

UNIT 6 - Banking Terms in Easy Language



Term	Explanation
ATM	ATMs are Automatic Teller Machine. ATMs allows customers to complete some basic transactions, without the help of teller. These include accepting deposit, providing withdrawals and transferring funds. First ATM in India is Introduced by HSBC in 1987.
Asset	An economic resource owned or controlled by a company and expected to generate future benefit for that company. Like land, building, machinery etc.
Accrued Interest	Interest that already earned , but not yet paid is known as Accrued Interest.
Amalgamation	Amalgamation means merger. When two companies merged by their mutual agreement for making a large organization is known as amalgamation.
Appreciation	Increase in the value of something (stocks, goods etc.) is term as Appreciation. It is due to Increase in the demand , scarcity of the goods or increase in earnings. Appreciation is opposite condition as to depreciation.
Arbitration	When there is dispute between two parties , Arbitrator come to resolve the dispute. Parties have to accept the

	decision taken by the arbitrator. It is for the settlement of the labor dispute between employer and employees by the third party i.e. arbitrator.
Asset Turnover Ratio	Asset turnover ratio is the ratio of a company's sales to its assets. It is an efficiency ratio which tells how successfully the company is using its assets to generate revenue. Asset Turnover = Sales or Revenues / Total Assets
Acid Test Ratio	Acid test ratio is also known as Quick ratio. It is a Liquidity ratio . Acid test ratio measures the ability of a organization to pay its current liabilities. In Quick asset we take cash, cash equivalents, short term investment or marketable securities or current account receivables as a Quick assets. Formula of acid test ratio = Quick Assets/Current Liabilities
American Depository Receipt (ADR)	American Depository Receipt is a certificate Which is issued by US Bank to a Non – US Company For their (Non US Company) shares. ADRs can be traded in the US Stock market. It is a negotiable instrument and holder of ADRs get the benefit like a stock holder
Asset Management Company (AMC)	These companies are specialize to the recovery of the assets on the behalf of banks or other financial institutions. The non-performing assets can be assigned to AMC for the recovery purpose by the banks.
Annuity	Annuity is a type of payment at fixed intervals for a certain period or lifetime to a person who deposits some money in installments or lump sum. The amount which is paid back is includes principal and interest.
Bouncing of a Cheque	When there is not sufficient balance in the account of the customer who issued the cheque is return by the

	bank to the customer address. This is termed as Bouncing of cheque.
Beneficiary	A beneficiary can be a person or entity who is entitled to take the benefits on the behalf of some other person or entity.
Bonds	A instrument in which a person lends money to a corporate for a definite period of time at a fixed interest rate. Bonds are used by corporates or government to raise money.
Bank Ombudsman	Bank ombudsman is the authority to solve the complaint of the customers against any banks. This scheme covers all scheduled banks, co-operative and the RRBs. If customer is not satisfied with the decision of the bank ombudsman then they can forward their complain to the Deputy Governor of RBI.
Bankruptcy	If an organization is unable to pay debt then this condition is known as bankruptcy. This means organization has become insolvent and there for can't pay their obligations.
Bancassurance	Selling of the Different types of the insurance products (Life policies, non-life policies, car insurance, medical policies etc.) as corporate agents by the banks through their branches is known as bancaassurance.
Bear Market	A situation when price of securities in the stock market are generally declining is known as bear market.
Bank Rate	It is a rate at which RBI lends money to commercial banks without any security. It is used for Long Term Borrowing. Bank rate is not the main tool to control money supply. Repo Rate is the main tool to Control Money Supply. Penal rates are linked with Bank rate.

Balance of Payment (BOP)	Balance of payments is statement of economic transactions of a country with rest of the world. The balance of payment classifies these transaction in two accounts – the current account and capital account.
Balance of Trade	The difference between the value of exports and imports of a country is known as Balance of payment. If difference between exports and imports are positive then it is favorable balance of trade and vice versa.
Balance Sheet	Balance Sheet is a statement a company showing the assets and liabilities of the business on a particular date. Balance Sheet is helpful to determining the financial position of the business.
Black Money	The money which is concealed from tax authorities and illegally obtained is known as black money. It is uncounted money.
Bull Market	Bull market is a situation of market where speculators buy shares by hoping of the rise of price in near future and then resale those share to earn profit.
Capital Reserves	This is also known as undistributed reserve. It is a part of the company profit which is not paid out as dividends to the shareholders.
Capital	Capital is money or wealth needed to produce goods and used to generate income by investing them in some other source. Business capital comes mainly from two sources – Debt and equity.
Capital Gain	An increase in the value of the capital asset which gives high price as than before is termed as capital gain.
Cheque	Cheque is a bill of exchange. Cheque is a order to bank to pay stated amount in the cheque from the drawer account. Cheque is always payable on demand

Cheque Truncation	Cheque truncation is system to stopping the physical moment of the cheque. In this system scan copy (electronic image) of cheque is used for the clearing purpose of cheque.
Core Banking Solutions (CBS)	Centralized Online real Time Exchange (CORE) is system where banks and their branches are interconnected for fast communication.
Cash Flow	Movement of cash (cash equivalents) or incoming or outgoing of cash from different operations in an organization is called as cash flow. cash flow is the difference in amount of cash available at the beginning of a period (opening balance) and the amount at the end of that period (closing balance).
Current Account	Current account is only open for the business purpose. There is no limit of numbers of withdrawals from this type of account. No interest is given in this account.
Creditworthiness	It is ability of the borrower to repay the loan amount with interest as per agreed terms and conditions to the lender.
Cash Reserve Ratio (CRR)	CRR is a monetary policy instrument used by RBI to control the supply of money. Banks have to keep some percentage of NDTL (Net Demand and Time Liability) with RBI this is known as CRR. The RBI have Authority to change the CRR Rate.
Certificate of deposits	Certificate of deposits is a money market negotiable instrument. It is generally issued for 7 days to 1 year. Minimum deposit amount in certificate deposits is rupees 1 Lakh.
Debit Card	Debit card is a plastic card issued by banks to customers to withdraw money electronically from their account without visiting the branch. Many bank issued Debit-Cum-Atm card.

Debentures	Debentures is a long term debt instrument issued by corporate to borrow money. A debentures holder gets fixed amount of interest.
Dividend	Dividend is portion of profit which is distributed by the company to its shareholders.
Debtor	A person or party buy goods on credit is termed as debtor. Debtor is current assets of the business.
Demat Account	Converting shares into electronic form and an electronic place where they are keep is known as demat account. Investor can buy or sell their shares by the help of demat account.
Dishonour of Cheque	When a cheque is not paid by the paying banker due to some reason stated memo on the cheque is termed as dishonor of cheque.
Depreciation	Gradually decreasing in the value of the fixed asset due to its wear and tear is known as depreciation.
Direct Tax	The impact and incidence of direct tax fall on the same person. Shifting of direct tax is not possible Income Tax is a example of direct tax.
Endorsement	When backside of a negotiable instrument contains signed by the holder or an order to transfer the title to some other person, this is called as endorsement
Electronic Fund Transfer (EFT)	Transfer Funds in electronic form is termed as EFT (Electronic Fund Transfer). EFT gives facility to banks to exchange information between them. Even one branch of bank can transfer information to branch of another bank by using EFT.
E- Banking	Electronic Banking is facility of banking through electronic signals. ATMs, Credit Card, Debit cards transaction are the type of E Banking. Fund transfer Facilities like SWIFT, RTGS, NEFT belong to this

	category. Internet-banking is also example of E-Banking.
Escheat	Acquiring of the properties of person after his death by the government , in case there is no legal heir or nominee of that person then this type of property is termed as Escheat.
Exchange Rate	The expression of a unit of foreign currency in relation to domestic country is known as exchange rate. Exchange rate can float move up or down.
Face Value	Face value also known as Nominal value is the original value of a share written or print on the share certificate.
Fiscal Policy	Fiscal policy refers to the changing tax rates and levels of government spending to influence aggregate demand in the economy by government
Forgery	When any type of alteration is made on a document or in negotiable instrument with intention to fraud is known as forgery.
Fund Flow	Fund Flow is statement of change in a company net working capital during a fixed period of time.
GST	Good and Services tax is indirect tax levy on manufacture, sale and consumption of goods and services at a national level.The GST regime is expected to be functional from 1st April, 2016. But the bill is now stuck in the Rajya Sabha, because the current government does not hold a majority.
Gold Monetisation Scheme	The gold monetisation scheme was launched on November 5, 2015 by Prime Minister Narendra Modi, to reduce bullion imports and mobilise 22,000 tonnes of idle gold in the country. The amount of interest rate to be given is proposed to be left to the banks to decide. Both principal and interest to be paid to the

	depositors of gold, will be 'valued' in gold. For example if a customer deposits 100 gms of gold and gets 2 per cent interest, then, on maturity he has a credit of 102 gms.
GDR	Global Depository receipt (GDR) is a certificate issued by one country bank against a certain number of shares held in its custody but traded on the stock market of another country.
Guarantee	If debtor or borrowers take a loan or debt and the third person or entity take the responsibility on the behalf of borrowers if he fails to repay debt amount then they will settle loan amount, this condition is known as guarantee. It is a contract between guarantor and beneficiary.
Gross Domestic Product (GDP)	Gross Domestic Product is the monetary value of the Goods and services produced within geographical Boundaries of the country during given period of time.
Government Bonds	Bonds are a kind of debt instrument. It is a promise to repay borrowed money after a period of time with certain rate of interest. The money raised through the bonds may be used for various activities like making new roads, hospitals etc.
Gross National Product (GNP)	Value of the total goods and services produced by the citizens of a country during a given period of time is known as Gross National Product .
Hedging	Hedging is a method or a strategy of reducing the risk of loss caused by price fluctuation in future.
HDI	HDI is Human Development index. Three Dimensions are used in HDI – 1. healthy life 2. Knowledge 3. Standard of living.

Holder	Holder means any person who is entitled to receive or recover the amount due on the cheque, bill of exchange or promissory notes from the parties.
Holder in due Course	A person who receives a Document for value, before it was due and in good faith, without notice of any defect in it, he is called holder in due course.
House Hold Income	Combined Income of all members of a household is house hold income. It includes every form of income i.e. salaries, wages, pensions, income from other sources.
International Banking	Banking involves more than two countries. If an Indian Bank has branches in different countries like Bank of India, it is said International Banking.
Insolvent	Insolvent is a person or organization who is unable to pay his debts, as his liabilities are more than the assets .Courts declare such persons insolvent. Banks do not open accounts of insolvent persons as they cannot enter into contract as per law.
Indemnity	indemnity is a type of contract where the indemnifier undertakes to reimburse the beneficiary from any loss arising due to his actions or third party actions.
International Banking	When Banking involves more than two nations or countries. If an Indian Bank has branches in different countries like Bank of India, it is said to do International Banking.
Interest Rate	Interest rate is the price of borrowing money. As the "renting" of money creates credit, interest is the price of credit. The price of money is the cost of commodity or service bought with money.
IFSC	Indian Financial System Code (IFSC) which is an eleven alpha numeric character code. This code is used by electronic payment system applications such

	as RTGS, ,National Electronic Fund Transfer. The code is of 11 characters. The first part is the first 4 alphabet characters representing the Bank. Next character is 0(zero), this is reserved for future use and last six digit represents branch code.
Internet Banking	Online is a form of electronic banking which enables customers of banks to do banking transactions on the web. E-Banking , Virtual Banking is also similar to the internet Banking.
Joint Account	When two or more Person Jointly Open account with bank, this is known as Joint Account.
Karta	Manager of a Hindu Undivided Family (HUF) who handles the family business is known as Karta. He is usually the eldest male member of the Hindu Undivided Family.
Kiosk Banking	KIOSK Banking is a facility provided by banks where customers have no need to go to the branch to make different transactions. The branch itself comes to the customer's village/place where the customer can make the transactions.
KYC Norms	KYC means “Know Your Customer”. It is a process by which banks obtain personal information of the customer. The objective of doing so is to enable the Bank to have positive identification of its customers. Mainly three proofs include in KYC. They are 1) Proof of identity 2) Proof of Address 3) Photograph.
Long term Debt	Long term debt is obligations of the organization which are due after 1 year. It could be in the form of Bank loan, bonds, debentures etc.
Lease Financing	Financing for the business of renting houses for a fixed period of time is known as Lease Financing .Leasing of a machinery for a specific period at specific price is an example of Lease Financing.

Letter of Credit	A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time is known as letter of credit. If the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase to the party.
Micro Finance	Micro Finance aims to assist poverty and empowerment of weaker sections in India. In micro finance, very small amounts are given as credit to poor in rural, semi-urban and urban areas to enable them to raise their income levels and improve living standards.
Maturity	Maturity is the time when a bond, insurance policy or security matures and customer is eligible to get the realizable value from that instrument.
Market value	The current value of an asset or any financial instrument in the market is called as market value.
Mobile Banking	M-Banking or mobile banking helps the customer to check his bank balance, order a demand draft, stop payment of a cheque, request for a cheque book and have information about latest interest rates.
Money Laundering	When a customer uses banking channels to cover up his unlawful financial activities, it is called money laundering.
Merchant Banking	When a bank provides to a customer various types of financial services like accepting bills arising out of trade, providing advice, information or assistance on starting new business, acquisitions, mergers and foreign exchange that is known as merchant Banking.
Monopoly	Monopoly is a condition where only one seller in the market who controls the entire market supply and no substitute of the product is available in the market. Indian railway is example of monopoly.

Monetary Policy	Monetary policy refers to changing the interest rate and influencing the money supply by Central Bank.
Mortgage	A mortgage is an agreement that allows a lender to seize property when a borrower fails to pay.
Mixed Economy	An economic system which have the characteristics of both Private and Government Enterprises. India is a mixed economy country.
Multinational Company (MNC)	MNCs are a large scale company which has its production base in several countries and the bulk of the production is produced in outside nations. This company produces more overseas production than they do in its parent country.
NPA Account	If bank dues are not paid in any loan account with in specified time period, then this type of account is treated as NPA Account and this Amount is being treated as Non-Performing Assets.
Non-Performing Assets (NPA)	<p>a Non-Performing asset shall be a loan or an advance where:</p> <p>a) Interest or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.</p> <p>b) The account remains out of order for a period of more than 90 days, in respect of an Overdraft / Cash Credit</p> <p>c) The bill remains overdue for a period of more than 90 days in the case of bills purchased</p> <p>d) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.</p>
NBFCs	A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/debentures etc. NBFCs can not accept demand deposits.

NEFT	National Electronic Funds Transfer (NEFT) is a nation-wide electronic payment system. By NEFT one can transfer funds from a bank branch to any individual or corporate having a bank account with any bank branch with in India. There is no limit – either minimum or maximum – on the amount of funds that could be transferred using NEFT. However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances within India and also for remittances to Nepal.
Non- Resident	A person who is not considered a resident of a country for tax purposes is called as Non-Resident. A person who is not a resident of India is a non-resident.
Net Income	If the total income in a period of a organization is deducted from all expenses during the same period is known as Net income of the Organization.
Negotiation	Negotiation means an act of transferring of a money instrument from one person to another person in the course of business.
Oligopoly	An oligopoly is an economic market whereby a small number of companies generate and control the entire supply of a good or service.
OTP	One Time Password (OTP) is an additional security measure for authentication for all credit and debit card payment transactions made on IVR (interactive voice response) systems i.e. transactions on mobile.
Online Banking	Online Banking allows the customers of the banks to conduct banking transactions on the Website of the bank. Virtual Banking is also known as Online Banking.
Overdraft	It is a credit facility given by bank to a account holder. Overdraft facility provide excess withdraw to the account holder on a nominal charge.

Plastic Money	Debit Cards ,Credit Cards, ATM Cards (Visa, Master Cards etc.) are known as plastic money. These cards are like money enable us to get goods and services.
Pledge	A bailment of goods for security purpose for payment of a debt . for example- pledge of stock by a borrower to a banker for a credit limit. Pledge can be made in movable goods only.
Public Sector Bank	A bank in which Government acquired fully or partly share is called as Public Sector Banks.
Payee	Payee is the person whom money is paid is known as payee.
PPF	Public Provident Fund (PPF) scheme is a popular long term investment. PPF offers attractive interest rates. Investors can invest minimum Rs. 500 to maximum Rs. 1,50,000 in one financial year.
Payer	The person whose name is written on the document who has to pay to the holder is known as payer.
Personal Identification Number (PIN)	Personal Identification Number is a number which an ATM card holder has to used in before he is authorized to do any banking transaction. PIN is used for security purpose.
Prime Lending Rate (PLR)	The rate of interest at which bank lends to their special customers is known as Prime Lending Rate. Generally PLR is less than the normal rate of interest.
Promissory Note	A signed , written and unconditional promise by one party to another party that commits the maker to pay a specified amount on a fixed or a determinable date. Promissory notes are negotiable instruments
Repo Rate	Repo rate is the interest rate which is charged by RBI when RBI lends money to commercial bank for short period of time.

Return on capital	Return on capital is a profitability ratio. Return on capital indicates how effective a company is at turning capital into profits.
Returns	In economic a profit from investment is termed as returns.
Recurring Deposits (R.D.)	Recurring Deposit is a special type of deposit account which enables a customer to save by paying into the account an agreed fixed sum of money monthly over a stipulated period. The deposits in this type of account earn compound interest..
RTGS	The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the real-time settlement of funds transfers. The minimum amount to be remitted through RTGS is ` 2 lakh. There is no upper limit for RTGS transactions._
Safe custody	When Customer keep their articles (like jewellery, boxes, wills, debentures, shares etc.) with bank for keeping them safe is called safe custody. Bank Charges some amount for safe custody.
Saving Bank Account	Saving account is used for personal purpose. It is not for Business purpose. In Saving Account, Account Holder Get Nominal Interest. In India all bank have facility to open a saving account.
Self Help Group (SHG)	SHG is a committee 10-20 people usually in village area mainly for the purpose of deposits their savings into bank by their mutual agreement. Small loan are given to members of SHG for fulfilling their business needs if they want to start a small business.
SWIFT	SOCIETY FOR WORLD-WIDE INTER-BANK FINANCIAL TELECOMMUNICATION (SWIFT) is international computerized telecommunication network. India became a SWIFT member in 1991. Each bank is given a unique code by SWIFT.

Sarfaesi Act	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Sarfaesi Act) allows banks to auction properties when borrowers fail to repay their loans. It enables banks to reduce their non-performing assets.
Sovereign Gold Bond	Sovereign Gold Bond is a Government security issued by Reserve Bank of India On the behalf of Government of India. SCBs are substitutes for holding physical gold. Investors gets market value of gold at the time of maturity and periodical interest.
Security	These are the financing and investing instrument of the organization. Securities can be bought and sold in the stock market . shares, debentures, bonds , warrants are the types of securities.
Smart Cards	Smart card is a plastic card with embedded microprocessor . Smarts cards are used to perform various types of financial transactions.
Teller	Teller is bank employee, who provide several types of banking services to the customers of the bank.
Treasury Bills	TREASURY BILLS is a negotiable instrument. It is short term instrument of borrowing. RBI issue T- Bills on discount on the behalf of government and redeem at face value. Presently treasury bills of 91 days and 364 days are sold by RBI
Time Deposits (Fixed Deposits)	Time Deposit is a deposit in the bank which is not allowed to withdraw before a fixed period. If account holder wants to withdraw deposit before the fixed time then banks may charge some amount of penalty on it.
Underwriting	Underwriting is an agreement by the underwriter to buy shares or debentures on a fixed date. Underwriter gets commission for this agreement.

Universal banking	In Universal Banking Banks are allowed to do all types of activities related to banking like acceptance of deposits, giving loans, issue of debit and credit cards, selling of insurance products etc.
Virtual banking	Virtual banking is also called internet banking. In virtual Banking banking services are accessed via internet's world wide web. It is called virtual banking because an internet bank has no boundaries of brick and it exists only on the internet.
Wholesale banking	Wholesale banking is different from common banking. In wholesale banking main focus is on providing financial assistance to the industries and other sectors.
Working Capital	Working capital is that capital of the organization which is used to fulfill the day to day expenses of the business. Working Capital = Current assets – Current Liabilities.
Zero Balance Account	The account in which one don't have to maintain a minimum balance . It is also known as Basic Saving Bank Account (BSBA) and Zero balance Saving Account.