BRIEF MEANING

OF

KEY TERMS

OF

BANKING SERVICES OPERATIONS (M-406)

PREPARED

BY

B.K.JAIN

M.B.A. FACULTY

BIYANI INSTITUTE OF SCIENCE & MANAGEMENT

(BISMA)

BIYANI GROUP OF COLLEGES

JAIPUR(RAJASTHAN)

1. **Agencies for Rural Credit :** Key agencies engaged in disbursement of rural /agricultural credit are cooperative banks, commercial banks , regional rural banks and micro finance institutions . In cooperatives sector one set of agencies are there for short & medium term and other for long term credit.
2. **Asset Liability Management (ALM) :** ALM is a systematic process to maintain proper match in maturity timings of investments so that at no time there is risk of liquidity without adversely effecting profitability of a bank. Liabilities need to be deployed in the form of loans and investments in such a manner that adequate cash is always available to pay off the liabilities.
3. **Bank assurance :** Means distribution of insurance products through the distribution channel of banks It is packaged service of banking and insurance products offered to customers at one place under one roof and at one time.
4. **Bank Guarantee :** It is a assurance by a bank on behalf of his customer to a third party for payment of certain sum to him (third party) in case his customer fails to fulfill any contractual obligation towards such third person. Primary duty to pay is that of customer. However bank comes in picture when customer fails to fulfill his commitment.
5. **Bill of Exchange:** Bill of Exchange is an order drawn by the creditor on debtor instructing the later to pay a specified sum of money to the former or his nominee. Payment is usually made after fixed date usually 90 days with 3 days of Grace.
6. **Bill Discounting:** When holder of the bill does not wait for payment by debtor, goes to bank and discounts the bill, it is known as bill discounting . Bank charges some discount and pays the balance to the holder.
7. **Bonds:**- Bonds refer to debts instruments bearing interest on maturity. Organization may borrow funds that securities name bonds having a fixed maturity period and pay a specified rate of interest (Coupon Rate) on the principal amount to the holders.
8. **Cash Reserve Ratio:** Each scheduled / commercial bank is required to maintain cash reserve under section 42 of RBI Act 1934 in respect of its total time and demand liabilities. Presently this CRR is 6%.

9. **Capital Adequacy Ratio(CAR) or Capital to risk asset ratio(CRAR):** Each bank is required to maintain capital fund in relation to its risk weighted assets as a measure to bear risk. Presently this CAR/CRAR is 9%.

10. **Capital Market:** Capital Market refers to institutional arrangements for facilitating borrowing and lending for long term securities having maturity period of above one year. Capital Market can be divided into primary market and secondary market.

11. **Clearing House:** Is an arrangement through which bank exchange cheques drawn on other banks for those drawn on it. This exchange is done at clearing house. Generally RBI or SBI acts as a clearing house for this purpose.

12. **Cooperative Agriculture & Rural Development Banks (CARDB'S):** CARDB'S are part of cooperative credit structure. They are engaged in providing investment credit(Long Term Credit).for agricultural and rural development . Earlier they were known as land mortgage banks. Their structure is generally federal where there is a state CARDB Bank at state level and Primary CARD Bank at district/taluka level.

13. **Corporate Banking:** Corporate Banking refers to wide range of financial services provided to various corporations, big business houses as well as Govt. institutions . It focuses on high value transactions a against retail banking where focus is on individual customers.

14. **Consortium Finance:** when credit required of a unit is large, two or more banks & financial institutions join together and provide the credit with common appraisal. Common documentation, joint supervision and follow up, it is known as consortium finance.

15. **Credit Policy:** Credit Policy is a part & parcel of economic policy. It consists of all those measures through which central bank of the country i.e. RBI controls, the supply of money to attain general economic objectives such as prices stability, exchange rate stability, full employment & economic development.

16. **Credit Culture:** Credit Culture is a unique combination of policies , practices, experiences, philosophy, thought and style relating to management of credit. Role of credit culture is to create risk management climate that would foster good banking.

17. **Credit Analysis:** Credit analysis distinguishes between “Good” customers that will pay and “Bad” customers that would default. It is done through five “C” s i.e. Character, Capacity , Capital, Collateral and conditions. Finally, credit analysis help in finding good borrowers.
18. **Customer Relationship Management (CRM) in banks:** CRM includes methodologies technology ,strategies & capabilities that help a bank to manage customer relationships. The general purpose is to better manage their customers through reliable systems, processes and procedures and attract new customers . Banks have starting recruiting customer Relation Officers for this purpose.
19. **E-Banking:** Internet Banking or e-banking means any user with a personal computer and a browser can get connected to his banks website to perform any of the virtual banking functions. All the services that a bank has permitted on the internet are displayed in the menu.
20. **E-Commerce:** Electronic Commerce commonly known as e-commerce consists of buying and selling of products and services over electronic system such as the internet and other computer networks.
21. **Factoring:** It can be defined as an arrangement between financial institutions or bank and a business concern where factor purchased book debts either with or without recourse. In other works outrights sale of receivable is known as factoring.
22. **Financial System:**- Is a complex and well integrated set of sub system of financial institutions, financial markets, financial intermediaries and services which facilitate transfer and allocation of funds effectively and efficiently. It also consists of regulations and laws and practices followed in the system.
23. **Financial Market:**- Financial market refers to those centers and arrangements which facilitate buying & selling of financial assets / instruments. Whenever a financial transaction takes place, it is deemed to have taken place in financial market. There is no specific place or location to indicate a financial market.
24. **Financial Assets/ Instruments:**- Financial Assets/ instruments are a liability of issuer towards holder. It is a claim against a person/institution for payment at a future date and periodic payment in the form of interest or divided . Financial Instruments helps

the financial market and the financial intermediaries to perform the important role of channelizing fund from lender to borrower.

25. **Fee based services:**- The income of a bank is commonly divided as interest income or non-interest income. The non-interest income includes fees, commission , services charges, handling charges, holding charges etc. This non-interest income is commonly termed as fee based income and services provided through this fees are known as fee based services.
26. **Forfeiting:**- It is form of financing of receivables pertaining to international trade . The purchase is in the form of discounting the documents like trade bills, promissory notes covering the entire risk of nonpayment in collection of dues. All risk of collection problems are of purchaser (Forfeiture) .
27. **Fractional Reserve Banking:**- Is a type of banking where depositor invest money in a bank and have the ability to earn interest rather than having to pay to hold the money. The bank takes ownership of base money entering the bank, uses it to maintain highly liquid reserve to repay expected customer withdrawal and pay for bank operation and in term gives the customer a credit to his account which the bank ensures can use as money to buy goods and services anywhere in the economy .
28. **Fund based services:**- Are those services where funds of a bank are involved such as different types of loans granted by bank e.g. clean loan, pledge, hypothecation , housing ,vehicle loan ,education loan etc. Banks earns interest on such loan by involving its funds. Such services are known as fund based services.
29. **Insurance Regulatory and Development Authority (IRDA):-** IRDA came in to being in 1999 under IRDA Act to protect the interest of insurance policy holder and to regulate and promote an orderly growth of insurance industry and all intermediary companies dealing with life and non-life insurance in the financial system of India.
30. **Letter of credit (LC) :**- LC is a type of guarantee given by a bank on behalf of its customer to make payment of goods and services to the supplier on presentation of documents as required as per term of contract. LC is often used in international trade by importer.

31. **Loan Syndication :-** It is almost similar to consortium finance. It is a arrangement between one or more lending institution to provide a borrower credit facility using common loan documentation. However, this is generally resorted to in international trade.

32. **Money Market:** - It is a market for short term money and financial assets that are near substitutes of money. Here dealing are for a short period ranging from one day up to one year and financial assets can be converted into case easily with minimum cost examples of money market are call money market, treasury bill market, certification of deposit etc.

33. **Merchant Banking:-** Merchant Bankers are issue houses which manage new issues of companies. As per SEBI Act' 1992 "any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to the securities as manager , consultant ,advisor or rendering corporate advisory services in relation to such issue" is known as merchant banker.

34. **Micro Finance:-** RBI has defined micro finance as provision of thrift and credit and other financial services of a very small amount to the poor in rural ,semi urban and urban areas to improve their income and living standard. Micro-finance institutions are those which are engaged in providing these facilities.

35. **Mutual fund:-** Mutual funds are special type of institutions which act as financial intermediary in investment business. Mutual funds mobilize funds/savings of small investors and households by selling their own shares also known as units and pass on the return there of to the fund investors for their involved money.

36. **Multiple banking arrangements :-** When a borrower meets his credit needs not from one but from a number of banks, it is known as multiple banking arrangements . In such case banks has to be careful in advancing loan.

37. **NABARD:-** National Bank of Agriculture and Rural Development was established in 1982 as a development financing institution with a mandate to promote integrated and sustainable rural development and secure prosperity of rural areas. It performs supervisory, promotional and regulatory functions in respect of rural credit institutions.

38. **Non-performing assets(NPA's):**- A bank balance has both performing and non-performing assets. Performing assets are those on which interest and principal are received when due. Non-performing assets are those on which interest and principal are not received when due. RBI look a decision that such NPA's which are not received within 90 days from the date due, they would be treated as NPA and provision would be made as per guidelines issued by RBI.
39. **Reserve Bank of India:**-Established under RBI Act 1934 as central bank of the country and bankers bank. It exercise control on the banking industry through RBI Act and Banking Regulation Act 1949. It is also responsible for announcing monetary and credit policy in the country as a central bank.
40. **Retail Banking:**- Retail banking refers to banking in which banking institutions execute transactions directory with consumers rather than corporations and other banks. It is a typical mass banking where individual customers use local branches of commercial banks. As compared to corporate banking, the amount of each transaction is small.
41. **Regional Rural Banks (RRB's) :**- In order to implement 20 point economic programme, Govt. of India came up with the idea to set up RRB's and for this RRB's Act was passed in 1974 . These RRB's were set up to supplement the efforts of cooperative credit institutions in rural areas. They are joint ventures of central Govt. , State Govt. , and sponsored bank & their share capital contribution is 50%, 15% & 35% respectively.
42. **Real Time Gross System (RTGS) :-** RTGS is a important mile stone in Indian banking system through which cheques and transfer of money from one bank to other is credited in customers account on the same day. The settlement of account takes place through RBI.
43. **Repo and Reverse repo rate:**- Repo rate is rate at which RBI provides short term loans to commercial bank. Presently this rate is 7.5%.

    Reverse repo rate :- is rate at which RBI accepts surplus money of commercial banks. Presently this rate is 6.5%.

44. **Rural Finance:**- It encompasses the range of financial services offered and use in rural areas by people of all income levels . It includes financing agricultural activities (input supply, production , distribution , processing , marketing) and micro-finance for poor and low income people.

45. **Statutory Liquid Ratio (SLR):**- As per section 24 of BR Act'1949, each bank is required to maintain SLR in the form of encumbered govt. and govt. approved securities of its total time and demand liabilities . Presently this SLR is 24% Banks have to submit a periodical return to RBI in this regard.

46. **SARFAESI Act 2002:**- This act was passed to create a new legal frame work to recover dues of banks and financial institutions particularly NPA's . Special feature of this act is that no court can intervene in the matter when proceedings to recover loans have been started under this act.

47. **Securitization :-** Means acquisition of financial assets by a securitization & Reconstruction Company (SRC) by a mutually agreed terms and conditions to reduce large NPA's. It is a process in which illiquid financial assets are converted in to marketable securities.

48. **Service Area Approach:**- Special scheme implemented since 1989 under which each bank branch i.e. cooperative bank ,RRB Commercial bank is allotted a specific service area consisting of 15-20 villages for conducting servey preparing credit plan of residents and arrange to meet their credit requirements.

49. **Self Help Groups (SHG's):**- A SHG is a group of about 20 people (man or woman) from economically homogenous class who came together for addressing their common problems. They promote savings , arrange loans out of these savings to needy, arrange loans from banks and help members to become self reliant.

50. **Security &Exchange Board of India (SEBI):-** SEBI was made a statutory body under SEBI Act 1992 to monitor and regulate capital market activities and to promote healthy development of capital market. Its basic aim is to protect the interest of investors in securities by properly regulating security market.

51. **Universal Banking System:**- A Universal Bank is a one stop shop which deals with vide portfolio of financial products integrating project financing , commercial banking ,

term lending, investment banking , retail operations , mutual funds , pension funds, underwriting, insurance etc. In universal banking more customers are served with the same existing network which ultimately benefits their customers with low cost of services.

52. **Unit Banking:**- When a bank from a single unit without any branch any where , it is known as unit bank. Generally this term is not common in case of commercial banks. However , in the field of urban credit there are few urban cooperative banks which do not have any branch and thus acts as a unit bank.

53. **Underwriting :**- is an assurance by a bank, financial institution a form to purchase shares/debentures if some portion of the issue remain undersubscribed. For this assurance, they change underwriting commission.

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