Fin-Astute

Fundamentals of Financial Literacy

Dr. Mitesh Verulkar
Mrs. Revatee Mitesh Verulkar

INDEX

Chapters	page no.
1. What is Fin-Astute?	4 - 6
2. Financial Planning	7 - 12
3. Investments	13 - 20
4. Savings	21 - 22
5. Risk and Return	23 - 25
6. Financial Institutions	26 - 81
7. Financial Market	82 - 89
8. Mutual Funds	90 - 98
9. Sources of Finance	99 - 99
10. Economic Cycle	100 - 104

Disclaimer

The main purpose of presenting this book is to create awareness of available financial services among the people specially youth of villages and small towns, who haven't much idea regarding the same. We are giving the credits from the bottom of heart to various academic and non-academic resources for giving financial updates.

Chapter 1.

FIN ASTUTE

What is Fin Astute?

Fin Astute means an ability to judge financial situation very cleverly and quickly to take advantage of it. Fin-astuteness is a skill that enables one to accurately read and respond diplomatically to trends and norms. A truly smart astute person will always evaluate whether giving something rather than taking something in a transaction will have greater pay off in the future.

To become astute of finance you should understand from the crux to skill of the finance. The very first step in achieving it is to be financially literate. So let's first know about financial literacy.

- Literacy is basically an art & science of getting, associating and understanding basic knowledge in a specialized field to become master in it.
- In the same way financial literacy is the process of getting, associating & understanding the language of money in the field of finance.

M = Management
O= Of
N =Net worth
E = Effectively
Y= Yayachitta (with controlled mind)

- It means it’s your ability how to manage your net worth effectively with controlled mind to achieve financial freedom.
- The power of analysis of budgeting, saving, investing and debt for your financial wellbeing is called financial Literacy.
- According to FLEC (Financial Literacy & Education Commission) five components of financial literacy are:-

1. Earn
2. Spend
3. Save & Invest
4. Borrow
5. Prevent

- Thus Financial Literacy is an awareness, understanding and implementation of following important things:

1. Value of money (Even a single rupee)
2. Proper expenditure on health, education, regular maintenance, future, retirement etc.
3. Prevention of money leakage, cost effectiveness & zero waste.
4. Budgeting
5. Savings
6. Proper investment in multiple sectors
7. When, where& how much to invest and withdraw
8. Analyzing futures needs, planned and implement accordingly
9. Grabbing opportunities

10. Creating new resources
11. Risk factors behavior & stress management
12. Regular monitoring of portfolio & improving bit by bit
13. Taxation

In the summarized way we can state financial literacy is an ability to take smart financial decisions to achieve your desired lifestyle, financial stability and growth on a continuous basis by learning.

Need for Financial Literacy

- According to the report conducted by global financial literacy excellence center, only 24% of Indian adult population is financially literate (Sept 23, 2020).
- The financial Illiteracy can bring you to a number of difficulties. It may be your poor expenditure decisions, borrowing habits, unsustainable debt burdens, poor credit.
- As a result people undergo depression, anxiety, anger, and irritation, negligence towards family, children and colleagues which even may lead them to suicide.
- While financially literate people are generally less vulnerable to financial fraud.

s

*****

Chapter 2.

Financial Planning

- Financial planning is the stepwise attempt to achieve personal and financial goals through the development and implementation of comprehensive financial plan.
- A well-organized financial planning directs your resources to grow and accumulate assets so that your financial goals can be achieved within stipulated time.
- Each individual has different income, expenses, assets, needs, responsibilities, knowledge, risk taking ability, background , future goals, financial situation and mindset, hence financial planning is specific for person to person and so is the dynamic ongoing process.
- The financial planning comprises of **Life stage based financial planning and diversification of money**.

I. Life stage based financial planning:-

- No time is imperfect for taking the steps towards financial freedom. The moment you realize for getting financial freedom is the right time to get started. Still the life stage based planning is important while deciding financial plans.
- Young earning person has high risk taking ability as compared to person with higher age; as he has more number of earning years in hand with fewer responsibilities while person in the later life stage

has less risk taking ability. Thus financial planning should start at an early age in life (as he starts earning)

- Generally in society it's seen that A young person of age 22-25 years started earning. His income increases with age, has less responsibilities and liabilities. In his early stage of earning phase he should focus on contingency, insurance planning & tax planning. He acquires and develops family till the age of 30 - 40 years where he starts planning for children's education and residential planning. His carrier progresses with increase in income till the age of 60 years. At the age of retirement income reduces and he has to depend on children, savings or investments made for retirement. This phase is becoming very challenging because of changes in socio economic structures. There is a risk that senior citizens may outlive their savings and investments. They may have higher expenses for medical treatments. This results in their financial crisis & having very low or no income
- Thus an individual's financial life stages can divide in to two important phases which are :-
    1. Pre-Retirement Phase
    2. Retirement Phase

All above shows that life stage based financial planning is helpful in managing important components of an individual's life such as income, cash flow, savings, investments, capital, assets, children education, family securities,

retirement planning , standard of living and income tax management.

II. Diversification of assets

- It is very important in financial planning as higher concentration towards particular assets will increase risk.
- Let us understand the clear concept of financial planning with the example. Consider the following financial goals

1. To buy or build a house
2. Cash management

1. **<u>You have to buy or build your own house within a set timeline.</u>**

First of all you must find it very exciting and endless search for your ideal home, but very soon you come to know that buying your home is a major financial activity. For this you might have two options;

a) To wait a while to fund your house from your long term savings & investments.

b) You decide to go for a home loan in a very first year of employment.

All you need to need to do is to plan for it.

- **Estimate** your future income and decide on a limit also considering other costs- tax, fees, brokerage, interest on home loan etc. Generally your employee or the lending institution will do it for you. **As Thumb rule, you can buy a house that**

costs about two and a half times your annual salary.

- **Check if you are ready** – a steady (growing) source of income, future which is looking better and richer, you have a good credit history- you have a good saving for down payment.
- **Surveying home loans available in the market-** Things to consider are lender's reputation, interest rate, what percentage and whether it is fixed (one rate throughout the whole tenure) or floating (variable interest rate that changes according to the market changes). Repayment pattern monthly, quarterly etc. Loan tenure and installment amount will help you to plan your finances better.
- **Deciding the payment pattern** that suits you the best – through the savings, sale of other property, investment or with a housing loan. How much home loan to take, what type of interest, for what period of time and at what monthly installments?
- **Purchase** – Transfer of ownership and related rights in your favor, checking the house for all fulfillments of commitments by the builder.
- **Safe keeping of records** – Home loan documents, land registration with the corporation, house ownership documents, then membership documents, house insurance papers. Then membership documents, house insurance papers
- **Insurance** – Considering house insurance

2. Cash Management

The ultimate goal of Financial Management is to have a healthy balance through smart spending, saving, budgeting, and record keeping so as building wealth in the long term. Whether you earn in hundreds, thousands or millions, how well you manage them will decide how much money you would end up having for your goals.

The following points can be kept in mind while planning the cash management

- **Budgeting** – Balancing income and expenses , cutting down on unnecessary expenses, allocating your income (e.g. spending 50% of the net income, saving 20%, stabilizing finance through emergency fund and insurance 20%, investing for growth10%), implementation and review are the things to follow for having healthy balance.
- **Understanding pay slips** – Earnings (your salary and perks), deductions(taxes, loan repayment) and contributions (provident fund)
- **Smart spending** – Prioritizing needs over wants, avoiding wastage, using credit card wisely, funding expenses from savings not loans, understanding terms of EMI before buying on EMI.
- **Record keeping** – Keeping an account of daily money transaction, keeping bank pass book and investment records updated, keeping organized other important financial record- credit card

statements, bank investment statements, income tax documents, insurance receipts etc.

- **Saving** – Planning to save, paying to the saving account first, saving for buying assets, saving for investing.

Chapter 3.

INVESTMENTS

Why is investing important?

- Without investing money you can't achieve financial freedom.
- On account of inflation there is always a decline in the real worth or purchasing power of money.

  Eg.15 years ago the cost of gold was near about Rs. 8000/10gm & now in 2021 it is Rs 48000/10 gm. It means if you just save your money it will not help you to meet your future requirements and its real value will actually decline.
- If money is invested & given to a financial intermediary like Bank or financial institution, the same can earn interest & grow in value.

  Let's see an example - Ajay & Vijay were two friends and both earned Rs. 25000 /- monthly salary. Each saved 20% i.e. Rs 5000/- thus total saving was Rs 60000/- per annum. Ajay kept this money at home, while Vijay deposited the same in the savings deposit with a bank. At the end of 5 years Ajay has Rs 60000/- and Vijay has Rs 80293/-. This is because Vijay kept his money in saving bank account @6% interest. Hence he got

  60000 X (1+0.06) X 5 = 80293 Rs.

The value of the investment can increase in future if you invest in other financial assets which can give a return of 15-20%.

Time value of money

The time value of money shows that there is a connection between TIME, & VALUE OF MONEY.

Eg. If I will offer you Rs 100, woluld you prefer to receive today or after a year?

The answer is obviously TODAY. Because if you receive 100 RS today, & deposit it in a bank say @10% P.A. interest rate the value of your money after a year will be Rs 110/-. Conversely if you receive Rs 100 after a year, you will get rs 100. Hence the first option is preferred because after one year you are better off by Rs 10.

In the example above, the future value of Rs. 100 is Rs. 110 or the present value of Rs. 110 is Rs. 100 and Rs. 10 is the time value of money for one year.

The time value of money is the concept that money available at the present time is worth more than the same amount in the future due to its potential earning capacity. This core principle of finance, states that any amount of money is worth more the sooner it is received.

The time value of money also affects the purchasing power of money. It can understood by the following example-

The quantity of Marie biscuits packet of Rs 10/- is reduced now as it was earlier. This is because the value of Rs 10 earlier was more than it

is today. It means it has less purchasing power today.

Now the question is that how does this change occur? As time progresses the value of money is impacted by number of factors like Inflation rate, Government rules & regulations, trade policies etc.

Why you expect that if you deposit money in the bank you will get interest on it? The reason is that, you sacrifice your purchasing power for that period of time and the value of that specific amount of money depreciates. Hence you expect compensation in the form of interest.

Methods of worth of money ascertain:-

There are two methods used for ascertaining the worth of money at different points of time. These are –

A) Compounding
B) Discounting

A) COMPOUNDING :-

Compounding method is used to know the future value (FV) of present money at the end of particular period, at a definite rate. Future value means the value of money in the future. FV determines what a cash flow received today is worth in the future based on interest rates or capital gains, if it was invested at the specified rate of return and number of periods.

Future value = present value X {1+(rate of return X number of periods)}

Example -If you would like to know how much the present value of Rs 100 would be after one year if you make a fixed deposit @ of 5% interest per annum.

Given :

Present value = 100

Rate of return = 5%

Number of period = 1 year

Future cash flow =?

Putting the values in the given formula,

Future value = present value X {1+(rate of return X number of periods)}

= 100 X {1+ (5% X 1)}

=100 X {1+ (0.05 X 1)}

= 100 X {1.05}

=105

Thus we can conclude that future value of today's Rs 100 is Rs 105.

Compounding refers to the process of earning interest on both the principle amount, as well as accrued interest by reinvesting the entire amount to generate more interest.

B) **Discounting** :-

Discounting is the process of converting the future amount into its present value (PV). Present value also known as discounted value means the value of future rupees today. The future cash flow is

discounted back to the present date, using the average rate of return & the number of periods. No matter what the present value is, if you invest it will grow into future cash flow amount over the specified period of time.

$$\text{Present value} = \frac{\text{Future cash flow}}{(1+\text{number of return})^{\text{number of periods}}}$$

Eg. If you would like to know to determine how much money you need to fixed deposit so that you will get Rs 100 one year from now, provided that the rate of interest is 5% Per Annum.

Given:

Future cash flow = Rs 100

Rate of return = 5%

Number of periods =1 year

Present value =?

Putting the values in the given formula,

$$\text{Present value} = \frac{\text{Future cash flow}}{(1+\text{number of return})^{\text{number of period}}}$$

$= 100/ (1+5\%)^1$

$= 100/ (1+0.05)$

$= 100/ 1.05$

$= 95.24$

Thus you would need to invest Rs 95.24 today in fixed deposit in order to get Rs 100 one year from now at a rate of 5% simple interest.

In the summarized way we can conclude that;

You have Rs 100 with you and you can get 10% interest on your money, so Rs 100can earn 100 X 10% = 110 in year.
Let's elaborate the above example in terms of present value& future value.

Present value <====> Future value
Rs 100 <= 10 %=> Rs 110

Conclusion -

1. Compounding is helpful to know the future values, of the cash flow, at the end of particular period at a definite rate. Contrary to this, discounting is used to determine the present value of the future cash flow, at a certain interest rate.
2. Getting Rs 100 today is much better than getting it in the future because in future the value of Rs 100 would be lesser.
3. The amount that the value of the money changes after one year is called the **interest rate**. Say if money today is worth 10% more in a year, the interest rate is 10%.
4. Money today is worth more than the same quantity of money in the future. You can invest money today and receive a **RETURN ON YOUR INVESTMENT**.

Avenues of Investment

Sr.no	Type	Investment	Market
1.	Equity	Equity shares of companies with proven track record	Capital market
2.	Debt/Bonds	Debentures	Capital market
3.	Equity	Equity oriented mutual funds	Direct investment in open ended schemes
4.	Debt	Bank deposits	Direct investment in banks
5.	Insurance	Life insurance policies	Direct investment in policies
6.	Real Estate	Properties	Purchase of property for investment purpose

ANNUITIES

Annuities are a series of fixed amount required to be paid by you or received by you at a specified frequency over the course of a fixed time period.

In annuities payment frequencies can be yearly, half yearly, quarterly or monthly.

Types of ANNUITIES

There are two basic types of annuities, these are:

1. Ordinary Annuity
2. Annuity Due

1. **Ordinary Annuity**: Payments required at the end of each period are called as Ordinary Annuity.

Eg. Bonds.

2. **Annuity Due**: Payments required at the beginning of each period are called as Annuity Dues.

Eg. Rent.

Future value of Annuity:- It is the sum of all payments plus the accumulated compound interest on the payment.

Chapter 4.
Savings

The portion of income not spend on current Expenditure is called as saving.

Saving is very important to:-

- To Provide for future emergencies & unexpected events –
  You don't know what the future has in store.
  Example - medical emergencies, household expenses etc.
  Without savings, unexpected events can become large financial burdens.
- For Financial security – Saving money and investing it in right sources is essential for feeling financially secure.
- Increasing standard of living – Money can also be saved to purchase expensive items that are too costly to buy with monthly income. Buying a new mobile, purchasing automobile, or paying for a vacation can all be accomplished by saving a portion of income.

How to begin the saving?

- A person should set personal financial goals first.
- Setting goals helps an individual identify and focus on items that are most important to him.
- Spend less money then you make that difference is called saving money, and for this budgeting is important.

- A budget is a spending plan for your money. It is categorized as setting goals for your needs, wants, debts, savings and investments.
- While in the process of setting goal the individual should consider the trade-off to those goals.

A **trade- off** is giving up one thing for another.

Every decision involves a trade-off. Being more financially secure in the future by saving is a trade-off to spending money in the present. If you clearly understand what they are giving up in exchange for the benefits of saving money, then their savings goals will become more attainable & realistic. When considering the trade-offs to achieving savings goals, you should examine your current spending.

*****

Chapter 5.

Risk and Return

Every investment involves two R's –RISK & RETURN.

RISK

Risk is the possibility that your investment loses money. Broadly risk is the chance that an investment's actual return will be different than expected. With the exception of government treasury bonds which are considered risk free assets; all investments carry some degree of risk.

RETURN ON INVESTMENT

It is the profit expressed as a percentage of the initial investment. Profit includes income and capital gains.

RELATION BETWEEN RISK AND RETURN

Higher risk is associated with greater probability of higher return and lower risk with a greater probability of smaller return. This trade-off which an investor faces between risk and return while considering investments decision is called as the risk return trade off. The risk return trade-off is the principle that potential return rises with an increase in risk. Low levels of uncertainty or risk are associated with low potential returns, while high levels of uncertainty or risk are associated with high potential returns.

Depending upon certain factors like your age, income and investment goals you may be willing to take significant financial risks in your investments, or may prefer to keep things much safer. It's crucial that an investor decides how much risk to take on while still remaining comfortable with the level of investment.

Generally, at low levels of risk, potential returns tend to be low as well. High levels of risk are typically associated with the high potential returns. A risky investment means that one is more likely to lose everything, but on the other hand the amount earned could be higher.

The trade-off between risk and return is the balance between the lowest possible risk and the highest possible return.

It is crucial to keep in mind that higher risk does not equal to get a return. The risk or return trade off only indicates that higher risk levels are associated with the possibility of higher returns, but nothing is guaranteed. At the same time higher risk also means higher potential losses on the investment.

One of the biggest decisions for any investor is selecting the appropriate level of risk. Risk tolerance differs depending on an individual investor's current circumstances and future goals and other factors also.

Following are the level of risk for each investment option:

Sr no	Type	Risk
1.	Government securities	Low
2.	Bank deposits	Low
3.	Debt/bonds	Moderate
4.	Real estate	Moderate
5.	Equity and related investments	High

TYPES OF RISK

Financial risk is caused due to market movements. Based on this financial risk can be classified as follows:

1. Legal risk
2. Market risk
3. Operational risk
4. Liquidity risk
5. Credit risk

Measuring the risk:

The standard deviation is used in making an investment decision to measure the amount of historic volatility, or risk associated with an investment relative to its annual rate of return. Standard deviation measures the dispersion of data from its expected value.

*****

Chapter 6.

Financial Institution

- Financial institution is an establishment that conducts financial transactions such as investments, loans and deposits.
- In India, financial institution comprise of bank, post office, insurance companies, mutual funds and other financial institutions engaging in various activities ranging from depositing money to taking out money and exchanging currencies.
- Let us study services offered by each type of institution:-

I. Post Office
II. Banking
III. Insurances

I. POST OFFICE

Post office offers different types of savings schemes starting with low investment amount detailed below.

1. Post office saving account

1. Account can be opened by cash only.
2. Interest rate is @ 4% per annum on individual or joint account.
3. Minimum balance to be maintained in a non-cheque facility account is Rs. 50.

4. Cheque facility available if an account is opened with Rs. 500 and for this purpose minimum balance of Rs. 500 in an account is to be maintained.
5. Nomination facility is available at the time of opening and also after opening of an account.
6. Account can be transferred from one post office to another. One account can be opened in one post office.
7. Account can be opened in the name of minor and a minor of ten years and above age can open and open and operate the account.
8. Joint account can be opened by two or three adults.
9. At least one transaction of deposit or withdrawal in three financial years is necessary to keep the account active.
10. Single account can be converted into joint and vice-versa.
11. Deposits and withdrawal can be done through any electronic mode in CBS post office
12. ATM facility is available.

II. FIVE YEAR POST OFFICE RECURRING DEPOSIT ACCOUNT (RD)

1. Interest rate of 6.9 % annually (quarterly compounded) .
2. Fixed amount to be deposited on monthly basis.
3. One withdrawal up to 50% of the balance allowed after one year.
4. Full maturity value on RD accounts restricted to that of Rs 50 denomination in case of death of

depositor subject to fulfillment of certain conditions.

5. In case of deposits made in RD accounts by cheque, date of credit of cheque into government accounts shall be treated as date of deposit.

III. **POST OFFICE TIME DEPOSITE ACCOUNT**

1. Interest payable annually, but calculated quarterly.
2. From 1 January 2018 interest rates are as follows

Sr no	Period	Rate
1	1 year A/c	6.6%
2	2 year A/c	6.7%
3	3 year A/c	6.9%
4	5 year A/c	7.4%

3. When any TD account matures, the same TD account will be automatically renewed for the period for which the account was initially opened. Eg. 2 years TD account will be automatically renewed for two years. Interest rate applicable on the day of maturity will be applied.
4. The investment under 5 years TD qualifies for the benefit of section 80C of the income tax act, 1961 from 1-4-2007.

IV. **Post Office Monthly Income Scheme (MIS) Account**:-

It is the risk free saving scheme. From 01-01-2018, interest rates are 7.3 % per annum payable monthly.

V. **Senior Citizen Saving Scheme:-**

From 01-07-2017, interest rates are 8.3%per annum, payable from the date of deposit of 31st March/30th September/31st December in the first instance and thereafter, interest shall be payable on 31st March, 30th June, 30th September and 31st December.

VI. **15 year public provident fund:**

1. 7.6% per annum (compounded yearly)
2. You can open account with Rs 100 but have to deposit minimum of Rs 500 in a financial year and maximum Rs 1,50,000.
3. Joint account cannot be opened.
4. Account can be opened by cash or cheque. In case of cheque the date of realization of cheque in government account shall be date of opening of account.
5. Nomination facility is available at the time of opening and also after opening of account.
6. Account can be transferred from one post office to another.
7. The subscriber can open another account in the name of minors but subject to maximum investment limit by adding balance in all accounts.
8. Maturity period is 15 years, but the same can be extended within one year of maturity for further 5 years and so on.
9. Maturity value can be retained without extension and without further deposits also.
10. Premature closure is not allowed before 15 years.

11. Deposits qualify for deduction from income under section 80C of IT act.
12. Interest is completely tax free.
13. Withdrawal is permissible every year from 7th financial year from the year of opening account.
14. Loan facility available from 3rd financial year.
15. No attachment under court decree order.

VII. National Saving Certificate (NSC) :-

From 1-1-2018, interest rate is 7.6 %, compounded annually but payable at maturity.

Eg. Rs 100 grows to Rs 144.23 after 5 years.

VIII. Kisan Vikas Patra (KVP):-

1. Kisan Vikas Patra is a small saving (1998) certificate scheme.
2. Its primary objective is to encourage long term financial discipline in people.
3. Initially it was meant for farmers to enable them to save for long term and hence the name is KVP. Now it’s available for all.
4. It doubles a onetime investment in a period of approx. 124 months.
5. A KVP certificate can be of single holder type or joint type.
6. It is a guaranteed return plan.
7. It doesn’t come under the 80C and the returns are completely taxable. However Tax Deduction at Source (TDS) is exempt from withdrawals after the maturity period.

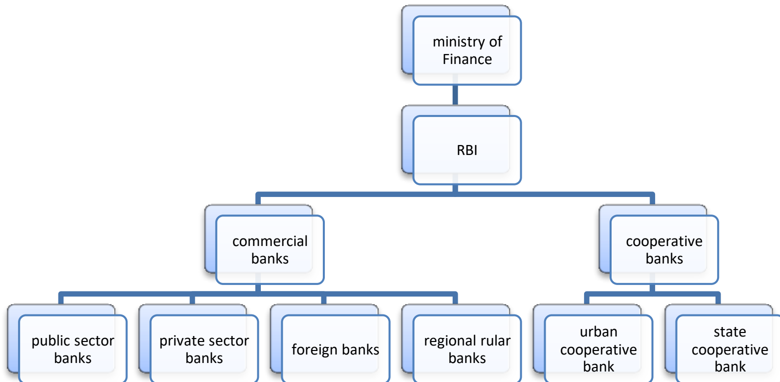
IX. Sukanya Samruddhi Account-

1. Rate of interest is 8.1% per annum, calculated on yearly basis, yearly compounded.
2. A legal guardian or natural guardian can open account in the name of girl child.
3. A guardian can open only one account in the name of one girl child and maximum two accounts in the name of two different girl children.
4. Account can be opened up to age of 10 years only from the date of birth.
5. If minimum Rs 1000 is not deposited in a financial year, account will become discontinued and can be revived with a penalty of Rs 50 per year with minimum amount required for deposit for that year.
6. Partial withdrawal, max up to 50 % of balance standing at the end of the preceding financial year can be taken after account holder's attaining age of 18 years.
7. Account can be closed after completion of 21 years.

NOTE:- All the above rates are subject to change from time to time.

II. BANKING OPERATIONS

- Banks are the link between savers and the borrowers.
- It is an institution that engages in accepting deposits and giving of loans.
- The banking system is highly regulated since it involves real time movement of cash.
- Every country has a central bank that controls the functioning of all the banks in the country. In India The Reserve Bank Of India (RBI) is at the apex of the banking system. It formulates various policies to control the functioning of commercial bank.



I. RESERVE BANK OF INDIA:-

1. RBI is at the apex of the banking system.
2. It controls the economy through monetary policy and credit policy.
3. Through the monetary policy, it controls the quantum of money in the economy and ensures that it uses it to counter the forces of inflation and deflation.
4. It helps to maintain price stability and promote economic growth of country.

II. Commercial Banks:

1. Commercial banks mobilize savings of general public and make them available to small and large industrial and trading units mainly for working capital requirements.
2. Commercial banks in India are largely Indian-public sector and private sector with a few foreign banks.

III. Public Sector Banks;

1. The public sector banks occupy a dominant position in the commercial banking.
2. The SBI and its seven associates banks have a wide reach through-out the country'
3. Majority of stake in these banks is held by the Government.
4. Government of India in consultation with the RBI prescribes functioning norms for these banks.
5. Previously the entire equity was held by the government but over a period of time it was

reduced but still the majority is held by the government.

6. Some strong banks have been allowed to reach the capital market and raise the additional capital.

IV. **Private Sector Banks**:-

1. All the banks working under private sectors are also Joint Stock companies.
2. In private banks majority of share capital is held by private individuals where as in public sector banks it is held with government.
3. All the banking norms and regulations prescribed by RBI are applicable on these banks also.
4. Followed by several banking reforms in India banks started enjoying some operational freedom. With the results more and more private banks are coming up.
5. Moreover private sector banks are better capitalized as compared to public sector banks.

V. Foreign Banks:-

1. Foreign banks working in India are also private banks but these banks have their headquarters in foreign country and not in India.
2. They have opened their branches in India to work as registered banks.
3. Lately these banks have been allowed to expand their function including through subsidiaries and off shore banking.

VI. Regional Rural Banks:-

1. The regional rural banks(RRBs) the newest form of banks, came into existence in the middle of 1970s with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of all kinds in rural areas.
2. The emphasis is on providing such facilities to small and marginal farmers, agricultural laborers, rural artisans and other small entrepreneurs in rural areas.
3. Their area of operations is limited to a specified region, comprising one or more districts in any states.
4. The paid-up capital of each rural bank is Rs. 25 lakhs, 50% of which has been contributed by the central government, 15% by state government and 35% by sponsoring public sector commercial banks which are also responsible for actual setting up of the RRBs.
5. These banks are held by higher level agencies. The sponsoring banks lend them funds and advise and train their senior staff, the **NABARD** (National Bank for Agriculture and Rural Development) gives them short term and medium term loans.

VII. Co-operative Banks: -

1. Co-operative banks are so called because they are organized under the provisions of the co-operative societies Act of the states.

2. The major beneficiary of the co-operative banking is the agricultural sector in particular and the rural sector in general.
3. The co-operative credit institutions operating in the country are mainly of two types. These are:
   a. Agricultural.
   b. Non-Agricultural.
4. There are two separate co-operative agencies for the provision of agricultural credit. One for short and medium term credit and the other for long term credit.

Functions of Banks

A. Functions of RBI

RBI is the controller of the Indian Banking System. Its main functions are as follows:

1. **Monetary Authority**:
   RBI controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payments, attain financial stability, control inflation, and strengthen banking system.
2. **The Issuer of Currency**:
   The objective is to maintain the currency and credit system of the country to maintain the reserves. It has the sole authority in India to issue currency. It also takes action to control the circulation of fake currency.

3. **The issuer of Banking License**:
   As per the Section 22 of Banking Regulation Act, every bank has to obtain a Banking License from RBI to conduct banking business in India.
4. **Banker to the Government**:
   It acts as a banker, both to the central & the State Governments. It provides short term credits. It manages all new issues of Government loans, servicing the government debt outstanding and nurturing the market for Government's securities. It advices the Government on banking and financial subjects.

5. **Banker's Bank**:
   RBI is the bank of all banks in India, as it provides loans to banks and bankers, accept the deposit of banks and rediscount the bills of banks.

6. **Lender of Last Resort:-**
   The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.

7. **Banker and Debt manager of Government:-**
   RBI keeps deposits of Governments free of interest, receives and make payments, carry exchange remittances, and help to float new loans and manage public debt, act as an advisor to Government.

8. **Money supply and controller of credit:-**
   To control demand and supply of money in economy by open market operations, credit ceiling etc. RBI has to meet the credit requirements of the rest of the banking system. It needs to maintain price stability and a high rate of economic growth.

9. **Act as clearing house:-**
   For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.

10. **Manager of foreign Exchange:-**
    RBI acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.

11. **Regulator of economy:-**
    It controls the money supply in the system, monitors different key indicators like GDP, inflation etc.

12. **Managing Government securities:-**
    RBI administers investments in institutions when the invest specified minimum proportions of their total assets/ liabilities in government securities.

13. **Regulator and supervisor of payment and settlement systems:-**
    The payment and settlement systems act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.

14. **Developmental Role:-**
    This role includes the development of the quality of banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objective. It also includes establishing institutions designed to build the country's financial infrastructure. It also helps on expanding access to affordable financial services and promoting financial education and literacy.
15. **Publisher of monetary Data and other data:-**
    RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates, and publishes data regularly.
16. **Banking ombudsman scheme:-**
    RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the RBI against the awards and the other decision of the banking Ombudsman.

17. Fair practices codes for lenders:-

RBI formulated the fair practices code for lenders which was communicated to banks to safeguard the rightful interest of the borrowers.

B. <u>FUNCTIONS OF COMMERCIAL BANKS:-</u>

The main functions of commercial banks are accepting deposits from the public and advancing them loans.

However, besides these functions there are many other functions which are performed by these banks. All these functions can be divided under the following heads :-

I. Accepting deposits
II. Giving loans
III. Overdrafts
IV. Discounting of bills of exchange
V. Investment of funds
VI. Agency functions
VII. Miscellaneous functions

I. **Accepting deposits** :-

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

1. Current Deposits :-

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks

have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as **Demand Deposits** because these can be demanded or withdrawn by the depositors at any time they want.

Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accepts payments many times in a day.

2. **Fixed Deposits :-**

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and therefore these are called as long term deposits. These deposits cannot be withdrawn before the expiry of stipulated time and therefore, these are also called as Time Deposits.

These deposits generally carry a higher rate of interest because bank can use these deposits for a definite time without having the fear of being withdrawn.

3. **Saving Deposits** :-

In these deposits, money up to a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilize small savings in the form of deposits. These deposits are generally

done by salaried people and the people who have fixed and less income.

II. Giving Loans :-

1. The second important function of commercial banks is to advance loans to its customers. Bank charge interest from the borrowers and this is the main source of their income.
2. Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as **Credit Creation** by commercial banks.
3. Modern banks give mostly secured loans for productive purposes. It means at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.
4. At times, bank gives loan on the basis of personal security also. Therefore such loans are called as unsecured loan. Banks usually gives following types of loans and advances :-

a. **Cash Credit :-**

- Banks advances loans to its customers on the basis of bonds, inventories and other approved securities are known as cash credit.

- In this, banks enter into an agreement with its customers to which money can be withdrawn many times during a year.
- Under this set up, banks open accounts of their customers and deposit the loan amount. With this type of loan, credit is created.

b. **Demand Loans :-**

- The loan which can be recalled on demand by the banks are known as demand loan.
- The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower and thus entire loan becomes chargeable to interest with immediate effect.

c. **Short-Term Loan :-**

- These loans may be given as personal loans, loans to finance working capital or as priority sector advances.
- These are made against some security and entire loan amount is transferred to the loan account of the borrower.

III. **Over-Draft :-**

- Bank advance loans to its customer's up to a certain amount through over – drafts, if there are no deposits in the current account.
- For this, banks demand a security from the customers and charge very higher rate of interest.

IV. **Discounting of Bills of Exchange :-**

- It is the most prevalent and important method of advancing loans to the traders for short term purposes.
- In this type, banks advance loans to the traders and business firms by discounting their bills. In this way businessmen get loans based on their bills of exchange before the time of their maturity.

V. Investment Of Funds :-

The banks invest their surplus funds in three types of securities; these are:-

i. Government securities
ii. Other approved securities
iii. Other securities

- Government securities include both central and state governments such as treasury bills, National Saving Certificate etc.
- Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of land development banks, units of UTI, shares of regional rural banks etc.

VI. Agency Function :-

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows.

i. Banks collects cheques, drafts, bills of exchange and dividends of the shares for their customers.

ii. Banks make payment for their clients and at times accept the bills of exchange of their customers for which payment is made at the fixed time.

iii. Banks pay insurance premium of their customers. Besides this, they also deposit loan installments, income tax, interest etc. as per directions.

iv. Banks arrange to send money from one place to another for the convenience of their customers.

VII. Miscellaneous Functions :-

Apart from the above mentioned functions, banks perform many other functions of general utility. These are:

1. Banks make arrangement of lockers for the safe custody of valuable assets of their customers like gold, silver and legal documents.
2. Banks give reference for their customers.
3. Banks collect necessary and useful statics relating to trade and industry.
4. For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.
5. Banks advice their clients relating to investment decision as specialist.
6. Banks does the under-writing of shares and debentures also.
7. Banks issue letters of credit.
8. During natural calamities, banks are highly useful in mobilizing funds and donations.

Types of Bank Accounts

Banks provides different types of accounts for their customers. These are

I. Current account:
II. Savings account
III. Recurring deposit account
IV. Fixed deposit account / term deposit accounts.

I. Current Account :-

1. Current accounts are basically meant for businessmen. This includes partnership firms, HUF, limited companies, etc.
2. The main objective of current account holders in opening these accounts is to enable them to conduct their business transaction smoothly. They are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day.
3. Most of the current accounts are opened in the names of firms or company accounts.
4. Cheque book facility is provided and the account holder can deposit all types of the cheques and drafts in their name or endorsed in their favor by third parties.
5. No interest is paid by banks on these accounts.
6. Banks may also charge certain service charges on such accounts.
7. The current accounts do not have any fixed maturity as these are operated on continuous basis.

8. They are also offered overdraft facilities where the account holder can withdraw more than the balance in the account.

II. Saving Bank Account:-

1. It is the most popular deposit for an individual account.
2. They provide flexibility for deposits and withdrawal of funds from the account.
3. They provide cheque facility.
4. Saving account is usually opened by households.
5. It can be opened in individual as well as joint names.
6. The interest rate of saving bank accounts was regulated by RBI till 24.october.2011 and it was fixed @ 4% on daily basis. However w.e.f. 25.october.2011, RBI has deregulated saving fund account interest rates and now banks are free to decide the same within certain conditions imposed by RBI. Although Public Sector Banks still pay only 4% rate of interest, some private banks pay between 6% and 7% on such deposits.
7. Under direction of RBI, now banks are also required to open no frill accounts i.e, accounts which do not have any minimum balance requirements.

III. Recurring Deposit (RD) Accounts :-

1. RD accounts are special type of Term Deposits and are suitable for people who do not have lump sum amount of savings, but are ready to save a small amount every month.
2. In RD, the person has to usually deposit a fixed amount of money every month. Any default in payment within the month attracts a small penalty.
3. Such deposits earn interest on the amount already deposited (through monthly installments) at the same rate as are applicable for Fixed deposits / Term deposits.
4. RDs are very useful if you wish to create a fund for any future expenses without loans or save for the future.
5. RD accounts are normally allowed for maturities ranging from 6 months to 120 months.

IV. Fixed Deposit (FD) Accounts / Term Deposit Accounts :-

1. These deposits are placed for a fixed period of time ranging from 7 days to 5-10 years.
2. However in case of need, the depositor can ask for closing or breaking the FD permanently by paying a penalty, usually of 0.5 to 1% of the interest rate applicable for the period for which the deposit is kept.
3. The rate of interest for FDs differ from bank to bank.

4. Interest on FD can be :-

a. **Cumulative** :-In this interests are compounded and received at maturity.

b. **Non-Cumulative** :- In this interests are credited to savings bank account or given by cheque on monthly / quarterly / annually.

Modes Of Bank Account Operation

Bank account can be operated in any one of the following mode:-

1. Single
2. Jointly
3. Jointly / Survivor
4. Anyone (or) Survivor
5. Former (or) Survivor
6. Latter (or) Survivor
7. Minor

1. **Single:-**In this mode there is only one account holder.
2. **Jointly:-**
   - In this type of account, all the transactions need to be signed and mandated by all the account holders.
   - If any of the account holders die then the account cannot be further operated. The balance proceeds shall be payable to survivor.

3. **Jointly or Survivor :-**

   This mode is similar to 'Jointly' option. The only difference being, the survivor can continue to

operate the account. Alternatively, the proceeds of the account can be transferred to his / her name.

4. **Anyone (or) Survivor :-**
   - This mode is similar to ‘either or survivor’ option. The only difference is more than two individuals can operate the account.
   - This is the best option to access your account by your father, mother and spouse. In case of death of anyone of the account holders, the remaining survivors can continue to operate the account.

5. **Former (or) Survivor :-**
   - In this type of joint account only the first account holder (primary) can access and operate till the time he / she is alive.
   - The second account holder (second applicant) can operate the account only on death of the first applicant (primary holder).
   - The survivor can also get the balance transferred to his / her name, if required.

6. **Later (or) Survivor :-**
   - It is also similar to ‘Former/Survivor’ option. The main difference is, only the second account holder can access and operate the account till the time he / she will alive.
   - The primary / first account holder can operate the account only on death of the secondary account holder.

- **Example**:- Husband and wife are joint account holder. Then in this case only wife can operate this account. But her husband can access to operate the account when she is no more.

7. **Minor Account:-**
   In this mode, if the primary account holder is less than 18 years of age, then there should be an adult guardian as the joint account holder.

NOMINATION

- Account holders can make nominations. It means that they should nominate persons to whom the money laying their accounts should go in the event of their death.
- Nomination can be made in account opening form itself or on a separate form indicating the name and address of the nominee.
- The account holders can change the nomination any time.

MINIMUM BALANCE

- It is the minimum amount to be kept in the bank account of the deposit holder in case of saving bank account.
- Different banks have different norms on the minimum balance to be maintained. It ranges from Rs 500 to Rs 25000 depending on the bank and account features.
- Some banks do not have any minimum balance requirements.

Modes of payment

I. CHEQUE

1. The cheque is a written document that orders a bank to pay a specific amount of money, from a person's account to the person in whose name the cheque has been issued.
2. It is used by individuals, businesses, corporates and others to transect for making and receiving payment. A cheque is a negotiable instrument.
3. Cheque minimizes the risk of loss due to theft in case of cash transactions.
4. Payment by cheque is the safest way to conduct business transactions as it helps to maintain record in account statement to whom the payment is made, thus it becomes easier to track the transactions through bank account statement.
5. There are three parties in cheque transaction these are :-

   a. **Drawer/ Maker of cheque** – The person who issues the cheque or hold the account with bank.
   b. **Drawee** – The person who is directed to make the payment against cheque.
   c. **Payee** – A person whose name is mentioned in the cheque or to whom the drawee makes payment. If the drawer has drawn the cheque in favour of self, then drawer is payee.

6. **Types of cheque**:- The different types of cheques are as follows.

a) Bearer Cheque :
b) Order cheque
c) Crossed cheque/ Account payee cheque
d) Anti-Dated Cheque/ Post Dated cheque
e) Stale cheque

a) Bearer cheque :-

- When the word "Bearer" on the cheque is not crossed or cancelled, the cheque is called as a bearer cheque.
- Open/ bearer cheques are payable to person specified in the instrument or any person who possesses it and present for payment over the counter.
- In case of loss of cheque, the person who finds it can collect payment from the bank.
- It is risk by nature.

b) Order Cheque:-

- When the word 'Bearer' written on cheque is crossed or cancelled it becomes an 'order cheque'.
- An order cheque is available to a specified person named in the cheque or any other to whom it is endorsed.

c) Crossed cheque/ Account payee cheque:-

- The person who issues or writes the cheque can specify it as an account payee by simple making

two parallel lines on the top left or middle or right hand corner of the cheque.

- This type of cheque cannot be enchased over the counter.
- It is considered as safest type of cheque, it can only be credited to payee's account whose name is mentioned in the cheque.

d) Anti-dated cheque:-

Cheque bearing the date earlier than the date of presentation for payment is known as anti- dated cheque.

e) Post-dated cheque:-

Cheque bearing the date which is yet to come in future is called as post-dated cheque.

Cheque is honored only on or after the date written on cheque.

All types of cheque are valid for three month from the date of issue or written on cheque.

f) Stale cheque:-

A cheque turns stale after three months of the date written on the cheque. A stale cheque cannot be honoured by bank.

7. Cheque clearance process:-

- The cheque clearance process involves credit in the bank account of the payee mentioned in the cheque and debit in the bank account of the issuer.
- It now happens through the **CTS (Cheque Truncation)** where there is no physical movement

of the cheque from one bank to another. It is online image based cheque clearing system which uses cheque image to clear the cheque.

II. ELECTRONIC MODES OF PAYMENT

These are

1. ECS
2. NEFT
3. RTGS
4. IMPS

1. ECS (Electronic Clearing Services):-

- National Electronic Clearing Service (NECS) facilitates multiple credit cards to beneficiary accounts with destination branches across the country against a single debit of the account of the sponsor bank.
- The system has a pan-India characteristics and leverages on Core Banking Solutions (CBS) of member banks, facilitating all CBS bank branches to participate in the system, irrespective of their location across the country.

2. NEFT:-

- National Electronic Fund Transfer (NEFT) is an electronic payment system developed by RBI to facilitate transfer of funds by customers from one bank to another bank in India.
- NEFT system provides for batch settlements at hourly intervals.

- The minimum amount transferred can be as low as Rs 1. There is no maximum amount assigned by RBI for NEFT transaction.

3. **RTGS (Real Time Gross Settlement):-**

- RTGS is a funds transfer systems where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.
- Settlement in real time means payment transaction is not subjected to any waiting period.
- Gross settlements means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable.
- This was introduced in 2004 and settles all inter-bank payments and customer transactions above Rs 2 lacks.

4. **IMPS (Immediate Payment Service):-**

- IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones.
- IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and nonfinancial perspective.
- The aim was to enable bank customers to use mobile instruments as a channel for accessing their banks account and remit funds, making payment simpler just with the mobile number of the

beneficiary and to sub serve- the goal of RBI in electronification of retail payments.

5. **BankingCards (Debit/Credit/Cash/Travel/Others):-**

- Banking cards offer consumers more security convenience and control than any other payment method.
- The wide varieties of cards available are credit, debit, prepaid.
- These cards provide two factor authentications for securing payments. These are secure pin and OTP
- RuPay, Visa, Master card are some of the examples of card payment systems.
- Payment cards give people the power of purchasing item in store on the internet, through mail-order, catalogues and over the telephone.

Internet Banking:-

- Internet banking or Net banking or online banking is a **digital payment system** which enables bank customers or financial institution to make financial or non-financial transactions online via internet.
- It is a very convenient option where one can operate the bank account from home or office thus it leads to anywhere anytime banking.
- It offered secured access to your account with a two level authentication in most of the cases.
- A SMS and or email alert is sent of every online transaction done to prevent and detect frauds also.

- It offers a wide range of services. These are :-

1. Check account statement
2. Transfer funds
3. NEFT / RTGS
4. Pay utility bills
5. Open a fixed deposit
6. View de-mat account
7. Manage investments (Invest / redeem / switch etc.)
8. Order cheque book
9. Pay taxes
10. Raise service request, etc.

Mobile Banking:-

1. Mobile banking is a service provided by a bank or financial institution that allows its customers to conduct financial transactions by using mobile devices like smartphone or tablet.
2. Every bank has now developed a customized banking app which allows you to bank from anywhere with ease and convenience.
3. After login successfully you can avail various types of services. These are :-

- Account operation
- Account information
- Fund transfer
- E-statements of account / mini statement / balance enquiry
- Card statements
- Pay utility bills
- De-mat

- Investments
- Fixed deposits – open & view
- Offers and discounts
- Online purchase / shopping.
- Loan approval, loan statements
- Linking of insurance policies
- E-pass
- E-pass books

Other services are:-

- ATM locations
- Branch locations
- Lodging complaints / tracking applications
- Order new cheque book
- Cancelling and stopping an issued cheque.
- Block ATM / Credit card
- etc

4. Mobile banking over SMS also called as **SMS Banking** and mobile banking over Unstructured Supplementary Service Data (**USSD**) is the types of mobile banking.

Precautions For Internet or Mobile Banking

You should take following precautions while using Internet or mobile banking:-

1. Never share password.
2. Ensure that passwords are not easily known facts like date of birth, anniversary etc.

3. Never login from cyber café or unknown work institution
4. Logout / sign off once your transaction is complete
5. Always lock your mobile device
6. Be aware of connection services
7. Set up your phone to encrypt data
8. Download anti-virus software
9. Never respond to email messages from your financial institution that request personal information

   Banks are also offering virtual pockets where one can store money and use for making payments whenever required.

Banks' Lending Products

Banks lend you money means, they give it to you and you agree to pay it back at a future date, often with an extra amount as an interest. Banks' lending products are broadly categorized into following two types:-

A. Wholesale / Corporate banking products
B. Retail banking products.

A. Wholesale / Corporate banking products:-

These are designed to meet the needs of corporates and the other business organization. These are divided into following types :-

1. Fund Based Limits :-

Where there is actual outflow of loan from the bank to the customer. Following are the types of funds based limits / loans:-

- Cash credit / bank overdraft
- Working capital loan
- Term loan
- Loan against property

2. Non- Fund Based Limits:-

Where there is no cash outflow initially for the bank. It is a guarantee given on behalf of the customer where the bank has to pay if the customer fails to pay. For this service the bank is paid to fee. Following are the types of funds based limits / loans:-

- Letter of credit
- Bank guarantee.

B. Retail banking products / Finance:-

It is a part of retail banking which deals with catering to the requirements of an individual customers and not corporates or institutions. Retail banking services include:-

- Deposit accounts – saving accounts / FD/ RD
- Personal loan
- Credit card
- Home loan
- Vehicle loan
- Lockers
- Issue of demand daft
- Travellers cheque
- Gift card, etc.

Personal loans :-

Everyone require money for meeting various expenses. Personal loans provide short term loans to individual and businessmen. Following are the main features of personal loans :-

- Unsecured loan without any tangible securities
- Examples – salary loan
  Loan to professionals
  Loan to pensioners

- Completely depends on credit profile of customer and paying capacity
- Could be given for educational or household expenses
- Third party guarantee may be taken
- Standard credit documents and loan documents
- Rate of interest is higher than secured loans
- Loan period may ranges from 12 months to 60 months
- Processing fee is levied as a percentage of loan amount.

Consumer Loan :-

It has following features:-

- Purchase of consumer durables like AC, TV, mobile etc.
- It can be offered to salaried class, professionals who have regular source of income
- Margin 10 to 20%

- Security is hypothecation of item purchased
- Payment through EMI from 1 to 5 years
- Standard credit and loan documents.

Credit Cards:-

Credit card is a card issued by a bank or financial serving company that allows card holder to borrow funds with which to pay for goods and services with merchants that accept cards for payment.

Features of credit cards:-

- Credit cards can be used for shopping at malls, hotels, etc.
- You can also withdraw cash
- Limit is set in the card at the time of issue
- Interest free credit period is offered for payment varying from 10 to 45 days
- Beyond due date interest and overdue charges are payable.

Advantages of credit Card:-

- Easy shopping since immediate cash flow not required
- No need to carry cash or cheque
- Wide acceptability
- Cash withdrawal subject to limits.

Disadvantage of Credit Card:-

- Over spending
- Overdue charges / interest in case of non-payment on due date
- Possibility of frauds if not handled carefully.

Vehicle loan:-

It is provided to Salaried people, businessmen, self-employed people who have steady source of income for the purchase of new or used vehicle like car, two wheeler or commercial vehicle.

Features:-

- Loan can be availed up to maximum of 80 to 95% of asset value
- Registration and insurance costs to be borne by the borrower
- Comprehensive insurance cover is compulsory to protect the interest of the bank.
- Loan taken for purchase of car is secured by hypothecation of car.
- The RC book bears the name of the financier.
- Procedure is same for the two wheeler and commercial vehicle loan.

Home Loan

1. It can be availed by any salaried person, businessmen, professional for self- occupancy, rental purpose or for setting up office.
2. **Features of home loans:-**

- Loan amount is based on the paying capacity of the borrower and the cost of the house
- Repayment is allowed maximum up to age of retirement or 70 years whichever is earlier
- Home loans up to 30 years are also offered subject to age criteria

- Repayment is made through EMI
- Standard credit procedures apply including evaluation of credit history, financial strength, cash flow and current outflow on other loans
- Loan is secured by way of mortgage over the house
- If income of spouse is taken into consideration while arriving at home loan then his / her personal guarantee is also taken
- Additional collateral security may be taken for comfort depending on the risk profile
- **LOAN TO VALUE (LTV)** as issued in RBI guidelines are (maximum) :-

i. 90% for home loan up to 20 lakhs
ii. 80% beyond 20 lakhs up to 75 lakhs
iii. Above 75 lakhs 75%

(above are subject to changes)

- Cost of the house is excluding stamp duty and registration.

3. **Interest and Charges** :-

- Interest rates offered are either fixed or floating
- EMI is split into principal interest components
- Processing fees are levied as a percentage of loan amount applied for.

4. **Legal and technical checks :-**

- Home loans go through legal and technical check before disbursement
- **Main documents required are** :-

i. Sale deed / agreement to sell
ii. No encumbrance certificate
iii. Approved building plan
iv. Title search
v. Valuation report
vi. Bank statement /salary slips
vii. KYC documents
viii. ITRs
ix. NOC from society

Corporate Banking Products and Services

Corporate banking deals with corporate customers. Their needs are different in terms of volume and type of services as compared to retail customers. This includes small and medium sized companies as well as large organizations. Products and services provided by corporate banking are :-

I. Loans and other credit facilities
II. Cash management services
III. Trade finance
IV. Loan syndication
V. Foreign exchange management

I. Loans and other credit facilities :-

These are:-

1. Term loan
2. Cash credit
3. Bridge loan

1. Term loan :-

- This loan is a form of medium to long term finance which can be availed for the purpose of setting up factory or office.
- It is repayable over 5 to 10 years based on the projected cash flows of the company.
- It is secured by mortgage of property.
- Bank conducts proper credit analysis before sanctioning these loans.
- Term loans are repayable based on the repayment schedule fixed by the bank.

2. Cash credit :-

- Companies require short term finance to manage their daily cash flow. In business, it is not possible to sell goods and realize cash immediately. There is time gap between purchase of goods, sale and receipt of cash.
- Therefore corporate need working capital finance in the form of cash credit.
- In this account money is deposited as realized and withdrawn as required.
- Bank charge interest on the daily closing balances.

3. **Bridge Loan:-**

- It is also called as INTERIM FINANCING, GAP FINANCING.
- It is a short term loan that is used until a company secures permanent financing or removes an existing obligation.
- This type of financing allows the user to meet current obligations by providing immediate cash flow.
- The loans are short term up to one year, with relatively high interest rates and are backed by some form of collateral such as real estate or inventory

Banks also offer **Non-Fund Based Facilities** like bank guarantee and letter of credit. In this case banks guarantee the payment on the behalf of the client. For this service the bank charges a fee. If the client does not pay, the bank has to pay and bank recovers from the client.

II. Cash Management Services:-

Big companies have large numbers of dealers and distributors across the country and in this case they need to collect funds from them almost on a daily basis. The following are the ways in which collection from dealers made:-

- Banks appoint the courier companies at the place of the dealer to go to the office of the dealer periodically, even daily, and collect cheques in favor of the client company.

- The courier companies pick up the cheque and deposit it with the branch of the company's banker at the place of the dealer itself.
- The cheques collected by the banks are presented in local clearing house and after realization the amount is transmitted electronically to the account of the company.

III. Trade Finance :-

- Bill discounting
- Factoring
- Forfaiting
- Collection of bills.

III INSURANCE

Everyone is confronted with various risks in day to day life. Many happy lives are ruined either by the untimely death of the earning member of the family or by other disastrous calamities like fire, floods, earthquake, accidents, etc. which may take a heavy toll of human life. These risks are such which cannot be known in advance as to when they will happen and it is physically impossible for any individual to make provision against them. Hence insurance is a tool not to avert these risks but to mitigate their rigorous impact on individuals. Thus insurance is a means of protection from financial loss.

Types Of Insurances:-

Insurances are of following different types:-

I. Life insurance
II. Health insurance
III. Home insurance
IV. Vehicle insurance
V. Commercial insurance

I. Life Insurance

- Life insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for premium, upon the death of a insured person or after a set period.
- This life cover secures your loved ones future by a paying a lump sum amount in case of unfortunate event. In some policies you will get an amount called as maturity benefit at the end of the policy term.
- There are **two basic types of life insurance plans:**

a. **Pure Protection Plan** :-

- A Pure Protection Plan is designed to secure your family's future by providing a lump sum amount, in your absence.
- **TERM INSURANCE PLAN:-** It is designed purely to protect your family's financial future. These plans are the most affordable form of life insurance plans that provide you a life cover for a

specific period. In case of an unfortunate event during the policy term, the life cover amount is paid to your nominee.

Example:- Mr. Rohit and Mr. Vivek bought term plans in January 2021 with life covers of Rs. 1 crore and a policy term of 20 years. They both paid their life insurance premiums regularly for the entire term. In 2021, Mr. Rohit passed away due to cardiac arrest. His wife who is a nominee provided all the relevant documents and forms to receive the claim. She received the entire life cover of Rs 1 crore. On the other hand Mr. Vivek completed the policy term and in January 2041 his policy was closed with no payment. You may be wondering what's the use of plan when I can't get my money back? The reason you should buy a term plan is that they offer you a large coverage at a smaller premium. This would help you secure the financial future of your family.

b. Protection and Savings Plan:-

- A Protection and Saving Plan is a financial device that helps you plan for your long terms goals like purchasing a home, funding your children's education, and more, while offering the benefits of a life cover. These are :-
- **Participating Traditional Insurance Plans:-** These plans are insurance policies which provide both guaranteed and non-guaranteed benefits. Here the policy offers a life cover, which is paid to your

nominee in case of an unfortunate event. In these policies, the life insurance company also shares its profit with you. You receive these profits in the form of bonuses which are non-guaranteed benefits.

- **Non-participating Traditional Insurance Plans:-**These are the insurance plans where you get a life cover and the potential to grow your savings. Here, you do not receive any profits earned by the insurance company, and are not entitled to any non-guaranteed benefits.

- **Unit Linked Insurance Plans (ULIPs):-** In case of ULIPs, your money is invested in equity and debt funds, as decided by the policy holder. A part of your premium goes towards providing life cover and the remaining is allocated to different funds. It has some additional features like:-
  Potential for high returns through equity and debt funds.
  Flexibility and control of your money through the following:-

i. **Fund Switch**- An option to move your money between equity and debt funds
ii. **Premium Redirection**- An option to invest your future premiums in a different fund of your choice.
iii. **Partial Withdrawal**- An option that allows you to withdraw a part of your money before completion of the policy term.
iv. **Top-up** – An option to invest additional money to your existing savings

Unlike traditional savings/ money back plans, both the rewards and risk of ULIPs are borne by you.

- **Retirement or Pension Plans:-**
  These plans are designed to provide you with a regular income after your retirement. Here, you can invest either a lump sum amount or pay regular premiums during the premium payment term. In return, you will get regular income or life-long pension once you reach retirement age. Some retirement plans also offer the regular income to continue for your spouse, in case of an unfortunate event. In the absence of both you and your spouse, your nominee for example child, gets a lump sum payout. Retirement plans are available as traditional savings/ money back and ULIP plans. Unlike traditional products ULIPs are subject to market risk, which affect the Net Asset Values.

- **Benefits of life insurances :-**
  It not only covers the risk arising due to an unfortunate event but also gives you following additional benefits-

1. Life Cover
2. Long Term Savings
3. Life Stage specific planning
4. Tax saving.

1. **Life cover:-**
   - This is the most important and primary benefit of any life insurance policy.
   - The life cover is the amount that your insurance company pays to your nominee in case of any unfortunate event during the policy term.
   - This amount ensures that your loved one's future is secure even in your absence.
   - You must select the right amount of life cover in order to make sure that it is sufficient to take care of your family's wellbeing.
   - A good Thumb rule is to choose a life cover which is at least 10 times your annual income. Eg. If your annual income is 20 lakhs then your life cover should be at least Rs 2 crore.
   - To select the right amount of life cover, you also need to keep the following questions in mind:-

     How much money will my spouse or parents need to manage daily expenses?

     How much money will my children require to complete their education?

     How much liability do I already have from which my family needs to be protected?

     If my family and I have planned to buy a house, then how much money will they require in my absence?

     There could be other similar questions that are personally relevant to you for deciding the right amount of life cover you need.

2. Long term savings:-

- Life insurance is also a good way to systematically save and build wealth for the future.
- It is an ideal long term savings tool that can help you meet your financial needs after retirement or even fulfill your future goals like your child's marriage.
- Thus with life insurance, you get double benefits of protection plus savings.

3. Life Stage Specific Planning:-

- Life insurance is an option that offers products tailor-made for various life stages.
- At every stage of life, you and your family have certain goals that you need to plan for. Some common needs in different life stages are :-

Life stage	Primary need
Newly started earning	Taking care of your ageing parents and long term wealth creation
Just married	Securing your spouse's future, long term savings and taking care of liabilities like loans.
Just become a parent	Children's education, protection and increasing your wealth
Parent with teenage children	Planning for retirement and increasing medical costs
Golden years	Regular income, health and medical cost, security for your spouse

4. **Tax Advantage:-**
   Under the income tax Act 1961, you can save tax on your hard earned money by using life insurance products and solutions. You can get tax advantages at different stages of your life insurance policy.
   These are –

- **Stage 1 :- Entry Advantages** – You receive tax benefits on your premium payments under section 80 C, 80 CCC, and section 80D.
- **Stage 2 :- Earnings Advantage** – The growth on your money is not taxable.
- **Stage 3 :- Exclusive Stretching Advantage**- You can make complete tax free debt equity switches.
- **Stage 4:- Exit Advantage** – You also receive a tax free maturity benefit.

Note that Tax laws are subject to amendments from time to time.

- **<u>Common terms used in life insurance</u>**:-
- **Life assured-** It is the person who is covered under the insurance policy.
- **Proposer-** It is the person who pays the premiums of the policy. For example if you have bought the policy for yourself, then you are both the life assured and the proposer. Similarly if you purchase an insurance policy for a family member, then you are the proposer and the family member is the life assured.

- **Nominee / Beneficiary:-** It is person you appoint at the time of buying the policy to receive the benefits of your insurance policy, in your absence.
- **Insurer:-** The insurance company that sells the life insurance policy is called the insurer.
- **Life Cover:-** It is the amount that the insurer will pay to your nominee in case of an unfortunate event.
- **Maturity Benefit:-** For protection plus savings policies the insurer pays a certain lump sum of money on completion of policy term. This amount is known as the Maturity amount.
- **Premium:-** A premium is the amount you pay to the insurer for receiving the benefits of the insurance policy. These payments can be made on regular basis throughout the policy duration, for a limited number of years or just once as per the options available under the policy you choose.
- **Premium Payment Term:-** The number of years for which you pay the premium is called as the premium payment term.
- **Policy Term:-** The number of years for which the life cover continues.
- **Example:-** Mr. Rohit (**Life assured**) pays XY- life insurance (**Insurer**) an annual amount (**Premium**) over 5 years (**Premium payment term**) to make sure that his wife (**Nominee**) gets a certain assured sum of money (**Life cover**) in case of an unfortunate event during the 10 years or lump-sum amount at maturity on survival at the end of policy term.

II. Health Insurance

- Ill health can result in a major halt in your life and work. Moreover, the escalating price of health care costs means that you will be shelling out a massive amount of money to bear the brunt of these costs. This is the reason why you would need health insurance to cover your –

  Medical expenses

  Hospitalization from sudden illness or caused by accident

  Pre and post hospitalization expenses

  Ambulance charges etc.
- **The common types of health insurance policy include:-**

1. Individual policy
2. Family Floater policy
3. Surgery cover
4. Comprehensive health insurance.
5. Travel Insurance

1. **Individual policy** – A health insurance policy provides cover for an individual with cashless hospitalization.
2. **Family Floater policy**- It covers family members under single plan. The fixed sum insured can be availed by an individual member or as a sum total for treatment of one person.
3. **Surgery cover plan** – It provides a fixed benefit amount for specified surgeries and helps you to take care of the expensive medical treatment in a hospital. These benefit plan that is used for the surgical treatment

of serious illness like cancer, kidney failure and heart attack can be availed as a standalone plan or a rider.

4. **Comprehensive Health insurance plan**- A high value comprehensive health insurance policy with a wide range of sum insured, add -on covers, special benefit covers such as maternity benefits and dental treatments, fulfills all the health care needs and ensures complete peace of mind, regardless of which situation of life you are in.

   Other health insurance covers include –

   - Personal Accident
   - Hospital daily cash allowance
   - Critical illness.

5. **Travel Insurance** – Despite all the planning, a trip abroad can go wrong due to medical eventualities, and non- medical contingencies such as loss of baggage, trip delay and other incidental expenses. Travel insurance covers the insured against these misfortunes while travelling. The different travel insurance policies include-

   - Individual travel policy
   - Family travel policy
   - Senior citizen travel policy
   - Student travel insurance

III. HOME INSURANCE

A home insurance includes –

- Fire, burglary / house braking and natural calamities
- Coverage for baggage, plate glass, pedal cycle, ATM cash withdrawal, misuse of credit card, veterinary costs.

- Losses or damages to domestic and electronic appliances, portable equipment like laptop etc
- Liabilities like tenants, legal liability, domestic workman compensation and public liability.

IV. VEHICLE INSURANCE

- Vehicle insurance includes car insurance and two wheeler insurance, covers all damages and liability to the vehicle.
- **Types of covers**:- One being a **liability only policy and the second being a package policy.**
- According to the motor vehicle Act 1988, driving a motor vehicle without insurance in public place is a punishable offence, so a motor vehicle can be covered by a liability only policy which is a statutory requirement and covers the legal liability for injury, death, and/or property damage caused to a third party in the event of an accident caused by or arising out of the use of the vehicle.
- Package policy which includes the Liability only policy and also covers the damage to owner's vehicle, usually called as O.D. cover.
- The common motor insurance plan includes –

1. **Car insurance** – A comprehensive coverage against physical damage and bodily injury to the car, and also covers against third party liability.
2. **Two wheeler insurance** – A comprehensive two wheeler insurance policy provides hassle free protection to your bike or scooter against physical damage, theft, and third party liability.

3. **Commercial vehicle insurance** – Commercial vehicle insurance is a Liability Only policy for commercial vehicles across the various classes of vehicles like goods carrying vehicles- private and public carrier, passenger carrying vehicles, miscellaneous and special types of vehicles.

V. COMMERCIAL INSURANCE

- Commercial insurance offers solutions for all sectors of the industry ranging from automotive, aviation, construction, chemicals, foods and beverages, manufacturing, oil and gas, pharmaceuticals, power, technology, telecom, textiles, transport and logistics.
- Some common types of commercial insurance include-

1. Property insurance
2. Marine insurance
3. Liability insurance
4. Financial lines insurance
5. Engineering insurance
6. Energy insurance
7. Employee benefits insurance
8. International insurance solutions

So it is clear that every risk involves the loss of one or other kind. The function of insurance is to spread this loss over large number of persons through the mechanism of co-operation.

*****

Chapter 7.

Financial Market

A financial market is the market in which people trade financial securities, commodities and values at low transaction cost and prices that reflect supply and demand.

Or

A financial market is defined as the places and processes that facilitate the trading of financial assets between investors.

Financial market comprise of –

I. Capital Market:-

- Financial instruments used to raise capital resources are known as capital market instruments. They include-

1. Equity shares
2. Preference shares
3. Company fixed deposits
4. Debentures and bonds
5. warrants

- A capital market is a financial market in which long-term debt or equity-backed securities are bought and sold.
- It may refer to the venue where funds are exchanged between suppliers of capital and those who demand capital for use.

- Organization and institution in the public and private sectors also often sell securities on the capital markets in order to raise funds.
- Thus this type of market is composed of both the primary and secondary markets.
- Any Government or Corporation requires capital (fund) to finance its operation and to engage in its own long term investments. To do this, a company raises money through the sale of securities – stocks and bonds in the company's name. These are bought and sold in the capital market.

II. Stock market:-

- Stock markets allow investors to buy & sell shares in publicly traded companies.
- They are one of the most vital areas of a market economy as they provide companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance.
- This market can be split into two main sections:-
  The Primary market and The Secondary Market.

The Primary market / New issue market:- It is the market utilized to raise fresh capital in the form of shares and debentures. The development of primary market leads to increased capital formation. Modes of raising capital through primary markets are as follows:

1. **Public Issue**- it is issue to the public at large by preparing a prospectus.
2. **Right Issue** – it is issue of shares to the existing equity share holders of the company.
3. **Private Placement** – shares being allotted to a select group of people.

Thus, in primary market new issues are first offered, with any subsequent trading going on in the **secondary market**.

- **Secondary Market:-** It is the market where existing shares are bought and sold. It is also known as stock market. There are mainly two stock exchanges in India:-

  BSE- Bombay Stock Exchange

  NSE- National Stock Exchange

They facilitate trading i.e. buying and selling of securities. All trades are settled through stock exchanges. Only shares listed on the stock exchange can be traded in the secondary market.

Market participants and common terms:-

1. **Regulator :** All the capital markets participants and exchanges are regulated by SEBI(Securities and Exchange Board Of India)
2. **Stock broker:** Stock broker is a registered intermediary or a bridge between the investor-buyer/seller (consumer) of securities and exchange. On a macro level, a stock broker is thus the face of stock market. He communicates

information to and fro between the exchange and the investor.

3. **Trading and De-mat account:** Trading account is an account in which the funds are deposited exclusively for securities transactions. The unit of such account is the appropriate currency. De-mat account is an account where the securities are deposited. The unit of de-mat account is the 'number of securities'.

4. **Depository and depository participants:-** A depository is the bank of all the respective de-mat accounts. The intermediaries that are registered with a depository are called **Depository participants**. Examples of depository are NSDL & CDSL.
5. **Clearing corporation:** A clearing corporation is a part of an exchange or a separate entity and performs three functions namely, it clears and settles all transactions i.e. completes the process of receiving and delivering shares/ funds to the buyers and sellers in the market. It provides financial guarantee for all transactions executed on the exchange and provide risk management functions.

   Example- National Securities Clearance Corporation (NSCCL), a 100% subsidiary of NSE, performs the role of a clearing corporation for transactions executed on the NSE.

6. **NIFTY & SENSEX:** CNX Nifty (NIFTY), is a scientifically developed, 50 stock index, reflecting accurately the market moment of the Indian markets. It comprises of some of the largest and most liquid stocks traded on the NSE.

   Sensex is also a stock market index comprising of 30 shares traded on the BSE. Sensex is managed by Bombay Stock Exchange.

   Sensex and NIFTY are barometers of the Indian Markets.

   In simple words, performance of securities market as a whole in India is usually measured by the position and movements in Nifty and Sensex.

7. **Derivatives:** The Securities Contracts (regulation) Act, 1956 defines "Derivatives" to include a contract which derives its value from the prices, or index of prices, of underlying securities. Derivatives are usually classified as Forvards, Futures and Options.

III. Bond market:-

- A bond is a debt investment in which an investor loans money to an entity (corporate or government), which borrows the funds for a defined period of time at a fixed interest rate.
- Bonds are used by companies to finance a variety of projects and activities.
- Bonds can be bought and sold by investors on credit markets around the world.

- This market is alternatively referred to as the debt, credit or fixed income market.
- It is much larger in nominal terms than the world's stock market.

IV. Money market:-

- The money market is the segment of financial market in which financial instruments with short tenure are bought and sold.
- According to RBI 'A money market is a center for dealings, mainly of short term characters in money assets, it needs the short term requirements of borrowers and provides liquidity or cash to the lenders. It is a place where short-term surplus investible funds at the disposal of financial institutions or individuals are bid by borrower's agents comprising institutions and individuals and also the Government itself". Therefore money market is tapped by corporates, banks and other financial institutions.
- The money market is used by participant as a means for borrowing and lending in short term, from several days to just under a year.

MONEY MARKET INSTRUMENTS

It includes:-

1. Commercial papers
2. Commercial bills
3. Certificate of deposits

4. Treasury bills
5. Government securities
6. Repo rate
7. Money market mutual funds

1. **Commercial papers :-**
   These are the debt instruments issued by corporate houses for raising short term financial resources from the money market. They are unsecured.

2. **Commercial Bills :-**
   These bills are drawn by one party or another and the bank can rediscount the bills and are able to meet the short term funding requirements. The maturity of these bills is 90 days.

3. **Certificate of Deposits :-**
   Their maturity period is 15 days to 1 year. CDs are issued by commercial banks or financial institutions. They are in the form of promissory notes.

4. **Treasury Bills :-**
   They are issued by Government at discount for a fixed period not exceeding 1 year, containing a promise to pay the amount stated to the bearers of the instruments. The maturity of the bills is 182 days.

5. **Government securities:-**
   These are issued by the government or semi-Governments bodies. They are safe investments as the repayment is guaranteed by the Government

6. **Repo Rate:-**
   These are transactions between the central bank (RBI) and the commercial banks.

7. **Money Market Mutual Funds:-**
   These are debt mutual funds with maturity of less than 1 year.

*****

Chapter 8.

Mutual funds

- A mutual fund is like a pool of money collected from various investors who wish to invest the same in money market instruments like Government bonds, company stocks, shares, or commodities etc.
- It can be compared to a collective fund raised with the help of several investors where the individual's fund contribution is invested in stocks or shares of the investor's choice, based on their financial goals.
- Essentially, mutual funds will allow you to invest in funds which you may have otherwise been unable to invest in, owing to the investment's high costs.

TYPES OF MUTUAL FUNDS

There are various types of mutual funds available which have been categorized on the basis of various factors.

1. Debt Mutual Funds
2. Equity Mutual Funds
3. Balanced Mutual Funds
4. Open Ended Funds
5. Close Ended Funds
6. Equity Linked Savings Schemes (ELSS)
7. Sectorial Funds

1. **Debt Mutual Funds:-**

- These mutual funds will invest money in debt instruments like fixed income investments and Government Bonds in order to ensure, to an extent, that investors get fixed returns on their investments.
- These funds are relatively more stable than equity mutual funds and also carry lower risk.

2. **Equity Mutual Funds:-**

- These funds mainly invest in stock markets.
- Therefore the returns are dependent on the performance of the market.
- These funds are ideal for long term investment as they usually provide better returns as compared to many other type of investments.

3. **Balanced Mutual Funds:-**

- As their name suggests, balanced mutual funds are balanced in terms of risks and returns.
- Balanced mutual funds invest, in parts, in debt funds, and equity funds in order to ensure returns on investment after a specified period of time.

4. **Open Ended Funds:-**

- These mutual funds do not have any restrictions in terms of entry and exit.
- Investors can invest in these funds at any time and also withdrawal their investment at any time

without having to go through any fund lock-in period.

- Exit or entry to these funds may carry a charge.
- Also there are no restrictions in terms of the amount of shares which the fund can issue.

5. Close ended funds:-

- The characteristic features of close ended funds are that, unlike open ended funds, they have a lock-in period, usually of three years before which the investors cannot withdraw their funds.
- Also, unlike open ended shares where new shares are issued to meet the investor demand, only a limited number of shares are issued and no shares will be issued to meet investor demand.

6. Equity Linked Savings Schemes (ELSS):-

- As the name suggests, ELSS is also known as the Tax Saving fund since Investments done in ELSS fund are exempt from tax under Section 80C.
- These funds however do have a lock-in period of at least three years.

7. Sectorial Funds:-

- Taking a cue from the name, sectorial funds invests mainly in a particular sector like infrastructure, real estate, banking etc.
- Money invested in these funds is further re-invested by the fund manager in stocks belonging to a specific sector which the fund has been

created for. For example, an infrastructure fund will only invest in stocks of infrastructure companies.

Concept of Mutual Fund

If, you are a financial consultant and the appointed fund manager. You collect Rs 5000 from each 25 members and promise them to invest this in safe securities and give them a good return.

If there are 25 members the total corpus is Rs.1,25,000.

You allot units to the members of Rs 10 each. So each member gets 500 units.

Being a financial expert, you invest the corpus in a mix of equity shares and debt instruments.

The value of investment grows to Rs 1,75,000 within a year. So the value of each unit will be Rs 1,75,000 / 12500 which equals to Rs. 14.

The return earned by each member is Rs. 4 per unit i.e. Rs 2000. In percentage terms it is 2000 / 5000 equal to 40%.

Rs 14 is the NAV(Net Asset Value) of the fund.

Rs 1,75,000 is the corpus.

Regulation of mutual funds in India

- In India, all the money that has been invested in mutual funds have been raised by any company is regulated by SEBI (Securities and Exchange Board of India).
- SEBI not only regulates these companies but also creates norms and policies pertaining to the

functioning of these mutual funds, in order to ensure the safety of the investor's money from acts of fraud or embezzlement.

- However, the returns on mutual fund investments are dependent on the market performance, as result of which they cannot be guaranteed by SEBI.
- Returns may be high or low depending on the market performance.

Asset management company (AMC) :-

An asset management company is the company which handles the funds invested by the investors. The company which floats the mutual fund will appoint an asset management company to manage the assets or capital raised via mutual funds.

Role of Fund Managers:-

Fund managers are essentially experienced professionals who handle and manage the capital which has been invested in a mutual fund. The job of a fund manager is to ensure that each investor's capital is invested in a fund which will yield maximum returns for the investor. Their job is also to minimize the losses in case of a market crash. Ideally, fund managers must hold in-death experience and a keen understanding of the market in order to best decide where the funds should be invested, when they must be invested, how much to invest and when to exit the fund.

Portfolio:-

A portfolio is a collective term which refers to the spectrum of investments held by and individual investor. An investor's portfolio could include a variety of investments like PPF, FDs, Gold, Debt, Equity, etc. However, in terms of mutual funds, a portfolio describes the collective investments which have been made under a specific fund and also in the form of cash.

Net Asset Value (NAV):-

When investing in mutual funds, you are assigned a specific number of units on the basis of the amount which you have invested. NAV is the price of each unit or share. You can easily track a fund's performance with the help of NAV.

How to track Mutual Fund Performance:-

The performance of a mutual fund can be easily tracked with the help of NAV of share units. Change in the price of each share is indicative of the performance of the market. If the per unit price has gone up, it means that the market performance is good and vice versa.

For example you invest a sum of Rs 1000 in ABC fund. The prevailing NAV is Rs 10 per unit, on the basis of which you will be allotted 100 units of ABC fund. If the NAV goes up to Rs 15 per unit, your original investment (100 units) will be worth Rs 1500 and you will get returns worth Rs 500.

Advantage of Mutual Funds

Following are the main advantages of mutual funds:-

1. **Professional Management:-**
   This is one of the main features of any mutual fund. It is not possible for every single investor to be well acquainted with the markets and know how and when to invest in it. This means that investors can be assured that qualified people are taking all the important decisions on where their money is being invested.
2. **Spreading of Risk:-**
   The first thing to do would be to talk about Risks. If you were to invest all your money in one industry and that industry failed, you would lose a lot of money, but with mutual funds, such risks are mitigated by spreading the investments over various avenues, like stocks and bonds, to ensure that even when one generates losses, the rest can control the amount you lose.
3. **Choice of Risk:-**
   Mutual funds also offer a choice of low, medium and high risk funds. A high risk funds offer the highest returns but the losses will also be high whereas a medium risk fund tends to balance risk with returns a little better, whereas low risk funds carry the least risk of losses and, consequently, the risk returns of the three too.

4. **Options on Liquidity:-**
   When you invest in a mutual fund you have a choice to invest in a regular fund or in a **tax saver fund**. The difference in the two, in terms of liquidity, is that with a regular mutual fund you can start withdrawing from the fund a few months after the investment begins whereas with tax saver funds, there is usually a lock-in period before which you cannot withdraw anything. This allows investors to plan their finances better.
5. **Tax benefits:-**
   Mutual funds offer the option to invest in them and claim income tax benefits under the section 80C of the IT Act. This means that the money invested in mutual funds is exempt from income tax and helps bring the taxable income down.
6. **More choice:-**
   From all the mutual funds, investors can choose between high, medium and low risk funds. They can also choose funds based on their need for return.
7. **Invest in installments or lump sums:-**
   If funds do not have large sums of money to invest in mutual funds, one can go in for a systematic investment plan (**SIP**). An SIP is investing in the mutual funds in EMIs this allows you to be able to invest in the mutual fund without putting too much pressure on your finances. On the other hand, if you have a large sum of money that needs investing, you can put that too in a mutual fund in one lump sum.

8. **Well regulated:-**
   The regulatory authority that oversees mutual funds is SEBI, which has laid down strict guidelines that mutual fund providers need to follow. This ensures that there is no unfair treatment of investors and tries to ensure that the investment works in favor of both the investor and the mutual fund provider.
9. **Low cost of asset management:-**
   Since they acquire the money from a whole bunch of investors, the cost of the service provided, or the asset management, is relatively low.

Relationship between Lenders and Borrowers

Lenders	Financial intermediaries	Financial Markets	Borrowers
Individu Compan	Banks Insurance companies Pension funds Mutual funds	Interbank Stock exchange Money ma Bond mark Foreign exchange	Individuals Companies Central governmen Municipali Public corporation

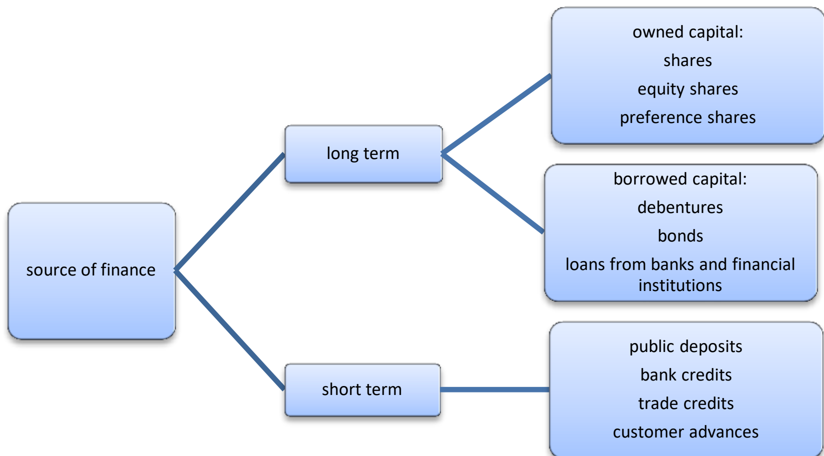
*****

Chapter 9.

Source of Finance

Every business requires funds for various purposes. The source of finance can be classified based on two main criteria:-

A. Based on time period sources of finance can be classified into :-



B. **Based on origin**:-

I. **Internal Source**:- It includes undistributed profit of the business and other sources within the company.

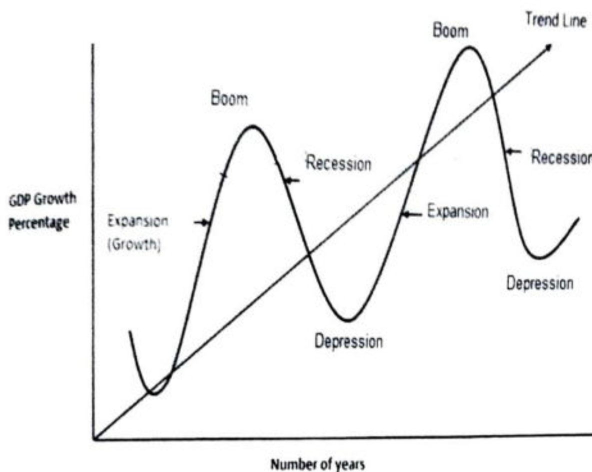
II. **External Source**:- These are the sources outside the firm like shares, debentures, etc.

*****

Chapter 10.

Economic Cycle

1. The upward and downward movement of the economy of a country over a period of time is called as economic cycle / Business cycle / Trade cycle.
2. It is calculated in by measuring **Gross Domestic Products** (GDP) of a country.
3. GDP is the value of the goods and services produced in a country during a specific period of time, say one year.
4. GDP tells us that trend of rate at which the country's economy is growing. The higher the GDP, the better it is.
5. **The National Bureau Of Economic Research** determines business cycle stages using quarterly GDP growth rates.



This graph which depicts business cycle is divided into four parts, these are:-

I. **Expansion / Growth:-**

Expansion is the first stage in business cycle. In this stage there is an increase in economic indicators like employment, income, output, wages, profits, demand and supply of goods and services.

II. **Peak / Boom:-**

- The term boom is used to describe that the economy is growing a faster rate as compare to trend line, resulting in higher GDP, higher employment, higher demand and rise in price.

- **Economic condition and consumer behavior during boom period:-**

a. Higher level of income and employment:- this is because capacity of expansion in growth in business leads to new jobs creations along with higher salary and wages, which increases spending power.
b. Rising Interest Rates.
c. Inflation :- Inflation means the rate at which price increases. It is always shown in percentage.
d. High Level of Investments:- Increase in demand for capital goods due to which companies invests more money to increase capacity to meet strong demands and to make higher profit.

e. Increase in Government tax Revenues due to increase in profit earned by business and individual which leads to higher budgeted spending by government.

- When the economy reaches to its saturation point then it is known to be peak.

III. Recession:-

- All positive economic indicators like income, output, wages, etc. consequently start to fall.
- This is the time when demand for goods and services starts decline, people loses their jobs, less spending power in the hands of people, business suffer loss and rates of interest go down.
- Contraction is opposite of expansion, whereas, all indications of the growing economy are reversed are known to be recession.
- In short the recession is the growth in the economy below trend line.
- **Economic condition and consumer behavior during Recession period:-**

1. Low consumer demand because of low purchasing power this is because higher inflation and low income.
2. Uncertainty about the condition of the economy in the future.
3. Tendency to save for future purposes as there is high uncertainty in the economy.
4. Reduction in production of products.

IV. Depression:-

- At this stage the economy's growth rate becomes negative.
- There is further decline until the prices of factors, as well as the demand and supply of goods and services, reaches their lowest.
- In short if recession remains for a longer period of time is called as Depression.
- **Economic condition and consumer behavior during Depression period:-**

1. Fall of production in the industries and others due to over production of goods which were not purchased by the consumers.
2. Low prices of farm product faced by farmers who had stock piles of crops which they had to sell at any cost.
3. Poor performance of banks as lots of money landed is lost due to bankruptcy by the borrower.
4. Large number of unemployment, this is because business organization reduces employees to cut down losses.
5. Large dependency on export trade as the home demand is very less.
6. The fall of stock exchange in the country.
7. Social unrest among the people and this leads to increase in crime rate in the country.

The above business cycle decides the business operations.

*****

s