Skill India
कौशल भारत - कुशल भारत

सत्यमेव जयते
GOVERNMENT OF INDIA
MINISTRY OF SKILL DEVELOPMENT
& ENTREPRENEURSHIP

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National
Skill Development
Corporation
Transforming the skill landscape

BFSI

Participant Handbook

Sector
Banking Financial Services and Insurance (BFSI)

Sub-Sector
Banking

Occupation
Financial Inclusion Services

Reference ID: **BSC/Q0701, Version 1.0**
NSQF Level 4

Debt Recovery Agent

Debt Recovery Agent
Participant Handbook
BFSI

Skilling is building a better India.
If we have to move India towards development then Skill Development should be our mission.

Shri Narendra Modi
Prime Minister of India

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Certificate

CURRICULUM COMPLIANCE TO QUALIFICATION PACK – NATIONAL OCCUPATIONAL STANDARDS

is hereby issued by the

BFSI SECTOR SKILLS COUNCIL OF INDIA

for the

MODEL CURRICULUM

Complying to National Occupational Standards of
Job Role/ Qualification Pack: '**Debt Recovery Agent**' QP No. '**BSC/Q0701 NSQF Level 4**'

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Authorized Signatory
(BFSI Sector Skill Council of India)

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1. Banking Basics and Products

Unit 1.1 Introduction to Banking

Unit 1.2 Deposit Products and KYC

Unit 1.3 Credit Products

Unit 1.4 Asset Classification and NPA's

(BSC/ N 0701)

Unit 1.1 - Introduction to Banking

Unit Objectives

At the end of this unit, the participants will be able to explain:

- What is a bank?
- What is its role in economy?
- Banking structure
- Types of banks - retail, wholesale etc.
- RBI and its role in banking
- Types of products and services offered

Power of Banking

A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services, such as wealth management, currency exchange and safe deposit boxes.

What is Banking?

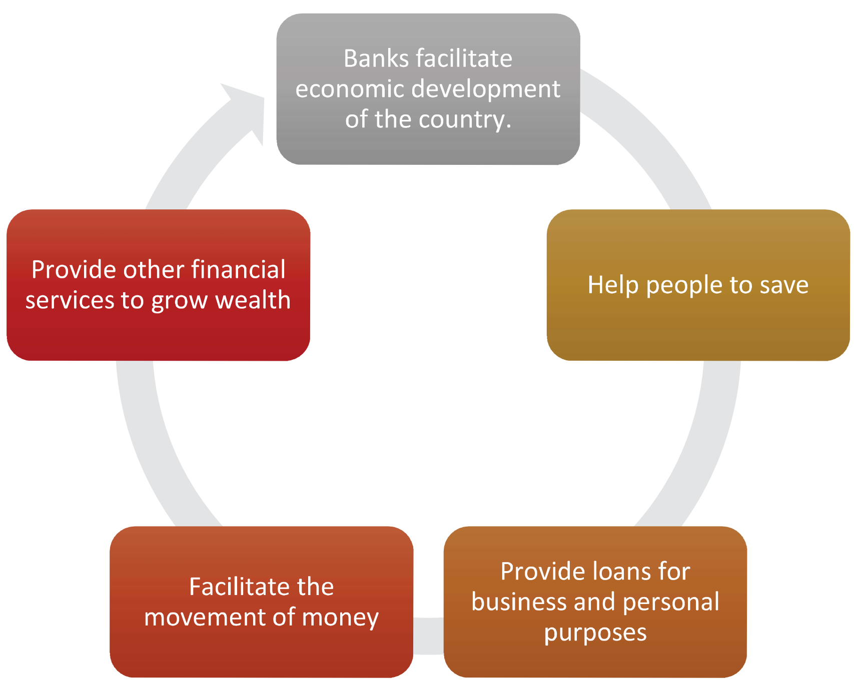

Figure 1.1.1

Banking refers to the activity of taking and safekeeping money from individuals and other individual entities. The money gathered from such depositors is lent forward to earn a profit. Today, banking is a vast industry with many types of banks earning through various forms of business. For instance, they issue debit and credit cards, offer lockers, as well as provide insurance and saving products.

What are the functions of a bank?

Broadly, a bank performs two types of functions:

A. Primary functions

B. Secondary functions

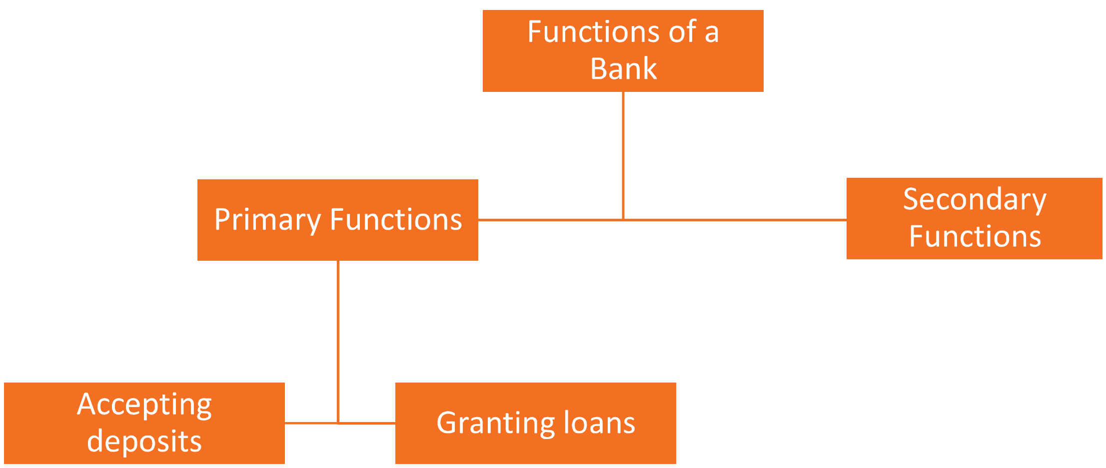

Figure 1.1.2

A. Primary functions

a) Accepting deposits

b) Granting loans and advances

a) Accepting deposits

This is the primary function of a bank. Banks accept money from customers in different forms. In return, customers expect to keep their money safe and gain some earning. Let's look at the primary forms of deposits in a bank.

Fixed Deposit: These deposits mature after a long period of time and an interest is paid in return. One can withdraw this money only after the maturity date.

Current Account Deposit: These accounts are maintained by business holders to enable large and frequent transactions. Interest is rarely paid on this account.

Saving Account Deposit: This is usually a regular bank account where the money is deposited and withdrawn regularly. It is meant for small savings. A small interest is paid on this amount.

Term Deposit/Recurring Deposit: This is an account where a fixed amount is saved regularly to be withdrawn at a later stage. An interest is provided for this deposit.

b) Loans

An important function of banks is to grant loans and advances. These are given at a higher rate of interest compared to the interest that banks give on deposits. Based on the purpose of the loan, the interest is decided. Since banks charge more interest on loans and pay less interest on deposits, they earn money.

Banks also provide Advances, which is usually granted for a short time. They are usually meant to meet the day-to-day needs of a business. The rate of interest charged on advances depends on the bank.

Let us look at the types of short-term loans that are available from banks:

a) Cash Credit

Here, the borrower can take a specified amount from the bank. This amount is credited to the bank account of the borrower, which he/she can use as and when required. The interest is charge on the amount that is actually withdrawn.

b) Overdraft

This is a credit facility whereby a bank's current account customer can withdraw more funds than are available in his account. The credit is provided on the security of assets or personal security or both.

c) Discounting of Bills

This is when banks make the payment before the due date on bills after deducting a certain rate. This discounting of bills allows customers to gain funds before the bills mature.

B. Secondary functions

The secondary function of banks, i.e. roles not directly associated with them, are:

a. Issuing letters of credit
b. Providing safety vaults or lockers
c. Enabling foreign exchange
d. Transferring money from one place to another
e. Providing guarantee on behalf of customers
f. Issuing demand drafts and pay orders
g. Providing electronic funds through NEFT, RTGS, ECS etc.
h. Creating credit reports on customers

In exchange for all these services, banks charge a fee or commission.

Definition of 'Banking'

In section 5(b) of the Banking Regulations Act, 1949, "Banking" is defined as :

"Accepting, for the purpose of lending and investments, deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise".

Banks accept deposits from the public and provide loans for business and personal purposes. The deposits accepted by banks are repayable anytime the customer demands. Banks are the only financial institutions that can accept deposits repayable on demand and issue cheque books to customers.

Role of banks in the Economy

Banks accept deposits and make loans and derive a profit from the difference Financial intermediation is the process is the process performed by banks wherein they take funds from a depositor and lend them out to a borrower. financial intermediation.

Through the process of financial Intermediation, certain assets are transformed into different assets or liabilities. Financial intermediaries channel funds from people who have extra money or surplus savings (savers) to those who do not have enough money to carry out a desired activity (borrowers).

Banks serve three primary purposes in the Indian economy:

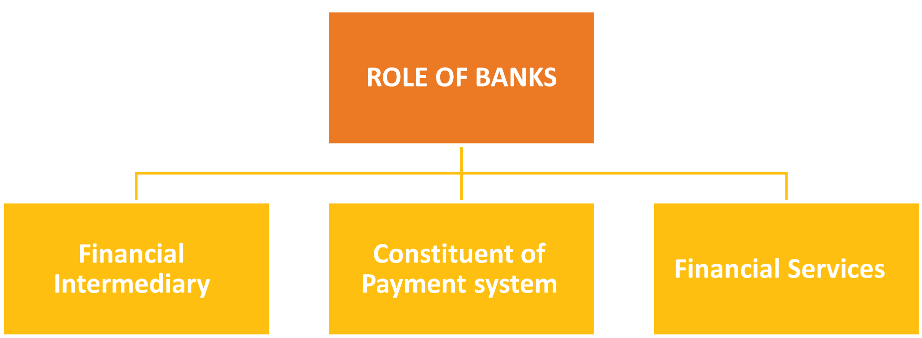

Figure 1.1.3

Financial Intermediary

Banks have emerged as the largest intermediaries across the world and accept deposits from the public and provide loans for business and personal purposes.

Constituent of Payment System

Banks make up an important part of the complete payment system in a country and in its economy.

Financial Services

Banks offer financial services to individual and institutional consumers to benefit from their pool of resources.

Evolution of banking

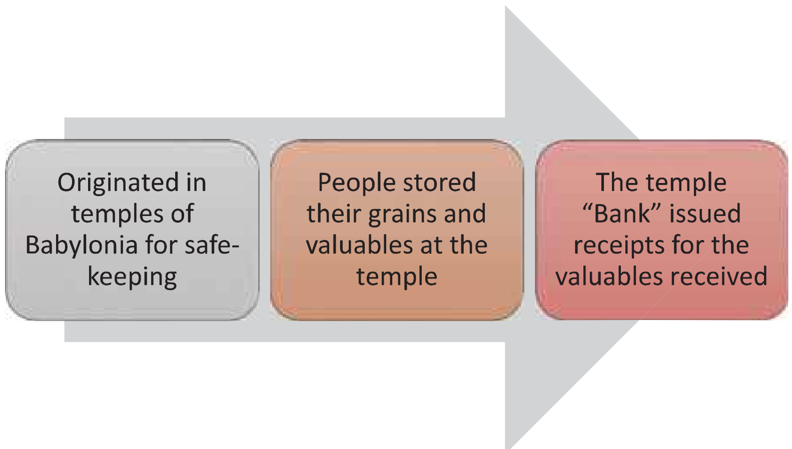

Figure 1.1.4

Evolution of Banking in India

A look at the growth of the banking sector in India:

- The first banking institution in India was the Bank of Bengal in 1809
- Many Indian businessmen started the surviving banks during the Swadeshi movement of 1906 and 1913
- The Imperial Bank of India was started by the government in 1921 and was renamed as the State Bank of India in 1955
- After India's independence, the IDBI (Industrial Development Bank of India) and ICICI (Industrial Credit and Investment Corporation of India) were promoted by the Government for long term financial assistance to industries upto 10 years
- In 1980, another set of banks were also nationalized
- The Government of India nationalized all large banks in 1969 by paying off the owners
- In 1994 that the Government of India permitted setting up of banks in the private sector to inject an element of competition in the banking industry
- Eight new banks, including ICICI Bank, HDFC Bank, IDBI Bank and UTI Bank were set up in the next three years
- In 2003, two more banks i.eKotak Mahindra Bank and Yes Bank were also given licenses
- In 2014, two new institutions have been given licenses to start banking operations

Indian Banking Structure

The Structure of the Banking Sector is as follows:

Structure of Indian Banking Sector

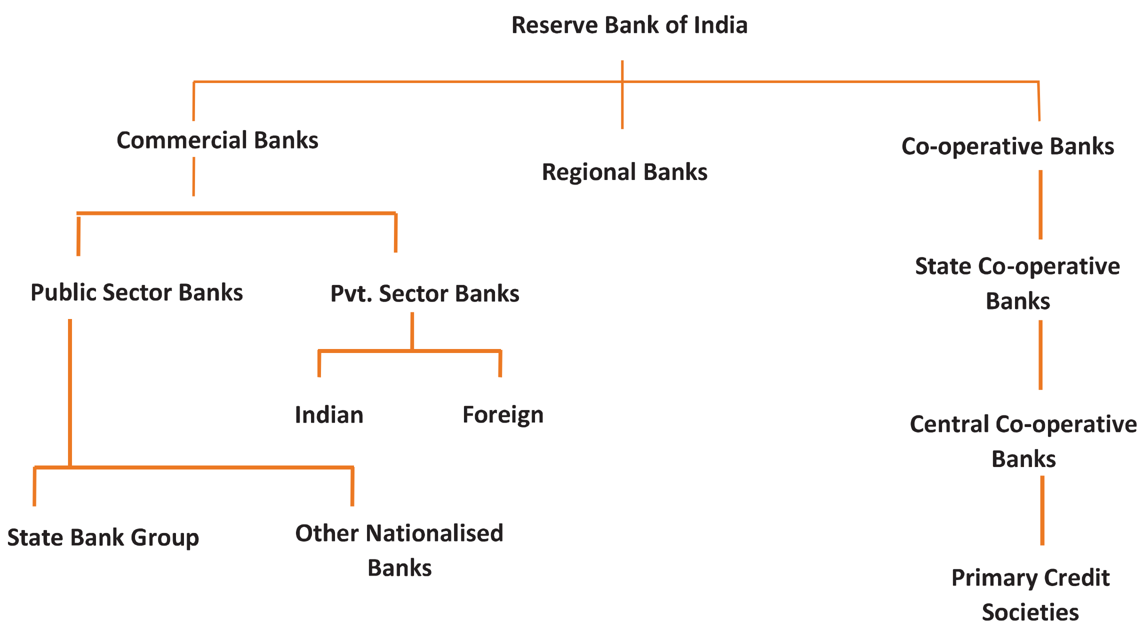

Figure 1.1.5

Reserve Bank of India:

The Reserve Bank of India is the central financial institution of India. Established on 1 April 1935 under the RBI Act of 1934, it plays a developmental and promotional role in the economy. The RBI issues notes, formulates and implements monetary and credit policies.

Being the apex bank, the RBI supervises and controls the complete banking structure of India. Every country has a central bank and they are known by different names. Some of the most known central banks in the world are the Federal Reserve Bank of U.S.A, Bank of England, Bank of Canada and the Reserve Bank of Australia.

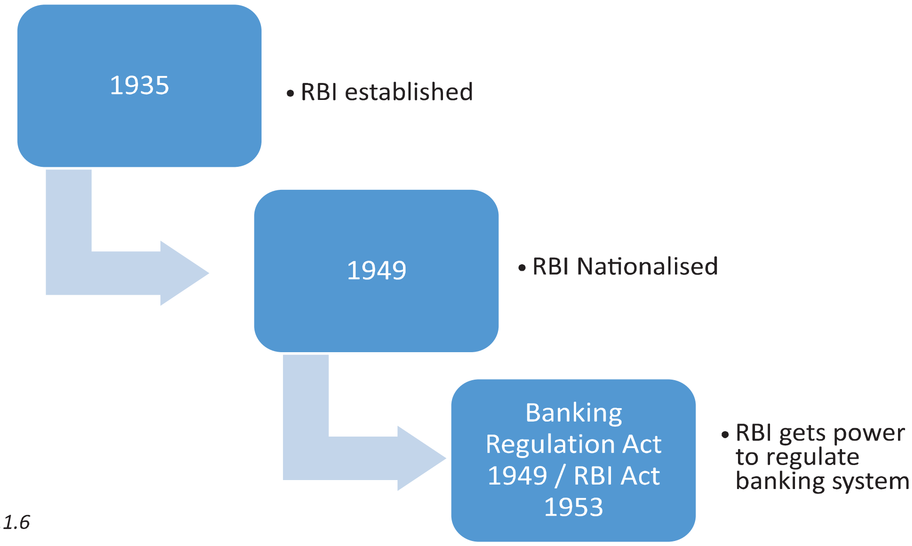

Figure 1.1.6

Commercial Banks

Banks that works as a medium between the savings of the general public and the requirements of small business units for their capital working requirements are commercial banks. Both private banks and public banks fall under this. In India, public sector banks account for 92% of the banking activities.

Example: ICICI Bank, State Bank of India, Citibank

(i) Public Sector Banks

These banks are held by the Government of India because it has the highest stake in these banks.

Example: Canara Bank, Punjab National Bank, Bank of India

(ii) Private Sector Banks

The share capital of these banks is held by private individuals.

Example: Axis Bank, Yes Bank, HDFC bank

(iii) Foreign Banks

These banks belong to owners in a foreign country but they operate in India as well.

Example: Citibank, Bank of America, Standard Chartered Bank

(iv) Cooperative Banks

These banks are created under the provisions of the Cooperative Credit Societies Act of the states. They primarily cater to the rural and agricultural sector. It comprises State Co-operative Bank (SCB) at the apex, followed by the Central Cooperative Banks (CCBs) at the district level and the Primary Agricultural Credit Societies (PACs) at the village level.

Types of Banks

Retail Banking

Retail banking is also known as consumer banking and refers to the typical mass-market banking in which individual customers use local branches of larger commercial banks. The services offered by such entities include mortgages, pension accounts, certificates of deposits (CDs), debit/credit cards, personal loans and checking and savings accounts.
In retail banking, the focus is on the individual consumer.

Retail banking aims at being the one-stop shop for as many financial services as possible on behalf of individual retail clients. Most consumers utilize local branch banking services that provide onsite customer service.

Besides this, retail banks also provide other services of credit card, insurance products, capital market products etc., that are delivered through branches, ATMs, Internet, telephone, etc.

RETAIL BANKING

	Past	Present
Purpose	Credit & risk	Customers & retailing
Availability	Secure, conventional location for financial transaction	Customer-centric
Customer Base	Corporations & other banks	Individuals, corporate entities, Non-profit entities
Reach	Single Entity	Multi-location, multi branch
Focus Areas	Better & faster facilities	Providing products & services
Customization	Rarely there	Highly customized

Wholesale Banking

Wholesale banking includes the banking services that are provided between the merchant bank and other financial institutions.

This type of banking deals with larger clients, such as large corporations and other banks, whereas retail banking focuses more on the individual or small business. Wholesale banking services include services like:

- currency conversion
- working capital financing
- large trade transactions
- other services

Wholesale banking is meant to describe the financial practice of lending and borrowing between two large institutions. Banking services that are considered "wholesale" are reserved only for government agencies, pension funds, corporations with strong financials and other institutional customers of similar stature.

Most standard banks operate as merchant banks and offer wholesale banking services in addition to traditional retail banking services.

Wholesale banking enables simple transfers between accounts - like transfer of stock ownership, funds and other financial instruments between financial institutions.

Figure 1.1.7

International Banking

International banking facilitates the provision of international or cross-border transactions for the clients. Some of the products and services offered by international bank are:

I. Import-export transactions through trade financing

II. Foreign investments

III. Consultancy in foreign exchange hedging strategy

IV. International cash management services

Universal Banking

Universal banking is a banking system in which banks provide a wide variety of financial services that include commercial and investment services.

Universal banks may offer credit, loans, deposits, asset management, investment advisory, payment processing, securities transactions, underwriting and financial analysis. While a universal banking system allows banks to offer a multitude of services, banks in a universal system may choose to specialize in a subset of banking services.

As per the World Bank, the definition of the Universal Bank is as follows:

"In Universal banking, the large banks operate extensive network of branches, provide many different services, hold several claims on firms(including equity and debt) and participate directly in the Corporate Governance of firms that rely on the banks for funding or as insurance underwriters."

This concept was introduced in India with entry of the new-age private sector banks into the country's banking system during the financial sector reforms in the90's.

Role of Commercial Banks

Functions of commercial banks are divided into two categories:

A. Primary functions, and

B. Secondary functions including agency functions.

A. Primary functions

The primary functions of a commercial bank include:

a) Accepting deposits; and

b) Granting loans and advances

a) Accepting deposits

A bank accepts money from its customers. Customers trust the bank to pay back the money when it is needed or when demanded (these deposits are also called Demand Deposits).

- These funds may be kept in CURRENT ACCOUNTS. Here, no interest is paid.
- The funds may be kept in the SAVINGS ACCOUNTS. A small percentage of interest is paid.
- Depositors can also keep their money for a fixed time in TERM DEPOSITS (such as Fixed Deposits, Recurring Deposits). In Term Deposits the amount invested is repayable after the fixed time period is over.

b) Grant of loans and advances

A commercial bank also grants loans and advances. These are given to members of business and public community at a rate of interest that is higher than what is allowed by banks on deposit accounts.

The period, purpose and mode of repayment affect the rate of interest charged on advances and loans. The main source of income for a bank is the difference between the rate of interest allowed on deposits and the rate charged on the loans.

i. Loans

A loan is granted for a specific me period. Short term loans are granted by commercial banks but may also grant year long term loans.

Borrower can withdraw entire amount in installments or as a lump sum amount but the interest is charged on the full amount of loan.

Such loans are usually granted against the security of certain assets and can be repaid either in lump sum or in installments.

ii. Advances

A credit facility provided by the bank to its customers is known as the advance. It is different from a loan as loans are grated for long time periods while an advance is usually short term.

Advances are granted to meet the day-to-day requirements of business and the rate of interest charged on advances varies from bank to bank, chargeable only on the amount withdrawn and not on the sanctioned amount.

Modes of short-term financial assistance

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

a) **Cash Credit**

The arrangement wherein the bank allows the borrower to draw amounts up to a specified limit is known as cash credit, which is credited to the account of the customer and can be withdrawn by the customer anytime. The credit is granted as per the terms and conditions and interest is charged on the actual amount withdrawn.

b) **Overdraft**

Another credit facility granted by a bank is known as an overdraft. An account holding customer can withdraw more than the credit balance in his account. The overdraft is allowed on security of assets, personal security or both.

c) **Discounting of Bills**

Making payment of the amount before the due date after reducing a certain rate of discount is known as discounting bills, another short-term finance offered by banks. Without waiting for the date of maturity of bills, the party receives the funds. On the due date, the bank may recover the amount from the customer if the bill is dishonored.

B. Secondary functions

Besides the primary functions of accepting deposits and lending money, banks perform a number of other functions which are called secondary functions. These are as follows:

a. Issuing letters of credit etc.
b. Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers;
c. Providing customers with facilities of foreign exchange.
d. Transferring money from one place to another; and from one branch to another branch of the bank.
e. Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.
f. Issuing demand drafts and pay orders; and electronic funds transfer through NEFT, RTGS, ECS etc.
g. Providing reports on the credit worthiness of customers.

Banks give services for which they charge commission or fees. This is called non-interest income or FEE-BASED INCOME. Some of these services are safe deposit lockers, safe custody of valuables, issuing of traveller's cheques, letters of credit and guarantee, collection of out-station cheques, giving opinion reports on their customers, agency services for government business, etc.

Exercise

Give 3 examples each of the following banks operating in India:

1. Retail Banks

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2. Wholesale Banks

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3. International Banks

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4. Universal Banks

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RBI - Role in Banking

The function of the central bank of a country is to control and monitor the banking and financial system of the country. The RBI plays role of regulator of the banking system in India.

The RBI plays the role of a regulator for the banking system in India.

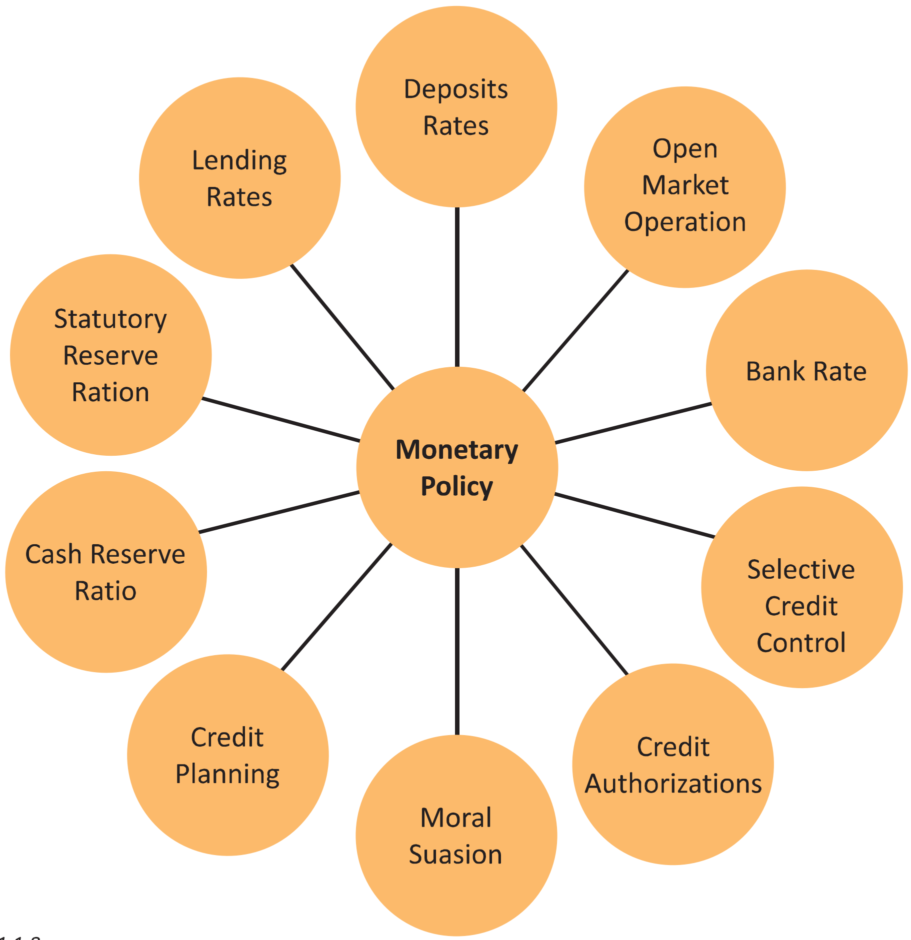

Figure 1.1.8

The RBI has different functions in different roles.

Regulator of Financial System

The RBI regulates the Indian banking and financial system by issuing broad guidelines and instructions. The objectives of these regulations include:

- Controlling money supply in the system,
- Monitoring different key indicators like GDP and inflation,
- Maintaining people's confidence in the banking and financial system, and
- Providing different tools for customers' help, such as acting as the "Banking Ombudsman."

Issuer of Monetary Policy

The RBI formulates monetary policy twice a year. It reviews the policy every quarter.

The main objectives are:

- Inflation control
- Control on bank credit
- Interest rate control

The tools used for implementation of the objectives of monetary policy are:

- Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR),
- Open market operations,
- Different Rates such as repo rate, reverse repo rate, and bank rate.

Issuer of Currency

Section 22 of the RBI Act gives authority to the RBI to issue currency notes. The RBI also takes action to control circulation of fake currency.

RBI is the Controller and Supervisor of Banking Systems

The RBI has been assigned the role of controlling and supervising the bank system in India. The RBI is responsible for controlling the overall operations of all banks in India. These banks may be:

- Public sector banks
- Private sector banks
- Foreign banks
- Co-operative banks, or
- Regional rural banks

The control and supervisory roles of the Reserve Bank of India is done through the following:

- **Issue of License:** Under the Banking Regulation Act 1949, the RBI has been given powers to grant licenses to commence new banking operations. The RBI also grants licenses to open new branches for existing banks. Under the licensing policy, the RBI provides banking services in areas that do not have this facility.

- **Prudential Norms:** The RBI issues guidelines for credit control and management. The RBI is a member of the Banking Committee on Banking Supervision (BCBS). As such, they are responsible for implementation of international standards of capital adequacy norms and asset classification.

- **Corporate Governance:** The RBI has power to control the appointment of the chairman and directors of banks in India. The RBI has powers to appoint additional directors in banks as well.

- **KYC Norms:** To curb money laundering and prevent the use of the banking system for financial crimes, The RBI has “Know Your Customer” guidelines. Every bank has to ensure KYC norms are applied before allowing someone to open an account.

- **Transparency Norms:** This means that every bank has to disclose their charges for providing services and customers have the right to know these charges.

- **Risk Management:** The RBI provides guidelines to banks for taking the steps that are necessary to mitigate risk. They do this through risk management in basel norms.

- **Audit and Inspection:** The procedure of audit and inspection is controlled by the RBI through off-site and on-site monitoring system. On-site inspection is done by the RBI on the basis of “CAMELS”. Capital adequacy; Asset quality; Management; Earning; Liquidity; System and control.

- **Foreign Exchange Control:** The RBI plays a crucial role in foreign exchange transactions. It does due diligence on every foreign transaction, including the inflow and outflow of foreign exchange. It takes steps to stop the fall in value of the Indian Rupee. The RBI also takes necessary steps to control the current account deficit. They also give support to promote export and the RBI provides a variety of options for NRIs.

- **Development:** Being the banker of the Government of India, the RBI is responsible for implementation of the government's policies related to agriculture and rural development. The RBI also ensures the flow of credit to other priority sectors as well. Section 54 of the RBI gives stress on giving specialized support for rural development. Priority sector lending is also in key focus area of the RBI.

Activity

Overview

This activity will help you to understand the history as well as working of RBI and describe it to others.

Goals and Objectives:

To be able to talk about the RBI and its role in the banking system.

Props/Material Required:

- Paper and Pen
- Laptop and Projector
- Classroom
- White/Black Board

Methodology/Procedure:

The Banking Regulation Act 1949 and the RBI Act of 1953 were important milestones for the Indian Banking System. Research and present the important characteristics of these acts with context to the current banking system.

Outcome:

Banking Products and Services

Banks offers a wide range of ?nancial services to individuals, commercial and non-commercial entities.
We can classify the role of banks under 5 broad categories:

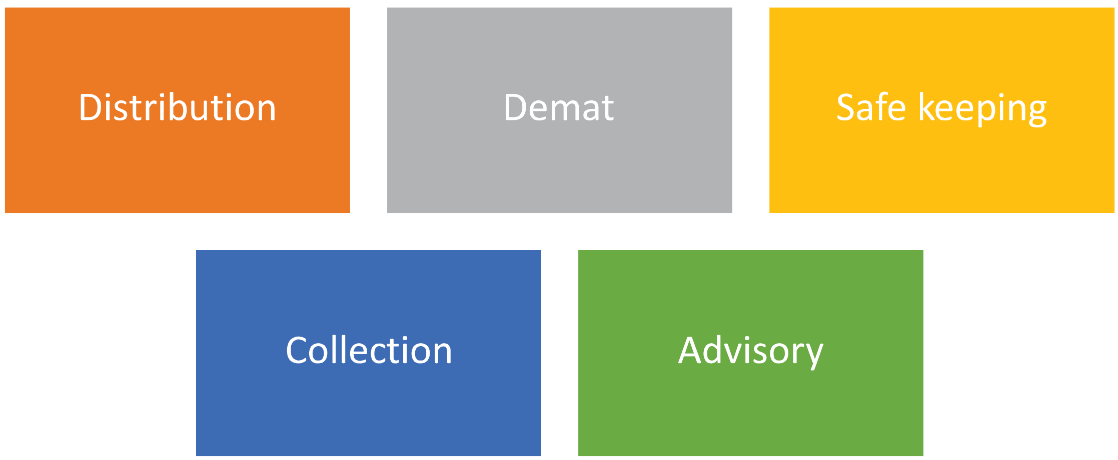

Figure 1.1.9

1. Demat

- Dematerialized or DMAT Share accounts maintained by banks are very similar to savings accounts.
- An account holder buys shares, the number of shares will be 'credited' to his account and after selling it, his account will be 'debited' and the buyers account will be 'credited'.

2. Safe keeping

i. Safe Deposit Vaults (SDV):

Safe keeping of valuables in lockers

ii. Safe Custody:

Accept sealed packets of valuables and issue a 'safe custody receipt'

3. Advisory Services

Banks provide professional assistance to select the right investment options

4. **Collection Services**

Banks provide the facility of collecting Cheques, Demand Drafts, Interest Warrants, Dividend Warrants, Refund Orders, Clean Bills and Documentary Bills from customers and various other centers. These documents are collected into properly introduced accounts and sent for collection on the day of receipt from the customers or the next working day.

The collection services offer by a bank are :

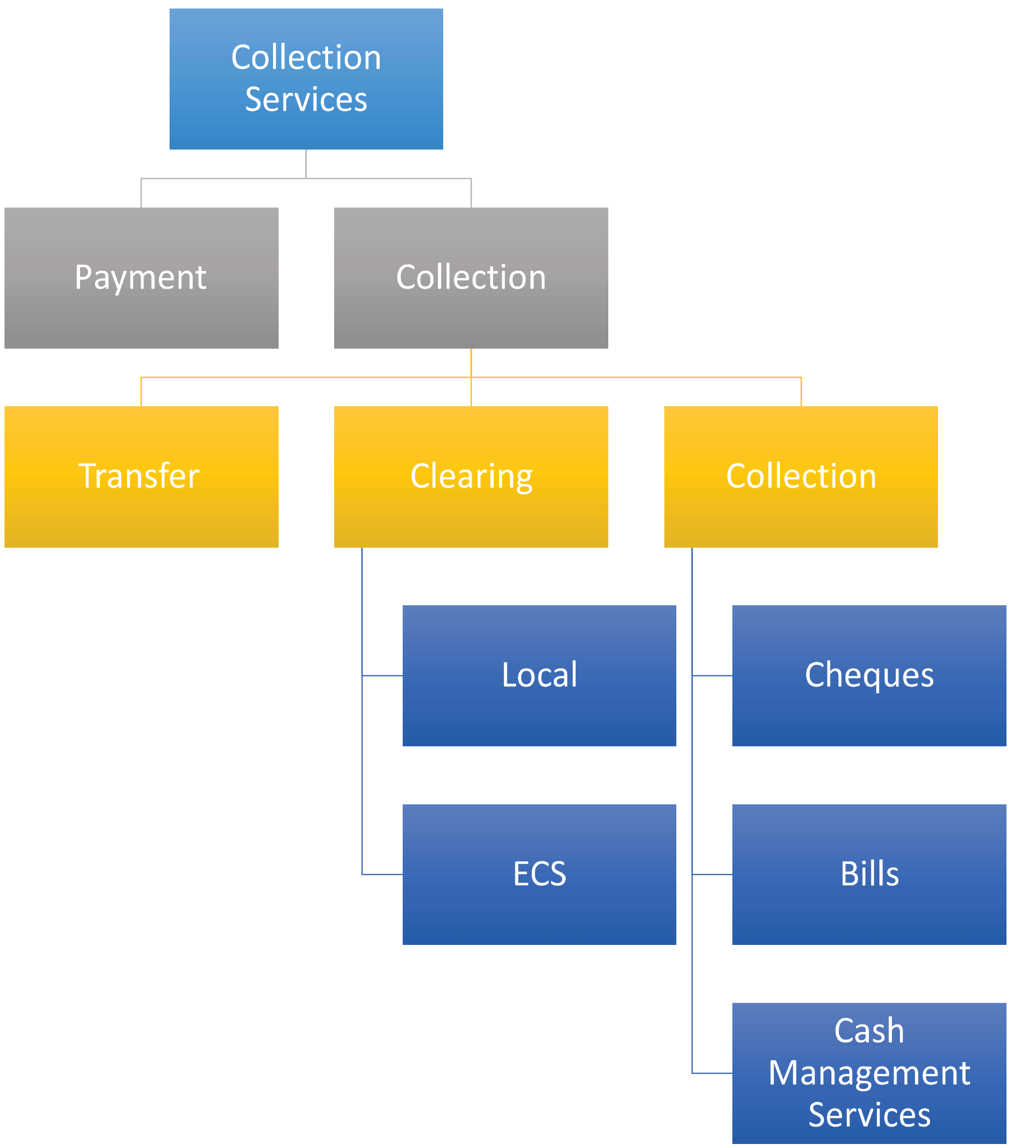

Figure 1.1.10

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