- **Debt Recovery Tribunal (DRT):**
  Any person aggrieved by the measures taken (such as possession or management takeover) may file an appeal with the DRT within **45 days** from the date the measure was taken.
- **Debt Recovery Appellate Tribunal (DRAT):**
  If the decision of the DRT is unsatisfactory, the borrower can further appeal to the DRAT within **30 days**.
- **Deposit Requirement for Appeal:**
  To have an appeal considered, the borrower must deposit **50% of the amount claimed** in the demand notice (although the tribunal may waive or reduce this requirement). No appeal is heard until this deposit is made.

7.4 Process for Sale of Secured Assets

- **Sale Notice:**
  A notice of sale must be served to the borrower **30 days** in advance if the asset is to be sold either by inviting tenders from the public or by holding a public auction.
- **Subsequent Sale:**
  If the first sale does not succeed, a fresh sale notice of no less than **15 days** must be issued before a subsequent sale.
- **Bidding Process:**
  - Interested bidders must submit sealed bids along with an earnest money deposit (the amount varies by bank and is refundable under certain conditions).
  - On the day of the auction, the sealed envelopes are opened publicly and the highest bid is announced.
  - The winning bidder is required to pay up to **25%** of the bid amount to confirm the purchase. The balance (typically up to 75%) must be paid within a specified period (usually **10–15 days**), during which the bidder may secure a loan if needed.

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8. Key Sections and Critical Time Periods

8.1 Important Sections

- **Section 13(2):**
  Mandates issuance of a 60-day demand notice before any possession action.
- **Section 13(3A):**
  Provides the procedure for addressing objections from the borrower regarding possession.
- **Section 13(4):**
  Outlines the measures a secured creditor may take if the borrower fails to pay within the stipulated period.
- **Section 14:**
  Allows for assistance from the chief metropolitan or district magistrate in taking possession of assets.

- **Section 17:**
  Governs the process for filing an application with the DRT against the possession notice issued by the bank.
- **Section 18:**
  Details the appeal process to the DRAT, which requires a deposit of 50% of the claimed amount.

8.2 Critical Time Periods

- **60 Days:**
  - Notice period for demand and possession before action.
- **15 Days:**
  - Period for the bank to respond to borrower's objections.
- **45 Days:**
  - Timeframe within which the borrower may approach the DRT against the possession notice.
- **30 Days:**
  - Deadline for filing an appeal with the DRAT.
  - Sale notice period prior to auction.
- **15 Days (Balance Payment):**
  - Time allotted for the buyer to complete the balance payment (typically 75% of the purchase price).

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9. Critical Arguments and Practical Considerations

- **Enforcement Efficiency:**
  The Act empowers creditors to act swiftly without the delays of court intervention, thereby facilitating faster recovery of dues.
- **Due Process and Borrower Safeguards:**
  The requirement for statutory notices, clear time frames, and the option to appeal (via DRT and DRAT) provide a mechanism to ensure that the borrower is given fair warning and a chance to respond.
- **Impact on Lending and Asset Management:**
  By enabling the securitization of assets and providing a clear framework for recovery, the Act has significantly influenced lending practices. It also helps in managing and disposing of Non-Performing Assets (NPAs).
- **Real-World Example:**
  The practical scenario involving Reliance Pvt Ltd, where a property valued at ₹100 crore is used to secure a ₹50 crore loan, illustrates how default leads to the enforcement mechanisms under the Act—highlighting the importance of secured loans and the "Creation of Charge."

1. What does SARFAESI stand for?
   (1)Securities and Reconstruction of Assets and Enforcement of Securities Interest Act, 2002 (2)The Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (3)Securitization, Asset Reconstruction, and Enforcement of Securities Act, 2002 (4)Securitization and Recovery of Financial Assets and Enforcement of Securities Interest Act, 2002
2. From which date is the SARFAESI Act applicable?
   (1)15th August 2001 (2)1st January 2002 (3)21st June 2002 (4)26th January 2003
3. The SARFAESI Act allows banks to auction which types of properties?
   (1)Only commercial properties (2)Only residential properties (3)Properties not used as collateral (4)Both residential and commercial properties of defaulters
4. The SARFAESI Act is applicable in which regions of India?
   (1)Only in metropolitan cities (2)Only in rural areas (3)Only in selected states (4)Entire India including Jammu & Kashmir
5. Which committees influenced the formulation of the SARFAESI Act?
   (1)Reddy Committee and Kumar Committee (2)Narasimham Committee I and II and Andhyarujina Committee (3)Shah Committee and Verma Committee (4)Patel Committee and Shah Committee
6. The SARFAESI Act provides a legal framework for the creation of which types of companies?
   (1)Insurance companies (2)Microfinance companies (3)Real estate companies (4)Securitization or reconstruction companies
7. What is the name of the central registry established under the SARFAESI Act?
   (1)CERSAI (2)CRSAI (3)CERA (4)CERISA
8. Under the SARFAESI Act, who can enforce the security interest without the intervention of the court?
   (1)Only the bank manager (2)Any bank employee (3)The bank's security personnel (4)An authorized officer of the bank (not below the rank of a Chief Manager)
9. What is the name of the first asset reconstruction company (ARC) set up under the Act?
   (1)NARCL (2)ARCIL (3)IDRCL (4)CERSAI

10. Which company is incorporated to take over and dispose of the stressed assets of commercial banks?
(1)NARCL (2)ARCIL (3)IDRCL (4)SARFAESI Ltd.
11. In the bad bank structure under the SARFAESI Act, what percentage of the sale consideration is paid in cash by NARCL?
(1)50% (2)15% (3)85% (4)25%
12. In the same structure, what percentage of the sale consideration is issued as security receipts?
(1)15% (2)25% (3)50% (4)85%
13. Who guarantees the security receipts issued by NARCL?
(1)The borrower (2)The lending bank (3)The government (4)Private investors
14. Which entities hold a 51% ownership stake in NARCL?
(1)Private sector banks (2)Foreign banks (3)Public Sector Banks (PSBs) (4)Non-banking financial companies
15. What is the maximum stake that PSBs and Public Financial Institutions can hold in India Debt Resolution Company Ltd (IDRCL)?
(1)60% (2)51% (3)49% (4)40%
16. Which type of loans is NOT covered by the SARFAESI Act?
(1)Secured loans (2)Unsecured loans (3)Loans backed by property (4)Loans for commercial projects
17. Loans below what amount are exempted from the Act?
(1)₹50,000 (2)₹500,000 (3)₹100,000 (4)₹1,000,000
18. The Act does not apply when the remaining debt is below what percentage of the original principal?
(1)10% (2)20% (3)30% (4)40%
19. Which security interest is explicitly excluded from the ambit of the SARFAESI Act?
(1)Security interest over immovable property (2)Security interest over commercial properties (3)Security interest over agricultural land (4)Security interest over movable assets
20. What does the term “Secured Loan” imply as per the lecture?
(1)A loan without collateral (2)A loan with a fixed interest rate (3)A loan secured by an asset of value equal to or greater than the loan amount (4)A government-subsidized loan
21. What is the term used for giving an asset as collateral for securing the debt?
(1)Mortgage (2)Creation of Charge (3)Liquidation (4)Foreclosure
22. Which form of creation of charge involves transferring physical possession of the asset to secure the loan?
(1)Hypothecation (2)Mortgage (3)Pledge (4)Assignment
23. Under which section of the Indian Contract Act, 1872, is “pledge” defined?
(1)Section 171 (2)Section 172 (3)Section 173 (4)Section 174
24. Which form of creation of charge allows the borrower to retain possession of the asset?
(1)Mortgage (2)Pledge (3)Hypothecation (4)Assignment
25. As per the SARFAESI Act 2022, under which section is “hypothecation” defined?
(1)Section 2(m) (2)Section 2(n) (3)Section 3(a) (4)Section 4(b)
26. Which form of creation of charge is defined under the Transfer of Property Act, 1882?
(1)Hypothecation (2)Mortgage (3)Pledge (4)Lien
27. Under which section of the Transfer of Property Act, 1882, is mortgage defined?
(1)Section 57 (2)Section 58 (3)Section 59 (4)Section 60
28. In case of default, within how many days must the bank send a demand notice to the borrower?
(1)30 days (2)45 days (3)60 days (4)90 days
29. What is the potential punishment if the borrower transfers or sells the property after receiving the demand notice?
(1)A simple warning (2)Imprisonment of 1 year or fine or both (3)Loss of collateral without legal penalty (4)Mandatory debt restructuring
30. Under which section must the bank justify its possession if the borrower raises an objection?
(1)Section 13(1) (2)Section 13(2) (3)Section 13(3A) (4)Section 13(4)
31. If the borrower fails to pay the dues within the stipulated period, which action can the bank take?
(1)File for bankruptcy against the borrower (2)Take possession of the secured asset (3)Increase the interest rate (4)Waive off the remaining debt
32. After taking possession, within how many days must the bank publish the possession notice?
(1)5 days (2)7 days (3)10 days (4)15 days
33. Which tribunal can an aggrieved party approach against measures taken by the secured creditor?
(1)National Company Law Tribunal (2)Consumer Disputes Redressal Forum (3)Debt Recovery Tribunal (DRT) (4)Securities Appellate Tribunal
34. Within how many days must an appeal be filed to the Debt Recovery Tribunal (DRT) after a creditor’s action?
(1)30 days (2)45 days (3)60 days (4)90 days
35. If dissatisfied with the DRT’s decision, within how many days can the borrower approach the Debt Recovery Appellate Tribunal (DRAT)?

(1)15 days (2)30 days (3)45 days (4)60 days

36. When filing an appeal to the DRT, what percentage of the claimed amount must the borrower deposit?
(1)25% (2)50% (3)75% (4)100%

37. During the sale process, what is the initial notice period for the sale of movable assets?
(1)15 days (2)20 days (3)30 days (4)45 days

38. If the first sale fails, what is the minimum notice period for conducting a subsequent sale?
(1)10 days (2)15 days (3)20 days (4)25 days

39. How must bids be submitted during the auction process under the SARFAESI Act?
(1)Verbally during the auction (2)Online through an e-bidding platform (3)In a sealed envelope (4)Through a handwritten note

40. If a bidder wins the auction, what percentage of the bid amount must be paid immediately to confirm the purchase?
(1)10% (2)25% (3)50% (4)75%

41. What is the typical period allowed by the bank to pay the remaining balance after a bidder confirms the purchase?
(1)7 days (2)10–15 days (3)20 days (4)30 days

42. Which section of the SARFAESI Act provides for the 60-day notice before possession is enforced?
(1)Section 12 (2)Section 13(2) (3)Section 14 (4)Section 15

43. Which section authorizes assistance by the chief metropolitan magistrate or district magistrate in taking possession?
(1)Section 14 (2)Section 16 (3)Section 17 (4)Section 18

44. Under which section can an application be made to the Debt Recovery Tribunal (DRT) against the possession notice issued by the bank?
(1)Section 15 (2)Section 16 (3)Section 17 (4)Section 18

45. Which section provides for an appeal against the DRT's decision to the Debt Recovery Appellate Tribunal (DRAT) upon depositing 50% of the amount?
(1)Section 16 (2)Section 17 (3)Section 18 (4)Section 19

46. Within how many days must the bank reply to an objection raised by the borrower regarding the demand notice?
(1)7 days (2)10 days (3)15 days (4)20 days

47. What is the period allowed for the balance payment of 75% by the buyer of assets after the sale notice?
(1)10 days (2)15 days (3)20 days (4)30 days

48. What is the primary purpose of establishing the central registry (CERSAI) under the SARFAESI Act?
(1)To streamline property transfers (2)To record security interests and prevent fraudulent lending (3)To centralize loan disbursement (4)To monitor interest rate changes

49. Which procedural step is essential before a bank can proceed with asset possession under the SARFAESI Act?
(1)Verbal communication with the borrower (2)Issuing a formal demand notice (3)Seeking approval from the Reserve Bank of India (4)Publishing an online advertisement

50. What happens if the borrower fails to deposit the required amount while filing an appeal to the DRT?
(1)The appeal is dismissed immediately (2)The appeal is put on hold until the deposit is made (3)The deposit requirement is waived (4)The case is transferred to a civil court

Answers:

1	**2**	**6**	**4**	**11**	**2**	**16**	**2**	**21**	**2**	**26**	**2**	**31**	**2**	**36**	**2**	**41**	**2**	**46**	**3**
2	**3**	**7**	**1**	**12**	**4**	**17**	**3**	**22**	**3**	**27**	**2**	**32**	**2**	**37**	**3**	**42**	**2**	**47**	**2**
3	**4**	**8**	**4**	**13**	**3**	**18**	**2**	**23**	**2**	**28**	**3**	**33**	**3**	**38**	**2**	**43**	**1**	**48**	**2**
4	**4**	**9**	**2**	**14**	**3**	**19**	**3**	**24**	**3**	**29**	**2**	**34**	**2**	**39**	**3**	**44**	**3**	**49**	**2**
5	**2**	**10**	**1**	**15**	**3**	**20**	**3**	**25**	**2**	**30**	**3**	**35**	**2**	**40**	**2**	**45**	**3**	**50**	**2**

38. Insolvency and Bankruptcy board of India (IBBI)

1. Key Definitions and Concepts

Insolvency:

• A state where an individual or company is unable to pay debts in the present or near future because the value of assets is less than the liabilities.

Bankruptcy:

• A legal process initiated when an authority is requested to declare an entity bankrupt.

• Distinction: Insolvency is the financial state, whereas bankruptcy is the formal conclusion declaring that state.

2. The Insolvency and Bankruptcy Code (IBC), 2016

Enactment & Purpose:

• Enacted on May 28, 2016.
• Created to establish a consolidated, time-bound framework for the insolvency resolution of:

- Corporations
- Partnership firms
- Individuals
  • Aims to address the non-performing asset (NPA) issue in two ways:
- **Behavioural Change:** Encouraging debtors to adopt sound business decisions to avoid failure.
- **Rehabilitation Process:** Providing a mechanism to revive financially troubled corporate entities.

Shift in Insolvency Regime:

• Transitioned from the "debtor-in-possession" model to the "creditor-in-control" model:

- Creditors assume control of the debtor's operations.
- A newly appointed management (usually via an insolvency professional) takes over to ensure business continuity.

Public Welfare Consideration:

• The Supreme Court (in Swiss Ribbons vs Union of India) underscored that the core objective of the IBC is to revive and continue the corporate debtor's operations, reflecting a broader public interest.

3. Pre-IBC Insolvency Mechanisms

For Corporate Insolvency:

• *Companies Act, 1956*
• *Companies Act, 2013*
• *Sick Industrial Companies Act (SICA), 1985*
  – Designed to identify "sick" companies that pose a systemic financial risk.

For Individual Insolvency:

• *SARFAESI Act, 2002*
• *RDDBFI Act, 1993*
  – Established Debts Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRATs) for expedited debt adjudication and recovery.

4. The Insolvency and Bankruptcy Board of India (IBBI)

Establishment and Role:

• Established on October 1, 2016, under the IBC, 2016.
• Acts as the key regulatory pillar in the insolvency ecosystem.
• Responsible for the implementation, consolidation, and amendment of laws related to insolvency resolution and reorganization.

Objectives and Functions:

• Maximizes asset value during insolvency processes.
• Promotes entrepreneurship and ensures the availability of credit while balancing stakeholder interests.
• Exercises regulatory oversight over:

- Insolvency Professionals
- Insolvency Professional Entities
- Information Utilities (IUs)

Governance Structure:

• Comprises a Governing Board with 10 members including representatives from:

- Ministries of Finance, Law & Corporate Affairs
- Reserve Bank of India (RBI)
  • Other roles include the Chairperson, Whole-time Members, Ex-officio Members, and Part-time Members.

Additional Requirement:

• Information Utilities (IUs) must have a minimum net worth of Rs.50 crore.

5. Illustrative Example: Creditors and Debtor

Scenario:

• *Gaurav opens a company (e.g., ABC).*

- **Bank as Financial Creditor:**
  • Takes a loan from a bank, which requires collateral—making it a secured creditor.

- **Company as Operational Creditor:**
  • Sells raw materials to the company; operates as an unsecured creditor.
- **Gaurav as the Debtor:**
  • The individual responsible for borrowing funds.

This example clarifies the roles and distinctions between different types of creditors and the debtor within the IBC framework.

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6. Insolvency Resolution Process under the IBC

Ecosystem Pillars Involved:

1. **Insolvency Professionals:**
   – Experts in handling insolvency, liquidation, and bankruptcy proceedings.
2. **Information Utilities (IUs):**
   – Maintain electronic databases containing financial information about debtors, reducing information asymmetry.
3. **Adjudicating Authorities (AA):**
   – National Company Law Tribunal (NCLT) for corporate insolvency. – Debts Recovery Tribunal (DRT) for individual insolvency.
4. **Regulator:**
   – The Insolvency and Bankruptcy Board of India (IBBI).

Mechanisms for Recovery:

• Two quasi-judicial bodies are used:

- NCLT for companies and LLPs.
- DRT for individuals and partnership firms.

Step-by-Step Procedure:

- **Step 1: Application to the NCLT/DRT**
  - *Who can apply?*
    – A creditor (financial or operational) or the company itself.
  - *Purpose:*
    – To admit the corporate debtor into the Corporate Insolvency Resolution Process (CIRP).
  - *Key Requirements:*
    – Debt must exceed one lakh rupees. – The NCLT/DRT must rule on the application within 14 days. – Financial creditors must submit a default report; operational creditors must demand payment.
- **Step 2: Appointment of Interim Resolution Professional (IRP)**
  - *Role of IRP:*
    – Takes control of the company's operations once admitted into the CIRP. – Sources finance/credit information from Information Utilities. – Prepares and presents a report to the Committee of Creditors (CoC).
- **Step 3: Verification and Analysis of Claims**
  - *Process:*
    – The IRP summons creditors and verifies the claims made.
- **Step 4: Moratorium and Committee of Creditors (CoC) Deliberations**
  - *Moratorium:*
    – A legal freeze is imposed on all pending legal actions against the debtor.
  - *Committee Deliberations:*
    – The CoC reviews and deliberates on the resolution plan. – The process is designed to conclude within 180 days, with a possible 90-day extension. – If consensus isn't reached, a voting process is initiated requiring at least 75% of the creditors (by value) to approve a plan.
- **Step 5: Final Decision and Order**
  - *Outcome:*
    – The IRP submits the resolution plan to the NCLT. – If the CoC cannot decide even after 270 days, the IRP defaults to recommending liquidation. – The NCLT then issues an order for liquidation.
  - *Liquidation Process:*
    – A liquidator is appointed to sell the debtor's assets and distribute the proceeds among stakeholders.

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7. Evaluation of IBC's Success

Impact on the Insolvency Landscape:

• The IBC has significantly reformed India's insolvency laws, promoting disciplined borrowing practices among companies.
• Promoters now exercise greater caution to avoid losing control in default scenarios.

Quantitative Success Indicators:
• **Resolution Metrics:**
– Approximately 18,629 applications (for claims exceeding ₹5,29,000 crore) were resolved prior to formal admission.
• **Global Ranking Improvement:**
– As per the World Bank's report, India's insolvency resolution rank improved from 136 in 2017 to 52 in 2020. •
Financial Impact:
– About ₹2.5-lakh crore has been reintroduced into the banking system through insolvency resolutions since 2016.

1. What is the definition of insolvency?
(1)The inability to pay debts when due because the value of assets is less than liabilities. (2)A formal legal declaration by an authority. (3)A temporary cash flow issue with no impact on asset value. (4)A situation where assets always exceed liabilities.
2. Which statement best defines bankruptcy?
(1)A state of temporary financial distress. (2)A legal process where insolvency is declared by an authority until discharge. (3)A method of restructuring debt without legal intervention. (4)A process solely applicable to individual debtors.
3. How do insolvency and bankruptcy differ according to the materials?
(1)Insolvency is a state, whereas bankruptcy is the legal conclusion declaring that state. (2)Bankruptcy is a state, while insolvency is a formal legal process. (3)They are exactly the same with no distinction. (4)Insolvency always results in bankruptcy.
4. In which year was the Insolvency and Bankruptcy Code (IBC) enacted?
(1)2014 (2)2016 (3)2018 (4)2020
5. What is one of the primary objectives of the IBC?
(1)To mandate immediate liquidation of all insolvent companies. (2)To establish a time-bound framework for the resolution of insolvency cases. (3)To eliminate all debts through government bailouts. (4)To merge all corporate entities into one regulatory body.
6. Which model did the IBC introduce to change the control dynamics in insolvency cases?
(1)Shareholder-in-control (2)Creditor-in-control (3)Government-in-control (4)Manager-in-control
7. Under the IBBI framework, regulatory oversight is exercised over which groups?
(1)Only insolvency professionals (2)Insolvency professionals, professional entities, and Information Utilities (3)Solely the committee of creditors (4)Only adjudicating authorities
8. What is the primary role of an Interim Resolution Professional (IRP) in the insolvency process?
(1)To maintain the current management's control (2)To take over the company's operations and manage the resolution process (3)To immediately liquidate all company assets (4)To represent only the operational creditors
9. What is the first step in the insolvency resolution process under the IBC?
(1)Appointment of the IRP (2)Liquidation of assets (3)Filing an application to the NCLT or DRT (4)Convening the Committee of Creditors
10. What is the minimum net worth requirement for Information Utilities (IUs) under the IBC?
(1)Rs. 10 crore (2)Rs. 25 crore (3)Rs. 50 crore (4)Rs. 100 crore
11. Which of the following mechanisms were available for corporate insolvency before the IBC was enacted?
(1)Companies Act, 1956 (2)Companies Act, 2013 (3)Sick Industrial Companies Act, 1985 (4)All of the above
12. Which act provided a mechanism for individual insolvency before the IBC?
(1)Companies Act, 2013 (2)SARFAESI Act, 2002 (3)Sick Industrial Companies Act, 1985 (4)Insolvency and Bankruptcy Code, 2016
13. During which step of the insolvency resolution process are creditor claims verified?
(1)Step 1 (2)Step 2 (3)Step 3 (4)Step 4
14. What is the time limit for the National Company Law Tribunal (NCLT) to rule on an insolvency application?
(1)7 days (2)14 days (3)30 days (4)60 days
15. If the Committee of Creditors fails to decide within 270 days, what is the default recommendation?
(1)Appointment of a new IRP (2)Indefinite extension of the moratorium (3)Recommendation to liquidate the company (4)Reverting control to the debtor
16. Which of the following is NOT one of the four pillars of the insolvency resolution ecosystem?
(1)Insolvency professionals (2)Information Utilities (3)Government auditors (4)Adjudicating Authority
17. Who are the key representatives on the IBBI Governing Board?
(1)Representatives from the Ministries of Finance, Law & Corporate Affairs, and the RBI (2)Only legal experts (3)Solely insolvency professionals (4)Appointed judges exclusively
18. What is the minimum unpaid debt threshold required to trigger an insolvency application under the IBC?
(1)Rs. 50,000 (2)Rs. 1 lakh (3)Rs. 10 lakh (4)Rs. 1 crore

19. How does the IBC promote disciplined borrowing among companies?
(1)By incentivizing defaults (2)By implementing the creditor-in-control model, thereby deterring defaults (3)By completely removing debt obligations (4)By providing tax breaks for insolvent firms
20. Which regulatory body is responsible for overseeing insolvency professionals?
(1)Reserve Bank of India (2)National Company Law Tribunal (3)Insolvency and Bankruptcy Board of India (IBBI) (4)Ministry of Corporate Affairs
21. How much money has reportedly been reintroduced into the banking system through insolvency resolutions under the IBC?
(1)₹1-lakh crore (2)₹2.5-lakh crore (3)₹5,29,000 crore (4)₹50,000 crore
22. What does the acronym IBC stand for?
(1)International Banking Code (2)Insolvency and Bankruptcy Code (3)Insolvency and Business Conduct (4)Indian Bankruptcy Commission
23. Which case underscored the objective of reviving and continuing the corporate debtor under the IBC?
(1)Swiss Ribbons vs Union of India (2)Donoghue vs Stevenson (3)Kesavananda Bharati vs State of Kerala (4)Marbury vs Madison
24. What does the term "debtor-in-possession" refer to?
(1)The debtor retaining operational control even after insolvency application (2)Creditors taking control immediately (3)Government assuming control over the debtor (4)Liquidators being appointed from the outset
25. Which tribunal is responsible for handling insolvency resolution for corporate entities?
(1)Debt Recovery Tribunal (2)National Company Law Tribunal (3)Supreme Court (4)Consumer Court
26. For individual insolvency cases, which tribunal is primarily involved?
(1)National Company Law Tribunal (2)Debt Recovery Tribunal (3)High Court (4)Insolvency and Bankruptcy Board
27. What is the main function of the Committee of Creditors (CoC) during the insolvency process?
(1)To merely verify creditor claims (2)To deliberate on and vote for a resolution plan (3)To appoint the IRP (4)To manage day-to-day operations of the debtor
28. What does the "moratorium" period in the insolvency process imply?
(1)Acceleration of asset sales (2)A temporary legal freeze on all proceedings against the debtor (3)Immediate appointment of new management (4)Permanent suspension of creditor actions
29. What is the initial expected duration for the Committee of Creditors' deliberations?
(1)90 days (2)180 days (3)270 days (4)360 days
30. If the Committee of Creditors fails to decide within the initial period, what is the allowable extension?
(1)30 days (2)60 days (3)90 days (4)120 days
31. If the Committee of Creditors is still unable to reach a decision after the maximum period, what is the next step?
(1)The debtor is asked to resubmit a plan (2)The IRP defaults to recommending liquidation (3)The process is terminated without any resolution (4)The government directly intervenes
32. What is one of the primary functions of the Insolvency and Bankruptcy Board of India (IBBI)?
(1)To provide loans to insolvent companies (2)To regulate insolvency professionals and oversee the resolution process (3)To manage insolvency cases directly (4)To serve as the final adjudicating authority
33. Who is responsible for appointing the liquidator during the insolvency process?
(1)The Interim Resolution Professional (2)The debtor (3)The Committee of Creditors (4)The Adjudicating Authority
34. Which act, prior to the IBC, was specifically aimed at detecting unviable ("sick") companies?
(1)Companies Act, 2013 (2)Sick Industrial Companies Act, 1985 (3)SARFAESI Act, 2002 (4)RDDBFI Act, 1993
35. In the insolvency application process, what document must a financial creditor furnish?
(1)A demand note for raw materials (2)A report of default (3)The company's balance sheet (4)A personal guarantee form
36. What is the key distinction between a secured creditor and an unsecured creditor?
(1)Secured creditors provide raw materials, while unsecured do not. (2)Secured creditors are backed by collateral, unlike unsecured creditors. (3)Unsecured creditors have the power to liquidate assets immediately. (4)There is no real difference between them.
37. On what date was the Insolvency and Bankruptcy Board of India (IBBI) established?
(1)January 1, 2016 (2)May 28, 2016 (3)October 1, 2016 (4)December 31, 2016
38. What is one of the main responsibilities of Information Utilities (IUs) under the IBC?
(1)To provide legal representation (2)To store and manage electronic financial data about debtors (3)To act as liquidators (4)To conduct creditor meetings
39. The IBC marks a shift away from which traditional insolvency model?
(1)Creditor-in-control (2)Debtor-in-possession (3)Liquidator-in-control (4)Government-in-control

40. What is a key role of the adjudicating authority under the IBC?
(1)To manage the day-to-day operations of the debtor (2)To adjudicate insolvency applications and resolve disputes (3)To conduct financial audits of insolvent companies (4)To appoint the Interim Resolution Professional
41. What is one advantage of the creditor-in-control model for creditors?
(1)It allows creditors to actively participate in the recovery process. (2)It ensures immediate asset liquidation without further process. (3)It transfers complete control to the debtor. (4)It delays all decision-making processes indefinitely.
42. In the insolvency resolution process, what is the primary function of the liquidator?
(1)To verify and analyze creditor claims (2)To manage the company's day-to-day operations (3)To sell the debtor's assets and distribute the proceeds among stakeholders (4)To extend the moratorium period

Answers:

1	1	**6**	2	**11**	**4**	**16**	**3**	**21**	**2**	**26**	**2**	**31**	**2**	**36**	**2**	**41**	**1**
2	1	**7**	2	**12**	**2**	**17**	**1**	**22**	**2**	**27**	**2**	**32**	**2**	**37**	**3**	**42**	**3**
3	2	**8**	2	**13**	**3**	**18**	**2**	**23**	**1**	**28**	**2**	**33**	**3**	**38**	**2**	**43**	**3**
4	2	**9**	3	**14**	**2**	**19**	**2**	**24**	**1**	**29**	**2**	**34**	**2**	**39**	**2**	**44**	
5	2	**10**	3	**15**	**3**	**20**	**3**	**25**	**2**	**30**	**3**	**35**	**2**	**40**	**2**	**45**	

39. Banking Ombudsman

1. Overview of the Banking Ombudsman Scheme

- **Launch and Revisions:**
  - **Launched:** 1995
  - **Revisions:** The scheme has undergone five revisions.
- **Basis for Other Schemes:**
  - It forms the foundation for:
    - The Ombudsman Scheme for Non-Banking Financial Companies (OSNBFC) – launched in 2018.
    - The Ombudsman Scheme for Digital Transactions (OSDT) – launched in 2019.

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2. Integrated Ombudsman Scheme, 2021

- **Announcement and Commencement:**
  - **Announced by:** PM Narendra Modi
  - **Announcement Date:** November 12, 2021
  - **Effective From:** November 12, 2021
- **Integration Details:**
  - **Schemes Integrated:**
    1. **The Banking Ombudsman Scheme, 2006**
    2. **The Ombudsman Scheme for Non-Banking Financial Companies, 2018**
    3. **The Ombudsman Scheme for Digital Transactions, 2019**

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3. Regulated Entities Covered

- **Banks:**
  - All Commercial Banks.
  - Regional Rural Banks.
  - Scheduled Primary (Urban) Co-operative Banks.
  - Non-Scheduled Primary (Urban) Co-operative Banks with a deposit size of **₹50 crore and above** (as per the previous financial year's audited balance sheet).
- **Non-Banking Financial Companies (NBFCs):**
  - All NBFCs (excluding Housing Finance Companies) that:
    - Are authorized to accept deposits; or
    - Have a customer interface,
  - With an asset size of **₹100 crore and above** (as per the previous financial year's audited balance sheet).
- **Other Entities:**

- All System Participants as defined under the scheme.

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4. Detailed Schemes and Legal References

- **The Banking Ombudsman Scheme, 2006**
  - **Legal Reference:** Section 35A of the Banking Regulation Act, 1949.
- **The Ombudsman Scheme for Non-Banking Financial Companies, 2018**
  - **Legal Reference:** Section 45L of the Reserve Bank of India Act, 1934.
- **The Ombudsman Scheme for Digital Transactions, 2019**
  - **Legal Reference:** Section 18 of the Payment and Settlement Systems Act, 2007.

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5. Concept and Rationale

- **Origin:**
  - The concept of the Ombudsman originated in Sweden.
- **Purpose:**
  - To provide **cost-free redress** of customer complaints regarding deficiencies in services rendered by entities regulated by the RBI.
  - To address customer grievances if issues are not resolved to the satisfaction of the customer or if the regulated entity fails to respond within **30 days**.

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6. Key Features of the Integrated Ombudsman Scheme, 2021

- **Unified Complaint Process:**
  - Complainants no longer need to decide under which specific scheme to file their complaint.
  - The scheme uses the term **"deficiency in service"** as the sole ground for filing complaints (with a specified list of exclusions), thus reducing the chance of rejection on technical grounds.
- **Centralized Processing:**
  - The scheme has done away with the individual jurisdiction of each ombudsman office.
  - A **Centralised Receipt and Processing Centre** is established at RBI, Chandigarh, to receive and process both physical and email complaints in any language.
- **Dispute Resolution and Awards:**
  - **No Limit:** There is no cap on the amount in dispute for which the Ombudsman can pass an award.
  - **Compensation for Consequential Losses:**
    - Up to **₹20 lakh** for consequential losses.
    - An additional compensation of up to **₹1 lakh** for the complainant's time, expenses, and for harassment/mental anguish.
- **Time Limits for Complaint Submission:**
  - Complaints must be filed:
    - **Within one year** after the complainant has received a reply from the regulated entity; or
    - **Within one year and 30 days** from the date of the complaint if no reply is received.
- **Reporting and Accountability:**
  - The Ombudsman is required to submit an annual report to the Deputy Governor of RBI by **March 31st** each year, detailing the activities of the office for the preceding financial year.
- **Appointment and Representation:**
  - The appointment of the Ombudsman or Deputy Ombudsman is for a period **not exceeding three years**.
  - The responsibility for representing the regulated entity and providing necessary information on complaints lies with the **Principal Nodal Officer** (typically in the rank of General Manager in a Public Sector Bank or its equivalent).
- **Expansion of Scheme Coverage:**
  - The RBI Governor has recently announced plans to bring in **Credit Information Companies** under the Integrated Ombudsman Scheme to further redress customer grievances.

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7. Procedure for Filing a Complaint

- **Online Submission:**
  - Complaints may be lodged online via the dedicated portal: https://cms.rbi.org.in
- **Electronic/Physical Submission:**
  - Complaints can also be submitted:
    - **Electronically or Physically** through the email: **crpc@rbi.org.in**
    - In the mode as specified by RBI notifications.

- **Toll-Free Contact:**
    - A Contact Centre has been set up with a **toll-free number: 14448**.
- **Appellate Authority:**
    - The **Executive Director-in-charge** of the Consumer Education and Protection Department of RBI acts as the Appellate Authority under the scheme.

1. In which year was the Banking Ombudsman Scheme initially launched?
(1)1985 (2)1990 (3)1995 (4)2000
2. How many revisions has the Banking Ombudsman Scheme undergone?
(1)Six (2)Five (3)Four (4)Seven
3. Which scheme is NOT integrated in the Integrated Ombudsman Scheme, 2021?
(1)The Banking Ombudsman Scheme, 2006 (2)The Ombudsman Scheme for Digital Transactions, 2019 (3)The Ombudsman Scheme for Non-Banking Financial Companies, 2018 (4)The Securities Ombudsman Scheme, 2020
4. What is the main objective of the Banking Ombudsman Scheme?
(1)To provide cost-free redressal of customer complaints (2)To promote digital banking only (3)To ensure profit for banks (4)To offer interest-free loans
5. Which legal reference is associated with the Banking Ombudsman Scheme, 2006?
(1)Section 45L of the Reserve Bank of India Act, 1934 (2)Section 35A of the Banking Regulation Act, 1949 (3)Section 30 of the Banking Act, 1950 (4)Section 18 of the Payment and Settlement Systems Act, 2007
6. Which country inspired the concept of the Ombudsman?
(1)United Kingdom (2)Sweden (3)Germany (4)Canada
7. On what date was the Integrated Ombudsman Scheme announced by PM Narendra Modi?
(1)November 10, 2021 (2)November 11, 2021 (3)November 12, 2021 (4)November 13, 2021
8. From what date did the Integrated Ombudsman Scheme come into force?
(1)November 10, 2021 (2)November 12, 2021 (3)December 1, 2021 (4)January 1, 2022
9. Which of the following entities is NOT covered under the Integrated Ombudsman Scheme?
(1)Commercial Banks (2)Regional Rural Banks (3)Housing Finance Companies (4)Non-Scheduled Primary Co-operative Banks with deposits over ₹50 crore
10. What is the minimum deposit size for Scheduled Primary (Urban) Co-operative Banks to be included under the Banking Ombudsman Scheme?
(1)₹10 crore (2)₹25 crore (3)₹50 crore (4)₹100 crore
11. What is the asset size criteria for NBFCs to be covered under the Banking Ombudsman Scheme?
(1)₹50 crore (2)₹75 crore (3)₹100 crore (4)₹150 crore
12. Which legal reference applies to the Ombudsman Scheme for Non-Banking Financial Companies, 2018?
(1)Section 18 of the Payment and Settlement Systems Act, 2007 (2)Section 45L of the RBI Act, 1934 (3)Section 35A of the Banking Regulation Act, 1949 (4)Section 20 of the Banking Act
13. What does "deficiency in service" refer to under the Banking Ombudsman Scheme?
(1)Delays in processing applications (2)Inadequate services provided by regulated entities (3)Financial mismanagement (4)Unethical banking practices
14. How many schemes are integrated under the Integrated Ombudsman Scheme, 2021?
(1)Two (2)Three (3)Four (4)Five
15. What is the primary function of the Centralised Receipt and Processing Centre?
(1)To process bank loans (2)To receive and initially process complaints in any language (3)To audit banks (4)To provide banking guidelines
16. In which city is the Centralised Receipt and Processing Centre located?
(1)New Delhi (2)Mumbai (3)Chennai (4)Chandigarh
17. What is the maximum compensation that can be awarded for consequential loss under Banking Ombudsman Scheme?
(1)₹10 lakh (2)₹15 lakh (3)₹20 lakh (4)₹25 lakh
18. Up to what amount can compensation be awarded for loss of time, expenses, and mental anguish under Banking Ombudsman Scheme?
(1)Up to ₹50,000 (2)Up to ₹1 lakh (3)Up to ₹2 lakh (4)Up to ₹5 lakh
19. Within what period must a complaint be filed if no reply is received from the regulated entity under Banking Ombudsman Scheme?
(1)Within 6 months (2)Within 1 year (3)Within 1 year and 30 days (4)Within 2 years
20. What is the official online portal for lodging a complaint under the Banking Ombudsman Scheme?
(1)www.bankombudsman.gov.in (2)www.rbi.org.in (3)https://cms.rbi.org.in (4)https://complaints.rbi.org.in
21. Which email address is designated for complaint submissions?

(1)support@rbi.org.in (2)crpc@rbi.org.in (3)helpdesk@bankombudsman.in (4)info@rbi.com
22. What is the toll-free number provided for inquiries related to the scheme?
(1)14448 (2)1800123456 (3)1900-180 (4)14444
23. Who is the Appellate Authority under the scheme?
(1)The RBI Governor (2)The Principal Nodal Officer (3)The Executive Director-in-charge of Consumer Education and Protection, RBI (4)The Deputy Governor of RBI
24. For how long is the appointment of the Ombudsman or Deputy Ombudsman made?
(1)Up to 1 year (2)Up to 2 years (3)Up to 3 years (4)Up to 5 years
25. Which of the following is NOT a method for submitting a complaint?
(1)Online via the RBI portal (2)Submission via email or physical mode (3)Direct phone call resolution (4)Using a toll-free number
26. What does the "One Nation One Ombudsman" approach ensure?
(1)Assigning different ombudsmen for different regions (2)A uniform, jurisdiction-neutral mechanism for complaint redressal (3)Decentralized complaint processing (4)Increased complaint filing
27. Which category of regulated entities requires an asset size of at least ₹100 crore to be eligible under the scheme?
(1)Commercial Banks (2)Scheduled Co-operative Banks (3)Non-Banking Financial Companies (4)Regional Rural Banks
28. What feature ensures that a complaint is not rejected merely because it does not fall under a specific scheme category?
(1)Mandatory language requirements (2)A defined list of exclusions for deficiency in service (3)Pre-assessment of the complaint (4)A prior registration requirement
29. Which presentation file is referenced as a supplementary visual aid in the documents?
(1)Banking Ombudsman Manual (2)Gaurav Sir Banners PPT (3)RBI Annual Report (4)Banking Guidelines 2021
30. Which additional entity is included under the Integrated Ombudsman Scheme apart from the three main schemes?
(1)Small Finance Banks (2)Non-Scheduled Primary Co-operative Banks with deposits over ₹50 crore (3)Foreign Banks (4)Credit Card Companies
31. Who is responsible for appointing the Ombudsman under the scheme?
(1)The RBI Governor (2)The Central Government (3)The Ministry of Finance (4)The Consumer Protection Board
32. Which statement correctly describes the complaint filing timeframe?
(1)Complaints must be filed within 6 months of the service deficiency (2)Complaints must be filed within one year after receiving a reply, or within one year and 30 days if no reply is received (3)Complaints must be filed within 90 days of the incident (4)Complaints can be filed at any time
33. What is the maximum compensation for loss of time that can be awarded under Banking Ombudsman Scheme?
(1)₹50,000 (2)₹75,000 (3)₹1 lakh (4)₹1.5 lakh
34. Which section of the Payment and Settlement Systems Act, 2007 is relevant to the Ombudsman Scheme for Digital Transactions?
(1)Section 18 (2)Section 20 (3)Section 15 (4)Section 22
35. Which method of complaint submission is NOT mentioned in the scheme?
(1)Online submission (2)Email submission (3)Physical submission (4)Mobile app submission
36. What role does the Principal Nodal Officer play in the scheme?
(1)To appoint the Ombudsman (2)To represent the regulated entity and provide information on complaints (3)To audit the bank's performance (4)To manage customer relations at RBI
37. Which option best describes the jurisdictional approach of the Integrated Ombudsman Scheme?
(1)Jurisdiction is based on state boundaries (2)Jurisdiction is determined by the bank's location (3)The scheme eliminates the need to identify a specific ombudsman office based on jurisdiction (4)Jurisdiction is divided among multiple centers
38. Which aspect of the scheme standardizes complaint handling across India?
(1)Decentralized complaint centers (2)The "One Nation One Ombudsman" approach (3)Regional offices with varying policies (4)Local language submission requirements
39. In what language(s) can complaints be submitted under the scheme?
(1)Only English (2)Only Hindi (3)Any language (4)English and Hindi only
40. What best describes the integrated nature of the 2021 scheme?
(1)It focuses solely on digital transactions (2)It consolidates all previous ombudsman schemes into one streamlined process (3)It excludes NBFCs (4)It introduces separate schemes for each financial institution
41. Which of the following is NOT a feature of the Integrated Ombudsman Scheme?
(1)A centralized complaint processing centre (2)No limit on the disputed amount for awarding (3)Decentralized jurisdiction of ombudsmen (4)A defined timeframe for filing complaints
42. To which RBI official is the annual report by the Ombudsman sent?

(1)The RBI Governor (2)The Deputy Governor (3)The Chief Economic Advisor (4)The Finance Minister

43. Which language version of the lecture is provided alongside the English version?
(1)Spanish (2)French (3)Hindi (4)Mandarin

44. What is the primary ground for filing a complaint under the scheme?
(1)Product quality issues (2)Deficiency in service (3)Interest rate discrepancies (4)Investment advice errors

45. How does the Integrated Ombudsman Scheme simplify the complaint filing process?
(1)By eliminating the need for multiple submissions under separate schemes (2)By removing online complaint facilities (3)By replacing phone-based complaints with physical submissions (4)By mandating mobile app usage only

46. Under which act is the Banking Ombudsman Scheme, 2006 established?
(1)The Reserve Bank of India Act (2)The Ministry of Finance Act (3)The Securities Act (4)The Banking Regulation Act, 1949

47. Which entity is recently announced to be included under the Integrated Ombudsman Scheme for redressal of grievances?
(1)Credit Information Companies (2)Mutual Funds (3)Insurance Companies (4)Non-performing asset managers

Answers:

1	**3**	**6**	**2**	**11**	**3**	**16**	**4**	**21**	**2**	**26**	**2**	**31**	**1**	**36**	**2**	**41**	**3**	**46**	**4**
2	**2**	**7**	**3**	**12**	**2**	**17**	**3**	**22**	**1**	**27**	**3**	**32**	**2**	**37**	**3**	**42**	**2**	**47**	**1**
3	**4**	**8**	**2**	**13**	**2**	**18**	**2**	**23**	**3**	**28**	**2**	**33**	**3**	**38**	**2**	**43**	**3**	**48**	
4	**1**	**9**	**3**	**14**	**2**	**19**	**3**	**24**	**3**	**29**	**2**	**34**	**1**	**39**	**3**	**44**	**2**	**49**	
5	**2**	**10**	**3**	**15**	**2**	**20**	**3**	**25**	**3**	**30**	**2**	**35**	**4**	**40**	**2**	**45**	**1**	**50**	