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JAIIB

PAPER 2

ILLUSTRATED STUDY GUIDE

Principles & Practices of Banking

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ABOUT THIS BOOK

JAIIB Paper 2: Principles & Practices of Banking. All four completed modules are brought together in this general-purpose illustrated study edition.

Use the linked master contents on book pages 3-4. Added Book page numbers refer to this complete PDF. Existing chapter and module numbering remains available for local navigation; every original module page is retained.

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Principles & Practices of Banking

Module A / General-purpose study edition

21 chapters. Read the preserved source alongside its correction panels, use the illustrated cases, then revise the chapter-end quick facts. Answers follow their questions. Click a contents row to open that chapter.

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Page guide: contents numbers refer to the combined PDF. Chapter footers and navigation tabs retain local chapter numbering.

Reading corrections: the earlier A01 note about an exam-session cutoff is superseded by this general-purpose scope. In A02 page 14, read the Murugan source label as Unit 30 (not Unit 34).

Source coverage and factual validation are separate. Historical wording is retained with targeted, dated clarifications; the audit records remaining limitations. Source-table images are checked as visual objects, not claimed as individually OCR-verified cells.

A01 / Banker-Customer Relationship

PRINCIPLES & PRACTICES OF BANKING / MODULE A

Understand the transaction. Identify the relationship. Remember the distinction.

LEARNER

I deposit money. Does that make the bank my trustee?

MENTOR

Usually it makes the bank your debtor. First identify the transaction.

Study route	Your learning outcome
Relationships	Identify debtor, creditor, bailee, agent, lessor, trustee and indemnity-holder.
Deposits and services	Compare deposit products, NRE/NRO, merchant banking, leasing, cards and custody.
Practice and revision	Eight original questions, two-source quick facts and 28 final recall points.

Reading note

This demonstration retains the capsule chapter's educational wording and rebuilds its tables and relationship diagram. Read each clarification before the original passage: several source statements are old, oversimplified or incorrect. The quick-fact wording is corrected or qualified for learning; it is not a claim that the two source books agree on every detail.

Prepared 27 October 2026. Source-era dates are labelled. Final exam-session cutoff and the remaining primary checks listed near the end must be settled before publication.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes you

Loan: you owe the bank

Service: identify the role

01 / What makes an institution a bank?

Start with the activity, then the legal authority. A business calling itself a bank does not thereby acquire permission to conduct banking.

Clarification / use this distinction
Read the ten-partner/Companies Act 1956 sentence as a legacy source statement, not a present licensing test. Section 22 of the Banking Regulation Act requires a banking company to hold an RBI licence, subject to statutory exceptions. Sections 5, 6 and 7 address definitions, permitted business and naming restrictions. [R1]

Core reading / capsule pp. 3

PPB Module A, Unit-1. Banker-Customer Relationship

Banking The term “Banking” has been comprehensively defined under the Banking Regulation Act 1949. According to Section 5(b) of the Banking Regulation Act, the term “Banking” means accepting for the purpose of lending or investment of deposits of money received from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.

An Individual is not allowed to act as a bank and he/she cannot use this term in the business. A firm consisting of not more than ten partners or a company incorporated under Indian Companies Act, 1956 can be bank, a banker or a banking company. Under section 5(c) of the Banking Regulation Act, “Banking Company” means any company that transacts the business of banking in India. Section 7(1) of the Banking Regulation Act prohibits use of the words ‘banker’ or ‘banking’ or ‘banking company’ by a company other than a banking company. Section 7(2)of the said Act further prohibits the use of such words by an individual or a group of individual or a firm.

02 / The bank serves several needs

A bank earns from lending and also provides services. Classify each transaction before deciding the legal relationship.

Clarification / use this distinction
Section 6 describes permitted forms of business; a particular activity can also require compliance with its own regulatory conditions. A list of services is not an unrestricted permission to perform them. [R1]

Core reading / capsule pp. 3, 4

Important Function of a Bank covered under Section 6 are:

- Discounting of bills
- Collection of cheques and bills
- Remittances

THREE FACTS AT A GLANCE / LESSON 02

Collection: bank acts for customer

Custody: bank safeguards goods

Guarantee: bank supports an obligation

- Safe custody of articles
- Hiring safe deposit lockers
- Conducting foreign exchange transactions
- Conducting (Central/State) government transactions
- Issuing letters of credit and guarantees

03 / Deposits and loans reverse the roles

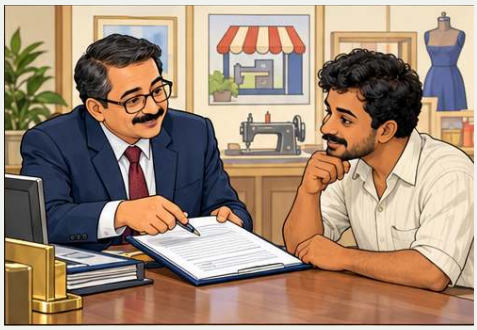
The debtor owes the money; the creditor has the claim. One customer can be a creditor in a deposit account and a debtor in a loan account.

Clarification / use this distinction

The source describes conventional account operations. Do not read working hours as a prohibition on authorised digital transactions. Its blanket limitation statement needs the deposit terms: Article 22 of the Limitation Act concerns money deposited under an agreement payable on demand. It does not by itself establish an identical trigger for every fixed deposit. [R4]



Deposit: the bank owes you
The customer gives money to the bank. Bank = debtor; customer = creditor.



Loan: the customer owes the bank
The bank lends to the borrower. Bank = creditor; borrower = debtor.

Core reading / capsule pp. 4, 5

Banker-Customer Relationship

Banker: According to Section 3 of the Negotiable Instrument act the term “banker” Includes any person acting as a Banker.

Customer: A person who has a bank account in his name and for whom the banker undertakes to provide the facilities as a banker is considered to be a customer.

To constitute a customer the following requirements must be fulfilled;

The bank account may be savings, current or fixed deposit must be operated in his name by making a necessary deposit of money.

THREE FACTS AT A GLANCE / LESSON 03

Deposit: bank is debtor

Loan: customer is debtor

Creditor: party with the money claim

The dealing between the banker and customer must be of the nature of the banking business. The general relationship between banker and customer.

Debtor- Creditor (Bank is a Debtor and Customer is a Creditor) When a customer deposits money with his bank, the customer becomes a lender and the bank becomes a borrower. The money handed over to the bank is a debt. The relationship between the banker and the customer is that of a debtor and a creditor.

The main features of this relationship are:

(a) The bank is free to use the money in a way most beneficial to it.

(b) The customer should make a demand of payment. The banker is not required to pay voluntarily.

(c) The demand should be made in specified manner, in writing by cheque, draft, withdrawal form, order or otherwise, during working hours.

(d) The creditor (customer) does not have any security from the debtor (bank).

(e) The law of limitation does not begin to run until a demand has been made for repayment, in case of both demand and fixed deposits.

The demand should be made in a proper manner. The customer should demand payment not verbally or by a mere telephone call but by cheque, draft, withdrawal form,

Order Or Otherwise. Further, Demand Should Be Made During The Working Days And

working hours under section 25 and 65 of Negotiable Instruments Act, 1881, respectively.

Creditor- Debtor (Bank is a creditor and Customer is a Debtor) When the bank lends money to the customer, the customer is the borrower and the bank is the lender. The relationship between the banker and the customer is therefore that of a creditor and a debtor.

Eight relationship families

Relationship family	Question to ask
Relationship of Debtor and Creditor	Who owes whom?
Relationship of Pledger and Pledgee	Who gives and who takes security?
Relationship of Licensor and Licensee	Who grants and who uses the facility?
Relationship of Bailor and Bailee	Who delivers and who receives the goods?
Relationship of Hypothecator and Hypothecatee	Who creates and who takes the charge?
Relationship of Trustee and Beneficiary	Who holds for whose benefit?
Relationship of Agent and Principal	Who acts on whose instruction?
Relationship of Advisor and Client	Who advises and who receives advice?

THREE FACTS AT A GLANCE / LESSON 03

Deposit: bank is debtor

Loan: customer is debtor

Creditor: party with the money claim

04 / Trustee: hold for a defined purpose

Ordinary deposits create a debt. A special purpose or an actual trust can create different obligations. Ask what the parties agreed, not merely where the money is kept.

Clarification / use this distinction
Safe custody is not automatically trusteeship. The nature of delivery and the agreed obligation matter. The source cites a Rs.2,000 car-purchase case (AIR 1962 Ker. 210); the precise case report remains to be checked against the original judgment. It is retained as a source-cited illustration, not used as an independently verified exam proposition.

Core reading / capsule pp. 5

Bank As A Trustee

A trustee is a person or firm that holds and administers property or assets for the benefit of a third party. Trustees are required to make decisions in the beneficiary's best interests and have a fiduciary responsibility to them, meaning they act in the best interests of the beneficiaries to manage their assets. If a customer keeps certain valuables or securities with the bank for safe-keeping or deposits a certain amount of money for a specific purpose, the banker, besides becoming a bailee, is also a trustee.

In the case of Subramanyan Pillai and Others vs. Palai Central Bank Ltd. (AIR 1962 Ker.

210), certain persons deposited `2,000 each in the bank as guarantee money to purchase cars. The bank failed before they could get the vehicle. The court was of the view that the bank acted as a trustee and the money should be refunded as preferential debts.

05 / Bailment and agency: goods or instructions?

For safe custody, the customer delivers goods and the bank receives them for a purpose. For collection or sale, the customer authorises the bank to act on their behalf.

Clarification / use this distinction
Section references in the source need correction: section 71 concerns a finder of goods; section 151 gives the prudent-care standard; section 163 concerns increase or profit from bailed goods; section 164 concerns the bailor's responsibility to the bailee. Agency is defined in section 182. [R2]

Core reading / capsule pp. 5, 6

Bailee and Bailor Relationship (Bank- Bailee and Customer- Bailor)

As per the section 148 of the Indian Contract Act, 1872, a bailment is a contract where one person delivers goods to another person for some purpose. The person delivering the goods is the Bailor and the person receiving the goods is the Bailee. After the accomplishment of the purpose, the Bailee needs to return these goods to the Bailor or dispose of them according to the directions of the Bailor. Let us now discuss the duties of bailee and bailor.

THREE FACTS AT A GLANCE / LESSON 05

Bailor delivers the goods

Bailee receives for a purpose

Agent acts for the principal

The finder of lost goods (Section 71 Indian Contract Act) should return any increase in goods/animal to the true owner. Under section 164 (Indian Contract Act), The finder has to take care of such goods as an ordinary prudent man.

Banker as an Agent A banker acts as an agent of his customer and performs a number of agency functions for the conveniences of his customer.

For example, he buys or sells securities on behalf of his customer, collects check/cheques on his behalf and makes payment of various dues of his customer.

06 / Lockers and indemnities

A locker-hire arrangement and delivery of identified goods for safe custody are different transactions. An indemnity promises protection against the specified loss.

Clarification / use this distinction

The conventional locker relationship is bank-lessor and customer-lessee; the agreement and applicable duties still govern responsibility. For duplicate instruments, the customer commonly gives the indemnity and the bank receives it. Section 124 defines indemnity. [R2, R8]



Locker hire: use of a facility
Conventional relationship: bank = lessor; customer = lessee. Locker hire differs from handing goods to the bank.



Safe custody: delivery of goods
The customer delivers goods for safekeeping. Customer = bailor; bank = bailee.

Core reading / capsule pp. 6

Relationship of Lessor and Lessee (Bank as a Lessor and Customer as a Lessee) Similarly, when a customer hires a safe deposit locker from the bank, the relation between the bank and the customer is lessor and lessee. The bank is the lessor (licensor) and the hirer of safe deposit locker is the lessee (licensee/tenant).

Indemnifier and Indemnified (Bank is Indemnified or Indemnity holder and

Customer is Indemnifier)

A contract by which one party promises to save the other from loss caused to hum by the conduct of the promisor or the conduct of any other person is called a contact of indemnity –Section 124 (Indian Contract Act 1872). In the case of banking, this relationship happens in transactions of issue of duplicate demand draft,

THREE FACTS AT A GLANCE / LESSON 06

Locker: bank is lessor	Locker customer is lessee	Indemnifier promises loss protection

fixed deposit receipt etc.

07 / Relationship matrix: identify both parties

Read the source table below together with the corrections immediately following it. The same bank has different roles for different transactions.

Clarification / use this distinction
The pledge row reverses the names: the customer giving goods as security is pawnor/pledgor; the lending bank is pawnee/pledgee (section 172). Draft-payee, unspecified-purpose deposit and goods-left-by-mistake rows are simplified source descriptions; a trustee relationship cannot be inferred automatically from those labels alone. [R2]



Pledge: gold secures the loan
The customer giving gold is pawnor/pledgor. The bank receiving it as security is pawnee/pledgee.

Core reading / capsule pp. 6, 7

Banker Customer Relationship can be Sumarized for Diferent Types

of Transactions as under

Transaction	Bank	Customer
Deposit in the bank	Debtor	Creditor
Loan form bank	Creditor	Debtor
Safe custody	Bailee	Bailor
Locker	Lessor	Lessee
Collection Of cheque	Agent	Principal
Purchase of a Draft	Debtor	Creditor
Payee of a Draft	Trustee	Beneficiary

THREE FACTS AT A GLANCE / LESSON 07

Pledge: customer is pawnor

Pledge: bank is pawnee

Agency: customer is principal

Transaction	Bank	Customer
Pledge	Pawner(Pledgee) [source wording]. Correct: Pawnee / pledgee.	Pawnee (Pledger) [source wording]. Correct: Pawnor / pledgor.
Mortgage	Mortgagee	Martgagor
Standing instruction	Agent	Principal
Sale/Purchase of securities on behalf of a customer	Agent	Principal
Money deposited but instructions not given for its disposal	Trustee	Beneficiary
Articles left by mistake	Trustee	Beneficiary
Shares given for sale	Agent	Principal
Hypothecation	Hypothecatee	Hypothecator

08 / Demand and time deposits

Demand and time classify repayment arrangements. Savings and current accounts are demand deposits; term deposits have an agreed period.

Clarification / use this distinction
The source table's half-yearly savings-interest statement is outdated against the RBI direction requiring quarterly or shorter credit intervals. Seven days is the domestic term-deposit minimum in the cited RBI material. Ten-year upper limits, interest payout frequency and comparative rates are product-dependent, not universal promises. [R3]

Core reading / capsule pp. 7

Different Deposit Products or Services

Deposit Products

The major functions of a bank are to mobilise deposit from the Pubic and to invest are lend these deposits to individuals, firms and corporate institutions.

Types of Deposits

• Demand Deposits

• Time Deposits

THREE FACTS AT A GLANCE / LESSON 08

Demand: repayable on request

Term: agreed deposit period

Reinvestment: interest capitalised

Demand Deposits	Time Deposits
Payable on Demand	Rapid after expiry of the Deposit Period
Low interest rates or no Interest	High Interest rates, which vary according to period
It includes current, saving, overdue deposits and Unclaimed Deposits	Time Deposits from 7 days to 120 months period with or without reinvestment plans.
Interests is paid on half yearly basis in saving accounts [source wording]. Correction: quarterly or shorter credit intervals in the cited RBI direction.	Interest is generally paid every quarter.

09 / Savings accounts: access and accumulation

A savings account combines liquidity with saving. Rates, service charges and permitted facilities must be read from the applicable account terms.

Clarification / use this distinction
The source's minimum-balance and withdrawal statements describe some products, not all savings accounts. A basic savings account has different conditions. Avoid treating a bank's product terms as a rule binding every bank.

Core reading / capsule pp. 7

Feature of Demand Deposits

Savings Bank Account

As the name suggests this type of account is suitable for people who have a definite income and are looking to save money. For example, the people who get salaries or the people who work as laborers. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited at any time in this account.

Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using an ATM card. Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on savings bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

THREE FACTS AT A GLANCE / LESSON 09

Savings: liquidity and saving

Interest: product rate applies

Charges: account terms matter

10 / Current accounts and fixed deposits

A current account supports frequent business payments. A fixed deposit sets aside money for a chosen period. The decision involves access, tenor and return.

Clarification / use this distinction
The source's 15-day minimum is not the domestic term-deposit minimum in the cited RBI direction (seven days). Premature withdrawal is governed by the product and applicable rules; it is not universally prohibited. Higher return than savings is a product comparison, not a guarantee. [R3]

Core reading / capsule pp. 8

Current Deposit Account

Big businessmen, companies, and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on the number of withdrawals from a savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times.

Banks open a current account for them. Like a savings bank account, this account also requires a certain minimum amount of deposit while opening the account. On this deposit, the bank does not pay any interest on the balances. Rather the account holder pays a certain amount each year as an operational charge.

Feature of Time/ Term Deposits

Fixed Deposit Account

Some bank customers may like to put away money for a longer time. Such deposits offer a higher interest rate. If money is deposited in a savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn interest at a higher rate.

Note: This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed.

11 / Recurring deposits and CASA

An RD builds a balance through regular instalments. CASA is the combined current-account and savings-account deposit base; it is not a separate universal account product.

Clarification / use this distinction
The three named RD schemes are source examples, not a list of products every bank must offer. An RD rate is not necessarily lower than a comparable FD rate. CASA is often lower-cost funding; cheapest, largest and rate comparisons depend on the bank and period.

Core reading / capsule pp. 8, 9

Recurring Deposit Account

THREE FACTS AT A GLANCE / LESSON 11

RD: regular instalments	CASA: current plus savings	Funding cost: varies by deposit mix

While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period.

The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.

The Recurring Deposit Accounts may be of the following types:

• Home Safe Account or Money Box Scheme

• Cumulative-cum-Sickness deposit Account

• Home Construction deposit Scheme/Saving Account

CASA Deposit Account:

CASA is the acronym for Current and Savings account, which is commonly used in the banking industry across West Asia and South-East Asia. Banks usually receive the majority of their funds from various kinds of deposit schemes like current accounts, Savings Accounts and term deposits.

CASA deposit is the amount of money that gets deposited in the Current and Savings Accounts of bank customers. The bank pays very low or no interest for deposits in current accounts whereas the deposits in Savings Accounts receives slightly higher interest rates. It is the cheapest and major source of funds for banks. This fund source is in turn used to distribute Home Loans, Personal Loans etc.

12 / Reinvestment and flexi deposits

Reinvestment accumulates interest. A flexi arrangement links transactional access with term-deposit features according to the bank's rules.

Clarification / use this distinction
Two-fold income in the source means earning interest on interest, not a promise to double the principal. Six months to ten years is a quoted product range, not a universal regulatory range.

Core reading / capsule pp. 9

Reinvestment Deposit Account:

This is special term deposits. This plan helps you to earn interest on interest, thus giving you a two-fold income. You deposit your money with us for any period between six months to 10 years, and we pay you interest on your deposited money plus on the interest you earn.

Hybrid deposits or flexi deposits Hybrid deposits or flexi deposits which combine the features of demand and term deposits. These deposits are introduced in recent times by some banks to meet customers' financial needs and convenience and are known by different names in different banks.

THREE FACTS AT A GLANCE / LESSON 12

Year 1: Rs.10,000 earns Rs.600

Year 2: Rs.10,600 earns Rs.636

6% example: Rs.11,236 maturity

Worked example / compound interest

Step	Calculation
Initial deposit	Rs.10,000; illustrative annual rate 6%; annual compounding.
After year 1	10,000 + 600 = Rs.10,600.
After year 2	10,600 + 636 = Rs.11,236.
Interest on interest	Rs.36 = 6% of the first year's Rs.600 interest.

13 / NRE and NRO: compare the right dimensions

Use the original comparison as a topic checklist. The clarification below corrects the oversimplified currency, joint-holder and risk statements.

Clarification / use this distinction
Both NRE and NRO are rupee accounts. Therefore conversion into a foreign currency can expose either balance to exchange-rate changes. NRE may be joint with a resident relative on a former-or-survivor basis; NRO may also be joint with a resident under the prescribed arrangement. NRO eligible balances may be remitted within the USD 1 million annual facility, subject to conditions; current income has separate remittance treatment. Permitted credits are more detailed than foreign income versus Indian income. [R5]

Core reading / capsule pp. 9

Different Between NRE and NRO account

Basis	NRE Account	NRO Account
Acronym	Non Resident External Account	Non Resident Ordinary Account
Meaning	It is an account of an NRI to transfer foreign earnings to India	It is an account of an NRI to manage the income earned in India
Taxability	Interest earned is tax free	Interest earned is taxable
Repatriability	Can repatriate	Can repatriate the interest amount, the principle amount can be repatriated within the set limits
Joint Account	Can be opened by two NRIs	Can be opened by an NRI along with an Indian citizen or another NRI

THREE FACTS AT A GLANCE / LESSON 13

NRE: rupee-denominated balance

NRO: rupee-denominated balance

Both: conversion risk can arise

Basis	NRE Account	NRO Account
Deposits and Withdrawals	Can deposit in foreign currency, and withdraw in Indian currency	Can deposit in foreign as well as Indian currency, and withdraw in Indian currency
Exchange Rate Risk	Prone to risk	Not prone to risk [source wording]. Correction: a rupee NRO balance can face foreign-currency conversion risk.

14 / Merchant banking: connect issuers and investors

Merchant banking supports capital raising and related corporate advice. It differs from accepting an ordinary customer deposit.

Clarification / use this distinction
The SEBI definition centres on issue management and related arrangements/advice. The source combines wider financial-service examples with merchant banking. It does not establish that a merchant-banker registration alone authorises insurance, stockbroking or every other listed activity. Read each activity with its own permission requirements. [R6]

Core reading / capsule pp. 9, 10

Service to Customers and Investors

Merchant Banking: Merchant banking can be defined as a skill-oriented professional service provided by merchant banks to their clients, concerning their financial needs, for adequate consideration, in the form of fee.

Services offered by Merchant Banks

Merchant Banks offers a range of financial and consultancy services, to the

customers, which are related to:

- Marketing and underwriting of the new issue.
- Merger and acquisition related services.
- Advisory services, for raising funds.
- Management of customer security.
- Project promotion and project finance.
- Investment banking
- Portfolio Services
- Insurance Services.

THREE FACTS AT A GLANCE / LESSON 14

Issuer: seeks capital

Merchant banker: arranges issue

Investor: subscribes capital

Merchant banking helps in reinforcing the economic development of the country, by acting as a source of funds and information to the business entities.

Merchant Banker

Any person, indulged in issue management business by making arrangements with respect to trade and subscription of securities or by playing the role of manager/consultant or by providing advisory services, is known as a merchant banker.

The activities carried out by merchant bankers are:

• Private placement of securities.

• Managing public issue of securities

• Satellite dealership of government securities

• Management of international offerings like Depository Receipts, bonds, etc.

• Syndication of rupee term loans

• Stock broking

• International financial advisory services.

• In India, the functions of the merchant bankers are governed by the Securities and Exchange Board of India (SEBI) Regulations, 1992.

15 / Lease finance: use and ownership separate

The lessor provides the use of an asset; the lessee pays the lease rentals. Purchase or renewal at the end depends on the contract.

Clarification / use this distinction

The source paragraph interchanges lessor/lessee in places; follow the corrected flow above. Regular rent is a contractual receivable, not protection from default. Tax benefits depend on law and facts; the sales-tax example is historical, not a current GST conclusion. Leasing is not always the cheapest finance. Fixed rents may expose the lessor to inflation; escalation clauses can change that. Treat non-cancellability and ownership transfer according to the contract.



Leasing: use without ownership
The lessor owns and provides the equipment. The lessee uses it and pays rentals under the agreement.

THREE FACTS AT A GLANCE / LESSON 15

Lessor: owns and provides asset

Lessee: receives use of asset

Rentals: paid by lessee to lessor

Core reading / capsule pp. 10, 11, 12

Lease financing Lease financing is the source of payment which comes when the owner of assets (lesser) ready to provide their assets to another person in exchange of that lessor provides some agreed payment. In this way, the lessor leases the assets for a period of time on rent and lesser gets funds from the lessor. The periodical payment made by the lessee to the lessor is called the lease rental.

Under lease financing, the lessee is given the right to use the asset but the ownership lies with the lessor and at the end of the lease contract, the asset is returned to the lessor or an option is given to the lessee either to purchase the asset or to renew the lease agreement.

Advantages of lease financing

To the Lessor:

• Assured regular income: the lessor get lease rental by leasing an asset during the period of the lease which is an assured regular income.

• The benefit of tax: as ownership lies with the lessor, the tax benefit is enjoyed by the lessor by way of depreciation of respect of the leased asset.

To the lessee:

• Tax benefits: a company is able to enjoy the tax advantage on lease payments as payments can be deducted as a business expense.

• Cheaper: leasing is a source of financing which is cheaper than almost all sources of all the source of financing.

Disadvantages of lease financing

To the Lessor:

• Double taxation: sales tax may be charged twice; first at the time of purchase of assets and second at the time of leasing the asset.

• Unprofitable in case of inflation: lessor gets a fixed amount of lease rental every year and they cannot increase this even if the cost of the asset goes up.

To the Lessee:

• Ownership: the lessee will not become the owner of the asset at the end of lease agreement unless he decides to purchase it.

• Compulsion: finance lease is non-cancellable and even if a company does not want to use the asset, the lessee is required to pay the lease rentals.

THREE FACTS AT A GLANCE / LESSON 15

Lessor: owns and provides asset

Lessee: receives use of asset

Rentals: paid by lessee to lessor

16 / Cards: identify the source of payment

A payment card is an access instrument. Its funding arrangement, acceptance network and authentication method are separate characteristics.

Clarification / use this distinction

Visa and Mastercard are not correctly described today as international non-profit organisations: their public-company transitions occurred in 2008 and 2006 respectively. Debit-card charges depend on the product. The source's PIN/signature split is historical and not an exhaustive account of modern authentication. Its 1970/1981 historical claims are retained as source-era claims pending specialist primary-history confirmation. [R7]



Debit card: spend from the account
The payment uses funds in the linked account. A credit card instead uses the issuer's credit facility.

Core reading / capsule pp. 12, 13

Plastic Money

Plastic money is a term used to represent the hard plastic cards used in day to day life in place of actual banknotes. They come in several forms such as debit cards, credit cards, store cards and pre-paid cash cards. The plastic cards began to be used widely after 1970 when the specific standards were set for a magnetic strip. In 1981, the concept of Credit cards was introduced in India and was on the verge of an exceptional boom.

Today the domestic card industry is applied with different types of cards from gold, silver, global, smart to secure, co-branded credit cards, etc. the list is endless. There is enormous growth potential in the domestic card industry.

Types Of Plastic Money

Charge Card: A charge card has similar features of credit cards. However, after using a charge card, it is necessary to pay the whole amount of bill till the due date. If the person defaults to pay the amount of the charge card, then he has to pay the late payment charges.

Visa & MasterCard: Visa & MasterCard are international non-profit organizations. They are dedicated to promoting the growth of the business of cards across the globe. They have designed a wide network of merchant institutions by keeping in mind that the customers might use their credit cards to make several transactions worldwide.

THREE FACTS AT A GLANCE / LESSON 16

Debit: linked account funds

Credit: issuer credit facility

Charge: full bill normally due

Debit Cards: The debit card is an encoded plastic card which is issued by banks and has replaced with the cheques. It allows the customers to pay in exchange for goods and services without carrying cash. It is a multipurpose card, as it can be used as an ATM to withdraw the money and check the balance of the bank account. It is issued by bank free of cost with the savings or current account. It is one of the best online -payment tools where the amount of purchase is immediately subtracted from the account of the customer and credited to the merchant's account. It has overcome the delay in the payment process.

There are presently two ways in which debit cards transactions are processed:

i)Online debit (also known as a PIN)

ii)Offline debit (also known as signature debit ATM Cards: These cards are typically used at ATMs to withdraw money, transfer funds and make deposits. ATM cards are used by inserting the card into a machine and enter a PIN or personal number for security purpose. The system checks the account for sufficient funds before allowing any transaction.

Instrument	Funding or settlement distinction
Debit card	Payment draws on the linked account.
Credit card	Payment uses the issuer's credit facility; repayment follows terms.
Charge card	Full billed balance normally payable by the due date.
Prepaid card	Spending draws on value loaded in advance.
Network brand	Acceptance/processing network, not itself the funding type.

17 / Remittances: move money between parties

Understand what a system does before memorising its name. Electronic transfers and paper instruments are distinct methods of moving value.

Clarification / use this distinction
Core banking did not make every demand draft or banker's cheque obsolete. RBI instructions expressly cover their presentment. The standard expansion of UPI is Unified Payments Interface. System limits and timings belong in the dedicated payment chapters and must be dated. [R9]

Core reading / capsule pp. 13

Remittance Services

For facilitating funds transfers between two persons, banks were providing services in the form of Demand Drafts (DD), Banker's Cheques (BC)/ Pay Orders (PO), Mail Transfers (MT) and Telegraphic Transfers (TT). With adoption of core banking system for bank operations, these products have become redundant. Transfer products

THREE FACTS AT A GLANCE / LESSON 17

DD: paper transfer instrument

NEFT/RTGS: electronic transfers

UPI: Unified Payments Interface

have become technology as stated below:

- National Electronic Funds Transfer (NEFT)
- Real Time Gross Settlement (RTGS)
- Immediate Payment Service (IMPS)
- Unified Payment Interface (UPI) Transfers
- Aadhaar Enabled Payment System (AePS)
- National Automated Clearing House (NACH)

18 / Government and public-purpose products

Learn each name and its broad purpose. Distribution through a bank does not mean every item is a bank deposit, available continuously or offered by every branch.

Clarification / use this distinction
This is a source-era catalogue, not a current subscription list. Government discontinued new medium/long-term GMS deposits from 26 March 2025; existing deposits continue under their terms, and short-term bank deposits may continue at individual banks' discretion. PMVVY and SGB availability must be established from the relevant issue/closure notice before treating them as open offers. Nominated agency for gold imports is an agency role, not a retail savings scheme. [R10]

Core reading / capsule pp. 13

Government Schemes

Banks also serve as the distribution points for several Government Schemes that are aimed at financial inclusion and also providing safe avenues of investment to the common man. Some of the prominent schemes are mentioned below. These products provide commission income to banks, apart from facilitating them to cater to various needs of their customers under one roof.

- Public Provident Fund (PPF)
- National Pension Scheme (NPS)
- Capital Gains Account Scheme 1988 (CGAS)
- Senior Citizens Savings Scheme (SCSS)
- Sukanya Samriddhi Account Scheme, 2019
- RBI Bonds
- Gold Monetisation Scheme, 2015
- Sovereign Gold Bond Scheme (SGB)
- Nominated Agency for Gold Imports

THREE FACTS AT A GLANCE / LESSON 18

PPF: public saving product

APY/NPS: pension arrangements

Gold import agency: bank role

- Atal Pension Yojana
- Pradhan Mantri Vaya Vandana Yojana (PMVVY)
- Pradhan Mantri Suraksha Bima

19 / Third-party products: one relationship, several providers

A demat account holds securities; a trading account enables trades; the linked bank account moves cash. A three-in-one arrangement connects these functions.

Clarification / use this distinction

A bank distributing an insurance policy or mutual fund does not convert it into a deposit or guarantee its return. Identify the issuer, service provider and risk. The original source's Mutal Funds spelling is retained only in its source text.



Three accounts, three functions
Demat holds securities; trading executes transactions; the bank account settles money. The picture shows their connection, not a promise of returns.

Core reading / capsule pp. 13, 14

Third Party Products Sale

With a view to providing one-stop-services to their customers, banks have tapped the opportunity made available through regulatory relaxations for banks to sell third party financial products pertaining mainly to the capital market and insurance sectors. For banks, it is an additional source of revenue. Customers, get financial services at one place. For capital market and insurance sector, it adds to their depth.

Some of the major third party products are:

- Demat Accounts: Tie-up with a Depository Participant (DP). Some banks register as a DP.
- Trading Account: Tie-up with a Stock Broker.
- Three-in-One Account: Linked Demat Account - Trading Account - Savings/ Current Account.
- Mutal Funds: Tie-up with various mutual fund companies.
- Life Insurance Policy: Tie-up with a life insurance company.
- Health Insurance Policy: Tie-up with a health insurance company.
- Vehicle Insurance, House Insurance, etc.: Tie-up with a general insurance company.

THREE FACTS AT A GLANCE / LESSON 19

Demat: holds securities	Trading: executes trades	Bank account: moves settlement cash

20 / Custody, escrow, trusts and executorship

Escrow controls release until agreed conditions are met. Trusteeship concerns assets or funds held for beneficiaries. Executorship concerns administration under a will.

Clarification / use this distinction

Do not merge custody, locker hire, escrow and trusteeship into one relationship. The transaction and legal arrangement decide the duties. Compare the roles before answering a case question.

Core reading / capsule pp. 14

Safe Custody or Trusteeship Services

Banks and bankers enjoy tremendous public trust. Banks have therefore offered certain services that leverages on this public confidence. Certain services that banks

provide in this context are as follows:

• Safe Custody of articles, documents, etc.: Valuable articles/ documents are left in the custody of banks for safekeeping.

• Hiring out safe deposit lockers: Banks hire out safe deposit lockers for safe keeping of valuables (ornaments, gold, documents, etc).

• Escrow account: Such accounts are used when a party wants to exercise some control on the use of the funds received in the account in the name of another party.

• Escrow services for document: There are situations when certain parties to a transaction want to have joint control of a document until certain conditions are fulfilled.

• Trusteeship: Banks offer trusteeship services for handling of certain funds or assets.

• Executorship: Banks offer the services of executorship for the wills made by their customers.

THREE FACTS AT A GLANCE / LESSON 20

Custody: safeguards articles

Escrow: conditional release

Executor: administers under will

Reference desk and dated notes

References checked on 27 October 2026. This page makes the evidence limits visible; an older official document is not described as a complete 2026 consolidation.

R1 / Banking Regulation Act: sections 5-7 and 22
Official statutory text; relevant definitions and licensing provisions

R2 / Indian Contract Act: sections 71, 124, 148, 151, 163, 164, 172 and 182
Official section index retrieved; complete consolidated text fetch needs retry before publication

R3 / RBI deposit directions hosted by IIBF; paragraphs 7 and 11
Historical primary direction supports corrections; latest 2026 consolidated text needs final revalidation

R4 / Limitation Act, Schedule Article 22
Official indexed provision; deposit-specific application requires care

R5 / RBI: Accounts in India by Non-residents, January 2025
Joint holders, denomination, credits and repatriation; exchange-risk conclusion is an inference from rupee denomination

R6 / SEBI Merchant Bankers Regulations: issue-management definition
Primary definition; latest amendment check remains a publication gate

R7 / Visa public-company announcement, March 2008
Primary corporate history

R7b / Mastercard 2006 annual report
Primary annual report confirms May 2006 IPO

R8 / Bank of India locker and safe-custody policy
Primary bank policy; conventional lessor/lessee description

R9 / RBI: presentment of cheques, drafts and banker cheques
Primary direction; do not equate digitisation with universal obsolescence

R10 / Ministry of Finance: GMS change effective 26 March 2025
Primary dated scheme-status change

Items retained with explicit qualification

Source statement	Treatment in this demo
AIR 1962 Ker. 210 / Rs.2,000 case	Source-cited illustration retained; original judgment check pending.
1970/1981 card-history dates	Retained as source-era historical claims; not in final recall facts.
Lease tax claims and old sales-tax example	Historical/product-dependent; no current tax-benefit promise.
PMVVY/SGB and the broad scheme list	Catalogue retained; not presented as a list of open offers.
Latest deposit/merchant-banker consolidation	Historical primary support shown; final 2026 consolidation check pending.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes customer

Loan: customer owes bank

Collection: bank acts as agent

Practice / test the distinction

Eight original questions. These are learning questions, not claimed previous examination questions.

Q01 / A customer deposits Rs.40,000 into a savings account. Who is the debtor?

A. The customer	B. The bank
C. Both are trustees	D. The card network

Answer B / The bank owes repayment of the deposit; the depositor has the claim.

Q02 / A borrower delivers gold to secure a loan. What is the bank's role?

A. Pawnor	B. Pawnee
C. Lessee	D. Beneficiary in every case

Answer B / The borrower giving the pledged goods is pawnor/pledgor; the bank taking them as security is pawnee/pledgee.

Q03 / The bank collects a dividend under the customer's instruction. Which relationship applies?

A. Lessor-lessee	B. Bank-agent; customer-principal
C. Bank-bailor; customer-bailee	D. Bank-debtor in every stage

Answer B / The bank is carrying out the customer's authorised instruction as agent.

Q04 / Which statement about an NRO rupee balance is most accurate?

A. It cannot face currency-conversion risk	B. It is a foreign-currency deposit
C. Its foreign-currency value can change with exchange rates	D. It is always freely repatriable without conditions

Answer C / NRO is rupee-denominated. Conversion into another currency exposes its foreign-currency value to exchange movements.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes customer

Loan: customer owes bank

Collection: bank acts as agent

Q05 / A reinvestment deposit earns 6% annually for two years on Rs.10,000, compounded annually. Ignore taxes. What is the maturity value?

A. Rs.10,600	B. Rs.11,200
C. Rs.11,236	D. Rs.12,000

Answer C / 10,000 x 1.06 x 1.06 = 11,236. Year-two interest includes Rs.36 on the first year's Rs.600 interest.

Q06 / A business uses equipment owned by another party and pays rentals. What is it?

A. Lessee	B. Lessor
C. Pawnor automatically	D. Banking regulator

Answer A / The lessee receives the right to use; the lessor owns and provides the asset, subject to the contract.

Q07 / Which description best fits a three-in-one account?

A. Three savings accounts	B. Linked demat, trading and bank accounts
C. Three insurance policies	D. NRE, NRO and FCNR always merged

Answer B / The three functions are securities holding, securities trading and money settlement.

Q08 / Which comparison is correct?

A. A debit card always creates a term loan	B. A charge card normally requires full payment of the billed amount by the due date
C. Visa is a type of savings deposit	D. A locker is necessarily a trust of its contents

Answer B / Charge-card settlement is distinguished from revolving credit. The other options confuse instrument, product and legal relationship.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes customer

Loan: customer owes bank

Collection: bank acts as agent

Quick facts / the second-source layer

Murugan Unit 12, pp15-16: all nine numbered facts are represented below. Wording is corrected or clarified where the original could mislead.

Source item	Exam-ready one-liner
01	A banking company requires the applicable legal constitution and RBI licensing; the ten-partner sentence is not a current licensing shortcut.
02	When a customer deposits money, the customer is creditor and the bank is debtor.
03	When the bank lends money, the bank is creditor and the customer is debtor.
04	In safe custody, customer = bailor and bank = bailee; trusteeship is a separate, fact-dependent obligation.
05	When a bank collects or remits on the customer's behalf as agent, customer = principal and bank = agent.
06	In the conventional locker-hire description, customer = lessee and bank = lessor.
07	The indemnifier promises to protect the indemnity-holder against the loss specified in the contract.
08	Merchant banking connects issuers seeking capital with investors through issue management and related services.
09	In lease financing, the owner lets another party use an asset in exchange for rentals under the lease.

Related quick facts

Selected related items from Units 17 and 25 reinforce this chapter. Their detailed service and lending material remains assigned to A15 and B14; this does not mark those units fully covered.

Source location	Recall point
U17 opening, pp21-22	Banks mobilise funds and deploy them through loans/investments; ancillary services supplement these core activities.
U17 item 1, p21	Funds transfer can use paper instruments or electronic channels; digitisation does not abolish every paper instrument.
U17 item 2, p21	Forex services require the relevant authorisation and must follow permitted-purpose and other applicable rules.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes customer

Loan: customer owes bank

Collection: bank acts as agent

Source location	Recall point
U17 item 3, p21	Locker hire and safe custody are distinct arrangements; identify the actual service before assigning the legal role.
U17 item 4, p21	The source lists gold sales as a selected-bank service; do not assume every branch offers every gold product.
U17 item 5, pp21-22	A portfolio is a collection of investments; portfolio management differs from choosing a standalone investment.
U17 item 6, p22	Bank-distributed insurance is an insurance product; the insurer and policy terms determine the cover.
U17 item 7, p22	Debit and credit cards are payment instruments with different funding arrangements.
U17 item 8, p22	Internet banking can support transfers, deposits and online payments; protect credentials and follow authorisation controls.
U25 opening, p28	A credit-card facility permits purchases against credit extended by the issuer, subject to its terms and limit.
U25 parties, p29	Issuer serves the cardholder; acquirer serves the merchant; the transaction network links the payment participants.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes customer

Loan: customer owes bank

Collection: bank acts as agent

28 facts / final recall

01-14 / relationships and deposits	15-28 / products and services
01. Banking: Accept public deposits for lending/investment, repayable on demand or otherwise.	15. Term deposit: Repayment terms depend on agreed tenor and applicable withdrawal rules.
02. Legal authority: A banking company needs the applicable RBI licence; a name alone is insufficient.	16. Recurring deposit: Periodic instalments accumulate towards maturity under the scheme.
03. Deposit: Bank = debtor; customer = creditor.	17. CASA: Current-account plus savings-account deposits.
04. Loan: Bank = creditor; customer = debtor.	18. Reinvestment: Interest is capitalised so that it can itself earn interest.
05. Safe custody: Bank = bailee; customer = bailor for goods delivered for safekeeping.	19. Flexi deposit: Combines demand access and term-deposit features under bank rules.
06. Trust: A trust depends on its purpose and obligations; ordinary deposits are debts.	20. NRE / NRO: Both are rupee accounts; foreign-currency conversion can change their value.
07. Agency: Bank = agent when acting on the customer-principal's instructions.	21. Merchant banking: Issue management and associated capital-raising services.
08. Locker: Conventional description: bank-lessor; customer-lessee.	22. Lease: Lessor provides the asset; lessee uses it and pays rentals.
09. Indemnity: The indemnifier promises protection against the specified loss.	23. Debit card: Uses funds in the linked account, subject to the facility terms.
10. Pledge: Bank = pawnee/pledgee; customer giving goods = pawnor/pledgor.	24. Charge card: Normally requires full payment of the billed balance by the due date.
11. Mortgage: Bank taking mortgage = mortgagee; customer creating it = mortgagor.	25. Card network: A network brand is different from the issuing bank and funding product.
12. Hypothecation: Bank = hypothecatee; customer creating the charge = hypothecator.	26. Three-in-one: Demat holds securities; trading executes trades; bank account settles cash.
13. Bailment sections: 148: bailment; 151: care; 163: increase/profit; 164: bailor responsibility.	27. Escrow: Release or use of money/documents follows agreed conditions.
14. Demand deposit: Repayable on demand; savings and current accounts are key examples.	28. Executorship: Administration under a will; distinguish it from ordinary custody.

THREE FACTS AT A GLANCE / RELATIONSHIPS

Deposit: bank owes customer

Loan: customer owes bank

Collection: bank acts as agent

A02 / AML-KYC Guidelines

Know the customer. Understand the transaction. Report the concern.

Study route	Learning task
Read	Learn the concept and compare the source with the correction.
Apply	Use the cartoon cases, comparisons and questions.
Recall	Finish with quick facts and 28 final recall points.

Source reading is preserved for coverage. Clarification panels distinguish corrected or dated claims. Prepared 27 October 2026; general-purpose reference edition with dated regulatory checks.

01 / What money laundering means

The law focuses on proceeds of crime and involvement in processes connected with them. The classroom three-stage model is a learning aid, not a checklist of ingredients that must all be proved.

Clarification / exam distinction
The capsule quotes older Section 3 wording. The current text includes concealment, possession, acquisition, use, projecting and claiming as untainted, and its explanation covers involvement in one or more listed activities. [R1]

Concept	What it means
Law	Section 3: offence
Learning model	Placement, layering, integration

Core reading / capsule pp. 14, 15

PPB Module A, Unit 2 KYC and AML Guidelines

Anti- Money Laundering (PMLA Act 2002)

The offence of money laundering has been defined in Section 3 of the Prevention of Money Laundering Act,2002 (PMLA) as “whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering”.

02 / Three stages: follow the purpose

Learn the purpose of each stage. Placement introduces criminal proceeds; layering obscures the trail; integration presents the proceeds as part of ordinary economic activity.

Clarification / exam distinction
The source says audit trial; read audit trail. These stages may overlap. Understanding the model helps detect warning signs; it does not establish guilt by itself.



Review the alert

A warning sign calls for examination; it is not by itself proof of money laundering.

Concept	What it means
Placement	Entry of proceeds
Layering	Obscuring origin and trail
Integration	Appearance of legitimate funds

Core reading / capsule pp. 15

Stages of Money laundering

• Placement: Placement is the first stage in the money laundering process. It refers to the physical disposal of proceeds of criminal activity.

• Layering: “Layering” refers to the separation of illicit proceeds from their sources by creating complex layers of financial transactions. Layering conceals the audit trial and provides anonymity.

• Integration: The third phase is integration, which means placing laundered proceeds into the legitimate economy as normal funds.

03 / Terrorist financing and prevention

The source uses a four-stage cycle: raising, moving, storing and using. AML/CFT measures protect the financial system and restrict access to resources for criminal activity.

Clarification / exam distinction
A transaction can warrant examination even when it is not cash or is of low value. Apply the legal suspicion criteria, not assumptions about a person or community. [R2]

Concept	What it means
Raise	Obtain resources
Move	Transfer resources
Store	Hold resources
Use	Apply resources

Core reading / capsule pp. 15

Stages of Financing of Terrorism

There are numerous terrorist outfits, in the world. These have financial cycles similar to commercial entities, and use banks and financial institutions. Financing of Terrorism

comprises following stages:

• Raising

• Moving

• Storing

• Using

Objectives of Prevention of Money Laundering

The main objectives of measures for prevention of money laundering are:

• To prevent criminal elements from using the financial system for money laundering activities.

• To prevent spread of criminal activities in society.

• To safeguard the economy from financial crimes.

• To prevent terrorists from gaining access to financial resources.

04 / Offence and punishment

Keep the sections separate: offence, punishment and bail classification answer different exam questions.

Clarification / exam distinction
Section 4 provides rigorous imprisonment of 3-7 years and fine; the statutory exception for offences in paragraph 2 of Part A of the Schedule permits up to 10 years. Non-bailable does not mean that a court can never grant bail. Read Section 45 conditions and exceptions. [R1]

Concept	What it means
Section 3	Offence
Section 4	Punishment
Section 45	Cognizable and non-bailable; statutory conditions

Core reading / capsule pp. 15

Money Laundering Offence

The offence of money laundering has been defined in Sec. 3 of the PMLA as:

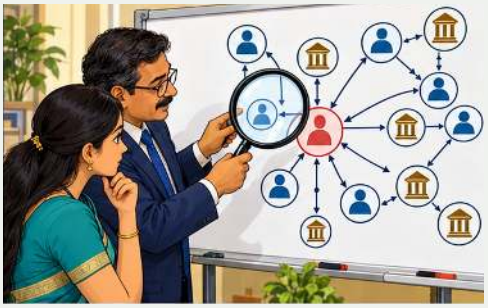
• Sec. 45 of PMLA stipulates that all offences under the PMLA are to be deemed to be cognizable and non-bailable offences.

• Sec. 4 of PMLA stipulates the punishment for money laundering offence, which is rigorous imprisonment for not less than 3 years but up to 7 years and fine as per the gravity of the offence. In cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act the imprisonment may extend up to maximum 10 years.

05 / Risk: customer, product and context

Risk assessment considers the customer together with products, geography, channels and transaction behaviour. A single factor does not replace a documented assessment.

Clarification / exam distinction
Do not read the phrase primary source as saying only customers create risk. Controls, channels and geographic exposure matter too. Identification, monitoring, reporting and training work together. [R3]



Understand the trail

Compare actual transactions with the customer profile and expected purpose.

Concept	What it means
Know	Identity and expected dealings
Monitor	Actual behaviour against profile
Escalate	Assess and report concern

Core reading / capsule pp. 15, 16

Money Laundering – Risk Perception

Financial products and services are designed to provide quick, convenient and efficient modes for dealing with funds for different purposes. These are abused by the criminals for money laundering and financing of terrorism, by disguising or misrepresenting their true identities, profiles and purposes.

Thus the primary source of ML/FT risks is the customers. These are also affected

by:

• Nature of products and services

• Country of incorporation of the bank

• Place of the bank branch

• Place(s) with which the transaction is connected.

• Nature and value of transaction

Measures to Mitigate Money Laundering Risk

The obligations under PMLA require the banks to mitigate ML/FT risks. Banks are

required to take appropriate measures for the following purposes:

• To know/understand the customers and their financial dealings better.

• To detect and report suspicious activities to FIU-Ind as per the laid down procedures.

• To comply with applicable laws and regulatory guidelines.

• To adequately train the staff in KYC/AML procedures. These make it difficult for

criminals to abuse banks for ML/FT

06 / Who counts as a customer?

KYC reaches beyond a long-standing account holder. It can include a one-off service user, a person acting for another and the persons ultimately behind an entity.

Clarification / exam distinction
An old-style introduction is not a substitute for required customer identification and due diligence. Identify the client, authorised person and beneficial owner as applicable. [R1, R3]



Know the person

Identify the customer and the persons acting for, owning or controlling an entity.

Concept	What it means
Account holder	Ongoing relationship
Walk-in user	One-off transaction or service
Beneficial owner	Person ultimately owning or controlling

Core reading / capsule pp. 16, 17

Know Your Customer Policy

Prior to the introduction of “Know Your Customer (KYC)” guidelines by the RBI in 2002, the banking practice was to obtain introduction for a new customer from an existing account holder of satisfactory standing and for certain period or from a staff member who knows the customer properly.

‘Customer’ Definition: KYC Norms Sec. 2(ha) of the PMLA defines customer as ‘client’ as follows: ‘“client” means a person who is engaged in a financial transaction or activity with a reporting entity and includes a person on whose behalf the person who engaged in the transaction or activity, is acting;’ This definition has been adopted by RBI in Master Direction - Know Your Customer (KYC) Direction, 2016 for defining ‘Customer’.

A ‘customer’ from KYC norms perspective differs in from the traditional meaning

of ‘customer’:

(i) It includes not just the person in whose name the dealings are carried out with the bank, but also those who actually act for such person.

(ii) It covers not only the account holders and those having continued relationship, but also those who avail of any service on one-off basis.

For the purpose of KYC requirements, a bank needs to include a wide range of persons availing various services, like:

- A bank account including fixed deposits
- Credit facilities (fund-based or non-fund based)
- Remittance facility on stand-alone basis even once or multiple times
- Demat account (Bank is a Depository Participant)
- PPF Account Or Pension Fund Account
- Third party product (e.g. insurance, mutual fund)
- Safe custody services or safe deposit locker services
- Receiving remittances for payouts

Besides, the following persons are also considered 'customer':

- In case of entities availing services – their beneficial owners
- In case of accounts maintained by Professional Intermediaries for their clients – beneficiaries of the transactions

07 / Risk-based governance

A risk-based approach aligns the strength of controls with assessed risk. Management oversight, independent review, technology assessment and staff training make the policy operational.

Clarification / exam distinction
High, medium and low are risk categories, not verdicts about criminality. Avoid denying access merely because a customer falls into a broad group; apply the rules and documented assessment. [R3]



Train and review

Staff training, management oversight and independent audit support effective controls.

Concept	What it means
Board / management	Approve and oversee policy
Operations	Apply controls and escalate
Internal audit	Independently evaluate compliance

Core reading / capsule pp. 17

Risk Management

• Risk Based Approach: Banks shall apply a Risk Based Approach (RBA) for

mitigation and management of the identified risk and should have Board

approved policies, controls and procedures in this regard.

• Risk Assessment: Banks should undertake assessment of and take effective measures to mitigate the ML/TF risks from customers, products/ services, regions/ countries where its offices are located, delivery channels, and the

transactions undertaken by their customers. This exercise should be

proportionate to the nature, size, geographical presence, complexity of

activities/ structure, etc.

• Customer Risk: Categorisation Customers are classified into three risk categories namely high, medium and low, based on the risk perception of the bank. Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc.

• Role of Other Functions For effective risk management, an appropriate framework covering proper management oversight, systems, controls and other

related matters is required. The bank's internal audit team undertakes

independent evaluation of the compliance with KYC/ AML Policy, including legal and regulatory requirements.

• Introduction of New Technologies: Continuing development of Information

and Communication Technology leads to new technology based products, like

Smart Cards/Mobile Wallet/ Net Banking/ Mobile Banking/RTGS/ NEFT/IMPS

etc.

• Staff Hiring and Training: Bank staff, are potentially of high inherent risk by virtue of their access to the bank's systems, their role in conducting the bank's business and the powers exercised by them.

08 / FATF: the international standard setter

The source describes the 2012 revision of the FATF Recommendations. It connects risk-based controls, ownership transparency, international cooperation and sanctions relating to proliferation financing.

Clarification / exam distinction
16 February 2012 is the adoption date of the revised Recommendations, not the date of their last amendment. FATF standards and Indian legal implementation must be distinguished, including their PEP wording. [R4, R3]



International context

Review geographic risk, the applicable statement and the bank's cross-border controls.

Concept	What it means
FATF	International standards
Indian law and regulator	Domestic implementation
Bank policy	Operational controls

Core reading / capsule pp. 17, 18

FATF (The Financial Action Task Force)

FATF Issues Revised Recommendations

The FATF Recommendations are the international standards set by the FATF to combat money laundering, terrorist financing, and more recently, the financing of proliferation.

They cover the comprehensive set of measures that countries should have in place within their criminal justice and regulatory systems; the preventive measures to be taken by financial institutions and other businesses and professions; measures to ensure transparency on the ownership of legal persons and arrangements; the establishment of competent authorities with appropriate functions, and powers and mechanism for cooperation; and arrangements to cooperate with other countries.

On Feb. 16, 2012, the FATF issued revised Recommendations. A number of significant and important changes have been made to the FATF Recommendations. These have

strengthened the standards in the following key areas:

• The risk-based approach to implementing AML/CFT measures has been clarified and more fully elaborated within the Standards. This would allow countries to adopt an effective and appropriate response commensurate to the risks.

• The requirements to ensure timely access to adequate and accurate information

on the beneficial ownership of legal persons and arrangements have been

strengthened and clarified.

• Tax offenses have been made predicate offenses for money laundering.

• The powers and responsibilities of law enforcement and the FIU has been elaborated and the scope for international cooperation strengthened.

• The definition of politically exposed persons (PEPs) has been broadened to include domestic PEPs and PEPs from international organizations.

• The scope for financial group (or consolidated) supervision has been elaborated and enhanced.

• The transparency of wire transfers has been enhanced.

• A new standard has been added concerning the implementation of targeted financial sanctions related to the proliferation of weapons of mass destruction.

09 / Jurisdictions: read the applicable statement

Country risk needs an up-to-date assessment. Read the relevant statement, the transaction purpose and applicable restrictions rather than relying on a memorised country list.

Clarification / exam distinction
FATF describes its two public lists as issued three times a year; the source once every four months is only an approximation. Increased monitoring differs from a call for action. Follow applicable enhanced due diligence, countermeasures and sanctions; the source is not blanket permission for every transaction. [R5, R3]

Concept	What it means
Increased monitoring	Read identified deficiencies and commitments
Call for action	Apply the specified response
Transaction review	Document purpose and findings

Core reading / capsule pp. 18

FATF Identified Jurisdictions

FATF issues Statements of countries that do not or insufficiently apply the FATF Recommendations, once in every four months. Banks should take into account risks arising from the deficiencies in AML/ CFT regime of the jurisdictions included in the

FATF Statement. Specifically following measures need to be taken:

• Special attention shall be given to business relationships and transactions with persons (including legal persons and other financial institutions) from or in these countries. However, banks are not prohibited from having legitimate trade and business transactions with these countries.

• The background and purpose of transactions with persons (including legal

persons and other financial institutions) from these countries should be

examined, and written findings together with all documents should be retained and should be made available to RBI/other relevant authorities, on request.

10 / Correspondent banking

A correspondent provides banking services to another bank, the respondent. This supports international payments but creates exposure to the respondent and the controls around its customers.

Clarification / exam distinction
Do not establish a correspondent relationship with a shell bank, or permit the respondent to provide shell banks access through the account. Assess business, supervision and AML/CFT controls before and during the relationship. [R3]

Concept	What it means
Correspondent	Provides services to another bank
Respondent	Uses correspondent services
Shell bank	Prohibited correspondent relationship

Core reading / capsule pp. 18, 19

Correspondent Banks

Correspondent banking can be defined, in general terms as an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks. Correspondent banking is the lifeline of global financial transactions and hence crucial for international trade, travel and tourism. At the same time it also has inherent in its activity and nature risk of abuse by criminals for money laundering and terrorism financing. Due to different level and nature of AML/ CFT regimes in various countries correspondent banks are exposed to the ML/FT risks to each other. Banks are therefore required to follow certain norms in establishing and maintaining ‘correspondent relationships’.

• Banks should have a Policy for establishing correspondent relationships.

• The Policy should spell out the conditions for establishing such relationships.

• Due Diligence of the correspondent banks should include information on the nature of business of the bank, management, major business activities, level of AML/CFT compliance, purpose of opening the account, identity of any third party

entities that will use the correspondent banking services, and

regulatory/supervisory framework in the bank’s home country.

• No correspondent relationship should be established with a shell bank. Also, to ensure that the respondent bank do not allow the account to be used by shell banks.

• Banks shall be cautious with correspondent banks located in jurisdictions which

have strategic deficiencies or have not made sufficient progress in

implementation of FATF Recommendations.

11 / FATCA and CRS: a different reporting purpose

FATCA and CRS concern tax information on reportable accounts. They do not replace suspicious-transaction reporting to FIU-IND. Apply reportable-person and due-diligence rules; nationality alone is not the full test.

Clarification / exam distinction
Dated update: the Income Tax Department publishes Rules 238-240 and Form 166 under the 2026 framework; Rule 239(9) states 31 May following the calendar year. Older materials refer to Rules 114F-114H/Form 61B. Use the framework applicable to the reporting period. [R6, R7]

Concept	What it means
AML reporting	FIU-IND: prescribed transactions and suspicion
FATCA/CRS	Tax authority: reportable accounts
Do not confuse	Different purpose, criteria and reporting route

Core reading / capsule pp. 19

Reporting Under FATCA/CRS

• The Foreign Account Tax Compliance Act (FATCA) is tax information reporting regime, which requires Financial Institutions (FIs) to identify their U.S.

accounts through enhanced due diligence reviews and report them periodically to the U.S. Internal Revenue Service (IRS) or in case of Inter-Governmental agreement(IGA), to appropriate government authority.

• Income Tax Rules require banks and financial institutions to submit prescribed reports to the Income Tax Dept. in respect of the accounts of such customers who are taxable in the USA (for FATCA) and any other foreign country (for CRS).

12 / Monthly reports: read the threshold exactly

The capsule reporting table is an image. It is rebuilt below with all its original cells, followed by the legal distinctions that matter in an exam.

Clarification / exam distinction
Correct CTR threshold: more than Rs.10 lakh. For an integrally connected series, individual cash transactions are below Rs.10 lakh and the monthly aggregate exceeds Rs.10 lakh. Monthly prescribed reports are due by the 15th of the succeeding month. The source CCR cell is shorthand for the fuller counterfeit/forgery rule. [R2]

Concept	What it means
CTR	More than Rs.10 lakh; linked-series rule also applies
CBWTR	More than Rs.5 lakh; origin or destination in India
NTR	NPO receipts more than Rs.10 lakh
CCR	Qualifying counterfeit/forgery transactions

Core reading / capsule pp. 19

Reporting Obligations

Banks are required to furnish to FIU-IND reports pertaining to transactions of prescribed type and value at prescribed frequency.

(a)Monthly Reports Following four reports are required to be submitted for each calendar month by the 15thof the following month.

Original source table / read with the correction above

S.No.	Report	Nature of Transactions
1	Cash Transactions Report (CTR)	(a) Cash transactions of Rs.10 lakh or more or equivalent (b) Series of cash transactions in a month integrally connected to each other (i.e. all deposits or all withdrawals taken separately) aggregating Rs.10 lakh or more or equivalent [source wording]. Correct rule: more than Rs.10 lakh; the connected-series rule uses monthly aggregate exceeding Rs.10 lakh.
2	Cross Border Wire Transfer Report (CBWTR)	Cross border wire transfers of more than Rs.5 lakh or equivalent where either the origin or destination of fund is in India
3	Non-Profit Organisation Report (NTR)	Receipts by non-profit organisations of more than Rs.10 lakh or equivalent
4	Counterfeit Currency Report (CCR)	All counterfeit currency notes received [source wording]. Read the full Rule 3 counterfeit/forgery category; this source cell is shorthand.

13 / Suspicious transactions: amount is not the test

The reporting decision concerns a reasoned suspicion, not proof of a completed crime. Review the purpose and circumstances, document the conclusion and follow the reporting process.

Clarification / exam distinction
The source says within 7 days. FIU-IND specifies promptly and not later than seven working days after being satisfied that a transaction is suspicious. Attempted transactions and non-cash transactions are included; suspicion is not subject to a minimum monetary threshold. Preserve confidentiality. [R2, R8, R3]



Keep reporting confidential

Escalate through the prescribed process. Do not disclose an STR to the customer.

Concept	What it means
Complexity	Unusual or unjustified structure

Concept	What it means
Purpose	No apparent economic rationale
Crime / terrorism	Reasonable grounds for suspicion

Core reading / capsule pp. 20

(b)Suspicious Transactions Report (STR) Banks are required to report to FIU-IND any suspicious transaction noticed by them, within 7 days of establishing suspicion. This is the key report for FIU-IND to enable it to provide useful intelligence to the law enforcement agencies. A transaction is considered as suspicious if to a person acting in

good faith, it appears to satisfy any of the following:

• A reasonable doubt that it may involve proceeds of an offence specified in the Schedule to PMLA, i.e. likely to be for money laundering.

• Appears to be made in circumstances of unusual or unjustified complexity.

• Appears to have no economic rationale or bonafide purpose.

• A reasonable doubt that it may involve financing of the activities relating to terrorism.

Practice / answer and explanation

Q01 / Which stage is associated with obscuring the connection between funds and their source?

A. Placement	B. Layering
C. Integration	D. Customer acceptance

Answer B / Layering describes transactions intended to obscure the trail. The stages are a learning model, not a substitute for the legal definition.

Q02 / A suspicious attempted non-cash transaction is below Rs.10 lakh. What is correct?

A. Never report it	B. Report only after it succeeds
C. Assess it for STR regardless of amount	D. Include it only in CTR

Answer C / Suspicious transactions include attempts and non-cash transactions. There is no minimum amount for the suspicion test.

Q03 / What is the FIU-IND outer time limit for an STR once the reporting entity is satisfied that a transaction is suspicious?

A. Seven calendar days	B. Seven working days
C. 15th of next month	D. 31 May

Answer B / The obligation is to report promptly and no later than seven working days; do not automatically wait for the deadline.

Q04 / A standalone cash transaction is exactly Rs.10 lakh. Which statement is precise?

A. It exceeds the Rule 3 cash threshold	B. It is automatically suspicious
C. It does not exceed that threshold; other triggers still need checking	D. It needs no review of any kind

Answer C / The threshold is more than Rs.10 lakh. Linked transactions, suspicion and other reporting requirements must still be considered.

Q05 / Which relationship is prohibited?

A. Correspondent with any foreign bank	B. Correspondent with a shell bank
C. Domestic payment clearing	D. A documented respondent review

Answer B / The rule bars shell-bank correspondent relationships and indirect shell-bank access through respondent accounts.

Q06 / Which pairing is correct?

A. FATCA/CRS - suspicious transaction report	B. FIU-IND - prescribed AML transaction reporting
C. FATF - customer deposit insurance	D. Internal audit - customer tax residency certificate

Answer B / FIU-IND receives prescribed AML reports. FATCA/CRS concern reportable-account tax information.

Quick facts / source-aware revision

No dedicated AML-KYC chapter was found in the Murugan notes. The KYC-relaxation line in Unit 34, p39, is routed to operational KYC/financial inclusion. The quick facts here are drawn from this capsule chapter and the cited primary corrections; none is falsely attributed to Murugan.

Cue	One-line revision
Placement	Entry of criminal proceeds into the financial system.
Layering	Transactions obscure the origin or audit trail.
Integration	Proceeds appear in ordinary economic activity.
Risk categories	High, medium and low; category alone is not proof of wrongdoing.
FATF date	16 February 2012 is the adoption date; later revisions exist.
Shell banks	No correspondent relationship or indirect access through respondent accounts.
Monthly deadline	15th of the succeeding month for the specified monthly reports.
STR deadline	Promptly, not later than seven working days after satisfaction of suspicion.
Attempted transaction	Included in the suspicious-transaction definition.
CTR threshold	More than Rs.10 lakh, with a separate connected-series rule.
CBWTR threshold	More than Rs.5 lakh with Indian origin or destination.
Reporting routes	FIU-IND AML reports differ from FATCA/CRS tax reporting.

Reference desk / verification

Primary sources inspected on 27 October 2026. The retrieved RBI consolidation displays its own update date. Use the effective rule for the relevant transaction or reporting period.

R1 / India Code: PMLA, sections 2, 3, 4 and 45
Official text retrieved; offence wording, punishment and bail classification checked.

R2 / FIU-IND: PML Maintenance of Records Rules
Rules 2 and 3: suspicion, attempts and reportable transaction categories.

R3 / RBI: KYC Master Direction, updated 14 August 2025
Retrieved consolidated page; customer scope, risk management and correspondent controls. This is the displayed version, not an assertion that no later circular exists.

R4 / FATF Recommendations
2012 adoption and subsequent updates; international standards.

R5 / FATF: monitored jurisdictions
Two public documents issued three times a year; no undated country list reproduced.

R6 / Income Tax Department: Rule 239
2026 framework: Form 166 and annual deadline in subrule 9.

R7 / Income Tax Department: Rule 240
Due diligence for identifying reportable accounts.

R8 / FIU-IND FAQs
Monthly 15th deadline and STR seven-working-day limit.

Coverage and edition note

This chapter covers 207 nonblank source text lines and 1 source image table(s). Educational source text is retained, while explanatory tables, cartoons and questions are newly authored. Text retention does not by itself certify every source claim. The final recall page uses the stated corrections.

28 facts / final recall

01-14 / foundations	15-28 / application
01. AML: Anti-money laundering.	15. Risk categories: High, medium and low.
02. CFT: Countering the financing of terrorism.	16. Risk dimensions: Customer, product, geography, channel and transaction.
03. PMLA Section 3: Defines the offence of money laundering.	17. Internal audit: Independent evaluation of compliance.
04. Section 3 scope: Includes specified processes involving proceeds of crime.	18. FATF: International AML/CFT/proliferation-financing standards.
05. Placement: Introduces criminal proceeds.	19. 2012 revision: Adopted on 16 February 2012; subsequently updated.
06. Layering: Obscures the trail or origin.	20. Country statements: Read the applicable current statement and response.
07. Integration: Presents proceeds as part of normal economic activity.	21. Correspondent: Bank providing services to another bank.
08. TF cycle: Raising, moving, storing and using.	22. Respondent: Bank using those correspondent services.
09. Section 4: Ordinarily 3-7 years rigorous imprisonment and fine.	23. Shell banks: Correspondent relationships are prohibited.
10. Section 4 exception: Up to 10 years for the specified Schedule category.	24. CTR: Cash threshold is more than Rs.10 lakh.
11. Section 45: Cognizable and non-bailable; statutory conditions apply.	25. CBWTR: More than Rs.5 lakh; Indian origin or destination.
12. KYC scope: Wider than only long-standing account holders.	26. Monthly reports: Specified reports due by the next month's 15th.
13. Beneficial owner: Identify the person ultimately owning or controlling.	27. STR: Promptly; no later than seven working days after suspicion is established.
14. Risk-based approach: Match controls to assessed risk.	28. Suspicion: Attempts and non-cash dealings count; no minimum amount.

A03 / Operational Aspects of KYC

Identify the person. Understand the relationship. Keep the records current.

Study route	Learning task
Read	Learn the concept and compare the source with the correction.
Apply	Use the cartoon cases, comparisons and questions.
Recall	Finish with quick facts and 28 final recall points.

Source reading is preserved for coverage. Clarification panels distinguish corrected or dated claims. Prepared 28 October 2026; general-purpose reference edition with dated regulatory checks.

01 / The KYC framework

KYC is a continuing process, beginning with acceptance and identification and continuing through monitoring.

Clarification / exam distinction
Overseas application is subject to host-country law. The source diagram groups teaching topics; it is not the statutory list of four policy elements. [R1]



Start with the person

Check identity and understand why the customer needs the account.

Concept	What it means
Acceptance	Who may establish a relationship?
Identification	Who is the person?
Monitoring	Does activity fit the profile?

Core reading / capsule pp. 20

PPB Module A, Unit 3: Operational Aspects of KYC

Introduction

RBI has laid down operational norms for banks and other entities regulated by it, in Master Directions- ‘Know your customer (KYC) Directions 2016’.

The provisions of these directions are applied to:

- Banks and entities regulated by RBI
- Branches and majority owned subsidiaries located abroad.

In case of variance in KYC/AML standards prescribed by RBI and host country regulators, the stringent regulation of two is to be followed.

Know Your Customer (KYC) Norms

Source visual / reconstructed with original labels

KYC Norms
Customer Acceptance Policy
Customer Identification Procedures
Customer Due Diligence Procedure
Alternate Modes of CDD Procedure

02 / Customer acceptance

Check identity, authority, required information and sanctions before accepting the relationship.

Clarification / exam distinction
Closure is not automatic: apply the applicable notice, inclusion and periodic-update provisions. [R1]

Concept	What it means
Joint account	CDD for each holder
PAN	Verify through issuing authority
Extra information	Obtain prior consent

Core reading / capsule pp. 21

Customer Acceptance Policy

• No account is opened in anonymous or benami name.

• No account is opened where appropriate customer due diligence measures can not be applied either due to non-cooperation of customer or non-reliability of information furnished.

• No transaction or account-based relationship is undertaken without following CDD procedure.

• Circumstances in which a customer is permitted to act on behalf of another person is spelt out.

• To ensure that the identity of customer does not match with any person whose name appears in sanction lists circulated by RBI.

• To verify PAN obtained through the facility of issuing authority.

• To verify digital signature of an e-document given by customer.

• The mandatory information during on-boarding /periodic updation should be specified in KYC policy. Any additional information should be obtained with prior consent of customer.

• In case of Joint accounts, CDD procedure is carried out for all joint account holders.

NOTE: In case of non-compliance of KYC guidelines by an existing customer, bank may decide to close the account after giving due notice to the customer.

03 / When identification is required

Account opening is only one trigger. Walk-in services and suspected structuring also matter.

Clarification / exam distinction
Correction: the walk-in threshold includes exactly Rs.50,000 and connected transactions. [R1, paragraph 13]

Concept	What it means
Account	Identify at relationship start
Foreign transfer	Identify non-account remitter
Structuring	Examine deliberate splitting

Core reading / capsule pp. 21, 22

Customer Identification Procedures

Identifying and verifying the identity by using reliable, independent source

documents, data or information to be done in following cases:

• While opening a account or establishing account based relationship.

• Undertaking international transfer for non-account holders.

• If a doubt arises about authenticity of an existing customer.

• Selling any product of value over Rs.50,000.

• Carrying out a transaction valued over Rs. 50,000 for a walk-in customer.

• When there is a doubt that customer is intentionally structuring transactions

below threshold of Rs. 50,000

04 / Individual CDD and documents

Identify the individual and understand the purpose, business and expected activity.

Clarification / exam distinction
Aadhaar is not the only identification route; PAN is not an OVD. Read document qualifications in paragraph 3. [R1]

Concept	What it means
Identity	OVD and applicable verification
Tax identity	PAN or Form 60 as applicable

Concept	What it means
Profile	Purpose, activity and expected turnover

Core reading / capsule pp. 22

Customer Due Diligence Procedure

Customer due diligence includes customer identification, and also obtaining information

about the following:

• Customer's location

• Nature of business activity

• Purpose for which banking services will be used

• Mode of payments

• Volume of turnover

• Social and Financial status

INDIVIDUALS (CDDP)

Individuals Requiring CDD:

Documents to be obtained from an individual associated with the bank in any of the under mentioned capacities are listed here.

• A person entering in an account based relationship.

• Beneficial owner of a legal entity customer.

• An authorised signatory of a legal entity customer

• A power of attorney holder of a legal entity customer

Source visual / reconstructed with original labels

Documents Requirements
Aadhar Number [source wording]. Aadhaar is one permitted route; other applicable identification routes exist.
1 Recent Photograph
PAN/Form 60
Other documents as per nature of business

Source visual / reconstructed with original labels

Officially Valid Documents
Aadhar Card
Passport
Driving License
Voter’s I-card
Job card by NREGA
Letter by NPR

05 / Address and name changes

Separate proof of identity, the current address and evidence linking an old name to a new one.

Clarification / exam distinction
For the address bridge, qualifying utility bills may be up to two months old; obtain updated OVD within three months. [R1]



Address is a separate question

Link the person to the current address and track any follow-up document.

Concept	What it means
Address bridge	Temporary qualifying document
Name change	Old-name OVD plus supporting evidence

Core reading / capsule pp. 23

NOTE: Where any of the above mentioned documents is obtained for address purpose, within three months an OVD with current address must be submitted by the customer

Individuals Requiring CDD:

Documents to be obtained from an individual associated with the bank in any of the under mentioned capacities are listed here.

• A person entering in an account based relationship.

• Beneficial owner of a legal entity customer.

• An authorised signatory of a legal entity customer

• A power of attorney holder of a legal entity customer

Change in name

• Where there has been change in name, an OVD with previous name along with the marriage certificate or the Gazette Notification indicating the change in name can be accepted.

Source visual / reconstructed with original labels

Updated Address
Utility Bill < 2 months old [source wording]. Rule wording: not more than two months old.
Property or Municipal Tax Receipt
Pension or Family Pension Payment Orders
Letter of allotment of accomodation

06 / Aadhaar use and consent

Follow the permitted verification route and protect identity information.

Clarification / exam distinction
The source biometric statement has exceptions. Apply paragraph 16, including inability to authenticate and applicable redaction requirements. [R1]

Concept	What it means
Consent	Use the authorised process
Different address	Obtain required declaration

Core reading / capsule pp. 23

Aadhar based KYC (norms)

• To be used only with the written consent of the customer.

• Must be redacted on the bank's records, physical and electronic, retaining only the last 4 digits.

• A customer wanting credit of benefit subsidy under a notified scheme: Biometric authentication of Aadhaar is mandatory.

• For a customer voluntarily using Aadhaar number for identification purpose

banks may carry out e-KYC Authentication or offline verification

• If a customer provides a current address different from that in Aadhaar records, a self-declaration is to be obtained.

07 / OTP-only onboarding limits

An OTP-based non-face-to-face account has specific limits until full identification is completed.

Clarification / exam distinction
After one year without full CDD: close deposits; permit no further debits in borrowal accounts. [R1, paragraph 17]

Concept	What it means
Deposit balance	Aggregate maximum Rs.1 lakh
Annual credits	Aggregate maximum Rs.2 lakh
Term loans	Annual aggregate maximum Rs.60,000

Core reading / capsule pp. 23, 24

Accounts of non-face-to-face customers- OTP based Aadhaar Verification :

Restrictions

• Aggregate balance of all the deposit accounts of the customer shall not exceed 1

lakh

• Aggregate of all credits in a financial year, in all the deposit accounts taken

together, shall not exceed 2 lakh

• For borrowal accounts, only term loans shall be sanctioned and the aggregate amount of term loans sanctioned shall not exceed 60,000 - in a year.

• Both deposit and borrowal accounts shall not be allowed for more than one year within which normal mode identification is to be done,

• If OVD is not submitted CDD procedure not completed within a year, a deposit account will be closed and no disbursals will be made on the borrowal account

• A declaration to be obtained that no other account using this mode has been opened nor will be opened at any other financial institution or a bank.

08 / Sole proprietorship

Identify the proprietor and establish that the business exists.

Clarification / exam distinction
Two business proofs are the norm; paragraph 29 permits one with verification at bank discretion. [R1]



Visit the business

Establish both the proprietor's identity and the business activity.

Concept	What it means
Person	Proprietor CDD
Business	Activity and existence evidence

Core reading / capsule pp. 24

Sole Proprietary Firms (CDDP)

CDD of the individual (proprietor) shall be carried out and in addition, any two of the following documents are to be obtained:

• Registration certificate

• Certificate licence issued by the municipal authorities under Shop and Establishment Act

• Sales and income tax returns

• CST/VAT/ GST certificate (provisional final)

• Certificate registration document issued by Sales Tax/ Service Tax authorities

• IEC (Importer- Exporter Code) issued to the proprietary concern by the office of DGFT

• Income Tax Return in the name of the sole proprietor

• Utility bills such as electricity, water, landline telephone bills, etc.

09 / Companies

A company account needs evidence about the entity and the people acting for or controlling it.

Clarification / exam distinction
Also check senior-management names and registered/principal business addresses under paragraph 30. [R1]

Concept	What it means
Entity	Incorporation, constitution and PAN
Authority	Board resolution and authorised persons

Concept	What it means
Control	Beneficial owners

Core reading / capsule pp. 24

Companies (CDDP)

• Certificate of Incorporation

• Memorandum and Articles of Association

• Permanent Account Number of the company

• Particulars of the Beneficial Owners

• Resolution of the Board of Directors

• KYC Documents of the beneficial owners, the authorised signatories and the managers, officers or employees holding an attorney to transact on the company's behalf

10 / Partnership firms

The deed establishes the partnership; authority documents establish who can transact.

Clarification / exam distinction
Permanent Act Number is a source typo for Permanent Account Number. Also obtain all partner names and required addresses. [R1]

Concept	What it means
Firm	Registration, deed and PAN
People	Partners, beneficial owners and authorised persons

Core reading / capsule pp. 24

Partnership Firms (CDDP)

• Registration Certificate

• Partnership Deed

• Permanent Act Number of the partnership firm

• KYC Documents of the Partners, the Beneficial Owners, and the persons holding power of attorney to transact on its behalf.

11 / Trusts and unincorporated associations

Establish legal existence, purpose, control and the authority of the person operating the account.

Clarification / exam distinction
Trust requirements include author/settlor, trustees, beneficiaries and protector if any. Apply paragraphs 32-33. [R1]

Concept	What it means
Trust	Trust deed and specified persons
Association	Managing-body resolution and authority

Core reading / capsule pp. 25

Trusts (CDDP)

• Certificate of registration

• Trust deed

• Permanent Account Number or Form No.60 of the Trust

• Documents of the Beneficial Owners the person holding an attorney to transact on its behalf.

Unincorporated Association (CDDP)

• Resolution of the managing body of such association or body of individuals

• Permanent Account Number or Form No. 60 of the unincorporated association

• Power of attorney granted to transact on its behalf

• KYC Documents of the Members of Managing Body, the Beneficial Owners, and the persons holding an attorney to transact on its behalf.

• Such information as may be required by the bank to collectively establish the

legal existence of such an association or body of individuals

12 / Find the beneficial owner

Follow ownership and control through intermediate entities to the relevant natural persons.

Clarification / exam distinction
The original table below contains superseded percentages. Read each correction beside its source cell. [R1, paragraph 3(a)(iv)]



Look through the company

Follow ownership and control to the people behind the entity.

Concept	What it means
Ownership	Identify entitlement above applicable threshold
Control	Consider control through other means
Person	Look through entity layers

Core reading / capsule pp. 25

Identification of Beneficial Owner

A beneficial owner is a person who enjoys the benefits of ownership though the property's title is in another name.

The criteria for determination of beneficial ownership essentially are:

• Ownership or entitlement in capital, property or benefit of the entity meeting

certain threshold value

• Control exercised over the activities of the entity through any other means.

The threshold values in respect of different types of legal persons are as follows:

Source visual / reconstructed with original labels

Type of Constitution	Criteria and Threshold Level
Company	(i) More than 25% share in capital/ profit (ii) Control rights. Appointing majority of directors/ Control management/ Policy decisions [source wording]. Updated ownership threshold: more than 10%. Control remains relevant.
Partnership (Registered)	More than 15% share in Capital/ profit [source wording]. Updated: more than 10%, or control through other means.
Association of Persons	More than 15% Capital/ Profit
Trusts (Registered)	Trustees, Beneficiaries having 15% or more interest, and any other person exercising effective control [source wording]. Updated: identify author, trustees, beneficiaries with 10% or more, and ultimate controllers.
Source footnote	If no natural person fulfilling the criteria can be determined, the individual holding senior managing position to be considered as a beneficial owner [source wording]. Fallback applies to company, partnership and unincorporated-association categories.

13 / Enhanced due diligence

Higher-risk situations require additional information and controls, not assumptions of guilt.

Clarification / exam distinction
PEP checks include wealth/funds, senior-management approval and enhanced monitoring; the RBI definition concerns foreign public functions. [R1]

Concept	What it means
Remote customer	Apply the relevant non-face-to-face controls
PEP	Additional approval and monitoring
Intermediary	Identify underlying clients

Core reading / capsule pp. 26

Enhanced Due Diligence Requirements

(a)For Accounts of non-face-to-face Customers: the first payment should be effected through the customer's KYC-complied account with another RE, for enhanced due

diligence

(b)For Politically exposed persons: Check all the information available on the person in the public domain and seek information about the sources of funds before accepting

the PEP as a customer

(c)For Client Accounts Opened by Professional Intermediaries:

• Single client: Clients shall be identified.

• Pooled Accounts of professional intermediaries (mutual funds, pension funds or other types of funds): Can be opened in normal course.

• Accounts of professional intermediaries (bound by client confidentiality prohibiting disclosure of client details to the RE): Not to open such accounts.

14 / Simplified due diligence

Simplification applies to specified situations and remains conditional.

Clarification / exam distinction
SHG credit-linkage member CDD is not invariably mandatory. Student limits apply pending local-address verification; FPI documents refer to Annex IV. [R1]

Concept	What it means
SHG savings	CDD of office bearers
Foreign student	Documents plus local-address follow-up

Concept	What it means
FPI	Applicable category documentation

Core reading / capsule pp. 26

Simplified Due Diligence Requirements

(a)For Accounts of Self-Help Groups:

• For Savings Bank account: CDD of all the office bearers shall suffice. CDD of all the members is not required.

• For Credit Linking of SHGs: CDD of all the members to be undertaken.

(b) For Accounts of Foreign Students:

• Passport (with visa & immigration endorsement) and address in the home

country, Photograph, and Letter offering admission from the educational

institution in India.

• To obtain declaration about local address, within 30 days of opening the account

• Foreign remittances not exceeding USD 1000 or equivalent can be credited and

not to exceed Rs.50,000/-

• Prior RBI approval is required to open account of students with Pakistani

nationality

Simplified Due Diligence Requirements

(a)For Foreign Portfolio Investors:

• Accounts of FPIs eligible registered as per SEBI guidelines can be opened on the basis of specified documents for the respective category of FPI.

• Income Tax (FATCA/ CRS) Rules need to be observed

• Undertaking from FPI or its Global Custodian that as and when required, the exempted documents as detailed in Annex III will be submitted.

15 / Small accounts and inclusion

A small account provides a restricted route where the customer lacks an OVD. Do not confuse it with an OTP-only account.

Clarification / exam distinction
The balance cap has specified government-payment exceptions. Foreign remittances require full identification. [R1, paragraph 23]



Inclusion with conditions

Help the customer use the permitted route and explain its limits.

Concept	What it means
First period	12 months
Extension	12 more months with timely OVD-application evidence
Review	Review relaxation after 24 months

Core reading / capsule pp. 27

(b)Small Accounts: No OVD These accounts are opened based on the customer's declaration about identity (self- attested photograph) and address to be signed and given in the presence of a designated bank official at the bank branch. The designated official will certify that the customer has signed in his presence.

The customer should provide OVD within 12 months. If a customer provides

evidence of having applied for an OVD, account can be continued for another 12 months. On expiry of 24 months these relaxations are reviewed.

Restrictions on Small Accounts

Source visual / reconstructed with original labels

Restrictions on Small Accounts
Aggregate of all credits in a financial year not to exceed Rs. 1 lakh
Aggregate of all withdrawals and transfers in a month not to exceed Rs. 10,000
Balance at any point of time not to exceed 50,000
Foreign remittances not to be credited

16 / One customer, linked relationships

The UCIC links a customer across products so monitoring can consider the whole relationship.

Clarification / exam distinction
A customer-level view prevents fragmented risk assessment. It does not remove ongoing monitoring.

Concept	What it means
UCIC	Unique Customer Identification Code

Concept	What it means
Purpose	Link facilities and transactions

Core reading / capsule pp. 27

Customer Level KYC/Monitoring

• The Unique Customer Identification Code (UCIC) allotted to the customers help a bank to identify customers, track the facilities availed by them, monitor their financial transactions in a holistic manner, and enable banks to have a better approach to risk profiling of customers.

• This also enables the KYC /CDD processes at the customer level, thus avoiding

these procedures to be repeated for a customer separately for each product

service availed by the customer

17 / Periodic KYC updates

Review frequency depends on risk and runs from account opening or the last KYC update.

Clarification / exam distinction
The 2025 low-risk-individual relief uses the later of one year after due date or 30 June 2026; it is not indefinite. [R1]

Concept	What it means
High risk	At least every 2 years
Medium risk	At least every 8 years
Low risk	At least every 10 years

Core reading / capsule pp. 27

Periodic Updation

Risk Level of Customers Tenure

Low -Rsk Customer 10 yrs

Medium Risk Customer 8 yrs

High Risk Customer 2 yrs

Source visual / reconstructed with original labels

Risk Level of Customers	Tenure
Low -Rsk Customer	10 yrs
Medium Risk Customer	8 yrs
High Risk Customer	2 yrs

18 / Relying on third-party CDD

Reliance on another party does not transfer the bank's ultimate responsibility.

Clarification / exam distinction
Correction: obtain CDD records/information immediately, not within two days. [R1, paragraph 14]

Concept	What it means
Third party	Regulated and suitable
Documents	Available without delay
Responsibility	Remains with the bank

Core reading / capsule pp. 27, 28

Alternative Modes of CDD Procedure

(a)CDD by Third Party

• Records or the information of the CDD is obtained within two days from the third party or from the Central KYC Records Registry.

• Banks need to satisfy themselves adequately that copies of identification data and other relevant documents be made available to them by the third party upon request without delay.

• The third party satisfies following norms: It is regulated, supervised or

monitored. It has measures in place for, compliance with CDD and record

maintenance and It is not based in a country or jurisdiction assessed as high risk

• The ultimate responsibility for CDD/ applicable EDD measures lies with the bank

19 / Video and digital KYC

V-CIP uses a controlled live interaction. Digital KYC follows its specified capture and verification process.

Clarification / exam distinction
V-CIP requires authorised officials, consent, liveness and secure records; a BC may facilitate the customer end. [R1]



A live identification process

A video call needs controlled verification, consent and a reliable record.

Concept	What it means
V-CIP	Live audio-visual identification
Digital KYC	Authorised capture of person and documents

Core reading / capsule pp. 28

(b)Video based Customer Identification Process

• VCIP can be used when on-boarding new customer, for conversion of accounts

opened in non-face to face mode by OTP based Aadhaar e-KYC and Updation

Periodic updation of KYC for eligible customers

(c)Digital KYC

• This process requires bank's officer to meet the customer in person. Services of Business Correspondents can be used.

20 / Wire-transfer information

Information must travel with the payment so the parties and the transaction can be traced.

Clarification / exam distinction
Current rules cover beneficiary information too. Missing information requires risk-based action; an STR follows suspicion, not every omission automatically. [R1, paragraph 64]

Concept	What it means
Ordering bank	Collect and transmit required details
Intermediary	Retain accompanying information
Beneficiary bank	Identify and assess missing information

Core reading / capsule pp. 28

Wire Transfers

• Cross-border wire transfers: All such shall be accompanied by accurate and meaningful originator information such as name, address and account number or a unique reference number (in the absence of account). This does not apply to

transfers where both the remitter and beneficiary are banks or financial

institutions

• Domestic wire transfers: All such actions of Rs. 50,000 and above shall be accompanied by originator information such as name, address and account no.

• The originator information should be preserved for at least five years by the ordering bank.

• A bank that is an intermediary in a chain of wire transfers should ensure that all

originator information accompanying a wire transfer is retained with the

transfer.

• Beneficiary Bank should have procedures to identify wire transfers lacking complete originator information. Such transactions should be reported as STR to

FIU-Ind

21 / Central KYC Records Registry

CKYCR stores KYC records centrally. CERSAI performs the registry function.

Clarification / exam distinction
New records: ten days. Updated information: seven days or notified period. The 2017 start dates differ by entity category. [R1, paragraph 56]

Concept	What it means
Registry	Receive, store, safeguard and retrieve
Bank	Upload and retrieve as prescribed

Core reading / capsule pp. 28, 29

Central KYC Records Registry

• Central KYC Records Registry (CKYCR) is an entity authorised to receive, store, safeguard and retrieve the KYC records of a customer in digital form.

• Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) to act as, and to perform the functions of the CKYCR.

• Banks are required to upload regularly on CKYCR the KYC data pertaining to all

individual accounts opened on or after January 1, 2017 and for accounts of

legal entities (LE's) opened on or after April 1, 2021.

• In case of accounts of Individuals opened prior to January 1, 2017, and those of LEs opened prior to April 1, 2021, the KYC records are to be uploaded on to CKYCR during periodic updation.

• The KYC information should be uploaded within 10 days of commencement of account based relationship with the customer.

22 / Monitoring and record retention

Compare actual activity with the expected profile, investigate concerns and retain an audit trail.

Clarification / exam distinction
Keep transaction and relationship-retention clocks separate. Minimum retention does not override a longer legal requirement.

Concept	What it means
Transactions	Five years from transaction date

Concept	What it means
KYC and relationship records	Five years after relationship ends
STR decision	Principal Officer

Core reading / capsule pp. 29

Monitoring Of Transaction

• Transactions that involve large amounts of cash, inconsistent with the normal and expected activity of the customer, are subjected to detailed scrutiny.

• Banks are required to have adequate arrangements for monitoring of transactions for detection of suspicious transactions and reporting these to FIU- Ind.

• The decisions for filing STR is taken by Principal Officer.

RECORD MANAGEMENT

Banks are required to maintain records of transactions for five years from the date of

transactions and KYC documents, business correspondence, customer related

information for 5 years from the date of end of relationship.

Practice / answer and explanation

Q01 / Which individual must undergo CDD in a joint account?

A. Only the first holder
B. Every joint holder
C. Only the nominee
D. Only the earning holder

Answer B / CDD applies to all joint account holders.

Q02 / Which is not itself an OVD?

A. Passport
B. Driving licence
C. PAN card
D. Voter identity card

Answer C / PAN serves tax-identification requirements; it is not in the OVD list.

Q03 / Which annual credit ceiling belongs to an OTP-only Aadhaar deposit relationship?

A. Rs.50,000
B. Rs.1 lakh
C. Rs.2 lakh
D. Rs.10 lakh

Answer C / The OTP-only annual aggregate credit ceiling is Rs.2 lakh; its balance ceiling is Rs.1 lakh.

Q04 / What is the normal monthly withdrawal-and-transfer limit for a small account?

A. Rs.10,000
B. Rs.50,000
C. Rs.1 lakh
D. Rs.2 lakh

Answer A / The monthly aggregate of withdrawals and transfers must not exceed Rs.10,000.

Q05 / Under the cited updated company BO rule, which ownership holding exceeds the threshold?

A. Exactly 10%	B. 11%
C. Exactly 5%	D. None below 25%

Answer B / More than 10% exceeds the ownership threshold. Control through other means is a separate test.

Q06 / Who retains ultimate responsibility when relying on third-party CDD?

A. The customer	B. Only the third party
C. The bank relying on it	D. The nominee

Answer C / The relying bank remains responsible for CDD and applicable enhanced measures.

Q07 / How often is periodic updating normally required for a high-risk customer?

A. Every 10 years	B. Every 8 years
C. Every 5 years	D. At least every 2 years

Answer D / The normal high-risk interval is two years; distinguish this from retention periods.

Q08 / From when does the five-year transaction-record clock run?

A. Account closure	B. Date of the transaction
C. Last KYC update	D. First deposit only

Answer B / Transaction records run from the transaction date. KYC/relationship records use the end of the relationship.

Quick facts / source-aware revision

Murugan physical page 39, Unit 30 (Financial Inclusion & Financial Literacy), RBI initiatives item 2, supplies the first line verbatim. It supports the small-account topic. Remaining lines are capsule-based revision with the stated corrections; they are not attributed to Murugan. Other financial-inclusion facts are reserved for their relevant chapter.

Cue	One-line revision
Murugan / p39	Relaxation KYC norms for small deposit accounts.
Joint holders	CDD covers every joint account holder.
OTP balance	Aggregate deposit balance: maximum Rs.1 lakh.
OTP credits	Aggregate annual deposit credits: maximum Rs.2 lakh.
OTP term loans	Annual aggregate sanctioned term loans: maximum Rs.60,000.
Small-account credits	Annual credits: maximum Rs.1 lakh.
Small-account outflows	Monthly withdrawals and transfers: maximum Rs.10,000.
Small-account balance	Ordinary maximum Rs.50,000, subject to specified exceptions.
Risk intervals	High: 2 years; medium: 8 years; low: 10 years.

Cue	One-line revision
UCIC	Links a customer across the bank's products.
CKYCR	Central KYC Records Registry; operated by CERSAI.
New CKYCR upload	Within ten days of commencing the relationship.
Record clocks	Transaction date versus end of relationship: do not interchange.

Reference desk / verification

Primary sources inspected on 28 October 2026. The retrieved RBI consolidation displays its own update date. Use the effective rule for the relevant transaction or reporting period.

R1 / RBI: KYC Master Direction (displayed update: 14 August 2025)
Inspected 28 October 2026. Paragraphs 3, 5, 10, 13-18, 23, 27-33, 38, 41-46, 56 and 64. Source text is preserved; correction panels identify changed or incomplete claims. This displayed consolidation is not a claim that no later instruction exists.

Coverage: 259 source lines; 7 source visuals. Full audit supplied separately.

28 facts / final recall

01-14 / foundations	15-28 / application
01. KYC: A continuing customer process.	15. Proprietor: Verify person and business.
02. Acceptance: No anonymous or benami account.	16. Company: Verify entity, authority and owners.
03. Joint holders: CDD for each holder.	17. BO: Ownership and control both matter.
04. PAN: Verify with issuing authority.	18. Company BO: Ownership more than 10%.
05. Extra information: Prior customer consent.	19. Partnership BO: Ownership more than 10% or control.
06. Structuring: Examine deliberate splitting.	20. Trust BO: Beneficiaries at 10% or more; other specified persons too.
07. CDD: Identity plus relationship profile.	21. Small credits: Maximum Rs.1 lakh annually.
08. OVD: PAN is not in the OVD list.	22. Small outflows: Maximum Rs.10,000 monthly.
09. Address bridge: Updated OVD within three months.	23. Small balance: Ordinary maximum Rs.50,000.
10. Name change: Link old name to new evidence.	24. Periodic KYC: High/medium/low: 2/8/10 years.
11. OTP balance: Maximum aggregate Rs.1 lakh.	25. Third-party CDD: Bank remains responsible.
12. OTP credits: Maximum annual Rs.2 lakh.	26. UCIC: One customer across products.
13. OTP term loans: Annual sanctions maximum Rs.60,000.	27. CKYCR: CERSAI registry; new upload ten days.
14. OTP duration: Full identification within one year.	28. Records: Five years; use the correct starting event.

A04 / Opening Accounts of Various Types of Customers



At the branch

Start with the customer's legal capacity, then establish who may act and how the account will operate. A familiar face is not evidence of authority.

1. Identify customer type → 2. Verify capacity and documents → 3. Record operating authority → 4. Monitor changes

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

PPB Module A, Unit 4: Opening Accounts of Various Types of Customers

Personal Account

Accounts of Individuals

• An individual should be major by age, of sound mind and should not be un- discharged insolvent or disqualified from contracting by any law which he is subjected to.

• The account opening form should be signed by the individual(s) in whose name(s) the account is to be opened.

• In situations when an individual is not of sound mind or is a minor the form may be signed by her court appointed guardian or natural guardian.

Joint Account Holders

• A joint account is an account opened in the names of two or more individuals.

• The relationship among the joint holders, the purpose of having a joint account and nature of expected funds inflows in the account should be ascertained.

Clarification / source page 30

Do not read the source restrictions on blind, illiterate or purdahnashin customers as blanket legal bans. Provide accessible banking and use appropriate identification and operating safeguards. [SERVICE]

• Joint accounts are generally opened with all the account holders being resident in India. Joint accounts of residents with a non-resident Indian (NRI) is permitted only where the NRI is a close relative of all the resident account holders.

• The account opening form should be signed by all the account holders. It should also contain instructions regarding the mode of operations on the account.

Accounts of Illiterate Persons

• The rules relating to the account have to be clearly explained to an illiterate

person in a language understood by him/her

• He/she should be advised that for withdrawing money from the account, he has to personally come to the bank with the Pass Book.

• No current account should be opened in the name of an illiterate person.

• No cheque Book should not be issued.

• Left hand thumb impression of the account holder is obtained on the account opening form in the presence of an authorized bank officer. A person well known to the bank who will attest her thumb impression on the account opening form.

• Passport size photographs of the customer have to be obtained - one to be attached to account opening form and another to the pass book.

• Every withdrawal should be orally confirmed by the account holder to the authorized official.

• If the illiterate depositor intends to allow a literate person to operate his account, he has to submit an authorization cum indemnity letter in the prescribed format, with the condition that it can be operated only jointly by both.

• No illiterate persons' account should be opened with operation facility of E or S or by "literate person only".

Accounts of Blind Persons

• There is no legal bar for a blind person to open a bank account.

• Due care must be exercised in accounts of blind persons as there may not be consistency in their signature.

• Passport size photographs of the blind person have to be obtained — one to be attached to the account opening form and another to the pass book.

• The signature/ thumb impression of the blind person has to be attested by a person well known to the bank.

• Where the Branch Manager is satisfied, he may allow a blind person to operate the account by herself, or by a next of kin of the blind customer after taking proper 'letter of authority' from the blind customer.

• Whenever inconsistency in the signature of a blind customer is noticed, her left hand thumb impression also may be obtained.

• Entries and the balance must be made up to date in the passbook at the time of each transaction and should also be read out to her, when no other person is in hearing distance.

Clarification / source page 31

RBI's 21 April 2025 circular permits guardian-operated accounts at any age and independent operation at a bank-set age not below ten, subject to limits. No overdrafts; refresh instructions on majority. [MINOR]

Accounts of Minors

• The minor's account can not be overdrawn.

• Section 26 of the N.I. Act provides that a minor may draw, endorse, deliver and negotiate a negotiable instrument and as such, a minor can draw a cheque.

• On the minor attaining majority, the guardian is not allowed to operate the account any further, without confirmation from the minor.

• Banks are free to fix the minimum age at which they will allow minors to operate savings bank accounts independently, .

• Balances in such accounts are subject to a maximum amount, as decided by the bank.

• In the event of death of the minor, the guardian has to close the account.

• On attaining majority, fresh operating instructions and fresh specimen signature of erstwhile minor should be obtained and kept on record.

• If the guardian dies during the minority of the account holder, then the balance can be paid to the minor after his attaining majority.

Clarification / source page 32

HUF membership and coparcenary are not identical. Daughters are coparceners under the amended Hindu Succession Act; male-only descriptions are outdated. Authority and succession require the applicable personal law. [HSA]

Accounts Of Other Customers

Hindu Undivided Family

• Where a Hindu dies, leaving a business, it passes on to the legal heirs. If he leaves male children, it descends to them and the property becomes a HUF property.

• The members of the family are called coparceners and the eldest male child is

the manager or the Karta

• Since 2005 amendment to Hindu Succession Act daughters whether married or unmarried are recognized as coparceners.

• When an account is opened in the name of a HUF, all the adult members have to sign even though the Karta would operate on the account.

• When the business is ancestral, the coparceners are liable to the extent of their share in the family property and have no personal liability.

Rules for Opening & Operation - Hindu Undivided Family

• The Karta has an implied authority to avail loan and execute the necessary documents.

• Tt is advisable to obtain declaration from all the adult members of the HUF specifying the Karta.

• The Karta has the power to transfer an asset, provided it is made for a legal necessity or for the benefit of the estate.

• Names of all minor coparceners should be kept on record and their guardians must sign the documents on their behalf.

• Withdrawal of one of the coparceners does not put the existence of the firm in jeopardy.

Documents for Opening of a HUF's Account

• Account opening form signed by all the adult members of the HUF.

• Specimen signature card signed by the Karta.

• Joint Hindu Family letter signed by all the adult members of the HUF.

• In case HUF has a minor member, the natural guardian should sign on her behalf.

• The account is operated by the Karta (Head of the family). If it consists of various branches, the other major coparceners are allowed to operate on the accounts.

Sole Proprietorship Firm

The law does not distinguish between a Proprietor and her Proprietary Concern.

Therefore, accounts of a proprietorship firm can be treated as an account of an individual.

• All documents for opening an account of a proprietorship firm are signed by the proprietor.

• The proprietor also has to submit a declaration.

• The Proprietor must sign all the documents in the name of the Proprietorship Firm.

• The cheques should also be signed in the name of the proprietorship firm.

Documents Required

• Current account opening form signed by the proprietor

• Specimen signature card signed by the proprietor

• Proprietorship declaration/ letter as per the bank's format.

Partnership Firm

• Sec. 4 of the Indian Partnership Act, 1932 defines a partnership as a relationship subsisting between persons who have agreed to share the profits of a business carried on by all or all or any of them acting for all.

• Registration of a partnership is optional except in the states of Gujarat and Maharashtra.

Partnership Firm-Rules for Opening and Operations

• In case of registered partnerships a copy of the registration certificate should be obtained.

• The partners should sign for and on behalf of the firm and not as an individual.

• Cheques payable to the firm should not be credited to the account of any partner/employee.

• In case of any dispute among partners, if any partner gives notice of stoppage of operation, all operations must be stopped under intimation addressed as a joint letter sent to all the partners as well as the firm. Then the account would be operative only by all partners jointly.

• Partners are mutual agents and can bind the firm by their acts. It applies to a sleeping or secret partner also.

• Even when the powers of management restricts the rights of other partners and is entrusted in one partner, it is a partnership.

• When there is an addition to partnership, the old account can be continued, if the balance is in credit. But if there is a debit balance, the old account should be freezed and a new account should be opened.

• Where two of the partners of a firm executed a promissory note in favour of a third partner, agreeing to pay him a certain sum due to him, it was held that the remaining partners are not bound.

• Death of a partner dissolves the partnership firm automatically. The operations in the account should be stopped. In order to determine the liability of the deceased partner, the banker should close the account of the firm and secure a letter of administration from the court.

• No partner has powers to do the following: Open a bank account on behalf of the firm in his own name; Withdraw a legal suit filed by the firm; Admit any liability in a suit or proceed against the firm; and Acquire or transfer immovable property on behalf of the firm.

• Any partner can countermand the payment of a cheque drawn by another partner.

Clarification / source page 34

Death dissolves a partnership subject to contract between partners (Partnership Act, section 42). Do not treat the source statement as unconditional. [PARTNER]

Documents for Opening of a Partnership Firm's Account

• Current account opening form signed by all the partners.

• Specimen signature cards signed by all the partners.

• Partnership letter signed by all the major partners in their personal capacity and not under the seal of the Firm, stating the nature of business, names and addresses of all partners along with instructions for mode of operations in the account.

• Original Partnership Deed (for verification & return) with a certified copy.

• Certificate of Registration, in case of a registered partnership firm.

• Complete instructions regarding the person(s) authorised to operate the account with specimen signatures of the authorised persons with their designation or capacity in which they will operate the account.

• Permanent Account Number of the partnership firm.

Limited Liability Partnership

• Limited Liability Partnership (LLP) is formed under the Limited Liability Partnership Act, 2008.

• A "limited liability partnership" agreement means any written agreement which determines the mutual rights and duties of the partners and their rights and duties in relation to that limited liability partnership.

• A LLP has at least two Designated Partners. Designated Partners have to obtain a Designated Partner Identification Number (DPIN).

• A designated partner is responsible for the doing of all acts, matters and things as are required to be done by the LLP and as may be specified in it.

• A "small limited liability partnership" means a LLP - the contribution of which, does not exceed Rs.25 lac and the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed Rs.40 lac.

Rules for Opening and Operations - LLP's Account

• Resolution by the Designated Partners is required.

• LLP is a corporate person; hence it is not affected by changes in partners due to any reason, including resignation or death. So the existing account can be continued, even if in debit balance.

• It will be necessary to obtain a Resolution in respect of authorised signatories, if there is any change.

• The partners will not be personally liable for any dues that may occur.

Documents for Opening of a LLP's Account

• Current account opening form signed by all the partners.

• Specimen signature cards signed by designated partners and authorised signatories.

• Certificate of Incorporation of LLP.

• LLP Agreement (for verification & return) with a certified copy.

Clarification / source page 35

The source image reverses minimum membership: public company seven; private company two (OPC exception). Private maximum normally 200, with statutory exclusions. Fixed Rs.5 lakh/Rs.1 lakh minimum paid-up capital figures are obsolete. Public-company quorum varies with membership. [COMPANY]

• Resolution by the Designated Partners of LLP for opening bank account and designating authorised signatories.

• Complete instructions regarding the person(s) authorised to operate the account with specimen signatures of the authorised persons with their designation or capacity for operating the account.

• Permanent Account Number of the LLP.

Limited Companies

(a)Public Ltd. –It is not a private company. This requires a minimum of seven members for incorporation and there is no upper limit. A subsidiary company of another company that is not a private company is deemed to be public company, even if registered as a private company. – Section 2 (71) of the Companies Act, 2013.

(b)Private Ltd. – It has to have a minimum of 2 members and maximum of 200 members, with a minimum paid- up share capital as may be prescribed. It restricts the right to transfer its shares and does not permit invitation to public to subscribe for any of its securities - Section 2 (68) of the Companies Act, 2013.

A company in which fifty one per cent or more of the shares are held by any one or more of the Central/ State Governments, including a subsidiary of such a company is called a Government Company. The word 'limited' is not required to follow the company's name in such companies. - Section 2 (45) of the Companies Act, 2013.

(c)One Person Company – is a company which has only one person as a member, and another person named as a Nominee.

Rules for Opening and Operations – Company's Account

• Cash withdrawals from the company's account should be permitted only against specific authorization by the company.

Preserved source visual / page 35 / Source error: public minimum 7; private minimum 2. Old fixed capital figures are obsolete.

Features	Public Limited Company	Private Limited Company
Minimum members	2	7
Maximum members	Unlimited	200
Minimum Directors	3	2
Minimum Capital	5 lakhs	1 lakh
Invitation to public	Yes	No
Quorum at AGM	5 Members	2 Members

• In order to avoid frauds, usually operations on a company's account are permitted under instructions of two or more authorised signatories jointly.

• Death of an authorised signatory does not require stopping of the payment of cheques signed by such signatory, since the company is in existence.

• A limited company in trading activity has implied powers to borrow, while a non- trading company is required to specify it in its Memorandum and Articles of Association.

• A cheque payable to the company should never be deposited in the personal account of any director or any employee, as it would amount to negligence under Sec. 131 of N.I. Act 1881.

• A company incorporated after the commencement of the Companies (Amendment) Act, 2019 and having a share capital shall not commence any business unless a declaration is filed by a director within a period of 180 days of the date of incorporation of the company, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him on the date of making of such declaration.

Documents for Opening of Company's Account

• Certified copy of Memorandum and Articles of Association

• Certified copy of Certificate of incorporation.

• Names of directors of the company as stated in the Articles/ Forms filed with the Registrar of Companies.

• List of beneficial owners

• Copy of resolution appointing the bank as company's bank and names of the persons authorised to operate the account with the mode of operation.

• Specimen signatures of all authorised officials who would operate the account.

• PAN of the company

Clubs/Associations/Unregistered Bodies

• These are bodies formed by a group of individuals for certain common objectives or purpose of any nature viz. social, cultural, religious, charitable, professional, etc.

• These may be created through some type of Memorandum of Understanding or similar document. These would usually have a set of bye-laws or Rules with which the affairs of these bodies are managed, and a Committee to look after

their management

Rules for Opening and Operations

• Copy of the bye laws/ rules of the organization

• Rules regarding the powers to operate bank accounts should also be noted.

• Operations in the accounts, especially the debits should be only for the activities of the organisation.

• Payments to any managing committee member or any other member in their individual capacity should be inquired into carefully.



Pause and apply

A company employee asks to operate an account. Check the board authority and mandate before accepting the instruction.

Documents for Opening of Club/ Unregistered Account

• Current account opening form signed by all the Managing Committee members.

• Specimen signature cards signed by authorised signatories. Copy of Bye Laws/ Rules.

• Resolution of the Managing Committee, regarding opening the account and authorised signatories.

• List of beneficial owners (If any).

• Memorandum of Understanding or similar documents,

• Documents required from KYC perspective

TRUSTS

A trust is an obligation annexed to the ownership of a property, arising out of confidence reposed in and accepted by a person for the benefit of another or of the owner. The person who reposes or declares confidence is called the author of the trust. The person who accepts the confidence is called the trustee. The person for whose benefit, the confidence is accepted is called the beneficiary. The instrument by which the trust is created is called the 'Trust Deed'.

Rules for Opening and Operations – Trust's Account

• Copy of the trust deed is to be examined to ascertain the powers and functions of the trustees.

• In the case of two or more trustees, all the trustees will operate the account jointly.

• On the death of one or more trustee(s), the authority is vested in the remaining trustees. When all the trustees are dead or retired, new trustees are appointed by the court.

• The insolvency of a trustee does not imply insolvency of the trust.

• Trustee(s) cannot delegate his/their powers, unless specifically authorised by the trust deed.

• Charitable trusts are required, in several states in India, to be registered with the charity commissioner or such authority under the Public Trust Act.

• It should always be ensured that all payments in the Trust account are made only in accordance with the provisions of the Trust Deed.

• Cheques payable to the Trust should not be collected for credit of private accounts of Trustees.

• Bank has no right to set off against the Trust Fund for debts owed by Trustees in their individual capacity.

Documents for Opening of a Trust's Account

• Current account opening form signed by all the trustees.

• Specimen signature cards signed by authorised signatories

• Trust Deed.

• A copy of the Registration Certificate.

• Trust Letter and resolution adopted by the Trustees should be obtained with regard to operation of the account signed by all the trustees.

• Permanent Account Number of the Trust or Form No. 60.

Executors and Administrators

• An Executor is a person named in the will and derives title immediately after the date of death of Testator for the purpose of administration of the property of the deceased. He must obtain a Probate from a court of law before acting as an Executor.

• An Administrator is a person appointed by the Court to manage the property of the deceased who had died without leaving any will.

• An Executor or an Administrator cannot delegate her power to a third party.

Rules for Opening and Operations – Account of Executor/ Administrator

• The account of an Executor/ Administrator should be opened strictly in

accordance with the Probate or a Letter of Succession or Letter of

Administration or the Administrator General's Certificate issued by a competent court or authority.

• The account is to be used only for the funds related to the Estate of the deceased.

• The account is opened in the name of the individual with the words "Executor" and "Administrator" suffixed.

• The funds in the account are to be disposed in accordance with the Probate of Letter of Succession.

Documents for Opening of an Account of an Executor/ Administrator

• Current account opening form signed by the Executor/ Administrator, and in case there are more than one by all the Executors/ Administrators.

• Specimen signature card signed by the Executor(s)/ Administrator(s).

• Will of the Deceased (if there is one).

• Letter of Execution/ Administration.

Co-operative Societies

• Rules and bye laws of the co-operative society are to be examined to ascertain if there are any restrictions on opening of a bank account with the commercial banks.

• Some states have restrictions as to opening a bank account other than with the co-operative banks.

• Investment of funds can be made with any bank or person carrying the business of banking – approved for this purpose by the Registrar.

• Resolution to open a bank account with the signatures of three persons, viz., president/secretary/ treasurer out of these three, signatures of the president and one of the others are essential.

Clarification / source page 39

A government company uses the statutory paid-up share-capital test, including qualifying subsidiaries. Obtain the actual statutory or delegated account authority; a government label alone does not authorise a signatory. [COMPANY]

Documents for Opening of a Co-operative Society's Account

• Current account opening form signed by the Managing Committee Members.

• Specimen signature card signed by the authorised signatories

• Resolution of the Managing Committee, authenticated as per the Bye-laws, for opening the bank account, and details of the authorised signatories

• Registration Certificate.

• A copy of the Bye-laws.

• the documents required from KYC perspective

Accounts Of Govt And Public Bodies

Rules for Opening of Account and Operations for a Government Department/

Public Body

• The account is to be used only for the purpose for which it has been permitted.

• The receipts in the account should be only from the specified sources.

• The payments from the account should be only to the recipients as per the purpose specified.

• Title of the Account should clearly indicate the nature of the account especially that it relates to government funds.

• In case of change in incumbency of the Authorised Officer, fresh documentation based on suitable notifications to be done. The same account will be continued.

Documents for Opening of an Account for a Government Department/ Public Body

• Account opening form signed by the Authorised Officer.

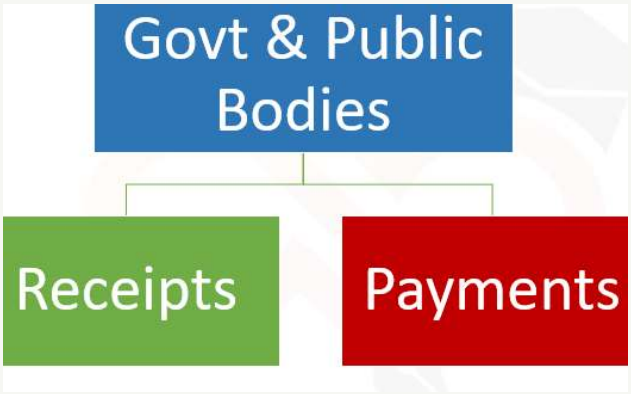
• Specimen signature card signed by the Authorised Officer.

• Government Order and/ or Notification authorising opening of the account, its purpose and sources and uses of funds.

Norms For Opening Current Accounts

• For persons not having borrowing arrangement with any scheduled commercial bank or payment bank, there is no restriction on opening current accounts by any bank, subject to necessary due diligence as per their Board approved policies.

Preserved source visual / page 39



Clarification / source page 40

The source describes the earlier Rs.5 crore/Rs.50 crore regime. The December 2025 revision exempts CC accounts from these restrictions and permits current/OD accounts without these restrictions below Rs.10 crore aggregate banking exposure; at or above that threshold, apply the revised eligibility and routing conditions. [CURRENT]

• There are restrictions on persons who have any borrowing arrangement or facility of any nature with a scheduled commercial bank or a payment bank.

• The system of obtaining 'No Objection Certificate' from lending banks has been replaced with the new regime.

• The nature of restrictions is different depending on the extent and nature of borrowing facilities.

Borrowers Having CC/OD Facility

• Borrowers, where the exposure of the banking system is less than 5 crore:

There is no restriction on opening current accounts or on providing CC/OD facility, subject to obtaining an undertaking that they shall inform the bank(s), as and when the credit facilities availed by them from the banking system reaches 5 crore or more.

• Borrowers where exposure of the banking system is 5 crore or more: Such borrower can maintain current account with any one of the banks with which it has CC/OD facility, provided that the bank has at least 10 per cent of the exposure of the banking system to that borrower.

• Borrowers, where the exposure of the banking system is 50 crore or more:

Banks shall put in place an escrow mechanism. Current account of such a borrower can only be opened/maintained by the escrow managing bank. Other lending banks can open 'collection accounts' but the funds will be remitted from these accounts to the said escrow account at the frequency agreed between the bank and the borrower.

• Borrowers where exposure of the banking system is 5 crore or more but less than 50 crore: There is no restriction on opening of current accounts by the lending banks. Non- lending banks may open only collection accounts.

• Borrowers where exposure of the banking system is less than 5 crore:

Banks may open current accounts subject to obtaining an undertaking from such customers to the effect that customers shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes 5 crore or more.

• Borrowers with no exposure to bank: Banks are free to open current accounts of prospective customers who have not availed any credit facilities from banking system, subject to due diligence as per their Board approved policies.

Monitoring Of Other Guidelines

• Banks maintaining collection accounts are permitted to debit fee/charges from such accounts before transferring the funds to the escrow account/CC/OD account of the borrower.

• Banks shall monitor all accounts regularly, at least on a half-yearly basis, specifically with respect to the exposure of the banking system to the borrower.

If there is a change in exposure of banks or aggregate exposure of the banking

system to the borrower which warrants implementation of new banking

arrangements, such changes shall be implemented within a period of three months from the date of such monitoring.

• Term loan drawals should be made directly to the suppliers instead of routing

through current account (or CC/OD account)

• Day to day expenses should be routed through CC/OD account, if there is one, else through current account.

• For computing exposure, all fund-based and non-fund based facilities are to be included.

• In case of proprietorship firms, all the borrowings in the name of the firm (i.e.

for business purposes) and in the name of the proprietor (i.e. for personal purposes) should be counted together.

List Of Accounts In Exempted Category

Obtaining Photographs Of Account Holders

• Banks, Local Authorities and Government Departments are exempt from this requirement. This may not be insisted for accounts of bank's own staff members only (Single/Joint).

• Photographs of all persons authorised to operate an account are requried.

• The photographs should be recent and the cost may be borne by the customers.

• Photocopies of an OVD with photograph would not suffice in place of photographs.

• Only one set of two photographs should be taken from a customer for all types of accounts in her name, even if opened subsequently.

• For joint accounts/ partnership accounts, a set of photographs of each joint depositor/ partner is needed.

Preserved source visual / page 41

(i)	Accounts for real estate projects [mandated under Section 4 (2) l (D) of the Real Estate (Regulation and Development) Act, 2016 (for maintaining 70% of advance payments collected from the buyers.)]
(ii)	Nodal or escrow accounts of payment aggregators/ prepaid payment instrument issuers for specific activities as permitted [by Department of Payments and Settlement Systems (DPSS), Reserve Bank of India under Payment and Settlement Systems Act, 2007.]
(iii)	Accounts for settlement of dues related to debit card/ ATM card/ credit card issuers/ acquirers.
(iv)	Accounts permitted under FEMA, 1999.
(v)	Accounts for the purpose of IPO / NFO /FPO/ share buyback/ dividend payment/ issuance of commercial papers/ allotment of debentures/ gratuity, etc. [mandated by respective statutes or regulators and are meant for specific/limited transactions only.]
(vi)	Accounts for payment of taxes, duties, statutory dues, etc. opened with banks authorized to collect the same, for borrowers of banks not authorized to collect such taxes, duties, statutory dues, etc.
(vii)	Accounts of White Label ATM Operators and their agents for sourcing of currency; Cash-in-Transit (CIT) Companies/ Cash Replenishment Agencies (CRAs)

Clarification / source page 42

LEI is a 20-character identifier, not a 20-digit number. The displayed 2023–2025 phase-in dates are historical deadlines. [LEI]

• For institutions, a set of photographs of each official authorised to open and operate the account must be obtained.

• For Savings bank account of a minor aged 10 years and above, the minor's photograph is needed.

• For minor's account, operated by the Guardian, latter's photograph is also to be obtained.

• For HUF, photograph of the "Karta" has to be obtained.

• For NRE, NRO, FCNR accounts photographs of the account holder, and the POA/ mandate holder are needed.

• During the operations, if a change is noticed in the photograph and the customer appearance, a recent photograph should be obtained from the customer, duly attested and affixed at all appropriate places.

Legal Entity Identifier

• (LEI) is a 20-digit alpha-numeric code used to uniquely identify parties to financial transactions worldwide. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier

Foundation (GLEIF)

• In India, LEI code may be obtained from Legal Entity Identifier India Ltd. (LEIL) (a subsidiary of the Clearing Corporation of India Limited (CCIL)), accredited by GLEIF as LOU.

• LEI system has been implemented for all participants in Over the Counter (OTC) markets for Rupee Interest Rate derivatives, foreign currency derivatives and credit derivatives in India.

• Banks including Scheduled Commercial banks (Other than RRBs), Local area Banks, Small Finance banks are required to make it mandatory for corporate borrowers having aggregate fund-based and non-fund-based exposure of 5 crore and above from any bank to obtain Legal Entity Identifier (LEI) registration and capture the same in the Central Repository of Information on Large Credits (CRILC).

• This has been implemented to borrowers, the exposure of whom to scheduled commercial banks is Rs 50 Cr or more.

Preserved source visual / page 42

Total Exposure	LEI to be obtained on or before
Above ₹25 crore	April 30, 2023
Above ₹10 crore, up to ₹25 crore	April 30, 2024
₹5 crore and above, up to ₹10 crore	April 30, 2025

• The guidelines on LEI stand extended to Primary (Urban) Co-operative Banks (UCBs) and Non-Banking Financial Companies (NBFCs).

• Borrowers who fail to obtain LEI codes from an authorized Local Operating Unit (LOU) shall not be sanctioned any new exposure nor shall they be granted renewal/enhancement of any existing exposure.

• Departments/Agencies of Central/ State Governments are exempted from this provision.

• All participants the net worth of which is Rs. 2000 million or more, shall obtain Legal Entity Identifier (LEI) codes. Non-resident entities undertaking financial transactions in the relevant markets shall also require LEI.

• All non-individual customers initiating or receiving transactions of Rs. 50 crore and above through RTGS and/ or NEFT must obtain LEI.

• RBI has decided that AD Category I banks, with effect from October 1, 2022, shall obtain the LEI number from the resident entities (non-individuals) undertaking capital or current account transactions of Rs. 50 crore and above (per transaction) under FEMA, 1999.

Practice / answer beside the question

Q01. Which statement correctly matches “Majority” in this chapter?

A. Normally attained at eighteen years.

B. Distinguish members, coparceners and the Karta.

C. Contain internal management regulations.

D. Ensure informed, independent consent.

Answer A / Majority: Normally attained at eighteen years.

Q02. Which statement correctly matches “Independent minor” in this chapter?

A. A separate legal person.

B. Bank-set age must not be below ten.

C. Obtain fresh operating instructions and specimen signature.

D. Dissolution is subject to the partnership contract.

Answer B / Independent minor: Bank-set age must not be below ten.

Q03. Which statement correctly matches “Guardian” in this chapter?

A. Apply the correct exposure and CC/OD regime.

B. A separate legal person.

C. Verify identity and authority separately.

D. The account must remain in credit.

Answer C / Guardian: Verify identity and authority separately.

Q04. Which statement correctly matches “HUF” in this chapter?

A. Explain terms and use appropriate witnessing safeguards.

B. Minimum seven members, subject to the statutory framework.

C. Coparcenary is not confined to sons.

D. Distinguish members, coparceners and the Karta.

Answer D / HUF: Distinguish members, coparceners and the Karta.

Q05. Which statement correctly matches “Memorandum” in this chapter?

A. Sets out the company’s constitution and objects.

B. Bank-set age must not be below ten.

C. The business and proprietor are not separate legal persons.

D. Normally attained at eighteen years.

Answer A / Memorandum: Sets out the company’s constitution and objects.

Q06. Which statement correctly matches “Trust” in this chapter?

A. A guardian may operate for a minor of any age.

B. Read the deed and trustee powers.

C. Verify identity and authority separately.

D. One Person Company is a distinct statutory category.

Answer B / Trust: Read the deed and trustee powers.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 20

Unit – 16 : Opening Accounts of Various Types of Customers

1. Indian Majority Act 1875 defines the age of majority to be 18 years.

2. Section 26 of the NI Act provides that a minor may draw, endorse, deliver and negotiate a negotiable instrument and as such, a minor can draw a cheque. The minor’s age should be above 13 years and should be literate. No overdraft is allowed in these accounts.

3. Two minors cannot open a joint account.

4. In an HUF, the members of a family are called coparceners and the eldest male child is called Karta (Manager), the Karta operates the account.

5. All the adult members have to sign account opening form while opening HUF account.

MURUGAN / PHYSICAL PAGE 21

6. Registration of a partnership is optional (except in states of Gujarat and Maharashtra where it is compulsory).

7. When there is an addition into the partnership, the old account can be continued ifthe balance is in credit, else old account should be closed and a new one should be opened. This process avoids Clayton’s Rule.

8. Death of a partner dissolves the partnership firm.

9. A public limited company – minimum 7 members, maximum unlimited members. M inimum paid up capital of Rs 5 Lakh.

10. A private limited company – minimum 2 members, maximum 50 members. For banking business maximum number is 20. Minimum paid up capital of Rs 1 Lakh.

11. A government company – minimum 51% of the shares are held by the government.

12. Internal rules of a company are mentioned in articles.

Read with these distinctions

Read the older lines with these corrections: independent minor operation uses a bank-set age not below ten, not a universal thirteen-year rule; coparcenary is not male-only; private-company membership is normally capped at 200 with exclusions; the old fixed minimum-capital figures are obsolete. Partnership dissolution is subject to contract. Verify state-specific registration requirements rather than memorising the source’s blanket state exception.

Reference desk / dated checks

COMPANY / India Code: Companies Act, 2013, sections 2, 3 and 103

CURRENT / Bank regulatory disclosure: 2025 changes to transaction-account restrictions

HSA / India Code: Hindu Succession Act, 1956, section 6

LEI / GLEIF: The Legal Entity Identifier

MINOR / RBI: Opening and operation of deposit accounts of minors, 21 April 2025

PARTNER / India Code: Indian Partnership Act, 1932, section 42

SERVICE / RBI: Customer Service in Banks (read with later amendments)

Coverage: 482 capsule text lines; 4 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Majority: Normally attained at eighteen years.	15. Partner’s death: Dissolution is subject to the partnership contract.
02. Minor account: A guardian may operate for a minor of any age.	16. Firm change: Review mandate, liability and account continuity.
03. Independent minor: Bank-set age must not be below ten.	17. Company: A separate legal person.
04. Minor balance: The account must remain in credit.	18. Memorandum: Sets out the company’s constitution and objects.
05. Attaining majority: Obtain fresh operating instructions and specimen signature.	19. Articles: Contain internal management regulations.
06. Guardian: Verify identity and authority separately.	20. Board resolution: Establishes authorised account operators.
07. Joint holders: Record the mandate agreed by all holders.	21. Public company: Minimum seven members, subject to the statutory framework.
08. Illiterate customer: Explain terms and use appropriate witnessing safeguards.	22. Private company: Normally two to 200 members, with statutory exclusions.
09. Visual impairment: Provide banking access without blanket exclusion.	23. OPC: One Person Company is a distinct statutory category.
10. Purdahnashin customer: Ensure informed, independent consent.	24. Government company: Apply the statutory 51% paid-up share-capital test.
11. HUF: Distinguish members, coparceners and the Karta.	25. Trust: Read the deed and trustee powers.
12. Daughters: Coparcenary is not confined to sons.	26. Society or club: Verify rules, registration and governing resolution.
13. Sole proprietor: The business and proprietor are not separate legal persons.	27. LEI: A 20-character legal-entity identifier.
14. Partnership deed: Read both constitution and operating authority.	28. Current-account controls: Apply the correct exposure and CC/OD regime.

A05 / Operational Aspects of Deposit Accounts



At the branch

A deposit account combines a product contract with operating instructions. Separate access during life, payment after death and ownership of the proceeds.

1. Choose deposit → 2. Record mandate and nomination → 3. Process transactions → 4. Review dormancy and claims

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 43

Accessibility: the source's blanket current-account exclusions must not override RBI instructions for visually impaired customers. [SERVICE]

JAIIB PPB Module A Unit 5: Operational Aspects Of

Deposit Accounts

Deposits

Deposits form a major portion of the resources available to the bank to carry out its other basic functions, viz. lending and investment. The deposit raising function of the bank takes into account not only the amount to be raised but also the average cost of the deposits because it has a major impact on the profitability of a bank.

Features of Current Accounts

• It is meant for individuals/institutions having large number/ volume of

transactions. No interest is payable by the bank on the deposits

• A current account cannot be opened by: (a) Minors (b) Pardanashin women. (c) Illiterate persons. (d) Blind persons.

• There is no restriction on the amount to be withdrawn or deposited in the account by the account holder at any time.

• Banks often stipulate minimum balance requirements, but there is no ceiling on the balance in the account.

• There is no restriction on the number of transactions in the account during any period of time.

• Accounts of individuals are operated by the account holder(s) in personal capacity, the accounts of legal entities are operated by the authorised signatories, in representative capacity.

Clarification / source page 44

BSBDA: four withdrawals are a minimum free entitlement, not an absolute ceiling. The April 2026 framework excludes digital payments such as NEFT, RTGS, UPI and IMPS (other than ATM transactions) from this count. The other-savings-account restriction concerns the same bank. [BSBDA]

• Accounts may be debited by cheques drawn either singly or jointly, or through net banking authorised by single user or more than one user.

• Account holders may issue standing instructions to the bank for executing debits as mandated in these instructions.

• Banks can debit the accounts for its charges, interest, etc. based on the customer authtorisation given in the account opening form, applications for credit facility or non-fund based facility, etc.

• Cash deposits and withdrawals are permitted in the account. For accounts of individuals, facility of withdrawal through ATMs is also provided.

Features of Savings Bank Accounts

• An annual review of both SB and CA, in which there are no operations for more than one year.

• Approach the customers and inform them in writing to advise the reasons for no operations in the account, and advise them to resume operations.

• SB and CA should be treated as inoperative/dormant if there no transactions for over two years.

• Where the customer has given a mandate for crediting the interest on TDs to the SB account, these should be treated as customer induced transactions and as operative account.

• Account is not treated inoperative in case where operations in the account have been stopped under Garnishee order or any Court Order. (ii) Where the nature of account itself permits only periodical and not regular operation. (iii) Where the account is under lien or charge for advances allowed to the same customer in another account. (iv) Where the account is showing debit balance.

Eligibility to Open Savings Accounts

• Banks are prohibited from opening savings account in the name of Government

departments/ bodies, Municipal Committees/ Panchayat Samitis etc

• Following categories of persons/ institutions are eligible to open savings accounts with

a bank:

i)Individuals either in single name or in joint names of two or more persons.

ii)Minors aged above 10 years can open and operate Savings bank account independently.

iii)Karta of HUF.

iv)Entities of the categories for which RBI has given special permission

Organisations for which Savings Bank Account is Permitted by RBI

Other Saving Bank Regulations

• Minimum Balance: Some banks lay down a condition for maintaining a minimum balance in the account. (ii) A notice of the shortfall amount and that if not regularized within one month from the date of notice, penal charges will be recovered should be given. (iii) If the balance remains continuously less than the prescribed minimum, the bank may close such an account or change the category of the account in consultation with the customer.

• Withdrawals: Sometimes number of withdrawals permitted during a period are restricted. (ii) Usually limit is also set for the amount that can be withdrawn at any point of time. (iii) Cash withdrawal through withdrawal form is permitted only for the account holder, and with pass book.

• Passbook: Pass books are issued in SB accounts at the time of opening the account and is issued to the customers after getting their acknowledgement.

• Transfer of accounts: At the written request of the customer, the SB account can be transferred from one branch to another branch of the bank free of any charges. (ii) All unused cheque leaves must be surrendered to the old branch.

(iii) The account opening form and specimen signature card must be transferred to the transferee branch. (iv) With the introduction of CBS and multi-city cheques, transfer of accounts is not essential. The base branch/ parent branch is changed.

• Staff accounts: The number of SB accounts of a staff member of the bank in his individual name or in joint names with family member(s), may be restricted. (ii) All cheques drawn on staff accounts should be scrutinized (iii) Third party cheques/DDs should not be collected in staff account. (iv) An account operated with disproportionately huge amounts must be watched.

• Closing of account: SB account may be closed on written request of the single/ all joint account holder(s). (ii) All the unused cheque leaves must be

Preserved source visual / page 45

(1)	Primary Co-operative Credit Society which is being financed by the bank.
(2)	Khadi and Village Industries Boards.
(3)	Agriculture Produce Market Committees.
(4)	Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in a State or a Union Territory except societies registered under the State Co-operative Societies Acts and specific state enactment creating Land Mortgage Banks.
(5)	Companies licensed by the Central Government under Section 8 of Companies Act, 2013 or Section 25 of Companies Act, 1956 or under the corresponding provision in the Indian Companies Act, 1913 and permitted, not to add to their names the words 'Limited' or the words 'Private Limited'.
(6)	Institutions other than those mentioned in sub-para (a) above and whose entire income is exempt from payment of Income-tax under the Income-Tax Act, 1961.
(7)	Government departments / bodies / agencies in respect of grants/ subsidies released for implementation of various programmes / Schemes sponsored by Central Government / State Governments subject to production of an authorization from the respective Central / State Government departments to open savings bank account.
(8)	Development of Women and Children in Rural Areas (DWCRA).
(9)	Self-help Groups (SHGs), registered or unregistered, which are engaged in promoting savings habits among their members.
(10)	Farmers' Clubs – Vikas Volunteer Vahini – VVV.

Clarification / source page 46

The cited deposit direction defines bulk deposits for scheduled commercial banks other than RRBs and for SFBs at Rs.3 crore and above. Individual rupee term deposits of Rs.1 crore and below must offer premature withdrawal. Distinguish bank categories. [DEPOSIT]

surrendered and the pass book presented. (iii) The pass book may be returned after updating and marking "account closed" in all pages. (iv) For the balance in the account a cheque/ withdrawal form must be obtained for effecting the payment.

Basic Savings Bank Deposit Account

Following basic minimum facilities should be offered free of charge, and without

any minimum balance requirement:

• Deposit of cash at bank branch as well as ATMs/CDMs

• Receipt/credit of money through any electronic channel deposit/collection of cheques including cheques drawn by Central/ State Government agencies and departments.

• No limit on number and value of deposits that can be made in a month.

• Minimum of four withdrawals in a month

• ATM Card A person can have only one BSBDA in the banking system. Any other existing SB account(s) in that bank should be closed within 30 days from the date of opening a BSBDA.

Fixed Deposits

• These are deposits of specified sum of money placed with the bank for a specific period. The period of for fixed deposits ranges from 7 days to 120 months. No interest shall be paid, where premature withdrawal takes place before 7 days.

• Fixed deposits can be accepted for any amount. Fixed deposits of Rs. 2 crore and above in case of scheduled commercial banks (other than RRBs) and small finance banks, and those of Rs. 15 lakh and above in case of RRBs have been categorized as “Bulk Deposits” by RBI.

• Bank should issue term deposit receipt indicating therein full details.

• These deposits are repayable to the customer/ renewable as per the instructions of the customer given in the fixed deposit account opening form.

• Premature encashment is permitted in case of exigency/need. The interest is paid as applicable for the period for which deposit was actually with the bank.

• Banks shall can offer TDs without premature withdrawal option. Provided that the TDs for Rs. 15 lakh and below must have premature-withdrawal facility.

• Overdue TDs may be renewed at the customer’s request, as per the policy duly approved by the Board of the bank.

• Interest on fixed deposits is paid periodically, normally at quarterly intervals.

But it may also be paid, at the customer’s choice, on maturity along with the Principal amount.

• Periodical interest is paid, as per the customer’s instruction, in cash, by credit/ remittance to the SB or CA of the customer only.

• If a Term Deposit matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings account or the

contracted rate of interest on the matured deposit, whichever is lower. Maturity amount of Rs. 20,000/- and above is to be paid in account only.

Loan Against Term Deposits

• Loans against TDs may be given to the customers on surrender of duly discharged TD receipt with a letter of lien.

• The permissible loan amount is determined after margin of say 5% to 20% on the principal amount or on the value along with accrued interest.

• Interest rate on the loan is at certain percentage over the rate paid on the TD, as per the policy of the bank.

• If TD is foreclosed, the loan is first recovered from the proceeds of the deposit.

Recurring Deposits

• These deposits are in the nature of fixed amounts being paid by the depositor every month for a predetermined period.

• The maturity amount is arrived at based on the cumulative amount to be deposited on due dates over the period of deposit, plus interest computed based on compounding at quarterly rests.

• If the periodical instalments are not paid regularly on due dates, the amount payable on maturity is adjusted for the delayed payment on account of reduction in the amount of interest payable.

• In the event of foreclosure of a RD, the interest is paid without compounding for the incomplete quarter.

• No RD is accepted under FCNR (B) Scheme.

Other Type of Deposits

• Cash Certificates: These are issued at a discounted value at the rate applicable on the TD of similar tenor and amount. The face value of the certificate of deposit represents the maturity value of the amount paid at the time of investing in the certificate of deposit.

• Annuity Deposits: Annuity deposits are the reverse of RDs. The principal amount deposited is returned to the customer in periodical (say monthly or quarterly) instalments over the tenor of deposit that will include both interest

and principal component

• Certificate of Deposits (CDs): These are short-term negotiable money market

instruments

(i)CDs can be issued by the SCBs, RRBs, and SFBs to all persons resident in India.

(ii) They are issued in dematerialized form in denominations of Rs. 5 lakh, with minimum Rs. 5 lakh.

(iii)Tenor of CDs should be minimum 7 days and maximum 1 year.

(iv) Interest rate may be fixed or floating linked to the benchmark rate specified by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

Clarification / source page 48

Inoperative status uses absence of customer-induced transactions for over two years; not every bank-generated entry resets the clock. Use the revised RBI instructions, including activation safeguards. [INOPERATIVE]

(v) CD’s may be issued at discounted value or with a coupon for interest.

(vi) CDs are traded in the secondary market.

(vii) Buyback of CDs can be done, if offered to all investors in the specific issue of CDs.

(viii) Issuance of CDs attracts stamp duty.

Action By Banks In Inoperative Accounts/Unclaimed Deposits

• An annual review of both SB and CA, in which there are no operations for more than one year.

• Approach the customers and inform them in writing to advise the reasons for no operations in the account, and advise them to resume operations.

• SB and CA should be treated as inoperative/dormant if there no transactions for over two years.

• Where the customer has given a mandate for crediting the interest on TDs to the SB account, these should be treated as customer induced transactions and as operative account.

• Account is not treated inoperative in case where operations in the account have been stopped under Garnishee order or any Court Order. (ii) Where the nature of account itself permits only periodical and not regular operation. (iii) Where the account is under lien or charge for advances allowed to the same customer in another account. (iv) Where the account is showing debit balance.

In 2014, RBI has established ‘The Depositor Education and Awareness Fund (the Fund)’ (DEAF) under the provisions of Banking Regulation Act. The banks are required to transfer the credit balance in any account or any deposit in a bank remaining unclaimed or inoperative for ten years or more to the fund.

Salient aspects of this scheme are:

• The amount is credited to the Fund, within three months from the expiry of ten years.

• The Fund is utilized for promotion of depositors' interest as specified by RBI from time to time.

• The depositor is entitled to claim from the bank his/her deposit or any other unclaimed amount or operate the account, even after the amount has been transferred to the Fund.

• The bank will pay the amount to the depositor/claimant and claim refund of such amount from the Fund.

In case of Foreign Currency Deposits that remain unclaimed RBI has advised to crystallise the deposits, that is convert the credit balances into Indian Rupee. The

following provisions should be followed:



Pause and apply

A nominee requests a deceased depositor's balance. Separate the bank's discharge procedure from the heirs' succession rights.

• For deposits being inoperative for three years from the date of maturity:

the conversion to be at the end of the third year, at the exchange rate prevailing as on that date.

• For deposits with no fixed maturity period being inoperative for three years: after giving a three month notice at the last known address of the depositor as available, the conversion to be at the end of the notice period at the prevailing exchange rate.

• The depositor can claim the amount either in Indian Rupee or the foreign currency equivalent.

• If amount had been transferred to Fund, banks shall repay the customer, along with interest if applicable, and lodge a claim for refund from the Fund for an equivalent amount.

• The rate of interest payable by banks to the depositors/ claimants on amount transferred to the Fund shall be 3.0% simple interest p.a. w.e.f. 11th May 2021.

Unremunerative/ Undesirable Accounts

• Unremunerative accounts: These are the accounts in which balances quite often fall below the minimum balance prescribed and/or the accounts which have been opened and maintained with very meager balance just to avail other facilities like purchase of DDs etc.

• Undesirable accounts: These are the accounts wherein cheques are often

drawn for amounts in excess of balance available and without any

arrangement, which results in return of many cheques.

Operational Instructions In Joint Accounts

• "Jointly" without survivorship clause

• "Jointly or Survivors"

• "Either or Survivor"

• "Anyone or Survivor"

• "Former or Survivor"

• "First named or Survivors":

• Variations in Instructions:

• Stop Payment Instructions for a Cheque:

• Incapacity of a Joint Holder

• Closure of Account:

• Mode of Operation not Specified:

• Held Jointly with a NRI:

Rules for Claim of Deposit in Account of Deceased Constituent

Clarification / source page 50

From 1 November 2025, deposits permit up to four nominees, simultaneously or successively; lockers and safe-custody articles permit successive nomination only. Nomination facilitates discharge and does not extinguish succession claims. Old forms and single-nominee descriptions are historical. [NOMINATION]

Note: On the death of depositor or one of the depositors in case of joint accounts the mandate regarding the operations of his account should be treated as cancelled and cheques signed by him/her after the notice of death should not be paid.

Conversion of Accounts – Single into Joint and Joint into Single

To convert an existing single account into a joint or 'E or S' account

• A letter from the existing account holder stating the purpose of converting into joint account, the relationship with the proposed joint holders, the specimen signature the

required KYC form and OVDs of new person will be obtained

To convert joint account into single account

• It is desirable to close such account by getting necessary instructions from all the

existing account holders

The Banking Regulations Act, 1949 was amended by section 37 of the Banking Laws (Amendment) Act, 1983 by introducing new sections 45 ZA to ZF which provides for nomination facilities to Banks' customers in respect of deposit accounts, safe deposits, and safe vault lockers.

Preserved source visual / page 50 / Historical source table/forms. Apply the current nomination and claim conditions explained above.

ACCOUNT STATUS	WHO CAN CLAIM AMOUNT
Death of any of the joint account holders	Survivors
Death of all of the joint account holders	Nominee
Deposit made by Hindu jointly with wife or any other person	Legal heirs including his wife
Individual Saving account with no nominee	Legal heirs

Preserved source visual / page 50 / Historical source table/forms. Apply the current nomination and claim conditions explained above.

FORMS	Nomination Facility
Form DA-1	for making nominations by the depositors.

Note: Under no circumstance a Nominee be permitted to become the depositor of the account. No loan can be granted to a nominee against the deposit of the deceased

Guidelines Regarding Payment of Cheques

Preserved source visual / page 51 / Historical forms and shorthand. Apply the current nomination and operating-authority rules.

Form DA-2	For cancellation of said nominations to be made by the depositors.
Form DA-3	For variations of said nominations to be made by the depositors.

Preserved source visual / page 51 / Historical forms and shorthand. Apply the current nomination and operating-authority rules.

Type Of Account	Who Can Nominate
In the name of Individual	Sole account holder
In the Joint names	All joint account holders jointly
Minor-operated by guardian	Guardian
Minor jointly with guardian	Guardian both on behalf of minor and Guardian himself
Minor- operated by self	Person lawfully entitled/empowered to act on behalf of the minor.

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Preserved source visual / page 51 / Historical forms and shorthand. Apply the current nomination and operating-authority rules.

Cheque Particulars	Measures To Follow
Cheque Leaf	Should be from drawer's current cheque book
Cheque Date	Must not be post-dated or stale

Clarification / source page 52

NI Act section 18 gives precedence to the amount in words where words and figures differ. Do not learn "must match" as the statutory rule. Attachment depends on the order, capacity and legally attachable debt. [NI]

Garnishee Order

Garnishee order is an attachment order issued by a Court under order 21, Rule 46 of Civil procedure code, that is obtained by the judgment creditor attaching the funds belonging to a judgment debtor in the hands of latter's debtors, including a bank (the Garnishee).

Preserved source visual / page 52

Payee Name	Filled up legibly
Amount	Figures and Words should match
Signature	Correctly by account holder/authorised person
Authority	Rubber stamp is affixed & signed by authorised officials
Bearer or Order Cheque	Bearer signature and his name & address on the back of cheque
Account Balance	Sufficient balance is available or overdraft arrangement is allowed
Alterations	Under CTS, alteration is not allowed.

Preserved source visual / page 52 (continued)

Stopped Cheque	**account holder has not instructed for not making payment of the cheque presented.**
Enforcement Actions	**No restriction due to instructions from legal authorities**
Account holder's Status	**No notice/information of death/insolvency/lunacy**
Crossed Cheque- AC Payee only	**The proceeds are credited to the payee's account only.**
Crossed Cheque- payment in cash	**the drawer has to cancel the crossing & write pay cash along with his signature.**

Clarification / source page 53

The 1961 Income-tax Act references are retained as source history. For present proceedings identify the applicable legislation, commencement and savings provisions; do not transfer section numbers to the 2025 Act. [TAX]

The service of the garnishee order nisi is the preliminary proceedings of a Court. This is to be followed by subsequent proceedings of a Court to make it absolute, when it is called garnishee absolute.

The order applies only to the balance in the account of the customer (i.e. amount accruing due or payable to the customer) at the time of receipt of the order.

GARNISHEE ORDER (Do's and Don'ts)

• Joint accounts: When a garnishee order is in a single name and the customer/s account is in joint names with the operation clause 'either or survivor', the monies lying in such account cannot be attached.

• Trust accounts: The outstanding amount in a trust account cannot be attached, if the judgment – debtor has deposited the money as a trustee.

• Partnership accounts: The personal account of a partner can be attached for the firm's debt because partners are jointly and severally liable for the firm's debts. The firm's account cannot be attached for individual debts of the partners.

• Balances out of India: Balances held outside India cannot be attached.

Attachment Orders

Attachment Orders under The Income Tax Act, 1961

The attachment orders issued by the Income tax Officers under section 226 (3) of Income Tax Act, 1961. This Act lays down certain procedures regarding recovery of tax from the assesses in default.

The order of the ITO may attach:

(a) Any debt due and payable;

(b) Debts due but not payable on the date of receipt of the notice (c) Any amount received subsequently.

Other Attachment Orders

Attachment Orders under The Income Tax Act, 1961

• Saving or Current Account: If the attached amount is lying in a CA/SB, the amount must be transferred to suspense account or block the amount.

• Term Deposit Account: If the attached amount is in TD, a noting in the System should be made - “Under Attachment by IT/Commercial Tax Authorities”. No foreclosure of such attached TD should be allowed. No loan against such attached TD should be sanctioned.

• Joint Account: If the bank holds amount of the asses see jointly with any other person the shares of the joint holders in such account shall be presumed to be equal and this amount is to be attached.

Practice / answer beside the question

Q01. Which statement correctly matches “Demand deposit” in this chapter?

A. Read the authority, amount and scope of the order.	B. Repayable on demand under its terms.
C. Does not make all lifetime acts unilateral.	D. Review authority before paying later presentations.

Answer B / Demand deposit: Repayable on demand under its terms.

Q02. Which statement correctly matches “Savings account” in this chapter?

A. Operates in the stated priority order.	B. Apply the permitted product terms and disclosed penalty.
C. Combines saving with permitted payment access.	D. Follow the customer’s mandate and bank policy.

Answer C / Savings account: Combines saving with permitted payment access.

Q03. Which statement correctly matches “Annuity deposit” in this chapter?

A. Review authority before paying later presentations.	B. Follow the customer’s mandate and bank policy.
C. No minimum-balance requirement.	D. Returns principal and interest periodically.

Answer D / Annuity deposit: Returns principal and interest periodically.

Q04. Which statement correctly matches “Premature withdrawal” in this chapter?

A. Apply the permitted product terms and disclosed penalty.	B. Returns principal and interest periodically.
C. Builds savings through instalments.	D. Follow the customer’s mandate and bank policy.

Answer A / Premature withdrawal: Apply the permitted product terms and disclosed penalty.

Q05. Which statement correctly matches “Death notice” in this chapter?

A. Requires the stipulated joint authority.	B. Review authority before paying later presentations.
C. Section 18 gives priority to the amount in words.	D. Up to four under the November 2025 framework.

Answer B / Death notice: Review authority before paying later presentations.

Q06. Which statement correctly matches “Unclaimed funds” in this chapter?

A. Builds savings through instalments.	B. No other savings account in the same bank.
C. Transfer to the prescribed fund does not destroy the claim.	D. Read the product’s rate, basis and credit interval.

Answer C / Unclaimed funds: Transfer to the prescribed fund does not destroy the claim.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter's correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 16

6. Garnishee order is an order of the court obtained by a judgement creditor attaching the funds belonging to a judgement debtor (customer) in the hands of his debtors, including a bank, who is called a garnishee, advising not to release the money until directed by the court to do so.

7. Cheques presented after service of the garnishee order should be returned with the "refer to drawer" remark.

8. Preliminary proceedings of a court are called garnishee order nisi.

9. Subsequent proceedings of a court are called garnishee absolute.

10. When a bank has a prior right to set-off, the bank is not bound by the garnishee order.

11. When a lien is marked on fixed deposit receipts, it cannot be attached by a garnishee order.

12. Any excess over the lien is attachable by the garnishee order.

13. Orders received from the court for recovery of certain debts are called garnishee order.

14. Orders received from the revenue authorities (income tax/sale tax authority) are called attachment order.

MURUGAN / PHYSICAL PAGE 17

15. Credits received after garnishee orders are not attachable because debts due or accruing at the time of receipt of order are only attachable.

16. In "Joint Accounts" with "Either or Survivor" clause, "Garnishee Order" if in a single name, cannot be attached.

17. In "Joint Accounts" with "Former or Survivor" clause, "Garnishee Order" if in a single name, can be attached.

18. The personal accounts of a partner can be attached with garnishee order for the firm's debt.

19. The trust's account cannot be attached garnishee order.

20. When a customer has more than 1 account and one is in credit and other is in debit, then the garnishee order can be attached only if the net result is in credit.

Read with these distinctions

Attachment depends on the actual order and the debtor's legal capacity. A prior lien or set-off does not permit the bank simply to ignore a court order; determine the attachable net debt and respond appropriately. Joint-account and trust-account assertions need the facts and scope of the order. Use the correct prescribed return reason rather than a universal "refer to drawer" rule.

Reference desk / dated checks

BSBDA / RBI: BSBD account amendments, 4 December 2025; effective April 2026

DEPOSIT / RBI: Interest Rate on Deposits direction, displayed June 2024 consolidation

INOPERATIVE / RBI: Inoperative Accounts / Unclaimed Deposits, 1 January 2024; read with later amendments

NI / India Code: Negotiable Instruments Act, 1881

NOMINATION / Ministry of Finance / PIB: nomination amendments effective 1 November 2025

SERVICE / RBI: Customer Service in Banks (read with later amendments)

TAX / Income Tax Department: Income-tax Act, 2025 resources

Coverage: 350 capsule text lines; 8 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Demand deposit: Repayable on demand under its terms.	15. Jointly: Requires the stipulated joint authority.
02. Term deposit: Placed for an agreed tenor.	16. Either or survivor: Does not make all lifetime acts unilateral.
03. Savings account: Combines saving with permitted payment access.	17. Former or survivor: Read the mandate for operation during life.
04. Current account: Used for frequent transactions.	18. Death notice: Review authority before paying later presentations.
05. Recurring deposit: Builds savings through instalments.	19. Nomination: Facilitates payment on death.
06. Annuity deposit: Returns principal and interest periodically.	20. Deposit nominees: Up to four under the November 2025 framework.
07. BSBDA balance: No minimum-balance requirement.	21. Simultaneous nomination: Uses specified shares under the applicable rules.
08. BSBDA withdrawals: At least four free withdrawals monthly.	22. Successive nomination: Operates in the stated priority order.
09. BSBDA other savings: No other savings account in the same bank.	23. Legal heirs: Succession rights are distinct from the bank’s discharge.
10. Interest: Read the product’s rate, basis and credit interval.	24. Inoperative trigger: Over two years without customer-induced transactions.
11. Premature withdrawal: Apply the permitted product terms and disclosed penalty.	25. Unclaimed funds: Transfer to the prescribed fund does not destroy the claim.
12. Deposit receipt: Check name, amount, tenor and maturity instructions.	26. Garnishee: The bank holds an attachable debt for the judgment debtor.
13. Renewal: Follow the customer’s mandate and bank policy.	27. Attachment: Read the authority, amount and scope of the order.
14. Overdue deposit: Distinguish maturity from renewal.	28. Words and figures: Section 18 gives priority to the amount in words.

A06 / Handling Clearing, Collection and Cash



At the branch

Cash and clearing require a visible chain of custody. The customer’s instruction, the instrument, the accounting entry and the settlement must agree.

1. Receive and verify → 2. Authorise independently → 3. Record and settle → 4. Reconcile exceptions

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

JAIIB PPB Module A Unit 6: Operational Aspects Of

Handling Clearing/ Collection/Cash

Cheque Truncation System (CTS)

RBI introduced Cheque Truncation System (CTS) for inter-bank clearance of cheques without their physical movement. The cheques are paid based on their electronic images. With suitable amendments to The Negotiable Instruments (NI) Act, 1881, The Information Technology (IT) Act, 2000 and The Bankers’ Book Evidence (BBE) Act, 1891, the legal framework for cheque truncation and e-chewues was put in place, in 2002. CTS was introduced with effect from February 1, 2008, and is now fully operational. The MICR-based cheque processing has been discontinued.

Characteristics of CTS

• It is an electronic image of a paper cheque.

• Only the banks involved and the Clearing House can truncate a cheque (i.e. create an electronic image of a cheque). The drawer/holder of a cheque cannot truncate a cheque.

• The electronic image of the ‘cheque truncation’ substitutes the physical cheque from the point and time of truncation onwards.

• Truncation is done only during the course of a clearing cycle to reduce the time taken for realisation.

• The paper cheque, after truncation, is kept in the custody of the bank/clearing house that truncated the cheque.

• The addition of the digital signature of the truncating bank/Clearing House to the electronic image of the cheque truncation is optional.

Advantages Of Cheque Truncation System (CTS)

The CTS benefits banks. Furthermore, it has changed the cheque clearance method in a way to save the time and effort of the employees in the bank.

• Customer Service - It enhances the customer experience.

• Operational Benefit - The process is faster and more advanced.

Clarification / source page 55

Cash-holding limits, custody arrangements and staff responsibilities depend on the bank’s approved policy. The source examples are not universal monetary limits.

• Commercial Benefit - Low expenditure of resources on clerical work and stationery.

• Provides Fraud Prevention Mechanism - Secure method, preventing fraud.

Approach to CTS

The CTS is operated on a Grid basis, dividing the country in three Grids viz. Northern, Western and Southern, each having a separate Clearing House (CH) located at Delhi, Mumbai and Chennai respectively. Cheques pertaining to all cities/ centres in a Grid are presented to the respective Clearing House, through a service branch of the bank. There

can be three types of participants:

• Member banks of the Clearing House.

• Sub Member banks who will participate through members

• Indirect members who can participate for submission of data and images

through a Member bank but will maintain a separate settlement

Stepwise Process Involved in Clearing Cheques using CTS:

• Step 1: First, an electronic image of the cheque is captured by the presenting

bank (collecting bank) through a 'Capture System'

• Step 2: The presenting bank then sends this data in an encrypted format to the

'Clearing House', from where it will be sent to the paying bank

• Step 3: The cheque-related data is transmitted between the collecting and paying bank through a Clearing House Interface, which is sort of a gateway.

• Step 4: The next step is 'Presentation Clearing', which involves the process of data reading. After which, the data will be sent to the concerned paying bank

• Step 5: Once the paying bank gets the all the images and data through the

clearing house, the payment is processed

Background This new system of cheque clearing was first introduced on a pilot basis by the RBI in New Delhi on February 1, 2008. CTS was then launched in 2011 in Chennai. It was then launched as a nation-wide system from August 1, 2013 after the various benefits of the scheme were analysed.

On the whole, CTS is a more secure, fast and organised approach to clearing cheques in the country.

Use of CTS 2010 cheques

In order to avoid any fraud, it is advisable that CTS 10 cheques are used. The

following are the features of CTS 2010 cheques:

• These types of cheques are very image friendly

• In-built with more security features

• The IFSC Code is generally printed on the top of the cheque leaf

• Quality of paper will be maintained

• The bank's logo will ideally be in a type of invisible ink

Precautions Customers have to take while using CTS 2010 Cheques

• Customers should ideally request their banks to use only CTS 2010 cheques

• Use pens that are made of suitable image-friendly ink for clear and error-free

reading

• Avoid overwriting on cheques

• Use a new cheque leaf instead of making alternation on a cheque leaf As far as customers are concerned, there will be no big change in the way they have been issuing or using cheques. The only thing that customers need to keep in mind is to use an ink that is compatible with the image recognition tool.

CTS – Positive Pay System

Banks have been informing customers about making mandatory, the positive pay system, a process of reconfirming the key details of high-value cheques.

The Reserve Bank of India (RBI) had issued guidelines for banks to implement this system from January 1, 2021, to safeguard against cheque frauds. Here is all you need

to know:

What is the Positive Pay System?

The Positive Pay System, developed by the National Payments Corporation of India, is a process of reconfirming the key details of large value cheques. Under this system, a person issuing the high-value cheque submits certain essential details of that cheque like date, name of the beneficiary/payee amount etc. to the drawee bank. The details can be submitted through electronic means such sas SMS, mobile app, internet banking, ATM etc. The details are cross-checked while issuing the cheque and any discrepancy is flagged.

What is the limit on the amount for the system?

RBI has told banks to enable the facility for all account holders issuing cheques for amounts of ₹50,000 and above. It has also said that while availing of the facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheque values of ₹5 lakh and above.

RBI Guidelines on Collection of Instruments

Formulating Cheque Collection Policies:

• Banks are required to formulate policies regarding immediate credit of local/outstation cheques, time frame for collection of local/outstation instruments and interest payment for delayed collection.

• Banks have been advised to reframe their Cheque Collection Policies (CCP) to include compensation payable for the delay in the collection of local cheques as well. well.

• In case, no rate is specified in the CCP for delay in realisation of local cheques, compensation at SB interest rate should be paid for the corresponding period of delay.

Collection Of Account Payee Cheques

• RBI has prohibited the banks from crediting an ‘account payee’ cheque to the account of any person other than the payee named therein.

• Account payee cheques deposited with the sub-member for credit to their customers’ account can be collected by the sponsor member bank of the Clearing House.

• RBI has advised that banks may consider collecting account payee cheques drawn for an amount not exceeding Rs.50,000/- to the accounts of co- operative credit societies, if the payees are the constituents of such co-operative credit societies.

Payment of Cheques/ Drafts/ Pay Orders/ Banker’s Cheques

• The RBI has reduced the validity of these instruments to three months, effective from April 1, 2012 in exercise of powers conferred by Sec. 35A of the BR Act, 1949.

Cheques/ Instruments Lost in Transit at Paying Bank's Branch

• The onus of such loss lies with the collecting banker and not the account holder.

The collecting banker should have a right to recover the amount reimbursed to the customer from the paying bank.

Bills for Collection

• Bills for collection including bills discounted required to be collected through another bank at the realising centre should be forwarded directly by the forwarding office to the realising office.

Payment of Interest for Delays in Collection of Bills

• The lodger's bank should pay interest to the lodger for the delayed period in respect of collection of bills at the rate of 2% p.a. above the rate of interest payable on balances of SB accounts.

Cash and Its Custody

General



Pause and apply

The clearing total differs from the ledger. Trace the exception and reconcile it before closing the day.

Clarification / source page 58

CTS requires secure image/data transmission and authentication. Do not interpret source shorthand as permitting unauthenticated clearing. [CTSFAQ]

• The Cash and Small Coin Balances must be kept in the Strong Room in the joint custody of the Head Cashier/Cashier and the Manager put in charge of joint custody.

• In case of Currency-Chest branches, the currency chest has to be maintained under joint custody of two designated Officers-in-charge.

Strong Room/ Safe

• The Strong Room or Safe must be under the dual custody of the Head Cashier/Cash Officer and the Manager in charge of cash.

• Both officials must be present when the Strong Room/Safe is opened.

• For currency- chest branches, the custody of the currency chest will remain with two designated Officers-in-Charge.

Cash Balance of the Bank

• The bulk of the Cash Balance should always be in the Strong Room/Safe under joint custody, while the remainder (Cashier's Hand Balance) will be left with the Head Cashier/Cashier during the day for the day's transactions.

• The Supervising official will personally count all notes of denominations above Rs. 100/- and will verify a portion of all other notes based on the 'clip system'.

• Banks are required to sort the notes into three categories viz. Issuable, Soiled and Mutilated.

• The Supervising Official will verify at the close of the working day that the 'Joint Custody Balance' corresponds exactly with the entries in the Cash Balance Book and will also invariably check the entire Cash Officer's hand balance of loose notes and also check the loose packets in Hand Balance and initial against the items checked in the Cash Balance Book.

• Before the Strong room is closed, the Supervising Official, Head Cashier/Cash Officer/Cashier should check the bundles kept in the vault and verify the same with the Reserve Cash Register. This is called as 'gross check'.

Shortage or Excess in Cash

• Any shortage is recovered on the same day from the Cash Officer/ Head Cashier/Cashier.

• Failing recovery on the same day, the amount of shortage should be debited to the Suspense Account taking the signatures of the staff responsible for the shortage on the reverse of the voucher under report to the Head Office and adjusted on recovery from them.

• Any excess in the Cash Balance must be credited to Sundry Deposit Account on the same day itself.

Remittance of Cash

Cash remittances sent from one office to another should always be entrusted to authorised employees.

• Night journeys and unusual halts at junctions mid-way should be avoided.

• The remittance box should always be transported in the van provided by the bank.

• The box should be securely chained and locked to a staple or other fixed object in the van in which the remittance is carried.

• A Register should be maintained to record all cash remittances to and from branches.

Cash Replenishment at ATMs

• Keeping the ATM machines filled with adequate amount of cash is important to avoid cash-out situations and to maintain uninterrupted service to the customers. Also, large unutilized cash stock should not remain at any ATM.

• Each bank has its own cash replenishment policy. Also, a security manual describes the security measures required when replenishing cash in the ATMs.

Insurance

• All cash remittances in transit are covered under the Blanket Insurance Policy obtained by the bank.

• It must be ensured that the maximum limit laid down therein for any one carriage is not exceeded under any circumstances.

• Cash in safe and on the counter should be kept within insured limit as directed by Head Office from time to time.

• Care should be taken to ensure that no excess cash over the insured limit is kept.

Custody of Keys

• Particulars of all important keys, including those of the Cash Officer/Head Cashier/Cashier, must be entered in the Key Register containing the details of all keys (both originals and duplicates) that are in use at the branch, and with whom are they held.

• The main keys of the branch shall on no account leave the possession of the officials under whose charge these have been entrusted except as specified by the bank or in the case of incapacitation for duty when taken over by another bank official as directed by the controlling Office. Grave consequences due to slackness in this should be strongly impressed on concerned officials.

• In case of safes previously handled by unauthorized officials the levers of the locks should be changed.

• Any important key showing signs of serious wear should be informed to the Head Office and a new lock may be ordered.

Clarification / source page 60

Continuous CTS phase 1 began on 4 October 2025. RBI's 24 December 2025 instruction deferred phase 2 until further notice; the earlier proposed date is not proof of implementation. [CTS]

• No important key pertaining to cash counters, safes, lockers, strong rooms, almirahs, main entrance may be made and no repairs to such locks be carried out without the prior permission of Head Office.

• All repairs must be carried out under the personal supervision of the Manager and the Cash Officer/ Head Cashier/Cashier having joint control over the Strong Room or safe.

• Whenever a lock is changed or the levers of locks changed, it must be noted in the Key register.

Duplicate Keys:

Banks must follow the instructions as mentioned below with regard to the

Duplicate Keys:

• The officials holding the keys of the Strong Room/ Safe room and safes/cupboards containing cash, gold ornaments under pledge to the bank and other securities, will pack their duplicate keys individually in a strong cloth lined envelope which will be sealed by them with their seals.

• The sealed packets must be placed in a strong wooden or tin box locked or otherwise secured and wrapped in water-proof cloth.

• The box of duplicate keys should be kept in safe custody with another local branch of the same bank, or of another bank. The instructions for safe custody should be signed by the Manager/Cashier or the Supervising Official whose keys are deposited therein.

• The instructions for delivery should also be conveyed to the branch of the bank holding the box in safe custody by means of a letter signed by all the officials holding the keys.

Security Measures At Branches & ATMs

• Location and Layout

• Protective Fittings

• Electronic Security Gadgets

• Fire Protection

• Security Guards

• Fire Alarms

• Currency Chests- Specific Measures

• Police Support

• Payment & Movement of Bulk cash

• Operational Measures

• Detection and Impounding of Counterfeit Notes

Practice / answer beside the question

Q01. Which statement correctly matches “Cash receipt” in this chapter?

A. Document custody transfers and insurance conditions.

B. Claims presented on the paying bank.

C. Count and authenticate before acknowledging.

D. Carries the visual instrument into processing.

Answer C / Cash receipt: Count and authenticate before acknowledging.

Q02. Which statement correctly matches “Dual control” in this chapter?

A. Follow the prescribed counterfeit-note process.

B. Must support reliable examination.

C. Cheque Truncation System.

D. Separate custody or authorisation responsibilities.

Answer D / Dual control: Separate custody or authorisation responsibilities.

Q03. Which statement correctly matches “Excess cash” in this chapter?

A. Manage within the bank’s prescribed limits.

B. Captures and submits the instrument details.

C. Record and escalate; do not conceal it.

D. Instruments lodged for collection.

Answer A / Excess cash: Manage within the bank’s prescribed limits.

Q04. Which statement correctly matches “Clearing” in this chapter?

A. Manage within the bank’s prescribed limits.

B. Exchanges claims between participating banks.

C. Magnetic Ink Character Recognition.

D. Cheque Truncation System.

Answer B / Clearing: Exchanges claims between participating banks.

Q05. Which statement correctly matches “Return reason” in this chapter?

A. Separate custody or authorisation responsibilities.

B. Record and escalate; do not conceal it.

C. Use the accurate authorised reason.

D. Claims presented on the paying bank.

Answer C / Return reason: Use the accurate authorised reason.

Q06. Which statement correctly matches “Duplicate presentment” in this chapter?

A. Manage within the bank’s prescribed limits.

B. Magnetic Ink Character Recognition.

C. Captures and submits the instrument details.

D. Prevent the same cheque being collected twice.

Answer D / Duplicate presentment: Prevent the same cheque being collected twice.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 13

5. The Reserve Bank has taken many initiatives towards introducing and upgrading safe and efficient modes of payment systems in the country to meet the requirements of the public at large.

6. Since paper based payments occupy an important place in the country, Reserve Bank had introduced Magnetic Ink Character Recognit ion (MICR) technology for speeding up and bringing in efficiency in processing of cheques.

7. Later, a separate High Value Clearing was introduced for clearing cheques of value Rupees one lakh and above. This clearing was available at select large centres in the country (since discontinued).

8. Recent developments in paper -based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core -banking enabled branches of banks), introduction of cheque truncation

system (to restrict physical movement of cheques and enable use of images for payment processing), framing CTS -2010 Standards (for enhancing the security features on cheque forms) and the like.

MURUGAN / PHYSICAL PAGE 20

2. In facultative endorsement, the notice of dishonour is waived.

3. The 3 negotiable instruments are promissory notes, bills of exchange and cheque.

Read with these distinctions

MICR, Speed Clearing and CTS describe different stages of payment-system development. High Value Clearing is explicitly historical. Read CTS timing with the dated implementation note in the core reading.

Reference desk / dated checks

CTS / RBI: Continuous CTS clearing, 24 December 2025

CTSFAQ / RBI: Cheque Truncation System FAQ

Coverage: 244 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Cash receipt: Count and authenticate before acknowledging.	15. Paying bank: Checks whether the cheque should be paid.
02. Cash payment: Verify instrument, authority and available funds.	16. Settlement: Discharges the resulting interbank obligations.
03. Dual control: Separate custody or authorisation responsibilities.	17. Reconciliation: Matches instruments, files and entries.
04. Cash balance: Reconcile physical cash with the books.	18. Return reason: Use the accurate authorised reason.
05. Vault custody: Follow approved access and key controls.	19. MICR: Magnetic Ink Character Recognition.
06. Excess cash: Manage within the bank’s prescribed limits.	20. CTS: Cheque Truncation System.
07. Shortage: Record and escalate; do not conceal it.	21. Truncation: Stops physical movement at the prescribed point.
08. Suspect note: Follow the prescribed counterfeit-note process.	22. Cheque image: Carries the visual instrument into processing.
09. Customer receipt: Give an accurate acknowledgement.	23. Image quality: Must support reliable examination.
10. Cash remittance: Document custody transfers and insurance conditions.	24. Original instrument: Retain according to applicable requirements.
11. Clearing: Exchanges claims between participating banks.	25. Duplicate presentment: Prevent the same cheque being collected twice.
12. Outward clearing: Instruments lodged for collection.	26. Positive Pay: Cross-checks key cheque details supplied by the drawer.
13. Inward clearing: Claims presented on the paying bank.	27. Exception handling: Investigate mismatches rather than force settlement.
14. Presenting bank: Captures and submits the instrument details.	28. Continuous clearing: Distinguish implemented phases from announced plans.

A07 / Banker's Special Relationship



At the branch

Authority to act, a right to retain security and a right to adjust balances are different concepts. Identify the right before exercising it.

1. Read authority → 2. Identify property or debt → 3. Check capacity and conditions → 4. Record action and notice

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 61

A mandate or power of attorney confers only the authority actually granted. A power of attorney may be limited; notarisation and stamping requirements depend on the instrument and applicable law.

JAIIB PPB Module A Unit 7- Bankers' Special Relationship

Mandate

• A mandate contract is an agreement between the parties whereby the mandatary shall have the obligation to perform a task on behalf of the mandator, and the mandator shall only have to pay remuneration, if so agreed upon or provided for by law.

• The customer informing the bank that he has authorized a person (mandate) to operate the account on his behalf.

• The signatures of the mandate are obtained in the mandate letter and are verified by the customer.

• The mandate is normally issued for a short and temporary period.

• A mandate is not acceptable from institutions. Institutions can issue a power of attorney.

Power of attorney

• Power of attorney (authorization) is a document in which individuals,

representatives at law of legal entities authorize other persons to

represent or act on his (her) behalf in establishment and/or performance of civil transactions.

Two types of POA are generally granted:

• General or Universal

• Special or Limited Note: The mandate and power attorney are the rights cast upon a third person to act on behalf of the principal person/s. The rights of mandate and power of attorney holders are very similar in the operation of bank accounts but they are issued for different reasons and purposes. A mandate is a simple letter of authority, signed by a constituent authorizing the bank to permit a certain named person to operate the account on his/her behalf.

Letter of authority

A letter of authority is to either divulge sensitive material or to delegate a specific task.

Whereas a power of attorney gives someone else complete power to act and make

decision on their behalf; here the power could be regarding a specific task, such as purchase of a property, a business deal, etc., or the power could be absolute, i.e.

complete power to make all decisions on their behalf.

Comparison between Power of Attorney and Letter of Authority

Preserved source visual / page 62

	Power of Attorney	Letter of Authority
Type	Legal document	Legal document
Function	Delegates power to another person or entity to act and make decisions on their behalf	Delegate sensitive legal, health or financial obligation to another person or entity
Purpose	To act as you and make decisions on your behalf.	To be present on your behalf and carry out a task.
Authority	Complete Authority – Can do everything on their behalf	Partial Authority – Can only do something on their behalf

Preserved source visual / page 62 (continued)

Contents	Must specify full particulars of the concerned parties and provide precise, in-depth details for clarity and communication purposes.	Must specify full particulars of the concerned parties and provide precise, in-depth details for clarity and communication purposes.
Power	More Powerful	Less Powerful
Task used for	Should be used for more complicated or specialized tasks	Should be used for less complicated tasks
Details	More detailed	Less detailed
Directions	Sets out the directions in which the tasks should be complete	May or may not specify the directions in which the tasks should be completed
Notarized	Notarized Certificate	Simple letter. No notary requires.

etc.

etc.

Banker's Lien

Lien is the right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid. The banker's lien is an implied pledge. A banker acquires the right to sell the goods which came into his possession in the ordinary course of banking business, in case the debt is not paid. Section 171 of the Indian Contact Act 1872, gives to the banker an absolute right of general lien on all goods and securities received by the banker.

Where is right can apply?

• To sell: A banker's general lien gives the right to sell the debtor's properties.

• To a specific person: The right under section 171 is given not only to the banker but also to factors, wharfingers, attorneys of high courts and policy brokers. As such, no separate agreement is required.

• Against the customer: The right is exercised on the goods and securities of the customer only. The right cannot be exercised when the debtor has a joint account.

Where is right cannot Apply?

• Safe Custody Article: When a customer deposits securities, ornaments and other valuable for their safe custody with a banker, the letter acts as trustee/ bailee, therefore the bank cannot excreise the right of lien unless covered by a special agreement.

• Documents/ Money deposited for specific purpose: Document/money deposited with a specific purpose cannot be taken under lien.

• Immature Debts: Lien cannot be exercised when the debt has not yet matured.

The bank discounts a 90 days bill for Rs 50000 maturity on 17-11-14 could not have a lien over it before its maturity date.

•

Preserved source visual / page 63

Uses	Business Deal, Property Purchase, Make medical decisions on your behalf, etc.	Pick up government documents on your behalf, gain access to your private information or files, collect information on your behalf, pay bills or collect revenue on your behalf, etc.



Pause and apply

A trustee also owes a personal loan. Trust capacity matters; do not treat every balance as the trustee's own money.

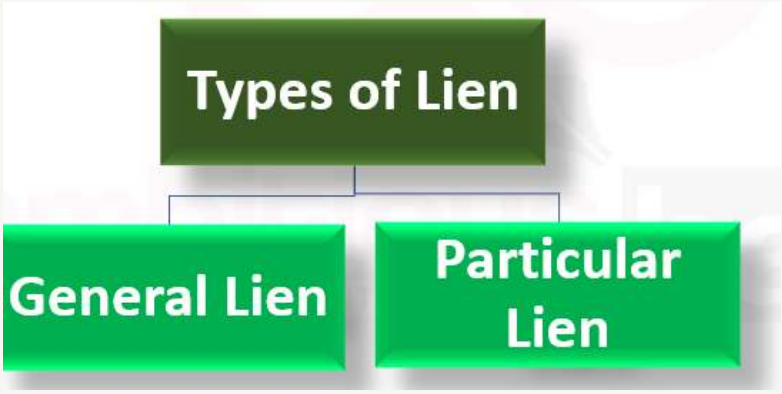
Clarification / source page 64

Section 171 recognises a banker's general lien subject to a contract to the contrary. Safe custody, specific-purpose delivery and capacity issues may prevent its use. A lien is not an unrestricted licence to sell. [CONTRACT]

Banker's Rights- Right of Appropriation

Section 59, 60, 61 of Indian Contract Act, deal with appropriation of payments. If a customer maintains more than one account with a bank and he deposits some amount then he has the first right to indicate to which account the amount should be credited. If he does not exercise this right, then bank can credit the amount to any of his accounts including an account which is time barred by limitation. Clayton's rule is related to appropriation of payments and is applicable in case of running borrowal accounts like cash credit or overdraft. This rule is applicable in case of death, insolvency, insanity of a joint borrower or partner or guarantor or retirement of a partner or revocation of guarantee by guarantor. As per Clayton's rule, credit entry will set off debits in the chronological order of time. This means that first item on the debit side will be discharged first by a credit and so on. For example in a firm's cash credit account, there was a debit balance of Rs 5 lac when one of the partners died. The bank continued

Preserved source visual / page 64 / Read lien and sale statements with the conditions in the clarification panel.



Preserved source visual / page 64 / Read lien and sale statements with the conditions in the clarification panel.

General Lien	Particular Lien
It is defined under Sec 171 of Indian Contract Act, 1872	It is defined under Sec 170 of Indian Contract Act, 1872
It is a right to retain the possession of goods till all the amount due are paid or discharged	It is a right to retain possession only of goods or securities for which dues have arisen and not other dues
It is exercised against goods even without involvement of labour or skill i.e. general balance of accounts	It is exercised for recovery of charges regarding labour and skill
It can only be exercised only by bankers, factors, wharfingers, attorneys of high court and policy brokers	It can be exercised by all creditors

Clarification / source page 65

Set-off requires legally mutual obligations in the same capacity and applicable conditions. Source statements about deceased accounts or attachment are not substitutes for examining the specific debt and order. [CONTRACT]

operations in the account. Rs 4 lac were deposited and Rs 3 lac were withdrawn. The estate of deceased partner is liable only for one lac i.e 5 lac minus Rs 4 lac.

Right Of Set Off?

The contract between the banker and borrower is a contract between debtor and creditor. The contract implies that the borrower promised to repay the money borrowed by him. Right of set off is the right of the bank to combine the two accounts of the same person where one account which is in credit balance and the other account is in debit balance in order to cover a loan default. The banker can exercise the right of set-off only when the money owed to him is a sum certain, which is due and where there is no agreement, express or implied to the contrary.

Practice / answer beside the question

Q01. Which statement correctly matches “Mandate” in this chapter?

A. Verify the authorised person’s specimen.	B. Record it and stop unauthorised future acts.
C. May exclude an inconsistent general lien.	D. Authority to perform specified acts.

Answer D / Mandate: Authority to perform specified acts.

Q02. Which statement correctly matches “Agent” in this chapter?

A. Acts within the authority granted.	B. Allocates a payment among debts.
C. Do not assume an agent may appoint another agent.	D. Check that the debtor owns the property concerned.

Answer A / Agent: Acts within the authority granted.

Q03. Which statement correctly matches “General authority” in this chapter?

A. First examine the allocation indicated by the debtor.	B. Broader powers remain bounded by the document.
C. Applies when legally available without debtor allocation.	D. A legal instrument conferring stated powers.

Answer B / General authority: Broader powers remain bounded by the document.

Q04. Which statement correctly matches “Lien” in this chapter?

A. The person granting authority.	B. Relates to charges for work on the particular goods.
C. A right to retain qualifying property.	D. Limited to the specified matter or transaction.

Answer C / Lien: A right to retain qualifying property.

Q05. Which statement correctly matches “Possession” in this chapter?

A. A running-account allocation principle, subject to context.	B. A central condition for combining balances.
C. Relates to charges for work on the particular goods.	D. Central to a possessory lien.

Answer D / Possession: Central to a possessory lien.

Q06. Which statement correctly matches “Appropriation” in this chapter?

A. Allocates a payment among debts.	B. First examine the allocation indicated by the debtor.
C. Check death, incapacity and other terminating events.	D. Authority to perform specified acts.

Answer A / Appropriation: Allocates a payment among debts.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter's correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 16

1. A mandate (an unstamped agreement) is an authority giv en by the account holder in favour of a third person to do certain acts on his behalf.

2. Institutions cannot issue mandate, instead they issue a power of attorney.

3. Power of Attorney is a legal document (as it is a stamped document and is executed in th e presence of a notary public/magistrate of a court/authorized government official) executed by one person called donor (principal) in favor of another person called donee agent to act on behalf of the former, as per the authority given in the document.

4. Donor means the person who issues Power of Attorney and don ee means the person to whom Power of Attorney is given.

5. General/universal power of attorney is issued for acting in more than one transaction while special/limited Power of Attorney is issued for only one transaction.

MURUGAN / PHYSICAL PAGE 17

21. A lien is a right of the banker to retain possession of the goods a nd securities owned by the debtor until the debt due from the latter is paid.

22. The banker's lien is an implied (understood) pledge (promise/guarantee).

23. In case of lien, the bank can sell the goods and securities in case the debt is not paid under section 171 of the Indian Contract Act 1872.

24. Lien cannot apply in safe deposit locker.

25. Set-off means adjusting debit balance in one account with an account having credit balance of the same customer.

26. A deceased credit account and a customer debit account cannot be combined.

Read with these distinctions

A mandate or power of attorney confers its stated powers; institutions can authorise operations through their proper governing instruments. Stamping/attestation depends on applicable law. General lien is conditional and does not give an unrestricted power of sale. Set-off and deceased-account treatment depend on mutuality, capacity and the actual debts.

Reference desk / dated checks

CONTRACT / India Code: Indian Contract Act, 1872, appropriation and lien provisions

Coverage: 142 capsule text lines; 5 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Mandate: Authority to perform specified acts.	15. Safe custody: Not automatically subject to a general lien.
02. Principal: The person granting authority.	16. Specific purpose: May exclude an inconsistent general lien.
03. Agent: Acts within the authority granted.	17. Ownership: Check that the debtor owns the property concerned.
04. Power of attorney: A legal instrument conferring stated powers.	18. Possession: Central to a possessory lien.
05. Special authority: Limited to the specified matter or transaction.	19. Sale: Requires the applicable legal right and procedure.
06. General authority: Broader powers remain bounded by the document.	20. Set-off: Adjusts mutual debit and credit obligations.
07. Signature: Verify the authorised person’s specimen.	21. Same capacity: A central condition for combining balances.
08. Revocation: Record it and stop unauthorised future acts.	22. Trust funds: Do not treat them as the trustee’s personal funds.
09. Authority review: Check death, incapacity and other terminating events.	23. Debt maturity: Check whether the obligations are due.
10. Delegation: Do not assume an agent may appoint another agent.	24. Notice: Follow the applicable contractual and legal requirements.
11. Lien: A right to retain qualifying property.	25. Appropriation: Allocates a payment among debts.
12. Particular lien: Relates to charges for work on the particular goods.	26. Debtor’s instruction: First examine the allocation indicated by the debtor.
13. General lien: May secure the general balance due.	27. Creditor’s allocation: Applies when legally available without debtor allocation.
14. Section 171: Banker’s general lien, subject to contrary contract.	28. Clayton’s rule: A running-account allocation principle, subject to context.

A08 / Foreign Exchange Remittance Facilities for Individuals



At the branch

A foreign-exchange request begins with residence, purpose and the permitted route. The currency amount alone never establishes eligibility.

1. Determine residence → 2. Classify purpose → 3. Check permission and limit → 4. Document and report

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 65

FEMA extends to the whole of India. IFSC/GIFT arrangements have special provisions; they are not a blanket territorial exclusion. [FEMA]

JAIIB PPB Module A Unit 8: Foreign Exchange Remittance

Facilities for Individuals

Evolution Of FEMA

• For a long time after independence, foreign exchange in India was treated as a controlled commodity because of its limited availability.

• Exchange control was introduced under the Defence of India Rules on September 3, 1939. The statutory power for exchange control was provided by the Foreign Exchange Regulation Act (FERA) of 1947, which was replaced by a more comprehensive Foreign Exchange Regulation Act, 1973.

• Significant developments in the external sector resulted in a changed environment. Keeping this in view the Foreign Exchange Management Act (FEMA) was enacted to replace FERA, effective from June 1, 2000.

• It brought a new management regime of Foreign Exchange consistent with the emerging framework of the World Trade Organization (WTO). This act made the offences related to foreign exchange as civil offences as against criminal offences under the FERA.

• It extends to the whole of India, except the Gujarat International Foreign Tec- City. It relaxed the controls on foreign exchange in India, made external trade transactions easier. The switch to FEMA shows the change on the part of the government approach to foreign capital.

Main Features of FEMA

FEMA aimed at consolidating and amending the laws relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets in India.

• FEMA empowers the Central Government to impose restrictions.

• The transactions in foreign exchange should be made only through an Authorized Person.

• Payments to or receipts from any person outside India, as also other deals in foreign exchange and foreign security, are restricted.

• Foreign exchange transactions, foreign security dealings or owning or holding immovable property abroad by people living in India are restricted.

• Transactions involving foreign exchange or foreign security and payments from outside the country to India cannot be undertaken, without general or specific permission of RBI.

• Foreign exchange transactions under the current account can be restricted by the Central government, based on public interest.

• RBI is empowered by FEMA to subject the capital account transactions to a number of restrictions.

• People living in India are permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad if the currency, security or property was owned or acquired when he/she was living outside India, or when it was inherited to him/her by someone living outside India.

Important Terms

• Authorised Dealer (AD): a person authorised as an authorised dealer under sub-section (1) of section 10 of FEMA.

• Authorised Dealer Category I: entities which are authorised by the RBI to carry out all permissible current and capital account transactions as per directions issued from time-to-time.

• Authorised Dealer Category II: entities which are authorised by the RBI to carry out specified non-trade related current account transactions.

• Authorised Dealer Category III: entities which are authorised by the Reserve Bank to carry out specific foreign exchange transactions incidental to their business/ activities.

• Authorised Person (AP): an authorised dealer, money changer, off-shore banking unit or any other person authorised under sub-section (1) of section 10 to deal in foreign exchange or foreign securities.

• Capital account transaction: a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India.

• Current account transaction: a transaction other than a capital account transaction and includes: (i) payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business, (ii) payments due as interest on loans and as net income from investments, (iii) remittances for living expenses of parents, spouse and children residing abroad, and (iv) expenses in connection with foreign travel, education and medical care of parents, spouse and children.

Clarification / source page 67

For currency declaration, distinguish foreign-currency notes above USD 5,000 from aggregate foreign exchange above USD 10,000; either applicable trigger matters. [FOREX]

• Foreign Portfolio Investment: is any investment made by a person resident outside India in capital instruments where such investment is (a) less than 10 percent of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company or (b) less than 10 percent of the paid up value of each series of capital instruments of a listed Indian company.

• Not permanently resident: is a person resident in India for employment of a specified duration or for a specific job, the duration of which is not more than three years.

• Non-Resident Indian (NRI): a person resident outside India who is a citizen of India.

• Person of Indian Origin (PIO): a person resident outside India who is a citizen of any country other than Bangladesh or Pakistan and has Indian ancestory.

• Person resident in India: (i) a person residing in India for more than 182 days during the course of the preceding financial year but does not include:

(A) a person who has gone out of India or who stays outside India, in either case- - (a) for or on taking up employment outside India, or (b) for carrying on a business or vocation outside India, or (c) for any other purpose, as would indicate his intention to stay outside India for an uncertain period.

Bringing In of Foreign Exchange

Foreign exchange in any form can be brought into India freely without any limit, as per

certain procedures:

Currency Declaration Form: When foreign exchange is brought into India by a person, a declaration to the Customs Authorities in Currency Declaration Form (CDF) is to be

made, except in following cases:

• If currency notes, bank notes and/or traveler's cheques do not exceed USD

10,000 or its equivalent, and/ or

• If foreign currency notes do not exceed USD 5,000 or its equivalent.

Purchase Of Foreign Currency From Public

Payment in cash in Indian Rupees for foreign currency notes and/ or travellers' cheques purchased is permitted, with following ceilings per transaction: –

• From resident persons: USD 1,000 or equivalent

• From Foreign visitors/ Non-Resident Indians: USD 3,000 or equivalent.

Taking Out of Foreign Currency

Taking out foreign exchange in any form, other than foreign exchange obtained from an authorised dealer or a money changer is prohibited.

Sales Against Reconversion of Indian Currency

AP may convert into foreign currency, unspent Indian currency held by non-residents at the time of their departure from India, provided a valid Encashment Certificate is produced.

In following cases unspent rupees can be converted to foreign currency without an

enchashment certificate:

• Amount up to Rs.10,000/- (AP is satisfied about the bona fide reasons for not having the encashment certificate, and - The departure is within the following seven days).

• Foreign tourists (not NRIs) may be permitted to reconvert rupees withdrawn from ATM upto Rs.50,000/- against following documents: - Valid Passport and Visa, - Air Ticket confirmed for departure within seven days, and -

Original ATM withdrawal slip

Inward Remittances

• Inward remittance refers to transfer of money made to a country from any foreign country. The transaction is initiated in a foreign country by the person making the remittance to a person in the recipient country.

• There are no restrictions for a resident individual for receiving inward remittances through AD banks in India.

• Foreign exchange due or accrued as remuneration for services rendered, whether in or outside India, or in settlement of any lawful obligation, or an income on assets held outside India, or as inheritance, settlement or gift, is to be sold (surrendered) to an authorised person within 180 days from the date of its receipt.

Approved Remittance Methods To India

• Bank Wire Transfer

• Bank Money Order

• Foreign Currency Cheques

• Foreign Currency Drafts

• Remittance Cards

• Direct Deposit/ACH Transfer

Outward Remittances

• Release of foreign exchange to persons resident in India for various current account transactions is governed by Foreign Exchange Management (Current Account Transactions) Rules, 2000. These rules have categorized current

account transactions in the following three categories:

• Transactions expressly prohibited – Schedule I -Transactions permitted with prior approval from the concerned Ministry/ Department of the Government of India – Schedule II – Transactions that can be permitted by Authorised Dealers upto the threshold ceilings specified – Schedule III.



Pause and apply

A traveller asks for exchange. Establish residence, purpose and the permitted route before quoting the release limit.

Clarification / source page 69

LRS permits resident individuals up to USD 250,000 per financial year for permitted transactions. It is not a corporate/HUF scheme and does not override prohibited purposes. [LRS]

• The transactions covered under Schedule II or Schedule III are exempted from the requirement of prior approval of the Government of India or the

Reserve Bank respectively:

i)Resident Foreign Currency Accounts

ii)Exchange Earners' Foreign Currency (EEFC) Accounts

Prohibition on Drawal of Foreign Exchange

Drawal of foreign exchange by any person for the following purpose is prohibited:

• Transaction specified in the Schedule I

• Travel to Nepal and/or Bhutan

• Transaction with a person resident in Nepal or Bhutan. This may be permitted by RBI by special or general order, with such conditions as considered necessary.

International Credit Card

• The restrictions contained in FEMA are not applicable to International Credit Cards (ICCs) used by residents for expenses, while on a visit outside India.

• ICCs cannot be used in any manner for prohibited items, like lottery tickets, banned or proscribed magazines, participation in sweepstakes, payment for call- back services.

• Use of ICC for payment in foreign exchange in Nepal and Bhutan is not permitted.

• There is no aggregate monetary ceiling separately prescribed for use of ICCs through internet.

Liberalised Remittance Scheme

• For resident individuals RBI has eased the restrictions for outward remittances under the Liberalized Remittance Scheme (LRS) introduced in 2004.

• It is available to resident individuals, including minors.

• It is not available to corporates, partnership firms, HUF, Trusts, etc.

• Maximum amount permitted in a financial year (April to March) is USD 250,000 per head.

• There is no restriction on the number of transactions.

• Can be used for any permitted current account or capital account transaction or any combination.

• Remittance for margins or margin calls to overseas exchanges/ counterparty are not allowed.

• Cannot be used to give a gift to another resident individual by remitting funds to the latter's foreign currency account overseas.

• Travellers proceeding to countries other than Iraq, Libya, Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States - not exceeding USD 3000 per visit or its equivalent.

• Travellers proceeding to Iraq or Libya - not exceeding USD 5000 per visit or its equivalent.

Clarification / source page 70

International-card access does not exempt a transaction from FEMA or prohibited-purpose rules. Check the route and applicable reporting rather than treating the card as blanket permission. [LRS]

• Travellers proceeding to Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States - full exchange may be released.

• A resident individual may remit up to USD 250,000 in one FY as gift to a person residing outside India or as donation to an organization outside India.

• A person going abroad for employment, business trip, medical expenses, study abroad, maintenance of relatives, can draw foreign exchange up to USD 250,000 per FY.

• A resident individual may surrender received/ realised/ unspent/ unused foreign exchange to an AP within a period of 180 days.

• A returning traveller is permitted to retain, foreign currency, travellers' cheques and currency notes up to USD 2000 and foreign coins without any ceiling beyond 180 days, and utilize it for his subsequent visit abroad.

Indo Nepal Remittance Scheme

• Indo-Nepal Remittance Facility Scheme (Scheme) was launched by the RBI (in consultation with Nepal Rastra Bank) in May 2008 as an option for cross- border remittances from India to Nepal.

• The system was launched with only oneway remittances from India to Nepal.

• A ceiling of INR Rs.2,00,000 is fixed per remittance.

• Banks may accept cash from walk-in customers or non-customers. The ceiling of Rs. 50,000 per remittance with a maximum of 12 remittances in a year applies for such remittances.

• The remittances from India are in Indian Rupees, and the payment to the beneficiaries, is in Nepalese Rupees.

• The Nepal remittances are processed in different NEFT batches in NCC, Mumbai and channelized to Nepal using the SBI payment gateway specially created for Nepal remittances.

• Remittances are paid to the beneficiaries in Nepal through the branches of Nepal State Bank Ltd. and their approved Agents.

• Cash remittances are accepted from non-customers only. In such cases, the remitter has to produce any identification document.

• The address and telephone/ mobile number of the sender as also the beneficiary in Nepal are also captured while sending a remittance.

Practice / answer beside the question

Q01. Which statement correctly matches “FEMA” in this chapter?

A. Foreign Exchange Management Act, 1999.	B. Affects the rupee cost or proceeds.
C. Check the permitted release and supporting information.	D. Must satisfy the applicable route and conditions.

Answer A / FEMA: Foreign Exchange Management Act, 1999.

Q02. Which statement correctly matches “Residence” in this chapter?

A. Acts within the RBI authorisation granted.	B. Apply FEMA’s definition, including purpose exceptions.
C. Changes specified cross-border assets or liabilities.	D. April to March.

Answer B / Residence: Apply FEMA’s definition, including purpose exceptions.

Q03. Which statement correctly matches “AD bank” in this chapter?

A. Use the relevant current-account provisions.	B. Acts within the RBI authorisation granted.
C. Processes permitted foreign-exchange transactions.	D. April to March.

Answer C / AD bank: Processes permitted foreign-exchange transactions.

Q04. Which statement correctly matches “LRS eligibility” in this chapter?

A. Is not the same as residential status.	B. Processes permitted foreign-exchange transactions.
C. Check the permitted release and supporting information.	D. Resident individuals, including eligible minors.

Answer D / LRS eligibility: Resident individuals, including eligible minors.

Q05. Which statement correctly matches “Education” in this chapter?

A. Assess the applicable permitted remittance route.	B. Cannot be legitimised by staying below a limit.
C. Affects the rupee cost or proceeds.	D. Not an HUF remittance facility.

Answer A / Education: Assess the applicable permitted remittance route.

Q06. Which statement correctly matches “Currency declaration” in this chapter?

A. Cannot be legitimised by staying below a limit.	B. Consider both notes and aggregate exchange triggers.
C. Changes specified cross-border assets or liabilities.	D. Apply FEMA’s definition, including purpose exceptions.

Answer B / Currency declaration: Consider both notes and aggregate exchange triggers.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter's correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 7

30. Foreign Exchange Management Act (FEMA), 1999 is applicable- a. To the whole of India.

b. Any Branch, office and agency, which is situa ted outside India, but is owned or controlled by a person resident in India.

Read with these distinctions

This FEMA territorial point is relevant to remittances. The source unit's money-market and benchmark-rate material is outside this chapter and remains deferred.

Reference desk / dated checks

FEMA / India Code: Foreign Exchange Management Act, 1999

FOREX / RBI: Foreign exchange facilities for residents FAQ

LRS / RBI: Liberalised Remittance Scheme Master Direction

Coverage: 214 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. FEMA: Foreign Exchange Management Act, 1999.	15. LRS HUF use: Not an HUF remittance facility.
02. Territorial extent: The whole of India.	16. Prohibited purpose: Cannot be legitimised by staying below a limit.
03. Residence: Apply FEMA's definition, including purpose exceptions.	17. Travel: Check the permitted release and supporting information.
04. Citizenship: Is not the same as residential status.	18. Education: Assess the applicable permitted remittance route.
05. Authorised person: Acts within the RBI authorisation granted.	19. Medical expenses: Use the relevant current-account provisions.
06. AD bank: Processes permitted foreign-exchange transactions.	20. Gifts: Must satisfy the applicable route and conditions.
07. Current account: Distinguish from a capital-account transaction.	21. Outward remittance: Money sent from India to an overseas recipient.
08. Capital account: Changes specified cross-border assets or liabilities.	22. Inward remittance: Money received from outside India.
09. Purpose: Must be genuine and permitted.	23. Exchange rate: Affects the rupee cost or proceeds.
10. Documents: Support identity, purpose and the transaction route.	24. Commission: Separate it from the exchange conversion.
11. LRS eligibility: Resident individuals, including eligible minors.	25. Currency declaration: Consider both notes and aggregate exchange triggers.
12. LRS ceiling: USD 250,000 per financial year under the cited direction.	26. Reconversion: Retain the required evidence of lawful acquisition.
13. Financial year: April to March.	27. Records: Preserve the transaction's purpose and evidence.
14. LRS corporate use: Not available to companies or partnership firms.	28. Cards abroad: Do not override FEMA prohibitions.

A09 / Operational Aspects of NRI Business



At the branch

Choose an account by residence, currency, eligible credits and repatriation. NRE, NRO and FCNR(B) solve different needs.

1. Establish non-resident eligibility → 2. Choose currency and purpose → 3. Check credits and debits → 4. Review return to India

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

JAIIB PPB Module A Unit 9: Operational Aspects Of NRI

Business

NRI Business

FEMA empowers RBI to frame regulations to restrict, regulate and the maintenance of deposits between a person resident in Ind Prohibition and a person resident outside India.

Clarification / source page 71

The account rules are conditional. Avoid reading every non-resident as eligible for every account or every credit as freely repatriable. [NONRES]

Non Resident External Rupee Account (NRE)

• These accounts can be opened with ADs and certain other banks (including cooperative banks) authorised by RBI to maintain such accounts.

• These can be: savings, current, recurring or fixed deposit account, etc.

• Joint accounts are permitted for: two or more NRIs and/or PIOs or for an NRI/PIO with a resident relative(s) on ‘former or survivor’ basis.

• Operations on an NRE account may be allowed by a resident in terms of PoA or other authority granted by the non-resident account holder, who can undertake:

(a) Withdrawals for local payments (b) Remittance to the account holder

himself through banking channels (c) Make permitted investments in

India.

• The resident PoA holder is not allowed to: (i) open a NRE account; (ii) repatriate outside India funds in the account except to the NRI account holder (iii) make payment as gift to a resident on behalf of the account holder; (iv) transfer funds to another NRE account.

Permitted Transactions in Savings/ Current Accounts: (NRE)

Permitted Credits:

• Remittances to India in any permitted currency

• Foreign currency/ bank notes tendered by account holder on temporary visit to

India

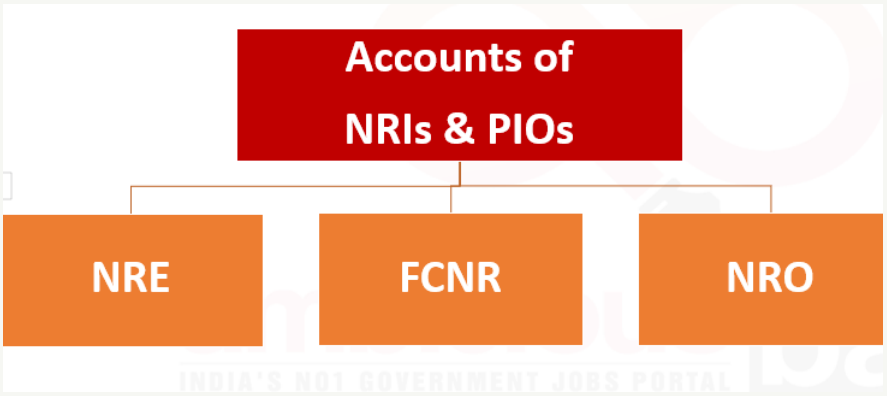
• Interest accruing on the funds held in the account.

• Current income in India due to the account holder, subject to payment of

applicable taxes in India

• Transfer from other NRE/ FCNR(B) accounts.

Preserved source visual / page 71



• Refund of application/ earnest money, provided the original payment was made out of NRE/ FCNR(B) account of the account holder.

Permitted Debits:

• Local disbursements

• Remittance outside India

• Transfer to NRE/ FCNR (B) accounts of any person eligible to maintain such account.

NRE Accounts

• Tenor of NRE TD: Minimum tenor of NRE TDs is one year.

• The rate of interest and tenor applicable to these accounts is as laid down in RBI (Interest Rate on Deposits) Directions, 2016.

• Interest on SB is credited at quarterly or shorter intervals.

• Premature withdrawal is subject to penalty as per board-approved policy and penalties apply for conversion of NRE deposit into FCNR (B) deposit and vice versa. However, no penalty applies in following cases: (a) For conversion into RFC Account. (b) On transfer of business to another bank.

• Tax Exemption: NRE deposits/ interest thereon are exempt from Wealth/ Income Tax.

Loan Against NRE Deposits

Loans in India

• Eligible borrower: Loans can be given to the account holder/ third party in India.

• Permitted Amount: There is no monetary limit on the loan amount.

• Margin requirements: Usual margin requirements should be applied.

• Restriction: Loan amount cannot be repatriated outside India.

• Eligible Purposes: Loan shall be used for the following purposes: (a) Personal purposes or for carrying on business activities. (b) Investment as capital in Indian firms/ companies as per FEMA. (c) Acquiring flat/ house in India for own residential as per FEMA. (vi) Prohibitions on Use: Cannot be used for relending or agricultural/ plantation activities or investment in real estate business

• Repayment by Holder: Loan sanctioned to the account holder can be repaid by adjusting the deposits or through inward remittances from outside India or out of balances in the NRO account of the account holder.

Loans outside India

Clarification / source page 73

NRO remittance of eligible balances is subject to the specified route, limits, taxes and documents. Prior RBI approval is not required for every permitted remittance. [NONRES]

ADs may allow their branches/ correspondents outside India to lend against NRE deposits in India.

• Eligible borrower: Loans can be given to the non-resident depositor or to third parties for bona fide purpose.

• Remittance of Funds from India: AD may allow remittance from India necessary for liquidating such loans.

Foreign Currency (Non-resident) Account

• Deposits may be in any of the currencies designated by RBI. Currently, are permitted in any freely convertible currency.

• Deposit is permitted only as TDs. RDs are not permitted.

• Tenor of Deposit is minimum one year and maximum five years.

• Both floating rate and fixed rates are permitted.

• Interest on the death of the depositor: the interest to be determined as follows:

(a) Paid on the maturity: Contracted rate (b) Paid before maturity: Rate for the period for which the deposit remained, no penalty.

• Interest on Return of NRI to India: Can continue till maturity at the contracted

rate. (convert into RFC Account)

• Penalty to be levied on premature withdrawal on return to India for permanent settlement, or for conversion of FCNR (B) to NRE or vice-versa.

Non-Resident (Ordinary) Account

• Any person resident outside India (as per Sec. 2 (w) of FEMA), may maintain account for bona fide transactions denominated in Indian Rupees under Non- Resident (Ordinary) Account Scheme.

• These can be: savings, current, recurring or fixed deposit account, etc.

• Joint accounts: NRI jointly with residents on ‘former of survivor’ basis. Jointly by NRIs/PIOs.

• The minimum tenor of fixed deposits should be seven days.

• Interest on Deposits: The rate and tenor as per RBI (Interest Rate on Deposits) Directions, 2016.

• Permissible Credits: Inward remittances from outside India; legitimate dues in India; and transfers from other NRO accounts; rupee gift/ loan by a resident relative within LRS limit.

• Permissible Debits: Only local payments; and transfers to other NRO accounts.

Remittances abroad not permitted, except: current income; for NRIs/ PIOs up to USD 1 million per financial year.

• Loans: Loans in India to the account holder or third party against NRO deposits.

• Return of NRI to India: NRO account is designated as resident account if indication to stay in India for an uncertain period.

• Resident becomes Non-resident: Existing resident accounts to be designated as NRO accounts.

• Permissible Credits: Inward remittances from outside India; legitimate dues in India; and transfers from other NRO accounts; rupee gift/ loan by a resident relative within LRS limit.

• Permissible Debits: Only local payments; and transfers to other NRO accounts.

Remittances abroad not permitted, except: current income; for NRIs/ PIOs up to USD 1 million per financial year.

• Loans: Loans in India to the account holder or third party against NRO deposits.

• Return of NRI to India: NRO account is designated as resident account if indication to stay in India for an uncertain period.

• Resident becomes Non-resident: Existing resident accounts to be designated as NRO accounts.

Difference Between NRE And NRO Account

Preserved source visual / page 74

BASIS FOR COMPARISON	NRE ACCOUNT	NRO ACCOUNT
Acronym	Non-Resident External Rupee Account.	Non-Resident Ordinary Rupee Account.
Meaning	A bank account in which NRI's can deposit income generated from external sources is known as NRE Account.	A bank account opened by NRI to deposit income mainly generated from an Indian source is known as NRO account.
Joint account	Can be opened by two NRI's together.	Can be opened by NRI along with an Indian resident.
Deposit and withdrawals	Deposits in foreign currency and withdrawals in Indian rupee.	Deposits in both foreign currency and Indian rupee and withdrawals in Indian rupee.
Rate of interest	Low	Comparatively high
Interest	Tax free	Taxable

Preserved source visual / page 74 (continued)

Repatriability	Freely repatriable	Interest is freely repatriable but the principal is not freely repatriable, however, there are cetain exceptions.



Pause and apply

An overseas worker returns to live in India. Review residence and redesignate accounts under the applicable scheme.

Accounts In India of Foreign Nationals Visiting India

Foreign National of Non-Indian Origin Visiting India – NRO Account

• NRO (current/ savings) account can be opened for foreign nationals of non- Indian origin visiting India with funds remitted from outside India through banking channel or by sale of foreign exchange brought by him to India.

• The balance in the NRO account may be paid to him when leaving India if held for not exceeding six months.

• No credit of any local funds, except interest accrued thereon.

Accounts of Foreign Nationals Leaving India

• Permitted to be re-designated as NRO account, for collection of pending bona fide dues in India.

• AD Cat-I banks to satisfy that the credits are bona fide dues when she/ he was a resident in India.

• The funds credited to be repatriated abroad immediately, on payment of applicable income tax and other taxes in India.

• The amount repatriated abroad should not exceed USD one million per financial year.

• The debit to the account only for repatriation to the account holder’s account maintained abroad.

• The account to be closed soon after all the dues have been received and repatriated as per the declaration made by the account holder.

Opening of Accounts of Individuals/ Entities of Certain Countries

• Individuals/ Entities of Pakistan Nationality/ Ownership: Prior approval of RBI is required.

• Individuals of Bangladesh Nationality: Allowed to open accounts subject to a valid visa and valid residential permit issued by Foreigner Registration Office (FRO)/ Foreigner Regional Registration Office (FRRO) concerned.

• Entities of Bangladesh Ownership: Prior approval of RBI is required.

• Citizens of Bangladesh or Pakistan Belonging to Minority Communities: AD may open only one NRO Account for such person residing in India and granted a Long Term Visa (LTV) by the Central Government.

Special Non-resident Rupee Account - SNRR Account

• SNRR accounts are essentially for foreign nationals or entities with business relationships with individuals/ entities in India.

Clarification / source page 76

SNRR: the seven-year ceiling was removed in January 2025; the contract/business-linked tenure provision was also deleted by the June 2026 amendment. Do not retain either as a current fixed tenure restriction. The source’s wealth-tax discussion is historical. [NONRES]

• Tenure of the Account is concurrent to the tenure of the contract/ period of operation/ the business of the account holder, maximum for seven years. RBI approval required for renewal.

• Should not make available foreign exchange to any person resident in India.

• Transfers from NRO account to SNRR account are prohibited.

• No interest should be paid.

• The balances in the account can be repatriated.

• All transactions are subject to payment of applicable taxes in India.

Remittance Of Assets Held By NRIS/PIOS

ADs can allow NRIs/ PIOs, on documentary evidence, to remit up to USD mn in a

FY.from these assets:

• Balances in NRO accounts; sale proceeds of their assets, or assets from inheritance/ legacy;

• Assets under a deed of settlement by either of the parents or a relative (as per Companies Act, 2013), effective on the death of the settler.

All instalments of a remittance should be made through the same AD. For remittance from the NRO account, an undertaking that it is not from borrowings in India should be taken.

Remittance of Assets Requiring RBI Approval

Prior approval of RBI is necessary for following remittances:

• In excess of USD 1 mn in a FY: (a) on account of legacy, bequest or inheritance to a citizen of foreign state, resident outside India; (b) by NRIs/ PIOs from NRO accounts/ sale proceeds of assets/ the assets from inheritance/ legacy.

• Hardship will be caused to a person if remittance is not made. (iii) Sale proceeds of assets in India held by any person, if not covered under the directions.

Income-tax Clearance

• The remittances are subject to payment of applicable taxes in India.

Acquisition And Transfer Of Immovable Property In India By NRI

• NRIs/ PIOs/ OCIs are permitted to purchase immovable property (other than agricultural land/ plantation property/ farm house) in India, and acquire immovable property by way of gift and inheritance from relatives.

• A non-resident may transfer immovable property held in India to a resident in India if transaction takes place through banking channels in India and the resident is not prohibited from acquisition.

• There are restrictions on repatriation outside India of the sale proceeds of immovable property held by non-residents in India, and requires prior RBI approval.

• NRIs on returning to India for permanent stay become resident in India are permitted to either repatriate their sale proceeds of assets (held abroad) to India or hold them overseas in accordance with the FEMA.

• Citizens except OCIs, of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan, Macau, Hong Kong and Democratic People’s Republic of Korea need prior RBI permission to acquire or transfer immovable property in India, except on lease of not more than five.

Investment By NRIs/PIOs

A resident outside India may invest in an Indian company either as Foreign Direct Investment or as Foreign Portfolio Investment.

Sectors Prohibited for Investments

• Lottery Business

• Gambling and betting

• Chit funds

• Nidhi company.

• Trading in Transferable Development Rights (TDRs).

• Real Estate Business or Construction of Farm Houses.

• Manufacturing of Cigars, cigarettes, tobacco or tobacco substitutes.

• Activities/ sectors not open to private sector investment viz., (i) Atomic energy and (ii) Railway operations.

• Foreign technology collaboration is also prohibited for Lottery Business and Gambling and Betting activities.

• NRI or OCI can purchase/ sell capital instruments of a listed Indian company on repatriation basis, on a stock exchange through a designated AD branch.

• Holding Ceilings:

(i) Holdings by any individual NRI or OCI: (a) Upto 5% of the total paid-up equity capital (on a fully diluted basis), or (b) Upto 5% of the paid-up value of each series of debentures or preference shares or warrants.

(ii) Total holdings of all NRIs and OCIs put together: (a) Upto 10% of the total paid- up equity capital (on a fully diluted basis), or (b) Upto 10% of the paid-up value of each series of debentures or preference shares or warrants.

The aggregate ceiling of 10% can be raised to 24%, if a special resolution to that effect is passed by the General Body of the Indian company.

• NRI/ OCI holding securities of an Indian company on a non-repatriation basis may transfer the securities to a person resident outside India as gift with prior

RBI approval subject to certain conditions

Practice / answer beside the question

Q01. Which statement correctly matches “NRE” in this chapter?

A. Subject to the relevant restrictions.	B. Non-Resident External rupee account.
C. A term deposit.	D. Conditional; examine amount, source and documents.

Answer B / NRE: Non-Resident External rupee account.

Q02. Which statement correctly matches “FCNR(B)” in this chapter?

A. Required for eligible non-resident customers.	B. Recheck status and instructions.
C. Foreign Currency Non-Resident Bank deposit.	D. Transfer abroad under the permitted route.

Answer C / FCNR(B): Foreign Currency Non-Resident Bank deposit.

Q03. Which statement correctly matches “FCNR(B) currency” in this chapter?

A. A rupee balance can change in foreign-currency value.	B. Apply the deposit’s terms and applicable rules.
C. Account labels do not replace eligibility and tax conditions.	D. A permitted foreign currency.

Answer D / FCNR(B) currency: A permitted foreign currency.

Q04. Which statement correctly matches “Repatriation” in this chapter?

A. Transfer abroad under the permitted route.	B. Non-Resident Ordinary rupee account.
C. Recheck status and instructions.	D. Apply the deposit’s terms and applicable rules.

Answer A / Repatriation: Transfer abroad under the permitted route.

Q05. Which statement correctly matches “Power of attorney” in this chapter?

A. Review redesignation or permitted continuation promptly.	B. Local operation does not remove scheme restrictions.
C. Subject to the relevant restrictions.	D. A rupee balance can change in foreign-currency value.

Answer B / Power of attorney: Local operation does not remove scheme restrictions.

Q06. Which statement correctly matches “Nomination” in this chapter?

A. Apply the deposit’s terms and applicable rules.	B. Generally available subject to the scheme conditions.
C. Distinct from authority to operate during life.	D. Keep residence, source and remittance evidence together.

Answer C / Nomination: Distinct from authority to operate during life.

Quick facts / Murugan cross-check

No dedicated, relevant one-line unit was found in the Murugan crosswalk for this chapter. The final recall below is capsule-based and newly authored; it is not attributed to Murugan.

Reference desk / dated checks

NONRES / RBI: Deposits and Accounts Master Direction, including 2026 amendments

Coverage: 255 capsule text lines; 3 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. NRE: Non-Resident External rupee account.	15. KYC: Required for eligible non-resident customers.
02. NRO: Non-Resident Ordinary rupee account.	16. Joint holding: Apply the specific account scheme’s conditions.
03. FCNR(B): Foreign Currency Non-Resident Bank deposit.	17. Resident relative: Permitted participation is conditional.
04. NRE currency: Indian rupees.	18. Power of attorney: Local operation does not remove scheme restrictions.
05. NRO currency: Indian rupees.	19. Permitted credits: Check source of every material credit.
06. FCNR(B) currency: A permitted foreign currency.	20. Permitted debits: Check purpose of each withdrawal or transfer.
07. NRE purpose: Eligible non-resident external funds and permitted credits.	21. Loans against deposits: Subject to the relevant restrictions.
08. NRO purpose: Eligible rupee transactions, including Indian income.	22. Premature withdrawal: Apply the deposit’s terms and applicable rules.
09. FCNR(B) form: A term deposit.	23. Renewal: Recheck status and instructions.
10. Exchange risk: A rupee balance can change in foreign-currency value.	24. Return to India: Review redesignation or permitted continuation promptly.
11. Repatriation: Transfer abroad under the permitted route.	25. Nomination: Distinct from authority to operate during life.
12. NRE repatriation: Generally available subject to the scheme conditions.	26. SNRR: Special Non-Resident Rupee account.
13. NRO repatriation: Conditional; examine amount, source and documents.	27. SNRR purpose: Specific permitted business-related rupee transactions.
14. Tax: Account labels do not replace eligibility and tax conditions.	28. Records: Keep residence, source and remittance evidence together.

A10 / Foreign Currency Accounts for Residents and Other Aspects



At the branch

Resident foreign-currency accounts preserve eligible foreign-currency receipts for specified purposes. FCRA accounts add a separate statutory control on foreign contributions.

1. Identify receipt → 2. Choose permitted account → 3. Check use and conversion → 4. Retain compliance records

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 78

The source chapter banner says Module B; this topic belongs to the agreed Module A sequence. RFC eligibility should not be limited by the source's old one-year-abroad shorthand. [RESFX]

JAIIB PPB Module B Unit 10: Foreign Currency Accounts

For Residents And Other Aspects

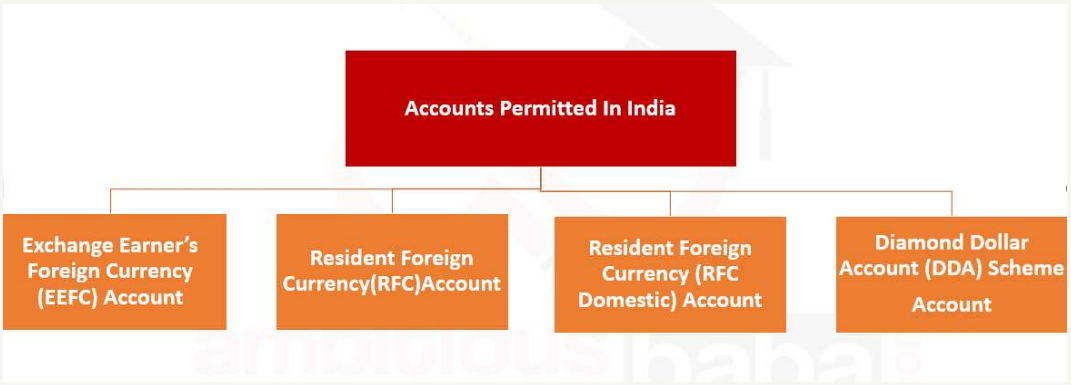
Foreign Currency Denominated Accounts In India

Exchange Earner's Foreign Currency Account (EEFC)

Permitted Credits

- 100% foreign exchange earnings by way of inward remittance through normal banking channel.
- Payments received for the purpose of counter trade.
- Advance remittance received towards export of goods or services.

Preserved source visual / page 78 / Historical table: RFC eligibility is not subject to the old blanket one-year-abroad test.



Preserved source visual / page 78 / Historical table: RFC eligibility is not subject to the old blanket one-year-abroad test.

FEATURES	EEFC Account	RFC Account	RFC (Domestic) Account
Who Can Open the Account	Opened By Exchange earners	By any resident individual who has returned India after being in abroad for a period not less than 1 year	By any resident individual
Type Of Account	Only Current	Savings/ Current/ Term Deposit	Only Current
Interest	Non-Interest earning	Deregulated (As decided by banks)	Non-Interest earning

Clarification / source page 79

EEFC is a non-interest-bearing current account. Read eligible credits/debits under the RBI framework, not the source's inconsistent reference to interest on this balance. [RESFX]

- Professional earnings received by a professional rendering services in individual capacity.
- Interest earned on the funds held in the account.
- Re-credit of unutilised foreign currency earlier withdrawn from the account.
- Repayment of trade related loans/ advances.
- Disinvestment proceeds received by the resident account holder on conversion of shares held by him to ADRs/ GDRs.
- Payments received in foreign exchange by an Indian startup arising out of sales/ export made by the startup or its overseas subsidiaries.

Permitted Debits

- Payment outside India for capital or current account transactions.
- Payment in foreign exchange for goods purchased from a 100% Export Oriented Unit or a Unit in an Export Processing Zone.
- Payment of customs duty as per Export Import Policy.
- Trade related loans/ advances, by an exporter account holder to his importer customer outside India.
- Payment in foreign exchange to a person resident in India for supply of goods/ services including payments for air fare and hotel expenditure.

Other Conditions

- Withdrawal in rupees is permitted but the amount cannot be re-credited.
- The account will be a non-interest bearing account.

• The claims settled in rupees by ECGC/insurance companies cannot be credited.

• Fund-based/non-fund based credit facilities should not be granted against these balances.

• Can be used to repay packing credit advances in any currency up to actual exports made.

Resident Foreign Currency Account (RFC)

Permitted Credits

The account can be opened from foreign exchange received or acquired by him:

• As pension or superannuation benefits or other monetary benefits from his overseas employer.

• By converting assets acquired by him as a non-resident or inherited from or gifted by a person resident outside India and repatriated to India.

• Before July 8, 1947 or any income arising/ accruing thereon and held outside India as per of a general/ special RBI permission.

• As proceeds of LIC claims/ maturity/ surrendered value settled in forex from an Indian insurance company.

Permitted Debits

The balance in RFC account can be fully utilised outside India, and converted to Indian Rupee.

Other Conditions

• Can have resident relative as joint holder on 'former or survivor' basis, who cannot operate the account during the life time of the account holder.

• The balances in the NRE/FCNR (B) Account can be credited to RFC account when the residential status of the NRI/ PIO changes to a Resident.

Resident Foreign Currency Domestic Account (RFC(D))

Permitted Credits

The account can be opened from foreign exchange acquired in the form of currency notes, bank notes and travellers cheques from overseas sources such as:

• Payment on a visit abroad for services not arising from any business or anything done in India.

• Honorarium or gift or for services rendered or in settlement of any lawful obligation from any person not resident in India and who is on a visit to India.

• Honorarium or gift while on a visit to any place outside India.

• Gift from a relative

• Unspent foreign exchange acquired from an authorised person for travel abroad.

• Representing the disinvestment proceeds received by the resident account holder on conversion of shares held by him to ADRs/ GDRs.

• By way of earnings received as the proceeds of life insurance policy claims values settled in foreign currency from an insurance company in India.

Permitted Debits

• Balances in the account can be used for permitted current or capital account transactions.

Firms and companies which comply with the eligibility criteria stipulated in the Foreign Trade Policy of the Government of India may open DDA accounts.

• Realisation of export proceeds and local sales (in USD) of rough, cut, polished diamonds; and pre and post shipment finance availed in USD can be credited.

• Payments for purchase of rough, cut and polished diamonds can be made. Funds can be transferred to rupee account.

• The account should be a non-interest bearing current account.

Diamond Dollar Account Scheme – DDA Account

Firms and companies which comply with the eligibility criteria stipulated in the Foreign Trade Policy of the Government of India may open DDA accounts.

• Realisation of export proceeds and local sales (in USD) of rough, cut, polished diamonds; and pre and post shipment finance availed in USD can be credited.

• Payments for purchase of rough, cut and polished diamonds can be made. Funds can be transferred to rupee account.

• The account should be a non-Interest bearing current account.

Other Conditions for Foreign Currency Accounts

For EEFC, RFC(D), DDA Accounts:

• The sum total of the accruals during a calendar month should be converted into Rupees on or before the last day of the succeeding calendar month after adjusting for utilization for approved purposes or forward commitments.

For EEFC and RFC (D) Accounts:

• Balances may be credited to NRE/ FCNR (B) Accounts, consequent upon change of status to non- resident.

Other Specific Categories Permitted to Maintain Foreign Currency Accounts

• Indian agent of shipping or airline companies incorporated outside India.

• Ship-manning/ crew managing agencies in India.

• Project offices of foreign companies

• Organisers of international Seminars, Conferences, Conventions,

• Exporters of specified goods or services on deferred payment terms.

• Units located in a Special Economic Zone (SEZ)

• An Indian company receiving foreign investment under FDI route

• Re-insurance and Composite Insurance Brokers Registered with IRDA

Permitted Foreign Currency Accounts Outside India

Permission to maintain foreign currency accounts with a bank outside India has been given for specific purposes.

• For business related purposes.

• For studies abroad, during the stay there. On returning, the account is deemed to be under LRS.

• During stay abroad on a visit to a foreign country. The balance should be repatriated on returning.

• Participating in an exhibition/ trade fair - for crediting the sale proceeds of goods.

• By a resident for sending remittances under LRS.

• For raising ECB, GDR, ADR etc.

• Indian startup, having an overseas subsidiary, for crediting the earnings out of exports/ sales.

Remittance Of Assets By Foreign National Not Being PIOs

ADs are permitted to allow remittance of assets by a foreign national where:

• The person has retired from employment in India

• The person has inherited from a person referred to in section 6(5) of the Act

• The person is a non-resident widow/ widower and has inherited assets from the deceased spouse who was an Indian national resident in India.

• A foreign student in India has completed studies in India.

Modes Of Acquiring Property Outside India By a Resident

A resident in India can acquire immovable property outside India in any of the following situations.

• If such property was acquired, held owned or inherited when resident outside

India

• By way of gift or inheritance: A person resident in India had acquired such property on or before July 8, 1947 and continued to be held by him with RBI permission or has acquired such property as per FEMA.

• Purchase out of foreign exchange in RFC account, or under LRS.

• Acquire jointly with a relative resident outside India, with no outflow of funds from India.

Foreign Contribution (Regulation) Act 2010

Foreign Contribution

The term 'foreign contribution' includes the donation, delivery or transfer made by a foreign source of any article, currency (whether Indian or foreign) or any security.

Foreign Hospitality

The term 'foreign hospitality' means any offer, made in cash or kind by a foreign source for providing a person with the costs of travel to any foreign country or territory or with free boarding, lodging, transport or medical treatment.



Pause and apply

A charity expects an overseas donation. Check FCRA permissions and the designated account separately from ordinary forex rules.

Clarification / source page 83

FCRA permission/registration and the designated receipt-account requirements are separate from ordinary FEMA account permissions. Do not mix domestic funds with foreign contribution. [FCRA]

• Acceptance of contribution from foreign sources and foreign hospitality by certain types of organisations ike non-government organisations, political organisations, media houses, etc. are regulated under the law.

• The Foreign Contribution (Regulation) Amendment Bill, 2020 was introduced in Lok Sabha on September 20, 2020. The Bill amends the Foreign Contribution (Regulation) Act, 2010.

• The Act regulates the acceptance and utilisation of foreign contribution by

individuals, associations and companies

Prohibition on Acceptance of Foreign Contribution

FCRA prohibits under mentioned classes of persons from receiving 'foreign contribution'.

• Candidate for election

• Correspondent, columnist, cartoonist, editor, owner, printer or publisher of a

registered newspaper

• Public servant, Judge, Government servant or employee of any corporation or

any other body controlled or owned by the Government

• Member of any Legislature

• Political party or office bearers thereof

• Organisations of a political nature

• Associations or companies engaged in the production or broadcast of audio news or audio visual news or current affairs program's through any electronic mode

• Correspondent or columnist, cartoonist, editor, owner of the association or

company referred to in (g) above

Restrictions on Acceptance of Foreign Hospitality

Under mentioned persons, while visiting any country or territory outside India, shall not accept any foreign hospitality, except with the prior permission of the Central Government.

• A member of a Legislature

• An office-bearer of a political party

• A Judge

• A Government servant

• An employee of any corporation or any other body owned or controlled by the Government.

Foreign Contribution to be received through State Bank of India

With effect from September 2020, the procedure for receiving and dealing with foreign contribution is as follows.

Clarification / source page 84

The source's quarterly website-disclosure statement reflects an older rule; Rule 13(b) was omitted in 2022. Keep annual reporting and other continuing duties separate. [FCRA]

• A person shall receive foreign contribution only in an account designated as "FCRA Account" opened in New Delhi Main Branch of State Bank of India

• Such person may open another "FCRA Account" in any of the scheduled bank of his choice for keeping or utilising the foreign contribution transferred from the "FCRA Account" in SBI.

• Such person may open one or more accounts in one or more scheduled banks of his choice to which he may transfer for utilising any foreign contribution received in his "FCRA Account" in SBI or held in the "FCRA Account" in another scheduled bank.

• No funds other than foreign contribution shall be received or deposited in any such account.

NOTE: Every person receiving foreign contribution shall submit a copy of a statement indicating therein the particulars of foreign contribution received duly certified by officer of the bank or authorised person in foreign exchange and furnish the same to the Central Government along with the intimation.

Disclosures of Foreign Contribution Received

• A person who has been granted a certificate of registration or prior permission shall place on its official website the audited statement of accounts on receipts and utilisation of the foreign contribution, including income and expenditure statement, receipt and payment account and balance sheet for every financial year beginning on the first day of April within nine months of the closure of the financial year.

• A person receiving foreign contribution in a quarter of the financial year shall place details of foreign contribution received on its official website or on the website as specified by the Central Government within fifteen days following the last day of the quarter in which it has been received clearly indicating the details of donors, amount received and date of receipt.

Unutilised Foreign Contribution in FCRA Account

• The amount of foreign contribution lying unutilised in the exclusive foreign contribution bank account of a person whose certificate of registration has been cancelled shall vest with the banking authority concerned till the Central Government issues further directions in the matter.

• In case a person whose certificate of registration has been cancelled has transferred the foreign contribution to any other person, the above condition would apply to the person to whom the fund has been transferred.

Reporting by Banks of Receipt of Foreign Contribution

• The bank shall report to the Central Government within 48 hours any transaction in respect of receipt or utilisation of any foreign contribution by any person.

• Central Government - Ministry of Home Affairs (MHA), Government of India has developed a software for submission of online reports of receipt of foreign contribution by banks. Accordingly, any transaction in respect of receipt of foreign contribution has to be reported online through the software developed for the purpose.

Practice / answer beside the question

Q01. Which statement correctly matches “EEFC” in this chapter?

A. Retain adequate source and receipt evidence.
B. Eligible diamond-sector transactions.
C. Exchange Earners’ Foreign Currency account.
D. Use the prescribed designated FCRA account.

Answer C / EEFC: Exchange Earners’ Foreign Currency account.

Q02. Which statement correctly matches “EEFC purpose” in this chapter?

A. Distinguish annual returns from omitted historical requirements.
B. Non-interest-bearing current account.
C. Retain adequate source and receipt evidence.
D. Holds eligible foreign-exchange earnings.

Answer D / EEFC purpose: Holds eligible foreign-exchange earnings.

Q03. Which statement correctly matches “Eligible debits” in this chapter?

A. Must satisfy the permitted-use conditions.
B. Governs the foreign-exchange route.
C. Not interchangeable with prior permission.
D. Eligible diamond-sector transactions.

Answer A / Eligible debits: Must satisfy the permitted-use conditions.

Q04. Which statement correctly matches “RFC funds” in this chapter?

A. Review the suitable account classification.
B. Check the source and permitted retention.
C. Separately regulates foreign contribution.
D. Non-interest-bearing current account.

Answer B / RFC funds: Check the source and permitted retention.

Q05. Which statement correctly matches “FEMA” in this chapter?

A. Diamond Dollar Account.
B. Apply the resident account rules.
C. Governs the foreign-exchange route.
D. Do not mix them into foreign-contribution accounts.

Answer C / FEMA: Governs the foreign-exchange route.

Q06. Which statement correctly matches “Domestic receipts” in this chapter?

A. Distinguish foreign-currency accounts from rupee accounts.

B. Distinguish annual returns from omitted historical requirements.

C. Non-interest-bearing current account.

D. Do not mix them into foreign-contribution accounts.

Answer D / Domestic receipts: Do not mix them into foreign-contribution accounts.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 7

30. Foreign Exchange Management Act (FEMA), 1999 is applicable- a. To the whole of India.

b. Any Branch, office and agency, which is situa ted outside India, but is owned or controlled by a person resident in India.

Read with these distinctions

This is supporting FEMA context, not a dedicated Murugan unit on resident foreign-currency accounts. Apply the account-specific rules in the core reading.

Reference desk / dated checks

FCRA / Ministry of Home Affairs: FCR Amendment Rules, GSR 506(E), 1 July 2022

RESFX / RBI: Resident Foreign Currency Accounts FAQ, 16 January 2025

Coverage: 225 capsule text lines; 2 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. EEFC: Exchange Earners' Foreign Currency account.	15. DDA purpose: Eligible diamond-sector transactions.
02. EEFC form: Non-interest-bearing current account.	16. Currency: Distinguish foreign-currency accounts from rupee accounts.
03. EEFC purpose: Holds eligible foreign-exchange earnings.	17. Residence change: Review the suitable account classification.
04. EEFC eligibility: Apply the resident account rules.	18. FEMA: Governs the foreign-exchange route.
05. Eligible credits: Must fall within the specified categories.	19. FCRA: Separately regulates foreign contribution.
06. Eligible debits: Must satisfy the permitted-use conditions.	20. Foreign contribution: Determine whether the receipt falls within FCRA.
07. Conversion: Observe applicable conversion requirements.	21. Registration: Not interchangeable with prior permission.
08. RFC: Resident Foreign Currency account.	22. Prior permission: Relates to the permitted receipt and conditions.
09. RFC users: Eligible resident individuals with qualifying foreign assets or receipts.	23. Receipt account: Use the prescribed designated FCRA account.
10. RFC eligibility: Do not impose an obsolete blanket one-year-abroad condition.	24. Utilisation account: A permitted account for utilisation, subject to rules.
11. RFC funds: Check the source and permitted retention.	25. Domestic receipts: Do not mix them into foreign-contribution accounts.
12. RFC domestic: A separate resident foreign-currency facility.	26. Donor details: Retain adequate source and receipt evidence.
13. RFC(D) form: Non-interest-bearing current account.	27. Reporting: Distinguish annual returns from omitted historical requirements.
14. DDA: Diamond Dollar Account.	28. Bank scrutiny: Account opening does not establish permission to receive all funds.

A11 / Cash Management Services and Its Importance



At the branch

Cash management turns scattered receipts and payments into a usable view of liquidity. The objective is to have funds available when obligations fall due.

1. Collect receipts → 2. Concentrate balances → 3. Plan disbursements → 4. Reconcile and forecast

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 85

The source’s market-size forecast is historical, not a present market estimate. Product availability and clearing time depend on the implemented payment arrangements.

JAIIB PPB Module A Unit-11: Cash Management Services

and Its Importance

Cash Management

Cash Management: It refers to the collection, concentration, and disbursement of cash.

Fundamental objective of cash management is ‘optimisation of liquidity through improved flow of funds’.

Importance Of Cash Management System

For A Corporate Entity

Good cash management is a conscious process of-

• Knowing when, where, and how a company’s cash needs will occur

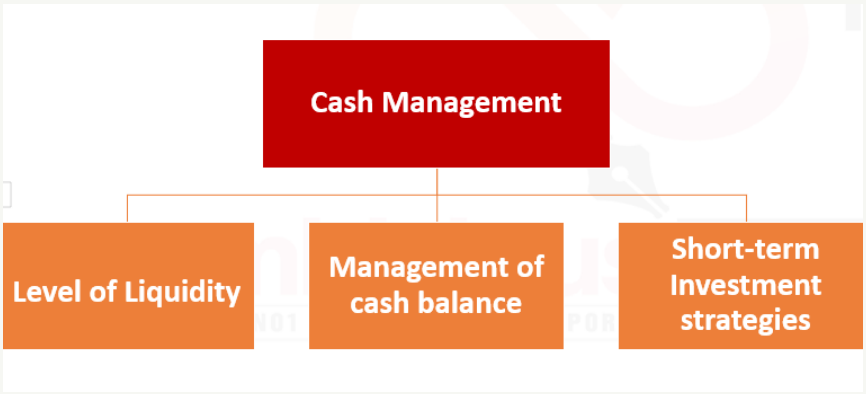
• Knowing which are the best sources for meeting additional cash needs

• Being prepared to meet these needs when they occur by keeping good relationships with bankers and other creditors.

Scientific cash management results in: significant savings in time; decrease in interest costs; less paper work; and greater accounting accuracy.

Benefits for Proper cash management system:

Preserved source visual / page 85



Clarification / source page 86

Murugan's high-value clearing and ECS descriptions include historical products. Retain their conceptual role but use the applicable CTS/NACH and payment arrangements for current operations. [CTS]

- Creates more control over time and funds
- Provides timely access to information
- Enables easy employee related payments
- Supports electronic payments
- Produces faster electronic reconciliation
- Allows for detection of book keeping errors
- Reduces the number of cheques issued
- Earns interest income or reduces interest expense.

For Banks

- Banks have shifted their sales mix toward products that generate non- interest income by selling 'non-bank' fee-based financial services, and by charging explicit fees for services.
- According to a study titled 'Fee-Based Financial Services Markets: New Opportunities and Threats in the Internet Age' by Killen Associates again, the market for retail and commercial fee-based financial services will exceed that for interest-based services globally.
- Banks have aimed for such services to be their primary profit source for certain reasons. This revenue is more stable over time, assures a steady income and more importantly, leads to a strong relationship with the corporate client.

Types of Cash Management Services

Products offered by banks:

- Cash Collection Service
- Direct Credit by Funds Transfer
- Cheque/DD Drawing Arrangement
- NEFT Payment Electronic Channel
- Receivables Management/ Cheque Collections
- NACH payment facility
- Auto-Sweeping Facility

Challenges And Issues

Certain challenges bankers need to address in cash management services are:

- Need to comprehend the client's line of activity
- Provision of other advisory services to clients
- Decisions regarding sourcing of software
- Special consideration to small and medium companies
- Co-ordinating activity:
- Security and risk management
- Operational Reliability



Pause and apply

A firm has cash in several branches but a supplier payment due today. Concentrate available funds and reconcile receipts.

Practice / answer beside the question

Q01. Which statement correctly matches "Cash management" in this chapter?

A. Ability to meet cash obligations when due.	B. Affects availability and interest treatment.
C. Requires planned funding or revised payment timing.	D. Collection, concentration and disbursement of cash.

Answer D / Cash management: Collection, concentration and disbursement of cash.

Q02. Which statement correctly matches "Collection" in this chapter?

A. Brings customer receipts into the business.	B. Needs custody, authentication and reconciliation controls.
C. Service income and deeper operating relationships.	D. Uses authorised electronic payment arrangements.

Answer A / Collection: Brings customer receipts into the business.

Q03. Which statement correctly matches "Reconciliation" in this chapter?

A. A service-processing condition to communicate clearly.	B. Matches transactions with accounting records.
C. Needs custody, authentication and reconciliation controls.	D. Schedules and executes payments.

Answer B / Reconciliation: Matches transactions with accounting records.

Q04. Which statement correctly matches "Local collection" in this chapter?

A. Links receipts to outstanding invoices.	B. Gives visibility of balances and exceptions.
C. Collects instruments through the relevant local route.	D. Require accurate beneficiaries and authorisation.

Answer C / Local collection: Collects instruments through the relevant local route.

Q05. Which statement correctly matches “Payroll” in this chapter?

A. Requires planned funding or revised payment timing.
B. Time between payment initiation and usable funds.
C. Collects instruments through the relevant local route.
D. A common corporate disbursement use.

Answer D / Payroll: A common corporate disbursement use.

Q06. Which statement correctly matches “Cut-off” in this chapter?

A. A service-processing condition to communicate clearly.
B. Separate beneficiary changes from payment approval.
C. Collection, concentration and disbursement of cash.
D. Brings customer receipts into the business.

Answer A / Cut-off: A service-processing condition to communicate clearly.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 22

Unit – 18 : Cash Management Services and its Importance

1. Cash management is a broad term that refers to the collection, concentration, and disbursement of cash.

2. It encompasses a company’s level of liquidity, its management of cash balance, and its short -term

investment strategies

3. The ob jective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.

4. In India, the cash management business primarily involves collections and payments services.

5. Products Offered by Banks Under Collections (Paper and Electronic)

a. Local cheque collections

b. High value (0 Day clearing)

c. Magnetic ink character recognition (MICR)

d. Outstation cheque collections

e. Cheques drawn on branch locations

f. Cheques drawn on correspondent bank locations

g. Cheques drawn on coordinator locations

i. House cheque collections

j. Outside network cheque collections

k. Cash collections

MURUGAN / PHYSICAL PAGE 23

l. ECS-Debit

m. Post dated cheque collection

n. Invoice collections

o. Capital market collections

6. Products Offered by Banks Under Payments (Paper and Electronic)

a. Demand drafts/banker’s cheques

b. Customer cheques

c. Locally payable

d. Payable at par

e. RTGS/NEFT/ECS

f. Cash disbursement

g. Payments within bank

h. Capital market payments

7. In a dynamic economy, markets need to play a key role in guiding the development of infrastructure, including mechanisms like payments systems.

8. This means that innovation and competition will be central to the future development of the payments system - as they are in other areas of the economy.

9. Efficient cash management is a must to support an institution’s growth, and therefore, adopting the best cash management practices is necessary.

Read with these distinctions

Collection, concentration, disbursement and reconciliation remain the useful concepts. The source’s High Value Clearing product is historical; check current CTS and electronic collection arrangements instead of memorising every product label as presently offered.

Reference desk / dated checks

CTS / RBI: Continuous CTS clearing, 24 December 2025

Coverage: 54 capsule text lines; 1 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Cash management: Collection, concentration and disbursement of cash.	15. Electronic collection: Uses authorised electronic payment arrangements.
02. Liquidity: Ability to meet cash obligations when due.	16. Cheque collection: Depends on instrument validity and clearing.
03. Collection: Brings customer receipts into the business.	17. Bulk payments: Require accurate beneficiaries and authorisation.
04. Concentration: Combines available balances for use.	18. Payroll: A common corporate disbursement use.
05. Disbursement: Schedules and executes payments.	19. Supplier payments: Match invoices, due dates and bank instructions.
06. Reconciliation: Matches transactions with accounting records.	20. NEFT: An electronic funds-transfer route.
07. Cash forecast: Estimates future inflows and outflows.	21. RTGS: Settles transfers individually in real time.
08. Surplus: May be deployed subject to liquidity needs and risk.	22. Intra-bank transfer: Moves funds within the same bank.
09. Shortfall: Requires planned funding or revised payment timing.	23. MIS: Gives visibility of balances and exceptions.
10. Float: Time between payment initiation and usable funds.	24. Value date: Affects availability and interest treatment.
11. Local collection: Collects instruments through the relevant local route.	25. Cut-off: A service-processing condition to communicate clearly.
12. Outstation collection: Requires the appropriate network and processing route.	26. Fraud control: Separate beneficiary changes from payment approval.
13. Cash collection: Needs custody, authentication and reconciliation controls.	27. Corporate benefit: Reduces idle cash and improves control.
14. Invoice collection: Links receipts to outstanding invoices.	28. Bank benefit: Service income and deeper operating relationships.

A12 / Payment and Collection of Cheques and Other Negotiable Instruments



At the branch

Read the instrument in order: parties, promise or order, amount, date, signature, crossing and endorsements. Then decide whether payment or collection is legally safe.

1. Identify instrument and parties → 2. Read date and amount → 3. Check crossing and endorsement → 4. Apply payment protections

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 87

A promissory note contains an unconditional promise; a bill contains an unconditional order. A cheque is drawn on a specified banker and payable on demand. [NI]

JAIIB PPB Module A Unit-12: Payment and Collection Of

Cheques and Other Negotiable Instruments

Negotiable Instruments Act 1881

The Negotiable Instruments Act, 1881 deals with three kinds of instruments which are widely used in commercial transactions. They are promissory notes, bills of exchange and cheque. Of these instruments, a cheque is used in day to day banking transactions. The Act contains numerous provision about cheques.

A Negotiable Instrument means Promissory Note, Bill of exchange or Cheque payable either to order or to the bearer.

Cheque

Seaction 6 defined a cheque as follows:

A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it include the electronic image of a truncated cheque and a cheque in the electronic form.

There is a statutory obligation on the part of a banker to make payment of cheque

if:

- The cheque is properly drawn
- There is sufficient balance in the account
- There is no legal restraint on the bank’s duty to pay.

When a cheque is presented for payment, the following aspects should be looked

into:

• Promissory Note: A promissory note is a financial instrument that contains a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money, either on demand or at a

specified future date

• Bill of Exchange: A bill of exchange is a binding agreement by one party to pay a fixed amount of cash to another party as of a predetermined date or on demand.

• Drawee: The maker of Bill of Exchange or cheque is called the drawer, the person thereby directed to pay is called the Drawee.

• Holder: A holder is a person who legally obtains the negotiable instrument, with his name entitled on it, to receive the payment from the parties liable.

Clarification / source page 88

A holder need not always have a name written on the instrument: bearer instruments exist. Holder in due course requires consideration and the statutory good-title conditions, not merely honest possession. [NI]

• Holder in Due Course: A holder in due course (HDC) is a person who acquires the negotiable instrument bonafide for some consideration, whose

payment is still due

• Payment in Due Course: Payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned.

• Negotiation: It depends on what form of negotiation you are referring to. If it is negotiating a cheque for example you are referring to a negotiable instrument.

• Endorsement: The act of a person who is a holder of a negotiable instrument

in signing his or her name on the back of that instrument, thereby

transferring title or ownership is an endorsement. An endorsement may be in favour of another individual or legal entity. An endorsement provides a transfer of the property to that other individual or legal entity. The person to whom the instrument is endorsed is called the endorsee. The person making the endorsement is the endorser.

The Branch on which it is drawn:

Date: A Cheque may bear a future date (Post-dated), current date or an antedate. If a cheque bears a date 3 months prior to the date of presentation.

It is considered to be stale cheque which cannot be paid without revalidation by the drawer.

A post-dated cheque cannot be paid because in such cases, the bank runs the risk of getting stop payment instructions.

Payee: A payee is a person or organization that receives a payment. Payment can be in any form, including cash, a check, a money order, or an electronic transfer of funds. The payee receives the payment from the payer (or "payor" if you prefer), which is the person or organization that makes the payment.

Order cheque or bearer cheque: In simple words a cheque which is payable to any person who presents it for payment at the bank counter is called 'Bearer cheque'. When the word "or bearer" printed on the cheque is cancelled, the cheque is called an order cheque. An order cheque is one which is payable to a particular person.

Crossing a Cheque: A crossing is an instruction to the paying banker to pay the amount of cheque to a particular banker and not over the counter. The crossing of the cheque secures the payment to a banker.

Clarification / source page 89

General crossing is defined in section 123, special crossing in section 124. Section 126 governs payment. Section 85(2) concerns bearer cheques; “banker cheque” in this source passage is a typo. [NI]

• Section 126– Cheque bears across its face an addition of two parallel transverse lines. The banker on whom it is drawn shall not pay it otherwise than to a banker.

• Section 129- Banker paying a cheque crossed generally otherwise than to a banker shall be liable to the true owner of the cheque for any loss he may sustain owing to the cheque having been so paid.

• Section 128: Banker will lose the protection as given in section 128 of the act.

• Section 124: Where a cheque bear across its face an addition of the name of a banker, either with or without the words “Not negotiable”.

• Section 126: When a cheque is crossed specially, the banker on whom it is drawn shall not pay of otherwise than to the banker to whom it is crossed or his agent for collection.

• Section 129: Banker paying a cheque crossed specially otherwise than to a banker to whom it is crossed or his agent for collection shall be liable to the true owner of the cheque for any loss he may sustain owing to the cheque having been so paid.

• Section 128: Payment will not be regarded as payment in due course and the banker will loss protection as given in section 128 of the Act.

• Section 127: Where a cheque is crossed specially to more than one banker, except when crossed to an agent for the purpose of collection the paying banker shall refused payment thereof.

Instrument contains any endorsement: According to section 15 of the N.I act, when the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto, he is said to endorse the same.

Any alteration: According to section 87 of the N.I Act, any material alteration of a negotiable instrument renders the same void as against anyone who is a party thereto at the time of making such an alteration and does not consent thereto, unless it was made in order to carry out the common intention of the original parties.

Signature of the Drawer: The signature of the drawer on the cheque is an authority given by the account holder to debit his account with the amount of the cheque.

Stop- Payment instruction: Before making payment of the cheque, the bank should see that is no stop payment instruction with respect to the cheque.

Payment in Due Course- Section 10 (N.I Act 1881)

"Payment in due course" means payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned.

Protection is available to the paying banker in case of forgery of endorsement in an order cheque under section 85(1), forgery of endorsement in a banker cheque under section 85(2), in case of a materially altered cheque under section 89 and in case of a crossed cheque under section 128 if the N.I act. The condition for getting protection is that the payment made of the cheque should be in due course.

Clarification / source page 90

Account-payee crossing restricts collection to the payee’s account; do not equate it with the statutory meaning of “not negotiable”. Special crossing does not require two parallel lines. [NI]

Liability of the Paying Bank –Section 31

As per section 31 of the N.I act, the drawee bank is under a liability to honour a cheque drawn on its account that is having a sufficient balance.

Sufficient and adequate funds: Following are the circumstance when funds are sufficient and adequate, but not properly applicable.

(a)When payment of a cheque is stopped (b)When drawer is dead and its intimation received (c)When funds under a garnishee order/income tax officer/ sales tax department are attached.

(d)When the funds are earmarked for specific purpose.

(e) When the funds are set off by the bank.

(f) When the balance is not a clear balance.

Protection available to the paying banker: A paying banker is entitled for

protection under the NI Act in the following cases:

(a)Forged endorsements in an order cheque under Section 85(1) (b)Forged endorsements in a bearer cheque under section 85(2) (c)Forged endorsements in a draft under section 85(A) (d)Material alteration in a cheque under section 89 (e) Payment of a crossed cheque under section 128.

Crossing of Cheque

Crossing of a cheque is nothing but instructing the banker to pay the specified sum through the banker only, i.e. the amount on the cheque has to be deposited directly to the bank account of the payee.

Types of Crossing a cheque

General Crossing: When across the face of a cheque two transverse parallel lines are drawn at the top left corner, along with the words & Co., between the two lines, with or without using the words not negotiable. When a cheque is crossed in this way, it is called a general crossing.

Restrictive Crossing: When in between the two transverse parallel lines, the words ‘A/c payee’ is written across the face of the cheque, then such a crossing is called restrictive crossing or account payee crossing. In this case, the cheque can be credited to the account of the stated person only, making it a non-negotiable instrument.

Special Crossing: A cheque in which the name of the banker is written, across the face of the cheque in between the two transverse parallel lines, with or without using the



Pause and apply

A cheque says “not negotiable”. It may still be transferred, but the transferee cannot obtain a better title.

Clarification / source page 91

Section 138 requires a legally enforceable debt or liability and the statutory sequence. A lawyer is not mandatory merely to issue the demand notice. [NI]

word ‘not negotiable’. This type of crossing is called a special crossing. In a special crossing, the paying banker will pay the sum only to the banker whose name is stated in the cheque or to his agent. Hence, the cheque will be honoured only when the bank mentioned in the crossing orders the same.

Not Negotiable Crossing: When the words not negotiable is mentioned in between the two transverse parallel lines, indicating that the cheque can be transferred but the transferee will not be able to have a better title to the cheque.

Double Crossing: Double crossing is when a bank to whom the cheque crossed specially, further submits the same to another bank, for the purpose of collection as its agent, in this situation the second crossing should indicate that it is serving as an agent of the prior banker, to whom the cheque was specially crossed.

Bouncing (Dishonour) of Cheuqes

This Notice is a Notice which shall be given by the unpaid Creditor (Payee) to the defaulting Debtor (Drawer) through an Advocate in case of dishonour of Cheque under section 138 of Negotiable Instrument Act.

The Notice here is a sample Legal Notice issued by the Advocate of the Payee specifying a 15 days time given to the Drawer in fault to pay the unpaid Cheque amount. It further specifies that if the amount is not paid within 15 days from the receipt of the Notice, the unpaid Payee has right to file legal complaint and initiate Legal Proceeding against the defaulting Drawer.

Due to following reason, the balance in the customer account is considered not

available or application for payment:

(a)Payment is stopped by the customer (b)Death of the Customer (c) Garnishee order/ attachment orders from courts and/ or revenue authorities (d) Set- off rights to recover debts due to bank from the customer.

When a cheque is returned unpaid by the bank for reasons:

(a)Insufficient funds (b)No Arrangement (c) Exceeds arrangement (d) Payment stopped (e) Refer to drawer (f) Closure of account by drawer Dishonour of a cheque for Insufficiency of funds/exceed arrangement in the

Account- Section 138

(a)The cheque has been presented within 3 months of its validity period.

(b)A demand for payment is made by notice within 30 days of the return of cheque (c) The Drawer fails to make payment within 15 days of receipt of notice

Section 141- Offences by Companies

Section 143- Summary Trial by Court

Section 144- Made of service of summons

Section 145- Evidence on Affidavit

Section 146- Bank’s slip Prima facie Evidence of certain facts

Section 147- Offences to Compoundable

Endorsement of Cheques

Endorsement means signing at the back of the instrument for the purpose of negotiation. The act of the signing a cheque, for the purpose of transferring to the someone else, is called the endorsement of Cheque. Section 15 of the Negotiable Instrument Act 1881 defines endorsement. The endorsement is usually made on the back of the cheque. If no space is left on the Cheque, the Endorsement may be made on a separate slip to be attached to the Cheque.

There are six Kinds of Endorsement

Endorsement in Blank / General: An endorsement is said to be blank or general when the endorser puts his signature only on the instrument and does not write the name of anyone to whom or to whose order the payment is to be made. (Section 16) Endorsement in Full / Special: An endorsement is 'special' or in 'full' if the endorser, in addition to his signature also mention the name of the person to whom or to whose order the payment is to be made. There is direction added by endorse to the person specified called the endorsee, of the instrument who now becomes its payee entitled to

sue for the money due on the instrument. (Section 16)

Conditional Endorsement: The conditional endorsement is negotiation which takes effect on the happening of a stated event, or not otherwise. Section 52 of the Negotiable Instrument Act 1881 provides - The endorser of a negotiable instrument may, by express words in the endorsement, exclude his own liability thereon, or make such liability or the right of the endorsee to receive the amount due thereon depend upon the happening of a specified event, although such event may never happen.

Restrictive Endorsement (Section 50): Restrictive endorsement seeks to put an end the principal characteristics of a Negotiable Instrument and seals its further negotiability. This may sound a little unusual, but the endorsee is very much within his rights if he so signs that its subsequent transfer is restricted.

This prevents the risk of unauthorized person obtaining payment through fraud or forgery and the drawer losing his money.

Clarification / source page 93

Sans recourse excludes the endorser’s liability; it does not itself prohibit further negotiation. Facultative endorsement waives a right, such as notice of dishonour. [NI]

Endorsement Sans Recourse (Without liability Section 52): Sans Recourse which means without recourse or reference. As such a when the property in a negotiable instrument is transferred sans recourse, the endorser, negatives his liability and excludes himself from responsibility to all subsequent endorsees. It is one of the commonest form of qualified endorsement and virtually prohibits negotiation since the endorser says in effect.

Facultative Endorsement: Faculatative Endorsement is an endorsement where the endorser waives some right to which he is entitled. For example, the endorsee is liable to give notice of dishonor to the endorser and normally failure to give notice will absolve the endorser from his liability.

Practice / answer beside the question

Q01. Which statement correctly matches “Promissory note” in this chapter?

A. Contains an unconditional promise to pay.

B. Normally requires endorsement and delivery.

C. Names the endorsee.

D. Not payable before its date.

Answer A / Promissory note: Contains an unconditional promise to pay.

Q02. Which statement correctly matches “Cheque” in this chapter?

A. Takes for consideration with statutory good-title conditions.

B. Drawn on a specified banker and payable on demand.

C. Entitled in own name to possession and recovery.

D. Outside its applicable validity period.

Answer B / Cheque: Drawn on a specified banker and payable on demand.

Q03. Which statement correctly matches “Payee” in this chapter?

A. Normally requires endorsement and delivery.	B. Collect to the named payee’s account.
C. The person to whom payment is directed.	D. Names a banker.

Answer C / Payee: The person to whom payment is directed.

Q04. Which statement correctly matches “Order instrument” in this chapter?

A. Fifteen days from receipt of the notice.	B. Entitled in own name to possession and recovery.
C. Outside its applicable validity period.	D. Normally requires endorsement and delivery.

Answer D / Order instrument: Normally requires endorsement and delivery.

Q05. Which statement correctly matches “Double crossing” in this chapter?

A. Permitted special-crossing exception for a collection agent.	B. Outside its applicable validity period.
C. Restricts further negotiation or confers an agency.	D. Signature for negotiation as defined in section 15.

Answer A / Double crossing: Permitted special-crossing exception for a collection agent.

Q06. Which statement correctly matches “Material alteration” in this chapter?

A. Names the endorsee.	B. Apply consent and statutory exceptions.
C. Two parallel transverse lines with permitted additions.	D. Concerns qualifying dishonour for enforceable debt/liability.

Answer B / Material alteration: Apply consent and statutory exceptions.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 20

Unit – 15 : Payment and Collection of Cheques and Other NI

1. In Sans recourse endorsement, liability of the endorser is excluded.

2. In facultative endorsement, the notice of dishonour is waived.

3. The 3 negotiable instruments are promissory notes, bills of exchange and cheque.

4. A paying banker is protected under NI Act in the following cases:

a. Forged endorsement in an

i. order cheque under section 85 (1)

ii. bearer cheque under section 85 (2)

iii. draft under section 85 (A)

b. Material alteration in a cheque under section 89

c. Payment of a crossed cheque under section 128.

Read with these distinctions

The listed protections are conditional. Do not confuse a forged endorsement with a forged drawer signature. Sans recourse excludes liability; facultative endorsement waives a right.

Reference desk / dated checks

NI / India Code: Negotiable Instruments Act, 1881

Coverage: 225 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Promissory note: Contains an unconditional promise to pay.	15. Special crossing: Names a banker.
02. Bill of exchange: Contains an unconditional order to pay.	16. Not negotiable: Transferee cannot obtain a better title.
03. Cheque: Drawn on a specified banker and payable on demand.	17. Account payee: Collect to the named payee’s account.
04. Drawer: Makes the bill or cheque.	18. Double crossing: Permitted special-crossing exception for a collection agent.
05. Drawee: The person directed to pay.	19. Endorsement: Signature for negotiation as defined in section 15.
06. Payee: The person to whom payment is directed.	20. Blank endorsement: Does not name an endorsee.
07. Holder: Entitled in own name to possession and recovery.	21. Full endorsement: Names the endorsee.
08. Holder in due course: Takes for consideration with statutory good-title conditions.	22. Restrictive endorsement: Restricts further negotiation or confers an agency.
09. Payment in due course: Good faith, no negligence and apparent tenor matter.	23. Sans recourse: Excludes the endorser’s liability.
10. Bearer instrument: Negotiated by delivery, subject to the law.	24. Facultative endorsement: Waives a right of the endorser.
11. Order instrument: Normally requires endorsement and delivery.	25. Material alteration: Apply consent and statutory exceptions.
12. Post-dated cheque: Not payable before its date.	26. Section 138: Concerns qualifying dishonour for enforceable debt/liability.
13. Stale cheque: Outside its applicable validity period.	27. Demand notice: Within thirty days of receiving dishonour information.
14. General crossing: Two parallel transverse lines with permitted additions.	28. Drawer’s payment window: Fifteen days from receipt of the notice.

A13 / Responsibility of Paying Bank



At the branch

A paying bank must honour a valid demand against properly available funds, while refusing payments that lack authority. Statutory protection is conditional.

1. Check mandate → 2. Check instrument → 3. Check funds and restraints → 4. Pay or return with reason

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 93

Section 31 concerns the drawee's duty to the drawer. Liability to others and statutory protections must be analysed separately. A cheque holder does not automatically become a bank creditor merely because the bank winds up. [NI]

JAIIB PPB Module A Unit 13: Responsibility Of paying

Negotiable Instruments Act and Paying Bank

'The drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque when duly required to do so, and, in default of such payment, must compensate the drawer for any loss or

damage caused by such default.' (Sec.31)

• Section 31 Applies Only to Bankers: This is because as per Sec. 6 'cheque' is a bill of exchange drawn on a specified banker.

• Sufficient Funds: The banker should have sufficient funds of the drawer.

• Properly Available: The funds available in the customer's account should also be properly available for the payment of the cheque.

• When Duly Required to Do So: It means that the cheque must be properly drawn and signed by the drawer.

• Compensate the Drawer: In case the banker refuses payment wrongfully, then he is liable only to the drawer of the cheque and not to any endorsee or holder,

except when

(a) The bank is wound up, in which case the holder becomes a creditor entitled to make

a claim

(b) if cheque is paid disregarding the crossing, the true owner can hold the banker liable.

• Loss or Damage Caused by Default: A banker is liable to the drawer for any loss or damage, due to the wrongful dishonour of the customer's cheque.

• Sec. 85 grants protection to a banker on his making payment of a cheque.

• Sec. 89 states the effect of paying an instrument on which alteration is not apparent.

Liability Of Paying Banker When Customer's Signature On The Cheque Is

Forged

Clarification / source page 94

A forged drawer signature provides no customer mandate; do not confuse it with a forged endorsement covered by a conditional statutory protection. Customer conduct and negligence require case-specific legal analysis. [NI]

• When the customer's signature on the cheque is forged: there is no mandate to the bank to pay. Banker is not entitled to debit the customer's account on such forged cheque.

• In a joint account if one of the signatures is forged: there is no mandate and banker cannot make payment.

Payment To Be In Due Course For Bank To Seek Protection

• Banker can seek protection under Sec. 85 only where payment has been made to the holder, his servant or agent, i.e. payment must be made in due course. firm.

Payment to a person who had nothing to do with the firm or a payment to an agent of the bank would not be a payment to the firm.

• Payment in due course has been defined in Section 10 of the Negotiable Instruments Act to mean payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof, under circumstances which do not afford reasonable ground for believing that he is not entitled to receive payment of the amount therein .

• Payment to a liquidator against the cheque presented across the counter was not a payment in due course and the bank was not entitled to seek protection under Sec. 85. that under Sec. 244A of the Indian Companies Act, 1913, an official liquidator was required to open an account with a bank and pay therein moneys received by him in the course of the liquidation.

Payment In Good Faith Without Negligence Of An Instrument On Which Alteration

Is Not Apparent

Sec. 89 gives protection to the paying banker of a cheque which has been materially altered but does not appear to have been so altered, if payment is made according to the apparent tenor at the time of payment and otherwise in due course.

Payment By Bank Under Mistake Whether Recoverable

When there is no question of unjust enrichment of the payee by reaping the benefit of an accidental windfall he should not be made to suffer, for he would be as innocent as the payer who paid the money acting under a mistake.



Pause and apply

The drawer's signature is forged. Do not confuse this absence of mandate with a forged endorsement.

Practice / answer beside the question

Q01. Which statement correctly matches “Section 31” in this chapter?

A. Can defeat statutory protection.	B. Duty to honour when its conditions are satisfied.
C. Protection for qualifying payment of crossed cheques.	D. Read the instrument as it appears.

Answer B / Section 31: Duty to honour when its conditions are satisfied.

Q02. Which statement correctly matches “Duly required” in this chapter?

A. Authority, funds, instrument and restraints must all align.	B. Wait until the stated date.
C. The demand must be validly made.	D. Follow the payment restriction.

Answer C / Duly required: The demand must be validly made.

Q03. Which statement correctly matches “Forged endorsement” in this chapter?

A. Authority, funds, instrument and restraints must all align.	B. Follow the payment restriction.
C. Establishes the customer’s authority.	D. Different from forgery of the drawer’s signature.

Answer D / Forged endorsement: Different from forgery of the drawer’s signature.

Q04. Which statement correctly matches “Section 128” in this chapter?

A. Protection for qualifying payment of crossed cheques.	B. Can defeat statutory protection.
C. Addresses alterations not apparent at payment.	D. May not be available for unrelated payment.

Answer A / Section 128: Protection for qualifying payment of crossed cheques.

Q05. Which statement correctly matches “Stop payment” in this chapter?

A. Can defeat statutory protection.	B. Check an effective instruction before paying.
C. Protection concerning specified drafts.	D. May not be available for unrelated payment.

Answer B / Stop payment: Check an effective instruction before paying.

Q06. Which statement correctly matches “Alteration” in this chapter?

A. Different from forgery of the drawer’s signature.	B. Apply the instrument’s validity rule.
C. Check materiality, appearance and authority.	D. Can defeat statutory protection.

Answer C / Alteration: Check materiality, appearance and authority.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 20

4. A paying banker is protected under NI Act in the following cases:

a. Forged endorsement in an

i. order cheque under section 85 (1)

ii. bearer cheque under section 85 (2)

iii. draft under section 85 (A)

b. Material alteration in a cheque under section 89

c. Payment of a crossed cheque under section 128.

Read with these distinctions

Read each protection with payment-in-due-course and other statutory conditions. None of these lines turns a forged drawer signature into a valid customer mandate.

Reference desk / dated checks

NI / India Code: Negotiable Instruments Act, 1881

Coverage: 56 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Section 31: Duty to honour when its conditions are satisfied.	15. Post-date: Wait until the stated date.
02. Funds: Must be sufficient and properly applicable.	16. Staleness: Apply the instrument’s validity rule.
03. Duly required: The demand must be validly made.	17. Crossing: Follow the payment restriction.
04. Drawer signature: Establishes the customer’s authority.	18. Stop payment: Check an effective instruction before paying.
05. Forged drawer signature: Ordinarily gives no mandate to debit the customer.	19. Death notice: Review the effect on the mandate.
06. Forged endorsement: Different from forgery of the drawer’s signature.	20. Attachment: Check the precise legal restraint.
07. Section 85(1): Conditional protection for order cheques.	21. Earmarked funds: May not be available for unrelated payment.
08. Section 85(2): Protection concerning cheques originally payable to bearer.	22. Uncleared balance: Not the same as cleared available funds.
09. Section 85A: Protection concerning specified drafts.	23. Wrongful dishonour: Can create liability to the drawer.
10. Section 89: Addresses alterations not apparent at payment.	24. Return reason: State the accurate reason through the prescribed process.
11. Section 128: Protection for qualifying payment of crossed cheques.	25. Alteration: Check materiality, appearance and authority.
12. Good faith: Necessary but not a substitute for due care.	26. Identification: Use appropriate safeguards for payment to the presenter.
13. Negligence: Can defeat statutory protection.	27. Audit trail: Keep the decision and supporting records.
14. Apparent tenor: Read the instrument as it appears.	28. Final test: Authority, funds, instrument and restraints must all align.

A14 / Responsibility of Collecting Bank



At the branch

The collecting bank acts for its customer but must also respect the true owner’s rights. Good onboarding and careful collection work together.

1. Identify customer → 2. Examine instrument → 3. Collect through correct route → 4. Credit and reconcile

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

JAIIB PPB Module A Unit 14: Responsibility Of Collecting

Bank

Statutory Protection To Collecting Bank

Sec. 131 grants protection to a collecting banker. This is applicable to both cheques and drafts.

Conditions for Protection

• The collecting banker acts in good faith.

• It acts without negligence.

Clarification / source page 95

Section 131 protection concerns collection of a crossed cheque for a customer, in good faith and without negligence. Account opening and collection circumstances can both matter. Protection is not automatic merely because the account exists. [NI]

• It receives payment for a customer.

• The cheque is crossed generally or specially to the collecting bank.

• It verifies the prima facie genuineness of the cheque for collecting payment under CTS clearing.

• It looks for any fraud, forgery or tampering that can be verified with due diligence and ordinary care, and is apparent on the face of the cheque to be truncated.

Duties Of The Collecting Bank

Duty to Open the Account with References and Sufficient Documentary Proof:

RBI has advised when opening accounts, photograph of the customer and documentary proofs for identity, constitution and address be obtained as per KYC norms.

Duty to Confirm the Reference where the Referee is not known or has given

Reference in Absentia:

Bankers in India were obtaining introduction by an existing customer of the bank. This was not always possible, especially for a newly opened branch. In such cases, the customers were required to get references from known persons in the locality or from their existing bankers. In such case, the banker was required to make enquiries with the referee to ascertain that the person whose account was being opened was a genuine person.

Duty to follow the KYC Norms under Prevention of Money Laundering Act/ Rules

and KYC Directions of RBI:

Under the KYC norms, the identity of the customer is required to be verified by obtaining an OVD and, PAN number. Where required, the address can be evidenced by obtaining a latest copy of electricity or telephone bill. Only for small accounts, this requirement is waived.

Duty to Ensure Crossing and Special Crossing:

The banker has to ensure that the cheque is crossed specifically to himself and if the cheque is crossed to some other banker they should refuse to collect it. Similarly, where the cheque is crossed to a specific account then crediting the same to another account without necessary enquiries would make him liable on the grounds of negligence.

Duty to Verify the Instruments for any Apparent Defect in the Instruments:

Sometimes the instrument, which is presented for collection would convey to the banker a warning that a customer who has presented the instrument for collection either is committing a breach of trust or is misappropriating the money belonging to some other. In case the banker does not heed the warning, which is required of a prudent banker, then he could be held liable on the grounds of negligence.

Duty to take into Account the State of Customer's Account



Pause and apply

A company cheque is lodged in an employee's personal account. Investigate the mismatch before collecting.

Clarification / source page 96

Distinguish negligence, conversion and the paying bank's separate responsibilities. Collection protection does not cure a forged drawer signature or create title in the customer. [NI]

The collecting banker is required to take into account the status of the customer and various transactions that took place in the customer's account to know the circumstances and the standard of living of the customer.

If for example, a person is an employee as a clerk, his salary would be approximately known to the bank and any substantial credits by way of collection of cheques would be suspected and it would be the duty of the banker to take necessary precautions while collecting such cheques.

Negligence of Collecting Bank in Collecting Cheques Payable to Third Parties:

The collecting bank has to make necessary enquiries before any third party cheques, are collected on behalf of its customer.

Practice / answer beside the question

Q01. Which statement correctly matches “Collecting bank” in this chapter?

A. One condition of the protection.	B. Reverse or handle according to the valid collection terms.
C. Receives payment for its customer.	D. Assess against the customer’s profile.

Answer C / Collecting bank: Receives payment for its customer.

Q02. Which statement correctly matches “True owner” in this chapter?

A. Can create service and compensation issues.	B. Do not casually credit it to an employee’s personal account.
C. The bank acts on the customer’s collection instruction.	D. May have a claim when proceeds are wrongly collected.

Answer D / True owner: May have a claim when proceeds are wrongly collected.

Q03. Which statement correctly matches “Customer” in this chapter?

A. The collection must be for a customer.	B. Cannot improve the transferor’s title.
C. Distinguish from final realised funds.	D. Receives payment for its customer.

Answer A / Customer: The collection must be for a customer.

Q04. Which statement correctly matches “KYC” in this chapter?

A. Compare with the account being credited.	B. Supports identification but is not the whole collection inquiry.
C. Do not casually credit it to an employee’s personal account.	D. Conditional protection for collection of crossed cheques.

Answer B / KYC: Supports identification but is not the whole collection inquiry.

Q05. Which statement correctly matches “New account” in this chapter?

A. Preserve instrument images and collection instructions.	B. Wrongful interference with another’s property rights.
C. Consider unusual early collection activity.	D. Conditional protection for collection of crossed cheques.

Answer C / New account: Consider unusual early collection activity.

Q06. Which statement correctly matches “Delay” in this chapter?

A. Examine apparent regularity and authority.	B. Must be established from the actual facts.
C. Another essential condition.	D. Can create service and compensation issues.

Answer D / Delay: Can create service and compensation issues.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 20

2. In facultative endorsement, the notice of dishonour is waived.

3. The 3 negotiable instruments are promissory notes, bills of exchange and cheque.

Read with these distinctions

These are related negotiable-instrument facts, not a substitute for section 131's collecting-bank conditions: customer, crossed cheque, good faith and absence of negligence.

Reference desk / dated checks

NI / India Code: Negotiable Instruments Act, 1881

Coverage: 55 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Collecting bank: Receives payment for its customer.	15. Suspicious circumstances: Require enquiry before routine credit.
02. Agency: The bank acts on the customer's collection instruction.	16. Company cheque: Do not casually credit it to an employee's personal account.
03. True owner: May have a claim when proceeds are wrongly collected.	17. Trust cheque: Check the capacity in which proceeds are received.
04. Conversion: Wrongful interference with another's property rights.	18. New account: Consider unusual early collection activity.
05. Section 131: Conditional protection for collection of crossed cheques.	19. Large unexpected cheque: Assess against the customer's profile.
06. Customer: The collection must be for a customer.	20. Defective title: Possession alone does not establish ownership.
07. Good faith: One condition of the protection.	21. Not negotiable: Cannot improve the transferor's title.
08. Without negligence: Another essential condition.	22. Provisional credit: Distinguish from final realised funds.
09. Crossed cheque: A central element of section 131.	23. Return: Reverse or handle according to the valid collection terms.
10. Account opening: Carelessness can affect collection protection.	24. Collection policy: Explains time frames and compensation conditions.
11. KYC: Supports identification but is not the whole collection inquiry.	25. Delay: Can create service and compensation issues.
12. Payee name: Compare with the account being credited.	26. Records: Preserve instrument images and collection instructions.
13. Account payee: Collect to the named payee's account.	27. Paying bank: Has a different payment-authority responsibility.
14. Endorsement chain: Examine apparent regularity and authority.	28. Protection: Must be established from the actual facts.

A15 / Ancillary Services



At the branch

Ancillary services move money, safeguard valuables and connect customers to other financial products. Identify the bank's role and the conditions of each service.

1. Identify service → 2. Explain conditions and charges → 3. Verify authority → 4. Deliver and retain evidence

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

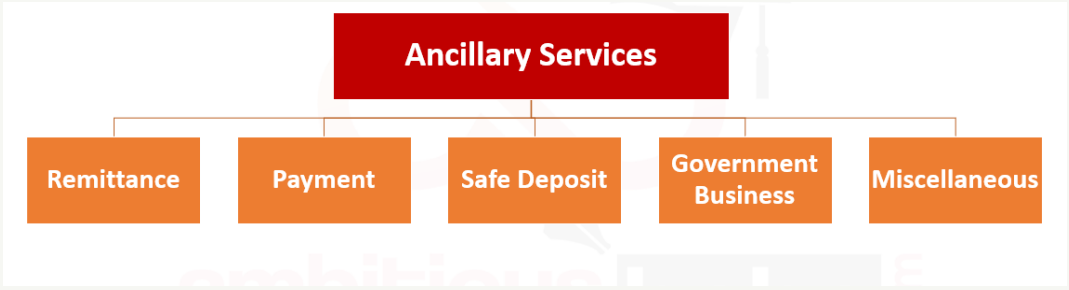
JAIIB PPB Module A Unit 15- Ancillary Services

Remittance

Remittance means transfer of funds on branch of a bank to another of the same bank or a different bank. Customer can make remittance within city through banker's cheques and for remitting funds from one centre to another through Demand Draft (DD), Mail Transfer (MT), Telegraphic Transfer (TT), National electronic funds transfer (NEFT), and Real Time Gross Settlement (RTGS) at specified service charges.

Demand Drafts (DD) and Banker's Cheque (BC)

Preserved source visual / page 96



Clarification / source page 97

IMPS permits up to Rs.5 lakh per transaction except SMS and IVR channels; banks may impose their own lower limits. The source's Rs.2 lakh figure is historical. [IMPS]

Mail Transfer (MT)

A mail transfer is a way of remitting money from one place to another through a bank. In case payee is a customer, his account is credited. It is used for both internal and international remittances. Bank charges commission for this service.

Telegraphic Transfer (TT)

• Telegraphic transfer, also known as Wire transfer is an electronic method of transferring funds. In this method, money is transferred from one bank to another via cable services or telegraphs.

• Earlier, overseas payments via telegraphic transfer was a popular method.

Though, telegraph is not used for transfers today, name still remains the same for the transfer of funds electronically or for any wire transfer transactions.

Telegraphic transfers are safe and convenient way to transfer funds to people staying overseas. Telegraphic transfer or wire transfer is the most common means of transferring funds overseas.

What is the Information Required for Telegraphic Transfer?

Here are the important points to be provided for telegraphic transfer:

- Name of the remitter
- Bank account details of remitter
- Payment currency
- Amount to be remitted
- Name of the beneficiary

Preserved source visual / page 97

BASIS FOR COMPARISON	BANKER'S CHEQUE	DEMAND DRAFT
Meaning	Banker's Cheque or Payment Order is a cheque issued for making the payments within the same city.	Demand draft is a negotiable instrument used to transfer money from one person at one city to another person in another city.
Special feature	All banker's cheque are pre-printed with "NOT NEGOTIABLE".	Demand draft of Rs. 20000 or more should be issued with "A/c payee" crossing.
Clearance	It can be cleared in any branch of the same city.	It can be cleared at any branch of the same bank.
Validity	3 months	3 months
Scale	Bankers cheque can be cleared in any branch of the bank provided it comes under the local jurisdiction	Demand Draft can be cleared at any branch of the same bank irrespective of the city.

- Account number of beneficiary or IBAN (International Bank Account Number)

for payments to UAE and Europe

- Name and address of beneficiary bank
- Beneficiary bank’s SWIFT (Society for Worldwide Interbank Financial

Telecommunication) code and BIC Code (Bank Identifier Code)

- Details of intermediary bank
- Reason or purpose of transfer

National Electronic Funds Transfer System (NEFT)/ Real Time Gross

Settlement System (RTGS)/

Preserved source visual / page 98

Comparison Category	NEFT	RTGS	IMPS
Settlement Type	Half hourly batches	Real time	Real time
Minimum Transfer Limit	Re.1	Rs.2 lakh	Re.1
Maximum Transfer Limit	No Limit However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances within India and to Nepal under the Indo-Nepal Remittance Facility Scheme.	No limit	Rs.2 lakh

Preserved source visual / page 98 (continued)

Service Timings	Available 365 days 24/7	Available 365 days 24/7.	Available 365 days 24/7
Transaction Charges	No charges for inward transactions (at destination bank branches for credit to beneficiary accounts)	No charges for inward transactions Charges applicable for outward transactions for amount:	Charges for remittance through IMPS are decided by the individual member banks and PPIs. The taxes are included.

Clarification / source page 99

This source tariff table is expressly dated 31 May 2022. Do not treat it as a current universal tariff. Distinguish RBI ceilings, online savings-account concessions and the bank's actual published charges. [NEFT]

RTGS/NEFT Charges For Customers

As at 31st May, 2022 the ceilings prescribed by RBI are as shown below.

Note: No charges must be levied on inward RTGS/ NEFT transactions

Mobile Banking In India

Mobile banking started in India in 2002, and back then, transactions were carried out through SMS. Today, almost all banking transactions can be performed using a computer, laptop or a smartphone. Everything from checking account statements to paying credit card bills, utility bills and transferring funds can be done online.

Mobile banking began as an offshoot of internet banking to further aid convenience and ease of access. In 2018, almost all banks have mobile phone applications for financial transactions. These apps remove the requirement of having a computer or laptop to transfer funds, and with continued advancements, have made visits to the bank a rarity.

Note: In 2008, ICICI Bank was the first bank to launch mobile banking in India.

Electronic Benefit Transfer (EBT) Scheme

• EBT is a product for Financial Inclusion, through which payments reach the beneficiaries' bank accounts.

• EBT commenced for seven schemes under the "One District One Bank" Model called as 'Direct Benefit Transfer' (DBT).

• The program was aimed at transfer of subsidies and cash benefits directly to the people through their Aadhaar seeded bank accounts.

Preserved source visual / page 99 / Source tariff dated 31 May 2022; not a current universal tariff.

		Rs.2 lakh – Rs.5 lakh: not exceeding Rs.25 Above Rs.5 lakh: not exceeding Rs.50 GST is also applicable	
Payment Options	Online and Offline	Online and Offline	Online

Preserved source visual / page 99 / Source tariff dated 31 May 2022; not a current universal tariff.

Transaction Value	Maximum Charges
RTGS Transactions	
₹ 2 lakh to ₹ 5 lakh	₹ 24.50 + (+ applicable GST)
Above ₹ 5 lakh	₹ 49.50 + (+ applicable GST)
NEFT Transactions	
Up to ₹10,000/-	₹ 2.50/- (+ applicable GST)
From ₹ 10,001/- to ₹ 1 lakh	₹ 5/- (+ applicable GST)
Above ₹ 1 lakh up to ₹ 2 lakh	₹ 15/- (+ applicable GST)
Above ₹ 2 lakh	₹ 25/- (+ applicable GST)

• EBT functions on, "one district – many banks – one leader bank model".

EBT Scheme Model

• State Government deals only with one leader bank in a district, designated by it in consultation with the RBI Regional Office and SLBC, for the district.

• Leader bank makes arrangement with other banks in the district on revenue sharing contract.

• A Nodal Department is designated in the State Govt. to deal with the leader bank in respect of all the schemes covered.

• List of beneficiaries under all Schemes are provided by Nodal Department to Leader bank for onward transmission the participating banks.

• Participating banks enroll all the beneficiaries, open their bank accounts and issue smart cards to them through Business Correspondents.

• Each month, the leader bank receives the funds from the State Government, in the Savings Account opened by the Nodal Department with it and transfers funds to other banks for credit to the accounts of ultimate beneficiaries' on a commission basis.

• Participating banks credit the funds to the accounts of respective beneficiaries on the same day.

Safe Deposit Lockers

Safe Deposit locker is a facility extended to the customer to enable to the customers to enable them to keep their valuables/ documents etc, in a specially designed locker on payment of prescribed rentals. The relationship between the bank and the hirer of the lockers is that of a "Lessor and Lessee" or "Bailor and Bailee" (Licensor and Licensee).

Nomination: Section 45 of the Banking Regulation Act deals with the nomination facilities in lockers services. Procedure pertaining to safe deposit lockers is detailed

hereunder:

In the case of a singly operated locker, nomination can be made in favour of only one individual.

Where the safe deposit locker is hired hired by two or more individual jointly, nomination can be made by them in favour of one or more persons.

Important Guidelines of RBI on lockers

• As per the guidelines banks cannot force customers to buy FD to open a bank locker. But, as a security cover banks can ask customers for a caution money deposit equivalent to three years rent and amount for a forced opening of the locker. This is done because there are instances where the locker is not used by the lock hirers and even the rent is not paid for it.

• It is mandatory to have an agreement between the locker hirer and the bank.

This agreement contains the basic terms and conditions like illegal items would



Pause and apply

A relative asks to open a customer's locker. Verify the mandate or the applicable death-claim procedure first.

Clarification / source page 101

Locker liability is not an absolute "no liability" rule. RBI provides liability at 100 times annual rent for specified attributable incidents; other situations and exclusions differ. [LOCKER]

not be stored in the locker, regular payment of dues and so on. The locker hirer should collect the copy of the agreement.

• Banks have to carry out KYC checks on customers, before providing the locker facility. This has to be done for both old and new customers.

• All the applications for the bank locker facility must contain a waitlist number.

• Banks have to take all the necessary steps to safeguard and protect the bank lockers.

• Locker keys must be embossed with the bank/branch identification code for identifying the owner of the keys.

• The locker hirer can appoint a single nominee to the bank locker. If the nominee is appointed, he should be given the due rights by the bank.

• If the bank locker is not operated for a long time, the banks can notify the locker hirer to either operate the locker or to surrender it. The banks should make a request for a written reply, which states the reasons for not operating the locker.

If the bank has not received any reply and the locker is still not operated, it has all the right to open the locker forcibly after sending a formal notice to the hirer.

Hiring Out A Locker

• Customer Due Diligence

• Allotment of Locker

• Model Locker Agreement

• Locker Rent

• Term Deposit as Security

Locker Operation

• Access to locker: The record of all locker-hirers, who have accessed the lockers with date, check-in and check-out time, is entered in the Access Register along with their signature.

• Privacy in Locker Room: The bank's officer, or any other locker hirer shall not remain inside the locker room when a locker is opened by a locker-hirer.

• Alerts to Customer: An email and SMS alert should be sent to the registered email ID and mobile number of the customer intimating the date and time of the locker operation.

• Locks and Keys: Locks should be inter-changed whenever a locker is surrendered. The duplicate master keys are deposited with another branch of the bank, and proper record of joint custody of master keys is maintained.

• Daily Checks: The officer-in-charge shall check whether the locker is properly closed post locker operation. If not done, the locker must be immediately closed and sealed, and the locker-hirer promptly intimated.

Nomination Facility In Locker

Sec. 45 – ZC to Sec. 45 –ZF of the BR Act deal with the nomination facilities in lockers services.

Clarification / source page 102

From November 2025, up to four successive nominees are permitted for lockers and safe-custody articles. The single-nominee source wording is historical. [NOMINATION]

• For a singly operated locker, nomination can be made in favour of only one individual.

• Two or more joint hirers can nominate one or more persons.

• Photograph(s) of the nominee(s) may be obtained at the option of the customer(s).

• Nomination forms have been prescribed under the Rules. In case of thumb impressions, attestation by two witnesses is required.

• Acknowledgment of the form for nomination/ cancellation/ variation should be given.

Claims Settlement on Death of a Customer

• Time Limit for Settlement

• Death of the Sole Locker-Hirer:

• Death of Any of Joint Locker-Hirers Operating Jointly

• Death of Any of Joint Locker-Hirers With Survivorship Clause

• Death of a Sole/Joint Locker-Hirer(s) Without Clear Survivorship Clause/

Nominee

• Pre-requisites for Giving Access

Closure and Discharge of Locker Items

• Discharge of locker contents at the request of customer

• Attachment and recovery of contents in a Locker by a Law Enforcement

Authority

• Discharge of locker contents by banks due to non-payment of locker rent

• Discharge of locker contents if the locker remains inoperative for a long period of

time

Portfolio Management

What is a Portfolio?

A portfolio refers to a collection of investment tools such as stocks, shares, mutual funds, bonds, cash and so on depending on the investor's income, budget and convenient time frame.

Following are the two types of Portfolio:

i)Market Portfolio

ii)Zero Investment Portfolio

What is Portfolio Management?

• The art of selecting the right investment policy for the individuals in terms of minimum risk and maximum return is called as portfolio management.

Clarification / source page 103

Portfolio services and investment distribution do not guarantee returns. Separate the bank's permitted activity from SEBI-regulated portfolio-manager requirements.

• Portfolio management refers to managing an individual's investments in the form of bonds, shares, cash, mutual funds etc so that he earns the maximum profits within the stipulated time frame.

• Portfolio management refers to managing money of an individual under the expert guidance of portfolio managers.

• In a layman's language, the art of managing an individual's investment is called as portfolio management.

Need for Portfolio Management

• Portfolio management presents the best investment plan to the individuals as per their income, budget, age and ability to undertake risks.

• Portfolio management minimizes the risks involved in investing and also increases the chance of making profits.

• Portfolio managers understand the client's financial needs and suggest the best and unique investment policy for them with minimum risks involved.

• Portfolio management enables the portfolio managers to provide customized investment solutions to clients as per their needs and requirements.

Portfolio Management Scheme- RBI Guidelines

• PMS services are provided at the customer's risk, without guaranteeing them a pre- determined return;

• The services are provided to parties in respect of their long- term investible funds;

• The minimum period, for which funds are placed by the clients, should be one year;

• Funds accepted for portfolio management should not be entrusted to another bank for management;

• Funds are expected to deployed essentially in capital market instruments such as shares, debentures, bonds securities etc, but are not to be employed for lending in call money/ bill market and lending to/ Placement with corporate bodies;

• The undeployed funds are the same as outside borrowings of the bank and Cash Reserve Ratio (CRR)/ SLR has to be maintained on such funds;

Merchant Banking

Role of Merchant Banking in India. basically provide services in the field of marketing, management, legal and financial matters to their clients. Its role ranges from aiding the person in starting the business, provide ways for raising funds, plays an efficient role in expanding the operations and also helps in reconstructing and reviving of sick business units.

The main business of merchant banking as summarized aptly by Narasimhan Committee in its reports is "Management and Underwriting of new issues, syndication of credit and provision of advisory services to corporate clients on fund raising and other financial aspects.

Following other activities are also covered under merchant banking:

• Payment of interest/ Divident warrants/ refund orders

• Bridge loan against issues

Government Business

• Collection of Central Excise and Customs, Direct Taxes and Indirect Taxes

• Opening of Public Provident Fund Accounts exclusively

• Handling of Treasury Work through opening of Treasury Accounts

• Collection of Railway Stations Revenues through opening of Non operative

Collection Accounts

• Opening of Ministry of Health and Family Welfare Accounts

• Opening of Post Office Receipts and Payment accounts

• Opening of Accounts under Deposit Scheme for (DSRGE) and (DSREPSC)

• Accept applications for collection of Relief Bonds/ Savings Bonds & 8% Savings (Taxable) Bonds

• Payment of Central and State Government Pensions

Practice / answer beside the question

Q01. Which statement correctly matches “Demand draft” in this chapter?

A. Provides controlled access to a hired storage compartment.

B. Electronic transfer through the NEFT system.

C. Normally accesses linked account funds.

D. A bank-issued remittance instrument.

Answer D / Demand draft: A bank-issued remittance instrument.

Q02. Which statement correctly matches “NEFT” in this chapter?

A. Electronic transfer through the NEFT system.

B. Check authority, records and life-certificate requirements.

C. Check the actual applicable tariff and concessions.

D. Follow the recorded access mandate.

Answer A / NEFT: Electronic transfer through the NEFT system.

Q03. Which statement correctly matches “IMPS” in this chapter?

A. Rs.5 lakh except SMS/IVR, subject to bank limits.

B. Immediate Payment Service.

C. Apply RBI’s specified incident-based rules.

D. Performed under the relevant agency arrangements.

Answer B / IMPS: Immediate Payment Service.

Q04. Which statement correctly matches “Locker” in this chapter?

A. Up to four successive nominees under the 2025 framework.

B. Rs.2 lakh under the RBI system framework.

C. Provides controlled access to a hired storage compartment.

D. Immediate Payment Service.

Answer C / Locker: Provides controlled access to a hired storage compartment.

Q05. Which statement correctly matches “Locker liability” in this chapter?

A. Verify identity and operating authority.

B. Follow the documented break-open procedure.

C. Management of a combination of investments.

D. Apply RBI’s specified incident-based rules.

Answer D / Locker liability: Apply RBI’s specified incident-based rules.

Q06. Which statement correctly matches “Mutual funds” in this chapter?

A. Investment risk remains with the investor.

B. Real-time gross settlement.

C. Performed under the relevant agency arrangements.

D. Electronic transfer through the NEFT system.

Answer A / Mutual funds: Investment risk remains with the investor.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 21

Unit – 17 : Ancillary Sercices

Each bank has two main activities as the sourcing or borrowing of funds (as deposits and capital from the market) and the deploying or lending the funds as Loans and Investments): these form the traditional and core activities of all the banks.

Apart from these basic activities, the banks provide a variety of other services or products.The mo st popular ones are listed below.

1) Funds transfer service: Useful for sending and receiving money from all over the world.The products that cover these services are Demand Drafts, Bankers Checks/Pay orders, EFT(Electronic Funds Transfer),etc.

2) Forex s ervice: You can buy the foreign exchange for any purpose of expenditures like travel, buying merchandise,etc..and sell the same to the bank when you earn or receive from abroad . Of course, these forex transactions are subject to the rules and regulations prevailing in a country and they are provided by only those bank branches which are approved by the Banking Authority or Regulator for this purpose.

3) Custodial Service: You can keep your valuables like jewels, documents, etc.. under this service which is commonly known as Locker facility(Safe Deposit Vaults in banking parlance. The bank will collect a nominal fee for the service.

4) Gold sale: You can buy pure gold for self consumption or for trading by the jewelry businesses.

Here also, only a few selec ted branches of banks or banks are allowed to provide this. The products usually range from a coin to a 100 gm biscuit or bar.

5) Investment service: Invest your money in the mutual funds run by the banks. The service comes as Portfolio service(the decisi on to maximize the returns on your money is left with the banker or

portfolio manager) and as Stand-alone product where the decision to get maximum returns is borne by you. Both have the plus and minus but these products are offered to suit the convenience of the investors. Portfolio means a basket of investments and securities in a combined form. Debt securities will yield interest income and equity investment will yield dividend income. Portfolio management means management of a combination of securities to get the most efficient portfolio.

6) Insurance sale: A range of insurance products covering the risk of life, health, assets like vehicle, credit and debit cards, travel etc. are offered by almost all the banks by themselves or in collaboration with the leading insurer companies ,which again may be local or multinational entities.

7) Card services: Primarily intended for safety and convenience purpose but now, has become a payment mode and a symbol of economic status. The card products usually are call ed as Debit card, Credit card .

8) eBanking: also known as Netbanking or Internet banking is the latest and most convenient facility of the banks .You can get id and password to operate your account online : for transfer of funds to another account in th e same bank or another bank. You can keep the surplus funds in fixed deposit by using this facility. The best use of this facility is for shopping online.

Read with these distinctions

Locker hire and custody of specified articles are different services. Investment products are not guaranteed bank deposits; distribution does not make the bank the insurer or fund manager. Forex services remain subject to authorisation and permitted-purpose rules.

Reference desk / dated checks

IMPS / NPCI: IMPS overview and per-transaction limit

LOCKER / RBI: Safe Deposit Locker / Safe Custody Article Facility, 18 August 2021

NEFT / RBI: NEFT FAQ

NOMINATION / Ministry of Finance / PIB: nomination amendments effective 1 November 2025

Coverage: 312 capsule text lines; 6 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Demand draft: A bank-issued remittance instrument.	15. Joint locker: Follow the recorded access mandate.
02. Pay order: A bank-issued payment instrument under its terms.	16. Locker nomination: Up to four successive nominees under the 2025 framework.
03. NEFT: Electronic transfer through the NEFT system.	17. Simultaneous nominees: Not the locker nomination route.
04. RTGS: Real-time gross settlement.	18. Locker liability: Apply RBI's specified incident-based rules.
05. RTGS minimum: Rs.2 lakh under the RBI system framework.	19. Key loss: Follow the documented break-open procedure.
06. IMPS: Immediate Payment Service.	20. Inventory: Prepare it where the prescribed release procedure requires.
07. IMPS limit: Rs.5 lakh except SMS/IVR, subject to bank limits.	21. Government business: Performed under the relevant agency arrangements.
08. Beneficiary details: Verify them before authorising a transfer.	22. Pension service: Check authority, records and life-certificate requirements.
09. Charges: Check the actual applicable tariff and concessions.	23. Tax collection: Follow the authorised collection arrangements.
10. Failed transfer: Trace, reverse or resolve under the relevant rules.	24. Insurance distribution: Explain insurer, cover and exclusions.
11. Locker: Provides controlled access to a hired storage compartment.	25. Mutual funds: Investment risk remains with the investor.
12. Safe custody: The bank receives specified articles for custody.	26. Portfolio management: Management of a combination of investments.
13. Locker agreement: Defines responsibilities subject to law and RBI directions.	27. Debit card: Normally accesses linked account funds.
14. Locker access: Verify identity and operating authority.	28. Credit card: Uses the issuer's credit facility under agreed terms.

A16 / Financial Inclusion and Financial Literacy



At the branch

Financial inclusion succeeds when people can use suitable services safely and affordably. Opening an account is the beginning, not the entire outcome.

1. Reach excluded customer → 2. Offer suitable access → 3. Teach safe use → 4. Support continuing use

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 104

Historical outreach statistics and schemes in the two sources should be read with their dates; they are not current population or coverage estimates.

JAIIB PPB Module A Unit 16: Financial Inclusion &

Financial Literacy

Financial Inclusion

• Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to disadvantaged and low-income segments of society.

• Growth of NGOs and Self-Help Groups (SHGs) has been significant and their linkage with banks has facilitated a higher degree of financial inclusion. Also, SHG movement has enabled social and economic inclusion of women.

• The bouquet of services under micro finance fold has expanded from just credit and thrift products to include micro insurance, micro pension, micro remittances, digital payments, amongst others.

Business Facilitator Model

Under BF model, banks may use intermediaries, such as the following as Business

Facilitators

• Non- Government Organisations (NGOs)/ Self-Help Groups (SHGs)

• Farmer’s Clubs

• Community-based organisations

• IT enabled rural outlets of corporate entities

• Post offices

• Insurance agents

• Well functioning Panchayats

• Village Knowledge Centres

• Agri Clinics, Agri Business Centers

• Krishi Vigyan Kendras

• Khadi and Village Industries Commission (KVIC)/ Khadi and Village Industries Board (KVIB).

The BFs may be used for providing various facilitation services:

• Identification of borrowers and fitment of activities

• Collection and preliminary processing of loan applications including verification

of primary information/data

• Creating awareness about savings and other products and education and advice

on managing money and debt counselling

• Processing and submission of applications to banks

• Promotion and nurturing self-help groups/joint liability groups

• Post-sanction monitoring

• Monitoring and hand holding of self-help groups/joint liability groups/credit

groups/others

• Follow-up for recovery.

Business Correspondent Model

Scheduled commercial banks including RRBs and LABs may engage BCs subject to compliance with the following guidelines.

To have a Board approved policy for engaging BCs; Due diligence of individuals/ entities

to be engaged as BCs prior to their engagement - covering

• Reputation/market standing

• Financial soundness

• Management and corporate governance

• Cash handling ability

• Ability to implement technology solutions in rendering financial services.

Individuals/entities permitted to be BCs are:

• Individuals (like retired bank employees, retired teachers, retired government employees and exservicemen, individual owners of kirana/medical/Fair Price shops, individual Public Call Office (PCO) operators, individuals who own Petrol

Pumps, authorized functionaries of well-run Self Help Groups (SHGs) which are

linked to banks, operating Common Service Centres (CSCs))

• NGOs/ Micro Finance Institutions (MFIs) set up under the Societies/Trust Acts

• Cooperative societies registered under Cooperative Societies Acts of States

• Post Offices

• Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, other than Non Banking Financial Companies (NBFCs).

• Commercial banks (excluding RRBs) are permitted to appoint non-deposit taking registered NBFCs (NBFC-ND) as BCs.

The scope of activities of a BC may include the following activities:

• Identification of borrowers

• Collection and preliminary processing of loan applications including verification

of primary information/data

• Creating awareness about savings and other products

• Processing and submission of applications to banks

• Promoting, nurturing and monitoring of Self Help Groups/Joint Liability Groups

etc

• Follow-up for recovery

• Disbursal of small value credit

• Recovery of principal/collection of interest

• Collection of small value deposits

• Sale of micro insurance/mutual fund products/pension products/other third

party products

• Receipt and delivery of small value remittances/ other payment instruments

• Preliminary work relating to account opening formalities.

Terms and Conditions for Engagement of BFs/ BCs

Commission/ Fee: Banks may pay a reasonable commission/fee to the BF/BC. The agreement should specifically prohibit BC/BF from charging customers directly for services on behalf of the bank.

Adopting Technology: Engaging BF/BC carries significant reputational, legal and operational risks. The transactions should normally be put through ICT devices (handheld device/mobile phone) seamlessly integrated to the CBS of the bank.

Risk Mitigating Measures: The arrangements with BC shall specify the following:

• Suitable limits on cash holding, individual customer payments and receipts.

• Cash collected to be acknowledged by a receipt on behalf of the bank.

• All agreements with the customer to clearly specify the bank is responsible to the customer.

• Ensure preservation/ protection of security/ confidentiality of customer information with BC.

• Periodic block level meetings be held with members of public

Clarification / source page 107

The source’s sixty-day Ombudsman waiting period is obsolete. Apply the current scheme’s escalation conditions. [OMB]

• To have Business Continuity Plan (BCP) to ensure uninterrupted service in case the arrangement with BCs/sub-agents is terminated.

• A company engaged as BC by more than one bank, the customer database and account details of both should be kept separate.

Redressal of Grievances: Services rendered by BCs/ BFs

• Banks should have a grievance redressal machinery for redressing complaints about services rendered by BC/BF. The name and contact number of designated grievance redressal officer should be widely publicized.

• The procedure and the time frame fixed for responding to the complaints should be placed on the bank’s website.

• If a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the compliant, he will have the option to

approach the office of the Banking Ombudsman for redressal of his

grievance/s.

Setting Up of Payment Banks

The objectives of payments banks (PBs) are to further financial inclusion by

providing

• Small savings accounts and

• Payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.

Scope of activities of PBs:

• Accepting demand deposits: Upto maximum balance of Rs. 2 lakh per

customer

• Issue of ATM/debit cards, PPIs

• Internet banking services

• Payments and remittance services

• Distribution of simple financial products (MFs, Insurance)

• Utility bill payments etc PB operate in remote areas mostly through BCs, ATMs and other networks. They need to have at least 25% of physical access points including BCs in rural centres.

Use Of Mobiles/ Tablets In Financial Inclusion Drive

• Banks have introduced a personal/ retail banking product, and product to promote financial inclusion. This has been hastened by low-cost smartphones and faster and cheaper internet connections.

• Banks use mobile phones/ tablets to open Small Accounts/ Basic Savings Bank Deposit Accounts in unbanked villages and offer banking services through Points of Sale (POS) instruments handled by agents of BCs.



Pause and apply

A new customer has an account but cannot use it safely. Demonstrate transactions, alerts and complaint routes.

• There are genuine concerns about security aspects of mobile banking and have to be address. Different mobile operating systems and diversity of devices add to complexity.

• In November 2012, National Payments Corporation of India (NPCI) launched a “Common USSD Platform” for all banks and telcos for Mobile Banking using USSD based Mobile Banking. NPCI offers a common USSD Code *99# for all Telcos. In December 2016, USSD 2.0 based on UPI was launched along with BHIM. It has made UPI available for non-internet based mobile devices (smartphone as well as basic phones) in the form of dialing option (*99#).

• Two broad areas in digital onboarding are: (i) improving accessibility of financial platforms using FinTech; and (ii) analysing potential risks that may arise out of FinTech adoption.

• Designing suitable financial products for specific needs of the financially excluded population, digital onboarding and increasing investments are vital.

Effective utilisation of Aadhaar eco-system is one avenue to adopt digital platforms as in case of DBT.

• The RBI Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps recognizes the increasing significance of 'digital lending' in the financial ecosystem.

• Flexible regulations ensure that unauthorised digital lenders are weeded out without affecting the growth of legitimate lenders.

Financial Literacy

• Financial Literacy is the process by which people improve their knowledge and understanding of the use of financial products and services.

• Financial literacy can help illiterates prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

• RBI has directed banks to establish Financial Literacy Centres (FLC). The centres are disseminating information on the general banking concepts to diverse target groups.

• The National Centre for Financial Education (NCFE) was set up in 2013 with support from all the financial sector regulators for implementation of the National Strategy for Financial Education (NSFE).

• RBI launched a pilot project in 2017 involving select banks and NGOs to spread financial literacy through community led participatory approach by setting up Centres for Financial Literacy (CFL). CFLs are being set up at every block in the country in a phased manner.

Rural Self Employment Training Institutes

Clarification / source page 109

RSETI is a training and enterprise-support model, not an automatic loan entitlement. Programme counts, grants and eligibility must be checked against the current implementing scheme.

• RSETI are initiatives of Ministry of Rural Development (MoRD) to provide dedicated infrastructure in each district for imparting training and skill upgradation of rural youth aimed at entrepreneurship development.

• RSETIs are managed by banks with active cooperation from the Government of India and the State Governments.

• This initiative is based on the model of Rural Development and Self Employment Training Institute of 1962. Replication of this model was recommended to tackle the unemployment problem successfully and developing entrepreneurship through establishment of RSETIs across the country.

• Each RSETI is expected to offer 30 to 40 skill development programs in a financial year of 1 to 6 week duration, covering various areas: Agricultural Programs, Product Programs, Process Programs, and General Programs.

Objectives Of RSETIs

The purpose of RSETI is that rural BPL youth are identified and trained for self-

employment. The objectives are:

• The trainings offered to be demand driven.

• Area in which training to be provided to the trainee to be decided after assessment the candidate's aptitude.

• Hand holding support to be provided for assured credit linkage with banks.

• Escort services to be provided for at least for two years soon to ensure sustainability of micro enterprise trainees.

• The trainees to be provided intensive short-term residential self-employment

training programmes with free food and accommodation

• Under this, the MoRD will provide a one time grant of Rs. One Crore to the lead bank in every district to set up one RSETI.

Practice / answer beside the question

Q01. Which statement correctly matches “Financial inclusion” in this chapter?

A. Affordable access to useful financial services.	B. Lack of access or inability to use suitable services.
C. Brings permitted banking services closer to customers.	D. Plan income, expenses and saving.

Answer A / Financial inclusion: Affordable access to useful financial services.

Q02. Which statement correctly matches “Access” in this chapter?

A. The bank remains responsible for its arrangement.	B. Physical or digital availability.
C. Can support services without a smartphone internet session.	D. Should suit local demand and the trainee’s aptitude.

Answer B / Access: Physical or digital availability.

Q03. Which statement correctly matches “Savings” in this chapter?

A. Supports enterprise continuity after training.	B. Supports income planning for later life.
C. Helps build a buffer against shocks.	D. A basic savings deposit route.

Answer C / Savings: Helps build a buffer against shocks.

Q04. Which statement correctly matches “BSBDA” in this chapter?

A. Knowledge and skills for sound financial decisions.	B. Measure safe use and resilience, not account counts alone.
C. Lack of access or inability to use suitable services.	D. A basic savings deposit route.

Answer D / BSBDA: A basic savings deposit route.

Q05. Which statement correctly matches “Financial literacy” in this chapter?

A. Knowledge and skills for sound financial decisions.	B. Affordable access to useful financial services.
C. Transfers specified risks under a contract.	D. Should suit local demand and the trainee’s aptitude.

Answer A / Financial literacy: Knowledge and skills for sound financial decisions.

Q06. Which statement correctly matches “RSETI” in this chapter?

A. Charges and conditions must suit the customer.	B. Rural Self Employment Training Institute.
C. Physical or digital availability.	D. The bank remains responsible for its arrangement.

Answer B / RSETI: Rural Self Employment Training Institute.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 39

Financial inclusion or inclusive financing is the delivery of financial product s, at affordable costs to sections of disadvantaged and low-income segments of society. It is in contrast to financial exclusion, where those services are not available or affordable.

As per United Nations, the goals of financial inclusion is, to ensure ac cess to a full range of financial services, at a reasonable cost, to ensure continuity and certainty of investment.

1. Opening of no-frills accounts (replaced by basic saving bank accounts) 2. Relaxation KYC norms for small deposit accounts.

3. Allowing engaging business correspondents (BCs) 4. Effective use of information and communications technology (ICT), to provide doorstep banking

services

MURUGAN / PHYSICAL PAGE 40

To facilitate DBT for delivery of social welfare benefits by direct credit to the bank accounts of

beneficiaries, banks were advised by RBI (May 10, 2013) to:

1. open accounts for all eligible individuals in camp mode with the support of local government authorities, put in place an effective mechanism to monitor and review the progress in the implementation of DBT.2. seed the existing -accounts or the new accounts opened with Aadhaar numbers and SLBC Convenor Banks and Lead Banks should institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation.

(1) RBI has undertaken a project titled 'Project Financial L iteracy' to disseminate information regarding banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

(2) RBI launched a financial education website on November 14, 2007.

(3) RBI circulated a comprehensive Financial Literacy Guide for conduct of Financial Literacy Camps & Financial Literacy. Material as also a Financial Diary and a set of 16 posters.

MURUGAN / PHYSICAL PAGE 41

8. Universal access to banking facilities for all households through a bank branch or a fixed point business correspondent called "BankMitra".

9. Financial literacy to be imparted up to village level.

10. Under the Jan Dhan Yojana, all benefits from the Centre/states/local bodies are pr oposed to be transferred to the accounts of beneficiaries.

MURUGAN / PHYSICAL PAGE 42

The financial literacy or financial education stands for ability to know and effectively use financial resources to enhance the well -being and economic s ecurity of oneself, one's family, and one's business.

It primarily relates to personal finance that enables individuals to take effective action to improve their overall wellbeing and avoid distress in financial matters.

Benefits: Financial literacy promotes financial inclusion and ultimately financial stability. In India, its need is even greater, due to low levels of literacy and the large section of the population, remaining out of the formal financial set-up.

Read with these distinctions

The dated DBT and literacy initiatives illustrate access and education; they are not current coverage statistics or a fresh scheme circular. Read the current role of safe access, customer consent, usable accounts and financial education.

Reference desk / dated checks

OMB / RBI: Integrated Ombudsman Scheme 2026 FAQ, updated 1 July 2026

Coverage: 191 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Financial inclusion: Affordable access to useful financial services.	15. DBT: Direct credit of eligible benefits to beneficiaries.
02. Financial exclusion: Lack of access or inability to use suitable services.	16. Digital access: Requires usability as well as connectivity.
03. Access: Physical or digital availability.	17. USSD: Can support services without a smartphone internet session.
04. Usage: Meaningful, continuing use of the service.	18. Financial literacy: Knowledge and skills for sound financial decisions.
05. Affordability: Charges and conditions must suit the customer.	19. Budget: Plan income, expenses and saving.
06. Savings: Helps build a buffer against shocks.	20. Emergency fund: Prepare for unplanned expenditure.
07. Payments: Enable safe receipt and transfer of money.	21. Borrowing: Compare total cost and repayment obligations.
08. Credit: Should fit repayment capacity and purpose.	22. Fraud awareness: Never share PIN, password or OTP.
09. Insurance: Transfers specified risks under a contract.	23. FLC: Financial Literacy Centre.
10. Pension: Supports income planning for later life.	24. CFL: Centre for Financial Literacy.
11. BSBDA: A basic savings deposit route.	25. RSETI: Rural Self Employment Training Institute.
12. Small account: A conditional KYC-relaxation route with limits.	26. Skill training: Should suit local demand and the trainee’s aptitude.
13. Business correspondent: Brings permitted banking services closer to customers.	27. Handholding: Supports enterprise continuity after training.
14. BC supervision: The bank remains responsible for its arrangement.	28. Outcome: Measure safe use and resilience, not account counts alone.

A17 / Customer Service Guidelines



At the branch

Customer service is a control system: clear information, accessible channels, reliable execution and prompt correction when something goes wrong.

1. Explain clearly → 2. Provide accessible service → 3. Track delivery → 4. Resolve and learn

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 109

The Kanungo committee's appointment is a historical event, not a statement that the committee is still conducting the review.

JAIIB PPB Module A Unit 17: Customer Service Guidelines

Customer Service

• The Reserve Bank of India has set up a six-member committee headed by

former Deputy Governor, B. P. Kanungo, to review customer service

standards in entities regulated by it, in May, 2022.

• The committee will evaluate the efficacy, adequacy and quality of customer service in regulated entities (REs) vis-à-vis the existing RBI guidelines on customer service, identify gaps, if any, and suggest measures to improve customer service.

• The committee will also review the evolving needs of the customer service landscape, especially in the context of digital/electronic financial products and distribution landscape and suggest suitable regulatory measures.

Customer Service in Banks

Customer Service: Organisational Framework

RBI has emphasized that matters relating to customer service should be deliberated by the Board. Boards need to review customer service aspects in the bank. So a detailed memorandum should be submitted to BoD, once every six months. Prescribed

institutional set up for banks includes:

• Customer Service Committee of the Board

• Standing Committee on Customer Service

• Branch Level Customer Service Committees

• Nodal department/ official for customer service

Customer Service In Banks: Committees

• RBI has emphasized that matters relating to customer service should be deliberated by the Board. Boards need to review customer service aspects in the bank. So a detailed memorandum should be submitted to BoD, once every six months.

• Banks are required to have a Customer Service Committee of the Board (CSSB), to which experts and representatives of customers should be invitees, to enable formulating policies and assess the compliance there of, and also ongoing improvements in the quality of customer service.

• The Committee on Procedures and Performance Audit of Public Services (CPPAPS) recommended that banks have a permanent Standing Committee on Customer Service that should be a dedicated focal point for customer service and have sufficient powers to evaluate the functioning in various departments.

• There should be Branch Level Customer Service Committees. These should include at least a senior citizen. It should meet at least once a month to study complaints/ suggestions, cases of delay; difficulties faced by customers/ members of the Committee and evolve ways and means of improving customer service. The branch level committees should submit quarterly reports giving inputs/ suggestions to the Standing Committee on Customer Service, and provide relevant feedback for necessary policy/ procedural action.

• Each bank should have a nodal department/ official for customer service in the Head Office and each controlling office, with whom customers with grievances can approach in the first instance and with whom the Ombudsman and RBI can liaise.

Board Approved Policies On Customer Service

Comprehensive Deposit Policy

It sets out the rights of the depositors in general and small depositors in particular.

The policy should cover all aspects of operations of deposit accounts, charges

leviable and other related issues to facilitate interaction of depositors at branch levels. It should also be explicit in regard to secrecy and confidentiality of the customers.

Cheque Collection Policy

Banks should have a comprehensive and transparent policy on collection of cheques for

that should cover the following three aspects:

• Immediate credit for local/ outstation cheques

• Time frame for collection of local/ outstation instruments

• Interest payment for delayed collection.

Customer Compensation Policy

Banks must have a Customer Compensation Policy that could be based on the model

policy of IBA. It should cover following aspects:

• Erroneous debits due to fraudulent or other transactions

• Payment of interest for delays in collection

• Payment of interest for delay in issue of duplicate draft

• Other unauthorised actions of the bank leading to a financial loss to customer.

Customer Grievance Redressal Policy

Banks must have a well-documented Customer Grievance Redressal Policy.

Policy For General Management Of The Branches

Banks should have Board approved policy for general management of the branches

covering:

• Infrastructure facilities at branches (adequate space, proper furniture, drinking water, facilities for pensioners/ senior citizens/ disabled persons, clean environment, etc.).

• Enquiry counters at large/ bigger branches in addition to reception counter.

• Multi-lingual indicator boards at all the counters.

• Roving officials to ensure responsiveness of employees, and helping customers in their transactions.

• Providing multilingual booklets on services and facilities.

• Use of Hindi and regional languages in transacting business with customers.

• Reviewing and improving the security system.

• Branch staff training with customer service orientation.

• Periodical visits by senior officials from Controlling/ Head Office for on the spot study.

• Customer service audit, Customer surveys.

• Holding Customer relation programmes and periodical meetings to interact with different cross sections of customers.

• Having a New Product and Services Approval Process that stipulates Board approval on issues which compromise the rights of the Common Person.

Clarification / source page 112

For own-bank ATMs, distinguish free financial transactions from non-financial transactions, which must not be counted against that minimum. Other-bank entitlements depend on location. [ATM]

• Appointing Quality Assurance Officers to ensure that the policy is translated into proper procedures.

ATM Operations

Free transactions in ATM

Customers are eligible for five free transactions (inclusive of financial and non- financial transactions) every month from their own bank ATMs. They are also eligible for free transactions (inclusive of financial and non-financial transactions) from other bank ATMs viz. three transactions in metro centres and five transactions in non- metro centres.

Transactions at ATM - Pin Validation for Every Successive Transaction:

The process should require pin validation for every transaction, including balance enquiry through ATM. Also, the time-out of sessions should be enabled for all screens/ stages.

Lodging of ATM related Complaints

At all ATM kiosks banks must display:

• Telephone numbers of help desk/ contact persons of the ATM owning bank to

lodge complaint/ seek assistance

• Uniform Template prescribed by RBI for lodging of complaints relating to ATM transactions.

Measures to enhance efficiency in ATM operations

• Message of non-availability of cash to be displayed, before transaction initiation

on screen

• To display ATM-ID in the ATM premises

• Complaint forms with name and phone number of the officials, to be available at

ATM

• Sufficient toll-free phone numbers for lodging complaints/ reporting and

blocking lost cards

• Mobile numbers/ e-mail IDs of the customers be registered to send alerts

• To inform customers failed ATM transaction complaints must be lodged with the card issuing bank, for all failed transactions.

Scheme of Penalty for non-replenishment of ATMs

Cash-out at any ATM of more than ten hours in a month attracts a flat penalty of Rs. 10,000/- per ATM. In case of WLAs, the penalty is charged to the bank meeting cash requirement of that WLA. Bank may recover the penalty from the WLA operator.

Disputes regarding ATM failed transactions

These shall be settled by the issuing bank and the acquiring bank through the ATM System Provider only. No bilateral settlement arrangement outside the dispute



Pause and apply

A customer reports an ATM debit without cash. Record the transaction date and apply the proper reversal clock.

Clarification / source page 113

For cash not dispensed but account debited, reversal is due by T+5 calendar days from the transaction, not five working days after complaint. Compensation is Rs.100 per day beyond the prescribed period. [TAT]

resolution mechanism of the system provider is permissible. This is meant to avoid disputes between the issuing and acquiring banks in payment of compensation.

Reconciliation of transactions at ATMs failure - Time limit

RBI has advised banks to resolve customer complaints regarding wrongful debit on account of ATM transactions within T+5 working days of receipt of customer complaint. In case of delay the card issuing bank must compensate the customer Rs. 100/- per day of delay. This amount shall be credited to the customer's account automatically without any claim from the customer.

Security Issues and Risk Mitigation Measures

• Online alerts for usage of credit/debit cards

• Card Not Present (CNP) transactions

• Electronic Payment Transactions

• Limiting Liability of Customers in Unauthorised Electronic Banking Transactions

Service At Counters

Business and working hours:

Employees should be at their seats at the commencement of business hours. Following regular hours and continuous availability of counter services is basic requirement.

Following norms need to be followed in respect of business and working hours.

• Reporting Time of Staff: For starting exactly at the commencement of business hours, the working hours of staff is fixed 15 minutes earlier, especially at metropolitan and urban centres.

• Business Hours: Branches are required to function for public at least 4 hours on week days and working Saturdays.

• Banking Timing: No particular banking hours have been prescribed. A bank may fix business hours for its branches at its discretion.

• Rural Branches: The branches in rural areas can fix the business hours and the weekly holidays to suit local requirements.

• Legal Provisions: Other relevant local laws Shops and Establishment Act, etc.

and obligations, to staff under the Industrial Awards/ Settlements need to be observed.

Preserved source visual / page 113 / Liability categories are conditional: cause and reporting time determine treatment.

Type of Account	Maximum liability (₹)
• BSBD Accounts	5,000
• All other SB accounts • Pre-paid Payment Instruments and Gift Cards • Current/ Cash Credit/ Overdraft Accounts of MSMEs • Current Accounts/ Cash Credit/ Overdraft Accounts of Individuals with annual average balance (during 365 days preceding the incidence of fraud)/ limit up to Rs.25 lakh • Credit cards with limit up to Rs.5 lakh	10,000
• All other Current/ Cash Credit/ Overdraft Accounts • Credit cards with limit above Rs.5 lakh	25,000

Clarification / source page 114

Use current respectful terminology and applicable guardianship law for customers with disabilities; disability alone is not a blanket bar to banking. [SERVICE]

• Uninterrupted Service: No counter should remain unattended during the business hours for uninterrupted service.

• Declaration of Holiday under the Negotiable Instruments Act, 1881: In terms of Section 25 of the NI Act, the expression “public holiday” includes Sunday and any other day declared by the Central Government by notification in the Official Gazette to be a public holiday.

Information To The Customers

• Comprehensive Notice Board by branches

• Booklets/Brochures

• Display on Website

• Other Modes of Display

• Information relating to Interest Rates and Service Charges

• Information in public domain

• Timeline for credit decisions

• Service Charges

• Customer Education

Special Arrangements At Branches

- Provision of ramps at ATMs/ branches
- Facility to sick/ old /incapacitated account holders
- Providing banking facilities to Visually Impaired Persons
- Talking ATMs with Braille keypads - Persons with visual impairment
- Opening/ operating bank accounts of Persons with Autism, Cerebral Palsy,

Mental Retardation, Mental Illness and Mental Disabilities

Other Provisions

- Rights of Transgender Persons – Changes in bank forms/ applications etc.
- Acknowledgement by banks at the time of submission of Form 15-G/ 15-H.
- Timely issue of TDS Certificate to Customers
- Acceptance of cash over the counter
- Erroneous Debits arising on fraudulent or other transactions
- Co-ordination with officers of Central Board of Direct Taxes
- Clean Overdrafts for small amounts
- Rounding off of transactions

Practice / answer beside the question

Q01. Which statement correctly matches “Customer service” in this chapter?

A. Not a reason for blanket denial of facilities.
B. Clear, reliable and fair delivery.
C. A designated contact for service issues.
D. Account debited but cash not dispensed.

Answer B / Customer service: Clear, reliable and fair delivery.

Q02. Which statement correctly matches “Standing committee” in this chapter?

A. Account debited but cash not dispensed.
B. Provide suitable physical and digital access.
C. Reviews service issues across the bank.
D. Report a failed transaction to the card-issuing bank.

Answer C / Standing committee: Reviews service issues across the bank.

Q03. Which statement correctly matches “Nodal official” in this chapter?

A. Not a reason for blanket denial of facilities.
B. Explains collection time frames and delay treatment.
C. Displays important service information.
D. A designated contact for service issues.

Answer D / Nodal official: A designated contact for service issues.

Q04. Which statement correctly matches “Notice board” in this chapter?

A. Displays important service information.
B. T+5 calendar days under the cited framework.
C. Provide suitable physical and digital access.
D. Discuss information only with authorised persons.

Answer A / Notice board: Displays important service information.

Q05. Which statement correctly matches “ATM reversal” in this chapter?

A. Account debited but cash not dispensed.
B. T+5 calendar days under the cited framework.
C. Maintain availability during published business hours.
D. Explains collection time frames and delay treatment.

Answer B / ATM reversal: T+5 calendar days under the cited framework.

Q06. Which statement correctly matches “Staff training” in this chapter?

A. Identifies recurring service problems.	B. Helps detect unauthorised activity promptly.
C. Connect policy with actual behaviour.	D. Provides local customer feedback.

Answer C / Staff training: Connect policy with actual behaviour.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 12

3. In the matter of recovery of dues, banks / NBFCs may ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders as also IBA’s Code for Collection of dues and repossession of security. In case banks / NBFCs have their own code for collection of dues it should, at the minimum, incorporate all the terms of IBA's Code.

4. In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank / NBFC and that they observe strict customer confidentiality.

5. All letters issued by recovery agents must contain the name and address of a responsible senior officer of the card issuing bank whom the customer can contact at his location.

6. Banks / NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders’ family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

MURUGAN / PHYSICAL PAGE 64

3. Can the prospect's interest be discussed with anybody else? DSA should respect a prospect's privacy. The prospect's interest may normally be discussed only with the prospect and any other individual/family member such as prospect's accountant/secretary /spouse, authorized by the prospect.

5. No misleading statements/misrepresentations permitted

TME/BDE should not -

• Mislead the prospect on any service / product offered;

• Mislead the prospect about their business or organization's name, or falsely represent themselves.

• Make any false / unauthorised commitment on behalf of Axis Bank for any facility/service.

MURUGAN / PHYSICAL PAGE 65

DURING CALL

- Identify yourself, your company and your principal

- Request permission to proceed

- If denied permission, apologize and politely disconnect.

- State reason for your call

- Always offer to call back on landline, if call is made to a cell number

- Never interrupt or argue

- To the extent possible, talk in the language which is most comfortable to the prospect

- Keep the conversation limited to business matters

- Check for understanding of "Most Important Terms and Conditions" by the customer if he plans to buy

the product

- Reconfirm next call or next visit details

- Provide your telephone no, your supervisor's name or your bank officer contact details if asked for by the customer.

- Thank the customer for his/her time

7. Gifts or bribes TME/BDE's must not accept gifts from prospects or bribes of any kind. Any TME/BDE offered a bribe or payment of any kind by a customer must report the offer to his/her management.

Read with these distinctions

The DSA extract contains a bank-specific example. Retain the general conduct principles—consent, privacy, accurate representation and no bribery—without treating every internal script as a universal RBI rule.

Reference desk / dated checks

ATM / RBI: ATM / White Label ATM FAQ, 4 July 2025

SERVICE / RBI: Customer Service in Banks (read with later amendments)

TAT / RBI: Failed-transaction turnaround time and compensation, 20 September 2019

Coverage: 189 capsule text lines; 1 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Customer service: Clear, reliable and fair delivery.	15. Visual impairment: Not a reason for blanket denial of facilities.
02. Board oversight: Makes service quality a governance responsibility.	16. ATM complaint: Report a failed transaction to the card-issuing bank.
03. Standing committee: Reviews service issues across the bank.	17. ATM cash failure: Account debited but cash not dispensed.
04. Branch committee: Provides local customer feedback.	18. ATM reversal: T+5 calendar days under the cited framework.
05. Senior citizens: Require appropriate access and assistance.	19. Delayed reversal: Rs.100 per day beyond the prescribed period.
06. Nodal official: A designated contact for service issues.	20. Transaction alert: Helps detect unauthorised activity promptly.
07. Deposit policy: Explains deposit rights and operating conditions.	21. Unauthorised transaction: Apply liability rules based on cause and reporting time.
08. Collection policy: Explains collection time frames and delay treatment.	22. PIN: Validate securely for the transaction.
09. Compensation policy: Defines remedies for specified service failures.	23. Counter service: Maintain availability during published business hours.
10. Grievance policy: Explains complaint routes and escalation.	24. Customer survey: Identifies recurring service problems.
11. Notice board: Displays important service information.	25. Staff training: Connect policy with actual behaviour.
12. Charges: Disclose them clearly before the service.	26. Recovery conduct: No intimidation or harassment.
13. Language: Use language the customer can understand.	27. Selling conduct: No false identity or misleading product commitment.
14. Accessibility: Provide suitable physical and digital access.	28. Privacy: Discuss information only with authorised persons.

A18 / Duties and Rights of Banker and Customer



At the branch

A bank owes confidentiality and reasonable care while retaining defined contractual and legal rights. Each disclosure or recovery action needs its own justification.

1. Identify duty or right → 2. Check legal basis → 3. Limit action to scope → 4. Record reasons

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

JAIIB PPB Module A Unit 18: Duties and Rights Of A

Banker And Customer Rights

Duty Of Secrecy and Confidentiality

Clarification / source page 115

Confidentiality exceptions are limited purposes, not permission to circulate all customer information. Source Income-tax Act, Gift-tax Act and older credit-bureau descriptions require their historical context. [TAX]

The debtor-creditor relationship between a bank and customer is of a special kind. It is a contractual relationship that has an implied obligation to keep the affairs of the account of customers, secret and confidential.

The duty of non-disclosure is contractual and legal. Thus, the bank would be protected only if it discloses the affairs of the customers under certain legally

permissible compulsions or circumstances as follows:

• Where disclosure is under compulsion of law

• Where there is duty to the public to disclose

• Where interest of bank requires disclosure

• Where the disclosure is made with the express or implied consent of the customer.

Disclosure Under Compulsion Of Law

• Banker’s Books Evidence Act, 1891: As per Sections 4 and 6 of the Banker’s Books Evidence Act, in a legal dispute between a bank’s customer and third party, certified copies of entries in the bank’s books may be called for, which shall be prima facie evidence of the existence of such entries in the bank’s books

• Summons by Civil/ Criminal Courts: The Civil/ Criminal Courts have the power to issue summons to banks to produce documents or tender evidence.

• Income Tax Act, 1961: The Income Tax Officer or specified higher officers of the Income Tax Department, under the powers vested by Section 133 of the Income Tax Act, may call for books of account or other documents from banks, if they consider that will be useful in any proceedings.

• Other Acts: The other relevant Acts under which information can be called from a banker are Companies Act, 2013, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, and Gift Tax Act.

Duty to Disclose in Public Interest

• It could arise if the customer happens to be dealing with terrorists, illegal drug trafficking or smuggling or similar serious anti-national and illegal activities.

Disclosure in the Interest of the Bank Itself

• A bank would be protected when it furnishes information about a borrower's account to the guarantors or their solicitors for recovering the dues.

• General information about loan accounts of a borrower exchanged with/ given to other bank or co-banker would also be protected by banking custom as it is in self-interest for taking precaution in respect of loans in default.

• In terms of Section 15(1) of Credit Information Companies (Regulation) Act, 2005, every credit institution has to become a member of at least one

Credit Information Company within a period of three months from

commencement of the Act and provide credit data in the format as

required by the Credit Information Company (CIC).

Clarification / source page 116

An attachment does not itself permanently terminate every banking relationship. Read the order and capacity. BCSBI discussion is historical; do not present the body as a current complaint forum.

Disclosure with Expressed or Implied Consent of the Customer

• Banks may disclose information at the request or explicit instruction of the customer.

Duty of Reasonable Care

• Due Diligence is required while discharging its duty as agent/ bailee/ trustee of a customer. If a customer suffers loss due to improper care or negligence of the bank, he/she may claim specific damages from the bank for making good the loss.

Garnishee or Attachment Order

• On receipt of a garnishee order from a court or attachment order from Income Tax Authorities (under section 226 of Income-tax Act), the bank should immediately stop debit operations in the account attached and intimate the customer of the order and the resultant stoppage of the operation in the account.

Bank's Rights

• Bank's Lien

• Right to Set-off

• Right of appropriation of accounts

• Right to charge interest/commission

• Termination of Banker-Customer Relationship

Voluntary termination

Termination by law

a)Death of customer

b)Bankruptcy of a customer/ liquidation of a Company

c)Garnishee Order

d)Insanity of customer

Banking Codes and Standards Board Of India

• In November 2003, RBI constituted the Committee on Procedures and Performance Audit of Public Services under the Chairmanship of Shri.

S.S.Tarapore (former Deputy Governor) to address the issues relating to availability of adequate banking services to the common man.

• The Committee recommended setting up of the Banking Codes and Standards Board of India (BCSBI) on the lines of Banking Codes and Standards Board functioning in U.K.

Status Of BCSBI



Pause and apply

A stranger requests a customer’s balance. Familiarity is not consent or a lawful disclosure basis.

• The BCSBI was registered as a separate society under the Societies Registration Act, 1860 on 18th February 2006.

• BCSBI had in collaboration with the Indian Banks’ Association (IBA), evolved and

issued following two Codes

(i)Code of Bank’s Commitment to Customers (issued in 2006 and revised in 2018) (ii)Code of Bank’s Commitment to Micro and Small Enterprises (MSE Code) (released on May 31, 2008, reviewed in 2012, and again in 2015)

• BCSBI has discontinued operations related to the objects of the Trust effective

from April 1, 2019. RBI has since set up Consumer Education and

Protection Department (CEPD), issued the Charter of Customer Rights (CoCR)

and considerably strengthened the Ombudsman mechanism to enhance

consumer protection.

Code of Bank’s Commitment to Customers

• It was issued on 1 July, 2006, and revised in August 2009 and 2014 to bring about greater transparency, and further enhancements in banking practices.

• The codes represent each member bank’s commitment to minimum standards of service to individual customers in relation to products and services offered by the bank, like: Deposit accounts, Safe deposit lockers, Settlement of accounts of deceased account holders, Foreign exchange services,

Remittances within India, Loans and advances and guarantees, Credit

cards, Internet banking.

Code of Bank's Commitment to Micro and Small Enterprises

• This code was brought out by BCSBI in May 2008 and sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the MSMED Act, 2006.

• It provides protection to MSEs and explains how banks are expected to deal with them for their day to day operations and in times of financial difficulty. The code was revised in 2012 and again in 2015.

• All the aspects covered in the Code of Bank's Commitment to Customers are also covered in the Code of Bank's Commitment to Micro and Small Enterprises. In addition, the Code of Bank's commitment to MSEs is also applicable to Letters of Credit, Bills, Factoring services and Merchant Services.

Key Commitments Under The Codes

• To act fairly and reasonably in all their dealings with target customers

• To help customers to understand how bank's financial products and services

work

• To help customers use their account

• To deal quickly and sympathetically with things that go wrong

Clarification / source page 118

Safe customer behaviour does not erase the bank's regulatory duties. Never ask a customer to disclose an OTP or PIN to staff or an agent.

• To treat all personal information of the customers as private and confidential

• To publicise the Code

• To adopt and practice a non-discrimination policy

• To have proper Grievance redressal mechanism

Obligations On The Customers

The codes brought out by BCSBI do not put any obligation on the part of the customers.

Acceptance of the Codes is a voluntary initiative by a bank.

Certain important obligations of a customer towards her bank are:

• To provide the required documents and information, including personal information for KYC.

• To keep the pass book, the cheque book and the debit card safely.

• To keep confidential the User ID and password for access to various channels.

• To inform promptly the bank about any unauthorized transaction noticed in the account.

• Not to allow any third party to use own bank account for its transactions.

• Not to provide any personal or account related information, including User ID password, OTP, etc. to any one purporting to call on behalf of the bank.

• Not to click on any link received through emails, sms, etc. for accessing the bank's website.

• To sign all cheques or forms or letters to the bank as per the specimen signature provided to the bank.

• To use non-home branches only for the permitted transactions, and when it becomes essential.

• To register one's own mobile number and email ID with the bank to get alerts

• Not to store important banking data in mobile, email or in the purse/ wallet.

• To use only verified, secure and trusted websites for online banking transactions.

• To use debit cards or credit cards only at authorised ATMs, or merchant establishments

• To change one's online banking password and PIN regularly.

• To request to block one's ATM Card, Debit Card, Credit Card, Prepaid Card if lost/ stolen.

Practice / answer beside the question

Q01. Which statement correctly matches "Confidentiality" in this chapter?

A. Apply the duties of the particular trust relationship.	B. Avoid discrimination and misleading conduct.
C. Protect the customer's account information.	D. A limited recognised basis for disclosure.

Answer C / Confidentiality: Protect the customer's account information.

Q02. Which statement correctly matches "Public duty" in this chapter?

A. May authorise the specified disclosure.	B. Help customers understand products and costs.
C. Required in carrying out the relevant banking role.	D. A limited recognised basis for disclosure.

Answer D / Public duty: A limited recognised basis for disclosure.

Q03. Which statement correctly matches "Scope" in this chapter?

A. Do not disclose more than the lawful purpose needs.	B. Consider the customer's needs and circumstances.
C. Restrains the debt or property specified in the order.	D. Help customers understand products and costs.

Answer A / Scope: Do not disclose more than the lawful purpose needs.

Q04. Which statement correctly matches "Agency" in this chapter?

A. Requires the applicable notice and legal procedure.	B. Act within the customer's authority.
C. Required in carrying out the relevant banking role.	D. Provide required accurate information.

Answer B / Agency: Act within the customer's authority.

Q05. Which statement correctly matches "Termination" in this chapter?

A. Help customers understand products and costs.	B. Keep the bank's alert channels up to date.
C. Requires the applicable notice and legal procedure.	D. Required in carrying out the relevant banking role.

Answer C / Termination: Requires the applicable notice and legal procedure.

Q06. Which statement correctly matches "Cheque security" in this chapter?

A. Keep the bank's alert channels up to date.	B. Act within the customer's authority.
C. Restrains the debt or property specified in the order.	D. Keep instruments safe and report loss promptly.

Answer D / Cheque security: Keep instruments safe and report loss promptly.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter's correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 12

1. CIBIL is a composite credit bureau which contains the credit history of both commercial and consumer borrowers.

2. CIBIL provides credit history of borrowers to its members in the form of credit information reports (CIRs) to assist them in their loan appraisal process.

7. The Banking Codes and Standards Board of India (BCSBI) was set up on 18th February 2006 as a collaborative effort of RBI and Banks, on the lines of a similar set up in UK to oversee t he "Banking Code", a voluntary Code, evolved by the British Bankers Association (BBA), which is adopted by all banks in UK.

8. The proposal for setting up the BCSBI was based on the recommendation made by the Committee on Procedures and Performance Audit on Public Services (Tarapore Committee).

9. It provides valuable protection for customers on a day-to-day basis as also in the times of financial difficulty.

10. The code applies to savings deposits and current accounts, card products and services, loans an d overdrafts and payment services including foreign exchange.

11. Member banks of BCSBI would put in place the following grievance redressal mechanism in their

banks:

Have a Help desk / Helpline at the branch

Have a Code Compliance Officer at each Controlling office above the level of the branch Display at each branch name and contact number of Code Compliance Officer Display Name and address of the Banking Ombudsman.

MURUGAN / PHYSICAL PAGE 17

21. A lien is a right of the banker to retain possession of the goods a nd securities owned by the debtor until the debt due from the latter is paid.

22. The banker’s lien is an implied (understood) pledge (promise/guarantee).

23. In case of lien, the bank can sell the goods and securities in case the debt is not paid under section 171 of the Indian Contract Act 1872.

24. Lien cannot apply in safe deposit locker.

25. Set-off means adjusting debit balance in one account with an account having credit balance of the same customer.

Read with these distinctions

BCSBI passages are historical. Confidentiality and fair treatment remain relevant, but the former code structure is not a current complaint forum. Lien and sale assertions require the conditions explained in A07.

Reference desk / dated checks

TAX / Income Tax Department: Income-tax Act, 2025 resources

Coverage: 146 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Confidentiality: Protect the customer's account information.	15. Set-off: Combines legally mutual obligations.
02. Legal compulsion: Disclosure must follow valid legal authority.	16. Appropriation: Allocates payments among debts.
03. Public duty: A limited recognised basis for disclosure.	17. Interest and charges: Need a valid contractual or regulatory basis.
04. Bank's interest: Disclose only what the legitimate purpose requires.	18. Termination: Requires the applicable notice and legal procedure.
05. Customer consent: May authorise the specified disclosure.	19. Attachment: Restrains the debt or property specified in the order.
06. Scope: Do not disclose more than the lawful purpose needs.	20. BCSBI codes: Study as historical service commitments.
07. Court records: Use the applicable evidence and production procedure.	21. Fair treatment: Avoid discrimination and misleading conduct.
08. Certified entries: Their evidentiary role differs from unrestricted access.	22. Transparency: Help customers understand products and costs.
09. Credit information: Share through authorised regulatory arrangements.	23. Suitability: Consider the customer's needs and circumstances.
10. Reasonable care: Required in carrying out the relevant banking role.	24. Customer KYC duty: Provide required accurate information.
11. Agency: Act within the customer's authority.	25. Cheque security: Keep instruments safe and report loss promptly.
12. Bailment: Exercise the applicable duty of care for goods.	26. Digital security: Keep passwords, PINs and OTPs secret.
13. Trust: Apply the duties of the particular trust relationship.	27. Unauthorised activity: Notify the bank promptly.
14. Lien: Retains qualifying property subject to conditions.	28. Contact details: Keep the bank's alert channels up to date.

A19 / Grievance Redressal and RBI Integrated Ombudsman Scheme



At the branch

A complaint should create an evidence trail: what failed, when it was reported, what the bank decided and which remedy remains available.

1. Complain to the bank → 2. Track response and evidence → 3. Check external eligibility → 4. Seek resolution or award

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

JAIIB PPB Module A Unit 19: Grievance Redressal & RBI

Integrated Ombudsman Scheme 2021

Grievance Redressal Policy

Clarification / source page 119

The source's one-year external filing window belongs to the older framework. Read the dated 2026 update below for new complaints. [OMB]

• The Banking Ombudsman Scheme was introduced in 1995 to serve as an alternate grievance redress mechanism for customer complaints against banks.

• In 2019, Reserve Bank also introduced the Complaint Management System (CMS)available 24x7 for customers to lodge their complaints with the Banking Ombudsman (BO).

• To further strengthen the customer grievance redressal mechanism in banks, in January 2021 RBI has put in place a comprehensive framework.

Model Policy On Grievance Redressal

The Model Policy on Grievance Redressal is based on the under-noted principles:

• Customers will be treated fairly at all times.

• Complaints raised by customers will be dealt with courtesy and in time.

• Customers will be informed of avenues to escalate their complaints/ grievances within the organization and their rights to alternative remedy, if not fully satisfied.

• Bank will treat all complaints efficiently and fairly

• Employees will work in good faith and without prejudice to the interests of the customer.

Internal Machinery To Handle Customer Grievances

Customer awareness and facilitation

• Information to customers

• Complaint/suggestion box

• Complaint book/register

• Complaint Form

Complaint redressal mechanism in banks

• If a matter cannot be resolved at the branch level, it should be referred, along with comments/suggestions to the Regional/ Zonal Office, within 7 days of receiving complaint. If not resolved at Regional/ Zonal Office it will be referred

to Customer Service Section, Head Office along with their

comments/explanations.

• A complaint redressal letter is sent to the complainant from Head Office and suitable instructions are passed on to the branch/ Regional/ Zonal Office, for taking necessary action in the deficient areas.

• It should also be stated that the customer, if not satisfied with the bank's response, has the right to approach the Ombudsman within one year of the date of receipt of the communication. The particulars of the Ombudsman should also be mentioned in the letter.

• Where the complaints are not redressed within one month, the concerned

branch/ Controlling Office should forward a copy of the same to the

concerned Nodal Officer under the Ombudsman Scheme and keep him

updated regarding the status of the complaint.

Online Dispute Resolution (ODR) System

• In August 2020, RBI advised authorized Payment System Operators (PSOs) –

banks and non-banks – and their participants (PSPs) to put in place

system/s for Online Dispute Resolution (ODR) system for resolving disputes and grievances of customers related to failed transactions in their respective payment systems.

• If the grievance remains unresolved up to one month, the customer may

approach the Reserve Bank - Integrated Ombudsman Scheme, 2021. The

PSO and its PSPs shall provide the customers an access for lodging the disputes and grievances for all transactions whether on-us or off-us.

Complaints of Unauthorized Electronic Transactions

• In the SMS and email alerts sent to customers regarding electronic banking transactions, facility to enable customers to instantly respond by "Reply" should be provided for notifying any objection.

• Complaints should be resolved and liability of the customer, if any, established within the timeline specified in the bank's Board approved policy, but not exceeding 90 days from the date of receipt of the complaint. If the complaint is not resolved within 90 days, the customer should be compensated as per the RBI norms.

Credit Facilities Related Complaints

• The disputes arising out of the lending decisions should be heard and disposed of at least at the next higher level.

Strengthening of Grievance Redress Mechanism in Banks

With a view to strengthen and improve the efficacy of the grievance redress mechanism of banks and to provide better customer service, in January 2021, RBI put in place a comprehensive framework comprising certain measures.

Disclosures related to complaints:

• RBI had advised that banks must place a statement of complaints before their Boards/ Customer Service Committees along with an analysis of the complaints received.

• These disclosures are intended to provide to the customers of banks and members of public greater insight into the volume and nature of complaints received by the banks from their customers and the complaints received

by banks from the OBOs, as also the quality and turnaround time of

redress.

Recovery of cost of redress of complaints from banks

Clarification / source page 121

RB-IOS 2026 replaced RB-IOS 2021 from 1 July 2026. Earlier complaints, related appeals and execution of earlier awards remain under the 2021 framework. The Internal Ombudsman is part of internal review, not a separate first-contact customer desk. [OMB]

• With a view to ensure that banks discharge this responsibility effectively, RBI has decided that the cost of redress of complaints be recovered from those banks against whom the maintainable complaints in the OBOs exceed their peer group average.

Intensive Review of Grievance Redress Mechanism

• RBI will undertake annual assessments of customer service and grievance redress in banks based on the data and information available through the

Complaint Management System, and other sources

Principal Nodal Officer

• Banks are required to appoint a Principal Nodal Officer under the Ombudsman Scheme, not below the rank of a General Manager. The name and address of the Principal Nodal Officer may be forwarded to the Chief General Manager, Customer Education and Protection Department, Reserve Bank of India. Contact details of the Principal Nodal Officer needs to be prominently displayed in the portal of the bank.

Review of Grievances Redressal Machinery in Public Sector Banks

Chief Customer Service Officer at Select Banks

• In May 2015 RBI advised a few banks to appoint an internal ombudsman (IO) designated as Chief Customer Service Officer (CCSO). The bank's internal ombudsman is a forum available to bank customers for grievance redressal

before they approach the Ombudsman

• In September 2018, RBI issued revised Internal Ombudsman Scheme, 2018.

Scheduled banks having more than ten banking outlets (excluding RRBs), are required to appoint IO in their banks.

The RBI - Integrated Ombudsman Scheme 2021

• The Banking Ombudsman Scheme of RBI in operation since 1995. RBI had also introduced two more ombudsman schemes, viz. The Ombudsman Scheme for Non-banking Financial Companies, 2018 (for customers of larger NBFCs),

and Ombudsman Scheme for Digital Transactions, 2019 (for grievances

related to digital transactions).

• In November 2021, RBI integrated all the three Schemes into one omnibus

Ombudsman Scheme, viz. The Reserve Bank - Integrated Ombudsman

Scheme, 2021 (IOS 2021) to cover all entities regulated by RBI.

• This Scheme provides cost-free redress of customer complaints involving deficiency in services rendered by the entities regulated by RBI, if not resolved to the satisfaction of the customers or not replied within a period of 30 days by the regulated entity.



Pause and apply

A complaint is rejected. Keep the response, check the applicable scheme and calculate the escalation deadline.

• The Scheme also includes under its ambit Non-Scheduled Primary Co- operative Banks with a deposit size of Rs. 50 crore and above. The Scheme adopts ‘One Nation One Ombudsman’ approach.

• The Ombudsman is a senior official appointed by RBI to redress customer complaints against deficiency in certain banking services. As of November 2021, 22 Ombudsmen were appointed with their offices located at the RBI offices mostly in the state capitals.

Organizational Aspects-Ombudsman

• Appointment of Ombudsmen: RBI may appoint its officers as Ombudsmen to carry out the functions under the Scheme. These appointments can be for maximum three years at a time.

• Central Receipts and Processing Centre (CRPC): All complaints under IOS 2021 are received at the CRPC, Chandigarh. The CRPC forwards the complaint to the concerned Ombudsman.

• Powers and Jurisdiction: RBI specifies the territorial authority of each Ombudsman.

• Modes of satisfaction of complaints: The ombudsmen facilitate resolution of complaints preferably by agreement or through conciliation and mediation between the bank and the aggrieved parties. Failing a mutual agreement, the BO settles the complaint by passing an Award as per the provisions of the Scheme,

Processing Of Complaints

Scrutiny at CRPC: Based on a preliminary scrutiny the CRPC determines the validity of the complaint. The complaints found to be valid and maintainable are assigned to the concerned Ombudsman for further examination, under intimation to the complainants, and copies to the respective regulated entities with direction to submit their written versions.

Resolution at Ombudsman office:

• Agreement through Facilitation

• Agreement through Mediation and Conciliation

• Passing an Award

Proceedings at Ombudsman Office

• The concerned regulated entity on receipt of a complaint from the CRPC is

required to promptly file with the concerned ombudsman its written

response, along with copies of the documents in support, within 15 days.

• The ombudsman furnishes the written version and the relevant documents filed by one party to the other party and provide additional time to it for

submitting its counter response to these. Thereafter, the ombudsman commences the process for resolution of the complaint

Clarification / source page 123

2026 update: consequential-loss compensation up to Rs.30 lakh; time, expense and harassment compensation up to Rs.3 lakh. No ceiling applies to the disputed amount itself. Appeals under the new scheme are against awards. [OMB]

• If a regulated entity does not file its written version within the stipulated/ extended time: a) The ombudsman proceeds ex-parts based on the evidence available and pass appropriate Order or issue an Award. b) The regulated entity loses the right of appeal in respect of the Award.

Award By Ombudsman

The Award shall contain following rulings:

(i)Direction to the regulated entity for specific performance (ii)Amount to be paid by the regulated entity to the complainant as compensation for loss suffered.

Following ceilings apply to payments by the regulated entity to the complainant:

(i) Actual amount involved in the dispute - without any ceiling.

(ii) Compensation for consequential loss (directly out of the act or omission of the bank)

- to the extent of actual loss, with ceiling of Rs. 20 lakh

(iii) Compensation for loss of time, expenses incurred, harassment and mental anguish suffered - up to the ceiling of Rs. 1 lakh.

• A copy of the Award is sent to the complainant and the regulated entity. The complainant should give a letter accepting the Award in full and final settlement to the regulated entity, within 30 days of receiving the award copy.

• The regulated entity should comply with the Award and intimate compliance to the ombudsman, within 30 days of receiving acceptance letter from the complainant.

• The Appellate Authority (AA) is the Executive Director in-Charge of the RBI Department administering the Scheme. An appeal can be made by either of the parties against the award or an order of rejection made by the Ombudsman. A Regulated Entity can appeal only with prior sanction of the Chairman or the MD/ CEO or, in their absence, the ED/Official of equal rank.

• The AA may allow a additional period not exceeding 30 days for filing an appeal, if satisfied about the reasons. After review of the matter and giving the parties a reasonable opportunity of being heard, the AA may pass its order.

Grounds for non-maintainability of a Complaint

Any complaint for deficiency in service in following matters will not be covered:

(a) commercial decision of a Regulated Entity; (b) a dispute between a vendor and a Regulated Entity in an outsourcing contract; (c) a grievance not addressed to the Ombudsman directly; (d) general grievances against Management or Executives of a Regulated Entity; (e) a dispute in an action in compliance with orders of a statutory or law enforcing authority; (f) a service not within the regulatory purview of RBI; (g) a dispute between Regulated Entities; and (h) a dispute involving the employee- employer relationship of a Regulated Entity.

Clarification / source page 124

First approach the regulated entity. Where no satisfactory reply is received, the waiting period is 30 days or the longer applicable RBI/NPCI/card-network period. File within 90 days of its expiry or the entity’s last communication, whichever is later; a dissatisfied recipient of a reply need not wait out the period. [OMB]

Rejection of a Complaint by the Ombudsman

Deputy Ombudsman or Ombudsman may reject a complaint, at any stage, if it

appears to be:

• Non-maintainable

• In the nature of offering suggestions or seeking guidance or explanation.

The Ombudsman may reject a complaint at any stage if

• In his opinion there is no deficiency in service

• The compensation sought for the consequential loss is beyond the power of the

Ombudsman

• The complaint is not pursued by the complainant with reasonable diligence

• The complaint is without any sufficient cause

• The complaint requires consideration of elaborate documentary and oral evidence and the proceedings before the Ombudsman are not appropriate for

adjudication of such complaint

• In the opinion of the Ombudsman there is no financial loss or damage, or inconvenience caused to the complainant.

Powers and Functions of Ombudsman

• The Ombudsman has the power to address and close all complaints. The Deputy Ombudsman has the power to close those complaints that are not maintainable and complaints settled through facilitation. The Ombudsman has powers to pass an Award for complaints not settled through facilitation.

• The Ombudsman sends to the Deputy Governor, RBI a report, as on March 31st every year, containing a general review of the activities of the office during the preceding financial year, and also furnishes any other information required by RBI. The RBI has the powers to publish the report and the information received from the Ombudsman in consolidated form or otherwise, as

it may deem

Practice / answer beside the question

Q01. Which statement correctly matches “Complaint” in this chapter?

A. Approach the regulated entity first.	B. Use the applicable scheme’s clock, not the source’s old clock.
C. Coordinates complaint handling.	D. State the service failure and remedy requested.

Answer D / Complaint: State the service failure and remedy requested.

Q02. Which statement correctly matches “First route” in this chapter?

A. Approach the regulated entity first.	B. Not automatically a maintainable service complaint.
C. Separate it from the disputed principal amount.	D. Use the bank’s designated complaint hierarchy.

Answer A / First route: Approach the regulated entity first.

Q03. Which statement correctly matches “Nodal officer” in this chapter?

A. State the service failure and remedy requested.	B. Coordinates complaint handling.
C. Keep dates, acknowledgements and transaction records.	D. The complaint must concern a covered service failure.

Answer B / Nodal officer: Coordinates complaint handling.

Q04. Which statement correctly matches “No reply” in this chapter?

A. Separate it from the disputed principal amount.	B. A separate permitted category, subject to the scheme.
C. Apply the prescribed waiting period.	D. Coordinates complaint handling.

Answer C / No reply: Apply the prescribed waiting period.

Q05. Which statement correctly matches “Commercial judgment” in this chapter?

A. The Ombudsman mechanism is cost-free.	B. RBI’s Complaint Management System.
C. Use the bank’s designated complaint hierarchy.	D. Not automatically a maintainable service complaint.

Answer D / Commercial judgment: Not automatically a maintainable service complaint.

Q06. Which statement correctly matches “Harassment compensation” in this chapter?

A. A separate permitted category, subject to the scheme.	B. Record the outcome and reasons.
C. Use the applicable award-appeal procedure and deadline.	D. Uses a neutral process to resolve disagreement.

Answer A / Harassment compensation: A separate permitted category, subject to the scheme.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter’s correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 17

1. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.

2. The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks.

3. The Banking Ombudsman is a senior official appoint ed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.

5. The Banking Omb udsman can receive and consider any complaint relating to the following

deficiency in banking services (including internet banking):

non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.;

MURUGAN / PHYSICAL PAGE 18

non-acceptance, without suffic ient cause, of small denomination notes tendered for any purpose, and for charging of commission in respect thereof;

non-acceptance, without sufficient cause, of coins tendered and for charging of commission in respect thereof;

non-payment or delay in payment of inward remittances ;

failure to issue or delay in issue of drafts, pay orders or bankers’ cheques;

non-adherence to prescribed working hours ;

failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents;

delays, non-credit of proceeds to parties accounts, non -payment of deposit or non -observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits in any savings,current or other account maintained with a bank ;

complaints from Non -Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters;

refusal to open deposit accounts without any valid reason for refusal;

levying of charges without adequate prior notice to the customer;

non-adherence by the bank or its subsidiaries to the instructions of Reserve Bank on ATM/Debit card operations or credit card operations;

non-disbursement or delay in disbursement of pension (to the extent the grievance can be attributed to the action on the part of the bank concerned, but not with regard to its employees);

refusal to accept or delay in accepting payment towards taxes, as required by Reserve Bank/Government;

refusal to issue or de lay in issuing, or failure to service or delay in servicing or redemption of Government securities;

forced closure of deposit accounts without due notice or without sufficient reason;

refusal to close or delay in closing the accounts;

non-adherence to the fair practices code as adopted by the bank or non -adherence to the provisions of the Code of Bank s Commitments to Customers issued by Banking Codes and Standards Board of India and as adopted by the bank ;

non-observance of Reserve Bank guidelines on engagement of recovery agents by banks; and

any other matter relating to the violation of the directives issued by the Reserve Bank in relation to banking or other services.

6. A customer can also lodge a complaint on the following grounds of deficiency in ser vice with respect to loans and advances non-observance of Reserve Bank Directives on interest rates;

delays in sanction, disbursement or non -observance of prescribed time schedule for disposal of loan applications;

non-acceptance of application for loans without furnishing valid reasons to the applicant; and

non-adherence to the provisions of the fair practices code for lenders as adopted by the bank or Code of Bank’s Commitment to Customers, as the case may be;

non-observance of any other direction or instruction of the Reserve Bank as may be specified by the Reserve Bank for this purpose from time to time.

Read with these distinctions

These are historical origins and examples of service deficiency. Maintainability, coverage, filing time and remedies must be tested under the applicable 2021 or 2026 scheme, not the older list alone.

Reference desk / dated checks

OMB / RBI: Integrated Ombudsman Scheme 2026 FAQ, updated 1 July 2026

Coverage: 219 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. Complaint: State the service failure and remedy requested.	15. CRPC: Centralised Receipt and Processing Centre.
02. Evidence: Keep dates, acknowledgements and transaction records.	16. Cost: The Ombudsman mechanism is cost-free.
03. First route: Approach the regulated entity first.	17. Deficiency: The complaint must concern a covered service failure.
04. Branch response: Record the outcome and reasons.	18. Commercial judgment: Not automatically a maintainable service complaint.
05. Escalation: Use the bank’s designated complaint hierarchy.	19. Duplicate proceedings: Check whether the same grievance is already before another forum.
06. Nodal officer: Coordinates complaint handling.	20. Facilitation: Seeks an agreed resolution.
07. Internal review: Examines rejected or partly rejected complaints as prescribed.	21. Conciliation: Helps parties reach settlement.
08. External remedy: Depends on the applicable scheme’s eligibility.	22. Mediation: Uses a neutral process to resolve disagreement.
09. 2021 framework: Retained for cases governed by its transition provisions.	23. Award: A formal decision under the scheme.
10. 2026 framework: Effective from 1 July 2026.	24. Consequential loss: Separate it from the disputed principal amount.
11. No reply: Apply the prescribed waiting period.	25. Harassment compensation: A separate permitted category, subject to the scheme.
12. Dissatisfied reply: May permit escalation without waiting further.	26. Acceptance: Read the award’s acceptance requirements.
13. Filing deadline: Use the applicable scheme’s clock, not the source’s old clock.	27. Appeal: Use the applicable award-appeal procedure and deadline.
14. CMS: RBI’s Complaint Management System.	28. Learning loop: Analyse repeated complaints to prevent recurrence.

A20 / Consumer Protection Act, 2019



At the branch

Consumer law distinguishes rights, regulatory enforcement and individual dispute resolution. Choose the correct forum by the nature of the case and statutory jurisdiction.

1. Identify consumer and deficiency → 2. Choose proper forum → 3. File evidence within time → 4. Resolve, mediate or appeal

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 125

A contract of personal service is excluded from the statutory service definition; the source wording is misleading. The commercial-purpose exclusion has an express self-employment/livelihood qualification for goods. [CPA]

JAIIB PPB Module A Unit 20: The Consumer Protection

Act, 2019-Preamble, Extent and Definitions

Consumer Protection Act, 2019

Salient New Aspects of CPA, 2019

- Defines specifically ‘Consumer Rights’
- Adds feature of ‘Unfair contract’
- Introduces ‘Product liability action’
- Defines ‘Design’ and includes related aspects
- Includes ‘e-Commerce’ and ‘Electronic service provider’
- Includes ‘Advertising’ and ‘Endorsement’
- Adds the ‘Express warranty’ parameter
- Distinguishes: Manufacturer, Product manufacturer, Product seller, Product

service provider

Who Is A Consumer?

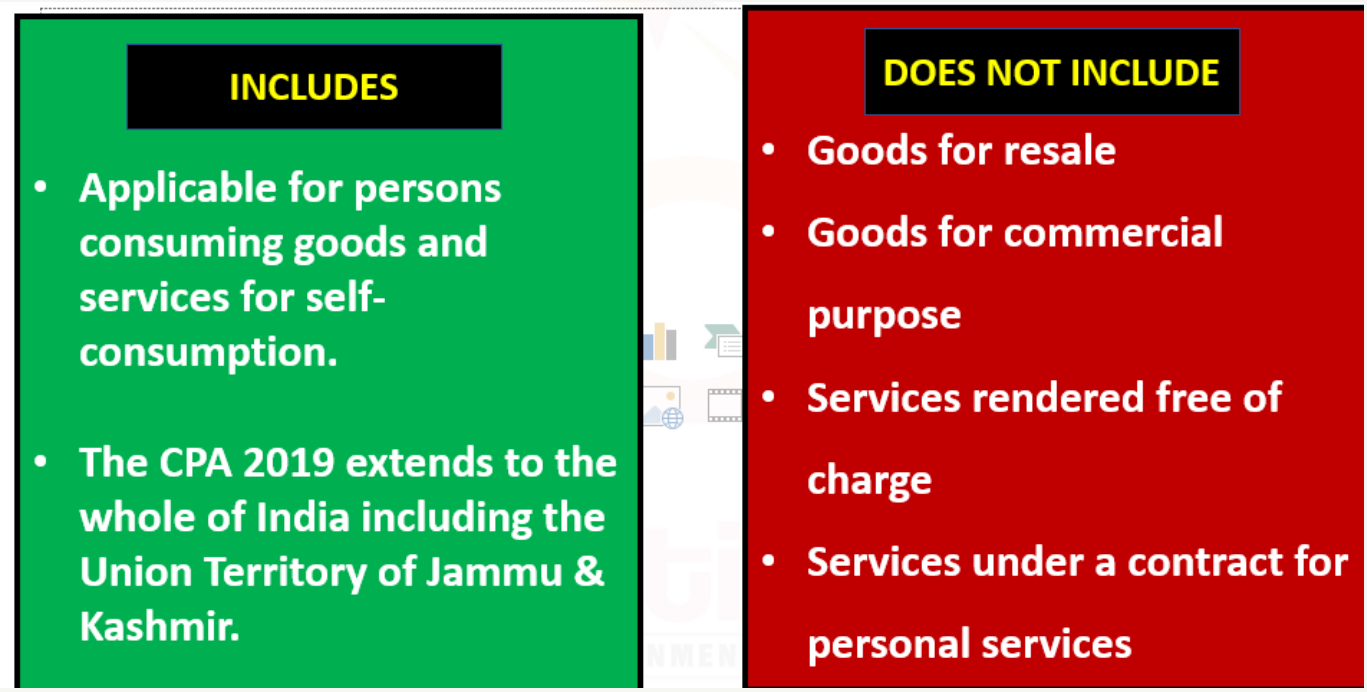
Consumer is any person, who for a consideration paid or to be paid:

- Has bought any goods for other than resale or commercial purposes, or
- Hired or availed any service, other than for commercial purposes, and that under

a contract for personal services, or

- Has used any goods other than for commercial purposes or benefited from any service, other than for commercial purposes, and that under a contract for personal services.

Preserved source visual / page 125 / Read the personal-service and commercial-purpose wording with the statutory clarification.



Consumer's Rights

"Consumer rights: Includes:

• The right to be protected against the marketing of goods, products or

services which are hazardous to life and property

• The right to be informed about the quality, quantity, potency, purity, standard and price of goods, products or services, as the case may be, so as to

protect the consumer against unfair trade practices

• The right to be assured, wherever possible, access to a variety of goods,

products or services at competitive prices

• The right to be heard and to be assured that consumer's interests will receive

due consideration at appropriate for a

• The right to seek redressal against unfair trade practice or restrictive trade

practices or unscrupulous exploitation of consumers

• The right to consumer awareness."

Various Fora

The CPA 2019 has built upon the framework for handling of consumer disputes established under the preceding Act. Broadly, the framework comprises following

bodies:

• Consumer Protection Councils: These are at all three levels viz. the Central, the State and the District levels. They render advice on promotion and protection of consumer rights under the Act.

• Central Consumer Protection Authority: It is an authority to regulate matters relating to violation of rights of consumers.

• Consumer Disputes Redressal Commissions: These are at all three levels viz.

the Central, the State and the District levels. These handle the consumer complaints filed under the Act.

• Consumer Mediation Cells: These are attached to each of the Redressal Commissions and the Regional Benches. These Cells try to get the disputes settled through mediation.

Consumer Protection Council

Central Consumer Protection Council

• The Central Government establishes CPC. The object of CPC is to render advice on promotion and protection of the consumers' rights under this Act.

• CPC can have maximum 36 members with Secretary in-charge of Consumer Affairs as Member Secretary and Minister in-charge of Consumer Affairs Central Govt. as Chairperson.

State Consumer Protection Council

• The State Government establishes a SPC. It has official and non-official members representing prescribed interests, other official and non-official members

(maximum 10) and Minister-in-Charge of the Consumer Affairs, State Govt.

as Chairperson.

District Consumer Protection Councils

• For every district, State Government establishes, by notification, the District Consumer Protection Council (DPC): comprising official and no-official members representing prescribed interests, and chaired by the District Collector.

Central Consumer Protection Authority

Main Functions

• To protect, promote and enforce the rights of consumers as a class

• To prevent violation of consumers rights under the Act

• To prevent unfair trade practices

• To ensure no false or misleading advertisement is made

• To ensure no person publishes false or misleading advertisement.

Ancillary Functions

• Inquiries/ investigations into violations of consumer rights, unfair trade

practices

• Intervene in any proceedings before a District/ State/ National Commission in

any matter

• Review the matters relating to, and the factors inhibiting enjoyment of,

consumer rights

• Recommend adoption of international covenants and best international practices

• Undertake and promote research in the field of consumer right

• Spread and promote awareness on consumer rights

• Issue notices to alert consumers against dangerous or hazardous or unsafe goods

or services

• Issue necessary guidelines to prevent unfair trade practices and protect consumers' interest.

Powers of CCPA

• Power to Conduct Inquiry

• Power to Order Recall of Goods

• Power to Order Discontinuing Advertisement

• Power of Search and Seizure A person aggrieved by any order passed by the Central Authority may file an appeal to the National Commission within a period of 30 days from the date of receipt of such order.

Penalty

Clarification / source page 128

Ordinary pecuniary jurisdiction uses consideration paid: district up to Rs.50 lakh, state above Rs.50 lakh up to Rs.2 crore, national above Rs.2 crore. Unfair-contract jurisdiction is a separate provision. [CPARULE]

• A person, who fails to comply with any direction of the Central Authority, shall be punished with imprisonment for a term which may extend to six months or with fine which may extend to Rs. 20 lakh, or with both.

• Any manufacturer or service provider who causes a false or misleading advertisement to be made shall be punished with imprisonment up to two years and with fine up to Rs. 10 lakh; and for every subsequent offence, with imprisonment up to five years and with fine up to Rs. 50 lakh.

Consumer Disputes Redressal Commissions

District Consumer Disputes Redressal Commission

• The State Government establishes a District Consumer Disputes Redressal Commission in each district.

• It comprises president and at least two members and not more than prescribed number of members. One of the members or president must be woman.

• It shall have jurisdiction to entertain complaints where the value of the goods or services paid as consideration does not exceed Rs. 50 lakh.

• A person may appeal against order of District Commission to the State Commission on the grounds of facts or law within 45 days from the date of the order, or extended period permitted.

• No appeal is permitted against an order passed pursuant to a settlement by mediation.

State Consumer Disputes Redressal Commission

• The State Government establishes a State Consumer Disputes Redressal Commission in the state.

• It comprises president and at least four members and not more than prescribed number of members. One of the members or president must be woman.

• The President and every member of the State/ District Commission shall hold office for a term of four years or up to the age of sixty-five years, whichever is earlier.

• It shall have jurisdiction to entertain complaints where the value of the goods or services paid as consideration exceeds Rs.50 lakh but does not exceed Rs.2 crore. Complaints against unfair contracts, where the value of goods or services paid as consideration does not exceed Rs. 10 crore and appeals against the orders of any District Commission within the State.

• Any person may appeal against order of State Commission within 30 days from the date of the order or extended period permitted to National Commission.

Appeal should be disposed within 90 days from the date of its admission.



Pause and apply

A customer claims compensation for non-credit of a cheque. Identify deficiency, evidence, limitation and proper forum.

National Consumer Disputes Redressal Commission

• The Central Government establishes a National Consumer Disputes Redressal Commission.

• It comprises president and at least four members and not more than prescribed number of members. One of the members or president must be woman.

• It shall have jurisdiction to entertain complaints where the value of the goods or services paid as consideration exceeds Rs.2 crore. Complaints against unfair contracts, where the value of goods or services paid as consideration exceeds Rs. 10 crore are entertained.

• The National Commission has powers to set aside an order passed ex parte by either a District/ State Commission, on application being made by the aggrieved party.

• A person may appeal against order of National Commission to the Supreme Court within 30 days from the date of the order, or extended time permitted.

Admission of Complaint

• Every complaint filed shall be accompanied by a fee, as notified by Central Government in this regard. No fee is prescribed if the value of goods and services paid as consideration is upto Rs.5 lakh.

• The proceeding should be conducted by the President and at least one member sitting together.

• The admissibility of complaint should be decided within 21 days from the date of filing. If no decision is taken within specified period, the complaint is deemed to have been admitted.

• Copy of the admitted complaint is sent to the opposite party, within 21 days of admission, directing him to give his version within 30 days or granted extended period not exceeding 15 days.

• If the opposite party denies or disputes the allegations, or omits or fails to represent his case within the allowed time, the District Commission will proceed to settle the dispute.

• For goods required testing, a sample of the goods obtained, sealed and authenticated is referred to an appropriate laboratory to make an analysis or test. It has to report its findings within a period of 45 days.

• The laboratory report is sent to the opposite party, along with remarks of District Commission. Any party disputing the correctness of the findings or the methods of analysis or test shall submit its objections in writing. After giving a reasonable opportunity of being heard to the complainant and the opposite party the District Commission shall issue an appropriate order.

Clarification / source page 130

Section 72’s maximum fine is Rs.1 lakh; the source omits “1”. The two-year complaint limit permits condonation for sufficient cause with recorded reasons. Do not read it as absolute. [CPA]

Other Aspects

Limitation Period

• The District/, State/ National Commission shall not admit a complaint unless it is filed within 2 years from the date on which the cause of action has arisen.

Penalty for Non-compliance of Order (Section 72)

• Punishment for failure to comply with any order made by the District/ State/

National Commission is imprisonment for minimum one month and

maximum, three years, or with fine of minimum, Rs. 25,000/-, an up to Rs.

lakh, or with both.

Power of Review

• Under the 2019 Act the District/State Commissions have been vested with the power to review its own Orders to set right the errors, if an application is

filed within 30 days of such Order

Mediation Process

• The State Government establishes consumer mediation cells attached to each District Commission and the State Commission. The Central Government establishes consumer mediation cells attached to the National Commission and Regional Benches.

• The panel of mediators is valid for five years. It shall submit a quarterly report to the Commission to which it is attached.

• The mediator shall be guided by the principles of natural justice and fair play but shall not be bound by the provisions of the Code of Civil Procedure, 1908 or the Indian Evidence Act, 1872. The record of the proceedings shall be prepared by the mediator on every date and shall be signed by the parties or their counsel, authorized representatives.

• The agreement executed between the parties is submitted by the mediator, to the Commission, in a sealed cover, with a forwarding letter. If no agreement is executed between the parties, within three months from the date of first appearance, the mediator shall inform the Commission about the matter.

• The Commission within seven days of receiving the settlement report, pass suitable order recording such settlement of consumer dispute and dispose of

the matter

Product Liability

• The CPA 2019 has introduced the concept of product liability and brings within its scope, the product manufacturer, product service provider and product seller, for any claim for compensation.

• The term ‘product seller’ includes e-commerce platforms as well.

Unfair Contracts

• CPA 2019 enables consumers to seek remedy under the statute against such unfair contracts.

• All the complaints against the Unfair Contracts, where the value of goods or services paid as consideration does not exceed Rs. 10 Crore, are to be filed before the State Commission. Complaints where the consideration exceeds Rs.

10 Crore are to be preferred before the National Commission.

Data Protection

CPA 2019 has brought Data Protection also under its scope by making any disclosure of personal information given in confidence by a consumer an unfair trade practice, unless such disclosure is in accordance with the provision of any law.

CPA 2019 And Banking Services

Some of the common areas of deficiency of services that may be raised before the

Commissions are briefly stated below:

- Refund of deposits
- Wrongful dishonor of cheque
- Wrongful dishonor of draft
- Non-credit of cheque tendered
- Default by Business Correspondent
- Non-issue of receipt and non-crediting the amount
- Not crediting public issue subscription to the Issuer's account

Practice / answer beside the question

Q01. Which statement correctly matches "CPA" in this chapter?

A. Consumer Protection Act, 2019.	B. Ordinary claims: above Rs.50 lakh up to Rs.2 crore.
C. May be paid, promised or partly paid/promised.	D. Can concern manufacturer, service provider or seller.

Answer A / CPA: Consumer Protection Act, 2019.

Q02. Which statement correctly matches "Consideration" in this chapter?

A. May be admitted on sufficient cause with reasons.	B. May be paid, promised or partly paid/promised.
C. Consumer Protection Act, 2019.	D. Protects consumer rights as a class.

Answer B / Consideration: May be paid, promised or partly paid/promised.

Q03. Which statement correctly matches "Personal service" in this chapter?

A. Record it through the prescribed commission process.	B. Consumer Protection Act, 2019.
C. A contract of personal service is excluded.	D. Consideration paid, not simply compensation demanded.

Answer C / Personal service: A contract of personal service is excluded.

Q04. Which statement correctly matches "Consumer rights" in this chapter?

A. Excluded from the ordinary goods-consumer definition.	B. An alternative settlement route where permitted.
C. Normally two years from cause of action.	D. Safety, information, choice, hearing, redress and awareness.

Answer D / Consumer rights: Safety, information, choice, hearing, redress and awareness.

Q05. Which statement correctly matches "Jurisdiction basis" in this chapter?

A. Consideration paid, not simply compensation demanded.	B. Ordinary claims: above Rs.2 crore.
C. Consumer Protection Act, 2019.	D. Can include wrongful dishonour or non-credit.

Answer A / Jurisdiction basis: Consideration paid, not simply compensation demanded.

Q06. Which statement correctly matches "Settlement" in this chapter?

A. Ordinary claims: consideration paid up to Rs.50 lakh.	B. Record it through the prescribed commission process.
C. Consumer Protection Act, 2019.	D. May be paid, promised or partly paid/promised.

Answer B / Settlement: Record it through the prescribed commission process.

Quick facts / Murugan cross-check

Selected PPB-relevant source lines are preserved below. Apply this chapter's correction panels: older limits, dates and blanket statements are not automatically current rules.

MURUGAN / PHYSICAL PAGE 19

12. "complaint" means any allegation in writing made by a complainant that— a. an unfair trade practice or a restrictive trade practice has been adopted by any trad er or service provider.

b. the goods bought by him or agreed to be bought by him; suffer from one or more defects.

c. the services hired or availed of or agreed to be hired or availed of by him suffer from deficiency in any respect.

MURUGAN / PHYSICAL PAGE 20

d. a trader or service provider, as the case may be, has charged for the goods or for the service mentioned in the complaint a price in excess of the official/valid price.

e. goods which will be hazardous to life and safety when used or being offered for sale to the public.

f. services which are hazardous or likely to be hazardous to life and safety of the public when used, are being offered by the service provider which such person could have known with due diligence to be injurious to life and safety.

Read with these distinctions

These selected complaint concepts remain useful. Murugan's surrounding 1986 Act discussion is superseded; use the 2019 Act, its definitions and the current jurisdiction rules in this chapter.

Reference desk / dated checks

CPA / India Code: Consumer Protection Act, 2019

CPARULE / Ministry of Consumer Affairs: 2021 pecuniary-jurisdiction rules

Coverage: 230 capsule text lines; 1 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. CPA: Consumer Protection Act, 2019.	15. District jurisdiction: Ordinary claims: consideration paid up to Rs.50 lakh.
02. Consumer: Apply the statutory purchase or service definition.	16. State jurisdiction: Ordinary claims: above Rs.50 lakh up to Rs.2 crore.
03. Consideration: May be paid, promised or partly paid/promised.	17. National jurisdiction: Ordinary claims: above Rs.2 crore.
04. Resale: Excluded from the ordinary goods-consumer definition.	18. Jurisdiction basis: Consideration paid, not simply compensation demanded.
05. Commercial purpose: Apply the statutory exclusion and qualification.	19. Complaint limitation: Normally two years from cause of action.
06. Personal service: A contract of personal service is excluded.	20. Delayed complaint: May be admitted on sufficient cause with reasons.
07. Defect: A shortcoming in goods under the statutory definition.	21. Admission: The statutory admission process has a time frame.
08. Deficiency: A shortcoming in the quality or manner of service.	22. Opposite party: Must receive the complaint and opportunity to respond.
09. Unfair trade practice: A prohibited trading practice defined by the Act.	23. Testing: May be needed to establish an alleged goods defect.
10. Unfair contract: A separate statutory category.	24. Mediation: An alternative settlement route where permitted.
11. Consumer rights: Safety, information, choice, hearing, redress and awareness.	25. Settlement: Record it through the prescribed commission process.
12. Councils: Advise on promotion and protection of rights.	26. Product liability: Can concern manufacturer, service provider or seller.
13. CCPA: Protects consumer rights as a class.	27. Banking deficiency: Can include wrongful dishonour or non-credit.
14. Commissions: Adjudicate consumer disputes.	28. Appeal: Forum, grounds and time depend on the order appealed.

A21 / Right to Information Act, 2005



At the branch

RTI provides access to information held by public authorities. It is not a demand for every confidential record or a substitute for the complaint process.

1. Identify public authority → 2. Request existing information → 3. Apply disclosure and exemption rules → 4. Use appeal if required

Read the preserved source with the correction panels. Source wording may be historical or incomplete; the final recall uses the stated clarifications. General-purpose reference, not an exam-session edition.

Clarification / source page 131

Section 8(1)(j) was substituted through DPDP Act section 44(3), brought into force in November 2025. The source's earlier personal-information test is historical; apply the amended text with the Act's other provisions. [DPDP][RTI]

JAIIB PPB Module A Unit 21: The Right To Information Act,

2005

RTI 2005

• The Right to Information Act, 2005 was enacted with intent to provide for setting out the practical regime for citizens to get to information under the control of public authorities, in order to promote transparency and accountability in the working of every public authority.

• This Act extends to whole of India. All public sector banks and other institutions owned and controlled by the Government are public authorities and are required to comply with the provisions of the Act.

• RTI provides for exemption from disclosure of certain information including commercial confidence trade secrets, that would harm the competitive position of a third party. The Act exempts disclosure of personal information which has no relation to any public activity or interest or which would cause unwarranted invasion of the privacy of the individual.

Clarification / source page 132

No reason for seeking information is required, but contact details necessary to respond may be required. A person unable to make a written request must be given appropriate assistance. [RTI]

• Section 3 of the Act states: "Subject to the provisions of this Act, all citizens shall have the right to information." Thus the right to information is conferred upon the citizens of India.

Obligations Of Public Authorities

• Maintaining Records

• Disclosures

• Relevant facts for policies

• Reasons for decisions

• Providing information suo motu

• Wide dissemination

• Easy Access and Reasonable Price

Designation Of Public Information Officers

• Public Information Officers: Every public authority is required to designate Central/ State Public Information Officers in all administrative units or offices to provide information to persons requesting for the information under this Act.

• Assistant Public Information Officers: Every public authority is required to designate an officer, at each sub-divisional level or other sub-district level as a Central/ State Assistant Public Information Officer to receive applications for information or appeals under this Act for forwarding the same to the Central/ State Public Information Officer or to the Central/ State Information Commission.

• Assistance of Other Officers: The Central/ State Public Information Officer may seek the assistance of any other officer as he or she considers it necessary for the proper discharge of his or her duties. Such officer shall render all assistance to the PIO and for any contravention of this Act, such other officer shall be treated as a PIO.

Procedure For Obtaining Information

• A person shall make a request, specifying the particulars of information sought, in writing or through electronic means in English/ Hindi/official language of the area in which the application is being made, along with the prescribed fee to the concerned Central or State Public Information Officer.

• No reason or any other personal details are requried to be given for making request for information.

Disposal Of Request

Norms Of Disposal

• Time Limit

• Intimation for additional fee

• Access to disabled

• Additional fee for printed or electronic for

Clarification / source page 133

Section 18 complaints and section 19 appeals are distinct routes. Copyright refusal under section 9 concerns copyright of a person other than the State. Exemptions require the actual statutory conditions. [RTI]

• Delay in providing information

• Rejection of request

• Form of information

• Partial Information

• Payment of fees

Transfer of request

• If an application received by a public authority seeks information, which is held by another public authority; or the subject matter is more closely connected with the functions of another public authority, it or a part of it shall be transferred within 5 days of receipt.

Third Party Information

Where a Central Public Information Officer considers disclosing any information or record or part thereof which relates to or has been supplied by a third party and has been treated as confidential by that third party, it shall decide after consulting it.

Rejection of the request

The request for Information may be rejected where it would involve an infringement of

copyright subsisting in a person

Information Exempt from disclosure

• Disclosure expressly forbidden by law or may constitute contempt of court

• Disclosure would cause a breach of privilege of Parliament or of the State

Legislature

• Relating to commercial confidence, trade secrets or intellectual property

• Available to a person in his fiduciary relationship

• Received in confidence from foreign Government

• Disclosure would endanger the life or physical safety of any person

• Would impede the process of investigation or apprehension or prosecution of

offenders

• Cabinet papers

Appeal

The Central/ State Information Commission will receive and inquire into complaint

from a person:

(a) Who is not able to submit a request to or whose request or appeal has not been received by a Central Public Information Officer;

(b) who has been refused access to information;

(c) who has not been given a response to a request;

(d) who has been required to pay unreasonable fee;

(e) who believes he has been given incomplete, misleading or false information; and (f) in respect of any other matter under this Act.

• A person who has not received within the time specified or is aggrieved by a decision of Central Public Information Officer may, within thirty days appeal to the officer who is senior in rank to the CPIO.

• If the appeal is against the third party information, the appeal by the concerned third party shall be made within thirty days from the date of the order.

• A second appeal against the decision of the appellate authority may be made before the Central/ State Information Commission within ninety days from the date the decision should have been made or was actually received. The decision of the Central Information Commission is binding on the parties.

Central Information Commission

The Central Information Commission shall consist of:

• The Chief Information Commissioner; and

• Central Information Commissioners, not exceeding ten.

They are appointed by the President on the recommendation of a committee

consisting of:

• The Prime Minister – Chairperson

• The Leader of Opposition in the Lok Sabha and

• A Union Cabinet Minister (nominated by the Prime Minister).

• The Chief Information Commissioner and Information Commissioners shall be persons of eminence in public life with wide knowledge and experience in law, science and technology, social service, management, journalism, mass media or administration and governance.

• They shall not be a Member of Parliament or Member of the Legislature of any State or Union Territory may be, or hold any other office of profit or connected with any political party or carrying on any business or pursuing any profession.

• They shall hold office for 3 years or the tenure as prescribed by the Central Government or up to the age of 65 years, whichever is earlier, and shall not be eligible for reappointment.

• An Information Commissioner on vacating the Office is eligible for appointment as the Chief Information Commissioner.

• The headquarters of the Central Information Commission shall be at Delhi and may, establish offices at other places in India.

State Information Commission



Pause and apply

A requested file contains exempt and non-exempt material. Consider severability rather than blanket disclosure or refusal.

Clarification / source page 135

Section 24 has exceptions for corruption and human-rights allegations; human-rights information follows the prescribed commission approval and 45-day route. The bar on ordinary suits does not remove constitutional judicial review. [RTI]

The State Information Commission shall consist of:

• The State Chief Information Commissioner; and

• State Information Commissioners, not exceeding ten.

They are appointed by the Governor on the recommendation of a committee

consisting of:

• The Chief Minister - the Chairperson

• The Leader of Opposition in the Legislative Assembly and

• A Cabinet Minister (nominated by the Chief Minister).

They shall be persons of eminence in public life with wide knowledge and experience in law, science and technology, social service, management, journalism, mass media or administration and governance.

• They shall not be a Member of Parliament or Member of the Legislature of any State or Union territory, as the case may be, or hold any other office of profit or connected with any political party or carrying on any business or pursuing any profession.

• They shall hold office for 3 years or the tenure as prescribed by the Central Government or up to the age of 65 years, whichever is earlier, and shall not be eligible for reappointment.

• A State Information Commissioner on vacating the Office shall be eligible for appointment as the State Chief Information Commissioner.

Penalties

The Central Information Commission may impose a penalty of `250 for each day till the information is furnished subject to a maximum of `25,000, after giving to the parties an opportunity to be heard. The Commission may recommend disciplinary action against the Central Public Information Officer under the service rules if he:

• Without reasonable cause persistently failed to receive an application; or

• Has not furnished the information within the time specified; or

• With mala fide intent denied the request for information; or

• Knowingly has given incorrect, incomplete or misleading information; or

• Destroyed information which was the subject of request; or

• Obstructed in furnishing the information.

Act To Have Overriding Effect

• No court shall entertain any suit, application or other proceeding in respect of any order made under RTI Act,2005.

• The Act does not apply to the intelligence and security organisations specified in the Second Schedule of the Act, being organisations established by the Central Government and State Government or any information furnished by them to government.

Clarification / source page 136

Module A ends with the human-rights-information paragraph. The following advertisements and Module B index are logged as non-chapter material, not silently counted as Module A coverage.

• In the case of information sought for is in respect of allegations of violation of human rights, the information shall only be provided after the approval of the

Central Information Commission and State Information Commission

respectively.

Practice / answer beside the question

Q01. Which statement correctly matches “RTI” in this chapter?

A. Rs.250 per day, subject to Rs.25,000 maximum and due process.	B. Right to Information Act, 2005.
C. Provide what is necessary for communication.	D. Consultation is not an automatic veto.

Answer B / RTI: Right to Information Act, 2005.

Q02. Which statement correctly matches “Public authority” in this chapter?

A. The corresponding state information body.	B. Central Information Commission.
C. Apply the section 2(h) definition.	D. Normally within five days to the appropriate authority.

Answer C / Public authority: Apply the section 2(h) definition.

Q03. Which statement correctly matches “Proactive disclosure” in this chapter?

A. Provide what is necessary for communication.	B. Central Information Commission.
C. Apply the exact statutory provision.	D. Section 4 requires specified disclosures.

Answer D / Proactive disclosure: Section 4 requires specified disclosures.

Q04. Which statement correctly matches “Contact details” in this chapter?

A. Provide what is necessary for communication.	B. Rs.250 per day, subject to Rs.25,000 maximum and due process.
C. Apply the section 2(h) definition.	D. Apply the exact statutory provision.

Answer A / Contact details: Provide what is necessary for communication.

Q05. Which statement correctly matches “Exemptions” in this chapter?

A. Section 4 requires specified disclosures.	B. Apply the exact statutory provision.
C. Consultation is not an automatic veto.	D. Public Information Officer.

Answer B / Exemptions: Apply the exact statutory provision.

Q06. Which statement correctly matches “State commission” in this chapter?

A. Seek records held or controlled by the authority.	B. Provide separable non-exempt portions where required.
C. The corresponding state information body.	D. Normally within thirty days.

Answer C / State commission: The corresponding state information body.

Quick facts / Murugan cross-check

No dedicated, relevant one-line unit was found in the Murugan crosswalk for this chapter. The final recall below is capsule-based and newly authored; it is not attributed to Murugan.

Reference desk / dated checks

DPDP / MeitY: DPDP Act commencement notification, 13 November 2025

RTI / India Code: Right to Information Act, 2005; read with the cited amendment

Coverage: 168 capsule text lines; 0 source visual objects/parts. Text lines inside retained table images are separately mapped in the audit. Source retention is not independent certification of every claim.

28 facts / final recall

01–14 / foundations	15–28 / application
01. RTI: Right to Information Act, 2005.	15. Life or liberty: Information within forty-eight hours.
02. Applicant: The statutory right belongs to citizens.	16. Delay: The Act provides consequences, including free information where applicable.
03. Public authority: Apply the section 2(h) definition.	17. Third party: Consultation is not an automatic veto.
04. Public-sector bank: A public authority for RTI purposes.	18. Exemptions: Apply the exact statutory provision.
05. Existing information: Seek records held or controlled by the authority.	19. Personal information: Read the amended section 8(1)(j).
06. Proactive disclosure: Section 4 requires specified disclosures.	20. Severability: Provide separable non-exempt portions where required.
07. PIO: Public Information Officer.	21. First appeal: Normally within thirty days to the senior designated officer.
08. APIO: Receives and forwards specified applications or appeals.	22. Second appeal: Normally within ninety days to the Commission.
09. Request language: English, Hindi or the official language of the area.	23. Section 18: Complaint jurisdiction differs from an appeal.
10. Reasons: The applicant need not justify the request.	24. CIC: Central Information Commission.
11. Contact details: Provide what is necessary for communication.	25. State commission: The corresponding state information body.
12. Assistance: Help a person unable to submit a written request.	26. Penalty: Rs.250 per day, subject to Rs.25,000 maximum and due process.
13. Transfer: Normally within five days to the appropriate authority.	27. Disciplinary action: May be recommended in the prescribed circumstances.
14. Ordinary response: Normally within thirty days.	28. Section 24: Corruption and human-rights exceptions must not be omitted.

Clerk2Officer

Principles & Practices of Banking

Module B / General-purpose study edition

20 chapters. Learn through explanations, illustrated branch cases, comparison tables and worked examples. Practise with answers beside questions, then use Quick Revision and the 28 final recall facts in each chapter. Click a contents row to open a chapter.

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Page guide: contents numbers refer to this combined PDF. Chapter footers and navigation tabs use local chapter numbering.

Study note: historical examples retain their stated dates and assumptions. Read them with the dated distinctions and reference notes. Eligibility, rates and scheme benefits depend on the applicable rules and sanction.

B01 / Principles of Lending, Borrowers and Credit Facilities



Start with the repayment source

A business owner wants a new machine and more stock. First separate the purposes, assess cash generation and choose suitable facilities; the available security alone does not decide the loan.

1. Understand the need → 2. Check borrower authority → 3. Choose facility and security → 4. Assess repayment and risk

Learn the principles, apply them to banking situations, and revise the key facts. Read each distinction carefully before answering the practice questions.

Important distinction

Liquidity means managing cash-flow and maturity risk. The phrase 'short periods only' is too absolute: banks also make medium- and long-term loans. Repayment capacity is central; collateral supports recovery but does not replace cash-flow appraisal. Match the maturity to the financing need.

JAIIB PPB Module B Unit 1: Principles of lending, Different types of borrowers & Types of credit facilities

Principles of Lending

The Business of lending is not without certain risks, especially when the lending banks depend largely on the on the borrowed funds. The cardinal principles of lending are, therefore, as follows:

• Safety • Liquidity • Diversity • Purpose • Stability • Profitability

Liquidity: Liquidity is an important principle of bank lending. Bank lend for short periods only because they lend public money which can be withdrawn at any time by depositors. They, therefore, advance loans on the security of such assets which are easily marketable and convertible into cash at a short notice.

Safety: The safety of funds lent is another principle of lending. Safety means that the borrower should be able to repay the loan and interest in time at regular intervals without default. The repayment of the loan depends upon the nature of security, the character of the borrower, his capacity to repay and his financial standing.

Diversity: In choosing its investment portfolio, a commercial bank should follow the principle of diversity. It should not invest its surplus funds in a particular type of security but in different types of securities. It should choose the shares and debentures of different types of industries situated in different regions of the country. The same principle should be followed in the case of state governments and local bodies.

Diversification aims at minimising risk of the investment portfolio of a bank.

Important distinction

Treat the stability/profitability passages as lending principles, not a guarantee that reputed-company shares cannot fall. A guarantee may cover payment or performance as its terms specify; 'partial guarantee' is not the definition of its beneficiary. Section 128 concerns the extent of surety liability; the relevant statutory exception for extinguishment/discharge clauses in bank guarantees is in section 28, Exception 3. Do not treat a section-128 amendment claim as the rule. [CONTRACT]

Purpose: Loans for undersirable and speculative purposes cannot be granted. Although the earnings on such business activities may be higher, ever then a bank cannot resort to these loans.

Stability: Another important principle of a bank's investment policy should be to invest in those stocks and securities which possess a high degree of stability in their prices.

The bank cannot afford any loss on the value of its securities. It should, therefore, invest it funds in the shares of reputed companies where the possibility of decline in their prices is remote.

Profitability: This is the cardinal principle for making investment by a bank. It must earn sufficient profits. It should, therefore, invest in such securities which was sure a fair and stable return on the funds invested. The earning capacity of securities and shares depends upon the interest rate and the dividend rate and the tax benefits they carry.

Principle	Ask before sanction
Safety	What credible cash flow will repay principal and interest?
Liquidity	How do loan maturity and collections fit funding obligations?
Diversity	What concentration does this add?
Purpose	Is the end use lawful and suitable for this facility?
Stability	How vulnerable are asset values and earnings?
Profitability	Does return justify cost and risk?

Non- Fund Based Limits

While ascertaining the credit needs of the borrowers, the bankers should assess both the fund based and non fund based limits required by him together and sanction them as a package. The Non-fund based limits are normally of four types:

(i)Bank Guarantees

(ii)Letters of Credit

(iii)Underwriting and credit guarantee; and

(vi)Derivative

Bank Guarantees:

A bank guarantee refers to a promise provided by a bank or any other financial institution that if a certain borrower fails to pay a loan, then the bank or the financial institution will take care of the losses. The bank will assure the original creditor through this bank guarantee that if the borrower does not meet his or her liabilities, then the bank will take care of them.

While issuing the bank guarantee, the banker has to keep in mind the instructions of RBI with regard to certain purposes that prohibit the issue of bank guarantee and also the extended liability period that has been occasioned consequent to amendment of Section 128 of Indian Contract act with respect of Guarantees issue in favour of the government departments.

A bank guarantee is a contract between 3 different parties and they include:

• The applicant (the party that requests a bank guarantee from the bank and borrows from a creditor)

Important distinction

Where UCP 600 applies, the LC is an independent documentary undertaking to honour a complying presentation. Payment is not triggered merely by the buyer's inability to pay. Read the credit's terms and stipulated documents; UCP applies when incorporated into the credit. [UCP]

• The beneficiary (the party that receives a partial guarantee) • The bank (the party that agrees to sign and assures payment in case the applicant fails to repay the loan)

Letter of Credit (L/C):

A letter of credit is a document that guarantees the buyer's payment to the sellers. It is Issued by a bank and ensures the timely and full payment to the seller. If the buyer is unable to make such a payment, the bank covers the full or the remaining amount on behalf of the buyer.

While sanctioning the letter of credit limits for the purchase of raw materials, the banker has to collect the following particulars:

(a)Value of raw materials consumed in the ensuring year as projected

(b)Value of raw materials that are purchased on credit out of the above

(c) Time taken for advising the letter of credit to the beneficiary

(d) Time for shipment and the consignment to reach the customer’s destination

(e) Credit period (usance period) agreed between the beneficiary and the customer

(f) Credit period projected and reckoned for calculation of the maximum permissible bank finance (MPBF) while sanctioning the funded limits to the borrower customer

Example:

Value of raw material consumption projected: Rs 3600 lakhs Value of raw material (to be) bought on credit: Rs 2400 lakhs Time for advising L/C: 10 days Shipment time: 20 days Credit period agreed upon between the seller and the customer OR the credit period projected as available in CMA format considered for calculation of MPBF while sanctioning funded limits, whichever is less: 30 days Time required for one cycle of operation of L/C will be 10+20+30= 60 days Assuming 360 days in a year, there could be 6 rotations/ cycles in a year. If the raw material consumed, to be bought on credit is Rs 2400 lakh in a year, the limit of L/C per rotation/cycle will work out to.

2400lakhs/6=400 lakh

Underwriting and credit guarantee:

Besides the above non-fund based facilities, some banks also do underwriting and credit guarantee business. The risk under this activity involves the obligation of the banker to provide funds or pay, in the event of the failure of the borrower to raise money, or to repay money. After the advent of merchant banking, this type of lending by commercial banks is on the decline.



Documents drive the LC

A textile trader asks whether the bank will pay only after the buyer defaults. Explain the bank's documentary undertaking and check the stipulated presentation.

Worked example / assessing an LC limit

Step	Calculation using the stated assumptions
Credit purchases	Rs.2,400 lakh; Rs.3,600 lakh is total consumption.
One LC cycle	10 days advising + 20 days shipment + 30 days credit = 60 days.
Annual rotations	360 / 60 = 6 cycles, using the stated 360-day year.
Illustrative limit	2,400 / 6 = Rs.400 lakh; equivalently 2,400 x 60 / 360.

This is a simplified uniform-flow example. The actual limit needs the assessed purchase pattern, overlaps, settlement terms and sanctioned conditions.

Important distinction

Contractual capacity is assessed at the time of contracting. Section 68 concerns reimbursement from the incapable person's property for qualifying necessaries; it does not make an ordinary minor's loan personally enforceable. A guardian's authority must be established under applicable law. Assess an adult woman's capacity and repayment ability on the applicable legal and credit criteria; marital status alone is not a bar. [CONTRACT]

Derivative products:

In addition to the above mentioned traditional non-fund facilities, banks are now increasingly offering the derivative products to their clients to enable them to hedge their currency and interest rate risks. As these products carry financial exposure on the customers these are nonfund based credit support to the customers.

Types Of Borrowers

Various borrowers can be classified as follows:

- **Individual**
- **Proprietorship Firm**
- **Partnership Firm**
- **Hindu Undivided Family**
- **Companies**
- **Statutory Corporations**
- Trusts and Co-operative Societies • Limited Liability Partnerships

Individual

Banks can lend to all eligible individuals of sound mind who are not minors.

• Minor Individual: a minor is not capable of entering into a contract and a contract entered into by a minor is void. The only exception recognised is of supply of necessities to him. Section 68 of the Indian Contract Act says that the property of a minor is liable for such loans. Guardians may borrow on behalf of the minors.

• Not of sound mind: If a person is not of a sound mind, then he is incompetent to enter into a contract as per Section 12 of the Indian Contract Act, 1872.

• Disqualified person: The contract entered into by such a person is not enforceable as per Section 11 of the Indian Contract Act.

• Married Woman: Law does not debar a married woman to seek advance from a bank. She must have independent means and borrowings should be commensurate with her requirements and her ability to repay.

• Pardahnashin Woman: She is qualified to get an advance sanctioned and has the capacity to enter into a contract.

Proprietorship Firm:

The dealings with proprietorship firms are governed essentially by the Indian Contract Act. The liability of the sole proprietor is unlimited, and the creditors would have recourse not only against the assets employed in business but also against the private assets of the proprietor.

Important distinction

Central partnership law does not prescribe a universal one-year registration deadline; section 58 permits registration at any time, subject to applicable state amendments. Section 69 has specified enforcement disabilities and exceptions. Death-related dissolution is subject to the partnership contract (section 42). A company being a partner does not, by itself, establish that every firm security requires ROC registration: identify the actual charge created by the company. [PARTNER] [COMPANY]

Partnership Firm:

The Indian Partnership Act, 1932 governs a 'Partnership Firm'.

While entertaining a loan proposal of a partnership firm, the following requirements are important:

• The firm should be a registered one • To scrutinize the partnership deed for any provisions that may put the loan into a jeopardy • If one of the partners is a Limited Company, bank's charge should be registered with ROC.

Essential Points of Partnership Firm

• Two partnerships cannot enter into a partnership although all the partners of the firms may form a separate partnership, Currently as per the Companies (Miscellaneous) Rules, 2014, the maximum number is 50 for a partnership for the purpose of gain • There must be an express or implied agreement between the Partners to do a business that is legal for gain.

• The business must be carried on either by all or by any of the partners of the firm. These entities are not partnership: a society, an association, a club, a joint Hindu Family, a co-ownership.

Registration of Partnership Firm

• The Partnership Act does not provide for compulsory registration of firms.

if the firm's registration is not done, then the firm or any other person on its behalf cannot file a suit against a third party or against any partner of the firm, for breach of contract which the firm has entered into.

• Application for registration of a firm is submitted, with in one year of forming, to the Registrar of Firms. with a statement in the prescribed form, along with the fee.

• Registrar records an entry of the statement in the Register of Firms, files the original statement, and grants the certificate of registration.

Business of Partnership Firm

• Section 19 of the Indian Partnership Act, 1932 states that a partner cannot affect the transfer of immovable property of the firm unless expressly authorized or all the partners jointly create mortgage.

• On receiving notice of insolvency of the firm, any further transactions in the account must be immediately stopped irrespective of the account being in credit or debit.

• If at the time of insolvency of one of the partners, the firm's account is in credit then the other partners can operate the same.

• The death of a partner dissolves the partnership firm. Hence upon receipt of such information, bank should stop the transactions in a running credit facility like cash credit/ overdraft to crystallise the liability of the deceased partner



Who can bind the borrower?

A partner offers to mortgage firm property. Check the deed, authority and execution requirements before treating the signature as sufficient.

Important distinction

Do not apply a male-only Karta rule: the Delhi High Court recognised the eldest female coparcener's entitlement in Manu Gupta v Sujata Sharma (2023). For a company limited by shares, member liability normally concerns the unpaid amount on shares, not a fresh liability equal to every share's nominal value. Section 10A applies to qualifying share-capital companies incorporated after the specified amendment commencement; its subscriber-payment declaration is due within 180 days. Check applicability, office verification and borrowing authority. [KARTA] [COMPANY]

Hindu Undivided Family

• The senior most male member of the family (called ‘Manager’ or ‘Karta’) is entitled to manage the family properties. Upon the death of the Karta, a male coparcener can become a Karta.

• In the absence of any male member or if all male member(s) is/are minor;

a Hindu female member can become Karta/manager of HUF.

• The liability of the ‘Karta’ is unlimited, whereas the liability of the co- parceners is limited to their shares in the joint family estate.

• The application to open an account must be signed by all the members and all adult members should be made jointly and severally liable for any borrowings or the account being overdrawn.

Companies

• A company is a juristic person created by law (Indian Companies Act,1956 - modified in 2013), having a perpetual succession and is distinct from its members.

• The shareholder’s liability is limited to the nominal value of the shares held.

Company classification

Type as per liability	Type as per no. of members	Type as per control & place of incorporation
Unlimited / Limited by shares / Limited by guarantee	Private / Public / One person	Foreign / Holding / Subsidiary

Basic Law Governing Companies

• CA 2013 provides that a company may be formed for any lawful purpose by 7 or more persons for public company; by 2 or more persons, for a private company;

and by 1 person for One Person Company.

• CA, 2013 provides on the basis of documents and information filed with the Registrar, within whose jurisdiction the registered office of a company is proposed to be situated, it shall register all the documents and information in the register and issue a certificate of incorporation.

• In July 2019, CA 2013 providing that a company having a share capital shall not commence any business or exercise any borrowing powers unless a declaration is filed (within 180 days of the date of incorporation) by (a) director with the Registrar that every subscriber to MoA has paid the value of the shares agreed to be

taken by him; and (b) The company has filed with the Registrar a verification of its registered office.

Important distinction

Trust and society powers depend on the governing instrument and applicable central/state law; a short list of statutes is not exhaustive. LLP limited liability is subject to statutory exceptions, including a partner's own wrongful act and fraud. The small-LLP definition permits prescribed higher limits/requirements; do not treat two threshold figures alone as the whole statutory test. Account-document lists are indicative, not a substitute for current KYC requirements. [LLP]

Statutory Corporations

• There may be corporations established by an Act of Parliament. These are called 'Statutory Corporations'. For example, State Bank of India is established under State Bank of India Act, 1955.

Trusts & Co-operative Societies

• In the case of lending to societies a banker should study the bye-laws, rules and regulations applicable to them and ascertain the legality of lending • Trusts are governed by the Indian Trusts Act, 1882, if they are private trusts and by Public Trusts Act if they are public trust, or Religious and Charitable Endowments Act, if they are trusts of Hindus, and in the case of Muslims they are governed by Wakf Act.

• Banks may consider taking the following indicative list of documents while opening Trust accounts: 1. Registration certificate 2. Trust deed 3.

Permanent Account Number or Form No.60 of the trust 4. Documents relating to beneficial owner, managers, officers or employees, holding an attorney to transact on its behalf.

Limited Liability Partnership

• A limited liability partnership is a body corporate formed under the Limited Liability Partnership Act, 2008.

• LLP shall have at least two designated partners, of whom at least one must be resident in India. The LLP is a separate legal entity, is liable to the full extent of its assets. Liability of the partners is limited to their agreed contribution in the LLP.

• Small Limited Liability Partnership means a limited liability partnership— (i) the contribution of which, does not exceed Rs. 25,00,000/- and (ii) the turnover of which, for the immediately preceding financial year, does not exceed Rs.

40,00,000/-.

• Bank may consider taking the following indicative list of documents for opening an account for LLP: (i) Certificate of incorporation of LLP, (ii) PAN of LLP, (iii) Registered office address proof, (iv) PAN and address proofs of all partners of the LLP, (v) LLP agreement, (vi) Any other document as specified by bank.

Borrower	Authority and liability checkpoint
Individual	Capacity and free consent; assess repayment ability.
Proprietor	Identify the individual owner; liability is not confined to business assets.
Partnership	Deed, authority, registration implications and partner liability.
HUF	Karta entitlement, purpose, family-property authority and signatures.
Company	Constitution, board/delegated powers, borrowing and charge requirements.
Statutory corporation	Enabling Act and authorised powers.

Borrower	Authority and liability checkpoint
Trust/co-operative society	Governing instrument, applicable law, borrowing power and resolutions.
LLP	Incorporation, LLP agreement, partner authority and liability exceptions.

Important distinction

The comparison exercise contains misleading entries: its final row reverses the usual operating-cost and capital-investment purposes, and its fixed instalment descriptions are not universal. Use the corrected comparison below. Gross working capital means current assets; net working capital deducts current liabilities. A higher current-asset share can reduce returns under stated assumptions, but is not an automatic profitability law.

Credit facilities at a glance

Types Of Credit Facilities	Facility group
Fund Based	Cash Credit/ Overdraft / Term Loan / Demand Loan / Bill Finance
Non-Fund Based	Bank of Guarantee / Letter Of Credit / Acceptance Facility

Types Of Credit Facilities

• The term working capital denotes the requirement of the money by a manufacturing enterprise for financing of its day-to-day requirements.

• the working capital funding required by an enterprise keeps fluctuating.

• There are two concepts of working capital:

(a) Gross working capital

(b) Net working capital • A firm should have adequate working capital. An increase in the ratio of current assets to total assets will result in a decline in the profitability of the firm. This is because investment in current assets is less profitable than those in fixed assets. However, an increase in this ratio would decrease the risk of the firm becoming technically insolvent.

Difference between Term Loan and Working Capital Loan

Comparison exercise / identify the misleading statements

Term Loan	Working Capital Loan
Term loan is a form of borrowing where the payments can be made over a predetermined period of time in regular intervals.	Working capital loan is a loan taken out to finance routine business operations to minimize shortfalls in working capital.
Term loans may be short, medium or long term.	Working capital loans are short term loans. (Quarterly and Half Yearly)
Repayment of a term loan is done by many installments.	Repayment of a working capital loan is done by a limited number of installments.
The amount of the loan is based on the cost of running the business, since such loans are customized in accordance with the regular expenses incurred to run a business.	Covers high-cost investments like business expansion, purchase of expensive plant and machinery, etc.

Important distinction

Drawing power uses eligible assets, prescribed deductions and margins under the sanction/policy; it is not simply every current asset at market value. CC/OD drawings remain subject to both the sanctioned limit and drawing power where applicable. Apply actual sanction terms and applicable notice requirements to withdrawal of facilities; do not read the brief statement as an exception-free rule.

Cash Credit and Overdraft

• The cash credit facility is most prevalent mode of lending for working capital where the bank finance is regular source of funding.

• Overdraft account on the other hand is a preferred mode where the need for bank finance for working capital is intermittently felt.

• They also offer the customer the flexibility of drawing only such amounts as required and when required. This effectively reduces the cost of borrowing for the borrower as the interest is charged on the actual amount drawn on day to day basis.

• The drawing power is determined from the market value of current assets less margin amount at the prescribed rate.

• The contract of cash credit or overdraft can be express or implied.

• The bankers, to avoid the rule in the Clayton's case agree on the method of appropriation and treat all debits as one debt.

• Bank not to terminate overdraft facility without notice.

Bill Finance

• This facility finances directly the receivables of the borrower on individual sale transaction basis.

• the bill finance is conducted through discounting of bills of exchange drawn by the borrower or third persons on the customers of borrower. The loan extended to the borrower is liquidated when the buyer of the borrower pays the discounted bill.

Bill Discounting

Usance bills drawn by the borrower on the buyer are discounted by the bank and the amount of the bill less discount and charges is paid to the borrower. The proceeds from the discounted bill are credited to the cash credit/ overdraft account of the borrower.

When the bill is paid the amount outstanding in the bills discounted account is cleared.

Bill purchase

Demand bills drawn by the borrower on the buyer are purchased by the bank and the amount of the bill less bank charges is paid to the borrower. These are used when the payment terms for the sale of the borrower is on immediate basis i.e. there is no credit period.



Match finance to the need

Inventory turns through the operating cycle; machinery produces benefits over a longer period. Structure the amount and repayment around the need and cash flow.

Corrected comparison / use this for learning

Point	Term finance	Working-capital finance
Usual need	Capital assets or a defined longer-lived purpose.	Stock, receivables and operating needs.
Repayment	Schedule fitted to cash generation; not always quarterly/half-yearly.	Depends on facility: revolving CC/OD, bills or a working-capital loan.
Amount	Project/asset cost, borrower contribution and repayment capacity.	Assessed operating need, eligible assets and sanctioned terms.

Drawing power / illustrative check

Eligible stock Rs.80 lakh; stipulated margin 25%; no other deductions. Drawing power = 80 x (1 - 0.25) = Rs.60 lakh. With a Rs.50 lakh sanction and zero outstanding, available drawing is Rs.50 lakh. Margin and eligibility are assumptions for this example, not universal regulatory rates.

Important distinction

Limitation is instrument- and relief-specific. Article 21 ordinarily runs for three years from making a loan payable on demand, not from a later default or demand. Instalment and acceleration terms, security, acknowledgement and part-payment can affect the analysis. Waiting until the last instalment does not automatically preserve every earlier claim. [LIMIT] [LIMITCHECK]

Advance against Bills for Collection

In this mode of bill finance, instead of extending finance for each individual bill separately, cash credit or overdraft facility against bills under collection is extended. The drawing power is determined based on the total amount of bills under collection less the margin amount.

Drawee bill acceptance

This is a reverse of receivable financing. The bank of the buyer pays the amount of bill drawn on the buyer to the seller’s bank/ the seller, immediately on acceptance by the buyer. On due date, the advance is liquidated by the payment made by the customer against the bill that is credited to the cash credit/ overdraft facility account.

Bills co-acceptance

This is a non-fund based facility, in which the banker adds its co-acceptance to the bills accepted by the borrower. This, therefore, acts as a bank guarantee or letter of credit for the seller providing additional comfort on credit sales.

Term / Demand Loans

• Term/ Demand loans are granted to customers generally for meeting the capital expenditure needs of the business.

• Term loans are granted in one lump sum (or sometimes a few tranches over a period) and are allowed to be repaid over a period in installments. Demand loans are those which are repayable on demand and is to be repaid as per a repayment schedule, as agreed upon by the bank.

• Term loans are classified into:

(i) Short-term Loans

(ii) Medium-term Loans

(iii) Long-term Loans • The limitation period for filing a suit in the case of term loans is three years from the date of default of a particular/specific instalment. Besides, the bank is entitled to wait until the due date of the last instalment and then institute a suit for recovery of whole amount.

• In the case of a demand loan the time limit is three years from the date of default.

Practice / answer beside the question

Q01. A borrower offers valuable collateral but cannot show a credible repayment cash flow. What is the strongest response?

A. Sanction because security is valuable	B. Assess viability and repayment capacity before sanction
C. Ignore business purpose	D. Treat collateral value as annual income

Answer B / Safety requires a credible repayment source; security is an additional recovery support.

Q02. In the worked example, annual credit purchases are Rs.2,400 lakh and an LC cycle is 60 days. With a 360-day year, what limit follows?

A. Rs.240 lakh	B. Rs.360 lakh
C. Rs.400 lakh	D. Rs.600 lakh

Answer C / 360 / 60 = 6 cycles; 2,400 / 6 = Rs.400 lakh. Use credit purchases, not total consumption.

Q03. An LC subject to UCP 600 is presented with complying stipulated documents. Which statement is correct?

A. Honour always waits for buyer default	B. The bank checks the physical quality of goods
C. The LC is merely the sale contract	D. The issuing bank honours under its documentary undertaking

Answer D / The independent LC undertaking concerns a complying presentation, subject to its terms.

Q04. The eldest female coparcener seeks recognition as Karta. Which approach is correct?

A. Apply a blanket male-only rule	B. Reject because other male members exist
C. Examine coparcenary, entitlement and the governing law	D. Treat every female family member automatically as Karta

Answer C / Female coparcenary and Karta entitlement cannot be dismissed by a blanket male-only description.

Q05. A firm has eligible stock of Rs.80 lakh, a stipulated margin of 25%, and a sanctioned limit of Rs.50 lakh. Assume no other deductions or outstanding drawings. How much may it draw?

A. Rs.80 lakh	B. Rs.60 lakh
C. Rs.50 lakh	D. Rs.20 lakh

Answer C / Drawing power = 80 x 75% = Rs.60 lakh; the sanction caps drawings at Rs.50 lakh in this example.

Q06. A business has current assets of Rs.120 lakh and current liabilities of Rs.85 lakh. What is its net working capital?

A. Rs.205 lakh	B. Rs.120 lakh
C. Rs.85 lakh	D. Rs.35 lakh

Answer D / Net working capital = current assets minus current liabilities = 120 - 85 = Rs.35 lakh.

Q07. Which combination normally matches the borrowing need?

A. Machinery: suitable term finance; routine stock: working-capital finance

B. Both must always be financed by a guarantee

C. Stock: automatically a ten-year loan

D. Machinery: only an immediately payable demand bill

Answer A / Match the facility and repayment structure to the asset purpose and cash generation; actual sanction terms govern.

Q08. A simple loan expressly payable on demand falls under Article 21, with no special instrument or later limitation-extending event. When does the ordinary limitation clock begin?

A. Only after the final reminder

B. When the loan is made

C. When the borrower chooses to reply

D. After all security is sold

Answer B / Article 21 specifies the loan date. Do not substitute a blanket date-of-default answer.

Quick Revision

Revise these concise facts with the important distinctions below.

Guarantees, trade finance and credit risk

5. There are 3 persons in case of a Bank Guarantee - the guarantor/surety, Principal debtor, and the creditor/beneficiary.

6. Bank Guarantee is a contingent liability.

7. A Letter of Credit is an undertaking given by the buyer’s bank on behalf of the buyer to the seller, stipulating that if specified documents are presented within a stipulated date, the bank establishing the credit will pay the amount of the bill drawn in terms of such Letter of Credit.

8. There are 4 persons in case of a Letter of Credit – buyer, opening bank/branch, seller, and negotiating bank/branch.

9. A forward exchange contract is a firm contract between the bank and its customers for the purchase/sale of a specified quantity of a stated foreign currency at a predetermined rate. On the due date when the contract is executed, the transaction will be at the contracted rate of exchange instead of the rate then prevailing, thus it is method of protecting oneself against exchange rate fluctuations.

10. FRA (Forward Rate Agreement) and IRS (Interest Rate Swap) are such instruments that can provide effective hedge against interest rate risks.

11. An FRA is a financial contract between 2 parties to exchange i nterest payments for a notional principal amount on the settlement date for a specified period from start date to maturity date.

12. An IRS is a financial contract between two parties exchanging or swapping a stream of interest payments for a notional prin cipal amount on multiple occasions during a specified period. Such contracts involve exchange of fixed to floating or floating to floating rate of interest.

1. Credit risk is the possibility of losses associated with the reduction in the credit quality of borrowers or counterparties.

Credit risk forms – direct lending, Bank Guarantee, Letter of Credit, treasury operations, securities trading businesses, cross border exposure, etc.

The LC party count is a simplified model; other banks may participate. Apply the complying-presentation rule, not just a promise to pay a seller. Derivative descriptions are introductory; settlement and risks depend on the contract. Credit exposure includes funded and contingent commitments. A non-fund facility can still create a loss or a future funding obligation.

Capital framework

6. Basel II has 3 pillars – a. minimum capital requirements b. supervisory review process c. market discipline

These are the three Basel II pillars, retained as framework context. The adjacent legacy Tier 3 and capital-composition statements are not imported as current Basel III rules.

Lending and facility structure

1. Stocks procured through L/C are taken under hypothecation.

2. An increase in the ratio of current assets to total assets results in a decline in the profitabil ity of the firm (because investment in current assets is less profitable than those in fixed assets).

3. Term loans are loans which are repayable after one year and up to 10 years. Short term loan = 1 -3 years, medium term loans = 3-7 years, long term loans = 7-10.

4. Difference between term loan and working capital is that term loans are repayable in quarterly or half yearly installments whereas working capital is generally availed in cash credit hypothecation accounts with frequent drawings and is payable on demand.

7. The ceiling for banks in providing advances/loans to borrowers is 15% of the capital funds in case of a single borrower and 40% in case of group borrowers.

Hypothecation of LC-financed stock depends on the security arrangement. The profitability statement assumes current assets earn less; it is not an automatic law. The term-loan tenure bands and quarterly/half-yearly instalments are not universal rules. The older 15%/40% exposure ceilings are historical: RBI's February 2025 handbook gives the general LEF single-counterparty 20% of Tier 1 capital (exceptionally another 5% with Board approval) and connected-group 25%, with scope and counterparty exceptions. The FY2025-26 bank disclosure corroborates those general limits; use the applicable current bank-category direction for a real case. [LEFH] [LEF] [LEFCHECK]

Working capital

8. Working capital means the sum total of inventory, receivables and other current assets held by a business entity.

9. Working capital is computed by the banks through the concept of operating cycle, i.e., the time taken by a business entity to get the money released from the ra w materials, semi -finished goods, receivables, etc.

Item 8 describes gross working capital. Net working capital subtracts current liabilities. The operating cycle helps assess need; it does not replace the chosen appraisal method and its assumptions.

Reference Notes / reviewed 29 October 2026

BASEL / BIS: Basel II revised framework, June 2004; three pillars

COMMENCE / MCA: Companies (Amendment) Act, 2019, section 3 inserting section 10A

CONTRACT / Indian Contract Act, 1872: sections 11, 12, 28, 68, 126 and 128

PARTNER / Indian Partnership Act, 1932: sections 19, 42, 58 and 69

COMPANY / MCA: Companies Act, 2013; sections 2, 3, 10A and 77

KARTA / Delhi High Court: Manu Gupta v Sujata Sharma, 4 December 2023 (judgment copy)

LLP / India Code: Limited Liability Partnership Act, 2008, including amended section 2

LIMIT / Limitation Act, 1963: Schedule, Articles 19-22 and instrument-specific entries

LIMITCHECK / Tripura High Court hosted Limitation Act: Article 21 text and case note

UCP / ICC: UCP 600, Articles 1, 2, 4, 5 and 7

LEFH / RBI: Handbook on Regulations at a Glance, February 2025; concentration norms

LEF / RBI: Commercial Banks - Concentration Risk Management Directions, 2025; listing updated 1 October 2026

LEFCHECK / DCB Bank FY2025-26 annual report: large-exposure regulatory disclosure

Apply the relevant bank-category rules, state law and sanctioned terms when using these principles in practice. The exposure-limit discussion identifies the dated regulatory handbook and bank disclosure used.

28 facts / final recall

01-14 / foundations	15-28 / application
01. Safety: Assess repayment capacity, character and financial position.	15. Partnership: Check deed, authority and registration consequences.
02. Liquidity: Manage cash flows and maturity risk; not short lending only.	16. Death of partner: Dissolution under section 42 is subject to contract.
03. Diversity: Avoid undue concentration in one sector or borrower.	17. HUF: Do not apply a blanket male-only Karta rule.
04. Purpose: Establish lawful purpose and appropriate end use.	18. Company: Check legal existence, objects and borrowing authority.
05. Stability: Avoid assuming market values cannot decline.	19. Share liability: For limited-by-shares companies, consider unpaid shares.
06. Profitability: Assess return alongside risk and costs.	20. LLP: Separate entity; limited liability has statutory exceptions.
07. Fund based: Funds are advanced: e.g., CC, loans and bill finance.	21. Trust/society: Check governing instrument and applicable law.
08. Non-fund based: A commitment can become a funding obligation.	22. Gross working capital: Total current assets.
09. Guarantee parties: Applicant, issuing bank and beneficiary.	23. Net working capital: Current assets minus current liabilities.
10. LC undertaking: Honour a complying presentation under applicable terms.	24. CC/OD: Flexible drawings within applicable permitted limits.
11. LC illustration: 60-day cycle; six rotations; Rs.400 lakh limit.	25. Drawing power: Eligible assets, deductions and stipulated margin.
12. Contract capacity: Majority, sound mind at contracting and no legal bar.	26. Bill finance: Finance receivables through the relevant bill facility.
13. Necessaries: Section 68 concerns reimbursement from property.	27. Term finance: Match repayment to purpose and cash generation.
14. Proprietorship: Proprietor and business are not separate legal persons.	28. Limitation: Identify instrument, relief and legally correct start date.

B02 / Appraisal and Assessment of Credit Facilities



Appraise before sanction

A garment maker seeks finance. Check the borrower, business, purpose and cash generation before deciding the amount and conditions.

1. Verify borrower and business → 2. Assess operating need → 3. Test funding and cash flow → 4. Set terms and monitor

Important distinction

Credit appraisal combines identification, business understanding, due diligence, facility selection and suitable terms. A rating supports judgement; it does not replace verification.

JAIIB PPB Module B Unit 2: Appraisal and Assessment of Credit Facilities

Credit Appraisal Process

Credit Risk and Rating

• Credit risk is defined as the possibility of borrower/counterparty default. Default can occur because of business failure or because the borrower's willful actions.

• Lenders rely on credit reports for individual borrowers and credit rating of companies/firms by the rating agencies and their own credit rating.

• Credit risk rating is one of the credit appraisal tools. In this method credit risk is assessed in the form rating by assigning marks to different parameters and evaluating on the basis of some threshold preset standards/marks. The borrower's financial standing and performance are rated for scoring.

Aspects Of Appraisal

Aspects of Appraisal

There are four cardinal parameters of lending. These are as follows:

• Evaluation of creditworthiness of the borrower

• Considering the purpose of the loan

• Verifying the cash flows and source of repayment

Appraisal sequence

Stage	Action
1	Borrower Identification & Verification
2	Assessing the Borrower's Business
3	Understanding Credit Requirement
4	Due Diligence Report
5	Selecting Appropriate Exposure / Scheme
6	Finalising Terms & conditions

7 Cs

Aspect	Label
1	Credit-worthiness
2	Character
3	Capacity
4	Capital
5	Collateral
6	Conditions
7	Cash Flow

Important distinction

Current assets need not all be tangible. Classification depends on the applicable accounting framework and normal operating cycle, which can exceed twelve months.

• Assessing the security/collateral security.

Methods of Assessment of Loan

Assessment of loans for different purposes is done in different manner as the factors affecting these differ in several respects. Broadly, these can be categorized in the following types:

Loans for business enterprises:

• For Working Capital Purposes

• For Capital Expenditure Loans for individuals:

• For Housing Purposes

• For Vehicles/ Consumer Durables

Assessment Of Working Capital

Working Capital

The capital required for a business enterprise can be classified under two main categories

• Fixed Capital

• Working Capital

Working capital refers to that part of the firm’s funds that is required for financing short-term or current assets such as cash, debtors & inventories.

There are two concepts of working capital:

• Gross working capital

• Net working capital

Gross Working Capital

It is the capital invested in total current assets of the enterprise. Current assets are tangible movable assets that are recoverable in cash or sold or consumed or turned over during the operating cycle usually not exceeding one year.

The merits of gross concept are:

• Enables the enterprise to provide correct amount of working capital at the right time

• Helps management to know the amount invested in total current assets with which it has to operate.

Net Working Capital

The net working capital (NWC) or liquid surplus is the difference between current assets and current liabilities.

Important distinction

NWC is an amount: current assets minus current liabilities. The current ratio is current assets divided by current liabilities. Saying NWC must exceed 1:1 confuses these measures. Working-capital gap excludes bank borrowings from the deducted current liabilities.

The net working capital should be higher than 1:1 to ensure sufficient liquidity and availability of working funds.

The net working capital concept, however, is also important for following reasons:

• It is qualitative concept, which indicates the firm's ability to meet to its operating expenses and short-term liabilities.

• It indicates the margin of protection available to the short term creditors.

Working Capital Gap:

• It is a concept used in the Indian banking sector to determine the amount of working capital limits the bank would make available to the borrower. It is the difference between total Current Assets and Current Liabilities, other than bank borrowings.

Components of Working Capital

Working capital is the aggregate value of:

• Raw material

• Stock in process

• Finished goods in stores and in transit

• Other consumable stores

• Receivables or sundry debtors

• Other expenses

Operating / Working Capital Cycle

The duration from the purchase of raw materials through production to finished goods to sales and sales realisation is the time period for which working capital funds are required. Once sales proceeds are received in cash, this money is available for purchase of raw materials and continuing production. The whole process is repeated again.

Because of the cyclical nature of this entire process, the production period is called the operating cycle.

Computation of Operating Cycle Components

Operating cycle

Sequence	Stage
1	Cash
2	Raw Material
3	Work-in-Process
4	Finished Goods
5	Debtors
6	Cash



Follow the operating cycle

Raw materials become work in progress, finished goods and receivables before returning to cash. Each holding period affects financing need.

Computation of operating-cycle components

Component	Computation
RM Storage Period	Average Stock of RM / Average Daily RM Consumption
Average Stock of RM	(Opening Stock of RM + Closing Stock of RM) / 2
Average Daily RM Consumption	Annual Consumption of RM / 360
WIP Conversion Period	Average Stock of WIP / Average Daily Cost of Production
Average Stock of WIP	(Opening Stock of WIP + Closing Stock of WIP) / 2
Annual Cost of Production	Opening stock of WIP + Annual Consumption of RM + Manufacturing Costs (such as wages, salaries, power & Fuel, etc.) + Depreciation - Closing stock of WIP
Average Daily Cost of Production	Annual Cost of Production / 360
FG Storage Period	Average Stock of FG / Average Daily Cost of Sales
Average Stock of FG	(Opening Stock of FG + Closing Stock of FG) / 2
Annual Cost of Sales (CoS)	Opening stock of FG + Annual Cost of Production + Excise Duty + Selling & Distribution Costs + General Administrative Costs + Finance Costs - Closing stock of FG
Average Daily CoS	Annual Cost of Sales / 360

Important distinction

The 25% requirement, 20% bank-finance and 5% borrower-contribution percentages are the turnover-method convention discussed here. Check the applicable bank category, borrower eligibility, current directions and assessed need; a calculated limit does not automatically establish drawing power. [WC]

Assessment of Working Capital Requirements

Banks may adopt one of the following four methods for assessment of working capital requirements of their clients.

- **Turnover Method**
- **Operating Cycle Method**
- Maximum Permissible Bank Finance (MPBF) Method
- **Cash Budget Method.**

These methods require the preparation of: (a) Projected financial statements (b) Projected fund flow statements (c) Projected cash flow statements/cash budgets

Turnover Method

• MSE units having working capital limits of up to Rs. 5 crore from the banking system are to be provided working capital finance computed on the basis of 20% of their projected annual turnover.

• Under this method, the working capital requirements of the borrower is computed at 25% of the projected annual turnover of which normally 20% of the projected turnover is provided by the bank as working capital finance and balance 5% of the projected annual turnover is contributed by the borrower, as margin towards working capital.

• While the working capital limits are fixed based on the assessment exercise, the actual drawings are permitted based on the level of current assets viz. stock and debtors less the security margin fixed for the respective assets.

Illustration:

M/s. ABC is a manufacturer of moulded plastic household goods like buckets, mugs etc.

The annual turnover for FY2021-22 was `80.00 lakh, and it has targeted 25% growth in FY 2022-23. The working capital requirement and the bank finance for it are estimated as follows.

Collection and payment periods

Component	Computation
Average Collection Period	Average Balance of Sundry Debtors / Average Daily Credit Sales
Average Balance of Sundry Debtors	(Receivables (Opening Balance) + Receivables (Closing Balance)) / 2
Average Daily Credit Sales	Annual Credit Sales / 360
Average Payment Period	Average Balance of Sundry Creditors / Average Daily Credit Purchases
Average Balance of Sundry Creditors	(Creditors (Opening Balance) + Creditors (Closing Balance)) / 2
Average Daily Credit Purchases	Annual Credit Purchases / 360
Abbreviations	RM = Raw Material; WIP = Work-in-Process; FG = Finished Goods

Important distinction

For the toy example, the additional contribution is Rs.6 lakh minus Rs.5 lakh = Rs.1 lakh; the printed letter reference is inconsistent. Debtor age eligibility and treatment of creditors depend on the sanction and policy; 180 days is not a universal entitlement to finance every receivable.

• Growth in turnover during FY2022-23 @ 25% over FY2021-22: `80.00 lakh * 0.25 = `20.00 lakh

• Projected turnover during FY2022-23: `80.00 lakh + `20.00 lakh = `100.00 lakh

• Working capital requirement @ 25% of turnover: `100.00 lakh* 0.25 = `25.00 lakh

• Bank finance for working capital @ four-fifth (i.e. 80%) of (c) = `25.00 lakh * 0.8 = `20.00 lakh

• Borrower's contribution for working capital @ one-fifth (i.e. 20%) of (c) = `25.00 lakh * 0.2 = `5.00 lakh
Alternatively, the bank finance and the borrower's contribution for working capital are directly determined from the projected turnover as follows: (a) Bank finance @ 20% of projected turnover = `100.00 lakh* 0.2 = `20.00 lakh (b) Borrower's contribution@ 5% of projected turnover = `100.00 lakh* 0.05 = `5.00 lakh
Illustration:

M/s. PQR is a manufacturer of toys. The projected annual turnover is `120.00 lakh. The available net working capital (NWC) is `5.00 lakh.

• Projected annual turnover: `120.00 lakh
• Working capital required (25% of a): `30.00 lakh
• Minimum margin from the borrower (20% of b): `6.00 lakh
• Maximum bank borrowing (80% of b): `24.00 lakh
• Actual NWC available: `5.00 lakh (f) Margin stipulated (Higher of c or e): `6.00 lakh
• Permissible limit (b-f): `24.00 lakh
• Additional Margin to be brought in by borrower (c – d): `6 lakh – `5 lakh – `1 lakh

Operating Cycle Method

• It requires estimation of the holding periods of major current assets and current liabilities. If part of raw materials is available on credit, then bank finance will be required only for that portion of the raw materials which represents fully paid purchases. Similarly, if advance payments are received against orders, only that part of the finished goods net of the advance payment will require bank credit.
• Only those debtors whose outstanding is up to a specified period (180 days maximum) are considered.
• If creditors are in excess, the excess portion is deducted from the value of stocks.

If debtors are in excess, the bank considers the surplus debtors for financing.

Illustration:

M/s. ABC is in ready-made garments manufacturing activity. The average holding periods for stocks and duration of creditors and debtors are as given below. Its annual turnover is `70 lakh and annual operating expenses are `60 lakh. The working capital requirement is computed as shown below.

Important distinction

Tandon methods are appraisal concepts, not a universal compulsory formula. First-method MPBF = 75% of (CA - other current liabilities). The resulting current ratio varies with the balance sheet: the printed 1:17 is erroneous and 1.17 is only this illustration. Second method = 75% of CA minus other current liabilities; its idealised ratio is 4/3. Third method = 75% of (CA - core CA) minus other current liabilities.

• Procurement of raw material: 30 days
• Conversion/process time: 15 days
• Average time of holding of finished goods: 15 days
• Average collection period: 30 days
• Total operating cycle (a + b + c + d): 90 days
• No. of operating cycles in a year (360/e): 4
• Total operating expenses per annum: `60 lakh
• Total turnover per annum: `70 lakh
• Working capital requirement (g/f): `15 lakh

Maximum Permissible Bank Finance Method

• RBI had constituted a Working Group headed by Shri P.L. Tandon, the then Chairman of PNB, in July 1974. It enunciated the concept of MPBF for assessment of working capital. It suggested different methods of funding current assets to be adopted depending on the size of credit required.
• First Method of Lending: In this method, the contribution by the borrowing unit is fixed at a minimum 25% of the working capital gap from long-term funds. The bank finances a maximum of 75% of the gap; the balance amount should come from long-term sources. This method of lending gives a current ratio of only 1:17. This approach was considered suitable for relatively new units set up by first time entrepreneurs and for sick/weak units.

Maximum Permissible Bank Finance Method

• Second Method of Lending: Under this method, the borrower is required to provide for a minimum of 25% of total current assets out of long-term funds and the bank will provide the balance (MPBF). This would give a minimum current ratio of 1.33:1.

• Third Method of Lending: Under this method, the contribution from long term funds would be to the extent of the entire core current assets and a minimum of 25% of the balance current assets. The balance current assets only would be financed through bank finance for working capital after netting off other current liabilities meeting the current assets.

MPBF Method Illustration

MPBF illustration / amounts in lakh

Current liabilities	Amount	Current assets	Amount
Creditors for purchases	100	Raw materials	200
Other current liabilities	50	Stock-in-process	20

Important distinction

Keep rounding consistent. With CA 370 and other current liabilities 150, second-method contribution is 92.5, MPBF 127.5 and excess borrowing 72.5 lakh. The comparison uses whole-lakh figures 92, 128 and 72. Third-method exact MPBF is 56.25 lakh; 56 is rounded. First-method excess is 35 lakh and its adjusted ratio is 370/315 = 1.1746.

Observations

• Under the first method: MPBF is `165 lakh, thus excess borrowing is of ` 35 lakh.

• Under the second method: MPBF is `128 lakh, thus excess borrowing is of ` 72 lakh.

• Current Ratio (after funding excess borrowing through long term sources) is 1.17 (under first method) and 1.33 (under second method) The following Table below gives a comparative position of salient parameters under the three methods of lending.

(i)CMA Data: Many banks continue to follow the method of MPBF based on CMA (Credit Monitoring Arrangement) formats. Various banks use CMA formats with certain variations to suit the requirements of particular industry segment. For example, the CMA formats used for finance to NBFCs are different than those prescribed for a manufacturing company. CMA formats consist of the following forms: FORM I – Particulars of the existing limits from the Banking System/Financial Institutions FORM I – Particulars of the existing limits from the Banking System/Financial Institutions

MPBF illustration / continued

Current liabilities	Amount	Current assets	Amount
Current liabilities other than bank borrowings	150	Finished goods	90
Bank borrowings including bills discounted with bankers	200	Receivables including bills discounted with bankers	50
Total current liabilities	350	Other current assets	10
		Total current assets	370

First and second methods / whole-lakh presentation

Parameter	First method	Second method
Total current assets	370	370
Other current liabilities	150	150
Working capital gap	220	220
Contribution	55	92 (Round off)
Balance current assets after contribution	-	278
MPBF	165	128
Excess borrowing	35	72
Current Ratio	1.17	1.33

Three-method comparison / amounts in lakh

Parameter	First	Second	Third
Total CA	370	370	370
Less OCL	150	150	150
Core CA	-	-	95
Balance CA	-	-	275
WCG	220	220	125
Less: 25% of WCG	55	-	-
Less: 25% of TCA	-	92	-
Less: 25% of Balance CA	-	-	69
MPBF	165	128	56



Find the peak deficit

Receipts and payments vary by month. Check cumulative opening balances as well as each month’s shortfall before fixing a limit.

Important distinction

Cash-budget assessment depends on timing, cumulative balances, eligible finance and the chosen contribution basis. A Rs.10 crore trigger or 25% contribution is not a universal rule for every bank and borrower. The quarter example later deducts NWC of 1 from monthly deficit 5 to give bank finance 4; that is not the same as imposing 25% of deficit. State the assumption used.

FORM II – Operating Statement FORM III – Analysis of Balance Sheet Part A - Balance Sheet Spread - Analytical and Comparative Ratios.

FORM IV – Comparative statement of current assets and current liabilities FORM V – Assessment of Maximum Permissible Bank Finance for Working Capital FORM VI – Funds Flow Statement In addition, the banks also

obtain data on the following two formats:

• Format for Salient Financial Indicators

• Format for Additional Information/Additional Data

Cash Budget Method

• Most banks now for assessment of the working capital needs of a borrower who enjoys or requires fund based limits in excess of Rs. 10 crore, adopt the cash budget system.

• A cash budget is a statement of cash receipts and cash payments. Cash budget is a substitute for the operating cycle method for the assessment of working capital.

• Under this method the peak cash deficit amount is the total working capital finance to be provided to the borrower by the bank. The required borrower's contribution (NWC), which should be at least 25% of the peak deficit, is also worked out based on the values of Current Assets and Current Liabilities as at the peak deficit period. Actual drawings are allowed to the extent of monthly cash deficit.

Cash budget / first month / amounts in lakh

Receipts	Amount	Payments	Amount
Cash sales	3	Cash Purchases	5
Collection from Debtors	8	Other Manufacturing expenses	4
Others	2	Administrative expenses	2
		Interest - business borrowings	1
		Others	2

Important distinction

In the cash example, balances are +2 after month 1, -3 after month 2 and -1 after month 3. Deficit amounts shown as positive numbers represent negative balances. Monthly peak deficit 5, cumulative deficit 3 and the illustrated bank finance 4 are different measures. The monthly table is repeated identically in the reading material; it is presented once here.

Advantages of Cash Budget Method

Cash budget / monthly balances / amounts in lakh

Line	Month 1	Month 2	Month 3
Cash sales	3	4	4
Collection from Debtors	8	5	9
Other receipts	2	1	2
Total Receipts (A)	13	10	15
Cash Purchases	5	6	4
Other Manufacturing expenses	4	5	5
Administrative expenses	2	2	2
Interest - business borrowings	1	1	1
Other payments	2	1	1

Line	Month 1	Month 2	Month 3
Total Payments (B)	14	15	13
Net Surplus (A - B)	-	-	2
Net Deficit (B - A)	1	5	-
Opening Cash Balance (Deficit)	3	2	3 deficit
Closing Cash Balance (Deficit)	2	3 deficit	1 deficit

Assessment of working capital limit for the quarter

Position at Peak Deficit (Second Month)	Amount in lakh
Total cash outflow from Business Operations	15
Total cash inflow from Business Operations	10
Cash Deficit	5
Less: Net Working Capital (Current Asset - Current Liabilities) at month-end	1
Net Cash Deficit (to be financed by the bank)	4

Important distinction

Guarantee need depends on purpose, amount, duration, outstanding commitments and invocation risk. Export-quota and tax-authority references are historical examples; confirm the actual current scheme or statutory demand.

• The customer plans his cash requirements in advance and in case his bank is unable to sanction additional funds, the customer can seek alternative sources well in advance.

• The banker is in close touch with his customers. He would, therefore, be able to spot any danger signals quickly and initiate corrective action in time.

• The banker can plan his resources to meet expected credit demands. Credit planning would thus become a meaningful exercise.

Assessment of Non-Fund Based Facilities

Bank Guarantee

• For assessing bank guarantee required by a borrower, details such as the nature of guarantee, its purpose, the particulars of the contract period and the amount for which the guarantee is sought are collected and assessed from the aspect of creditworthiness of the customer and his relationship with the bank for sanctioning the guarantee facility.

• Bank must clearly understand various types of guarantees required in the line of activity and classify them into Financial and Performance guarantees.

Purpose of Bank Guarantee

• Permanent Guarantees: It is important to identify and segregate those guarantees which are likely to be required on a fixed basis and will be outstanding as long as the unit is in operation or the bank finance is outstanding.

• Business Activity Related Guarantees: The limit for guarantees related to the main business activity of the firm is a function of the volume of activity proposed and the duration of such guarantees.

• Guarantees for Export Quota: the guarantee amount is related to the value of quota applied and allotted, which in turn will depend upon the level of exports proposed in the ensuing year and other factors.

• Guarantees for Tax Liabilities: borrower may require guarantees to be issued favouring Excise, Income-Tax authorities against disputed liabilities.

• Guarantees for Import of Capital Goods: The borrower may also require guarantees for import of capital goods on concessional import duty under various schemes of Government, whose requirement can be determined on a case to case basis.

• Guarantees for Advance Payments: Wherever the borrower is accepting advance payment from purchasers and is required to furnish bank guarantees in lieu thereof, the amount of such guarantees will be proportional to the amount of such advance payments that will be outstanding, which in turn will be dependent on the level of sales.

Assessment of Non-Fund Based Facilities

Letter of credit

Important distinction

An LC subject to UCP 600 concerns a complying documentary presentation under its terms. Term-loan maturity and relative credit risk are case-specific; neither a 3-10 year band nor higher risk than every working-capital loan is universal. [UCP]

• A letter of credit (L/C) is a written but a conditional undertaking given by the issuing bank on behalf of its customer, to the beneficiary that it will pay him the amount stated in the credit provided documents specified in the letter of credit are drawn and presented in strict conformity with the terms and conditions of the credit.

• In order for the payment to occur, the seller has to present to the bank the required documents as per the L/C terms.

Assessment of LOC Limit

For assessing the letter of credit limit for the purchase of raw materials, the banker collects from the borrower following particulars:

• Projected value of raw material consumption in the ensuing year

• Projected value of raw material purchase on credit

• Time taken for advising the letter of credit to the beneficiary

• Time taken for shipment and the consignment to reach the customer’s destination

• Credit period (usance period) agreed between the beneficiary and the customer

• Credit period projected and reckoned for calculation of the maximum permissible bank finance (MPBF) while sanctioning the funded limits to the borrower customer

Assessment of Term Loan

• A term loan is granted for the purpose of acquisition of capital asset. Normally, the term loans are repayable in instalments over a period ranging from 3 to 10 years. The credit risk, therefore, is greater in case of term loan than in case of working capital finance.

• It is necessary to assess the future cash surplus from the business operations that would be available to service the term loan viz. for meeting the interest and repayment instalments for the term loan.

Assessment of Term Loan Limit

• Land and site development

• Building

• Plant and machinery

• Technical know-how

• Expenses on foreign technicians

• Miscellaneous assets

• Preliminary & pre-operative expenses

• Contingencies

• Margin for working capital



Test debt servicing

A profitable project may still lack cash when instalments fall due. Match the repayment schedule to realistic cash generation.

Important distinction

Use parentheses around the full DSCR numerator. DSCR = (net profit + depreciation + other relevant non-cash charges + term-loan interest) / (term-loan interest + scheduled principal). Ensure the profit basis and add-backs are consistent. A 1.5 benchmark is illustrative; covenant and policy requirements govern.

• Initial cash losses:

• Sources of Finance: To meet the cost of the project, the following sources of finance are available: − Share capital − Term loans − Debenture capital − Deferred credit − Incentive sources − Miscellaneous sources

Assessing Viability and Debt Servicing Capacity

Viability of Business Activity: Assessing the viability of any business activity is essentially an exercise of working out projected sales and costs of production and cost of sales, etc. In other words, it is preparing projected financial estimates for operations.

The objective here is to determine the profits and the cash surplus generated from the operations.

Debt Service Coverage Ratio (DSCR): DSCR indicates the ability of a concern to service its term liabilities. DSCR measures whether interest and instalments can be paid out of internal generation of funds. It is calculated as the cash profit generated plus provision for interest divided by total payment commitment. DSCR of 1.5 is considered reasonable DSCR = Net profit + Depreciation + Other Non-Cash Expenses + Interest on term loan / (Interest on term loan + Instalments of term loan)

Practice / answer beside the question

Q01. Current assets are 370 and other current liabilities are 150 lakh. What is first-method MPBF?

A. 150	B. 165
C. 200	D. 220

Answer B / Working-capital gap = 220; 75% x 220 = 165 lakh.

Q02. Using the same figures, what is exact second-method MPBF?

A. 128.5	B. 150
C. 127.5	D. 165

Answer C / 75% x 370 - 150 = 127.5 lakh before rounding.

Q03. Annual turnover is 120 lakh under the stated turnover method. What are bank finance and minimum borrower contribution?

A. 24 and 6	B. 30 and 5
C. 20 and 10	D. 25 and 5

Answer A / 20% x 120 = 24 lakh; 5% x 120 = 6 lakh.

Q04. Opening cash is 2 lakh; receipts 10 and payments 15. What is closing cash?

A. 7	B. 3 surplus
C. 5 surplus	D. 3 deficit

Answer D / 2 + 10 - 15 = -3 lakh, a deficit.

Q05. Net profit is 20, depreciation 5, term interest 5 and principal due 15 lakh. What is DSCR?

A. 1.0	B. 1.5
C. 2.0	D. 0.75

Answer B / (20 + 5 + 5) / (5 + 15) = 30/20 = 1.5.

Q06. Which statement correctly distinguishes liquidity measures?

A. NWC is always a ratio	B. Current ratio equals CA minus CL
C. NWC is CA minus CL; current ratio is CA/CL	D. Positive profit guarantees liquidity

Answer C / NWC is a monetary amount; the current ratio is a quotient.

Q07. Operating expenses are 60 lakh yearly and the assumed cycle is 90 days in a 360-day year. What is the cycle funding requirement?

A. 15 lakh	B. 60 lakh
C. 70 lakh	D. 17.5 lakh

Answer A / Four cycles per year; 60 / 4 = 15 lakh.

Q08. A borrower has a good external rating. What should the appraiser do?

A. Skip cash-flow assessment	B. Ignore the business purpose
C. Sanction without conditions	D. Verify business, repayment and facility suitability

Answer D / A rating is a tool and does not replace full credit appraisal.

Quick Revision

Credit information

1. CIBIL is a composite credit bureau which contains the credit history of both commercial and consumer borrowers.

2. CIBIL provides credit history of borrowers to its members in the form of credit information reports (CIRs) to assist them in their loan appraisal process.

Credit information supports appraisal; verify accuracy and supplement it with independent assessment.

Working-capital assessment

2. An increase in the ratio of current assets to total assets results in a decline in the profitabil ity of the firm (because investment in current assets is less profitable than those in fixed assets).

3. Term loans are loans which are repayable after one year and up to 10 years. Short term loan = 1 -3 years, medium term loans = 3-7 years, long term loans = 7-10.

4. Difference between term loan and working capital is that term loans are repayable in quarterly or half yearly installments whereas working capital is generally availed in cash credit hypothecation accounts with frequent drawings and is payable on demand.

5. For an assessment of the working capital needs of a borrower who requires fund based limits in excess of Rs 10 crore, the cash budget system (instead of cash flow statement) should be used.

6. Cash flow system deals with both cash and non -cash funds, while the cash budget system deals with cash transactions only.

Profitability depends on assumptions. Tenure bands and repayment frequency are not universal. The Rs.10 crore cash-budget assertion needs the applicable policy. A cash-flow statement reports cash movements, including operating, investing and financing categories; non-cash transactions are excluded from cash-flow totals and disclosed separately.

Operating cycle

8. Working capital means the sum total of inventory, receivables and other current assets held by a business entity.

9. Working capital is computed by the banks through the concept of operating cycle, i.e., the time taken by a business entity to get the money released from the ra w materials, semi -finished goods, receivables, etc.

The stated aggregate is gross working capital; net working capital deducts current liabilities. The operating cycle is one assessment tool.

Reference Notes / reviewed 29 October 2026

UCP / ICC: UCP 600, Articles 1, 2, 4, 5 and 7

WC / RBI: working-capital guidance; read the applicable bank-category directions

28 facts / final recall

01-14 / foundations	15-28 / application
01. Appraisal: Understand borrower, business, need and repayment.	15. First MPBF: 75% of the working-capital gap.
02. Identification: Verify the borrower and authority.	16. Second MPBF: 75% of CA minus other current liabilities.
03. Due diligence: Check information and material risks.	17. Third MPBF: 75% of non-core CA minus other current liabilities.
04. Rating: A tool, not a substitute for judgement.	18. Rounding: State exact and rounded results separately.
05. Seven Cs: Creditworthiness, character, capacity, capital, collateral, conditions, cash flow.	19. CMA: Structured credit-monitoring information.
06. Fixed capital: Supports longer-lived business assets.	20. Cash budget: Time-based receipts and payments.
07. Gross WC: Total current assets.	21. Cumulative cash: Opening balance plus receipts minus payments.
08. Net WC: CA minus current liabilities.	22. Peak deficit: Distinguish monthly and cumulative shortfall.
09. Current ratio: CA divided by current liabilities.	23. Guarantee: Assess purpose, amount, duration and obligations.
10. WC gap: CA minus non-bank current liabilities.	24. LC: Assess documentary cycle and credit purchases.
11. Cycle: Cash to stock to sales to receivables to cash.	25. Term loan: Assess project cost, funding and repayment.
12. Net cycle: Account for supplier-credit funding.	26. Viability: Test realistic sales, costs and cash surplus.
13. Turnover convention: Requirement 25%, bank 20%, borrower 5%.	27. DSCR: Cash available for debt service divided by debt service.
14. Drawings: Remain subject to eligibility, margin and sanction.	28. Covenants: Thresholds and terms follow the applicable sanction.

B03 / Operational Aspects of Loan Accounts



At the branch

A borrower seeks an extra drawing. Check sanction, drawing power, end use and outstanding obligations.

1. Apply → 2. Sanction → 3. Disburse → 4. Monitor

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

MCLR is not the benchmark for every new rupee loan. Specified floating personal/retail and MSME loan categories use prescribed external benchmarks. [RATE]

JAIIB PPB Module B Unit 3: Operational Aspects of Loans

Accounts

Interest Rate On Loans

• RBI regulations for interest rates on advances have over the period undergone several changes. The internal benchmark initially was PLR that was replaced by the Base Rate System and further by the MCLR.

• The Reserve Bank Working Group on Benchmark Prime Lending Rate (BPLR) (Chairman: Shri Deepak Mohanty) reviewed the BPLR system and suggested changes to make credit pricing more transparent. Based on the committee's recommendations, the Base Rate system replaced the BPLR system with effect from July 1, 2010.

• All floating rate rupee loans sanctioned and renewed between July 1, 2010

and March 31, 2016 were priced with reference to the Base Rate

• In December 2015, RBI reviewed the norms for determination of base rate and introduced the Marginal Cost of Funds Based Lending Rate (MCLR) concept. MCLR would serve as the internal benchmark for pricing all rupee loans and limits.

• Scheduled commercial banks shall charge interest on advances on the specified terms and conditions in these directions. All floating rate loans, except those

excluded, shall be priced with reference to the benchmark as indicated by the RBI.

• Interest rates on fixed rate loans of tenor below 3 years shall not be less than the

benchmark rate for similar tenor

• There shall be no lending below the benchmark rate for a particular maturity for all loans linked to that benchmark.

MCLR Basic Norms

• All floating rate rupee loans sanctioned and renewed w.e.f. April 1, 2016 are priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which is the internal benchmark for such purposes.

• The MCLR shall comprise of: (a) Marginal cost of funds; (b) Negative carry on account of CRR; (c) Operating costs; (d) Tenor premium.

• Banks are required to publish at least five MCLRs viz. overnight MCLR; one month MCLR; three-month MCLR; six-month MCLR; and One year MCLR.

• The spread charged to an existing borrower shall not be increased except on account of deterioration in the credit risk profile of the customer.

Exemptions From Benchmark Based Interest Rate

• Loans covered by schemes specially formulated by Government of India

• Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), etc.

granted as part of the rectification/ restructuring package.

• Loans granted under various refinance schemes formulated by Government of

India

The following categories of loans –

• Advances to banks' depositors against their own deposits.

• Advances to banks' own employees including retired employees.

• Advances granted to the Chief Executive Officer/Whole Time Directors.

• Loans linked to a market determined external benchmark.

• Fixed rate loans of tenor above three years.

External Benchmark Based Rates

• In September 2019, RBI issued instructions for linking certain categories of loans to one of the prescribed external benchmarks, with effect from October 1, 2019.

• All new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans extended by banks to Micro and Small Enterprises from October 01, 2019 and floating rate loans to Medium Enterprises from April 01, 2020 shall be benchmarked to one of the following: – RBI policy repo rate – Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd. (FBIL) – Government of India 6-Months Treasury Bill

Important distinction / reviewed 30 October 2026

LEF percentages require the applicable bank category, eligible capital base, exposure measurement and exceptions. [LEF]

yield published by the FBIL – Any other benchmark market interest rate published by the FBIL.

• The adoption of multiple benchmarks by the same bank is not allowed within a loan category.

Credit Management

Credit management is the process of appraising and sanctioning the loan/s and monitoring the account/s for recovery, with a view to increase revenue of banks and financial institutions.

The term 'Credit management' encompasses the following:

• Capital adequacy norms

• Risk management, including asset liability management (ALM)

• Exposure norms

• Risk pricing policy and credit risk rating

• Asset classification, income recognition and provisioning norms

• Appraisal, credit decision-making and loan review mechanism

Credit Exposure

• The sum of all the exposure values of a bank to a single counterparty must not be higher than 20 percent of the bank's available eligible capital base at all times.

• The sum of all the exposure values of a bank to a borrower group must not be higher than 25 percent of the bank's available eligible capital base.

• A bank's exposure limit to a single NBFC (excluding gold loan companies) will be restricted to 20 percent of that bank's eligible capital base.

• Banks' exposures to a group of connected NBFCs or group of connected counterparties having NBFCs in the group will be restricted to 25 percent of their Tier I Capital.

• Each bank should have a Board approved policy that explicitly recognises and takes account of risks arising out of foreign exchange exposure of their clients, with foreign currency loans above US $10 million.

• Banks should frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single/ group exposure limits for such loans, margins, security, repayment schedule and the policy should be approved by the banks' Boards.

• Exposure to Leasing, Hire Purchase and Factoring Services: Their exposure to each of these activities should not exceed 10 per cent of total advances.

• Exposure to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad and Overseas Stepdown Subsidiaries of Indian Corporates: The above exposure

will, however, be subject to a limit of 20 percent of banks' unimpaired capital funds (Tier I and Tier II capital).

Loan Review Mechanism/ Credit Audit

Credit Audit examines compliance with extant sanction and post-sanction processes/ procedures laid down by the bank from time to time. The objectives of credit audit are

as follows:

• Improvement in the quality of credit portfolio

• Review sanction process and compliance status of large loans

• Feedback on regulatory compliance

• Independent review of Credit Risk Assessment

• Pick-up early warning signals and suggest remedial measures

• Recommend corrective action to improve credit quality, credit administration and credit skills of staff, etc.

Functions of Credit Audit Department

Usually a separate functional team handles credit audit. Its functions are as given

below:

• To analyse Credit Audit findings and advise the departments/ functionaries

concerned

• To follow up with controlling authorities

• To apprise the Top Management

• To process the responses received and arrange for closure of the relative Credit

Audit Reports

• To maintain database of advances subjected to Credit Audit

Scope and Coverage

The focus of credit audit is broader and not merely at the account level, but covers the overall portfolio and the credit process being followed.

• Portfolio Review

• Loan Review

• Action Points for Review

• Frequency of Review

Credit Monitoring

Credit monitoring can be defined as a continuous supervision process enabling the bank to ensure the quality of loan assets.

This underlines four points:

• It means supervision of loan accounts.

• Supervision is to be continuous and not one time exercise.

• To ensure quality of assets and the adherence to regulatory IRAC guidelines

• It helps in verifying that the borrower is conforming to the terms of sanction.

Important distinction / reviewed 30 October 2026

A 1.33 ratio, QIS threshold or monthly inspection frequency is not a universal rule for every borrower. Identify distress promptly rather than waiting two months.

Note: The main objective of credit monitoring is to minimize or eliminate NPA.

The bank has to keep a close watch over the conduct of the credit account through

keeping track of:

• Transactions in the account i.e. if these are commensurate with the manufacturing and sales activity estimated and reported in monthly statements.

• Study of stock statements submitted periodically.

• Periodic statements on performance parameters like sales, level of debtors, creditors, operating profit etc.

Classification of current assets and current liabilities is done as per bank's guidelines.

Current ratio is maintained at minimum 1.33.

It should Identify potential NPAs when the loan default is for two months. Collect the interest on monthly basis. Frequent visits are required wherever there is a default of interest payment.

Scrutiny of operating statements of company should be done. Banker should study in detail the data related to sales, cost of goods sold, operating profit, profit before tax, current assets and current liabilities and their movement, statutory liabilities, variance in long term outlays.

Banks are free to evolve strategies on submission of QIS returns, applicable for all accounts of Rs. 100.00 Lakh and above. Scrutiny of QIS Returns I, II, III is to be done.

QIS I (to be submitted at least one week before the commencement of quarter to which it relates). QIS II (to be submitted within six weeks from the close of quarter to which it relates). (c) QIS III (to be submitted within one month of close of the Half-year to which

it relates)

Central Repository of Information on Large Credits (CRILC)

• In September 2013, RBI decided to use the information supplied by the banks through the Return on Large Borrowers (Form A), which covered borrowers with exposure (both fund and non-fund based) of more than Rs.

100 million, for creation of central repository of large credits across banks.

• The objective was to make this information available to banks to enable them to be aware of building leverage and common exposures.

• RBI Guidelines on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy" became effective from April 1, 2014.

Simultaneously, the Report format was modified to include reporting of SMA-2 accounts, and also current account balances of their customers (debit or credit) of Rs. 10 million and above.

• The CRILC Report contains two parts, CRILC-Main and CRILC- SMA2 and JLF Formation The reporting threshold in CRILC Report has been changed to Rs. 50 million. The CRILC Main Report is to be submitted on a

monthly basis.

Besides, a weekly report of instances of default by all borrowers is to be submitted by close of business on every Friday.

• Banks are also required to report particulars of borrowers classified as 'non- cooperative' as per the prescribed procedures. The cut-off exposure (fund and non-fund based) for such borrowers is Rs. 50 million.

• Further, all loan accounts beyond Rs. 500 million classified as RFA (Red Flagged Accounts) or 'Frauds' are to be reported on the CRILC data platform together with the dates on which the accounts were classified as such.

Central Registry of Securitisation Asset Reconstruction and Security

Interest of India

• CERSAI is a Government of India Company licensed under Section 8 of the Companies Act, 2013 with Govt. of India; having a shareholding of 51% by the Central Government and select Public Sector Banks and the National Housing Bank also being shareholders of the Company.

• The objective of the company is to maintain and operate a Registration System for the purpose of registration of transactions of securitisation, asset reconstruction of financial assets and creation of security interest over property, as contemplated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

Operational Process of Handling Loans

• Receipt of Loan Application

• Assessment of Viability and Credit Worthiness

• Loan Sanction

• Disbursement

• Monitoring and Supervision (i)Inspection (ii)Review of the conduct of the account (iii)Renewal of Advances

Sample Operating Instructions

Advance Against Goods

• They should neither be perishable articles nor those liable for rapid deterioration. • They should be easily marketable having an unrestricted market. • The day to day prices of the goods should be easily ascertainable. • Their prices should be relatively stable and should not fluctuate widely.

• Goods which are not the sole property of the borrowers should not be accepted as security. Advances should be allowed only against goods which



Apply the distinction

Explain the decision: Marginal cost of funds enters MCLR. Check the supporting documents and applicable conditions.

have been paid for and not against goods received on credit or under an agency

arrangement

• While advancing against goods, a suitable margin is kept on the value of the goods for arriving at the extent of drawings (commonly known as drawing power) that may be allowed against such stocks.

• Margins stipulated for advances against goods are to be calculated on Cost Price or Market Price whichever is lower, or Invoice Price or Market Price whichever is lower.

• For advances to borrowers other than manufacturers, the basis of valuation should be invoice price or market price whichever is lower.

• A healthy turnover in the stocks is indicative of their ready marketability.

• Godown board reading 'Goods in possession of —— Bank' or 'Goods pledged/ hypothecated to —— Bank' should be affixed to the main entrance of the godown, at a conspicuous place in the premises, compound or at the entrance to the compound; where goods pledged/hypothecated to the bank are stored.

• Insurance must be for full marketable value of the goods pledged/ hypothecated to the bank. This is necessary in view of the 'Average Clause'. The insurance policies should be in the name of the bank as mortgagee and the borrower as mortgagor.

• In case of hypothecation accounts, the goods advanced against remain in the custody of borrowers. It is, therefore, essential to get the Stock Statements signed by borrowers at regular intervals to ensure that the goods hypothecated are sufficient to cover day to day debit balance in the account.

• Godown and factories in which goods pledged or hypothecated to the bank are stored should be inspected on monthly or quarterly basis in accordance with the terms of sanction by the official/ branch manager. The report on verification of stocks is prepared, analysed at the branch level and the stock inspection report must be filed account-wise.

Advance Against Warehouse Receipt

• Advances may be made against security of Warehouse Receipts issued by Central and State Government Warehouses.

• The Warehousing Corporation classifies all goods stored with them into Grade I to IV. I represents 'good' quality and IV –the poor quality.

• Warehouse Receipts endorsed to the borrowers should be avoided. No advance is made against a Non-negotiable Warehouse Receipts.

• The Warehouse Receipt against which advance is to be made should be got endorsed by the borrower in favour of the bank. The Warehouse Receipt must describe the stock in words and figures.

Important distinction / reviewed 30 October 2026

Education-loan margin, collateral, third-party guarantees, moratorium and insurance require the applicable current scheme and sanction. The older Rs.4 lakh/Rs.7.5 lakh bands are not universal current terms.

• The branch should then serve a notice on the Warehousing Corporation, intimating them of the pledge of Warehouse Receipt to the bank and of the bank's lien on the stocks.

Operational Aspects of Loan Products

Educational Loans

• IBA Model educational loan scheme for pursuing higher education in india and abroad 2021. The scheme provides broad guidelines to the banks for operationalising the Educational loan scheme.

• The student should be an Indian National (including Non-Resident Indian)

• No margin may be insisted upon for loans upto Rs, 4 lakh. However, for loans of above Rs. 4 lac and upto Rs. 7.5 lac the margin requirement may be 5% for inland studies and 15% for studies abroad. Banks can decide on margin for loan of above Rs. 7.5 lac.

• No security must be insisted upon for loans upto Rs. 4 lakh. Parent /guardian to be joint borrower(s). However, for loans above Rs. 4 lac and upto Rs. 7.5 lac, Parent(s)/ guardian(s) to be joint borrower(s) along with suitable third-party guarantee.

• Repayment holiday/Moratorium: Course period + 1 year. Repayment of the loan will be in equated monthly instalments for a period of 15 years for all categories.

• Interest to be charged at rates linked to the Base Rate/ MCLR as decided by individual banks. Banks may make it mandatory to arrange for life insurance policy/ credit life insurance policy/ Personal Accident Insurance scheme on the students availing Education Loan. No processing/upfront charges may be collected on educational loans for loan amount upto Rs. 7.5 lac.

• Branch should contact college/university authorities to send the progress report at regular intervals in respect of students who have availed loans. In case of studies abroad, student to submit the Social Security Number (SSN)/ Unique Identification Number (UIN) /Identity Card and banks to note the same in records.

Vehicle Loan

• The age of the individual should not be more than 65 years.

• The branch should obtain the following documents along with the application: • Audited financial statements for 3 years in case of firms/companies. • Income

tax returns for last 3 years along with computation of income of

individuals/partners/ directors. • Copies of relevant documents/invoices from the authorised dealers of the vehicle to be purchased. • Latest salary slips for preceding 3 months/form No. 16. • Statement of operative bank account for last one year. • KYC documents.

• Loan tenure: Maximum 84 months.

• Loan to Value Ratio (LTV): Upto Rs. 10 lacs: Maximum permissible LTV ratio is 85% of 'on road price' of the car Above Rs. 10 lacs: Maximum permissible LTV ratio is 80% of 'on road price' of the car.

• The branch should obtain an undertaking from the borrower to get hypothecation to the bank marked in the Registration Certificate (RC) book of the vehicle, immediately after purchase of the vehicle.

• The vehicle purchased is to be kept comprehensively insured for the market value or at least 10% above the loan amount outstanding, whichever is higher, and the bank's interest as a hypothecatee should be noted in the Certificate of Insurance and the Insurance Policy.

• Loan amount will be credited to the account of supplier/dealer by way of RTGS/NEFT facility.

Guidelines On Recovery Agents Engaged By Banks

• Banks should inform the borrower details of the recovery agency when a default case is forwarded to the recovery agency. The agent should carry a copy of the notice and the authorization letter from the bank along with the identity card issued by the bank/ the agency.

• Banks should ensure that there is a recording of the calls made by recovery agents to the customers. Up to date details of the recovery agency firms/ companies engaged by banks may also be posted on the bank's website.

• The contracts with the recovery agents should not induce adoption of uncivilized, unlawful and questionable behaviour or recovery.

• Banks should ensure that all their Recovery Agents undergo the certificate course of IIBF on Debt Recovery.

Fair Practices Code For Lenders

RBI guidelines on fair practices code for lending must be followed by all banks in India.

Banks need to frame the Fair Practices Code (approved by their Board of Directors) based on these.

Applications for loans and their processing

• Loan application forms should be comprehensive.

• Banks must transparently disclose to the borrower all information about fees/ charges payable for processing the loan application, the amount of fees refundable, if loan amount is not sanctioned/ disbursed, pre-payment options and charges, if any, penalty for delayed repayments, if any, conversion charges for switching loan from fixed to floating or viceversa.

• Acknowledgement for receipts of all loan applications

Important distinction / reviewed 30 October 2026

Quick Revision distinctions: the old 15%/40% capital-funds ceilings are historical, not the current large-exposure framework. A cash-flow statement reports cash flows; the description that it deals in non-cash funds is misleading. CIBIL is one credit-information company, not the only possible source of a credit report. [LEF]

• Banks should disclose the timelines for conveying credit decisions through their websites, notice-boards etc.

• the lenders should convey in writing within stipulated time, the main reason/ reasons which, in the opinion of the bank after due consideration, have led to rejection of the loan applications.

Loan appraisal and terms/conditions

• Proper assessment of credit application should be done.

• Approval of the credit limit should be conveyed along with the terms and conditions.

• A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower.

• As far as possible, the loan agreement should clearly stipulate credit facilities that are solely at the discretion of lenders, namely approval or disallowance of facilities, Timely Disbursement of loans including changes in terms and conditions

Post disbursement supervision

The Board of Directors should also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. Such a mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level.

Practice / answer beside the question

Q01. Does one lending benchmark apply to every loan?

Answer / No. Apply the benchmark required for the category, rate type and governing rules.

Q02. Name one cost component of MCLR.

Answer / Marginal cost of funds is a component of MCLR; negative carry on CRR, operating costs and tenor premium also enter it.

Q03. What stages does credit management cover?

Answer / The full loan lifecycle, including appraisal, sanction, disbursement, monitoring, review and recovery.

Q04. Why should a bank obtain stock statements?

Answer / They support verification of eligible stocks and assessment of drawing power under the sanction.

Q05. What is the purpose of CRILC?

Answer / CRILC supports prescribed large-credit information reporting and supervisory assessment.

Q06. What must the sanction record about repayment?

Answer / State the repayment instalments, due dates, moratorium where applicable and other sanction conditions clearly.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

5. For an assessment of the working capital needs of a borrower who requires fund based limits in excess of Rs 10 crore, the cash budget system (instead of cash flow statement) should be used.

6. Cash flow system deals with both cash and non -cash funds, while the cash budget system deals with cash transactions only.

7. The ceiling for banks in providing advances/loans to borrowers is 15% of the capital funds in case of a single borrower and 40% in case of group borrowers.

1. CIBIL is a composite credit bureau which contains the credit history of both commercial and consumer borrowers.

2. CIBIL provides credit history of borrowers to its members in the form of credit information reports (CIRs) to assist them in their loan appraisal process.

3. In the matter of recovery of dues, banks / NBFCs may ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders as also IBA's Code for Collection of dues and repossession of security. In case banks / NBFCs have their own code for collection of dues it should, at the minimum, incorporate all the terms of IBA's Code.

4. In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank / NBFC and that they observe strict customer confidentiality.

5. All letters issued by recovery agents must contain the name and address of a responsible senior officer of the card issuing bank whom the customer can contact at his location.

6. Banks / NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

LEF / RBI: Commercial Banks - Concentration Risk Management Directions, 2025; listing updated 1 October 2026

RATE / RBI: Interest Rate on Advances, read with current bank-category directions

28 facts / final recall

01-14 / foundations	15-28 / application
01. Pricing follows the applicable benchmark.	15. Stock statements support drawing-power review.
02. Base Rate and MCLR describe different regimes.	16. Sanction conditions require tracking.
03. External benchmarks apply to specified loan categories.	17. Covenant ratios depend on applicable terms.
04. Marginal cost of funds enters MCLR.	18. Turnover should fit the reported business.
05. CRR negative carry enters MCLR.	19. Visits help validate reported stocks.
06. Operating cost enters MCLR.	20. Early-warning signals require action.
07. Tenor premium enters MCLR.	21. CRILC supports large-credit information.
08. Spread reflects relevant risk and policy.	22. CERSAI records specified security interests.
09. Credit management covers the loan lifecycle.	23. Registration does not prove good title.
10. Concentration limits control exposure risk.	24. Disbursement follows authorised purpose.
11. Connected groups require aggregate assessment.	25. Insurance must suit the security.
12. Credit audit independently reviews the process.	26. Warehouse finance needs enforceable rights.
13. Portfolio review complements account review.	27. Repayment and moratorium must be documented.
14. Monitoring continues after disbursement.	28. Renewal requires fresh review.

B04 / Types of Collaterals and Their Characteristics



At the branch

A customer offers goods, shares and an insurance policy. Each needs a different title and valuation check.

1. Identify asset → 2. Verify title → 3. Value and margin → 4. Perfect security

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

The ordinary DRT recovery threshold was raised from Rs.10 lakh to Rs.20 lakh; the old Rs.10 lakh statement is historical. Check the applicable jurisdiction, proceeding and transitional conditions. The chapter belongs to Module B despite the older Module A wording in the retained heading. [RDBTH]

JAIIB PPB Module A Unit 4: Types of Collaterals and their

Characteristics

Banks are financial intermediaries where the resources of the public are mobilized and lent to various sectors of the economy. The Money mobilized from the public by way of deposit is repayable as and when demanded by the depositors. Therefore, bankers take utmost care to see that the money lent to various types of borrowers is repaid as per the repayment schedule along with interest. In order to safeguard the advance, bankers normally take securities, on which they fall back in case the borrowers commit default.

There are different types of Collaterals and their Characteristics.

Land and Buildings

This type of security is not self- liquidating nature. In the event of the bank wanting to sell the property for recovering its advance, it can do so through the legal process.

Normally, banks have to file a suit before the civil court for recovery, if the amount due in the loan account is less than Rs 10 lakhs and before the Debt Recovery Tribunal (DRT), if the amount due is Rs. 10 lakhs and above.

Characteristics of Land and Building

- Examining the Title to the Property
- Document to be called for from the Mortgagor
- Valuation of Property
- Leasehold Properties

GOODS

Banks advance loans routinely against the security of goods such as agricultural goods, raw material, semi finished goods. An advance goods may be extended by way of keeping goods as pledge Hypothecation. i.e, key cash credit or open cash credit. The nature of the change created may be either a pledge or hypothecation. When the possession of the goods is transferred to the banker, as in the cash of key cash credit, the nature of charge created is pledge.

Characteristics of Goods

• Precautions of advance against Goods (a)The borrowers should be dealing in the goods for a sufficient period (b)No advance should be made for speculation or hoarding purpose (c)The goods charged to the bank should have been fully paid (d)The goods should command good demand in the market (e)The age of the stock should be taken into consideration

• Storing of Goods

• Inspection of stocks

• Stock Audit

• Valuation

• Margin of Stock

• Recovery in case of Default

Advantages

• Goods have a ready market and as such can be easily sold, unlike other kinds of security.

• Valuation of the goods can be easily done.

• The banker gets a tangible form of security compared to unsecured advances, which in case of default by the borrower, can be realised by sale of pledged goods.

• Advances against goods are normally given for short periods and therefore the risk of the banker is considerably reduced.

• Barring a few states where the stamp duty is heavy, creating a charge on the security is less costly and involves minimum formalities.

• Banker acquires a good title to the goods when dealing with customers of repute and standing.

Disadvantages

• Certain goods are liable to perish or deteriorate in quality over a period of time, thus resulting in reduction in the value of the security.

• There are possible risks of fraud or dishonesty on the part of the borrower. For example, when 10,000 tins of cashew nuts are shown in the godown as security for an advance, it is not possible for the banker to verify the quality and quantity in every tin. It is not even possible to verify whether all the 10,000 tins contain cashew nuts. A fraudulent borrower may manipulate the stock statement in terms of quantity, quality and also the nature of item.

• The value of the security in certain cases, more particularly in electronic consumer goods, is subject to wide fluctuations. Therefore, determining security cover for such goods is difficult. Even in the case of necessities, there being several varieties, unless the banker has expert knowledge, the valuation may be misleading.

Documents of Title to Goods

Section 2(4) of Sale of goods Act defines a document of title to goods as “a document used in the ordinary course of business as a proof of possession or control of goods

Illustrated comparison / key details

Characteristic	Description	Examples
Natural Durability	Period for which goods are consumable for human consumption or industrial use	Chemical raw materials, fruits, food grains
Physical Strength	Ability to withstand impact or force causing deformity or breaking	Glass, rubber, mica, plastic

Characteristic	Description	Examples
Chemical Nature	Inert or reactive to atmosphere (air or moisture), causing disintegration or chemical changes	Brass goods, salt, phosphorous, wood, plastic
Utility Products	Effect of long storage on physical appearance or chemical composition	Upholstered furniture, medicines, sun lotions, fruit jams
Fashion/Style Utility	Changes in fashion and utility affect customer preferences	Mobile handsets, garments, laptops, sarees

Important distinction / reviewed 30 October 2026

Life insurance is not generally an indemnity contract. Assignment, surrender and claim rights depend on the policy and applicable law.

authorising or purporting to authorize either by endorsement or delivery, the possessor of the documents to transfer or to receive the goods there by represented.

Characteristics of Document of title to goods

• The Essential Requisites of a Document of Title to Goods

• Merits of this Security: By mere pledge of the instruments, goods are pledged and serve as a good security. The person in possession of the document can transfer the goods by endorsement and delivery. The Transferee thereafter is entitled to take delivery of goods in his own rights. The Document are easily transferable and the formalities involved are minimum.

• Demerits of this Security: Possibly for fraud and Dishonesty, Forged and

Altered Documents

• Precautions to be taken by the Banker

Advances Against Life Insurance Policies

Life insurance policies are acceptable either as a primary or collateral Security for an advance.

Points to be taken in to Consideration

Before making an advance, the point to be taken in to consideration are:

• The Policy must be in force and the premium paid up to date. The latest premium receipt must be kept on record by the bank.

• The policy should be an original, duly stamped and signed by the issuing authority.

• The policy should be free from restrictive/ onerous clauses.

• The insurance company should have admitted to the age of the assured.

Generally, The following life policies are not acceptable as security

• Children endowment policy.

• Policies taken out specifically for purposes like estate duty,

• Children Deferred policy

• Policies with nominations under Section 6 of the Married Women’s Property Act.

Advantages

• Life insurance business being highly regulated and permitted only to companies having sound financial health, the banker need not doubt the realisation of the policies, which will be done without any difficulty, if the policy and the claim are in order.

• The assignment of the policy in favour of the banker requires very few formalities and the banker obtains a perfect title.

• The longer the period for which the policy has been in force, the greater the surrender value. It is also useful as an additional security because, in the event of the borrower's death, the debt is easily liquidated from the proceeds of the policy.

• The security can be realised immediately on the borrower's default of payment by surrendering the policy to the insurance company.

• The policy is a tangible security and is in the custody of the bank. The banker only has to ensure that regular payment of premiums is made.

Disadvantages

• If the premium is not paid regularly, the policy lapses and reviving the policy is complicated.

• Insurance contracts being contracts of utmost good faith, any misrepresentation or non- disclosure of any particulars by the assured would make the policy void and enable the insurer to avoid the contract.

• The person (proposer) who has obtained the policy must have an insurable interest in the life of the assured or the contract is void.

• The policy may contain special clauses, which may restrict the liability of the insurer.

Advance Against Share

General guidelines applicable to advances against shares/debentures/bonds

• Statutory provisions regarding the grant of advances against shares contained in sections 19(2) and (3) and 20(1)(a) of the Banking Regulation Act', 1949 should be strictly observed. Shares held in dematerialised form should also be included for the purpose of determining the limits under sections 19(2) and 19(3), ibid.

• Banks should be concerned with what the advances are for, rather than what the advances are against. While considering grant of advances against shares/ debentures banks must follow the normal procedures for the sanction appraisal and postsanction followup.

• Advances against the primary security of shares/debentures/bonds should be kept distinct and separate and not combined with any other advance.

• Banks should satisfy themselves about the marketability of the shares/ debentures and the net worth and working of the company whose shares/ debentures/bonds are offered as security.

• Shares/debentures/bonds should be valued at prevailing market prices when they are lodged as security for advances.

Important distinction / reviewed 30 October 2026

Shares and debt securities can fluctuate sharply. Marketability does not guarantee stable value; check current exposure and margin requirements.

• Banks should exercise particular care when advances are sought against large blocks of shares by a borrower or a group of borrowers. It should be ensured that advances against shares are not used to enable the borrower to acquire or retain a controlling interest in the company/ companies or to facilitate or retain intercorporate investments.

• No advance against partly paid shares shall be granted. Whenever the limit/ limits of advances granted to a borrower exceeds Rs. 10 lakhs, it should be ensured that the said shares/debentures/bonds are transferred in the bank's name and that the bank has exclusive and unconditional voting rights in respect of such shares. For this purpose the aggregate of limits against shares/ debentures/bonds granted by a bank at all its offices to a single borrower should be taken into account. Where securities are held in dematerialised form, the requirement relating to transfer of shares in bank's name will not apply and banks may take their own decision in this regard. Banks should however avail of the facility provided in the depository system for pledging securities held in dematerialised form under which the securities pledged by the borrower get blocked in favour of the lending bank. In case of default by the borrower and on the bank exercising the option of invocation of pledge, the shares and debentures get transferred in the bank's name immediately.

• Banks may take their own decision in regard to exercise of voting rights and may prescribe procedures for this purpose.

• Banks should ensure that the scripts lodged with them as security are not stolen/duplicate/ fake/benami. Any irregularities coming to their notice should be immediately reported to RBI.

• The Boards of Directors may decide the appropriate level of authority for sanction of advances against shares/debentures. They may also frame internal guidelines and safeguards for grant of such advances,

• Banks operating in India should not be a party to transactions such as making advances or issuing backup guarantees favouring other banks for extending credit to clients of Indian nationality/origin by some of their overseas branches, to enable the borrowers to make investments in shares and debentures/bonds of Indian companies.

Advantages

• Value of the security can be ascertained without any difficulty.

• In normal times, stocks and shares enjoy stability of value and are not subject to wide fluctuations.

• Stocks and shares require very little formalities for taking them as security, especially in demat form.

• It is easier compared to real estate to ascertain the title, more so with the advent of depositories.

• Creating a charge on shares is less expensive than real estate.



Apply the distinction

Explain the decision: Quantity requires verification. Check the supporting documents and applicable conditions.

• They yield intermittent income by way of dividends, which can be appropriated towards the loan account.

• Being a tangible form of security, they are more reliable.

• The release of such securities involves very little expense and formality.

Disadvantages

• Being easy to realise, they are fraud prone and as such they must be properly secured.

• Partly paid shares carry several disadvantages like –

– The banker may have to pay the calls.

– Partly paid shares are subject to violent price fluctuations.

– They are not easily realisable because of the restricted market for such shares.

Advance Against Debentures

Debenture is a document issued by a company acknowledging its indebtedness to the bearer or a registered holder. A fixed rate of interest is payable at stated periods on debentures. In case of mortgage debentures, a charge is created on the assets of the company issuing such debentures in favour of a trustee who is responsible to take care of the interest of individual investors.

Advantages

• Debentures are easy to sell especially when these are listed.

• They are not subject to violent price fluctuations, as their price is a function of the market interest rate and not market demand.

• They can be transferred at minimum cost.

• Bearer debentures are fully negotiable.

• They rank higher in priority to shares and are generally secured by a charge on the company's property.

• No issuer shall make a public issue of debentures, if as on the date of filing of draft offer document or offer document, the issuer is in default of payment of interest or repayment of principal amount in respect of non-convertible securities, if any, for a period of more than six months.

Disadvantages

• If interest is not paid regularly on the debentures, it would affect its price and marketability.

• If the charge on property of company is not registered, the subsequent charges will get a priority.

• Debentures may have been issued by companies having no power to borrow money.

Precautions

The nature of the debentures must be ascertained, i.e., whether they are unsecured or secured, the latter being preferred.

• The borrowing powers of the company issuing the debentures must be ascertained and to verify the same has not been exceeded.

• Deposit of the debentures plus a memorandum of deposit is necessary. When in dematerialized form pledge to be created in the demat account.

• The nature and value of the assets charged must be examined frequently.

• The banker must find out whether there are any uncancelled redeemed debentures.

Loan Against Term Deposits

Eligibility Criteria for Availing Loan Against Fixed Deposit

To be eligible for a loan against FD, the basic criteria is that you must hold a fixed deposit with the bank you are availing the loan from and any of below-given

individuals/entities can avail the loan:

• Resident Indian citizens

• Family Trusts

• Hindu Undivided Family (HUF)

• Clubs, societies, and associations

• Sole proprietorships, group companies, and partnership firms

Documentation Required to Avail Loan Against Fixed Deposit

To avail a loan against fixed deposit, you will need to provide the below-given

documents:

• Application form duly signed

• Duly signed agreement

• Fixed/Term Deposit receipts duly discharged in favor of the bank

• Please note that these may vary from lender to lender.

How to Obtain Loan Against Fixed Deposit

Most lenders allow you to avail a loan against fixed deposit online except in few cases where you will need to visit the nearest branch of the bank. Some of the banks that offer the facility of availing a loan against fixed deposit online through their respective websites are the State Bank of India, HDFC Bank, Axis Bank, and Deutsche Bank. In the case of Federal Bank, you will need to visit the nearest branch of the bank.

Features and Benefits of Loan Against Fixed Deposit

Important distinction / reviewed 30 October 2026

Deposit-loan rates, eligibility, score checks and prepayment terms depend on product and regulation. Deposit interest remains governed by the deposit contract; the explanation that the bank need not pay interest on the loan amount is misleading.

Lower interest rates – Since your fixed deposit acts as a security for a loan, the interest rate charged on these loans are lower. The interest rates on these loans are usually lower than the interest rates on personal loans by about 2% to 2.5%. Hence, the equated monthly instalments (EMIs) on these loans are also lower.

Minimal paperwork – Since banks already have your details which you furnished during the opening of your FD, the documentation required for availing the loan against your FD will be minimal. You will not be required to submit documents such as your proof of income, Income Tax Returns (ITR), etc.

No credit score check – When you apply for any kind of loan, lenders will have a look at your credit score before they offer you a loan. However, in the case of a loan against FD, your CIBIL or credit score will not be considered while evaluating your eligibility.

Hence, such loans can be a good option for people who have low or no credit score.

The loan amount will depend on the FD amount – If you have to avail a personal loan, the maximum loan amount that you can avail will depend on various factors such as your credit score, income, tenure, etc. However, in the case of loan against FD, the maximum loan amount will depend on the money you have invested in the FD account.

This means that if you have invested a higher amount in your FD, you will be eligible for a higher loan amount.

No prepayment penalty – When you prepay any loan, the banks lose out on the interest and hence, they will charge you a penalty for the same. However, in the case of a loan against FD, no penalty is charged as banks do not lose out on the interest amount.

Instead, they profit from it as they do not have to pay you any interest on the loan amount.

Loan against gold ornaments

A gold loan is a method of availing finance/loan against your gold ornaments or jewellery such as bangles, necklaces, bracelets, earrings, pendants, watches, gold coins, etc.

Who can avail a gold loan?

Any Indian citizen can avail a gold loan from banks or non-banking financial institutions (NBFCs) and generally the age criteria ranges from a minimum of 18 years to a maximum of 75 years. This might vary from lender to lender.

Features of Gold Loans

Purpose: You can avail a gold loan from any available lender in order to finance various needs, such as for educational purposes, medical emergencies, going on a holiday, and so on.

Security: The gold that has been pledged with the bank or the financial institution acts as the security or collateral against which the loan amount is provided.

Tenure options: The tenure options can range from a minimum of 3 months to a maximum of 36 months.

Important distinction / reviewed 30 October 2026

Gold/silver collateral lending has specific eligibility, valuation and LTV requirements. Consumption-loan LTV tiers are 85%, 80% and 75% for the prescribed amount bands; do not use one blanket historical ratio. [GOLD]

Fees: The other fees and charges that might be applicable on a gold loan are – processing fee, late payment charges/ penalty for non-payment of interest, valuation fees, etc.

Repayment Options: There are three main options offered by lenders to borrowers for

the repayment of a gold loan. These are:

i)Repayment in Equated Monthly Installments (EMI) ii)Payment of interest upfront and repayment of the principal loan amount at the end of the loan tenure.

iii) Payment of interest on a monthly basis and repayment of the principal loan amount at the end of the loan tenure.

Supply Bills

• A supply bill arises in relation to transactions with Government and Public Sector Undertakings. A party might have taken a contract for execution and he is entitled for progress payment-based on work done, for which he has to submit bills in accordance with the terms and conditions of the contract.

• Similarly, parties who have accepted tenders for supply of goods are entitled for payments on the supply of goods for which they submit bills in accordance with the terms of contract. These bills are known as 'Supply Bills'.

Vehicle Finance

• Vehicles are being financed by banks for personal use as also for commercial purposes viz. for transport operators. Various aspects connected with vehicle loan to individuals have been discussed in section 24.11.2. In respect of financing transport operators for acquisition of vehicles certain aspects assume significance.

• Vehicles have several distinctive features that affect their desirability as a security for loan. Their valuation is easier as these are made public by the manufacturer. They are durable though they are prone to accident. Being mobile they may be difficult to trace if the borrower plays truant.

• The ownership of vehicles is registered with the Regional Transport Authority making its ownership definite and transfer without the owner's consent difficult.

Vehicles are charged as security through hypothecation. The lender's charge is registered with the Regional Transport Authority (VAHAN).

• It makes it difficult for the security to be charged to another lender when a prior charge subsists. On taking possession of the vehicle the lender has the right to dispose the vehicle for recovery of its dues. The value of a vehicle depreciates quickly and hence the security cover available depletes rapidly. Therefore, the loan against vehicle should be for a tenor less than the utility life of the vehicle say 3 to 5 years.

Practice / answer beside the question

Q01. What is the role of collateral?

Answer / Collateral supports recovery.

Q02. Why does perishability matter to stock finance?

Answer / Perishability reduces stock value.

Q03. What title risk arises from forged documents?

Answer / Forgery can defeat assumed title.

Q04. What risk do shares introduce as security?

Answer / Shares create price risk.

Q05. What should a bank record against an FD used as security?

Answer / Record a deposit lien correctly.

Q06. What charge commonly secures vehicle finance?

Answer / Vehicle finance commonly uses hypothecation.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. Security is of two types – primary and collateral.

2. Primary security is one that is regarded as the main cover for an advance, generally assets against which advance are made. Ex stocks for cash credits, machinery for term loans.

3. Collateral security is security other than primary security.

4. Mortgage of immovable property is either primary or collateral.

5. When doing mortgage, encumbrance certificate is taken for generally 13 years to check no encumbrance exists on the property.

6. The nature of charge created on lands and buildings is mortgage.

7. The nature of charge created on goods may be pledge or hypothecation.

8. In the case of key cash credit, the nature of charge created is pledge because in this case, the possession of goods is transferred to the banker.

9. In the case of open cash credit, the nature of charge created is hypothecation because in this case, the possession of goods is not transferred to the banker.

10. In both the key cash credit and open cash credit (means in either case of pledge or hypothecation), the title in the goods is not transferred to the bank.

11. The valuation of the stocks is done on the basis of cost price or market price whichever is less.

12. Documents of title to goods means a document used in the ordinary course of business as a proof of possession or control of goods authorising or purporting (claiming) to authorise either by endorsement or delivery (as per section 2(4) of Sales of Goods Act).

13. Goods represented by the documents a re transferrable by endorsement and/or delivery of the documents. It looks like negotiable instruments but actually they are quasi-negotiable instruments.

14. Examples of documents of title are bill of lading, dock warrant, warehouse -keepers certificate, railway receipts, delivery orders, etc.

15. LICs are taken either as primary or collateral security.

16. Nomination under the LIC is automatically cancelled in the event of the assignment of the policy.

17. The nature of charge created while making advances against shares is a pledge.

18. Banks provide either demand loan or an over draft against the security of shares.

19. Shares should be in demat form and should be quoted in a recognised stock exchange.

20. Advances are granted against fully paid shares only.

21. No loan can be granted against the security of a private limited company.

22. No banking company can hold shares in any company of an amount exceeding 30 % the paid up share capital of that company or 30 % of its own paid up share capital and reser ves whichever is less (BR Act 1949, section 19 (2)).

23. If the securities (of shares, debentures and PSU bonds) are in physical form, loans against to individuals should not exceed the limit of Rs 10 lac per borrower.

24. If the securities (of shares, deb entures and PSU bonds) are in demat form, loans against to individuals should not exceed the limit of Rs 20 lac per borrower.

25. ESOP (Employees Stock Option Plan) is a scheme under which banks provide loan to employees for purchasing shares of their own companies.

26. Under ESOP, an employee can purchase to the extent of 90 % of the purchase price of shares or Rs 20 lac, whichever is less.

27. In case of advances against shares, a uniform margin of 50 % shall be applicable on all advances/financing of IPO s/issue of guarantees. And within this margin of 50 %, a minimum cash margin of 25 % shall be maintained in respect of guarantees issued by banks for capital market operations.

28. Banks also give loans under book debts.

29. Book debts mean account receivables (total of debit balance in the purchaser’s account).

30. Book debts can be financed by: factoring (lesson 7), forfeiting (outright i.e. complete purchase of book debts, and overdraft and cc against hypothecation of book debts.

31. Age of the book debts should be 3-6 months old, but not later.

32. Margin of 50 % is maintained in book debts.

33. Banks may provide advances against the security of time deposits such as FD or RD.

34. The nature of facility granted against the security of term deposits may e ither be a loan or an overdraft.
35. The nature of charge created while granting loan against time deposits is a pledge.
36. Normally loans up to 90 % of the deposit amount/accrued value of the deposit is provided.
37. The ROI charged on the loan would be 1 or 2 % above the interest rate offered on the deposits.
38. Loans given to a sole proprietor against deposit in the name of the proprietor concern should NOT be treated as 3rd party loan.
39. Loans given to a partner against deposit in the name of the fi rm should be treated as 3rd party loan and interest should be charged at the commercial rate.
40. If a company seeks loan against its deposit, a board resolution authorising the company to raise the loan should be obtained. The charge of pledge need not be registered with the ROC.
41. A deposit held under 'Capital Gain Scheme' is not eligible for loan.
42. The nature of charge created under the security of gold ornaments is a pledge.
43. No loan can be given against the security of pure gold.
44. Around 30 % margin is kept on the market value of the ornaments.
45. The nature of charge created under 'Supply Bills' is assignment

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

GOLD / Government parliamentary reply: final gold/silver collateral directions

RDBTH / Government parliamentary reply: DRT pecuniary jurisdiction increased to Rs.20 lakh

28 facts / final recall

01-14 / foundations	15-28 / application
01. Collateral supports recovery.	15. Shares create price risk.
02. Collateral does not replace repayment capacity.	16. Demat pledges use depository processes.
03. Marketability affects realisation.	17. Partly paid shares need special scrutiny.
04. Perishability reduces stock value.	18. Debentures may be unsecured.
05. Quantity requires verification.	19. Debt securities carry interest-rate risk.
06. Quality requires verification.	20. Charge creation and registration differ.
07. Price volatility affects margin.	21. Record a deposit lien correctly.
08. Title documents can represent goods.	22. FD-loan terms depend on sanction.
09. Forgery can defeat assumed title.	23. Gold purity affects valuation.
10. A policy must be assignable.	24. Net weight affects eligible value.
11. Check that policy cover is in force.	25. LTV differs from a margin percentage.
12. Surrender value differs from sum assured.	26. Supply bills depend on contract terms.
13. Policy exclusions affect realisation.	27. Vehicle finance commonly uses hypothecation.
14. Assignment formalities must be completed.	28. Continue valuation and insurance monitoring.

B05 / Different Modes of Charging Securities



At the branch

Stock stays with the borrower. Distinguish hypothecation from a pledge involving delivery of possession.

1. Identify property → 2. Choose charge → 3. Execute and register → 4. Monitor rights

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Seven items appear despite the text saying six. Set-off and appropriation are not identical proprietary charges.

JAIIB PPB Module B Unit 5: Different Modes of Charging

Securities

Bank tend to safeguard their advances by taking different kinds of securities . The main purpose of taking a security is to fall back on it in case the loan is defaulted.

Bank take movable properties immovable properties or a debt as securities for a loan.

The method of creating charge over a property depends upon the nature of property and nature of charge.

Types of charges

Bank charge over property confines itself to one or more of the following six types of charges.

- Assignment
- Lien
- Set-off
- Hypothecation
- Pledge
- Mortgage
- Appropriation

Assignment

It is a mode of providing securities to a banker for an advance . It is transfer of a right , property or a debt .The transfer is called assignor and the transferee assignee.

Borrowers generally assign the actionable claims to the banker as security for an advance. It is transfer of right, Property or debt. The transferor is called assignor and the transferee assignee. Borrowers generally assign the actionable claims to the banker as securities for an advance.

Section 130 of the transfer of property Act: The transfer of an actionable claim can be effected only by the execution of an instrument in writing, signed by duly authorized agent.

Section 3 of the Transfer of property act: Defines an actionable claim to any debt other than a debt secured by mortgage of immovable property, or by hypothecation of or pledge of movable property or two beneficial interest in movable property, not in the possession of the claimant, which the civil courts recognize as affording grounds of relief.

All the rights and remedies of the transferor vest in the transferee .The transferee of an actionable claim takes it, subject to all the liabilities and equities to which the transferor was subject on the date of transfer.

Lien

Important distinction / reviewed 30 October 2026

Section 171 provides a conditional general lien, not an unrestricted right over every asset. Set-off requires mutuality, proper capacity and due obligations. [CONTRACT]

Lien is the right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid . The banker's lien is an implied pledge. A banker acquires the right to sell the goods which came into its possession in the ordinary course of banking business, in case the debt is not paid.

Section 171 of the Indian contract act 1872 gives to the banker an absolute right of general lien on all goods and securities received by the banker.

Set-off

Set off means total or partial merging of a claim of one person against another in a counter claim by the latter against the former. It is in effect, the combining of accounts of the debtor and creditor, to arrive at the former. It is in effect, the combining of accounts of the debtors and creditors, to arrive at the met balance payable to one or the other .The right of set off is a statutory right and can also arise out of an agreement between parties.

Salient features of Set off

• Both debts must be for certain sums. A debt accruing due to cannot be set off against the debt already due.

• The banker cannot set off the credit balance in the account of guarantor till the liability of the guarantor is determined.

• The credit balance in the current account cannot be set off against a contingent liability of a bill discounted but not yet due.

• A banker cannot set off a debt due to him upon a loan account repayable on demand or at a specified date against a credit balance in the current account until the demand is made or due date arrives.

• The parties must be mutually indebted in the same right.

• The credit balance in the partner's account can be set off against the debit balance of a partnership account since the liability of the partner is joint and several.

• Right of set- off is exercisable between two firms , which have separate names but are composed of same set off is exercisable between two firms, which have separate names but are composed of same set of partners.

• The credit balance in the personal account of a sole proprietor can be set off against the debit balance of the sole proprietary concern and vice versa.

• When the right set off is available to the bank , lien right cannot apply .These two different rights cannot be exercised simultaneously at the same time.

Automatic right of set off arises in the following circumstances

• On the death, insanity or insolvency of the customers.

• On the insolvency of a partner of a firm or winding up of a company

• On receipt of a garnishee order.

• On receipt of notice of assignment of a customer's credit balance.

Hypothecation

The term hypothecation means a charge in or upon any movable property, existing or future, created by a borrower in favour of a secured creditor, without delivery of possession of the movable property to such creditor, as a security for financial assistance and includes floating charge and crystallization of such charge in to fixed charge on movable property. The mortgage of movable property is called hypothecation.

Pledge

Pledge means bailment of goods for purpose of providing security for payment of debt or performance of promise. (As per the section 172 of Indian Contract Act 1872).

The person, whose goods are bailed is called the Pawnor, the person who takes the goods as security is called the Pawnee.

The followings are the legal implications of a pledge:

• The ownership of the property is retained by the pawnor, which is subject only to the qualified interest which passes to the pawnee by the bailment.

• One of the main and most essential requirements of a pledge is the actual or constructive delivery of the goods to the pawnee. By constructive delivery, it is meant that there need be no physical transfer of goods from the custody of the pawnee or of the any person authorized to hold them on his behalf.

Goods may be delivered by one of the following ways

• By handling over the key of the godown, in which the goods are kept.

• By attornment I e if goods are in public warehouse, the warehouseman acknowledges to the pawnee that he will hold the goods thereafter on behalf of the pawnee.

• Handling over the document of title to goods such as railway receipt, bill of lading , warehouse receipts etc.

• Even if goods are in possession of the pawnor , he may acknowledge that he holds them thereafter for and on behalf of the pawnee.

• An agreement of pledge may be implied from the nature of the transaction or the circumstances of the case . However, an agreement in writing clearly laying down the terms and conditions leaves no ambiguity.

Mortgage



Apply the distinction

Explain the decision: Lien is not an unrestricted sale power. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Mortgage registration depends on the instrument, transaction and law. A memorandum that itself creates or records operative terms may require registration. Limitation depends on the relief and correct starting event. [TPA] [LIMIT]

Mortgage is a transfer of interest in immovable property to secure an advance loan oer an existing debt or a debt or performance of an obligation.

Transfer of property act contemplates six types of mortgage

• Simple mortgage

• Mortgage by conditional sale

• Usuafructury mortgage

• English mortgage

• Mortgage by deposit of title deeds

• Anomalous mortgage In simple mortgage: the mortgage is by deposit of title des and in English mortgage , the possession of the mortgage properties is not given to the mortgage In usufructuary mortgage and in mortgage by conditional sale , possession of the

mortgaged properties is normally given to the mortgage

In the case of simple mortgage and mortgage by deposit of title deeds , the mortgagee has a right to proceed against the property mortgaged and also personally against the mortgagor.

Mortgage is to be created by way of deed and requires to be registered under the registration act.

Mortgage by deposit of title deeds is not required to be created by way of a deed and does nor require registration.

The rule of priority in case of successive mortgages is in the order of the time they are created.

Limitation period for filing a suit for foreclosure is thirty years that date mortgage debt becomes due.

Limitation period for filing a suit for sale of mortgages property is twelve years from the date mortgage debt become due.

Enforcement of mortgage is government by the code of civil procedure 1908 .suit for sale of mortgages properties should be filed in the court within whose jurisdiction the mortgage property is situated.

In a suit for sale of mortgaged properties, the court first passes a preliminary decree and thereafter final decree.

Right of Appropriation

When a debtor has several debt with a creditor, section 59, 60 and 61of the Indian Contract Act 1872, deal with appropriation of payment made by the debtor to the creditor. The principle also applies to the loans obtained from a bank. We should also

Important distinction / reviewed 30 October 2026

Quick Revision distinctions: a simple mortgage and a mortgage by deposit of title deeds are different types. Possession is not necessarily transferred under a mortgage by conditional sale. The short mortgage labels and the statements that lien always includes sale, or that lien and set-off can never coexist, must not be used as universal rules. Apply the actual statutory rights and instrument. [TPA] [CONTRACT]

understand clearly the different between right of appropriation and right of off. When a Fixed deposit receipt of appropriated before maturity it is under the right of appropriation and when it is appropriated after maturity the right of set off is exercised.

Registration Of Charges

What is a Charge?

It may be noted that the word ‘charge’ is used to mean any form of security for debt, unless the word is used otherwise. Sec. 77 of the Companies Act, 2013 provides that for the purpose of registration under the said Act, it includes all the following charges: − A charge for the purpose of securing debentures − A charge on uncalled capital of the

company

A charge on any immoveable property, wherever situated, or any interest therein

• A charge on any book debts of the company

• A charge, not being a pledge, on any moveable property of the company

• A floating charge on the undertaking or any property of the company including

stock-in-trade

• A charge on calls made but not paid

• A charge on a ship or any share in a ship

• A charge on goodwill, on a patent or a license under a patent, or a trademark, or

on a copyright or a license under a copyright

Types of Charges

‘Charges’ registered under the Companies Act can be classified into two types:

• Fixed Charge; and

• Floating Charge.

Fixed charge: 'Fixed charge' is also called 'specific charge'. It extends over a specific property or properties of the company. In other words, when a particular or a specific property of the company is given as a security for loan, then a 'fixed charge' is said to be created over the property. It may be noted, that charges specified in Sec. 77 of the Companies Act, 1956, created in conformity with the provisions of the said Act over a specific property gives right to the creditor so secured, to sell the said property and claim the proceeds towards the dues payable by the company.

Floating Charge: A 'floating charge' means a 'charge' that is general and not specific. It

can be said to be a charge:

• that floats over the present and future property of the company subject thereto, that means it does not fasten on or attach to any particular or specific property;

• that does not restrict the company from assigning the property, subject to charge to third persons, whether by way of sale or security;

• that on happening of an event or contingency, crystallises as a fixed charge.

From the above, it can be noted that when the charge is floating, the company

Practice / answer beside the question

Q01. What does assignment transfer?

Answer / Assignment transfers the relevant right, property interest or debt, subject to the applicable legal requirements.

Q02. Why should notice of assignment be considered?

Answer / Notice informs the relevant debtor or counterparty and can protect the assignee's rights.

Q03. Can a contingent obligation always be set off?

Answer / No. Set-off needs mutuality, appropriate capacity and due obligations; a contingent liability is not automatically due.

Q04. How can documents of title support a pledge?

Answer / A qualifying document of title can support constructive delivery of the represented goods.

Q05. Does every mortgage instrument follow one registration rule?

Answer / No. Requirements depend on the instrument, transaction and applicable law.

Q06. What is the purpose of appropriation?

Answer / Appropriation allocates a payment among debts, under the debtor's directions or the applicable creditor/statutory rules.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. Assignment is transfer of a right, property or a de bt. The transferor is called assignor and the transferee is called assignee.

2. A borrower may assign the book debt, money due from government department and LIC as security for an advance.

3. Under the provision of the Insurance Act, an LIC is assignable by an endorsement on the back of the policy or by a separate deed of assignment, but notice of such assignment must be given to the insurer by the assignee or assignor.

4. Under section 171 of the Indian Contract Act, lien is the right of the banker to ret ain (and sell if need arises) possession of goods and securities owned by the debtor until the debt due from the latter is paid.

5. Lien is an implied (understood) pledge.

6. Set-off means adjusting the debit balance in one account of the debtor with the c redit balance in another account of the same debtor. It is also applicable in case of partnership accounts.

7. Lien and set-off both cannot be exercised at a time.

8. Hypothecation is a charge created on movable property without delivery of possession of t he property.

9. Hypothecation differs from pledge because goods remain in the possession of the borrower in hypothecation.

10. Hypothecation transforms into pledge when the possession of the goods is transferred to the creditor.

11. Hypothecation differs f rom mortgage because mortgage relates to immovable property but hypothecation relates to movables. Also, in hypothecation, there is only obligation to repay money and no transfer of interest but in mortgage, there is transfer of interest in the property to the creditor.

12. Pledge means bailment of goods for purpose of providing security for payment of debt or performance of a promise (as per section 172 of the Contract Act 1872).

13. In pledge, there is actual or constructive (no physical) delivery of goods to the Pawnee (who takes the goods as security).

14. 6 types of mortgage are – a. Simple mortgage – mortgage is by deposit of title deeds, mortgagee has a right to proceed against the property mortgaged and also personally against the mortgagor b. Mortgage by conditional sale – possession of mortgaged properties is given c. Usufructuary mortgage - possession of mortgaged properties is given d. English mortgage - possession of mortgaged properties is not given e. Mortgage by deposit of title deeds – it is not required to be created by way of a deed and

doesn’t require registration

f. Anomalous mortgage

15. Mortgage is to be created by way of deed and requires to be registered under the Registration Act.

16. Limitation period for filing a suit for sale of mo rtgage property is 12 years from the date mortgage debt becomes due.

17. Limitation period for filing a suit for foreclosure of mortgage property is 30 years from the date mortgage debt becomes due.

18. Bankers generally prefer simple mortgage and mortgage by deposit of title deeds.

Liner Definition:

19. Pledge: When lender possess movable security.

20. Hypothecation: When lender has a charge against movable security, which is not in lender's possession.

21. Mortgage: when lender has a charge against immovable property, not in its possession.

22. Lien: not necessarily the security is in your possession, but we have frozen it for any debit/withdrawal transaction.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CONTRACT / Indian Contract Act, 1872: sections 11, 12, 28, 68, 126 and 128

LIMIT / Limitation Act, 1963: Schedule, Articles 19-22 and instrument-specific entries

TPA / India Code: Transfer of Property Act, 1882

28 facts / final recall

01-14 / foundations	15-28 / application
01. Assignment transfers the relevant right.	15. Title documents can support delivery.
02. Assignor transfers; assignee receives.	16. Pledged-goods sale has statutory conditions.
03. Actionable claims have statutory requirements.	17. Mortgage transfers an interest in immovable property.
04. Notice can protect an assignment.	18. Mortgage does not transfer full ownership in every case.
05. Lien permits retention under conditions.	19. Mortgage types confer different rights.
06. Lien is not an unrestricted sale power.	20. Check the mortgagor’s title and authority.
07. Set-off requires mutual obligations.	21. Registration depends on applicable law.
08. Personal and trust capacities differ.	22. Title-deed deposit requires its legal conditions.
09. A contingent liability is not automatically due.	23. Foreclosure differs from sale.
10. Hypothecation normally leaves possession with the borrower.	24. Limitation depends on remedy.
11. Pledge is bailment of goods as security.	25. Appropriation allocates a payment.
12. Pawnor gives the pledge.	26. The debtor may identify the debt.
13. Pawnee receives the pledge.	27. Creditor appropriation has conditions.
14. Possession may be constructive.	28. Company charges need the prescribed registration.

B06 / Documentation



At the branch

A borrower offers a renewal after limitation expired. Distinguish acknowledgement from a fresh enforceable promise.

1. Select documents → 2. Stamp and execute → 3. Register → 4. Track limitation

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module B Unit 6: Documentation

Documentation

Documentation is one of the vital areas in the credit Portfolio of a Bank. The purpose of taking documents are to fix the terms and conditions between the bankers and the borrowers, to identify the borrowers, to identify the securities, to count the period of limitation, to resort to legal remedies in case of need and so on.

Need for Documents

• The Documents are necessary to be procured for the following reasons:-

• To identify the borrower

• To identify the security

• To have a written evidence of the transactions of lending made by the bank

• To ensure due repayment of the legal step for recovery of the loan, in the event of non- payment by the borrower or guarantor.

Different types of Documents

The documents taken by a banker for a loan may broadly be of the following types:

• Demand Promissory Notes (DPN)

• Agreements

• Forms

• Bill of Exchange

Demand Promissory Notes (DPN):

Important distinction / reviewed 30 October 2026

Stamp duty and admissibility depend on the instrument and state law. Promissory-note defects need special scrutiny; a penalty does not cure every defect. [STAMP]

• Where no specification for a fixed period for the repayment of loan is given, the bankers take the DPN. In DPN, the borrower makes a promise to the banker to repay the loan amount on demand with agreed rate of interest. The form of DNP should be in conformity with section 4 of the Negotiable Instruments Act, 1881. The form of a DPN varies normally to suit the situation such as fixed rate of interest, floating rate of interest, single borrower, joint borrowers etc.

• As per section 35 of the Indian stamp act, if a DPN is unstamped or under stamped, the defect cannot be rectified even by paying a penalty.

Agreement:

• The form of an agreement should be in conformity with the Indian Contract Act. The terms and conditions are set out in the agreement.

• The amount of loan, rate of interest, rate of penal interest, percentage of margin, period of repayment, right of the bankers, in case of default of loan, details of security charged are included agreement. The agreement attract a stamp duty as per Indian Stamp Act.

Forms:

• Forms are not in the nature of promise or agreement. These are obtained to specify clearly the intention of the borrower.

Documentation Procedure

Selection of Correct Set of Documents:

• Documentation, as stated earlier, varies depending upon the nature of facility, nature of charge, and type of person.

• The document prescribed for a cash credit facility may not be used for a term loan facility.

Stamping:

• Section 12 of Indian Stamp Act provides for cancellation of adhesive stamp so that the same cannot be used again.

• Sec. 17 of the Act, all instruments chargeable with duty and executed by any person in India shall be stamped before or at the time of execution.

• Sec. 18 of the Act, every instrument, other than a bill of exchange and promissory note, which are chargeable with duty and executed out of India may be stamped within three months after it has been first received in India.

• Sec. 19 of the Act, the first holder in India, of any bill of exchange payable otherwise than on demand or promissory note drawn or made out of India shall affix thereto the proper stamp and cancel the same before he presents the same for acceptance or payment or endorses or transfers or otherwise negotiates the same in India.

Amount of Duty:

Important distinction / reviewed 30 October 2026

Section 18 acknowledgement requires the statutory timing and other conditions. Contract Act section 25(3) concerns a distinct written signed promise for a time-barred debt. [LIMIT] [CONTRACT]

In a case Promissory Note, Bill of Ex-change, share Transfer, Receipt, letter of credit, Policy of Insurance, are under stamped in terms of the amendment of sec 35 of Indian Stamp Act.

• Filling

• Execution

• Legal Formalities

• Keeping Documents Valid (in force)

Revival of time barred debts

Any contract that is executed by an executant without for any consideration is void in the eyes of law. As per section 25 (3) of the Contract Act, a fresh promise made for repaying the time barred debt is a valid consideration and the same is enforceable in a court of law. Therefore, it is possible to revive a time barred debt by obtaining a fresh express promissory note from the borrower(s) and Guarantor(s) promising to repay the time-barred dues.

The essential ingredient of section 25(3) of Indian Contract Act is that the creditor claims the amount of debt subject to the conditions.

• The promise must be written and signed by the promisor or his agent generally or specially authorized in that behalf.

• The promise may be to pay the whole or part of the debt and the debt must be which the creditor would have enforced for payment but for the law of limitation.

The difference between section 18 of limitation act and section 25(3) of contract act is that under the former act, an acknowledgement obtained from the party before the expiry of the period of limitation would extends the validity period of the document for further period of 3 years, whereas a promise made under section 25(3) to pay debt after the expiry of limitation period, should be an express and not implied promise. Normal practice by the bankers is to obtain a fresh DPN (or set of documents) along with a letter signed by the promisor or his/her authorized agent to pay the time barred dues.

Stamping of Documents

The Indian Stamp Act 1899, contains provisions regarding instruments chargeable with duty, mode of using stamps, time of stamping instruments etc.

• Section 17: All instruments chargeable with duty and executed by any person in India shall be stamped before or at the time of execution.



Apply the distinction

Explain the decision: Stamp duty is instrument specific. Check the supporting documents and applicable conditions.

• Section 18: Every instrument, other than a bill of exchange and promissory note, which are chargeable with duty and executed out of India may be stamped within three months after it has been first received in India.

• Section 19: First holder in India, of any bill of exchange payable otherwise than on demand on promissory note drawn or made out of India shall affix there to the proper stamp and cancel the same before he presents the same for acceptance or payment or endorses of transfers or otherwise negotiates the same in India.

• Section 35: The act provide that any person shall not admit an instrument, not duty stamped in evidence for any purpose.

Practice / answer beside the question

Q01. What should the loan documents establish first?

Answer / Identity, legal capacity, authority, facility terms, obligations and security must be established.

Q02. Is a DPN the same as a loan agreement?

Answer / No. A DPN is a statutory promise to pay; a loan agreement records the agreed facility terms and obligations.

Q03. What should be done with adhesive stamps where required?

Answer / Cancel the adhesive stamps in the prescribed manner, where the law requires it.

Q04. Why must document dates be consistent?

Answer / Dates affect stamping, execution, disbursement, registration and limitation analysis.

Q05. What conditions govern acknowledgement?

Answer / A section 18 acknowledgement must satisfy the statutory conditions, including being made before expiry of limitation.

Q06. When should documents be reviewed?

Answer / Before disbursement, and again when amendments, renewals or limitation events require review.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. There are 3 types of documents taken by a bank for a loan – DPN, agreement, and form.

2. DPN (Demand Promissory Note) is a document which a bank takes when there is no fixed period for the repayment of loan.

3. In DPN, the borrower makes a promise to the banker to repay the loan amount on demand with agreed rate of interest.

4. DPN must be stamped as per Indian Stamps Act.

5. An agreement includes the amount of loan, rate of interest, rate of penal interest, % of margin, period of repayment, rights of the bankers in case of default of loan, details of security/securities charged, etc.

6. The agreement must be stamped.

7. Forms are neither promised nor agreement. They are obtained to specify the intention of the borrower. For ex, when a loan is grant ed against the security of a FD standing in joint names, one of them gives an authorization to the other to raise a loan on the deposit. Such an authorization is taken in a form.

8. For correct documentation, the steps followed are – selection of correct s et of documents, stamping, filling, execution, and legal formalities.

9. The cancellation of adhesive stamp is done as per Section 12 of the Indian Stamp Act.

10. In case of advances to limited companies against its assets, the required forms are to be presented to the Registrar of Companies with the 30 days from the date of execution.

11. In case of creation of registered mortgages, the mortgage deed is presented for registration before the Registrar of Assurances within 4 months from the date of execution of the deed.

12. The documents submitted to the bank don’t have perpetual life, the provision of Limitation Act apply to them. The Limitation Act prescribes the period of limitation for different types of documents.

13. The limitation period for a DPN is 3 years from the date of execution. It means if the loan is not repaid within 3 years, the bank has to get fresh documents for extending the period.

14. If the borrower or his duly authorized agent makes any part payment towards the loan before the expiry of period of limitation, then the period of limitation is extended by one more period from the date of such part payment.

15. Securitisation is the process of acquisition of large NPA loan or portfolio of loans such as housing, by Securitisation or Reconstruction Co from a bank or financial institution on mutually agreed terms and conditions.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CONTRACT / Indian Contract Act, 1872: sections 11, 12, 28, 68, 126 and 128

LIMIT / Limitation Act, 1963: Schedule, Articles 19-22 and instrument-specific entries

STAMP / India Code: Indian Stamp Act, 1899

28 facts / final recall

01-14 / foundations	15-28 / application
01. Documents identify the borrower.	15. Dates must be consistent.
02. Capacity and authority must be established.	16. Avoid blank signed forms.
03. Describe the security clearly.	17. Register where legally required.
04. A DPN is a statutory promise to pay.	18. Preserve original documents securely.

01-14 / foundations	15-28 / application
05. A DPN differs from a loan agreement.	19. Record the correct limitation start date.
06. Documents must match the facility.	20. An internal diary cannot extend limitation.
07. Stamp duty is instrument specific.	21. Acknowledgement requires section 18 conditions.
08. Execution location affects stamping rules.	22. Valid timely acknowledgement can restart limitation.
09. Cancel adhesive stamps where required.	23. Part-payment has separate statutory conditions.
10. Stamp defects affect admissibility.	24. Time-barred debt needs separate analysis.
11. Promissory notes need special stamp scrutiny.	25. Section 25(3) concerns a written signed promise.
12. Signatures require proper authority.	26. A fresh promise differs from acknowledgement.
13. Company signatories need authorisation.	27. Review documents before disbursement.
14. Amounts must be consistent.	28. Document amendments and renewals fully.

B07 / Non-Performing Assets and Stressed Assets



At the branch

A CC account has inadequate credits. Apply the complete out-of-order test and classification rules.

1. Detect overdue → 2. Classify asset → 3. Recognise and provide → 4. Resolve

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Eligible crop loans use two crop seasons for short-duration crops and one for long-duration crops, not the older two-half-year wording. [IRACP]

JAIIB PPB Module B Unit 7: Non-Performing Assets/

Stressed Assets

In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts.

The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of objective criteria which would ensure a uniform and consistent application of the norms. Also, the provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.

Definition

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. Non-performing Asset (NPA) shall be an advance where

• Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,

• The account remains ‘out of order’ for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),

• The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

• Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted

for agricultural purposes, and

• Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Out of Order' status

Important distinction / reviewed 30 October 2026

The CC/OD out-of-order test includes continuous excess, absence of credits and credits insufficient to service interest over the prescribed 90-day window; the six-month phrase is outdated. [IRACP]

• An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

• In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for six months as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

‘Overdue’

• Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

Income Recognition

Income recognition - Policy

• The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

• However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

• Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.

• If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

Reversal of income

• If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also.

• In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

Reporting of NPAs

• Banks are required to furnish a Report on NPAs as on 31st March each year after completion of audit. The NPAs would relate to the banks’ global portfolio, including the advances at the foreign branches. The Report should be furnished as per the prescribed format given in the Annexure.

• While reporting NPA figures to RBI, the amount held in interest suspense account, should be shown as a deduction from gross NPAs as well as gross advances while arriving at the net NPAs. Banks which do not maintain Interest Suspense account for parking interest due on non-performing advance accounts, may furnish the amount of interest receivable on NPAs as a foot note to the Report.

• Whenever NPAs are reported to RBI, the amount of technical write off, if any, should be reduced from the outstanding gross advances and gross NPAs to eliminate any distortion in the quantum of NPAs being reported.

Computation Of Gross Advances, Gross NPA, NET Adavances, And NET NPA

Banks are required to compute Gross Advances, Net Advances, Gross NPAs and Net NPAs, as per the prescribed format.

a)Gross advances = Standard Assets plus Gross NPA

b)Gross NPA as percentage of Gross advances = Gross NPA/Gross advances (in%)

c)Net advances = Gross advances minus Deductions (see D below)

d)Deductions

• Provisions held in the case of NPA accounts (including prescribed additional provisions)

• DICGC/ECGC claims received and held pending adjustment

• Part payment received and kept in Suspense Account or any other similar account

• Balance in Sundries Account (Interest Capitalization - Restructured Accounts), in respect of NPA accounts

• Floating Provisions

e)Net NPA = Gross NPA minus Deductions (listed above)

f)Net NPAs as percentage of Net Advances = Net NPAs/Net advances (in%)

• Gross NPAs = Principal dues of NPAs plus Funded Interest Term Loan (FITL) where the corresponding contra credit is parked in Sundries Account (Interest Capitalization - Restructured Accounts), in respect of NPA Accounts.

• 'Gross Advances' mean all outstanding loans and advances including advances for which refinance has been received but excluding rediscounted bills, and advances written off at Head Office level (Technical write off).

• Floating Provisions would be deducted while calculating Net NPAs, to the extent, banks have exercised this option, over utilising it towards Tier II capital.

Asset Classification

Categories of NPAs

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

• Sub-standard Assets

• Doubtful Assets

• Loss Assets

Sub-standard Assets

• With effect from 31 March 2005, a sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

• In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets

• With effect from 31 March 2005, an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 12 months.

• A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

Loss Assets

• A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

• In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Guidelines for classification of assets

Accounts with temporary deficiencies

The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. In the matter of classification of accounts with such

deficiencies banks may follow the following guidelines:

Important distinction / reviewed 30 October 2026

Distinguish the prescribed continuous-irregularity test based on stale stock statements from the separate 180-day renewal/review rule. [IRACP]

• Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 180 days even though the unit may be working or the borrower's financial position is satisfactory.

• Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

Asset Classification to be borrower-wise and not facility-wise

• It is difficult to envisage a situation when only one facility to a borrower becomes a problem credit and not others. Therefore, all the facilities granted by a bank to a borrower will have to be treated as NPA and not the particular facility or part thereof which has become irregular.

• If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower’s principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.

Advances against Term Deposits, NSC’s, KVP/IVP, etc

• Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

Loans with moratorium for payment of interest

• In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over.

Therefore, such amounts of interest do not become overdue and hence NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.



Apply the distinction

Explain the decision: Crop loans use prescribed crop seasons. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

For SCBs, general substandard provision is 15%, with additional unsecured-exposure treatment. The older 10% figure and blanket standard-asset rate are misleading. [IRACP]

• In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of

principal or payment of interest on the respective due dates

Provisioning Norms

Loss assets

• The entire asset should be written off. If the assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

Doubtful assets

• 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.

• In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has been considered as doubtful -Provision requirement (%)

• Up to one year -25

• One to three years- 40

• More than three years- 100

Sub-standard assets

A general provision of 10 percent on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available.

Standard assets

• From the year ending 31.03.2000, the banks should make a general provision of a minimum of 0.25 percent on standard assets on global loan portfolio basis.

• The provisions on standard assets should not be reckoned for arriving at net NPAs.

• The provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions - Others' in Schedule 5 of the balance sheet.

Advances covered by ECGC/DICGC guarantee

In the case of advances guaranteed by DICGC/ECGC, provision should be made only for the balance in excess of the amount guaranteed by these Corporations. Further, while arriving at the provision required to be made for doubtful assets, realisable value of the

securities should first be deducted from the outstanding balance in respect of the amount guaranteed by these Corporations and then provision made as illustrated

hereunder:

Note: The maximum amount insured by DICGC is 5 lakh earlier Rs.100000

Framework For Resolution Of Stressed Assets

Early Identification and Reporting of Stress

Lenders shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as 'special mention accounts' (SMA) as per the following

categories:

Lenders are required to report credit information, including classification of an account as SMA to Central CRILC, on all borrowers having aggregate exposure of `5 crore and above with them.

− The CRILC-Main Report shall be submitted on a monthly basis.

− In addition, the lenders shall submit a weekly report of instances of default by all borrowers (with aggregate exposure of `5 crore and above).

Implementation of Resolution Plan

Applicability

The provisions of the directions on the subject issued by RBI shall apply to the following

entities:

• Scheduled Commercial Banks (excluding Regional Rural Banks);

• All India Term Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);

• Small Finance Banks; and,

• Systemically Important Non-Deposit taking NBFCs (NBFC-ND-SI) and Deposit taking NBFCs (NBFC-D).

Lenders must put in place Board-approved policies for resolution of stressed assets, including the timelines. Lenders are required to initiate the process of implementing a resolution plan (RP) even before a default. Salient steps in this regard are as follows:

Illustrated comparison / key details

SMA category	Term-loan overdue / days
SMA-0	1-30
SMA-1	31-60
SMA-2	61-90

Illustrated comparison / key details

Revolving facility SMA	Continuous excess over sanction or drawing power, whichever lower
SMA-1	31-60 days
SMA-2	61-90 days

Important distinction / reviewed 30 October 2026

The 2019 resolution framework has defined scope. ICA voting, independent evaluation and additional provisions must be applied under the relevant direction.

– Once a borrower is reported to be in default by any of the lenders, to undertake a prima facie review of the borrower account within 30 days from such default ("Review Period").

– The lender may decide on the resolution strategy, or choose to initiate legal proceedings for insolvency or recovery.

– Where RP is to be implemented, all lenders shall enter into an inter-creditor agreement (ICA), during the Review Period.

– The ICA shall provide that any decision agreed by lenders representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund based) and 60 per cent of lenders by number shall be binding upon all the lenders.

– In particular, the RPs shall provide for payment not less than the liquidation value due to the dissenting lenders.

– RP shall be implemented within 180 days from the end of Review Period.

– The Review Period shall commence not later than:

• The reference date, if in default as on the reference date; or

• The date of first default after the reference date.

The reference dates for the above purpose shall be as under:

(* Scheduled Commercial Banks (excluding Regional Rural Banks), All India Term Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI) and Small Finance Banks)

– The RP may involve any action/ plan/ reorganization including, but not limited to –

• Regularisation of the account by payment of all overdues by the borrower entity,

• Sale of the exposures to other entities/ investors,

• Change in ownership and restructuring.

Implementation Conditions for RP

RPs involving restructuring/ change in ownership in respect of accounts where the aggregate exposure of lenders is `100 crore and above, shall require independent credit evaluation (ICE) of the residual debt by authorised credit rating agencies (CRAs).

• A RP in respect of borrowers to whom the lenders continue to have credit exposure, shall be deemed to be 'implemented' only if the prescribed conditions are met.

Illustrated comparison / historical figures; read with the dated distinction

Aggregate lender exposure	Reference date / historical rollout
Rs.2000 crore and above	7 June 2019
Rs.1500 crore to below Rs.2000 crore	1 January 2020
Below Rs.1500 crore	To be announced in due course

Important distinction / reviewed 30 October 2026

Quick Revision distinctions: the old 70% provisioning-coverage prescription is not a universal current account-level provision. Unsecured infrastructure exposures can have qualifying differentiated treatment; do not apply the stated 25% without checking the rule. Upgradation and restructuring require the applicable arrears-clearance, performance and other regulatory conditions. [IRACP]

• A RP which involves lenders exiting the exposure by assigning the exposures to third party or a RP involving recovery action shall be deemed to be implemented only if the exposure to the borrower is fully extinguished.

Delayed Implementation of Resolution Plan

Where a viable RP in respect of a borrower is not implemented within the timelines given below, all lenders shall make additional provisions as under:

Other Aspects

• Prudential Norms: The prudential norms applicable to any restructuring/change in ownership, whether under the IBC framework or outside the IBC prescribed by RBI to be followed.

• Supervisory Review: Any action by lenders with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory actions.

• Disclosures: Lenders shall make appropriate disclosures in their financial statements, under ‘Notes on Accounts’, relating to RPs implemented.

• Exemptions: Provisions related to RP are not applicable to revival and rehabilitation of MSMEs that are covered by separate guidelines. These provisions are not applicable for borrower entities in respect of which specific instructions were issued by RBI to the banks for initiation of insolvency proceedings under the IBC.

Illustrated comparison / key details

Implementation delay	Additional provision on total funded/non-funded outstanding
180 days after review-period end	20%
365 days from commencement of review period	15% further; total 35%

Worked illustration / stated assumptions

Step	Working / interpretation
Assumptions	Doubtful asset; outstanding Rs.100000, realisable security Rs.60000. Assume the applicable secured-portion provision is 25%.
Unsecured portion	100000 - 60000 = Rs.40000; assumed 100% provision = Rs.40000.
Secured portion	60000 x 25% = Rs.15000.
Total provision	40000 + 15000 = Rs.55000. This is an arithmetic illustration; confirm classification, valuation and the applicable rate.

Practice / answer beside the question

Q01. Which rules govern NPA assessment?

Answer / Apply the relevant RBI income-recognition, asset-classification and provisioning rules for the lender and exposure.

Q02. Which test applies to CC and OD accounts?

Answer / The complete out-of-order test applies, including the prescribed continuous-excess and credit/interest-servicing conditions.

Q03. Do short and long crops use the same test?

Answer / No. Eligible short-duration crop loans use two crop seasons; eligible long-duration crop loans use one.

Q04. Distinguish gross from net NPA.

Answer / Gross NPA is before the prescribed deductions; net NPA uses the deductions and computation required by the applicable rules.

Q05. What standard should security valuation meet?

Answer / Use a realistic realisable value established through the prescribed valuation process.

Q06. What evidence does resolution need?

Answer / Document that the resolution meets the applicable implementation conditions; an agreement or proposal alone is insufficient.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

The prudent guidelines were first issu ed by RBI in the year 1991 implemented wef 01.04.1992 on recommendations of Narasimham committee covering, income recognition, asset classification and provisioning.

1. Prudential norms prescribed by RBI include norms relating to Accounting, Exposure, and Capital Adequacy.

2. Prudential accounting norms are income recognition, asset classification and provisioning.

CLASSIFICATION AS NPA

1. Term Loan - If Interest and/ or installment of principal remain overdue for a period of

more than 90 days

2. CC/Overdraft - if the account remains 'out of order or the limit is not renewed/reviewed within 180 days from the due date of renewal. Out of order means an account where (i) the balance is continuously more than the sanctioned limit or drawing power OR (ii) where as on the date of Balance Sheet, there is no credit in the account continuously for 90 days or credit is less than interest debited OR (iii) where stock statement not received for 3months or more.

3. Bills -If the bill remains overdue for a period of more than 90 days from due date of payment 4. Agricultural accounts – (i) if loan has been granted for short duration crop: interest and/or installment of principal remains overdue for two crop seasons beyond the due date.

(ii) if loan has been granted for long duration crop: interest and/or installment of principal remains overdue for one crop season beyond due date.

5. Decision about crop duration to be taken by SLBC.

6. Loan against FD, - Advances against term deposits, NSCs eligible for surrender, IVPs, NSC, KVP, LIP , KVPs and life policies not treated as NPAs provided sufficient margin is available.

Advances against gold ornaments, govt securities and all other securities are not covered by this exemption.

7. Loan guaranteed - Loan guaranteed by Central G ovt not treated as NPA for asset by Government classification and provisioning till the Government repudiates its guarantee when invoked. Treated as NPA for income recognition.

8. Consortium advances - Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks.

ASSET CLASSIFICATION

1. Asset Classification to be borrower-wise and not facility-wise 2. Assets classified into Standard, Sub standard, Doubtful, Loss. Except standard all others are NPAs.

3. When an account becomes NPA it is called Sub standard asset.

4. An account remains sub standard up to 12 months from the date of becoming NPA 5. Doubtful Assets : An asset is to be classified as doubtful, if it has remained NPA or sub standard for a period exceeding 12 months.

6. Loss Assets : A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

7. When an account is classified as Doubtful o r Loss without waiting for 12 months: If in an account which was secured in the beginning, the realizable value of tangible security falls below10%of the outstanding, it should be classified loss asset without waiting for 12months 8. If the realizable valu e of security is 10% or above but below 50% of the outstanding, it should be classified as doubtful irrespective of the period for which it has remained, NPA.

PROVISIONING NORMS

1. Provisioning is made on all types of assets i.e. Standard, Sub standard, Doubtful and loss assets.

2. Standard Assets :

a. Direct advance to agriculture or Micro and Small Enterprise (Not medium) : 0.25%of outstanding;

b. Commercial Real Estate: 1%of outstanding;

c. Housing Loans with teaser interest rates: 2%of outstanding; All others: 0.4%of outstanding d. The provisions on Standard Assets is shown as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.

3. Sub Standard Assets:

a. Secured sub standard: 15% of outstanding balance without considering securities available.

b. Unsecured sub standard: if the loan was unsecured from the beginning: 25%of outstanding balance.

c. If unsecured sub standard for infrastructure: 25%of outstanding balance.

d. Unsecured exposure means exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, ab-initio, of the outstanding exposure.

4. Doubtful Assets:

1. Unsecured portion:100% 2. Secured portion: 25% to 100% depending on the period for which account is doubtful Age of Doubtful Asset Provision as % of secured portion Doubtful up to 1 year D1 25% of RVS (Realisable value of security)

Doubtful for more than 1 year to 3 years D2 40% of RVS

Doubtful for more than 3 years; D3 100% of RVS

5. Loss Assets: 100%of the outstanding amount.

6. If loan is guaranteed by ECGC, CGFT or CGFLHS, provision not on guaranteed portion 7. Provision on advance against FD, NSC, LIP, KVP as per their asset classification.

8. Overall provisions: Provisioning coverage ratio, including floating provisions, should not be less than 70 per cent.

9. Provisioning coverage ratio is the ratio of provisioning to gross NPAs.

10. Provision on Standard account to be kept as part of Other Liabilities in Schedule -5 of bank's balance sheet.

11. Provision on Standard accounts to be done on Global balance and for NPA accounts on Gross

Balance

12. For Doubtful accounts, provision to be done separately for secured portion and unsecured portion of total balance in the account.

13. In case of standard and sub standard assets, provision is on outstanding balance without bifurcating the balance into secured or unsecured.

14. Floating provisions can be deducted from Gross NPAs or treated as part of Tier II capital but not both.

UPGRADATION OF LOAN ACCOUNTS CLASSIFIED AS NPAs

1. if arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account may be classified as 'standard' accounts immediately.

2. Restructured accounts: After one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satis factory performance during 12 months period from the date of starting payment after moratorium period.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

IRACP / RBI: prudential norms on income recognition, asset classification and provisioning, 2025

28 facts / final recall

01-14 / foundations	15-28 / application
01. NPA assessment follows applicable IRACP rules.	15. Gross NPA differs from net NPA.
02. Overdue means not paid when due.	16. Gross advances differ from net advances.
03. Term-loan NPA generally uses more than ninety days overdue.	17. Provision depends on category and security.
04. CC and OD require the out-of-order test.	18. Standard-asset rates are category specific.
05. Interest-servicing credits matter.	19. The old blanket ten-percent provision is misleading.
06. Security alone does not preserve standard classification.	20. Doubtful unsecured portions require applicable full provision.
07. Borrower-wise classification has defined exceptions.	21. Security valuation must be realistic.
08. Crop loans use prescribed crop seasons.	22. Temporary deficiency has prescribed treatment.
09. Short and long crops have different tests.	23. Stock-statement age affects drawings.
10. Substandard status follows NPA ageing.	24. Renewal delay needs monitoring.
11. Doubtful status follows the prescribed substandard period.	25. SMA identifies pre-NPA stress.
12. A loss asset is identified as uncollectible.	26. CRILC reporting differs from internal monitoring.
13. NPA income recognition follows regulatory rules.	27. Resolution needs implementation evidence.
14. Unrealised interest needs proper reversal.	28. Account correctly for recoveries and write-offs.

B08 / Important Laws Relating to Recovery of Dues



At the branch

Before a property sale, establish title, limitation, statutory eligibility and notice compliance.

1. Choose route → 2. Check eligibility → 3. Serve notice → 4. Enforce and account

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

For ordinary bank/FI debt-recovery applications, the pecuniary threshold was raised from Rs.10 lakh to Rs.20 lakh. SARFAESI applications and other proceedings have their own jurisdictional conditions. [RDBTH]

JAIIB PPB Module B Unit- 8: Important Laws Relating to

Recovery of Dues

Recovery of Debts & Bankruptcy Act, 1993

• Recovery through courts was a major bottleneck due to huge back log of cases with various courts. It was observed huge assets were blocked as unproductive assets, and the process of recovery required considerable manpower of the banks and financial institutions.

• Hence, Recovery of Debts due to Banks and Financial Institutions Act in 1993 (DRT Act) was enacted, and 'Debt Recovery Tribunals' were constituted for speedy recovery. The Act was amended in 2019, including its title as "Recovery of Debts and Bankruptcy Act".

Important distinction / reviewed 30 October 2026

Tribunal qualifications and tenure have subsequent reform and litigation history. The older tenure summary is not a complete statement of current appointment law. [RDB]

• The Act is applicable to the whole of India except the State of Jammu & Kashmir.

The Act is made applicable from 24 June 1993, through the DRTs.

• Cases where the amount of debt due to any bank or financial institution (defined under the Act) or their consortium is Rs. 20 Lakh or more are covered under the Act.

Debt Recovery Tribunal

• The Central Government is empowered to establish tribunals called "Debts Recovery Tribunal" to exercise the jurisdiction, powers and authority conferred on under DRT Act.

• The tribunal is made up of only one person called 'Presiding Officer'(PO). A person is qualified for appointment as a PO of DRT if he is, or has been, or is qualified to be appointed as a District Judge.

• The PO holds office for a term of five years from the date on which he assumes his office, or until he attains the age of 65 years, whichever is earlier.

• The tribunal is provided with one or more Recovery Officers. The staff will work under the superintendence of the PO.

• Disposal: The application received by the tribunal should be attempted to be disposed of finally within 180 days from receipt.

Debt Recovery Appellate Tribunal

• 'Appellate Tribunal' is established (under the Sec. 8 (1)) for the purpose of preferring an appeal against the order passed by the tribunal.

• A DRAT consists of only one person called as Chairperson. A person is qualified for appointment as a Chairperson, if he is qualified to be a Judge of a High Court; has been a member of the Indian legal service and has held a post in grade I of that service for at least three years; has held office as the Presiding Officer of a Tribunal for at least three years.

• The Chairperson holds office for a term of five years from the date on which he assumes his office, or until he attains the age of seventy years, whichever is earlier.

• The appeal should be filed within thirty days from the date on which copy of the order is received. As per Sec. 21, 50% of the amount shown as due in the order is required to be deposited by the appellant.

• Appellate Tribunal shall attempt that the appeal is disposed of finally within six months from date of receipt.

SARFAESI ACT, 2002

Important distinction / reviewed 30 October 2026

SARFAESI section 31(j) concerns amount due below 20% of principal and interest thereon, not a universal asset-value ratio. ARC NOF is Rs.300 crore, with the older-ARC transition ending 31 March 2026. [SARFAESI] [ARC]

• The SARFAESI Act empowers banks and financial institutions to enforce securities in the event of default by the borrower without the intervention of either, the Civil Court or the Debt Recovery Tribunal.

• The Act extends to whole of India including the State of Jammu & Kashmir.

• The Act is applicable to cases where security interest for securing repayment of any financial asset is more than Rs. 1 Lakh and the amount due is 20% or more of the principal amount and interest thereon. The Act is not applicable to any security interest created on agricultural land.

• Debts owed to a secured creditor will get priority over all other claims including other debt and all revenue, taxes, cesses and dues payable to Centre and State Governments and local authorities.

Asset Reconstruction Company

• An ARC has to comply with following two conditions: (i) It obtains certification of registration from RBI; and (ii) It has Net owned funds (NOF) not less than Rs. 100 crore on an ongoing basis.

• An ARC must have a board approved 'Financial Asset Acquisition Policy'. The ARC can acquire the financial asset of any bank or financial institution by any of the following ways: (i) By issuing a debenture or bond or any other security in the nature of debenture, (ii) By entering into an agreement with such bank or financial institution.

• A securitisation transaction involves two stages. First, acquisition of financial assets and undivided interest therein. Second, issue of security receipts in favour of the investors for raising money from them.

• The rate of interest offered in the debenture cannot be less than one and half per cent above the Bank Rate as on the date of issue of the debentures and the period of redemption of debenture cannot exceed six years.

Enforcement of Security Interest

• Sec. 13(2) of SARFAESI Act provides that a secured creditor may give a notice to the borrower, who has defaulted in making the repayment and whose account is classified as NPA to discharge his liabilities in full within 60 days from the date of the notice.

• In case of multiple secured creditors, no secured creditor can exercise any right unless this is agreed upon by the secured creditors representing not less than 60% in value of the amount outstanding and such action shall be binding on all the secured creditors.

• The secured creditor is required to serve, a possession notice on the borrower and by affixing the same on the outer door or at a conspicuous place at the property. It is also to be published in two leading newspapers, including in the local vernacular language.

Important distinction / reviewed 30 October 2026

Section 17 SARFAESI applications normally use 45 days. Under section 18, DRAT may reduce the appeal deposit from 50% to not below 25%. SARFAESI section 36 addresses limitation; it is not section 36 of the Limitation Act. [SARFAESI]

• Thirty days before sale of the immovable property, the borrower should be given a notice about the sale.

• On acceptance of the offer by the secured creditor, the purchaser has to deposit 25% of the offer price on the same day or the next day. The balance amount shall be paid on or before the fifteenth day of confirmation of sale or such extended period as agreed upon but maximum three months. On compliance with the payment terms, a sale certificate is issued indicating that the property is free from any encumbrance or otherwise.

Rights Of Borrower

• Right to Prefer Application to DRT: Borrower, aggrieved by any of the measures taken by the secured creditor for taking possession of the security may make an application along with the prescribed fees, to the DRT within forty- five days from the date on which such measures are taken. The DRT is required to dispose of the application within sixty days.

• Appeal to Appellate Authority: Any person aggrieved by any order made by the DRT can prefer an appeal to the Appellate Tribunal within thirty days from the date of receipt of the order. No appeal can lie unless the borrower deposits 50% (can be reduced to 25% by DRT) of the debt claim.

• Right of the Borrower for Compensation and Costs: If the DRT or the appellate tribunal: holds the possession of secured asset is not in accordance with the provisions of the Act, and directs the secured creditor to return the secured asset to the borrower. then such borrower is entitled to payment of such compensation and costs as determined by the tribunal or the appellate tribunal.

Central Registry

• The Central Government has set up a 'Central Registry' for registration of following transactions: (i) Securitisation of financial assets, (ii) Reconstruction of financial assets, and (iii) Creation of security interest under SARFAESI Act.

• The Central Registry of Securitization and Asset Reconstruction and Security Interest of India (CERSAI) was set up under SARFAESI to maintain and operate the Central Registry for and on behalf of the Central Government for various types of transactions/charges that are required to be filed by banks and financial institutions.

• The actions that secured creditor can take against the security under the SARFAESI Act are required to be taken within the limitation period as per Section 36 of the Limitation Act. That means, the action has to be taken within three years from the date on which the cause of action arose.

Insolvency & Bankruptcy Code, 2016

IBC was enacted that came into force in December 2016. IBC essentially has three sets

of provisions covering –



Apply the distinction

Explain the decision: Sale notices require compliance. Check the supporting documents and applicable conditions.

• Matters relating to the insolvency and liquidation of corporate debtors where the minimum amount of the default is one crore rupees

• Matters relating to fresh start, insolvency and bankruptcy of individuals and partnership firms where the amount of the default is not less than one

thousand rupees

• Matters relating to establishment of the Insolvency and Bankruptcy Board of India.

IBC is not for recovery proceedings through enforcement of security or court attachment, etc. It is essentially for having coordinated independent machinery that will enable arriving at a mutually beneficial course of action to resolve the financial crisis of the debtor through various possible alternatives. These could be restructuring, change in management or promoters/ owners, disposal of assets, liquidating the unit, etc.

The institutional set-up for IBC comprises the following:

- The Insolvency and Bankruptcy Board of India (IBBI)
- Resolution Professionals Agencies (RPA)
- Resolution Professionals/ Resolution Professional Entities (RPs)
- National Company Law Tribunal for Corporates and Limited Liability Entities
- Debt Recovery Tribunal for Individuals and Partnership Firms
- National Company Law Appellate Tribunal/ Debt recovery Appellate Tribunal

Pillars of IBC, 2016

Legal Services Authorities Act, 1987

- This Act was enacted to constitute legal services authorities to provide free and competent legal services to the weaker sections of the society to ensure that opportunities for securing justice are not denied to any citizen by reason of

Illustrated comparison / key details

IBC pillars
Insolvency & Bankruptcy Board of India
Insolvency Professionals & Insolvency Agencies
Information Utilities
Adjudicating Authorities

economic or other disabilities, and to organize Lok Adalats to secure that the operation of the legal system promotes justice on a basis of equal opportunity.

- For banks and financial institutions for loans up to Rs. 20 lakh this channel can be availed. Under the law, Lok Adalats have been set up so that the public does not have to spend time and money in merely accessing forum for settling disputes among them.
- The approach followed by Lok Adalats is of resolving the dispute by mutual discussions between the parties, if required through mediation by the professionals. They are guided by the principles of justice, equity, fair play and other legal principles.

The Law of Limitation

- The law of limitation is vital in respect of recovery of loans through legal process.

It is important to file application or complaint for recovery within the limitation period; else the application will not be admitted by the adjudicating authority.

- It is also important to keep the loan documents current through either taking an acknowledgement or revival letter or periodical repayments from the borrower.
- In computing the period of limitation for any suit, the time during which the defendant has been absent from India and from the territories outside India under the administration of the Central Government shall be excluded.
- The period of limitation can be exceeded by acknowledgement of debt by borrower in writing or by payment made on account of a debt or of interest

made before period of limitation expires

Certain Important Provisions in Schedule to the Limitation Act

Some important aspects to be noted for suits of different types are given below:

Important distinction / reviewed 30 October 2026

The table reverses government and residuary limitation: Article 112 generally provides thirty years for government suits; Article 113 generally provides three for residuary suits. Other entries require their actual starting events and statutory conditions. [LIMIT]

Illustrated comparison / key details

Description of suit	Limitation	Starting point
Money payable towards money lent	Three years	When loan is made
Money lent payable on demand	Three years	When loan is made
Bill payable at sight or after sight, no fixed time	Three years	When bill is presented
Bill or promissory note payable at fixed time after sight/demand	Three years	When fixed time expires
Promissory note or bond payable by instalments	Three years	First payment term expires for that part; respective dates for other parts
Arrears of rent	Three years	When arrears become due
Specific performance	Three years	Date fixed for performance, or notice of refusal if no date fixed
Enforce mortgage money charged on immovable property	Twelve years	When money sued for becomes due
Mortgage foreclosure	Thirty years	When money secured becomes due
Mortgagee possession of immovable property	Twelve years	When mortgagee becomes entitled to possession

Illustrated comparison / key details

Description of suit / legacy wording	Printed limitation	Starting point
Suit by/on behalf of Central or State Government (except original Supreme Court jurisdiction)	Three years	Like a suit by a private person
Suit with no period elsewhere in Schedule	Thirty years	When right to sue accrues
Execution of decree	Twelve years	From decree date
Recovery of loss caused by fraud	Three years	From fraud date
Appeal to High Court against lower court judgment	Ninety days	From decree date
Appeal to other Court against lower court judgment	Thirty days	From decree date

Practice / answer beside the question

Q01. What determines the recovery route?

Answer / Debt, lender, borrower, security, amount, limitation and the governing statute determine the appropriate route.

Q02. Does SARFAESI enforcement have statutory conditions?

Answer / Yes. Confirm statutory eligibility, notice, representation, enforcement and sale requirements.

Q03. Why is sale valuation needed?

Answer / A proper valuation supports the reserve price and the prescribed sale process.

Q04. What kind of exclusion needs examination for agricultural land?

Answer / Examine the SARFAESI agricultural-land exclusion and the actual legal/factual character of the property.

Q05. What is the nature of an IBC corporate default threshold?

Answer / Corporate insolvency requires the notified minimum default and other statutory conditions; default alone is not the complete admission test.

Q06. Why distinguish government and residuary suits?

Answer / They have different Schedule entries: Article 112 generally gives government suits thirty years; Article 113 generally gives residuary suits three years.

Quick Revision

Use the final recall table below.

Reference Notes / reviewed 30 October 2026

ARC / RBI: ARC Directions, NOF and transition

LIMIT / Limitation Act, 1963: Schedule, Articles 19-22 and instrument-specific entries

RDB / India Code: Recovery of Debts and Bankruptcy Act, 1993

RDBTH / Government parliamentary reply: DRT pecuniary jurisdiction increased to Rs.20 lakh

SARFAESI / India Code: SARFAESI Act, 2002

28 facts / final recall

01-14 / foundations	15-28 / application
01. Recovery route depends on debt and security.	15. Agricultural-land exclusions need examination.
02. DRT and civil-court jurisdiction differ.	16. SARFAESI does not remove limitation.
03. A threshold alone does not prove eligibility.	17. Mortgage suits can have different periods.
04. SARFAESI requires statutory conditions.	18. ARC activity needs registration.
05. NPA alone does not authorise every sale.	19. ARC capital is not the old hundred-crore figure.
06. Section 13 demand normally allows sixty days.	20. IBC resolution differs from debt recovery.
07. Consider borrower representations appropriately.	21. Corporate insolvency has a notified default threshold.
08. Enforcement measures follow defined routes.	22. IBC uses defined institutions.
09. Sale notices require compliance.	23. Moratorium has specified legal consequences.
10. Valuation must support reserve price.	24. Lok Adalat generally relies on settlement.
11. Section 17 remedy differs from appeal.	25. An award has prescribed legal effect.
12. Section 17 normally allows forty-five days.	26. DRT differs from DRAT.
13. Appeal deposits depend on the provision.	27. Government and residuary suits have different entries.
14. DRAT has the prescribed reduction power.	28. Choose remedies with case-specific legal review.

B09 / Contracts of Indemnity



At the branch

Read an indemnity's covered event, parties and conditions before assuming every loss is recoverable.

1. Identify undertaking → 2. Identify covered loss → 3. Test liability → 4. Claim relief

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module B Unit 9: Contracts of Indemnity

A Contract of Indemnity is a contract by which one party promises to save the other from loss likely to be caused to him. This loss can be, either by the conduct of the promisor himself or by the conduct of any other person.

Contract Of Indemnity Defined

Important distinction / reviewed 30 October 2026

All insurance contracts are not indemnity contracts. Life insurance and specified-benefit policies differ from ordinary property-loss reimbursement.

Sec.124 of the Indian Contract Act, 1872 defines contract of indemnity as follows: "A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person, is called a 'Contract of Indemnity'." The promisor is also called the indemnifier. The essence of any contract of indemnity is that the assured must prove a loss. The Section also gives

an illustration of a Contract of Indemnity as follows:

A contract wherein A contracts to Indemnify B against the consequences of any proceedings which C may take against B in respect of a certain sum of ` 200, is called a contract of Indemnity.

In this illustration:

- The person giving the promise i.e. A is called the indemnifier, and
- The person to whom the promise is made i.e. B is called the indemnified or the indemnity holder.

All insurance contracts come within the ambit of a contract of indemnity, but are not dealt with under Sec. 124 of the Contract Act. Sec. 124 deals only with one particular type of indemnity, viz., where a person gives a promise to save another person from loss caused by either the conduct of the person giving the promise or by the conduct of any other person. There are cases where the Courts applying the principles of general law have held a person liable to indemnify, though the person never undertook such a liability. The decision of the Privy Council in Secretary of State vs Bank of India Ltd. (AIR 1938 PC 191) best illustrates this point.

In this case, Ms. G was the holder of a Government promissory note which she had handed over to Mr. A, her broker. Mr. A forged Ms. G'ssignature and endorsed it in his favour. Mr. A then endorsed it for value to the bank. The bank in good faith applied to the Government Public Debt Office to have the note exchanged in their name, which was done. Ms. G on being aware that she has been defrauded sued the Government and recovered the appropriate damages. The Government in turn sued the bank to indemnify the Government against the loss suffered by them. The Court held the bank to be liable because under common law covering right of indemnity, the bank is responsible for an injury to a third party's rights.

All insurance contracts are examples of contracts of indemnity because all insurance contracts are contracts, which indemnify a person from certain losses, which he may suffer, e.g. under a fire insurance policy taken by a shopkeeper for his godown, the insurance company undertakes to pay a certain amount to the policy holder (i.e. the shopkeeper) in the event of fire in the godown, subject to the conditions of the policy and payment of premium by the shopkeeper (policy holder).

Distinctive Features Of Indemnity Contract And Guarantee

- Number of Parties to the Contract
- Contingent Risk
- Nature of Liability
- Number of Contracts



Apply the distinction

Explain the decision: Guarantee involves debtor, creditor and surety. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Section 125 damages, costs and compromise rights have conditions including prudence, authority and compliance with instructions. [CONTRACT]

- Purpose of Contract
- May be express or implied
- Covers only the actual loss

Rights Of Indemnity Holder

The indemnity holder (i.e. the promisee or the person who is indemnified) has the following rights when sued (i.e. when a legal action is taken against the person who has indemnified).

The promisee is entitled to recover from the promisor, in respect of the matter to

which the promise to indemnify applies:

- All damages which he may be compelled to pay in any suit, in respect of any matter to which the promise to indemnify applies.
- All costs which he may be compelled to pay in any suit.
- All sums paid in compromise, not contrary to indemnity.
- Right to sue for specific performance- the indemnity holder is entitled to sue for specific performance if he has incurred absolute liability and the contract covers such liability.

Implied Indemnity

A Contract of indemnity may be express or implied depending upon the circumstances of the case, through section 124 of the India Contract Act does not seem to cover the case of implied indemnity.

Enforceability of Contract of Indemnity

The Liability of the Indemnifier commences as soon as the loss of the indemnified becomes absolute, certain or imminent. It is not necessary that the promise should pay for the loss.

Practice / answer beside the question

Q01. What is the purpose of indemnity?

Answer / An indemnity undertakes to compensate another person for specified loss, subject to its terms and law.

Q02. Who undertakes to compensate the covered loss?

Answer / The indemnifier gives the undertaking; the indemnity-holder receives its protection.

Q03. Does a promise to compensate cover every possible loss?

Answer / No. Covered events, exclusions and conditions determine the scope.

Q04. Why read the wording before making a claim?

Answer / The wording establishes the parties, covered event and conditions for relief.

Q05. Can every insurance contract be treated as indemnity?

Answer / No. Life insurance and specified-benefit policies differ from ordinary loss reimbursement.

Q06. What should be checked before settlement?

Answer / Check that the settlement is within cover and satisfies the relevant authority, prudence and other legal conditions.

Quick Revision

Revise the chapter distinctions, apply them to the branch cases, then test yourself using the final recall points below.

Reference Notes / reviewed 30 October 2026

CONTRACT / Indian Contract Act, 1872: sections 11, 12, 28, 68, 126 and 128

28 facts / final recall

01-14 / foundations	15-28 / application
01. Indemnity protects against covered loss.	15. Covered damages may be recoverable.
02. Indemnifier gives the promise.	16. Recoverable costs have conditions.
03. Indemnity holder receives protection.	17. Compromise payments have conditions.
04. Section 124 defines the stated contract.	18. Prudence can affect recovery.
05. Wording determines covered risk.	19. Authority can affect recovery.
06. An excluded loss is not automatically recoverable.	20. Prior payment is not always essential for relief.
07. Indemnity differs from guarantee.	21. Absolute liability can support relief.
08. Guarantee concerns another person’s default.	22. Indemnity is not a profit promise.
09. Indemnity normally has two principal parties.	23. Fire insurance commonly follows indemnity principles.
10. Guarantee involves debtor, creditor and surety.	24. Life insurance is not generally an indemnity contract.
11. Test liability under the undertaking.	25. Sum assured differs from actual-loss reimbursement.
12. An indemnity can be express.	26. Historic cases illustrate common-law development.
13. Implied indemnity depends on legal circumstances.	27. Forgery can affect third-party rights.
14. Section 125 addresses rights when sued.	28. Enforcement needs evidence and governing law.

B10 / Contracts of Guarantee and Bank Guarantee



At the branch

A lender varies repayment terms without the surety’s consent. Examine the effect on later transactions.

1. Identify parties → 2. Read obligation → 3. Check demand → 4. Assess discharge

JAIIB PPB Module B Unit 10: Contracts Of Guarantee and

Bank Guarantee

'Contract of Guarantee'

A 'Contract of Guarantee' is a contract to perform the promise, or discharge the liability, of a third person in case of latter's default. A guarantee may be either oral or written. The question whether a particular contract is a contract of indemnity or guarantee has to be decided by examining the language of the documents entered into between the parties and the nature of transaction.

As per section 126 of the Indian Contract Act, 1872, a Guarantee’ is a contract to perform the promise, or discharge the liability, of a third person in case of latter’s

Important distinction / reviewed 30 October 2026

Co-extensive liability has the contract exception. Death/revocation rules concern future transactions subject to contract; accrued liability is not automatically erased. [CONTRACT]

default. A guarantee may be either oral or written. The question whether a particular contract is a contract of indemnity or guarantee has to be decided by examining the language of the documents entered into between the parties and the nature of transaction.

Parties To The Contract

• The person who gives the guarantee is called the 'surety'.

• The person in respect of whose default the guarantee is given is called the 'principal debtor'.

• The person to whome the guarantee is given is called 'creditor/beneficiary'.

• Section 128 of the Indian Contract Act, 1872, provides that the liability of the guarantor is co-extensive with the principal debtor.

• RBI also vide its circular dated September 9, 2014, on wilful defaulter, clarified that when a payment default is made by the principal debtor, the bank is entitled to proceed against the guarantor/surety even without exhausting the remedies against the principal debtor.

Consideration

• Anything done, or any promise made, for the benefit of the principle debtor, is a sufficient consideration to the surety for giving the guarantee.

The Liability of the surety

• The liability of the surety is co-extensive with that of the principal debtor unless it is otherwise provided by the contract (Sec. 128). A surety is regarded as a favoured debtor.

Continuing Guarantee

• A guarantee which extends to a series of transactions, is called, a ‘Continuing Guarantee’. This type of guarantee is not limited to only transaction but to many transactions.

Death of surety

• Normally, when the surety dies, the guarantee ends from that date. However, this is not true in all cases. It depends upon the terms of the contract and the intention of the parties as regards future transactions.

• Generally all guarantee obtained by banks are continuing guarantee and in the case of death of a surety the guarantee would stand revoked for future transactions.

Variance in terms of the Contract

• Any Variance (change/ modification) mode without the surety's consent, in the 'term of contract' guaranteed by him, between the principal debtor and the

creditor discharges the surety as to transactions subsequent to the variance.

(Sec. 133).

Discharge of principal debtor

• The surety is discharged by any contract between the creditor and the principal debtor, by which the principal debtor is released, or by any act or omission of the creditor, the legal consequence of which is the discharge of the principal debtor (Sec. 134).

Forbearance to Sue

• Further, mere forbearance on the part of creditor to sue the principal debtor or to enforce any other remedy, against him, does not discharge the surety unless the parties has agreed for such discharge.

Security

• A surety is entitled to the benefit of every security which the creditor has against the principal debtor at the time when the contract of surety- ship made, whether the surety knows of the existence of such security or not.

• It the creditor loses such security, then the surety is discharged to the extend of the value of the security.

Implied Promise By The Principal Debtor To Indemnify The Surety

• In every Contract of Guarantee there is an implied promise by the principal debtor to indemnify the surety.

• The surety is entitled to recover from the principal debtor whatever sum he has rightfully paid under the guarantee (but no sums which he has paid wrongfully) (Sec. 145).

Misrepresentation Made By The Creditor

• Any guarantee obtained by means of misrepresentation made by the creditor is invalid.

• Any guarantee which the creditor has obtained by means of keeping silent as to the material circumstance is also invalid.

Bank Guarantees

• As per Sec. 126 of Indian Contract Act, 1872, a "Contract of Guarantee" is a contract to perform the promise or discharge the liability of a third person in case of his default. Like other guarantees, bank guarantee is also a trilateral contract between the principal debtor, creditor, and the surety.

• The term 'bank guarantee' briefly stated means: 'a guarantee given by a bank to a third person, to pay him a certain sum on behalf of the bank's customer, on the customer failing to fulfil any contractual or legal obligations towards the third person'.



Apply the distinction

Explain the decision: Continuing guarantee covers a transaction series. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Separate validity, invocation, extinguishment/discharge clauses and limitation. Section 28 Exception 3 addresses specified written bank/FI guarantee clauses. [CONTRACT]

The parties to the contract of bank guarantee are:

• Applicant borrower: The principal debtor – person at whose request the guarantee is executed.

• Beneficiary: Person to whom the guarantee is given and who can enforce it in case of default.

• Guarantor bank: The lending bank who undertakes to discharge the obligations of the applicant in case of his default.

Various Types Of Bank Guarantees

Though under law, bank guarantees have not been classified by the nature of the underlying contract entered into by the customer; in practice such classification has been made. Though there are various types of guarantees, the important ones, which a banker would be regularly required to issue in the course of his business are as

follows:

• Financial Guarantee

• Performance Guarantee

• Deferred Payment Guarantee Financial Guarantee: These are guarantees issued by banks on behalf of the customers, in lieu of the customer's requirement to deposit a cash security or earnest money.

Financial guarantees are direct credit substitutes wherein a bank irrevocably undertakes to guarantee the repayment of a contractual financial obligation. Financial guarantees essentially carry the same credit risk as a direct extension of credit.

Performance Guarantee: Performance guarantees are essentially transaction related contingencies that involve an irrevocable undertaking to pay a third party in the event the counterparty fails to fulfil or perform a contractual non-financial obligation.

Deferred payment guarantee: This refers to a bank guarantee or a payment guarantee that is offered to the exporter for a deferred period or for a certain time period.

Issuance Of Bank Guarantee – Precautions To Be Taken

• Amount Guaranteed

• Period of Guarantee

• Claim period in a guarantee

• Amendment to Sec.28 of Indian Contract Act and its effect on Bank Guarantee

• Counter Guarantee and Other Security

Practice / answer beside the question

Q01. What is the role of a bank guarantee?

Answer / The bank promises specified performance or payment to the beneficiary under the guarantee's terms.

Q02. How does a financial guarantee differ from a performance guarantee?

Answer / Financial guarantees cover payment obligations; performance guarantees cover stipulated performance.

Q03. Why is the guarantee wording important?

Answer / Wording determines the trigger, documentary conditions, amount, expiry and claim terms.

Q04. What must be checked when a claim arrives?

Answer / Verify authenticity, authority, timing and conformity with the undertaking.

Q05. Does collateral remove the bank's obligation under an invoked guarantee?

Answer / No. Security supports recourse; the guarantee undertaking governs the bank's obligation.

Q06. Why should expiry and claim conditions be tracked?

Answer / Expiry and claim conditions affect whether a demand is valid and timely.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

3. The items in the books of a bank which are not mentioned in the balance sheet, is known as off - balance sheet i tems. These are not assets or liabilities but may get converted into assets/liabilities upon happening of certain events. That's why off balance sheet items are aka contingent liabilities.

4. Bank Guarantee is a contract of Guarantee means a contract to pe rform the promise or discharge the liability of a third person in case of his default.

5. There are 3 persons in case of a Bank Guarantee - the guarantor/surety, Principal debtor, and the creditor/beneficiary.

6. Bank Guarantee is a contingent liability.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CONTRACT / Indian Contract Act, 1872: sections 11, 12, 28, 68, 126 and 128

28 facts / final recall

01-14 / foundations	15-28 / application
01. Guarantee concerns a third person's default.	15. Debtor release has consequences for surety.
02. Surety gives the guarantee.	16. Forbearance differs from release.
03. Principal debtor owes the underlying obligation.	17. Surety has rights in relevant securities.
04. Creditor receives the guarantee.	18. Lost security can reduce liability to its value.
05. Section 126 defines guarantee.	19. Subrogation has statutory conditions.
06. Section 126 permits oral or written guarantee.	20. Debtor indemnifies rightful surety payment.
07. Bank guarantees are documented undertakings.	21. Wrongful payment is not automatically recoverable.
08. Consideration may benefit the debtor.	22. Misrepresentation can invalidate guarantee.
09. Liability is generally co-extensive subject to contract.	23. Material concealment can invalidate guarantee.
10. Exhausting the debtor first is not invariably necessary.	24. Financial guarantees support financial obligations.
11. Continuing guarantee covers a transaction series.	25. Performance guarantees support non-financial performance.
12. Revocation generally concerns future transactions.	26. DPG supports deferred payments.
13. Death-related future liability depends on law and contract.	27. Invocation must comply with wording.
14. Unauthorised variation can affect later liability.	28. Expiry and claim clauses require separate review.

B11 / Letters of Credit



At the branch

Goods are disputed but LC documents arrive. Apply the independent documentary undertaking.

1. Issue → 2. Advise and present → 3. Examine documents → 4. Honour or refuse

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Nomination alone does not automatically oblige a bank to honour or negotiate. Advising and confirmation differ; confirmation requires appropriate authority. [UCP]

JAIIB PPB Module B Unit 11: Letters Of Credit

Letters Of Credit

An Letters Of Credit can be compared to guarantee given by a bank on behalf of its customer to the effect that the bank would make payment to the beneficiary when the beneficiary presents the documents as it required in the LC. They are not negotiable instrument.

Parties to a Letter of Credit

• Applicant-Buyer-Importer-Opener: He is the person who applies to bank for Letter of Credit. Ex: Mr. Srivastav & Co.

• Issuing Bank: The bank which opens the Letter Of Credit on the request of

applicant/Buyer. Ex: Bank of Baroda

• Beneficiary-Exporter-Seller: The person who is entitled to receive the benefit under Letter of Credit. Ex: M.s jha & Co.

• Advising Bank / Notifying Bank: The bank in the Beneficiary/Exporters Country through which the letter of credit is advised to the beneficiary. Ex: The

UK Bank

• Negotiating Bank: The bank in the Beneficiary/Exporters Country which negotiate the bills (i.e. make payments on the bills drawn by the seller and accepts the documents.) If the LC specifies a bank then that bank is the Negotiating Bank and is also called the Nominated Bank / Paying Bank. If the LC however does not specify the bank, than any bank can be negotiating bank.

• Confirming Bank: The advising bank is only required to advise the credit to the beneficiary. If however in addition to advising the credit the advising bank were to confirm it, then the advising bank will also become confirming Bank.

• Reimbursing Bank: It is the bank which is appointed by the Issuing Bank to make reimbursement to the Negotiating, Paying or confirming Bank.

Types of Letters of Credit

• Acceptance Credit: Ordinary Letters of Credits are usually sight credits, i.e.

immediate payment should be made of the bills drawn by the beneficiary. Such letters of credit under which usance bills can be drawn is an Acceptance Credit or Time Credit.

• Revocable Credit: A revocable LC is a credit that can be amended / cancelled by the issuing bank without prior notice to the beneficiary. However, if any

Important distinction / reviewed 30 October 2026

UCP 600 credits are irrevocable even without that label. Revocable-credit passages are historical; a bill endorsement's recourse is distinct from the LC undertaking. [UCP]

negotiating bank has acted on the credit prior to receipt of the notice of amendment/cancellation then the issuing bank is bound to reimburse the negotiating bank.

• Irrevocable Credit: is a credit that can neither be amended nor cancelled without the consent of the beneficiary.

• Confirmed Credit: If a bank advising the credit to beneficiary adds its own confirmation to the credit, then the credit would be called a confirmed credit.

Only irrevocable credit can be confirmed With Recourse and without Recourse Credits: when beneficiary draws a bill under a LC he is liable if the drawee fails to make payment. These kind of bills are called recourse LCs. The beneficiary can exclude liability by adding to the bill following words "without recourse"

• Transferable Credits: As such the rights under an LC cannot be transferred and is vested in the beneficiary. A transferable credit is one under which the beneficiary can transfer his rights to third parties. Unless specifically stated an LC is not transferable.

• Back-To-Back Credits: The beneficiary in whose favour an LC is issued uses the same to obtain another credit from his (beneficiary's) bank in favor of the supplier. There are three banks involved in this type of LC. (Issuing Bank, Advising Bank, Third bank which issued an ancillary credit against the security of the original credit.

• Anticipatory Letter of Credit i)Red Clause Letter of credit - In a usual LC transaction the beneficiary will be entitled to receive payment only on his handing over the documents and bills drawn under the LC to the negotiating bank. However in certain credits the beneficiary will be entitled to get and advance of the price. These credits contains a "Red Clause" which authorises an intermediary bank to make an advance to the beneficiary before shipment.

ii)Green Clause Letter Of Credits –This is refinement of the "Red Clause". This type of LC not only permits preshipment advance but also permits advances to the exporter to cover storage at the port of shipment.The Red Clause and Green Clause credit are called Anticipatory Credits.

iii)Revolving Letter of Credit: In this type of credit though amount is fixed, it can be renewed as soon as the earlier bills have been paid.

Documents Under a Letter Of Credit

• Bill of Exchange

• Invoice

• Transport Documents

• Bills of Lading

• Airway Bill

• Post Parcel Receipt and Courier Receipt

• Insurance Document



Apply the distinction

Explain the decision: Reimbursement is a separate role. Check the supporting documents and applicable conditions.

• Other Documents: Certificate of origin, Certificate of Weight or quality or analysis, Health authorities certificate etc.

Uniform Customers and Practices for Documentary Credits- UCPDC

600 The ICC Banking Commission approved the UCP 600, ICC's new on documentary credits, on 25 October 2006. UCP 600, which come into effect in 1 July 2007, contains

significant changes, including:

• A reduction in the number of articles from 49 of UCP 500 to 39.

• New articles on "Definitions" and "Interpretations" provide more clarity and precision in the rules.

• The replacement of the phrase "reasonable time" for acceptance or refusal of documents by a definite period of five banking days.

• New provisions which allows for the discounting of deferred payment credits.

• A definitive description of negotiation as "purchase" of drafts of documents.

Payment Under Letter Of Credit – Primary Obligation For Banks

• Articles 6 to 13 of UCP 600 discusses the liabilities and responsibilities of the parties involved in a letter of credit transaction. Articles 14 to 17 are focused on the aspects of examinations of the relevant documents for discrepancy, before initiating the payment.

• The Supreme Court had occasions to consider the obligation of a bank under LC in various cases and in all these cases, the Court has held that the obligation of a bank to pay under a LC is primary, irrespective of the underlying contract.

Practice / answer beside the question

Q01. What does an LC primarily deal with?

Answer / Banks deal with documents under the LC, rather than the actual goods or services.

Q02. Why does an LC not guarantee the quality of goods?

Answer / The documentary undertaking is separate from the underlying sale and physical quality of goods.

Q03. Who applies for the LC?

Answer / The buyer or other party requesting issue is the applicant.

Q04. What is a complying presentation?

Answer / A presentation complying with the credit terms, applicable UCP provisions and international standard banking practice.

Q05. How should document discrepancies be handled?

Answer / Identify discrepancies and follow the applicable examination, notice and waiver rules; a waiver is not automatic.

Q06. Why must expiry and presentation periods be checked?

Answer / A presentation must meet the credit's stipulated deadlines and applicable rules.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

7. A Letter of Credit is an undertaking given by the buyer's bank on behalf of the buyer to the seller, stipulating that if specified documents are presented within a stipulated date, the bank establishing the credit will pay the amount of the bill drawn in terms of such Letter of Credit.

8. There are 4 persons in case of a Letter of Credit – buyer, opening bank/branch, seller, and negotiating bank/branch.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

UCP / ICC: UCP 600, Articles 1, 2, 4, 5 and 7

28 facts / final recall

01-14 / foundations	15-28 / application
01. An LC is a documentary undertaking.	15. Revocable-credit descriptions are historical.
02. UCP applies when incorporated.	16. Sight and deferred payment differ.
03. Credit is separate from sale.	17. Acceptance credit has acceptance and payment terms.
04. Banks deal with documents, not goods.	18. Transferability must be express.
05. Applicant requests issuance.	19. Transferable and back-to-back differ.
06. Issuing bank issues the credit.	20. Back-to-back credits are distinct undertakings.
07. Beneficiary presents for its benefit.	21. Red clauses can permit pre-shipment advances.
08. Advising bank authenticates and advises within its role.	22. Green clauses add storage-related support.
09. Confirmation adds an authorised undertaking.	23. Revolving terms govern renewed availability.
10. Nomination does not always require payment.	24. Identify required documents clearly.
11. Negotiation has a defined meaning.	25. Invoice and transport documents serve different functions.
12. Reimbursement is a separate role.	26. Examine under applicable standards.
13. UCP credits are irrevocable.	27. Examination normally permits at most five banking days after presentation.
14. Amendments need prescribed consents.	28. Honour or refusal must follow the credit and rules.

B12 / Deferred Payment Guarantee



At the branch

A machine buyer pays partly now and partly over time. Identify the instalments and interest covered by the guarantee.

1. Agree sale → 2. Set instalments → 3. Issue guarantee → 4. Monitor payments

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Ten-to-fifteen-percent tranches and one-to-seven-year tenor are commercial examples, not universal mandatory terms.

JAIIB PPB Module B Unit 12: Deferred Payment Guarantee

Deferred Payment Guarantee

• In a deferred payment guarantee, a third party, mostly banks and financial institutions, guarantee the payment of the instalments.

• This guarantee ensures timely payment of the instalments to the seller/ exporter, failing which, the guarantee can be invoked and payment received.

Method of Payment

In a contract for import of goods on deferred payment terms, the importer is required to make payments in instalments over a period of time which may range from 1 to 7 years, in a normal deferred payment contract. The payment is usually done on the

following terms:

• Advance payment of 10% to 15% of the price of the goods is made by the buyer.

• Another 10% to 15% on receipt of document under letter of credit.

Important distinction / reviewed 30 October 2026

Read unconditional/irrevocable wording with the actual demand terms, applicable law and permitted defences.

• The balance amount is paid in instalments spread over a period of 1 to 7 years, which is secured by a ‘Deferred Payment Guarantee’.

In a deferred payment guarantee, which as stated earlier, issued by banks and financial institutions , what is guaranteed, is the timely payment of instalments and interest if provided. This is done by issuing a deferred payment guarantee in which the following

terms are mandatory:

• The supply of goods by the seller to the buyer and the seller agreeing to postpone the payment of the price, this being the consideration of the guarantee;

• The Payment schedule of both the instalment and the interest;

• The unconditional and irrevocable assurance of the bank that it would make payments on the invocation of the guarantee.



Apply the distinction

Explain the decision: State currency clearly. Check the supporting documents and applicable conditions.

Practice / answer beside the question

Q01. What is deferred payment?

Answer / Payment for goods or services is scheduled for future dates rather than paid entirely at delivery.

Q02. How does a deferred-payment guarantee support the seller?

Answer / It provides the seller with the bank's undertaking for the specified deferred obligations under its terms.

Q03. Which cash flows should be appraised before sanction?

Answer / Assess project cash generation, instalments, interest, other debts and sensitivity to delay.

Q04. What should the guarantee repayment schedule reflect?

Answer / The sanctioned underlying obligation and its instalment, interest and claim conditions.

Q05. Does a guarantee remove the buyer's repayment obligation?

Answer / No. The applicant remains responsible under the underlying contract and its reimbursement undertaking to the bank.

Q06. Why monitor the underlying project after issue?

Answer / Delay, cost escalation or weak cash generation can impair the borrower's ability to meet instalments.

Quick Revision

Use the final recall table below.

28 facts / final recall

01-14 / foundations	15-28 / application
01. DPG supports deferred obligations.	15. One-to-seven years is not universal law.
02. Buyer obtains the guarantee.	16. Advance percentages are illustrative.
03. Seller is normally beneficiary.	17. Wording controls demand conditions.
04. Bank undertakes specified payment.	18. Expiry differs from instalment dates.
05. Underlying sale gives commercial context.	19. Review claim clauses separately.
06. Instalments spread the purchase price.	20. Assess applicant repayment capacity.
07. An advance reduces the balance.	21. Counter-indemnity protects the bank under its terms.
08. Document-linked payment can reduce the balance.	22. Security depends on sanction.
09. Identify the guaranteed balance.	23. Margin depends on sanction.
10. Interest is covered to the stated extent.	24. Issuance is non-fund based.
11. Schedule identifies due dates.	25. Invocation can create funded exposure.
12. State amount clearly.	26. Monitor outstanding guaranteed exposure.
13. State currency clearly.	27. Record reductions after covered payments.
14. Tenor is contractual.	28. Amendments require proper authority.

B13 / Laws Relating to Bill Finance



At the branch

Verify the sale, parties, maturity and recourse before discounting a trade bill.

1. Identify bill → 2. Verify trade → 3. Finance → 4. Collect

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module B Unit 13: Law Relating to Bill finance

Bill Financial

Bill finance is one of the modes of lending by a banker. A compared to other modes of financing, Bill finance offers a banker an easy mode of lending. Bill finance involves discounting or purchase of commercial bills arising out of sale of goods.

Bill finance, as compared to cash credit and overdraft, has the following advantage;

• The underlying transactions are easily identifiable

• There is definite data of repayment

• The bill will carry more than one signature if it on usance basis

• It represents an easily transferable asset and in case of need the same can be rediscounted to improve the liquidity of the bank.

Class Of Bills and Laws Governing Bills

Class of Bill

Bills discounted/ purchased by banks belong to one of the following categories:

• Clean bills

• Documentary bills

• Bills drawn under credit These depend on the terms of the trade transaction represented by the bill. Clean bills do not have any associated document and simply establish that the drawee is required to pay the stated amount, on the stated date.

Laws Governing Bills

Important distinction / reviewed 30 October 2026

Holder, holder in due course, payment in due course and endorsement have statutory conditions; good faith alone is incomplete. [NI]

The liabilities and rights of parties to a bill is governed by the NI Act.

• What is a Bill? The term ‘Bill’ is the short form of ‘Bill of Exchange’. Sec. 5 of NI Act, 1881 defines it as ‘instruments in writing containing an unconditional order signed by maker, directing a certain person to pay certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.’

• ‘Drawer’, ‘Drawee’, ‘Payee’: Sec. 7 of the Act states a maker of ‘Bill of Exchange’ is called ‘Drawer’, the person who is directed to pay is called ‘Drawee’, and the person entitled to receive payment of amount of ‘Bill’

is called ‘Payee’.

• Relationship of Parties to a Bill: ‘Drawer’ of bill is a creditor/seller and the ‘Drawee’ of a bill is the debtor/buyer. If the bill is assigned to third parties, then such assignees will become creditors and drawer would be liable for such assignees in case of default by drawee.

Some important provisions of NI Act relating to Bills

A bill is a negotiable instrument. Any person, to whom a bill is transferred in accordance with the provisions of the Act, would become entitled to receive the amount of the bill.

• ‘Holder’: Sec. 8 of NI Act defines a ‘Holder’ of a bill of exchange - as a person entitled in his own name to possess the bill and recover the amount of bill.

• ‘Holder in Due Course’: As per Sec. 9 ‘Holder in due course’ is any person who for consideration became the possessor of the bill (that is to whom the bill is transferred).

• ‘Payment in Due Course’: ‘Payment in due course’ as per Sec. 10 is payment in accordance with the apparent tenor of bill of exchange to the holder or holder in due course in good faith and without negligence.

• ‘Negotiation’: Sec. 14 says, when a bill is transferred for considerations to a person so as to entitle him to claim the amount of bill, this is called ‘Negotiation’.

• ‘Endorsement’: Sec. 15 says, if the holder signs the bill of exchange for the purpose of transferring it, such signing is called ‘Endorsement’.

• ‘Liability of Drawer’: As per Sec. 30, the drawer is bound in the case of dishonour (failure to pay) by the drawee or acceptor, to compensate the holder, provided due notice of dishonour has been given to, or received by, the drawer.

• ‘Liability of Acceptor/Drawee of Bill’: Sec. 32 says, an acceptor is bound to pay the amount at maturity according to apparent tenor of the acceptance.

• ‘Liability of Endorser’: Sec. 35 provides, in the absence of contract to the contrary, whoever endorses and delivers a negotiable instrument is bound thereby to every subsequent holder in the case of dishonour unless his liability is excluded.

• ‘Interest rate Specified’: Sec. 79 stipulates, if interest at a specified rate is expressly made payable on a bill of exchange, then interest shall be calculated at such rate.

Important distinction / reviewed 30 October 2026

Inland/foreign bill definitions use drawing, payment and residence conditions. Section 80 interest is not a universal lending rate. [NI]

• ‘Interest when no rate is specified’: Sec. 80 stipulates, if no rate of interest is specified in the instrument, interest due thereon shall be calculated at the rate of eighteen per cent p.a.

Classification of Bills

• Inland Bills: Bills drawn or made in India and made payable in, or drawn upon any person resident in India. It may be made payable in a foreign country.

• Foreign Bills (Section 12 NI Act): Bills drawn outside India and made payable in or drawn upon any person resident in any country outside India / resident in

India

• Demand Bills (Section 19): It is an instrument payable on demand and no time for payment is specified therein. Demand Bill is otherwise called sight bill.

• Usance Bills: Bill Payable after sight : a bill payable otherwise than on demand.

It specifies normally a time for payment of the value it represents.

• Clean Bills: is a bill of exchange drawn as per requirements of NI Act and is not supported by documents of title of goods.

• Documentary Bills: A bill of exchange accompanying documents of title of goods. These bills are drawn to claim price of goods supplied.

1. Bills drawn with an instruction to deliver against payment/D.P. Bills – In a transaction of supply of goods, a seller draws a bill on the buyer and sends the same to his banker along with document of title of goods like bill of lading etc.

The seller instructs the banker to deliver the bill and documents of title of goods only when buyer pays the price of goods.

2. Bills drawn with instruction to deliver against acceptance / D.A.Bills – An usuance bill supported by document of title of goods bearing an instruction that the documents can be delivered, if the buyer accept the bill of exchange

Negotiable Instrument Act 1881

Section Description

5 “Bill of exchange is defined” as “ instrument in writing containing an unconditional order signed by maker directing a certain person to pay certain sum of money only to, or to the order of a certain person or to the bearer thereof

Illustrated comparison / key details

Section / entry	Description
5	Bill of exchange: an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only, to or to the order of a certain person or to the bearer thereof.



Apply the distinction

Explain the decision: Holder differs from holder in due course. Check the supporting documents and applicable conditions.

7 Drawer, Drawee and Payee 8 Holder of Bill of exchange means a person entitled in his name to possess the bill and recover the amount presented by Bill.

9 “Holder in Due Course” means any person who for consideration become the

possessor of the bill

10 “Payment in Due Course” means payment in accordance with tenor of the bill of exchange to the holder or holder in due course in good faith and without

negligence

14 “Negotiation” : When a bill is transferred to any person so as to entitle him to claim the amount represented by bill, then such transfer is called Negotiation 15 “Endorsement” : If the holder of instrument signs the bill of exchange for the purposeof transferring it, such signing is called Endorsement.

19 Demand Bills 30 Liability of Drawer 32 Liability of Acceptor/Drawee of Bill 35 Liability of Endorser 79 Interest rate specified 80 Interest when no rate is specified

Illustrated comparison / key details

Section / entry	Description
7	Drawer, Drawee and Payee
8	Holder of a bill of exchange means a person entitled in his name to possess the bill and recover the amount presented by the bill.
9	Holder in Due Course means a person who for consideration became the possessor of the bill.
10	Payment in Due Course means payment in accordance with the tenor of the bill of exchange to the holder in due course in good faith and without negligence.
14	Negotiation: when a bill is transferred from a person so as to entitle him to claim the amount represented by the bill, such transfer is called Negotiation.
15	Endorsement: if the holder of the instrument signs the bill of exchange for the purpose of transferring it, such signing is called Endorsement.
19	Demand Bills
30	Liability of Drawer
32	Liability of Acceptor/Drawee of Bill
35	Liability of Endorser
79	Interest rate specified
80	Interest when no rate is specified

Various types of Bill Finance

• Bill Purchase: When the bank negotiate bills on demand, whether clean or documentary, the facility is known as bill purchase.

• Bill Discount: This facility is extended by banker when the bills of exchange are payable after a particular period that is bills payable otherwise on demand.

• Advance against Bills for Collection: When the bank advance against the bills, which are in course of collection, the facility is known as advance against bills for collection.

Practice / answer beside the question

Q01. Identify the drawer, drawee and payee.

Answer / The drawer draws the bill; the drawee is directed to pay; the payee is entitled to receive payment.

Q02. Distinguish a demand bill from a usance bill.

Answer / A demand bill is payable on demand; a usance bill has a future payment term.

Q03. Distinguish D/P and D/A.

Answer / D/P releases documents against payment; D/A releases them against acceptance under the collection terms.

Q04. Is every good-faith holder a holder in due course?

Answer / Holder and holder in due course have different statutory conditions and rights; good faith alone is incomplete.

Q05. How do purchase and discounting differ in common bill-finance terminology?

Answer / Demand-bill finance is commonly termed purchase and usance-bill finance discounting; apply the actual instrument and terms.

Q06. What should a bank verify before financing a bill?

Answer / Verify genuine trade, parties, title, documents, acceptance, maturity, recourse and realisation.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. Factoring is a service that is connected with the financing and collection of account receivables in domestic and international trade.

2. Forfaiting is a means of finance (credit) an exporter of goods avails from an intermediary called the forfaiter against the export receivables but without the obligation to repay the credit. It is used in international trade.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

NI / India Code: Negotiable Instruments Act, 1881

28 facts / final recall

01-14 / foundations	15-28 / application
01. Bill finance supports eligible receivables.	15. Good faith does not cure every title defect.
02. A bill needs the NI Act elements.	16. Drawer liability has conditions.
03. Drawer draws the bill.	17. Acceptor liability differs from drawer liability.
04. Drawee is directed to pay.	18. Endorser liability may be qualified.
05. Payee receives payment.	19. Specified interest follows instrument and law.
06. Acceptance creates statutory liability.	20. Section 80 addresses unspecified interest.
07. Demand bills are payable on demand.	21. Demand finance is commonly called purchase.
08. Usance bills have future terms.	22. Usance finance is commonly called discounting.
09. Inland and foreign have legal definitions.	23. Collection-bill advances are another facility.
10. Documentary bills have relevant supporting documents.	24. Co-acceptance adds commitment.
11. Clean bills lack attached title documents.	25. Verify the real commercial transaction.
12. D/P and D/A differ.	26. Factoring differs from bill discounting.
13. Endorsement and delivery can transfer rights.	27. Recourse depends on transaction and contract.
14. Holder differs from holder in due course.	28. Track maturity and realisation.

B14 / Credit Cards, Home Loans, Personal and Consumer Loans



At the branch

Explain the cost of paying only the card minimum before presenting the facility as interest-free credit.

1. Understand product → 2. Assess affordability → 3. Disclose terms → 4. Service safely

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Interest-free periods are conditional on product terms and payment conduct; cash withdrawals may differ.

JAIIB PPB Module B Unit- 14 Personal Finance

Credit Card

• Credit card is one of the channels for delivery of credit. These are issued to approved clients for purchase of goods or services from authorised merchant establishments on the guarantee of issuer of credit card for payment.

• The cardholder may pay for purchases made over a period on the due date and carry forward the balance amount, in which case finance charges are levied.

There are 5 parties involved

• Cardholders - persons who are authorized to use credit cards for the payment of goods and services.

• Card issuers - institutions which issue credit cards.

• Merchants - entities which agree to accept credit cards for payment of goods and services.

• Merchant acquirers - Banks/NBFCs which enter into agreements with merchants to process their credit card transactions.

• Credit card associations - organisations that license card issuers to issue credit cards under their trademark, (e.g. Visa, MasterCard, RuPay) and provide settlement services for their members (i.e. card issuers and merchant acquirers).

Note: Normally cardholders can use their credit cards to make purchases at merchants in another country.

Benefits of Credit Cards

A To Card Holders

• Customer can purchase goods/ services at a large number of merchants without carrying cash.

• Card holder gets a period of interest free credit, ranging from 15 to 51 days.

• Cash withdrawals through ATMs can be made up to a ceiling.

• It provides proof of purchase through banking channels to strengthen his position in case of disputes with sellers.

• It allows him to delegate spending power to add-on members.

• It extends additional facilities like insurance cover/discount, etc.

To Merchant Establishments (MEs)

• Increase in sales because of increased purchasing power of the cardholder due to unbilled credit available to him.

• Preferred locations by a cardholder.

• Less need for the MEs to provide customers with an extended credit facility, which is likely to be a costly burden to them.

• Systematic accounting since sale receipts are routed through banking channels.

• Advertising and promotional support on a national scale.

• Development of a prestigious clientele base.

• Assured and immediate settlement/payment.

• Avoids all the cost and security problems involved in handling cash.

To Banks

• Scope and potential for better profitability out of share earned from the traders' turnover.

• Helps in establishing a banking relationship with new customers.

• This also provides additional facility to the existing clients.

• Better network spread of cardholders and their increased use means higher popularity and image for the banks.

• Saving expenses on cash holding/stationery printing and workforce to handle clearing transactions.

Disadvantages to Credit Card Holders

• May result in over spending.

• Fraudulent withdrawals, due to loss of card in the intervening period till it is blocked.

• May fall in debt trap credit limit is utilized beyond monthly repayment capacity.

Guidelines on Credit Card Operations of Banks

• On 21st April 2022 RBI issued Master Directions on issuance and conduct of credit cards and debit cards, containing their latest guidelines.

• SCBs (other than RRBs) with net worth of Rs. 100 crore and above can undertake credit card business departmentally or through a subsidiary or in tie-up arrangement with other card issuing bank/NBFC with approval of their Boards.

• NBFCs registered with RBI can undertake credit card business, with its prior approval. Card-issuer shall have a Board approved policy for credit card business, in line with RBI instructions.

• If a card is issued/ existing card upgraded and activated without explicit consent of the recipient and is billed for the same, the card-issuer shall reverse the charges, and also pay a penalty of twice the charges.

Sanction of Credit Card

• The decision for issue of credit card shall be made by the card- issuer.

• Banks/NBFCs shall ensure prudence in issuing credit cards and independently assess the credit risk, of the applicants, especially students and others with no independent financial means.

• Banks/NBFCs should assess the total credit limit of a credit card customer considering all credit cards held.

• Card issuing banks/NBFCs would be solely responsible for fulfillment of all KYC requirements, even where agents solicit business on their behalf.

• Terms and conditions for a credit card facility should be listed in clear and simple language (preferably in English, Hindi and the local language) easily comprehensible to a card user.

Terms and Conditions

• Card-issuer shall provide, along with the credit card application form, a one-page Key Fact Statement containing the important terms of the card such as rate of interest, quantum of charges, among others.

• No card-issuer shall report any credit information relating to a new credit card account to Credit Information Companies prior to activation of the card.

Insurance Offers

• Card-issuers may provide, at the option of the customer, an insurance cover for the liabilities arising out of lost cards, card frauds, etc. If an insurance cover is offered, in tie-up with insurance companies, the card-issuer shall obtain explicit consent in writing/ digital mode from the cardholder along with the details of

nominee/s that should be recorded with the insurance company

• The cardholder should be sent a letter containing the contact particulars of the insurance company for lodging a claim.

Types of cards

• Various types of credit cards are issued viz. co-branded credit cards, corporate credit cards, add-on credit cards.

Issuance of cards

• When a customer applies for a credit card, bank/ NBFC shall explain the relevant terms and conditions and any other information that may be required to operate the card.

• Banks shall advise clients about targeted time for issuance of card.

Important distinction / reviewed 30 October 2026

Eligible credit-card closure normally requires seven working days after dues are cleared; prescribed delay compensation can apply. [CARD]

• At request of the customer, banks may set a lower credit limit than the overall limit for the add-on card(s).

• New cards/replacement cards will be EMV Chip and PIN enabled cards only.

• If the limit on a card is proposed to be reduced, bank will inform customer immediately with reason, by SMS/e-mail followed by confirmation in writing.

• Banks will comply with any request for cancellation promptly and confirm cancellation/closure of the card to customer within 7 working days of the request received provided the outstanding amount, if any, is settled in full.

Credit Cards Statement

• To help customer manage their credit card account and check details of purchases/cash withdrawals, banks will send a monthly statement, free of cost, with details of the transactions on the card.

Interest rate and other charges

• Credit card dues are non-priority sector personal loans. The interest charged should be justifiable having regard to the total cost incurred in extending the loan and the extent of return reasonably expected. Banks should also prescribe a ceiling for rate of interest and processing/ other charges.

• In case banks/NBFCs charge interest rates which vary based on the payment/default history of the cardholder, there should be transparency in this.

• It should be indicated in bold letters that, even where the minimum amount indicated to keep the card valid has been paid, the interest will be charged on the amount due, from the due date of payment.

• Changes in charges (other than interest) may be made only with prospective effect, giving notice of at least one month. If a credit card holder desires to surrender his credit card on account of any change in the charges to his disadvantage, he may be permitted to do so, without any extra charge for such a closure.

Wrongful Billing

• In case a customer protests any bill, the bank/NBFC should provide an explanation and if necessary, documentary evidence to the customer, within a maximum period of thirty days of complaint.

Fraud Control

• With a view to reducing the instances of misuse of lost/stolen cards, RBI had recommended issuing (i) cards with photograph of the cardholder (ii) cards with PIN and (iii) signature laminated cards or (iv) cards with any other advanced methods. Now cards with EMV chip based and PIN is mandatory.

• Tokenisation refers to replacement of actual card details with an alternate code called the “token”, which shall be unique for a combination of card, token requestor and the device. Tokenised card transaction is considered safer as the actual card details are not shared with the merchant during transaction

processing

Home Loans

• Target Group: These cater to salaried class, professionals, self-employed and businessmen. Home loans are extended to both resident Indians and NRIs.

• Purpose: Home loans are extended for purchase housing plot for construction, or construction of house or flat, repairs and renovation of house, and in case of some banks, for purchase of house sites also.

• Quantum of loan: The loan amount is decided based on gross monthly income/net monthly income and cost of house.

• Age: Banks fix the lower and upper age limits, taking into consideration the remaining period of service (salaried class) and the income earning capacity (other segments) during the period of loan.

• Repayment: Repayment period may extend upto 30 years, but will not ordinarily extend beyond a person’s age of retirement if he/she is employed or

on reaching 70 years of age, whichever is earlier

• Track Record: Lenders would check the credit history and credit score from CIC to check their past repayment practice. A good repayment record would help in getting loan on competitive terms.

• Security: Mortgage on property purchased or constructed out of the loan is taken as security. If the income of the spouse is taken for arriving at the quantum of loan, he/she is included as a co-borrower or a guarantor Also, if the property is in joint name with another person that person is added as a co-borrower.

• Interest Rate: Banks can charge interest rate as per their own policy, and as Fixed rate or Floating rate.

Home Loan For Various Purposes

Acquisition of land: Bank finance can be granted for purchase of a plot, provided borrower gives a declaration that he intends to construct a house on the said plot within specified period.

Construction of Building/ Ready-Built House:

• When financing a person for constructing a house on own plot/land, a copy of the sanctioned plan by competent authority in the name of the person must be obtained.

• An affidavit-cum-undertaking must be obtained from the person that he shall not violate the sanctioned plan, and it shall be his sole responsibility to obtain completion certificate within 3 months of completion of construction,



Apply the distinction

Explain the decision: Valuation does not prove title. Check the supporting documents and applicable conditions.

failing which the bank may recall the entire loan with interest, costs and other usual bank charges.

• An Architect appointed by the bank must also certify at various stages of construction of building that it is strictly as per sanctioned plan, and shall also certify that the completion certificate of the building has been obtained.

• When financing for purchasing a ready house/flat, an affidavit-cum- undertaking that the property has been constructed as per the sanctioned plan and/ or building bye-laws, and as far as possible has a completion certificate.

• No loan should be given for properties meant for residential use but intended to be used for commercial purposes.

• Banks can extend supplementary finances within the ceiling for alterations/ additions/repairs to the house already financed by them.

• Banks should not grant finance for construction of buildings meant purely for Government/ Semi-Government offices (ii) Projects undertaken by public sector entities which are not corporate bodies may not be financed by banks.

Lending To Housing Intermediary Agencies:

• Financing of Land Acquisition: Banks may extend finance to public agencies (not private builders) for acquisition and development of land, as a part of a complete project by way of term loans.

• Lending to Housing Finance Institutions: Banks may grant term loans to housing finance institutions taking into account (long-term) debt-equity ratio, track record, recovery performance and other relevant factors.

• Banks may extend term loans to state level housing boards and other public agencies.

• Where land is acquired and developed by State Housing Boards and other public agencies. Commercial banks may extend credit to private builders on commercial terms by way of loans linked to each specific project.

Quantum Of Home Loan

Important distinction / reviewed 30 October 2026

The temporary housing risk-weight table ends 31 March 2022 and is historical. Ages, tenors and title-search periods can be bank-policy examples.

Home Loan Documents

• Agreement of Sale/ Sale deed

• No Encumbrance Certificate - NIL EC (for 13 years or as decided by the bank)

• Title Search document for 30 years

• Approved building plan

• Patta (NOC from Housing Board, etc., wherever applicable)

• Valuation report from the Bank’s approved engineer

• Bank statement for last 12 months or a period as decided by the bank

• Salary Certificate for self and spouse

• IT Returns for 3 years in case of professionals/businessmen/self-employed

• KYC documents

Disbursal Of Home Loan

• Approvals: The disbursements should be made only after requisite clearances and approvals from Statutory/ Regulatory Authorities have been obtained

• Stage of Construction Linkage: Disbursal of housing loans should be closely linked to the stages of construction of the housing project/ houses and upfront disbursal should not be made in cases of incomplete/ under-construction/ green field housing projects.

• Projects sponsored by Government/Statutory Authorities: For such projects, banks may disburse the loans as per the payment stages prescribed by such authorities, provided such authorities have no past history of non-completion of projects.

Note: RBI has instructed banks not to charge foreclosure charges/ pre-payment penalties on home loans on floating interest rate.

Personal Loans

• Target group: Permanent employees with a minimum service/ experience of say three years, with a Govt/ corporate industrial establishments, etc. The stipulation of minimum period of service may vary from bank to bank.

Illustrated comparison / historical figures; read with the dated distinction

Housing category / historical table	LTV	Risk weight
Individual housing up to Rs.30 lakh	Up to 80%	35%
Individual housing up to Rs.30 lakh	Above 80% to 90%	50%
Above Rs.30 lakh to Rs.75 lakh	Up to 80%	35%
Above Rs.75 lakh	Up to 75%	50%
CRE-RH	NA	75%
Loans sanctioned 16 October 2020 to 31 March 2022	Up to 80%	35%
Loans sanctioned 16 October 2020 to 31 March 2022	Above 80% to 90%	50%

Important distinction / reviewed 30 October 2026

The 2025 prepayment framework applies to loans sanctioned/renewed from 1 January 2026, differentiated by purpose, rate, borrower and lender. [PREPAY]

• Purpose: For meeting marriage, educational, medical, family functions, any other household expenses.

• Eligible Amount: The eligible amount is based on the applicant's income level and is calculated based on number of times of the gross/ net salary.

• Security: In case of non availability of collateral security, banks may ask for third party guarantee.

• Documents: Proof of employment and salary certificate are normally obtained.

After sanction, banks take the necessary loan documents such as; DPN, salary loan agreement, etc., from the borrower and a guarantee agreement from the guarantor, if any.

Consumer Loans

• Target group: Salaried, pensioners, professionals, self-employed, others with regular income.

• Purpose: For purchase of consumer durables and white goods like TV, VCR, VCP, air conditioners, refrigerators, personal computers and accessories, vehicle, etc.

• Eligible Amount: cost of the article to be purchased and margin to be brought by the borrower are taken into account. The minimum take home pay after the proposed EMI should also be ensured.

• Security: Hypothecation of the article purchased out of the bank loan.

• Margin: Normally a margin of 10–20% is stipulated. Repayment: Banks allow

period of 3 to 5 years for repayment of consumer loan

• Documents: Salary certificate for three months for self and spouse (ii) IT returns/Form 16 of 2 to 3 years for professionals, businessmen, Self-employed persons. (iii) Quotation of the articles to be purchased from a reputed dealer.

(iv) Statement of account/ passbook, showing one year's transactions. (v) Debit mandates are collected from the borrowers.

Practice / answer beside the question

Q01. What makes a credit card a revolving facility?

Answer / The holder can use available credit, repay and reuse it subject to the limit and terms.

Q02. Does minimum payment always avoid interest?

Answer / No. Paying only the minimum can leave interest-bearing balances and can affect the interest-free period.

Q03. Why distinguish issuer and acquirer?

Answer / The issuer provides the card facility; the acquirer serves the accepting merchant.

Q04. What determines housing-loan repayment capacity?

Answer / Verified sustainable income, existing obligations, loan terms and the bank's repayment criteria.

Q05. What security commonly covers consumer goods finance?

Answer / Hypothecation of the financed goods is commonly used, subject to the product and sanction.

Q06. Why read prepayment terms with current rules?

Answer / The rules can depend on lender, borrower, purpose, rate type and sanction or renewal date.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

Credit card is the one of the delivery channels of the banking services. It is a small plastic card issued to users as a system of payment.

It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services.

The issuer of the card creates a revolving account and grants a line of credit to the consumer from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Benefits to Credit Card Holders

(a) They can purchase goods and services at a large number of merchant outlets up to the inbuilt ceiling credit limit amount without using cash or cheque. This is generally useful in emergencies.

(b) Card holder has a period of interest free credit, depending upon the issuing bank and the card scheme, i.e. the normal card and gold cards, as offered by various banks. The period of interest free credit ranges from 15 days to 51 days.

(c) Cash up to a ceiling, within the credit limit is obtainable from the banks' branches or ATMs (Automated Teller Machines).

Disadvantages to Credit Card Holders

(a) Often results in over spending.

(b) Frauds, due to a loss of card in the intervening periods.

(c) Since signatures are already on the cards, forged signatures could cause a loss to the card holders.

Such kind of a forged signature loss is avoided with the use of photo credit cards.

Parties involved in Credit Card

Cardholder: The holder of the card used to make a purchase; the consumer.

Card-issuing bank: The financial institution or other organization that issued the credit card to the cardholder. This bank bills the consumer for repayment and bears the risk that the card is u sed fraudulently. American Express and Discover were previously the only card -issuing banks for their respective brands, but as of 2007, this is no longer the case. Cards issued by banks to cardholders in a different country are known as offshore credit cards.

Merchant: The individual or business accepting credit card payments for products or services sold to the cardholder.

Acquiring bank: The financial institution accepting payment for the products or services on behalf of the merchant.

Independent sales organization: Resellers (to merchants) of the services of the acquiring bank.

Merchant account: This could refer to the acquiring bank or the independent sales organization, but in general is the organization that the merchant deals with.

Credit Card assoc iation: An association of card -issuing banks such as Discover, Visa, MasterCard, American Express, etc. that set transaction terms for merchants, card -issuing banks, and acquiring banks.

Transaction network: The system that implements the mechanics of the electronic transactions. May be operated by an independent company, and one company may operate multiple networks.

Affinity partner: Some institutions lend their names to an issuer to attract customers that have a strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name. Examples of typical affinity partners are sports teams, universities, charities, professional organizations, and major retailers.

Home Loans

Home loans are available to resident Indians and NRIs for the purchase or construction of house or flats, repairs and renovation of house.

The Procedure and Practices for Home Loans

Target Group: Normally, the target group is the salaried class, professionals, self -employed and business¬men. Banks fix the age criteria for availing the loan.

Purpose: The purpose of the loan is for the purchase or construction of house or flats, repairs and renovation of house, and in some banks, for purchase of house sites also.

Quantum of loan: The quantum of eligible loan is fixed based on the gross monthly income/net monthly income. For this, banks ask for a salary certificate for the salaried class or the Income tax return for others. Bank also ask for the statement of bank account for a prescribed period.

Age: Banks fix the lower and upper age for availing the loan taking in to consideration the remaining period of service, in the case of salaried class and the income earning capacity during the period of loan for others.

Repayment: Most of the banks are giving long repayment period, say 20 -25 years. The repayment will be based on equated monthly instalments (EMI). In case of loan for purchase of a ready built house, it should be ensured that the remaining life of the building should be longer th an the repayment period allowed, plus a cushion period, says ten years. Normally banks allow a holiday period for repayment. The holiday period for construction will be more than it is, for the purchase of ready built house.

Security: Generally, the proper ty purchased or constructed out of the bank loan is taken by way of mortgage. Sometimes, when the income of the spouse is taken for arriving at the quantum of loan, his/ her guarantee is also taken as personal security.

Margin: Banks stipulate that a certa in percentage of the project cost, say fifteen per cent, is to be borne by the borrower from his own sources. When the loan is for repairs/renovation, banks stipulate a higher margin.

Rate of Interest: When compared to the rate of interest for other loans, the rate of interest for home loan is cheaper. Most of the banks offer a rate of interest below the 'Bench Mark Prime Lending Rate' (BPLR). Banks also offer a floating rate and a fixed rate option to the borrower.

Documents Required

At the time of applying for the loan, the banks ask for some necessary documents namely;

(a) Agreement of Sale/Sale deed (b) No Encumbrance certificate NIL EC (for 13 years) (c) Parent document for 30 years (d) Approved building plan (e) Patta (NOC from Housing Board, etc., wherever applicable) (f) Valuation report from the Bank's approved engineer (g) Bank statement for last 12 months

Personal Loans

Procedure and Practices for Salary Loans

Target group: Permanent employees with a minimum service/experience of say three years, with a Govt./quasi Govt./boards/endowments/reputed companies/corporate industrial establishments, etc.

The stipulation of minimum period of service may vary from bank to bank.

Purpose: For meeting of marriage/educational and medical expenses, to celebrate family functions and for other household expenses.

Eligible Amount: The eligible amount of a loan is calculated based on so many times of the gross/net salary. While arriving at the quantum of loan, the minimum take home pay say, forty per cent of the gross salary, will be stipulated after the proposed EMI.

Security: Sometimes banks insist on the guarantee of another person, if there is no collateral security, or in case, the account is with the branch, a letter giving an undertaking from the borrower to d ebit his account for the EMI. When the employer of the borrower sponsors the loan, h is asked for an undertaking, to the bank to recover the EMI from the salary and remit into the bank.

Documents: Proof of employment and salary certificate are normally obt ained. After sanction of the loan, banks take the necessary loan documents such as; DPN, salary loan agreement, etc., from the borrower and a guarantee agreement from the guarantor, if any.

The rate of interest on this loan will be higher than other loans as there is no collateral security.

Some banks are taking post-dated cheques for the future EMI.

Banks allow 36-60 months as repayment period.

Normally banks levy a certain percentage of the loan amount; say one per cent, as a processing fee.

Consumer Loans

Target group: Salaried class, pensioners, professionals, self -employed business persons and other individuals who have regular income.

Purpose: For purchase of consumer durables and white goods like TV, VCR, VCP, air conditioners, refrigerators, personal computers and accessories, etc.

Eligible amount: While arriving at the quantum of loan, the cost of the article to be purchased and the margin be brought by the borrower are taken into account. The minimum take home pay, say forty per cent of the gross salary, shall also be ensured after the proposed EMI.

Security: Hypothecation of the article purchased out of the bank loan.

Margin: Normally a margin of 10-20 per cent is stipulated.

Repayment: Banks allow a thirty six to sixty months repayment period.

Documents: The documents to be obtained are: salary certificate for three months for self and spouse (if spouse income is also taken into account for arriving at the eligibility) IT returns/Form 16 for two to three years in case of professionals, businessmen , Self -employed persons. Quotations of the articles selected from a reputed dealer. Statement of account/passbook, showing one year's transactions. Some banks are taking post-dated cheques for the future EMI.

After sanction of the loan, banks take necessa ry loan documents such as DPN, hypothecation agreement, etc., from the borrower and a guarantee agreement from the guarantor if any.

Normally banks levy a certain percentage of the loan amount, say one per cent, as a processing fee.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CARD / RBI: Credit/Debit Card Issuance and Conduct Directions

PREPAY / RBI: Pre-payment Charges on Loans Directions, 2025

28 facts / final recall

01-14 / foundations	15-28 / application
01. Issuer and acquirer have different roles.	15. Valuation does not prove title.
02. Cardholder uses the facility.	16. Disbursement follows eligible progress and terms.
03. Merchant accepts card payments.	17. LTV differs from risk weight.
04. Network supports routing.	18. Maturity must fit capacity and policy.
05. Interest-free periods have conditions.	19. Fixed and floating rates carry different risks.
06. Minimum payment does not remove interest liability.	20. Prepayment treatment depends on the rules.
07. Assess credit-limit affordability.	21. Personal-loan quantum depends on obligations and income.
08. Unsolicited issuance has restrictions.	22. Salary does not remove default risk.
09. Disclose important terms and charges.	23. Consumer loans fund eligible consumption.
10. Closure has prescribed service standards.	24. Margins vary by product.
11. Investigate billing disputes promptly.	25. Repayment periods vary by product.
12. Fraud controls include alerts and reporting.	26. Insurance requires proper treatment.
13. Home-loan appraisal checks borrower and property.	27. Guarantees require authority.
14. Title and approvals are separate checks.	28. A mandate does not replace affordability assessment.

B15 / Priority Sector Advances



At the branch

A useful loan is not automatically PSL. Check borrower, purpose, amount and bank-category eligibility.

1. Identify bank → 2. Identify purpose → 3. Apply target → 4. Report

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Use the 2025 PSL directions and amendments rather than the older 2020 framework. [PSL]

JAIIB PPB Module B Unit- 15: Priority Sector Advances

Priority Sector Advances

• In 1980, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of the aggregate bank advances by 1985. Sub- targets were also specified for lending to agriculture and the weaker sections within the priority sector. The guidelines have undergone changes over the period and the a revised Master Directions – Priority Sector Lending (PSL) – Targets and Classification was issued in September 2020.

• The targets and sub-targets as fixed for each category are applicable to every commercial bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co- operative Bank (UCB) other than Salary Earners' Bank.

Targets/Sub-Targets For Priority Sector

Important distinction / reviewed 30 October 2026

UCB overall target is 60% from April 2025; SFB overall target is 60% from FY2025-26. Older 75% tables/glide paths are historical; other categories have their own targets. [PSL] [SFB]

The targets and sub-targets for banks under priority sector are as follows:

Illustrated comparison / historical figures; read with the dated distinction

Historical 4 September 2020 PSL targets	Domestic/foreign banks 20+ branches	Foreign banks <20 branches	RRBs	SFBs
Total priority sector	40% ANBC or CEOBE, higher	40%; up to 32% export and at least 8% other sector	75%; medium enterprises/social in frastructure/renewable energy capped at 15% ANBC	75% ANBC or CEOBE, higher

#Revised targets for weaker sections will be implemented in a phased manner as

indicated below

#Revised targets for Small & Marginal farmers and Weaker sections are implemented in a phased manner as indicated below;

Illustrated comparison / historical figures; read with the dated distinction

Historical sub-target	Domestic / foreign 20+ branches	Foreign <20 branches	RRBs	SFBs
Agriculture	18%; SMF 10% phased	Not applicable	18%; SMF 10%	18%; SMF 10% phased
Micro enterprises	7.5%	Not applicable	7.5%	7.5%
Weaker sections	12% phased	Not applicable	15%	12% phased
Basis	ANBC or CEOBE, whichever higher	As specified	ANBC or CEOBE, higher	ANBC or CEOBE, higher

Illustrated comparison / historical figures; read with the dated distinction

UCB / historical glide path	Target
Total priority sector	40% rising to 75% from 31 March 2024 (legacy schedule)
31 March 2020	40%
31 March 2021	45%
31 March 2022	50%
31 March 2023	60%
31 March 2024	75%
Micro enterprises	7.5% ANBC or credit-equivalent off-balance-sheet exposure, higher
Weaker sections	12% ANBC or credit-equivalent off-balance-sheet exposure, higher

Illustrated comparison / historical figures; read with the dated distinction

Financial year	SMF target (not UCBs)	Weaker sections (RRBs 15%)
2020-21	8%	10%
2021-22	9%	11%
2022-23	9.5%	11.5%
2023-24	10%	12%

Important distinction / reviewed 30 October 2026

District thresholds, phase-in years and historic non-corporate-farmer figures are dated. Use the applicable current list, weights and eligibility rules. [PSL]

(* All domestic banks (other than UCBs) and foreign banks with more than 20 branches are required to ensure that the overall lending to Non-Corporate Farmers (NCFs) does not fall below the systemwide average of the last three years' achievement separately notified every year. The applicable target for lending to the non-corporate farmers for FY 2021-22 is 12.73% of ANBC or CEOBE whichever is higher. All efforts are to be made by banks to reach the level of 13.5 percent of ANBC (erstwhile target for direct lending to agriculture sector).

Adjustments for weights in PSL Achievement

Adjustments for weights in PSL Achievement To address regional disparities in the flow of priority sector credit at the district level, the districts have been ranked on the basis of per capita. RRBs, UCBs, LABs and foreign banks are exempted from this.

Categories Of Priority Sector

Export Credit

Illustrated comparison / key details

District category	Per-capita PSL	Weightage
Lower flow	Below Rs.6000	125%
Normal flow	Rs.6000 to Rs.25000	100%
Higher flow	Above Rs.25000	90%

Illustrated comparison / key details

Eight PSL categories
Agriculture
MSMEs
Export Credit
Education
Housing
Social Infrastructure
Renewable Energy
Others



Apply the distinction

Explain the decision: Education lending has eligibility limits. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Quick Revision contains historical target and classification figures. Do not use the older foreign-bank 32% overall target, investment-only MSME bands or Rs.50000 micro-credit definition as universal current rules. Use current bank-category PSL directions and the updated MSME and household microfinance definitions in this module. [PSL] [MSME] [MFI]

Export credit under agriculture and MSME sectors can be included in the respective categories. Export credit includes pre-shipment and post-shipment export credit. Other

export-credit is classified as:

Non-achievement Of Priority Sector Targets

• Banks with shortfall in lending to priority sector are allocated amounts for

contribution to the Rural Infrastructure Development Fund (RIDF)

(NABARD) and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd., as decided by the RBI from time to time.

• With effect from March 31, 2021, UCBs (excluding those under all-inclusive directions) are also required to so contribute. The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. is fixed by RBI.

Common Guidelines For Priority Sector Loans

• Rate of Interest: The rate of interest on various priority sector loans will be as per RBI's directives issued.

• Service Charges: No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000. In the case of SHGs/JLGs, this limit is per member.

• Receipt, Sanction/Rejection/Disbursement Register Records of loans - the date of receipt, sanction/ rejection/disbursement with reasons should be maintained and shown to all inspecting agencies.

• Issue of Acknowledgement of Loan Applications An acknowledgement for loan applications should be given, and the bank's decision to be communicated in writing to the applicants within the time limit fixed by the Board.

Other Modes Of Lending To Priority Sectors

• Investments by banks in securitised assets (not applicable to RRBs and UCBs).

• Transfer of Assets through Direct Assignment /Outright purchase (not applicable

to RRBs and UCBs)

• Inter Bank Participation Certificates (IBPCs) (not applicable to UCBs)

• Priority Sector Lending Certificates

Co-ordination Between Banks and NBFCs:

Illustrated comparison / historical figures; read with the dated distinction

Export credit / historical table	Eligibility
Domestic/WoS foreign/SFB/UCB	Increment over previous corresponding date: up to 2% ANBC or CEOBE, higher; sanction up to Rs.40 crore per borrower
Foreign banks 20+ branches	Increment over previous corresponding date: up to 2% ANBC or CEOBE, higher
Foreign banks <20 branches	Up to 32% ANBC or CEOBE, higher

Two modes for priority sector lending through NBFCs are permitted:

• Credit to NBFCs (including HFCs) for on-lending: Up to 5% of total PSL (Quarterly average)

• Co-origination of loans: Joint contribution of credit at the facility level.

Worked illustration / stated assumptions

Step	Working / interpretation
Assumptions	Eligible bank category with 40% overall target; ANBC Rs.1000 crore and CEOBE Rs.900 crore.
Denominator	Higher of 1000 and 900 = Rs.1000 crore.
Overall target	1000 x 40% = Rs.400 crore.
Interpretation	Meeting this amount does not by itself meet every applicable sub-target. This illustration does not apply one target to every bank.

Practice / answer beside the question

Q01. What is priority-sector classification used for?

Answer / It identifies eligible credit contributing to prescribed development-oriented lending targets.

Q02. Why does the bank category matter?

Answer / Targets, sub-targets and eligibility conditions differ by the applicable bank category.

Q03. What base is used for targets?

Answer / Use the prescribed ANBC or credit-equivalent off-balance-sheet exposure basis, whichever is applicable under the directions.

Q04. Can an old MSME investment-only table establish current classification?

Answer / No. Current composite classification considers investment and turnover under the operative notification.

Q05. Why track weaker-section sub-targets separately?

Answer / A bank must meet the applicable sub-target, not merely its overall PSL percentage.

Q06. Does a PSLC transfer the underlying loan?

Answer / No. PSLCs transfer specified target achievement benefits; the underlying loans and credit risk remain with the seller.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. RBI has advised the banks to raise the shares of priority sector lending to 40 % of the aggregate bank advances.

2. Out of this 40 %, 18 % is for agricultural sector (no targets for foreign banks), 10 % is for weaker sections (no targets for foreign banks), and 1 % of previous year’s total advances are given under DRI (Differential Rate of Interest Scheme) (no targets for foreign banks).

3. Above mentioned limit is for domestic commercial banks. For foreign banks, 32 % of ANBC (Adjusted Net Bank Credit) is for priority sector advances.

4. Export credit is not a part of priority sector for domestic commercial banks. However foreign banks are given target of 12 % of ANBC.

5. Description of Micro, Small and Medium Sectors:

Investment in plant and machinery Investment in Equipment Type of Enterprise (Manufacturing Sector) - (Services Sector)

Up to 25 lacs - up to 10 lacs Tiny

25 lacs to 5 crore - 10 lacs to 2 crore Small 5 crore to 10 crore - 2 crore to 5 crore Medium 6. Micro credit includes provision of very small amounts up to Rs 50,000 per borrower.

7. The government has decided that the farmers should recei ve short term credit at 7 % with an upper limit of 3 lakh on the principal amount. On this amount, the government provides interest subvention of 2 % p.a. to the banks.

8. This 2 % subvention will be available to banks on condition that they make short ter m credit available at the ground level with ROI of 7 % p.a.

1. Loans repayable up to 18 months are short term loans.

2. Medium/long term loans are for more than 36 months.

3. All farmers who require loan for their cultivation expenses are eligible to get loan under KCC scheme.

4. KCC is valid for a period of 3 years subject to an annual review. Any number of withdrawals and repayments are permitted under this scheme.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

MFI / Government: microfinance household-income and repayment norms

MSME / MSME Ministry: revised classification effective April 2025

PSL / RBI: Priority Sector Lending Directions, 2025

SFB / RBI: Review of PSL norms for SFBs, 20 June 2025

28 facts / final recall

01-14 / foundations	15-28 / application
01. PSL follows applicable directions.	15. Export credit has conditions.
02. Social usefulness does not prove eligibility.	16. Education lending has eligibility limits.
03. Denominator is not simply gross advances.	17. Housing has purpose and amount conditions.
04. ANBC and CEOBE have defined computation.	18. Social infrastructure has eligible activities.
05. Use the prescribed higher denominator.	19. Renewable energy has eligible purposes.
06. Targets differ by bank category.	20. Other categories need their own tests.
07. UCB overall target became sixty percent.	21. District weights affect achievement.
08. SFB overall target became sixty percent.	22. Historic glide paths are not current targets.
09. Agriculture has specified sub-targets.	23. Shortfall may require fund contributions.
10. SMF has its own target.	24. PSLC differs from loan sale.
11. Micro enterprises differ from total MSME lending.	25. On-lending requires evidence and conditions.
12. Weaker-section eligibility is defined.	26. Co-lending follows its framework.
13. Agriculture is a PSL category.	27. Avoid double counting.
14. MSMEs are a PSL category.	28. Maintain classification and reporting evidence.

B16 / Agricultural Finance



At the branch

Separate seasonal crop need from dairy or machinery investment and their repayment schedules.

1. Assess activity → 2. Calculate need → 3. Set KCC limit → 4. Monitor

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

The three-year KCC validity in Quick Revision is older wording. The revised KCC structure distinguishes overall validity, annual drawing limits and annual review; apply the operative scheme and sanction. Short/medium/long-tenor labels also depend on the applicable classification and product.

JAIIB PPB Module B Unit- 16: Agricultural Finance

Short-term Loan

Loans repayable up to 18 months are termed as short-term loans

Medium/ Long –term Loan

• The period of credit under this category is more than 36 months. This includes loan for the purpose of minor irrigation, farm/land development, farm

mechanization, plantation and horticulture, allied activities

Crop Loans

Illustrated comparison / key details

Short-term agricultural loan channels
Crop Loan
KCC Scheme
Loan Against Gold Ornaments

• The purpose of the crop loan is to facilitate the agriculturists undertake farming, i.e. to meet the expenses for raising of seasonal crops including the cost of seeds, fertilisers and pesticides, irrigation charges; labour charges, etc.

• Agriculturists, tenant farmers and share croppers who actually cultivate the lands are eligible for these loans.

• Loan amounts are worked out based on the cost of cultivation (scale of finance) incurred, for each crop per acre of the crop cultivated, keeping a margin, say of 10 per cent.

Kisan Credit Card Scheme

• The Kisan Credit Card (KCC) scheme provides for issue of credit cards (including electronic cards) to farmers (as per their land holding) for purchase of inputs, and investment for allied and non-farm activities.

Objectives

• It aims at providing adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs such as - Post harvest expenses, Consumption requirements of farmer household, Maintenance of farm assets and activities allied to agriculture.

Eligibility

• Farmers – Individuals/Joint borrowers who are owner cultivators;

• Tenant Farmers, Oral Lessees & Share Croppers;

• SHGs or Joint Liability Groups (JLGs) of Farmers including tenant farmers, share croppers.

Fixation of Credit Limit

1)All Farmers Other Than Marginal Farmers

Short term limit for farmers raising single crop in a year:

For uniformity, the District Level Technical Committee (DLTC) assesses cultivation cost per hectare for different crops raised in the district, and determines the scale of finance.

• Short term limit for the first year: Scale of finance for the crop (as per DLTC) x Extent of area cultivated +10% of limit towards post-harvest/ household/ consumption requirements + 20% of limit towards repairs and maintenance expenses of farm assets + crop insurance and/ or accident insurance.

• Limits for second & subsequent year: First year limit for crop cultivation purpose + 10% of the limit towards cost escalation/increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year).

For farmers raising more than 1 single crop in a year:

For farmers who raise more than one crop in a year, the limit is to be fixed as stated above depending upon the crops cultivated as per proposed cropping pattern for the first year, and additional 10% of the limit towards cost escalation/ increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year). In case the cropping pattern is changed subsequently, the limit may be reworked.

Term loans for investments:

The term loan component is for investment towards land development, minor irrigation, purchase of farm equipment and allied agricultural activities. Banks may fix the quantum of credit for term loan based on the unit cost of the asset/s proposed to be acquired by the farmer, and credit limit for allied activities based on the allied activities already being undertaken on the farm, and the bank’s judgment on repayment capacity.

Maximum Permissible Limit:

The short term loan limit arrived for the 5th year plus the estimated long term loan requirement will be the Maximum Permissible Limit (MPL) and treated as the Kisan Credit Card Limit.

Fixation of Sub-Limits:

The card limit is bifurcated into sub-limits for short- term cash credit limit and term loans.

(a) Drawing limit for short term cash credit is based on the cropping pattern. The amounts for crop production, repairs and maintenance of farm assets and consumption are drawn as suits the farmer. In case of revision of scale of finance exceeding the assumed hike of 10%, drawable and credit limits may be revised.

(b) For term loans, may be allowed to be withdrawn in instalment based on the nature of investment and repayment schedule drawn as per the economic life of the investments. Total liability should be within the drawing limit of the year.

Important distinction / reviewed 30 October 2026

The illustration lists dairy unit cost Rs.60000 but uses Rs.100000 in the term component. State the chosen assumption. Escalation rounding must be explicit.

2)For Marginal Farmers

• A flexible limit of Rs. 10,000 to Rs. 50,000 be provided (as Flexi KCC) based on the land holding and crops grown including post-harvest warehouse storage related credit needs and other farm expenses, consumption needs, etc., + small term loan investments like purchase of farm equipment, establishing mini dairy/ backyard poultry as per assessment of Branch Manager without relating it to the value of land.

• The composite KCC limit is fixed for a period of five years. Wherever required, due to change in cropping pattern and/ or scale of finance, a higher limit may be arrived at.

Illustrated comparison / key details

KCC illustration II / assumptions	Basis
Land holding	10 acres
Cropping pattern	Paddy 5 acres at Rs.11000; groundnut 5 acres at Rs.10000; sugarcane 5 acres at Rs.22000 (finance plus crop insurance per acre)
Investment/allied activity	1+1 dairy unit, unit cost Rs.60000; tractor unit cost Rs.600000 in first year

Illustrated comparison / key details

Crop component / term component	Amount (Rs.)
First-year cultivation: 55000 + 50000 + 110000	215000
Post-harvest/household consumption 10%	21500
Farm maintenance 20%	43000
First-year crop limit	279500
Second-year escalation 10%	27950
Second-year crop limit	307450
Third-year escalation rounded	30750
Third-year crop limit	338200
Fourth-year escalation rounded	33800
Fourth-year crop limit	372000
Fifth-year escalation 10%	37200
Fifth-year crop limit	409200
Crop loan amount (A), rounded	409000
Dairy unit, 1+1	100000
Tractor	600000
Term loan (B)	700000
Maximum permissible limit A+B	1109000
Drawing-limit note	Reduced annually by term-loan repayment; withdrawals only up to drawing limit

Important distinction / reviewed 30 October 2026

The marginal-farmer first-year limit is 14300 plus 15000 = Rs.29300. Rounded fifth-year Rs.35930 becomes Rs.36000.

KCC For Animal Husbandry & Fisheries

Eligibility

• Inland Fisheries and Aquaculture: Fishers, Fish Farmers, Self Help Groups, Joint Liability Groups and women groups. Must own or lease any of the fisheries related assets and possess necessary authorization /certification for fish farming and related activities.

• Marine Fisheries: For inland fisheries, to who own or lease registered fishing vessel / boat, possess necessary fishing license/permission for fishing/fish farming/ mariculture activities in estuaries and open sea and allied activities.

• Poultry and small ruminant: Farmers, poultry farmers either individual or joint borrower, Joint Liability Groups or Self Help Groups including tenant farmer of sheep/goats/pigs/poultry/birds/ rabbit and having owned/rented/ leased sheds.

• Dairy: Farmers and Dairy farmers either individual or joint borrower, Joint Liability Groups or Self Help Groups including tenant farmers having owned /rented/leased sheds.

Scale of Finance:

The scale of finance will be fixed by the DLTC based on local cost worked out on the basis of per acre/ per unit/per animal/per bird etc.

• Fisheries: The scale of finance, may include recurring cost towards seed, feed, organic and inorganic fertilisers, lime/other soil conditioners, harvesting and marketing charges, fuel/electricity charges, labour, lease rent (if leased water area) etc.

Illustrated comparison / key details

Marginal farmer / single crop	Basis / amount (Rs.)
Land holding	1 acre
Paddy, finance plus insurance, unchanged five years	11000 per acre
One non-descript milch animal	15000
First-year cultivation	11000
Post-harvest/household consumption 10%	1100
Maintenance 20%	2200
First-year crop limit A1	14300
Term loan B	15000
First-year composite A1+B	29300
Second-year crop limit A2 = A1 + 10%	15730
Second-year composite	30730
Third-year crop component rounded	17300
Third-year composite	32300
Fourth-year crop component rounded	19030
Fourth-year composite	34030
Fifth-year crop component rounded	20930
Fifth-year composite	35930
Maximum permissible / KCC limit rounded	36000



Apply the distinction

Explain the decision: Reassess changed assumptions. Check the supporting documents and applicable conditions.

• Animal Husbandry: The scale of finance, may include recurring cost towards feeding, veterinary aid, labour, water and electricity supply.

The maximum period for assessment of working capital requirement may be based on the cash flow statement or completion of one production cycle.

Drawing Power

The drawing power is worked on the basis of the latest valuation of stocks, receivables and/or cash flows.

Repayment

The loan is in the nature of a revolving cash credit limit. Repayment will be fixed as per the cash flow/ income generation pattern of the activity undertaken by the borrower.

Monitoring of end use

The account/smart card for the loan issued under the scheme is to be maintained/issued separately from the existing KCC loan to monitor the utilization limit. The monitoring of end use of funds will be in line with other loans viz., field visits to the site of unit/project to be carried out by the branch officials. Banks will periodically review the facility.

KCC Scheme

• Disbursement: The short term component is in the nature of revolving cash credit facility. There should be no restriction on the number of debits and credits. The drawing limit could be allowed to be drawn using any of the delivery channels. The long term loan may be drawn as per installment fixed.

• Issue of Electronic Credit Cards: All new KCC must be issued as smart card cum debit card. Until a composite card could be issued with appropriate software to separately account transactions in the sub limits, two separate cards may be issued for the two components. NPCI designed the KCC card to be adopted by all the banks with their branding.

• Periodic Review of KCC: Banks need to undertake periodic review of KCC that may result in continuation, enhancement, or cancellation/ withdrawal of limit depending upon increase in cropping area/ pattern and performance of the borrower. When the bank grants extension and/or re-schedules the period of repayment on account of natural calamities affecting the farmer, the period for reckoning the status of operations gets extended together with the extended amount of limit.

• Documentation: One time documentation is to be obtained at the time of first availment and thereafter simple declaration (about crops raised/ proposed) from the second year onwards may be obtained, keeping in view the limitation period.

Important distinction / reviewed 30 October 2026

Collateral-free agricultural loans including allied activities increased to Rs.2 lakh per borrower from 1 January 2025. The Rs.1.6 lakh threshold is historical. [AGRI]

• Rate of Interest (ROI): Rate of Interest will be as per the RBI Directions on Interest Rates on Advances. Interest is to be charged as applicable to agricultural advances.

• Repayment Period: The repayment period is fixed as per the anticipated harvesting and marketing period for the given crops. For term loans 5 year period is normal, if required longer period may be considered.

• Margin and Security: Margin may be decided by banks. No margin is required for loans up to Rs.1.6 lakh. Security will be as per RBI guidelines, and

may be as follows:

i)Against Hypothecation of crops alone: Up to card limit of Rs.1.60 lakh (Rs.3.00 lakh

with tie-up for recovery)

ii)Collateral security: At the discretion of bank for limits above Rs. 1.60 lakh (non tie- up) and above Rs. 3.00 lakh (with tie-up).

• Insurance Facilities: Option to take benefit of Assets Insurance, Personal Accident Insurance Scheme (PAIS) and Health Insurance, and pay premium through KCC. Crop insurance is mandatory.

• Incentives: Farmers should be informed about Interest Subvention/ Incentive for prompt repayment available from Central/ State Government. All Short Term Crop Loans eligible for incentives. Incentive are now extended only through KCC.

• Classification as NPA: IRAC and provisioning norms apply to KCC loans.

Selected Activities Under Agricultural Financing

Agricultural Term Loans

• These are provided for purchase of assets, creation of assets connected with agriculture, horticulture, plantation, sericulture, animal husbandry, fisheries

• The loan amount is repayable over a period exceeding three years.

• All categories of farmers and agricultural labourers are eligible.

• For activities like purchase of bullocks, etc., no need for supportive documents.

For larger loan, an estimate/quotation is called for. For land based activities, land records are required.

Land Development

• Loans cover various activities like land clearance land levelling and shaping, bench terracing for hilly areas, contour stone walls, fencing, etc.

• All farmers owning agricultural land are eligible.

• The borrower has to produce a report on the estimated cost, supported by estimates of an engineer.

Minor Irrigation

• Credit for the creation of irrigation facilities from underground/surface water sources. All structures and equipment necessary for irrigation are also financed

• All farmers having known source of water, usable for irrigation purposes are

eligible

• Estimate for civil works needed and quotations for the assets to be purchased are obtained. Land records for the title to the property, a Geologist certificate and a feasibility certificate from the electricity board, where relevant

Farm Mechanization

• Farm mechanisation besides tractors also includes use of other machinery viz., power tiller, threshers, combine harvester, sprayers, dusters, power tillers etc.

for increasing production and improving productivity.

• Farmer should have minimum 5 acres of perennially irrigated land for viable use of tractor.

• Maximum margin money is 25% depending on the activity taken by the farmer.

The repayment period varies from 3-9 years depending on borrower’s activity.

Finance to Horticulture

• Loans for development of fruit orchards, short-term fruit crops, flowers in open and green houses and vegetable crops are extended.

• All farmers having cultivable lands are eligible.

Documents:

• Water and soil test report

• A feasibility certificate from the local horticulture department

• Land records

• Quotation/estimates for the costs to be incurred

• If the project is large then a project report.

Poultry Farming : broiler farming and layer farming

Dairy Farming

Sericulture

Drip, Sprinkler and Lift Irrigation System

Minimum Support Price Scheme

• It is a scheme of the Government of India (GOI) under which, the covered agricultural produces are purchased from the farmers at the declared MSP thereby preventing distress sale.

• The Food Corporation of India (FCI) acts as the Nodal Agency of GOI. These prices are announced for 25 crops currently at the commencement of the Rabi and Kharif seasons to encourage farmers to pursue their efforts.

• National Agricultural Cooperative Marketing Federation of India Ltd.

(NAFED) is the nodal procurement agency for Oilseeds and pulses.

• In September 2018, the Government of India announced a new Umbrella Scheme,

“Pradhan Mantri Annadata Aay Sanrakshan Abhiyan” (PM-AASHA) which

includes the mechanism of ensuring remunerative prices to the farmers comprising (i) Price Support Scheme (PSS), (ii) Price Deficiency Payment Scheme (PDPS), (iii) Pilot of Private Procurement & Stockist Scheme (PPPS).

Prime Minister Fasal Bima Yojana (PMFBY)

• In 2016, the Pradhan Mantri Fasal Bima Yojana (PMFBY) replaced all the prevailing yield insurance schemes in India. It has extended coverage under localized risks, post-harvest losses etc. and aims at adoption of technology for the purpose of yield estimation.

• All farmers including share-croppers and tenant farmers growing the notified crops in the notified areas are eligible for coverage.

• It has two components viz. Basic Cover, and Add-on Coverage. The basic cover is mandatory, add-on covers may be chosen by the State Governments. Losses arising out of war and nuclear risks, malicious damage and other preventable risks are excluded.

• Aadhaar is mandatory for availing crop insurance.

• States/UTs choose either the Scale of Finance or Notional Average Value (Notional Average Yield * MSP/Farm Gate) price method for computation of Sum Insured.

• The Actuarial Premium Rate (APR) would be charged under PMFBY by implementing Insurance Company.

Worked illustration / stated assumptions

Step	Working / interpretation
First-year crop cost	Paddy 55000 + groundnut 50000 + sugarcane 110000 = Rs.215000.
Additional components	10% household/post-harvest = Rs.21500; 20% maintenance = Rs.43000.
Crop limit	215000 + 21500 + 43000 = Rs.279500.
Second year	279500 x 1.10 = Rs.307450.
Rounding convention	Third year 338195 rounded to 338200; fourth year 372020 rounded to 372000; fifth year 409200, then rounded crop ceiling 409000.
Chosen term-loan assumption	Use Rs.100000 for dairy plus Rs.600000 for tractor = Rs.700000. The separate Rs.60000 dairy assumption is inconsistent with this calculation.
Composite limit	409000 + 700000 = Rs.1109000. If dairy were Rs.60000 instead, the same rounded crop ceiling gives Rs.1069000.
Marginal farmer	14300 crop + 15000 animal = Rs.29300 initially; fifth-year stated Rs.35930 is rounded to Rs.36000.

Practice / answer beside the question

Q01. What is the operating purpose of a KCC?

Answer / KCC provides eligible farmers with appropriately assessed credit for cultivation and other permitted needs.

Q02. Why is a scale of finance needed?

Answer / It supports assessment of crop costs for the area and crop; other permitted components are assessed separately.

Q03. How are short-term crop needs distinguished from investment credit?

Answer / Crop working capital meets recurring seasonal costs; investment credit supports eligible longer-lived assets.

Q04. Why identify the crop season in repayment assessment?

Answer / Harvest and marketing cash flows determine an appropriate repayment schedule, and crop-season rules affect classification.

Q05. Does annual review mean that every KCC expires annually?

Answer / No. Review, renewal and overall validity are distinct; apply the operative scheme and sanction.

Q06. What should be checked when applying interest subvention?

Answer / Check the operative scheme period, eligible purpose, amount, rate and repayment conditions rather than assume a universal concession.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. Loans repayable up to 18 months are short term loans.
2. Medium/long term loans are for more than 36 months.
3. All farmers who require loan for their cultivation expenses are eligible to get loan under KCC scheme.

4. KCC is valid for a period of 3 years subject to an annual review. Any number of withdrawals and repayments are permitted under this scheme.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

AGRI / Government: agricultural collateral-free threshold from January 2025

28 facts / final recall

01-14 / foundations	15-28 / application
01. Farm finance includes crop and investment needs.	15. Drawing limit differs from overall limit.
02. Crop loans support seasonal production.	16. Repayment can reduce future drawings.
03. Term loans support longer-lived assets.	17. Reassess changed assumptions.
04. KCC can combine eligible components.	18. Collateral-free threshold increased to two lakh.
05. Scale of finance is activity specific.	19. The old threshold is historical.
06. Area affects crop finance.	20. Security depends on amount and rules.
07. Post-harvest provisions need the method assumptions.	21. Repayment should fit realisation.
08. Maintenance provisions need the method assumptions.	22. Crop-season NPA tests differ.
09. Escalation is not automatic entitlement.	23. Subvention is scheme specific.
10. Insurance cost depends on scheme.	24. Budget announcements need operative implementation.
11. Multiple crops affect annual need.	25. Crop-failure relief follows applicable rules.
12. Dairy needs separate appraisal.	26. PMFBY differs from KCC.
13. Tractors need viability appraisal.	27. MSP does not guarantee every sale price.
14. Highest-year assessed need can affect limit.	28. Document assumptions and monitoring.

B17 / Finance to MFIs and Co-Lending with NBFCs



At the branch

Two lenders share a loan. Make pricing, servicing and monitoring responsibility clear.

1. Identify entity → 2. Assess household → 3. Agree sharing → 4. Monitor

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module B Unit- 17: Finance to MFIs/Co-Lending

Arrangements with NBFCs

Non Banking Finance Companies (NBFCs)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.

It is engaged in the business of -

• Loans and advances

• Acquisition of shares/ stocks/ bonds/ debentures/ securities issued by

Government or local authority

• Leasing, hire purchase, insurance business, chit business etc.

NBFC does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/ purchase/ construction of immovable property.

Microfinance provides small loans and other financial services to poor and low-income households.

Source of Financing for NBFCs

• NBFCs have several sources of finances.

Public Deposits (with specific approval of RBIs)

Debentures

Bank Borrowings

Commercial Papers

• Bank borrowings are a major source of funds for NBFCs including NBFC-MFIs.

This helps in widening the reach of institutional credit to the sectors and areas that are not fully covered by banks.

• NBFCs largely cater to priority sectors, this channel contributes to the priority sector lending of banks.

Bank Finance To NBFCs

• Banks may extend need based working capital facilities as well as term loans to all NBFCs registered with RBI and engaged in infrastructure financing, equipment leasing, hire-purchase, loan, factoring and investment activities subject to the guidelines.

• Banks may also extend finance to NBFCs against second hand assets financed by them.

All NBFCs including HFCs are required to register with RBI, except few exempted

categories:-

• Micro Finance Companies

• Asset Reconstruction Companies registered with the RBI under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

• Nidhi Companies

• Mutual Benefit Companies

• Chit Companies (under Chit Funds Act, 1982)

• Merchant Banking Companies (subject to conditions)

NBFC Activities Not Eligible for Bank Finance

• Bills discounted/ rediscounted by NBFCs.

• Investments of NBFCs both of current and long-term nature, in any

company/entity by way of shares, debentures

• Unsecured loans/ inter-corporate deposits by NBFCs to/ in any company.

• All types of loans and advances by NBFCs to their subsidiaries, group companies/ entities.

• Finance to NBFCs for further lending to individuals for subscribing to IPOs and for purchase of shares from secondary market.

• Shares and debentures cannot be accepted as collateral securities for secured loans to NBFC.

Prudential Ceilings for Exposure of Banks to NBFCS

• Exposure to a single NBFC: Maximum 20% of the bank's Tier I capital.

• Exposure to a group of connected NBFCs: Maximum 25% of the bank's Tier I Capital.

• Exposure to a single NBFC predominantly lending against collateral of gold Jewellery: Maximum 7.5% of the bank's Tier I plus Tier II Capital. The ceiling may go up to 12.5% if the additional exposure is on account of funds on-lent by the NBFCs to infrastructure sector.

• Aggregate exposure to NBFC Sector: Banks may fix internal limits for their aggregate exposure to all NBFCs put together.

• Aggregate exposures to all NBFCs, having gold loans to the extent of 50% or more of their total financial assets: Banks should have an internal sub-limit on their aggregate exposures to all such NBFCs.

Bank Loans To NBFCs For On-lending

• Banks can extend loans to NBFCs for the purpose of on-lending to the priority sectors. This mode is not applicable to RRBs, UCBs, SFBs and LABs.

• Loans to MFIs (NBFC-MFIs, Societies, Trusts, etc.)

• Loans to NBFCs for on-lending is eligible for classification as priority sector under respective categories subject to specified conditions.

• Loans to HFCs approved by NHB

• Bank credit to NBFCs (including HFCs) for on-lending, should be within 5% of its total priority sector lending, averaged across four quarters.

NBFC-MFI

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Companies Act, 1956 - Section 8 of the Companies Act, 2013) that fulfills the following conditions:

Important distinction / reviewed 30 October 2026

Current microfinance uses collateral-free loans to households with annual income up to Rs.3 lakh and a 50% household monthly repayment-obligation ceiling. Older income, loan-cycle and indebtedness caps are historical. Entity-specific NBFC-MFI rules are separate. [MFI]

• Minimum Net Owned Funds: Minimum Rs. 5 crore. (Registered in the North Eastern Region, Minimum Rs. 2 crore).

• Qualifying Assets Share: Not less than 85% of net assets to be "qualifying

assets."

Qualifying Asset: A loan which satisfies the following criteria: −

• Household Income Ceiling: Borrower with annual income not exceeding Rs.

1,25,000 (rural household) or Rs. 2,00,000 (urban and semi-urban household).

• Ceiling on Loan Amounts: Maximum loan amount Rs. 75,000 (first cycle) and Rs. 1,25,000 (subsequent cycles).

• Total indebtedness: Maximum Rs. 1,25,000. Education and medical expenses are excluded for total indebtedness.

• Tenure of Loan: Not less than 24 months for loan more than `30,000 with prepayment without penalty.

• Collateral: Any loan should be extended without collateral.

• Loan Portfolio: Aggregate of loans for income generation to be at least 50% of the total loans of the NBFC-MFI, and the rest can be for other purposes (housing repairs, education, medical and other emergencies).

• Repayment Mode: Weekly, fortnightly or monthly instalments at the choice of the borrower.

• Other Income: Income from remaining 15 percent assets to be as per the regulations.

• Restriction on Micro-finance: An NBFC not qualifying as an NBFC-MFI to extend loans to micro finance sector not exceeding 10% of total assets.

Certain MFIs which fulfill the following criteria are exempted from registration with

RBI:

• Purpose and Quantum of Credit: Providing credit not exceeding Rs. 50,000 for a business enterprise and Rs. 1,25,000 for a dwelling unit to any poor person;

and

• Licensing: Under Sec. 25 of the Companies Act, 1956 (Sec. 8 of the Companies

Act, 2013); and

• Public Deposits: It does not accept public deposits as defined in RBI Directions.

MFIs Exempted from Registration

Certain MFIs which fulfill the following criteria are exempted from registration with

RBI:

• Purpose and Quantum of Credit: Providing credit not exceeding Rs. 50,000 for a business enterprise and Rs. 1,25,000 for a dwelling unit to any poor person;

and

• Licensing: Under Sec. 25 of the Companies Act, 1956 (Sec. 8 of the Companies

Act, 2013); and

• Public Deposits: It does not accept public deposits as defined in RBI Directions.



Apply the distinction

Explain the decision: Revised CLA commenced in January 2026 subject to transition. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Old fixed margin and processing-charge caps are not universal current pricing rules. Apply the current board-approved pricing and conduct framework. [MFI]

Prudential Norms

Capital Adequacy

Tier I and Tier II Capital to be not less than 15% of aggregate risk weighted assets. Tier II Capital not to exceed Tier I Capital.

Asset Classification Norms:

• Standard asset: No default in repayment of principal or payment of interest is perceived.

• Non-performing asset: Interest/principal payment remained overdue for a period of 90 days or more.

Provisioning Norms:

Aggregate loan provision to be not less than the higher of:

• 1% of the outstanding loan portfolio, or

• 50% of the aggregate loan instalments overdue for more than 90 days and less than 180 days, and 100% of the aggregate loan instalments overdue for 180 days or more.

An advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing: No provision for guaranteed portion.

Provision for the excess outstandings as per the norms.

Membership of CIC:

Every NBFC-MFI has to be a member of all Credit Information Companies (CICs), provide timely and accurate data to them and use the data available with them.

Pricing of Credit:

• Margin cap: Difference between the rate to the borrower and the cost of funds - Maximum 10% for large MFIs (portfolio exceeding Rs. 100 crore) and 12% for others.

• Interest Rates Charged: Shall be the lower of the following (a) The cost of funds plus margin or (b) The average base rate of the five largest commercial banks by assets multiplied by 2.75.

• Variance in Interest rate: On individual loans not more than 4%.

• Processing Charges: Not more than 1% of gross loan amount.

• Insurance Cost: To recover only the actual cost of insurance. Administrative charges, where recovered, shall be as per IRDA guidelines.

Co-lending By Banks and NBFCs To Priority Sector

• In November, 2020 RBI revised its guidelines for co-origination as “Co- Lending Model” (CLM) that is available to banks (excluding SFBs, RRBs, UCBs and LABs), with a view to providing greater operational flexibility to the lending

Important distinction / reviewed 30 October 2026

Revised CLA rules effective from January 2026 have minimum 10% retention per participant, defined scope and transition. The earlier 20% originator/PSL-only model is historical. [CLA]

institutions. The CLM shall not be applicable to foreign banks with less than 20 branches.

• Banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. Co-lending banks will take their share of the individual loans on a back-to-back basis in their books. NBFCs shall be required to retain a minimum of 20% share of the individual loans on their books.

• The bank retains the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions specified.

• The NBFC shall enter into a loan agreement with the borrower, containing the features of the arrangement and roles and responsibilities of the NBFC and the bank.

• Suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the NBFC within 30 days.

• The co-lending bank and the NBFC shall maintain each individual borrower's account for their respective exposures.

• All transactions (disbursements/ repayments) between the bank and the NBFC relating to CLM shall be routed through an escrow account maintained with the bank.

• Each lender shall adhere for its share of the loan account to respective IRAC and provisioning requirements, reporting to Credit Information Companies.

Framework For Scale Based Regulation (SBR) For NBFCs

• Reserve Bank of India has put in place a revised regulatory framework for NBFCs effective from October 01, 2022.

• Regulatory structure for NBFCs shall comprise of four layers based on their size, activity, and perceived riskiness.

• Base Layer (NBFC-BL), NBFC - Middle Layer (NBFC-ML), NBFC - Upper Layer (NBFC - UL) and NBFC - Top Layer (NBFC - TL).

• NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.

• NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer). SPD and IDF-NBFC will always remain in the Middle Layer.

• The remaining NBFCs, viz., NBFC-ICC, NBFC-MFI, NBFC-MGC could lie in any of the layers.

• Government owned NBFCs shall be placed in the Base Layer or Middle Layer.

Practice / answer beside the question

Q01. What determines whether a household loan falls within the microfinance framework?

Answer / Apply the operative collateral-free loan and household annual-income definition, rather than an old fixed loan-size definition alone.

Q02. Why assess household repayment obligations?

Answer / The framework limits the household's aggregate monthly repayment obligations relative to monthly household income.

Q03. Does absence of collateral remove the need to appraise repayment?

Answer / No. Affordability and repayment capacity remain essential.

Q04. What is the role of transparent pricing?

Answer / It enables the borrower to understand the rate, fees and repayment obligation under the applicable disclosure requirements.

Q05. Why do co-lending rules require the applicable arrangement date?

Answer / The applicable directions and transition determine which framework governs a particular arrangement.

Q06. Does outsourcing transfer the regulated lender's responsibility?

Answer / No. The lender remains accountable for compliance and the conduct of agents acting for it.

Quick Revision

Revise the chapter distinctions, apply them to the branch cases, then test yourself using the final recall points below.

Reference Notes / reviewed 30 October 2026

CLA / RBI: Co-Lending Arrangements Directions, 6 August 2025

MFI / Government: microfinance household-income and repayment norms

28 facts / final recall

01-14 / foundations	15-28 / application
01. Microfinance differs from ordinary NBFC lending.	15. PSL on-lending requires conditions.
02. Microfinance has a household-income definition.	16. Concentration norms depend on bank category.
03. Eligible microfinance is collateral free.	17. Co-lending uses eligible regulated entities.
04. Annual household-income ceiling is three lakh.	18. Revised CLA commenced in January 2026 subject to transition.
05. Assess household-level monthly obligations.	19. Minimum retention is ten percent per participant.
06. The repayment-obligation ceiling is fifty percent.	20. The older twenty-percent rule is historical.
07. Include all relevant loans.	21. Disclose pricing clearly.
08. Declarations supplement bureau data.	22. Document responsibilities.
09. Pricing needs a board policy.	23. Control funds routing.
10. Old margin caps are historical.	24. Each lender books its exposure.
11. Income-generation share is not the current loan definition.	25. Each lender reports its share.
12. Entity eligibility differs from borrower eligibility.	26. Servicing responsibility must be clear.
13. NBFC capital has separate rules.	27. Provide grievance redress.
14. Banks appraise NBFC exposure.	28. Scale-based regulation uses defined layers.

B18 / Micro, Small and Medium Enterprises



At the branch

Apply revised investment and turnover tests separately from guarantee-scheme eligibility.

1. Classify → 2. Assess need → 3. Choose support → 4. Monitor

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module B Unit- 18: Micro Small and Medium

Enterprises In India

MSMEs

Important distinction / reviewed 30 October 2026

From April 2025 investment/turnover ceilings in crore are micro 2.5/10, small 25/100, medium 125/500. Both tests apply. [MSME]

• The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund (TDMF) were created to accelerate finance and technical services to the sector. The Delayed Payment Act, 1993 was enacted to facilitate prompt payment of dues to MSMEs.

• The Ministry of MSME came into being from 1999 to provide focused attention to the development and promotion of this sector.

• A credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSME sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs.

• In July 2006, the Micro, Small and Medium Enterprises Act was in place.

Difference Between Micro, Small & Medium Enterprises

Illustrated comparison / key details

MSME objectives
Increased Domestic Production
Increased Export Earnings
Low Investment Requirement
Operational Flexibility
Import Substitution
Technology Oriented Industries

Policy Packages for MSMEs: Credit/ Finance

• Credit to the MSMEs is part of the Priority Sector Lending with sub-target of 7.5% of ANBC or CEOBE (whichever is higher) for lending to Micro enterprises.

As per the recommendations of the Prime Minister's Task Force on MSMEs,

banks need to achieve:

i)20% year-on-year growth in credit to micro and small enterprises.

ii)10% annual growth in the number of micro enterprise accounts iii)60% of total lending to MSE sector (corresponding quarter previous year) to Micro enterprises.

• The SIDBI is the principal financial institution for promotion, financing and development of the MSME sector.

• Commercial banks are important channel and provide both working capital and term loans.

• State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs) are major sources of long-term funds.

• MSMEs are moving to other specialized financial services and options- primary/secondary securities market, factoring services etc.

Certified Credit Counsellors (CCC) Scheme

• The scheme was launched by SIDBI in July 2017.

• As per the scheme, Certified Credit Counsellors (CCC) are institutions or individuals registered with SIDBI who shall assist MSMEs in preparing project reports in a professional manner which would, in turn, help banks make more informed credit decisions.

• To ensure professional competence in terms of knowledge, the CCC aspirants are required to complete the MSME Certification programme offered by IIBF.

Delayed Payments

Illustrated comparison / historical figures; read with the dated distinction

MSME definition / historical 2020 thresholds	Investment ceiling	Turnover ceiling
Micro	Rs.1 crore	Rs.5 crore
Small	Rs.10 crore	Rs.50 crore
Medium	Rs.50 crore	Rs.250 crore

• As per MSMED Act 2006, the payments in respect of supplies made by MSE units should be received on or before the agreed date, subject to maximum 45 days from delivery.

• On failure to effect the payment, the buyer has to pay compound interest with monthly rests to the supplier on the amount for the period from the appointed day/the date agreed on, at three times of the Bank Rate notified by RBI.

• MSME SAMADHAAN: It is a Portal created by Office of DC (MSME), Ministry of Micro, Small and Medium Enterprises(MSME) where MSEs can file their applications online about delayed payments.

Trade Receivables Discounting System (TReDS)

• TReDS is an electronic platform for facilitating the financing/ discounting of trade receivables of MSMEs through multiple financiers.

• Sellers, buyers and financiers are the participants on a TReDS platform. Only MSMEs can participate as sellers. Banks, NBFC – Factors and other financial institutions as permitted by the RBI, can participate as financiers.

• Each Factoring Unit (FU) represents a confirmed obligation of the buyers. FU can be created either by the MSME seller or the buyer. If MSME seller creates, it is factoring; if created by the buyer, it is reverse factoring.

Performance And Credit Rating Scheme

• It has been formulated in consultation with IBA and Rating Agencies. NSIC is the

nodal agency for implementation of this scheme through empaneled

agencies.

• Availability of an independent evaluation of the strength and weaknesses of MSE unit seeking credit and thereby enabling banks and financial institutions manage their credit risk. Uniform Rating Scale for all empanelled rating agencies is there.

Credit Guarantee Fund Scheme for Banks (CGS-I)

• The credit facilities extended by commercial banks, RRBs, SFIs, SFBs, NBFCs, FinTech NBFCs, SIDBI, NSIC, and NEDFC are eligible to be covered under CGS-I.

• It covers credit facilities (both fund and non fund based) extended by Member Lending Institutions, without any collateral security and third party guarantees, to a single eligible borrower not exceeding Rs.50 lakh (RRBs/FIs/SFBs);

and Rs.200 lakh (SCBs, select FIs, NBFCs).

• MLIs can apply for guarantee cover anytime during the tenure of loan provided it was not restructured/ remained in SMA2 status in last 1 year before the application. The credit facility should be standard and regular and the activity of the borrower should not have ceased. The loan amount has not been used for adjusting debt bad or doubtful of recovery, without prior consent of the Trust.

• Guarantee Period: From the date of payment of guarantee fee; for the tenure of the loan (for term/ composite loans); 5 years (if only working capital facilities).

Important distinction / reviewed 30 October 2026

CGTMSE ceiling increased to Rs.10 crore in 2025. Legacy Rs.2 crore limits and coverage matrices need the current scheme and lender category. [CGTMSE]

• Credit facility exceeding Rs. 200 lakh: Can be covered; maximum guarantee cover Rs. 150 lakh; Pari-passu charge of CGTMSE on both primary and collateral security.

• Interest rate on the credit facilities: Maximum 14% per annum including cost of guarantee cover, for RRBs Average Base Rate decided by CGTMSE.

Extent of Guarantee Cover (w.e.f April 1, 2018)

Credit Guarantee Fund Scheme for NBFCs (CGS-II)

• This Scheme is open to NBFCs registered with RBI and meeting the criteria specified by the Trust.

• Credit facilities (both fund and non -fund based) extended by MLIs to a single eligible borrower in the MSME sector up to Rs. 200 lakh, with/without any collateral security are covered. For MSE Retail Trade credit facility up to Rs.

100 lakh is covered.

• Guarantee fee at specified rate on each batch of the Portfolio shall be paid within 30 days of submission of each batch or from the date of Demand Advice (CGDAN) of guarantee fee whichever is earlier.

Distressed Assets Fund (Credit Guarantee Scheme for Subordinate Debt)

• The Scheme was for those MSMEs whose accounts were standard as on 01.01.2016 and have been in regular operations, as standard or NPA during 2018-19 and financial year 2019-20, and were stressed as on 30th April, 2020.

PM SVANidhi 2.0

Illustrated comparison / historical figures; read with the dated distinction

Legacy guarantee category	Up to Rs.5 lakh	Above 5 to 50 lakh	Above 50 to 200 lakh
Micro enterprise	85% default, cap Rs.4.25 lakh	75%, cap Rs.37.50 lakh	75%, cap Rs.150 lakh
Women / North East including Sikkim, except micro up to 5 lakh	80%, cap Rs.40 lakh	80%, cap Rs.40 lakh	75%, cap Rs.150 lakh
MSE retail trade, above 10 to 100 lakh	50% default, cap Rs.50 lakh	50% default, cap Rs.50 lakh	50% default, cap Rs.50 lakh
Other eligible borrowers	75% default, cap Rs.150 lakh	75% default, cap Rs.150 lakh	75% default, cap Rs.150 lakh



Apply the distinction

Explain the decision: CGTMSE ceiling increased to ten crore. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

The restructured PM SVANidhi lending period extends to 31 March 2030. First and second tranches increased to Rs.15000 and Rs.25000; the third is Rs.50000. Any earlier period or tranche figure is historical. [SVANIDHI]

• Ministry of Housing and Urban Affairs is implementing PM Street Vendor's Atma Nirbhar Nidhi (PM SVANidhi) Scheme since June 01, 2020 to facilitate micro-credit to street vendors.

• The scheme has been extended to December 2024 with some revisions in guidelines. Credit Guarantee and interest subsidy claims will be paid till March 2028.

• New borrowers get first loan of Rs. 10,000, second Loan of Rs. 20,000 and third loan of Rs. 50,000 provided loan is repaid regularly.

• Maximum Repayment Period: 1st Loan- 12 months; 2nd Loan – 24 months and 3rd Loan- 36 months.

• For 1st Loan, the effective guarantee cover is enhanced from 12.57% to 31.875%.

• For 2nd Loan, the effective guarantee cover is reduced from 12.57% to 8.25%

• For 3rd Loan, the effective guarantee cover is reduced from 12.5% to 6%.

• Interest Subsidy is 7% p.a. for all loans provided loan does not become NPA.

Credit Guarantee Scheme for Co-Lending (CGSCL)

• CGTMSE has introduced CGSCL for loans under Co-Lending Model. i. "Option/ Model -1" – Joint Lending by Banks and NBFCs: The guarantee cover under this Option is for individual loan/ credit facility. ii. "Option/ Model 2" - Direct Assignment: Only the MLIs registered with CGTMSE under CGS-I & CGS-II is

eligible as a pair for CLM arrangement under CGSCL

• Tenure of guarantee cover: Guarantee cover is available from guarantee sanction date till the agreed loan tenure for the term loan, and for 5 years or block of 5 years where working capital facilities alone are extended or loan termination date, whichever is earlier.

• Eligibility: Credit facilities extended by pair of MLIs to a single eligible borrower in MSE sector for credit facility (i) not exceeding Rs. 200 lakh secured by way of Primary Security; and (ii) not exceeding Rs. 100 lakh for unsecured credit facility.

• Annual Guarantee Fee (AGF): Guarantee Fee will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining

tenure of the credit facility as under:

Important distinction / reviewed 30 October 2026

The displayed fee bands are historical. Revised fees apply from April 2025 to eligible approved/renewed guarantees, with relevant concessions. [CGTFEE]

• Extent of the Guarantee Coverage: • 75% of the amount in default for credits facility secured by primary security. • 50% of the amount in default for unsecured credits facility.

• Payout Cap: The payout cap for any given year is calculated at 2 times of the total receipts (i.e. guarantee fee plus recoveries post 1st claim settlement paid to CGTMSE under the Scheme) of the previous financial year passed to CGTMSE.

Credit Facilities Not Covered Under CGTMSE Schemes

• Covered under a scheme by DICGC or RBI, to the extent of cover.

• Covered by any other insurance, guarantee or indemnity, to the extent of cover

• To Micro Enterprises up to Rs. 10 lakh covered by MUDRA Guarantee Scheme (NCGTC Ltd.)

• Not conforming to or inconsistent with any Govt. law or RBI directives.

• Effective interest rate not as per RBI/ Trust guidelines.

• Granted to any borrower, for whom the lender has invoked the guarantee of the Trust or under any other the scheme, and remains unpaid.

• Sanctioned against collateral security and/ or third party guarantee, except Hybrid Security model.

Claim Under CGTMSE Schemes

• MLIs should inform the date on which the account is classified as NPA by end of subsequent quarter.

• Guarantee can be invoked within 3 years from the NPA date or lock-in period whichever is later.

• Action for recovery has been initiated after issuing loan recall notice.

• The Trust shall pay 75% of the guaranteed amount within 30 days, if the claim is otherwise found in order and complete. The balance 25% will be paid on conclusion of recovery proceedings or till the decree gets time barred.

Cluster Based Approach In Financing MSMEs

• A cluster of MSMEs is a concentration of economic enterprises, producing a typical product/ service or a complementary range of products/services within a geographical area. The clusters are categorized as: Artisanal Clusters, Industrial Clusters.

Illustrated comparison / historical figures; read with the dated distinction

Legacy credit facility	Annual guarantee fee
Up to Rs.5 lakh	1.00%
Above Rs.5 lakh to Rs.10 lakh	1.25%
Above Rs.10 lakh	1.50%

Important distinction / reviewed 30 October 2026

An old named subsidy scheme is not presumed indefinitely open. Check applicable collateral and programme conditions. Quick Revision excise-exemption and older foreign-bank/SEDF figures are historical; they are not current tax advice or universal current PSL conditions. [PSL]

• Cluster based approach to lending is intended to provide a full-service approach to extending banking services to recognized MSE clusters.

• United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country. The Ministry of MSME has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 minority concentration districts.

• Banks have also been advised that they should open more MSE focussed branch offices at different MSE clusters which can also act as counselling centres for MSEs. Each lead bank of the district may adopt at least one cluster.

Common Guidelines for Lending To MSMEs

• Issue of Acknowledgement of Loan Applications to MSME borrowers: All loan applications must be acknowledged, submitted manually or online, and allotted a running serial number.

• Collateral: No collateral security must be accepted for loans up to Rs.10 lakh extended to units in the MSE sector, and to all units financed under PMEGP administered by KVIC.

• Composite loan: A composite loan limit of Rs.1 crore can be sanctioned to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

• Credit Linked Capital Subsidy Scheme (CLSS) Government of India, Ministry of MSME has Credit Linked Capital Subsidy Scheme (CLSS) for Technology Upgradation of MSE, subject to the following terms and conditions: (i) Loan Amount: Ceiling of Rs. 1 crore. (ii) Subsidy: 15% for all units of micro and small enterprises up to loan ceiling. (iii) Basis of Subsidy: Purchase price of plant and machinery (not the amount of loan) (iv) Implementing agencies: SIDBI and NABARD.

• Framework for Revival and Rehabilitation of MSMEs: In May 2015, the Ministry of MSME, GoI, had notified a 'Framework for Revival and Rehabilitation of MSME' to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs.

Based on which RBI, in 2016, issued guidelines to banks. The revival and rehabilitation of MSME units having loan limits up to Rs. 25 crore would be undertaken under this Framework.

• Structured Mechanism for monitoring the credit growth to the MSE sector:

Based on the recommendations of the Kamath Committee, banks are advised by RBI to: • strengthen systems of monitoring credit growth. • have a system of e- tracking of MSE loan applications.

• Specialised MSME branches: Public sector banks are advised to open at least one specialised branch in each district.

Worked illustration / stated assumptions

Step	Working / interpretation
Assumptions	Investment Rs.2 crore; annual turnover Rs.12 crore; apply the April 2025 composite ceilings.
Micro test	Investment is within Rs.2.5 crore, but turnover exceeds Rs.10 crore. Both conditions are required; the enterprise does not satisfy the micro category.
Small test	Investment is within Rs.25 crore and turnover within Rs.100 crore: it fits these small-enterprise ceilings.
Separate decision	Category alone does not establish credit or guarantee eligibility. Verify registration, activity, scheme conditions and appraisal.

Practice / answer beside the question

Q01. Do both investment and turnover matter to MSME classification?

Answer / Yes. The current classification uses composite investment and turnover criteria.

Q02. What changed in the MSME thresholds from April 2025?

Answer / The revised micro, small and medium ceilings took effect on 1 April 2025; read the dated classification table and note.

Q03. Why distinguish micro/small enterprises from medium enterprises?

Answer / Some statutory protections, targets and guarantee eligibility are limited to specified enterprise categories.

Q04. Does a credit guarantee eliminate appraisal?

Answer / No. Eligibility, viability, documentation and compliance must still be assessed.

Q05. Why check the operative guarantee fee circular?

Answer / Fees vary by eligible category, amount and operative circular; a historical slab is not automatically current.

Q06. How should delayed-payment rights be applied?

Answer / Apply the MSMED Act's qualifying enterprise, agreement, payment-period and interest conditions to the actual transaction.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. A credit guarantee scheme was started to provide collateral -free loans to micro and small entrepreneurs.

2. The exemption limit for relief from payment of Central Excise duty was raised to Rs 1 crore.

3. The MSMED Act (Micro, Small and Medium Enterprise Development Act) 2006 came into effect from 2 Oct 2006.

4. Credit to MSMEs is part of the priority sector lending policy of the bank s. Refer to Lesson 18 (1-3).

Any shortfall in the 10 % limit of MSMEs of the 32 % prescribed limit of priority sector for foreign banks has to be deposited in the SEDF (Small Enterprise Development Fund) set up by SIDBI.

5. The principal financial institution for promotion, financing and development of the MSME sector is the SIDBI.

6. If the buyer of the goods fails to make the payment to the supplier within a period of 45 days, the buyer shall be liable to pay compound interest to the supplier on the amoun t with monthly interest at 3 times of the bank rate.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CGTFEE / DCMSME: revised CGTMSE annual guarantee fee, April 2025

CGTMSE / CGTMSE: scheme ceiling and eligibility

MSME / MSME Ministry: revised classification effective April 2025

PSL / RBI: Priority Sector Lending Directions, 2025

SVANIDHI / Government: PM SVANidhi update

28 facts / final recall

01-14 / foundations	15-28 / application
01. MSME uses investment and turnover tests.	15. Buyer-created units involve reverse factoring.
02. Classification changed in April 2025.	16. Eligible financiers participate under the framework.
03. Micro ceilings are 2.5 and 10 crore.	17. Guarantee is not borrower subsidy.
04. Small ceilings are 25 and 100 crore.	18. Coverage differs by category.
05. Medium ceilings are 125 and 500 crore.	19. CGTMSE ceiling increased to ten crore.
06. The old thresholds are historical.	20. Legacy two-crore tables are historical.
07. Udyam supports identification.	21. Fees depend on current bands.
08. Registration does not replace appraisal.	22. Hybrid security has conditions.
09. MSE eligibility differs from all MSMEs.	23. Guarantee does not remove appraisal.
10. Delayed-payment law defines buyer duties.	24. Claims need scheme compliance.
11. Agreed payment time has a statutory maximum.	25. Street-vendor credit has its own scheme.
12. Delayed-payment interest has a statutory basis.	26. Clusters share risks and needs.
13. Samadhaan supports payment applications.	27. Composite finance combines eligible needs.
14. TReDS supports receivables financing.	28. Rehabilitation requires viability.

B19 / Government Sponsored Schemes



At the branch

Identify beneficiary class, eligible project cost, own contribution and subsidy conditions before quoting benefits.

1. Identify scheme → 2. Check eligibility → 3. Structure benefit → 4. Verify conditions

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Older SGSY/NRLM history does not establish current scheme conditions. District categories, subvention and credit doses need the operative year's circular.

JAIIB PPB Module B Unit- 19: Government Sponsored

Schemes

Deendayal Antyodaya Yojana – National Rural Livelihoods Mission

(Day–NRLM)

• National Rural Livelihoods Mission (NRLM) replaced the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme, which was renamed as Deendayal Antyodaya Yojana – National Livelihoods Mission (DAYNRLM) with effect from March 29, 2016.

• Universal Social Mobilization: Initially at least one member from each identified rural poor household, preferably a woman, is brought under the Self Help Group (SHG) network in a time bound manner. Subsequently, both women and men would be organized. The composition of beneficiaries is – 50% SC/STs, 15% minorities, and 3% persons with disability.

• Participatory Identification of Poor (PIP): Target groups include all the needy poor identified as households with at least one deprivation criteria as per Socio- Economic and Caste Census (SECC). Also, participation of the poor in the process of identifying the target group is adopted.

• Promotion of Institutions of the Poor

• Strengthening Existing SHGs and Federations

• Training, Capacity building and Skill building

• Revolving Fund and Community Investment Support Fund (C.I.F)

• Achieve universal financial inclusion, beyond basic banking services to all the poor households, SHGs and their federations.

• provision for subvention on interest rate above 7% per annum on loans availed from mainstream financial institutions.

• Intensive blocks: These would have access to a full complement of trained professional staff and cover a whole range of activities of universal and intense social and financial inclusion, livelihoods, partnerships etc.

Lending Norms for SHG and Individual SHG Members

Term Loan: It should be sanctioned in doses by banks.

Purpose of Loan and Repayment

• The loan amount is distributed among members based on the Micro Credit Plan (MCP) prepared by the SHGs. Major portion of the loan as indicated below to be used for income generating productive purposes.

Repayment

Security And Margin

• Upto Rs. 10.00 lakh limit: No collateral and no margin should be obtained. No lien should be marked against savings bank account of SHGs and no deposits should be insisted upon.

Illustrated comparison / key details

Year	Drawing Power
First	6 x corpus or Rs.1 lakh, higher
Second	8 x corpus or Rs.2 lakh, higher
Third	Minimum Rs.6 lakh: micro-credit plan prepared by SHG, appraised by federation/support agency and credit history
Fourth onwards	Above Rs.6 lakh: micro-credit plan prepared by SHG, appraised by federation/support agency and credit history

Illustrated comparison / key details

Dose	Drawing Power
First	6 x corpus or Rs.1 lakh, higher
Second	8 x corpus or Rs.2 lakh, higher
Third	Minimum Rs.6 lakh: micro-credit plan prepared by SHG, appraised by federation/support agency and credit history
Fourth onwards	Above Rs.6 lakh: micro-credit plan prepared by SHG, appraised by federation/support agency and credit history

Illustrated comparison / key details

Loan facility	Prescribed portion
Above Rs.2 lakh	At least 50%
Above Rs.4 lakh	At least 75%
Above Rs.6 lakh	At least 85%

Illustrated comparison / key details

Year/dose	Repayment
First	24-36 months, monthly/quarterly
Second	36-48 months, monthly/quarterly
Third	48-60 months, cash-flow based monthly/quarterly
Fourth	60-84 months, cash-flow based monthly/quarterly

• Above Rs. 10 lakh and up to Rs. 20 lakh: No collateral should be obtained and no lien should be marked against savings bank account of SHGs. The entire loan would be eligible for coverage under Credit Guarantee Fund for Micro Units (CGFMU).

Willful defaulters:

• Are not to be financed under DAY-NRLM. Banks should not deny loan to entire SHG on the pretext that certain member(s).

Recovery of Loans

• Banks shall take all possible measures, i.e. personal contact, organization of joint recovery camps with District Mission Management Units (DPMUs) to ensure the recovery of loans.

• List of defaulting SHGs should be furnished to BLCC/ DCC and discussed in the meetings every month.

Interest Subvention Scheme for Women SHG

For select 250 Districts:

• All women SHGs are eligible for Interest subvention on credit up to Rs. 3 lakh.

• The commercial banks would lend to women SHGs in rural areas @ 7% per

annum up to agg. Rs. 300,000/-

• Banks would be sub vented for difference between the Weighted Average Interest Charged (WAIC) and 7% subject to maximum 5.5%, if they provide credit to SHG at 7% p.a..

• SHGs would be provided additional 3% subvention on prompt repayment of loans.

For Category II Districts (other than select 250 Districts):

• Banks may charge the SHGs as per their respective lending norms and the difference between the lending rates and 7% subject to a maximum limit of 5.5% is subvented directly in the loan accounts of the SHGs by the SRLMs.

• Women SHGs from rural areas under DAY- NRLM would be eligible for interest subvention on credit upto Rs. 3 lakh at the rate of 7% per annum on prompt repayment. The difference amount between the lending Rate of the banks and 7% (subject to a maximum limit of 5.5%) will be remitted on a monthly/ quarterly basis by the SRLMs, directly to the loan accounts of the SHGs who have repaid promptly.

Deendayal Antyodaya Yojana – National Urban Livelihoods Mission

(Day–NULM)

• Swarna Jayanti Shahari Rozgar Yojana (SJSRY) was replaced by National Urban Livelihoods Mission (NULM), and renamed as “Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAYNULM)” in February 2016.

The NULM has following components:

• Social Mobilisation and Institution Development (SM&ID) Programmes for SHGs

and their Federations

• Capacity Building and Training (CB&T)

• Employment through Skills Training and Placement (EST&P)

• Self-Employment Programme (SEP)

• Support to Urban Street Vendors

Financial Assistance:

• Interest subsidy, over and above 7% rate of interest is given in case of timely repayment of loan.

• Additional 3% interest subvention is provided to all Women Self Help Groups (WSHGs) who repay their loan in time.

Individual Enterprises (SEP-I) - Loan & Subsidy

• Age: The beneficiary should be at least of 18 years.

• Project Cost (PC): Maximum unit Project Cost should be Rs. 2,00,000.

• Collateral Guarantee on Bank Loan: No collateral is required. and banks avail

guarantee from CGTMSE

• Repayment: Over 5 to 7 Years after initial moratorium of 6-18 months.

• Margin Money: No margin for loans up to Rs. 50,000; and for higher amount preferably 5%, and in no case more than 10% of the project cost.

• Type of Loan Facility: Term Loan - for capital expenditure; and Cash Credit – for working capitals. Composite Loans consisting of both components.

Group Enterprises (SEP-G) - Loan & Subsidy

• Eligibility Criteria: Group enterprises should have minimum 3 members with at least 70% from urban poor families, and not more than one person from the same family.

• Age: At least 18 years, if applying for bank loan.

• Maximum Loan: Maximum Rs. 2 Lakh per member or aggregate Rs. 10 Lakh, whichever is lower.

• Mode of Loan: Single loan to the group, or to each member up to Rs. 2 lakh, with cap of Rs. 10 lakh.

• Type of Loan Facility: Term Loan - for capital expenditure. Cash Credit - for working capital.

• Loan and Margin Money: No margin money for loan up to Rs. 50,000, and for higher amount preferably 5%, but not more than 10% of the project cost.

• Collateral/ Guarantee on Bank Loan: No collateral or guarantee is required.

Guarantee cover from CGTMSE or any other fund.

• Repayment: Over 5 to 7 years after initial moratorium of 6-18 months.

Credit Card for Enterprise Development

• The individual entrepreneurs needs immediate and short term cash for meeting expenses. To support for such credit needs, DAYNULM facilitates access to Credit Cards or MUDRA Card through banks.

• The SULM in consultation with the SLBC finalizes the norms, limits and specifications for issuance of Credit Card or MUDRA Card to the individual entrepreneurs.

Technology, Marketing and Other Support

• The City Livelihoods Centers (CLCs) established under DAY-NULM offer services such as for establishment, production, procurement, technology, processing, marketing, sales, packaging, accounting, etc. for long term sustainability.

Pradhan Mantri Jan Dhan Yojana

The Scheme envisages a savings bank account for each adult, linked with other benefits.

Persons without an OVD could open a ‘Small Account’. The benefits are:

• No minimum balance required.

• RuPay Debit card provided.

• Accident Insurance Cover of Rs.1 lakh (Rs. 2 lakh to accounts opened after 28.8.2018) available with RuPay card.

• Life insurance cover of Rs. 30,000/- of the account holder with RuPay debit card.

• Easy Transfer of money across India

• Beneficiaries of Government Schemes get DBT.

• After satisfactory operation of the account for 6 months, overdraft facility.

• Eligible for PMJJBY, PMSBY, APY, MUDRA scheme.

Overdraft Facility in PMJDY Accounts:

Eligibility criteria of PMJDY account holders are:

• BSBD accounts operated satisfactorily for at least six months

• OD granted to the earning member, preferably a woman of the family.

• Regular credits under DBT/ DBTL scheme/other verifiable sources.

• Account should be seeded with Aadhaar for avoiding duplicate benefit.

• Account holder should not have any other SB account with any bank.

• Age of applicant - between 18 years to 65 years.

Note: This facility is not available to minors, holders of KCC/ GCC, and more than one family member.

Period of Sanction: 36 Months subject to annual review of account.

Loan amount: Lower of the 4 times of average monthly balance or 50% of credit summations during the preceding 6 months, subject to maximum Rs. 10,000/- Interest rate: Not exceeding 2% above base rate.

Other Conditions: No processing fee can be charged for this facility.

Important distinction / reviewed 30 October 2026

PMMY includes Tarun Plus above Rs.10 lakh up to Rs.20 lakh for eligible entrepreneurs who repaid prior Tarun loans, from 24 October 2024. [MUDRA]

Operational Aspects: SBOD account will be primary account to receive all subsidies/ benefits. NPCI repository of Aadhaar Seeding for banks to verify any earlier seeding.

Mobile Number of the borrower/ family to be on record.

Pradhan Mantri Suraksha Bima Yojana

• The Scheme is available to people in the age group 18 to 70 years with a bank account who give their consent to join/ enable auto-debit on or before 31st May for the coverage period 1st June to 31st May, on an annual renewal basis.

• The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability. The premium of Rs. 20 per annum is to be deducted from the account holder's bank account through 'auto-debit' facility in one installment.

Atal Pension Yojana

• The Atal Pension Yojana (APY) was launched on 09.05.2015 to create a universal social security system for all Indians, especially the poor, the under-privileged and the workers in the un-organised sector. APY is administered by Pension Fund Regulatory and Development Authority (PFRDA).

• APY is open to all bank account holders in the age group of 18 to 40 years.

From 1st October,2022 onwards, any citizen who is or has been an income-tax

payer, shall not be eligible to join

• Subscribers would receive the guaranteed minimum monthly pension of Rs. 1000 or Rs. 2000 or Rs. 3000 or Rs. 4000 or Rs. 5000 at the age of 60 years.

• The monthly pension would be available to the subscriber, and after him to his spouse and after their death, the pension corpus, as accumulated at age 60 of the subscriber, would be returned to the nominee of subscriber.

Mudra Loans

In April 2015, Micro Units Development & Refinance Agency Ltd (MUDRA) was set up.

Pradhan Mantri Mudra Yojana (PMMY) was launched, with MUDRA as administering agency.

MUDRA has three schemes for providing assistance at different stages:

• Shishu: Covering loans upto Rs. 50,000/-

• Kishor: Covering loans above Rs. 50,000/- and upto Rs. 5 lakh

• Tarun: Covering loans above Rs. 5 lakh to Rs. 10 lakh.

Purpose:

• The loan is provided for income generating activities and not for consumption/personal needs. The extent of loan is based on the Project cost and the investment proposed.



Apply the distinction

Explain the decision: Tarun Plus covers eligible above-ten to twenty-lakh loans. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

The stated PMEGP period ending FY2025-26 does not prove continuing eligibility afterwards. Verify the current operative extension/guidelines. [PMEGP]

• For working capital purposes ‘MUDRA ’card (a RuPay debit card) has also been launched.

Interest rate & Processing Fees:

• Interest can be charged as per the bank’s policy. In case of refinance the rates will be as advised by MUDRA.

• Banks may charge processing fee but for Shishu Loans most banks have waived these.

Security:

• First charge on all assets financed, and other assets directly associated with the business financed.

• Cover under CGFMU of CGTMSE. No collateral security to be obtained, in terms of RBI guidelines.

Repayment/Tenor of Loan:

• The period of loan is based on the economic life of the assets created and also the cash flow generated. The refinance assistance from MUDRA is for maximum 36 months.

Khadi Village Industries Commission

The Khadi and Village Industries Commission (KVIC) is a statutory body. In April 1957, it took over the work of former All India Khadi and Village Industries Board.

Its Functions are as follows:

• Programs for development of Khadi and other village industries in rural areas.

• Building up reserve of raw materials and implements for supply to producers

• Creating common service facilities for processing raw materials to semi-finished

goods

• Providing facilities for marketing KVI products

• Organising training of artisans in these industries

• Providing financial assistance to institutions/ individuals for development and

operation of KVI

Prime Minister's Employment Generation Programme (PMEGP)

• In 2008, PMEGP (a credit linked subsidy programme) was introduced by merging Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP). The Programme has been modified and is currently in force for a period of 5 years (FY 2021-22 to 2025-26).

• PMEGP is implemented by KVIC, as the Nodal Agency at the National level.

At the State level it is implemented through State KVIC Directorates, State Khadi and Village Industry Boards (KVIBs), District Industries Centres (DICs) and banks.

Important distinction / reviewed 30 October 2026

New manufacturing Rs.50 lakh and service Rs.20 lakh ceilings differ from upgradation limits. Actual subsidy depends on scheme conditions. [PMEGP]

• The identification of beneficiaries under the revised procedure is at the district level by the State/ District level implementation agencies viz. KVIC/ State KVIB and State DICs and banks, etc.

Financial Assistance Provided:

Margin money subsidy provided to the beneficiaries for Setting up New Micro Enterprise Unit.

For Upgradation of Existing PMEGP/MUDRA Units: Capital subsidy support of 15% (20% in the North East region and the Hill States) of the project cost for upgradation of units earlier supported under PMEGP/MUDRA. Own contribution of the beneficiary 10%.

Project Cost and Bank Loan Component: The ceilings for the project cost and subsidy

amounts are as follows

If total project cost exceeds Rs. 50 lakh or Rs. 20 Iakhs for Manufacturing and Service respectively, the balance amount may be provided by banks without any government subsidy.

2nd Loan for upgradation of existing PMEGP/ REGP/ MUDRA units

Illustrated comparison / key details

PMEGP beneficiary	Own contribution	Urban subsidy	Rural subsidy
General	10%	15%	25%
Special: SC/ST/OBC, minorities, women, ex-servicemen, transgender, differently abled, aspirational districts, NER, hill/border areas, etc.	5%	25%	35%

Illustrated comparison / key details

Project cost eligible for subsidy	Rs. lakh
New manufacturing unit	50
Upgradation of manufacturing unit	100
New business/service unit	20
Upgradation of business/service unit	25

Eligibility Criteria for Beneficiaries

• Age: Minimum 18 years old.

• Income: No income ceiling.

• Education: At least 8th Standard for projects costing above Rs. 10 lakh in manufacturing sector, and Rs. 5 lakhs in business/service sector.

• Nature of Project: Only for new project. Existing units are not eligible.

• Family Criteria: Only one person from a family can avail assistance.

Eligibility Criteria for Projects

For New Units

• Projects without capital expenditure are not eligible under the programme.

• Cost of land is not included in the Project Cost. However, cost of built shed/ long lease or rental workshed can be included for a maximum period of 3 years.

• New viable micro enterprises for all types of activities are eligible. Not eligible: Activities prohibited by the local government/ authorities; and Activities in Negative list of the Programme.

For Upgradation of Existing PMEGP/ MUDRA Units

• Margin money under PMEGP should be successfully adjusted at end of lock in period of 3 years.

• First loan under PMEGP/ REGP/MUDRA is repaid in time.

• The unit is profit making and its turnover and profit will increase with upgradation/ modernisation.

Bank Finance

• Extent of Loan: 90% - General category; 95% - special category.

• Nature of facility: For capital expenditure - Term Loan, For working capital - Cash Credit.

• Proportion of Working Capital: Maximum project cost is Rs. 50 lakh. Working Capital component should not be more than: 40% (Manufacturing units), and 60% (Service/Trading sector).

Illustrated comparison / key details

PMEGP upgradation category	Max project cost	Own contribution	Subsidy
All categories	-	10% of project cost	15%; NER/hill states 20%
Manufacturing	Rs.1 crore	Rs.10 lakh maximum	Rs.15 lakh; NER/hill Rs.20 lakh maximum
Business/service	Rs.25 lakh	Rs.2.5 lakh maximum	Rs.3.75 lakh; NER/hill Rs.5 lakh maximum

Important distinction / reviewed 30 October 2026

Quick Revision includes legacy SGSY, SJSRY, PMRY, DWCUA and SLRS descriptions. These are historical programme facts, not an offer of current eligibility or subsidy. For present applications use the operative successor scheme, current guidelines and verified programme period.

• Interest rate and Repayment Schedule: Banks can charge interest rates as per their policy. Repayment over 3 to 7 years, after an initial moratorium period

• Collateral Security: No collateral security for loans upto Rs. 10 lakh.

• Disposal of Loan Application: Decision within 30 days of the receipt of application.

On-line Process Flow of application

Online applications on PMEGP Portal developed and put into operation by KVIC is mandatory.

The lAs shall take the final decision, within three weeks, based on the scoring criteria as detailed below.

• There shall be an Online Grievance Portal and a Grievance Cell to be setup by the KVlC, HQ.

• The banks will either sanction or reject the loan application within a stipulated period. Sanction will be issued online and copies of the sanction order will be sent to the applicant as well as to KVIC/ KVIB/ DlC/other IAs within 30 days from the receipt of application from the District Agencies.

• Bank will release first instalment of loan and submit claim for Margin Money subsidy.

• Once the subsidy is received in the financing bank within 24 hours it should be kept in Term Deposit - Subsidy Reserve Fund (SRF) for three years in the name of the beneficiary. No interest will be paid on the TDR/ SRF, and no interest will be charged on loan disbursed for the corresponding amount.

• In case the bank's advance goes "bad" before the three-year period, due to any reason whatsoever, beyond the control of the beneficiary, subsidy will be returned to KVIC.

Illustrated comparison / key details

Project cost	Minimum score for forwarding to banks
Up to Rs.10 lakh	50/100
Above Rs.10 lakh	60/100

Practice / answer beside the question

Q01. Why distinguish a subsidy from a repayable loan?

Answer / A subsidy is support subject to conditions; a bank loan is repayable under sanction terms.

Q02. Does every government scheme have the same eligibility?

Answer / No. Beneficiary category, activity, location, contribution and other conditions are scheme specific.

Q03. What is the relationship between PMRY and PMEGP history?

Answer / PMRY is a historical predecessor; current applications require the applicable PMEGP or other operative scheme rules.

Q04. Why must a PMEGP applicant distinguish project cost and subsidy?

Answer / The project cost, beneficiary contribution, bank finance and subsidy each have distinct roles and conditions.

Q05. Who is eligible for the Tarun Plus category?

Answer / Eligible entrepreneurs who have successfully repaid an earlier Tarun loan, under the operative Tarun Plus conditions.

Q06. Why must a scheme's operative period be checked?

Answer / Budgets, extensions, eligibility and financial terms can change; an older description does not establish present availability.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. The Swarnajayanti Gram Swarojgar Yojna (SGSY) came into effect from 1 April 1999 in the rural areas of the country.

2. SGSY scheme is funded by the centre and state in the ration of 75:25 and will be implemented by commercial banks.

3. DRDA (District Rural Development Agencies) provides fund to those self help group who are in existence for 6 months and hav e demonstrated the potential of a viable group. This fund is aka revolving fund.

4. In case of group loan, the group is entitled to a subsidy of 50 % of the project cost, subject to per capita subsidy of Rs 10,000 or Rs 1.25 lacs whichever is less.

5. Loan applications under the SGSY scheme should be disposed of within the prescribed limit of 15 days and at any rate, not later than one month.

6. Swarojgaris are covered under the group insurance scheme. The maximum age of Swarojgaris at the time of sanction has to be kept at 60 years of age.

7. Insurance coverage would be for 5 years or till the loan is repaid.

8. For individual loans up to Rs 50,000 and group loans up to Rs 5 lacs, the assets created out of the bank loan would be hypothecated to the bank as a primary security.

9. In case of immovable assets (like minor irrigation, dug well, etc), the security created is mortgage.

Where mortgage is also not possible, 3rd party guarantee may be obtained.

10. For all loans (individual or group), in addition to t he hypothecation/mortgage/3rd party guarantee, suitable margin money/other collateral security in the form of an insurance policy;

marketable security/deeds of other property, etc, may be obtained at the discretion of the bank.

11. Project cost includes bank loan plus government security.

12. Subsidy under SGSY scheme will be 30 % subject to a maximum of Rs 7,500.

13. In respect of SC/STs, Subsidy under SGSY scheme will be 50 % subject to a maximum of Rs 10,000 (per capita) or Rs 1.25 lacs whichever is less.

14. Banks should not charge interest on the subsidy portion of the loan amount.

15. All SGSY loans are medium term loans with minimum repayment period 5 years (maximum 9 years).

16. The SJSRY (Swarna Jayanti Shahari Rozgar Yojna) came into effect from 1 April 1997 in all urban towns in India.

17. The SJSRY scheme is funded by the centre and state in the ration of 75:25.

18. Both urban employed and urban unemployed (no age limit) youth whose annual family income is below the poverty line and have got education up to 9th standard come under SJSRY scheme.

19. Project cost up to Rs 50,000 is provided under the SJSRY scheme in case of an individual. Higher project costs would also be covered in the scheme provided the share of each person in the project cost is Rs 50,000 or less.

20. In SJSRY scheme, Subsidy would be provided at the rate of 15 % of the project cost, subject to a ceiling of Rs 7,500 per head.

21. Margin money is 5 % of the project cost in SJSRY scheme.

22. In SJSRY scheme, repayment schedule ranges from 3 to 7 years, after initial moratorium period of 6 to 18 months (at bank’s discretion).

23. DWCUA (Development of Women and Children in Urban Areas) group shall consists of at least 10 urban poor women and the subsidy amount would be 50 % of the pr oject cost of Rs.1,25,000, whichever is less.

24. If in DWCUA, the project cost exceeds Rs 2, 50, 000, the project cost less subsidy (Rs.1,25,000) and margin money (@ 5 % of the project cost) would be the component of the bank.

25. The beneficiaries under the SJSRY scheme are identified on the basis of a monthly per capita income and not by the annual family income (which is the case in SGSY scheme, refer to Point no 18).

26. The % of women beneficiaries under the SJSRY scheme shall not be less than 30 %.

27. The loans granted under the SJSRY scheme come under priority sector advances and hence loan applications for amount up to Rs 25, 000 should be disposed of within a fortnight and for credit limits above Rs 25, 000 within 8-9 weeks.

28. In SJSRY scheme, a loan amount of Rs 50, 000 and group loans up to Rs 3 lacs don't require a collateral/guarantee. Besides margin, the borrower would hypothecate/mortgage/pledge to the bank the assets created out of the bank loan.

29. The PMRY scheme is for unemployed youth between the age of 18 -35 years (10 years relaxation in case of women/PH/SC/ST), who are at least 8th standard pass.

30. PMRY scheme covers those unemployed educated youths whose annual family income is below 1 lac per annum and the beneficiary should be a permanent resident of the district for 3 years.

31. In case of SHG, PMRY scheme gives subsidy per beneficiary Rs 12,500 subject to a maximum ceiling of Rs 1.25 lacs.

32. In PMRY scheme, bank's margin money varies from 5 to 12.5 % of the project cost so th at the total of subsidy and margin money is equal to 20 % of the project cost.

33. The project cost in PMRY scheme is restricted to Rs 2 lacs for business sector and Rs 5 lacs for industry sector.

34. Margin money in PMRY scheme is 5 to 16.25 % (except in north-eastern states, HP, J&K, Uttaranchal, where it varies from 5 to 12.5 %) of the project cost so as to make the total of subsidy and margin money equal to 20 % of the project cost.

35. In PMRY scheme, subsidy eligible is 15 % of the project cost, subje ct to a maximum of Rs 12,500 per borrower in states other than north-eastern states, HP, J & K, Uttaranchal.

36. In PMRY scheme, the borrower has to hypothecate/mortgage/pledge to the bank assets. The borrowers will not have to give a collateral security u nder the industry sector projects with the cost up to Rs 2 lacs (for business sectors) and up to Rs 1 lac for service sectors.

37. The exemption from collateral is limited to Rs 1 lac per person in case of a partnership in PMRY scheme.

38. PMRY loans have repayment period from 3 to 7 years after an initial moratorium.

39. In joint ventures/partnerships, the total project cost should not exceed Rs 10 lacs.

40. In SHG, there may be 5-20 educated unemployed youths and there is no upper ceiling on loan.

41. The exemption from collateral security is Rs 5 lac per borrower in industry sector whereas the exemption is Rs 1 lac per member in services and industry sector.

42. SLRS (Scheme of Liberation and Rehabilitation of Scavengers) was launched on 22 Mar 1992 and the project cost is limited to Rs 50,000 (the banks would give 32,500, subsidy would be 10,000, and 7,500 would be margin money from Scheduled Caste Development Corporations aka SCDC) per head.

Margin money is up to 15 % of the project cost and rate of interest 4 %.

43. Under the SLRS scheme, the subsidy would be 50 % of the project cost with a ceiling of Rs.10,000.

44. Loans up to Rs 6,500 are treated as loans under DRI scheme and rate of interest is 4 %. If the loan sanctioned/disbursed is more than Rs 6,500 such loans will attract a rate of interest according to the RBI directive.

45. In SLRS scheme, the security for the loan will only be the hypothecation of the assets. The repayment period is 3-7 years.

46. Loan amount up to Rs 25,000 under SLRS scheme should be disposed of within a fortnight and for amount exceeding Rs 25,000 within 8-9 weeks.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

MUDRA / Government: Tarun Plus notification, 24 October 2024

PMEGP / Government: MSME programme update including PMEGP

28 facts / final recall

01-14 / foundations	15-28 / application
01. Government sponsorship does not remove appraisal.	15. APY has entry and tax-payer restrictions.
02. Eligibility differs from creditworthiness.	16. MUDRA funds eligible income-generating needs.
03. NRLM supports rural livelihoods.	17. Shishu covers up to fifty thousand.
04. NULM descriptions need programme-status checks.	18. Kishor covers above fifty thousand to five lakh.
05. SHG credit can use doses.	19. Tarun covers above five to ten lakh.
06. Micro-credit plans support assessment.	20. Tarun Plus covers eligible above-ten to twenty-lakh loans.
07. Security exemptions are scheme specific.	21. PMEGP is credit-linked subsidy.
08. Subvention does not waive principal.	22. Project-cost ceilings differ by activity.
09. Prompt-payment benefits have conditions.	23. Contribution differs by beneficiary.
10. PMJDY supports basic banking access.	24. Subsidy differs by location.
11. Overdraft eligibility is defined.	25. Upgradation has separate conditions.
12. RuPay accident cover is conditional.	26. Sanction does not guarantee subsidy.
13. PMSBY covers specified accident risks.	27. Track lock-in and verification.
14. Check premium and eligibility.	28. Check operative validity before application.

B20 / Self-Help Groups



At the branch

Review savings, meetings, loan use and repayment before the next credit dose.

1. Form group → 2. Build savings → 3. Link bank → 4. Repay

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Membership, BPL/APL composition and size descriptions can be programme specific; do not apply one old programme's restrictions to all SHGs.

JAIIB PPB Module B Unit- 20: Self-Help Groups

Self–Help Groups

Self-Help Group' (SHG) is a voluntary association of poor formed with the common goal of social and economic empowerment. Micro- finance through SHGs offers best form of credit for reaching the unreached and the under reached.

SHGs help in development of poor through various benefits:

• Mobilising resources of individual members for collective development

Important distinction / reviewed 30 October 2026

A 1:1 to 1:4 ratio is not a universal entitlement. NRLM and other linkage programmes have their own current conditions.

• Uplifting living conditions of poor

• Creating savings habit

• Mobilising individual skills for group's interest

• Assisting members financially at the time of need

• Entrepreneurship development

• Identifying problems, analysing and finding solutions in the group

• Organise training for skill development

Forming Self–Help Groups

• Number of Members: Normally, members in a group should not exceed twenty;

otherwise, registration becomes compulsory. Generally, a SHG may consist of 10 to 20 persons. In difficult areas like deserts, hills, etc. it may have just 5 members.

• Family Income Criteria: Generally, all members should belong to families below the poverty line (BPL). If necessary, maximum 20% and exceptionally upto 30% of members may be from families marginally above the poverty line (APL) living contiguously with BPL families.

• Subsidy Eligibility: Only BPL members will be eligible for subsidy.

• Management of Group: BPL families must participate in management and decision making. APL members not to be office bearers.

• Restrictions on Membership: SHG not more than one member from same family.

• Code of Conduct: The group should devise Group management norms to bind itself.

• Building Corpus: It should build corpus through regular savings contributed by members.

• Loans to Members: Corpus fund should be used to advance loans to members.

• Bank Account: To have a group's bank account preferably in service area bank branch.

• Records: It should maintain simple basic records such as minutes book, attendance register, loan ledger, general ledger, cash book, bank passbook of the group and individual members' passbooks.

Self–Help Groups Bank Linkage

• Opening of Savings Bank A/c: SHGs, registered or unregistered, which are engaged in promoting savings habits among their members are eligible to open savings bank accounts with banks.

• Lending to SHGs: SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4)

• Interest Rates: The banks can decide the interest rates, as per regulatory guidelines.

• Service/Processing Charges: No service charges/inspection charges should be levied on loans up to Rs. 25,000 per member, in case of eligible priority sector loans to SHGs/JLG.



Apply the distinction

Explain the decision: Assess member default individually. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Group default and individual member default are different facts. Apply the programme's reporting and monitoring requirements.

• Presence of defaulters in SHGs: If SHG is not in default, some members being defaulter should not detract from financing the SHG.

• Capacity building and Training: Banks to internalize the SHG linkage project and organize exclusive short duration programmes for field level functionaries.

• Monitoring and Review of SHG Lending: Monitoring of SHG bank linkage Programme should be discussed at the SLBC and DCC meetings.

• Reporting to CICs: Credit information reporting should be done as prescribed.

Practice / answer beside the question

Q01. How does an SHG build its corpus?

Answer / Members build a common corpus through agreed regular savings.

Q02. Why does a group maintain meeting records?

Answer / Records demonstrate participation, decisions, savings, internal loans and repayments.

Q03. What is the role of internal lending?

Answer / It uses the group's funds to meet members' agreed credit needs while building repayment discipline.

Q04. Why must a bank assess group discipline?

Answer / Savings, meetings, records and recoveries help establish the group's readiness for sustainable bank linkage.

Q05. Does the SHG model mean that repayment assessment is unnecessary?

Answer / No. The bank must assess the group's functioning, credit needs and capacity to repay.

Q06. Why should a group follow agreed lending and recovery rules?

Answer / Consistent rules support trust, transparent decisions, repayment discipline and the sustainability of the corpus.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

1. Registration of SHG is compulsory if the number of members is more than 20 (normally an SHG has 5-20 unemployed educated members).

2. The SHG should meet weekly or fortnightly and devise a code of conduct (Group Management Norms) to bind itself.

3. The SHG builds a group corpus fund by voluntary saving from members.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

28 facts / final recall

01-14 / foundations	15-28 / application
01. SHGs support saving and mutual assistance.	15. Eligible registered or unregistered groups may open accounts.
02. Members share agreed responsibility.	16. Set a clear operating mandate.
03. Membership needs compatible purpose.	17. Savings-linked finance needs assessment.
04. Meet regularly.	18. A ratio is not automatic entitlement.
05. Build a savings corpus.	19. Use loans for the plan.
06. Decide internal lending transparently.	20. Repayment informs further credit.
07. Record interest rules.	21. Assess member default individually.
08. Record repayment rules.	22. Group and member default differ.
09. Minutes evidence resolutions.	23. Training supports capability.
10. Attendance shows participation.	24. Federations can support appraisal.
11. Cash books track money.	25. SHG differs from JLG.
12. Loan ledgers track members.	26. Follow credit-information requirements.
13. General ledgers consolidate accounting.	27. Monitor bank linkage.
14. Bank accounts support linkage.	28. Sustainable lending needs cash flow and discipline.

Clerk2Officer

Principles & Practices of Banking

Module C / General-purpose study edition

9 chapters. Learn through explanations, illustrated branch cases, comparison tables and practical distinctions. Practise with answers beside questions, then use Quick Revision and the 28 final recall facts in each chapter. Click a contents row to open a chapter.

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Page guide: contents numbers refer to this combined PDF. Chapter footers and navigation tabs use local chapter numbering.

Study note: historical examples retain their stated dates and assumptions. Read them with the dated distinctions and reference notes. Eligibility, rates and scheme benefits depend on the applicable rules and sanction.

C01 / Essentials of Bank Computerisation



At the branch

Local printing works, but the branch cannot reach the central account service. Separate local connectivity from the remote service path.

1. Identify purpose → 2. Connect systems → 3. Protect data → 4. Serve across branches

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

The later Rangarajan report is not a second first report. RBI identifies the mechanisation report in 1984 and the second computerisation report in 1989. Distinguish a committee's constitution from its report year. [HIST]

JAIIB PPB Module C Unit 1- Essentials of Bank

Computerisation

Bank Computerisation

The Concept of Bank Computerisation Practically stated after 1980-81 and more precisely gained pace in the year 1983-84, after setting up a committee in the year 1983 under the chairmanship of the then Deputy Governor of RBI, Dr. C.

Rangarajan. This Committee was set up to study the possibilities and stages involved in bank computerisation and to prepare guidelines for the same. The report submitted by the committee in the year 1984 was know as First Rangarajan Committee Report on bank mechanization.

Another Committee was constituted in 1988 was know as first Rangarajan Committee Report on bank mechanization.

Need for Computerisation

The four Major objectives of computerization in banking are to improve

- Customer Service
- Housekeeping
- Decision- making
- Productivity and profitability

Stand- Alone Computer System

• Using the stand- Alone computer system is normally the initial stage of computerization at a bank. The single user- computer system is a small system, which as its name implies, is used by only one person at a time.

Multi- user System

• The Multi-user systems, as their names signify, are computers to which several people can access at the same time. Mini computers, Main Frame Computers, Micro- Computers and the more powerful Super Computers all fall under this category.

Networking Technologies In Banks

Important distinction / reviewed 30 October 2026

A LAN is defined by a limited geographic area, not a universal ceiling of 5000 devices. Private ownership does not establish an exemption from law or unrestricted administrator access. Central storage requires access controls. Network sharing does not cancel software-licensing requirements; the applicable product and licence terms still govern. [LAN] [LICENSE] [ACCESS]

LAN (Local Area Network)

• A Local Area Network (LAN) is a group of computer and peripheral devices which are connected in a limited area such as school, laboratory, home, and office building. It is a widely useful network for sharing resources like files, printers, games, and other application.

• The simplest type of LAN network is to connect computers and a printer in someone's home or office. In general, LAN will be used as one type of transmission medium.

• It is a network which consists of less than 5000 interconnected devices across several buildings.

Characteristics of LAN

Here are important characteristics of a LAN network:

• It is a private network, so an outside regulatory body never controls it.

• LAN operates at a relatively higher speed compared to other WAN systems.

• There are various kinds of media access control methods like token ring and ethernet.

Advantages of LAN

Here are pros/benefits of using LAN:

• Computer resources like hard-disks, DVD-ROM, and printers can share local area networks. This significantly reduces the cost of hardware purchases.

• You can use the same software over the network instead of purchasing the licensed software for each client in the network.

• Data of all network users can be stored on a single hard disk of the server computer.

• You can easily transfer data and messages over networked computers.

• It will be easy to manage data at only one place, which makes data more secure.

• Local Area Network offers the facility to share a single internet connection among all the LAN users.

Disadvantages of LAN

Here are the important cons/ drawbacks of LAN:

• LAN will indeed save cost because of shared computer resources, but the initial cost of installing Local Area Networks is quite high.

• The LAN admin can check personal data files of every LAN user, so it does not offer good privacy.

• Unauthorized users can access critical data of an organization in case LAN admin is not able to secure centralized data repository.

• Local Area Network requires a constant LAN administration as there are issues

related to software setup and hardware failures

Important distinction / reviewed 30 October 2026

The heading Characteristics of LAN occurs within the WAN discussion. Also, WLAN is a wireless LAN; it is not another name for WAN. Read the radio-transmission sentence with that distinction. WAN describes wider-area network connectivity and is not defined as being limited to one organisation. [WLAN] [WAN]

Network Device

There are various network Devices used in a LAN, The basic network devices used in a

LAN are

NICs (Network Interface Cards)

• Hubs

• Switches

• Bridges

• Routers

• Gateways

• Firewalls

• WAPs

• Modems etc.

WAN (Wide Area Network):

• WAN (Wide Area Network) is another important computer network that which is spread across a large geographical area.

• WAN network system could be a connection of a LAN which connects with other LAN's using telephone lines and radio waves. It is mostly limited to an enterprise or an organization.

Characteristics of LAN:

• The software files will be shared among all the users; therefore, all can access to the latest files.

• Any organization can form its global integrated network using WAN.

Advantages of WAN

Here are the benefits/ pros of using WAN:

• WAN helps you to cover a larger geographical area. Therefore business offices situated at longer distances can easily communicate.

• Contains devices like mobile phones, laptop, tablet, computers, gaming consoles, etc.

• WLAN connections work using radio transmitters and receivers built into client devices.

Disadvantage of WAN

• The initial setup cost of investment is very high.



Apply the distinction

Explain the decision: Housekeeping is a computerisation objective. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

UPS backup is finite and depends on capacity, battery condition and connected load; it does not guarantee that all data loss is prevented. Ordinary volatile working memory needs power; this does not mean that all saved files disappear when power fails. CBS supports central account processing; error elimination and uninterrupted availability are objectives, not automatic guarantees. Read the CORE expansion as a teaching mnemonic rather than a substitute for the operational definition. [POWER] [MEMORY] [CORE]

• It is difficult to maintain the WAN network. You need skilled technicians and network administrators.

• There are more errors and issues because of the wide coverage and the use of different technologies.

• It requires more time to resolve issues because of the involvement of multiple wired and wireless technologies.

• Offers lower security compared to other types of networks.

Uninterruptible power supply (UPS)

• An uninterruptible power supply (UPS) is a device that allows a computer to keep running for at least a short time when the primary power source is lost.

UPS devices also provide protection from power surges.

• A UPS contains a battery that "kicks in" when the device senses a loss of power from the primary source. If an end user is working on the computer when the UPS notifies of the power loss, they have time to save any data they are working on and exit before the secondary power source (the battery) runs out. When all power runs out, any data in your computer's random access memory (RAM) is erased. When power surges occur, a UPS intercepts the surge so that it does not damage the computer.

Core Banking Solution

What is the Core Banking System?

• Core Banking solutions are vital to the day-to-day functioning of any bank.

It is an integral part of the banking technology which aims to serve their clients and customer with the best services. In simple words, core banking solutions are account-management back-end and front-end processes.

• Core is short for “Centralized Online Real-time Exchange.” As the name suggests, it is a centralized system or a network created by a bank and its branches. This allows the customers of the bank to access, manage and perform basic transactions from any branch of the bank they hold an account in. Thus, core banking software allows the banks to create a centralized data center.

Core banking solutions offer the following advantages to the bank:

• Improved operations which address customer demands and industry

consolidation

• Errors due to multiple entries eradicated

• Easy ability to introduce new financial products and manage changes in existing

products

• Seamless merging of back office data and self-service operations.

Features of Core Banking Solution:

• Customer-On Boarding.

Important distinction / reviewed 30 October 2026

Quick Revision distinctions: 150 metres, 1 km and 1000 devices are not universal LAN definitions. A LAN need not have one central server. Bus, ring and star are different topologies: the ring-failure sentence under Bus is misplaced, and the blanket one-direction bus statement is misleading. A switched star is not universally unable to handle large traffic. Users receive authorised access, not automatic access to all host data. Processing is not necessarily distributed equally to every terminal. UPS support is finite. [LAN] [LANMODEL] [TOPO] [BUS] [ACCESS] [POWER]

• Managing deposits and withdrawals.

• Transactions management

• Interest. Calculation and management.

• Payments processing (cash, cheques /checks, mandates, NEFT, RTGS etc.).

• Customer relationship management (CRM) activities.

• Designing new banking products.

• Loans disbursal and management.

• Accounts management

• Establishing criteria for minimum balances, interest rates, number of withdrawals allowed and so on.

Illustrated bank-network route

Branch devices / local LAN → Router / controlled link → WAN path → Central CBS / account service

Local access and remote service are separate troubleshooting layers.

Authorised access, reliable power and continuity controls support the whole service.

Systems / useful distinction

System	Distinction
Stand-alone	Works independently for its local tasks.
Multi-user	Supports simultaneous users under the system's design.
LAN / WAN	Local connection versus wider-area interconnection.
CBS	Central account and transaction processing for connected service points.

Practice / answer beside the question

Q01. A network has more than 5000 devices. Does that number alone prove it cannot be a LAN?

Answer / No. LAN describes limited geographic scope; scale and design must be assessed separately.

Q02. Can the branch install an application for every user merely because one server copy exists?

Answer / No. Check the product licence and any required user, device or access licences.

Q03. Local printing works but access to the remote core service fails. What distinction helps troubleshooting?

Answer / Separate the local LAN from the WAN path and remote service; investigate each before deciding the cause.

Q04. Does a UPS guarantee continuous banking for an unlimited outage?

Answer / No. Runtime depends on the equipment and load; follow the continuity and safe-shutdown arrangements.

Q05. May all staff read every customer record because it is held centrally?

Answer / No. Apply authorised roles and least privilege; central storage is not unrestricted access.

Q06. Which year identifies the second Rangarajan report in the cited RBI history?

Answer / 1989. Keep the report year distinct from the committee's constitution date.

Q07. Which topology uses a shared backbone, and which forms a loop?

Answer / Bus uses a shared backbone; ring forms a loop. Do not treat the misplaced ring-failure sentence as a bus definition.

Q08. Does installing CBS remove the need for validation and reconciliation?

Answer / No. Central processing still needs correct inputs, authority checks, monitoring and reconciliation.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

The concept of Bank Computerisation practically started after 1980 -81 and more precisely gained pace in the year 1983 -84, after setting up a committee in the year 1983 under the chairmanship o f the then Deputy Governor of RBI, Dr. C. Rangarajan.

Need for Computerisation

The four major objectives of computerisation in banking are to improve:

(a) customer service (b) housekeeping (c) decision-making (d) productivity and profitability.

Stand-alone Computer System

The stand-alone computer system is used by only one person at a time.

Stand-alone systems are best suited for the decision-making process, which involves processing and analysis of data.

Today's stand-alone systems are also capable of handling multimedia, high-quality graphics, fax messages, etc.

Multi-user Systems

The multi -user systems are computers on which several people can work at the same time.

Mini computers, Main Frame Computers, Micro-computers and the more powerful Super Computers all fall under this category.

Multi-user Computer Networking

a. In such a system computers are based on the centralised processing concept.

b. All information is kept and processed at the main central machines and various terminals are attached to the main computer.

c. The main computer can store a huge amount of information and possesses high-processing speeds enabling a large number of users to be connected to the main central computer.

d. Each user has his/her own terminal.

e. Most of the banking systems are developed using the centralized computing concept.

The advantages of using a centralised data processing system :

(a) availability of corporate level information at one location is possible (b) cost of acquiring hardware, software and other infrastructure is more profitable than

acquiring the same for individual departments

(c) due to the high volume of data processing the computing resources can be fully utilised (d) technical manpower can also be efficiently managed at a central level (e) costly resources like leased telephone lines, satellite links, etc., can be shared among the

various departments Branch-level Computerisation

Local Area Network (LAN)

a. The computer network that links computers and peripherals within a localised area say, within a building is known as LAN.

b. Generally, LAN will not extend beyond 150 metres. However, it can be up to a maximum spread of 1 km and the number of devices supported may also vary from 2 to as many as 1000.

c. In LANs, each independent system is known as a node and when such nodes are interconnected, it is known as a LAN.

d. Usually, there will be one central node (Server) providing and controlling all the services of the network.

e. The client nodes route their requests to the server and obtain the necessary services.

Topology (Layout)

The way in which the devices are interconnected is known as topology

Bus Topology

a. All devices on the network are connected to a single continuous cable.

b. Transmission from any station travels the length of the bus in both directions and is received by all other stations.

c. The main advantage of bus topology is that it is quite easy to set up.

d. Further, if one station on the LAN fails, it will not affect the rest of the network

e. Data transmission is possible in one direction only

f. The breakdown of any one station on the ring can disable the entire LAN.

Star Topology

a. In a star topology, the central node is often the master.

b. Each of the other nodes is joined to the master by separate links.

c. It cannot handle large traffic as every transaction has to pass through the central node.

d. However, if one node fails, it will not affect the network.

Protocols

a. The protocols are the rules for communication between similar modules of processes, usually in different nodes.

b. Protocols define message formats and the rules for message exchange.

c. It controls priority and sequence of transmission, errors in transmission, and the process of beginning and concluding conversion.

d. The network protocols depend on the adapters. Some of the commonly used types of adapters

are Ethernet and Token-Ring

e. A multiplexer is used to receive signals from several communication lines and pass on to one communication line and vice versa.

Network Operating System:

a. The function of the networking software is to set up some computers as hosts, or servers, and some computers as clients to those hosts.

b. The servers manage the printer sharing, file sharing and communications link sharing to their clients.

The advantages of using LANs in banks are that:

(a) The expensive resources such as computer hardware and software can be shared by several users. This brings down the overall cost of computerisation.

(b) The information stored on the host computer is available to all users of the system.

Therefore, there is no necessity of duplication of databases.

(c) Since all the terminals are intelligent terminals, the processing load is shared between the various machines and there is no overloading on any single machine.

There are also a few shortcomings of a LAN, such as:

(a) Complicated software has to be installed for data management.

(b) Security risk s are higher, since each user access the host computer independently.

(c) Maintenance cost of such a system is high, since it has to be done frequently.

Wide Area Network (WAN)

Wide Area Networks (WAN) are defined as a large -scale computer network sprea d over a span of sizeable geographic area, normally utilising the telecommunication network.

In the banking sector, the WANs are generally used to interconnect branches with the regional offices, and regional/zonal offices to head office, etc.

UNINTERRUPTED POWER SYSTEM (UPS)

Uninterrupted power system provides clean and reliable AC power to the computer systems protecting them from power blackouts, brownouts, swells, sags, surges, and interface.

In case of a power failure, the UPS attached with the file s erver automatically takes over the power supply to the file server or to the main computer to eliminate the chance of data loss.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

ACCESS / NIST: least privilege

BUS / IBM: bus configuration

CORE / IBM: core banking functions

HIST / RBI: IT for the Financial Sector; first and second Rangarajan reports

LAN / NIST: local area network definition

LANMODEL / Cisco: LAN size, client/server and peer-to-peer models

LICENSE / Microsoft: Windows Server 2025 licensing guidance

MEMORY / NIST: volatile memory

POWER / APC: UPS battery-backup guidance

TOPO / IBM: network topology and devices

WAN / Cisco: wide area network

WLAN / Cisco: wireless local area network

28 facts / final recall

01-14 / foundations	15-28 / application
01. Computerisation supports customer service.	15. Bus uses a shared backbone arrangement.
02. Housekeeping is a computerisation objective.	16. Star connects nodes through a central device.
03. Information supports decision-making.	17. Ring uses a loop arrangement.
04. Productivity and profitability are objectives.	18. Protocols govern communication rules.
05. The first cited Rangarajan report is dated 1984.	19. A switch manages local device traffic.
06. The second cited Rangarajan report is dated 1989.	20. A router connects different networks.
07. Stand-alone and multi-user systems differ.	21. A firewall controls permitted traffic.
08. Multi-user systems support concurrent users.	22. An access point supports wireless clients.
09. LAN connects devices in a limited area.	23. Network sharing does not waive licensing.
10. A fixed device count does not define LAN.	24. Central storage needs authorised access.
11. WAN links networks across wider areas.	25. Least privilege limits access to assigned work.
12. WLAN uses wireless local connectivity.	26. UPS backup has finite runtime.
13. A node is a connected network device.	27. Volatile working memory requires power.
14. Topology describes the connection arrangement.	28. CBS supports central account processing.

C02 / Operational Aspects of CBS Environment



At the branch

A teller changes a deposit rate and also authorises the change. CBS may accept an entry, but approval rights and segregation still need checking.

1. Receive instruction → 2. Validate authority → 3. Post centrally → 4. Reconcile and review

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module C Unit 2: Operational Aspects Of CBS

Environment

Core Banking Solutions

Core Banking Solutions (CBS) is a platform where Communication Technology and Information Technology merge to suit core banking needs.

Functions Performed by CBS

- Customer accounts management
- Office account management
- Loans disbursal and management
- Cash deposits and withdrawals
- Transactions management (online and History)
- Inward/Outward clearing process
- Calculation of Interest on Advances and deposits
- Charges/Fees Application
- Application of minimum balance charges, transaction charges, cheque book charges etc.
- Asset Classification and Income recognition, NPA Management
- Non-Performing Assets Management (NPA)
- Customer relationship management (CRM) activities
- Interfaces with payment systems, Regulators, Third-party service providers
- Interfaces with Alternate delivery channels
- Generation of Reports, multi-currency Balance sheets, P&L statements.

Flow Of Transactions in CBS

In any Core banking Solution, there are three types of Transactions:

Important distinction / reviewed 30 October 2026

Biometric login, maker-checker paths and BOD/EOD sequences depend on the bank and application. Day rollover is not a universal shutdown of digital channels. RBI issued entity-specific cyber/technology directions in 2026; use the applicable category and amendments rather than assuming the 2023 framework alone is current. [IT]

- Cash
- Clearing
- Transfer Transactions made by Users at Branches, Customers through Alternate Delivery channels or Third Party trusted vendors are ultimately reflected in the Central Database of the Bank. The transaction workflows are different for different channels of Banking.

The branch user has to log in to the system with his user id and password along with biometric authentication at the CBS terminal. Customers log in through various delivery channels using their credentials.
Once the transaction hits the Central Data Base, the system will validate the transaction and debit or credit the particular account, and a message is sent back to the user at the Branch as to whether the transaction is complete or not.
The system validates the account number, balance in the account, the authority of the teller (Maker) who does the transaction, authority of the officer (Checker) who authorizes the transaction, and other validations parameterized at the product level if required to be done.
Apart from this, transactions also flow from various alternate delivery channels, Treasury systems etc., into the core banking system.

End Of Day (EOD) And Begin Of Day (BOD) Operations

Typical Operations in CBS during BOD and EOD:

- Begin of the day by Data Centre
- Transactions input and Authorisation by Branches
- Closure of Branch Operations by Branches
- End of Day Operations by Data Centre
- Reports Checking by Branches
- Back up Operations by Data Centre and Branches.
- Application of Interest and services charges – Data Centre
- Execution of standing instructions by data Centre
- Generate various reports, including Exceptional Reports

Begin Of Day (BOD) Operations

BOD process opens a new transaction day for the Bank. BOD depends on the EOD process for the previous working day. If the EOD is not completed for a day BOD can not be done. Days are always business days specified in Branch Calendars.

Following functions are carried in BOD operations:

- Starts a new day
- Time Deposit processing related to interest and maturity
- Standing instructions execution
- Value date processing of cheques Salary Processing
- Expiry of Overdraft Limits.

End Of Day (EOD) Operations

Most of the following activities are carried out at the Data Centre or Branch, depending on the architecture of the Core Banking Solution.

- Day-end activities carried out by the authorised personnel are properly documented and monitored through a checklist.
- Minimum balances are calculated.
- Products are calculated for the Current Account (Debit balances).
- Mandatory reports are generated.
- Fallback procedures activated
- Day end back up is taken
- Recording of entries in the Backup Register
- Recording in Log Books
- Filing of reports
- Shutting down of complete computer system
- The data back-ups taken are properly documented and kept in safe custody
- The Server Room is properly locked, and the keys are kept only with an

authorised person

The following documents are generated:

- Access log
- Supplementary
- Audit Trail
- A transaction number is given for each transaction entered.

After business hours of the Bank, the following functions are performed:

- Supplementary Report is printed by either Branch Manager or System Administrators and filed.
- Cash Denomination Report is printed and filed.
- Vouchers are tallied and signed by either the Branch Manager or System Administrator.

Password Control

Basic Operational Controls in Core Banking operations include:

- Segregation of Duties
- Four Eye Principle/Maker Checker
- Rotation of Duties
- Ownership of systems for granting accesses rights.

Core banking solutions supports strong passwords access control mechanisms by

enforcing the following controls in Password:

Important distinction / reviewed 30 October 2026

Read password lengths, forced changes and complexity examples as legacy policy examples. Modern NIST guidance uses salted password hashing and does not recommend arbitrary periodic password changes without evidence of compromise. NIST is technical guidance; the bank must also meet its applicable regulatory obligations and approved policy. [PASS]

- Minimum length eight characters—the more characters, the better
- Should contain both uppercase and lowercase letters
- Must be a mixture of letters and numbers.
- The password must include at least one special character.
- Dictionary word avoided
- Prevent reusing of previous Password/s
- Enforce periodical password changes
- Passwords are disabled during the employees' leave of absence.
- For certain critical modules, enforce multi-user or multi-factor authentication
- Passwords are stored in the system in encrypted form only.

The operational staff should ensure the following practices to establish the integrity

of the Password:

- All the employees and Users should maintain password secrecy in the system/s.
- The critical passwords for accepting sensitive jobs should be known only to the Branch Manager or System Administrator.
- The Operating System Password should be kept under Dual Control of Branch Manager and System Administrator. The Password should be protected in a sealed cover and opened in the presence of at least two persons. It should be changed at once on being opened.

Parameter/Master Files

- In a Parameter/Master File, all the relevant information related to a particular account should be fed and stored. The information may relate to the Rate of Interest to be applied, Penal Interest to be charged, Commission Rates, Operation Limits in case of loans, nature of account operation, single/jointly etc.
- It is important to check that the Parameter/Master File accessible to the operators should only be read only. Otherwise, it would invite undesirable modifications, which would lead to revenue leakage and misuse of funds.

Whenever any alterations are to be made in the Parameter/Master File, printouts of the file before and after the changes should be taken and documented in the safe custody of the Branch Manager.

The Bank should ensure the following:

• Authorised personnel mark all the Bank Holidays into the software before the beginning of the Financial Year.
• Operation limits and authorisation levels are defined clearly for the operators and supervisors.
• The parameters for Interest and Bank Charges are defined in accordance with the applicable rates and guidelines. The file is updated as and when changes are announced.
• Parameter files are printed before and after changes are given effect and documented.



Apply the distinction

Explain the decision: Channels feed the central banking service. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Protect password verifiers using an appropriate salted password-hashing scheme; do not interpret encrypted password file as permission to keep recoverable plaintext-equivalent passwords. Privileged and emergency access must be approved, logged and reviewed. [PASS] [IT]

• The safe custody of the printouts should be ensured, and alterations are captured into the “Parameter Register”.

Some important Master files for a core banking solution are.

• Master Data of Accounts
• General-purpose parameter files
• Account types and structure for the General Ledger
• Advances interest rates applicable for various schemes.
• Deposit interest rates applicable for various tenors
• List of holidays
• Authorization rights for exceptional transactions
• Types of users and their work classes.

Logical Access Control

To safeguard the assets and the computer system and to maintain data integrity,

the following should be ensured:

• The security policy addresses specific capabilities of operating systems and ensure that the available security features are implemented.
• The Chief information security officer should ensure that available features have been implemented.
• Process for granting access levels.
• Users should have the minimum access level needed to do their job.
• Users’ access should be restricted to specific applications, menus within applications, files, and Servers.
• File maintenance should be a separate access privilege.
• Maintenance should be restricted to a minimum number of persons, and it should be properly approved and reviewed.
• The password file should be encrypted.
• Methods to detect security violations.
• Access levels should be periodically reviewed by the internal auditor.
• Procedures to limit access to workstations after normal working hours.
• Modem access should be restricted.

• Modem passwords should be changed periodically

Operational Aspects Of Security Control In CBS

The key security control aspects in a computerised bank include:

• Ensure that authorised, accurate and complete data are made available for processing.
• Ensure that in case of interruption due to power, mechanical or processing failures, the system restarts without distorting the completion of the records.
• Ensure that the system prevents unauthorised amendments to the programmes.

Important distinction / reviewed 30 October 2026

A sealed envelope and six daily/twelve monthly backup sets are legacy arrangements, not universal standards. Use controlled emergency access, tested restoration and the approved retention/recovery design. Patch deployment needs risk assessment and controlled implementation. [IT]

• Ensure that the “access controls” assigned to the staff-working matches with the responsibilities, as per manual.
• Ensure the segregation of duties while granting system access to users and

monitor user activities by reviewing Logs

• Ensure that changes made in the parameters or user levels are authenticated
• Ensure that charges calculated manually for accounts when a function is not regulated through parameters are properly accounted for and authorised.
• Ensure that all modules in the software are implemented.
• Ensure that the exceptional transaction reports are being authorised and verified regularly by the officials concerned.
• Ensure that the account master and balance cannot be modified/amended/altered except by the authorised personnel.
• Ensure that all the general ledger accounts codes authorised by Head Office exist in the system.
• Ensure that balance in general ledger tallies with the balance in the subsidiary book.
• Ensure that important passwords, like database administrator and branch manager’s Passwords, are kept in a sealed cover with the branch manager so that in case of emergency and the absence of any of them, the passwords could be used to run the system properly.
• Ensure that the Bank takes daily and monthly backups. The backup media should be duly labelled, properly indexed and maintained under joint custody.
• Ideally, a daily backup should be taken in 6 sets, one for each weekday and 12 sets for each month. The backup Register should be maintained and updated.
• Ensure that the backup media is stored in a fireproof cabinet secured with lock and key and that the off-site backups are preserved for an emergency.
• Ensure that the anti-virus software of the latest version is installed in servers/PCs of branches.
• Ensure that security patches are applied to systems as and when released by the vendors/ developers.
• Ensure that access to the computer room is restricted to authorised persons

Role And Responsibilities Of The Bank Under CBS

To deal with the increasing incidences of cyber-attacks and misuse of the electronic payment system, the banks must introduce certain minimum checks and balances to minimise the impact of such attacks and to arrest/minimise the damage.

Bank must have:

Important distinction / reviewed 30 October 2026

Distinguish an IS audit programme from a particular payment-system authorisation audit. Audit coverage, competence and independence depend on the applicable directions. Outsourcing an audit does not transfer the bank’s accountability. Quick Revision claims of no extra implementation cost and branches having no backup/MIS duties are not universal: responsibilities and costs follow the bank’s approved architecture. [IT]

• IT Policy
• Data processing and data interface under various systems.

• Data integrity and data security.
• Business Continuity Plans and Disaster Recovery Plans.
• Accounting manual and critical accounting entries and the processes and

involvement of IT Controls over key aspects

• Documentation of Controls and various e-banking and internet banking products.
• Manual processing of key transactions.
• MIS reports being generated and the periodicity thereof.
• Hard copies being generated and the periodicity thereof.
• Process of generating information related to various disclosures in the financial statements and the involvement of the IT systems.
• Generation of major exceptional reports and the actionable.
• Major IT related issues faced and resolved/unresolved during the year, such as data/system corruption, system break-down, etc., having a bearing on the

preparation and presentation of financial statements

• Significant observations of internal auditors, concurrent auditors, system auditors, RBI inspection and internal inspection, etc., related to computerised accounting and overall IT systems.
• Customer complaints related to errors in transactions In order to ensure that the technology deployed to operate the payment system/s authorised is being operated in a safe, secure, sound and efficient manner and as per the process flow submitted by the Bank for which authorisation has been issued; banks are required to get a System Audit done by a firm of Chartered Accountants.

The scope of the System audit would include evaluation of the hardware structure, operating systems and critical applications, security and controls in place, including access controls on key applications, disaster recovery plans, training of personnel managing systems and applications, documentation, etc.

The system auditor must also comment on the deviations in the processes followed from the process flow submitted to RBI while seeking authorized.

Compare before you answer

Concept / service	Practical distinction
Entry and approval	Maker records; checker authorises within assigned rights.
Master and transaction	Master data set standing rules; a transaction applies them to an event.
Backup and recovery	A saved copy is useful only with a tested restoration process.
BCP and DR	Continue critical business; recover disrupted technology.

Practice / answer beside the question

Q01. A maker can enter a transaction. Does that prove authority to approve it?
Answer / No. Entry and approval are separate assigned privileges; apply the bank's maker-checker controls.

Q02. The ledger total differs from the subsidiary records. Is a successful EOD message enough?
Answer / No. Investigate and reconcile the difference; retain the exception and authorised resolution.

Q03. May a teller amend the deposit-rate master merely to match a customer promise?
Answer / No. Check the applicable rate and authorised change process; an individual promise does not authorise a parameter change.

Q04. Does a backup-completed message prove recovery will work?
Answer / No. Restoration and continuity arrangements must be tested against recovery requirements.

Q05. A shared emergency credential was used. What evidence is needed?

Answer / Approved emergency access, identity attribution, activity logs, review and the required post-use controls.

Q06. Does central CBS make branch exception checking unnecessary?

Answer / No. Branch and central responsibilities remain as assigned in the bank's operating and control framework.

Q07. Must a bank follow an arbitrary password-change interval merely because an old example says so?

Answer / Apply the operative bank policy and obligations; modern technical guidance discourages arbitrary changes without compromise evidence.

Q08. Does outsourcing IS audit move accountability to the vendor?

Answer / No. The bank retains responsibility for its audit and control framework.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

Computerisation at the branch level can be used to:

(a) Provide better and speedy customer service (b) Improve housekeeping services (c) Analyse the branch-level data for decision making (d) Generation of various reports.

Total Branch Automation

a. This is a real time online banking.

b. Whenever a transaction is entered through a terminal, the transaction is recorded, verified and authenticated and all corresponding updates are reflected instantly.

c. Various outputs such as ledger extracts, passbooks, vouchers, statements of accounts of customers, etc., are generated online.

d. It is possible to provide the 'single window' transactions concept. That means a customer can approach any counter for completing all his or her transactions.

e. Off-site ATMs are also linked to the branch system to enable the customer to bank anytime/anywhere.

f. Software and hardware requirements depend upon the size of the branch.

Computerisation at Regional/Circle/Zonal Office

RO/ZO acts in between branches and the head office. The most common tasks performed by the

regional office/zonal office are:

(a) branch profile (b) inter-branch reconciliation (c) credit monitoring (d) personnel data management, etc.

Computerisation at Head Office Level

The head office of a bank is responsible for bank level planning, and control functions, policy decisions. The head office activities are divided into different functional areas like:

(a) operations (b) planning (c) personnel (d) international business (e) services, etc.

The computerisation at various functional areas may include application areas:

(a) personnel management and administrative support (b) funds management (c) investment portfolio management (d) branch profiles (e) credit information system, etc.

CORE BANKING

In core banking, there is a central database for the bank and transactions are done centrally, online.

It offers integrated products and services to customers round the clock.

Business Components

(a) To have retail customer banking modules (b) Deposits, loans, bills, remittances, locker, clearing, etc.

(c) Trade finance/forex modules (d) Government business modules (e) To have corporate finance and service branch modules (f) To have enhanced MIS modules (g) To have modules for business intelligence (h) To integrate with the existing ATMs, tele-banking, debit card, kiosks and other delivery

Channels

(i) To have any branch banking, Internet banking and call centre (j) To interface with existing corporate systems like treasury, IBR, centralised accounting system, HRMS, ALM, credit appraisal and management, credit monitoring and NPA management, etc.

(k) To interface with systems like NDS, SFMS, RTGS, CFMS, etc.

Benefits

(a) Enables the establishment of a reliable centralised data repository for the bank (b) Facilitates data warehousing and data mining technologies for business intelligence (c) Easy implementation of integrated customer centric services like online ATMs, telebanking, internet banking, any branch banking, kiosk banking, cash management services, etc.

(d) Enables centralised management information, decision support and executive information

systems

(e) Efficient and effective MIS, ALM, risk management, etc., using the central data pool (f) Enables centralised management and control with centralised data (g) Standardisation of the branch automation software using a single version. Quick adoption of

software changes as changes are done only at the central site

(h) Facilitates business process re-engineering (BPR) to streamline the existing processes (i) Relieves branches of jobs like data backup, MIS generation, etc.

(j) Requires infrastructure at the central location, backup location and at branches (k) Servers are not mandatory at branch locations (1) Attracts higher investment in the beginning (m) Cost of implementation for further branches and delivery channels relatively cheaper (n) Core infrastructure can be used for future expansions (0) No extra cost for implementation of SFMS, RTGS, CFMS, etc.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

IT / RBI: Commercial Banks - Cybersecurity, Technology: Risk, Resilience and Assurance Framework, 2026; updated 1 October 2026

PASS / NIST SP 800-63B-4: authentication and authenticator management

28 facts / final recall

01-14 / foundations	15-28 / application
01. CBS maintains customer accounts.	15. Exception reports need action and review.
02. Cash, clearing and transfer are transaction types.	16. Ledger and subsidiary balances reconcile.
03. Channels feed the central banking service.	17. Access follows least privilege.
04. Validation precedes authorised posting.	18. Privileged access needs added controls.
05. A maker enters the transaction.	19. Authentication is distinct from authority.
06. A checker provides the assigned approval.	20. Password verifiers need secure hashing.
07. Roles must match assigned responsibilities.	21. Logs support investigation and accountability.
08. Segregation reduces conflicting access.	22. Emergency access must be controlled.
09. BOD opens the relevant processing day.	23. Backups require restoration testing.
10. EOD includes closure and control activities.	24. Off-site recovery supports continuity.
11. Calendars influence business-day processing.	25. BCP covers continuation of critical services.
12. Interest and charges depend on parameters.	26. DR addresses recovery of disrupted systems.
13. A master file holds standing reference data.	27. IS audit examines risks and controls.
14. Parameter changes need approval and records.	28. Central processing does not remove branch responsibility.

C03 / Alternate Delivery Channels and Digital Banking



At the branch

A customer calls an ATM successful because the account was debited, but no cash arrived. Check the actual transaction status, log the complaint and follow the applicable reversal process.

1. Choose channel → 2. Authenticate safely → 3. Complete transaction → 4. Handle exceptions

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module C Unit 3: Alternate Delivery Channels

Automated Teller Machines (ATMs)

The committee headed by Dr. C. Rangarajan recommended setting up ATMs in India.

Convenience of ATMs To Customers

- 24 × 7 access availability
- Less time for transactions (less queue)
- Privacy in transactions
- Any branch/anywhere banking enabled

Important distinction / reviewed 30 October 2026

ATM services, free-transaction entitlements and charges depend on the account, location, transaction type and operative RBI/bank conditions. A listed withdrawal ceiling is not universal. Failed-transaction complaints require the applicable reversal and compensation framework, not an assumption that every debit proves cash delivery. [ATM]

- Acceptability of debit/credit cards across multiple bank ATMs
- Other services enabled in ATMs in addition to cash dispensing includes clearing cheques deposits, balance enquiry, cheque book requisition, mini statement, utility bill payments, etc.

Convenience of ATMs To Banks

- The cost of setting up ATMs is lower than setting up a branch. The cost of the transaction is also less.
- The routine transactions through ATMs relieves the bank staff for more productive work.
- ATMs serve as the crucial touchpoint for cross-selling of banks' products.
- Enables a bank to display products on the screen and serves as a medium for publicity of the bank.
- Less hassle in handling cash.

ATMs Models In India

- Online
- Offline
- Networked Cash Dispenser: CD is an ATM without a depository and intended to serve the customers for making cash withdrawals only.

Networking of ATMs: For optimizing the cost of investments in ATMs, banks joined in small clusters to share their ATM networks. Indian Banks' Association (IBA) was the first organization to set up a shared payment network system (SPNS) or SWADHAN network of ATMs of its member banks in Mumbai. The network went live on 1 February 1997. The Objective behind the SWADHAN network is to provide 24 hours, 7 days a week electronic banking service to the customer of a member bank anywhere in the city of Mumbai. The customer

is free to carry transactions at the ATMs of any of the member banks located in the neighborhood. To facilitate interoperability among these clusters at the national level, IDRBT initiated the process of setting up a 'National Financial Switch' (NFS) to facilitate apex level connectivity of other switches established by banks. IDRBT had been providing ATM switch services to banks in India through NFS. NPCI (National Payment Corporation of India) took over NFS operations from IDRBT on December 14, 2009.

White Label ATMs

• ATMs, which are set up, owned, and operated by non-banks, are called White Label ATMs (WLAs). As of 1 Jan 2022, Four Non-bank ATM operators (India1 Payments, Tata Communications Payment Solutions, Hitachi Payment Services, and Vakrangee) are authorized to install and operate WLAs.

• The Reserve Bank of India (RBI) released the first guidelines in June 2012 to introduce "White Label ATMs" to expand banking services in the country. White

Important distinction / reviewed 30 October 2026

A cardless cash limit is a product example unless the operative scheme makes it general. Do not treat Rs 49,950 as a universal PAN threshold for every banking transaction. White-label ATM operator counts stated as at January 2022 are historical; authorisation and the current operator list must be checked separately. [ATM]

label ATMs (WLAs) do not display any bank's branding/signage, and hence they are called White Label ATMs.

• The WLA Operator would not be entitled to any other fee from the issuer bank other than the "Interchange" fee payable to the "acquirer" bank under the present bank-owned ATM scenario.

Brown Label ATMs

• 'Brown label' ATMs are those Automated Teller Machines where a service provider owns the hardware and lease the ATM to banks.

• The service provider takes the responsibility of maintenance of the ATM, whereas the sponsor bank takes the responsibility of cash management and connectivity of ATM to the banking network.

Cash Recyclers

• Cash Recycler machine is a self-service terminal that lets one deposit and withdraws cash.

• They ensure the genuineness of currency. Counterfeit notes are recognised.

• Cash deposit is made with debit card.

• Cardless transaction up to Rs. 20,000/- per day

Kiosk Banking

• 'An electronic kiosk in a Bank is a small electronic/computerised Box/structure that helps users inquire, print, transact.

• These kiosks are deployed in places with high foot traffic like airports, malls, etc.

These kiosks are essentially unmanned.

• Banks can offer hassle-free and customer-friendly banking services through Kiosks by leveraging Technology.

Pass book Printing Kiosks

• A Passbook Printing Kiosk is an automated kiosk wherein a customer can print his passbook independently. Normally these passbook printers are of self- service in nature.

• PBK fetches the transaction details through this magnetic strip and prints them on the passbook. Customers can use this facility at any time of the day on a 24×7 basis.

Cash Deposit Machine

• A Cash Deposit Machine (CDM) allows customers to deposit money using a debit card or account number. One of the remarkable features of CDM is that the Account is credited instantly at any time of the day on all days of the year.

Important distinction / reviewed 30 October 2026

A credit card provides credit under its terms; a debit card draws on the linked account. A charge card normally requires the billed balance to be settled as agreed. No preset spending limit does not mean unlimited spending. Chip capacity, fraud protection and grace periods vary by product and conditions.

• As per RBI guidelines, customers can deposit only up to Rs. 49,950 per account per day if the PAN number is not recorded with the Bank. To deposit cash for more than Rs. 49,950 per account per day, the PAN number should be registered with the Bank.

Bulk Note Acceptors

• BNA will work round the clock and accept bulk deposits, sort, count, and instantly credit the amount to the depositors' account. After the successful launch of BNA, banks have come up with the requirement of BNA recyclers. One can use BNA machines for cash deposits and withdrawal of cash.

• Reserve Bank of India subsidized the cost of BNAs up to 50 per cent in urban areas and 75 per cent in semi-urban areas.

Security Control Of ATMs

• RBI prescribed baseline Cyber Security Controls for ATM Switch application service providers to all regulated entities.

• The guidelines would require implementing several measures to strengthen the deployment process, continuous surveillance; implementation of controls on storage, processing and transmission of sensitive data; building capacity for forensic examination; and making the incident response mechanism more robust.

• RBI also mandated the regulated entities to implement the following control measures for securing the ATMs. (a) Implementing security measures such as BIOS password, disabling USB ports, disabling auto-run facility, applying the latest patches of operating system and other software, terminal security solution, time-based admin access, etc. (b) Implementing the anti-skimming and whitelisting solution. (c) Upgrading all the ATMs with supported versions of the operating system.

Electromagnetic Cards

Credit Card

• A credit card is a small plastic card around 8.5 cm by 5.5 cm. It contains the name and the account number of the holder embossed on it. In addition, the date up to

Illustrated comparison / key details

Electromagnetic cards / classification	Branch
Electromagnetic Cards	Credit Card
Electromagnetic Cards	Charge Card
Electromagnetic Cards	Debit Card
Electromagnetic Cards	Smart Card
Electromagnetic Cards	Member Card

Important distinction / reviewed 30 October 2026

PPI rules distinguish instrument categories. Do not combine a small-PPI ceiling, full-KYC balance limit, gift instrument limit and transaction limit into one figure. Stored value, permitted transfer, cash withdrawal and interoperability depend on category and authorisation. Historical paper-voucher examples do not establish current PPI eligibility. [PPI]

which the card is valid will also be embossed and a specimen signature panel on the reverse.

• The cardholder has the option to pay the entire amount as soon as the card account is debited, or he may choose to pay only a certain percentage of the amount debited, and he gets a credit to the extent of rest, i.e. he can pay it in monthly instalments later and incur interest charges.

Charge Card

• A charge card is an electronic payment card where the cardholder is not charged interest but needs the user to pay the balance due in full upon receipt of the statement, usually every month.

• It has no preset spending Limit.

Debit Card

• A bank-issued card allows users to access their funds to pay for merchandise.

• Here the funds are immediately debited to the cardholders' accounts.

Smart Card

• It is a physical card that has an embedded integrated chip that acts as a security token. They use encryption to provide protection for in-memory information.

• They have memory chip or microprocessor with processing power to serve many different applications when coupled with smart card reader.

• EMV Cards: EMV stands for 'Europay, MasterCard and Visa', a global standard for inter-operation of integrated circuit cards (IC cards or "chip cards") for authenticating credit and debit card transactions. It is a joint effort to ensure the security and global interoperability of chip-based payment cards.

NFC based Contactless/Tap & Go Cards

• Near Field Communication technology supports electronic data exchanges for short distances of about 10 cm. An NFC enabled smart card can transact wirelessly with an NFC enabled POS.

• These cards, known as contactless or Tap and Go cards, can be used at POS terminals of merchant establishments ATMs by simply tapping the card.

Transactions made through contactless cards are faster and more secure.

Member Card

• This is used exclusively by the members of a club or a chain of hotels. For example, the Taj Card is a card issued by the Management of Taj Group of Hotels to be used by patrons. The cards are for use in their hotels only. Similarly, there are many other types of cards where the usage is exclusive to the members of group.

Biometric Security Features Of Cards

• One of the primary features of the smart card is security to prevent card-related crimes and frauds. Chips for smart cards are not publicly available.

• The smart card has different pockets of storage of cash for different types of transactions. There may be a unique PIN for each pocket, meaning that a smart card may have multiple PINs.

• Apart from multiple PIN facility, there are other Biometric security features available with the smart card such as Dynamic signature verification, Fingerprint verification, Voice recognition system, Hand geometry, Retinal pattern verification, Vein recognition, Visual recognition.

Pre-Paid Payment Instruments (PPIs)

Pre-paid payment instruments facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments.

The prepaid payment instruments permitted in India are classified under three categories, viz.

• Closed system payment instruments

• Small Prepaid Payment Instruments or Minimum Details Prepaid Payment

Instruments

• Full-KYC Prepaid Payment instruments.

Closed system payment instruments

• These PPIs are issued by an entity for facilitating the purchase of goods and services from that entity only and do not permit cash withdrawal.

• The issuance or operation of such instruments is not classified as a payment system requiring approval/authorisation by RBI and are, therefore, not regulated or supervised by RBI. E.g., a prepaid card/wallet issued by a particular book store or restaurant for use only at its outlet(s).

Small Prepaid Payment Instruments

• These are issued by banks and non-banks after obtaining minimum details of the PPI holder.

Small Prepaid Payment Instruments

• These are used only for purchase of goods and services. Funds transfer or cash withdrawal from such PPIs shall not be permitted.

PPIs upto Rs.10,000/- (with cash loading facility)

• Bank and non-banks shall be permitted to issue such PPIs after obtaining minimum details of the PPI holder.



Apply the distinction

Explain the decision: Protect the PIN and authentication factors. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

International use and cross-border remittances require the permitted product, authorisation and foreign-exchange framework. Old domestic-only mobile-banking wording is not a complete rule for every later payment product. Listed limits and eligibility are category-specific. [PPI] [UPI]

• Maximum loaded amount: Rs. 10,000/- in a month, and Rs. 1,20,000 in a

Financial Year

• Maximum outstanding: Rs. 10,000/-; Maximum debits: Rs. 10,000/- in a month.

• To be converted to fully KYC-compliant PPI within 24 months of date of issue.

• This category of PPI shall not be issued to the same user in future using the same mobile number and same minimum details.

PPIs upto Rs.10,000/- (without cash loading facility)

• This has the same limits as above but cash loading facility is not there.

Full – KYC PPIs

• These are issued by banks and non-banks after completing Know Your Customer (KYC) of the PPI holder. Video-based Customer Identification Process (V-CIP) can be used.

• These are reloadable in nature. The amount outstanding shall not exceed Rs.2,00,000/- at any point of time.

• To provide facility of ‘pre-registered beneficiaries’ by providing details of their bank account. Issuer must set limits for transfers to these beneficiaries as per the risk profile of the holder, but not exceeding Rs. 2,00,000/- per month per beneficiary.

Specific Categories of PPIs

Gift PPI

• Maximum value: Rs. 10,000/- each Gift PPI.

• Shall not be reloadable.

• Cash-out or funds transfer are not be permitted.

PPIs for Mass Transit Systems (PPI-MTS)

• To be issued by MTS operators after RBI authorization.

• Should contain Automated Fare Collection application related to transit service.

• It shall be reloadable.

• Maximum outstanding at any point of time shall be Rs. 3,000/-

• Cash-out or refund or funds transfer can not be permitted

Key Operational Regulations Of PPIs

Issuing/ Loading/ Reloading

• PPIs may be issued as cards, wallets, and any other form. Paper vouchers are not allowed.

• PPIs issued in India and shall be in INR only and no interest can be paid on balances.

• Cash loading is limited to Rs. 50,000/- per month subject to overall limit.

Validity And Redemption

• Validity: Minimum one year from the date of loading/ last reloading

• To inform customer by SMS, e-mail, etc. recurringly during 45 days window before expiry.

• PPIs with no transaction for one year to be inactivated, and informed to RBI.

Deployment of money collected – Non-bank Issuer

• Outstanding balances to be in an escrow account with one or two scheduled commercial banks.

• Issuer that is member of Centralised Payment Systems of RBI shall maintain a Current Account with RBI.

• The day-end balance in the escrow account shall not be less than the value of outstanding PPIs and payments due to merchants. Credit to escrow on issue, load/ reload must be latest by day end of the transaction.

• No interest can be paid on the Escrow Account, However, 'core portion', of the balance can be transferred to an interest bearing account.

Other Aspects Of PPIs

PPIs under co-branding arrangements

• Non-bank PPI issuer to seek on-time RBI approval for issuing co-branded PPIs.

• Co-branding partner: Indian company, Government department/ ministry, a bank.

Cross-border transactions

• Full-KYC PPIs issued by AD-I banks can be used in cross-border outward transactions. If in card form, these should be EMV Chip and PIN compliant.

• Ceiling: Rs. 10,000/- per transaction; Rs. 50,000/- in a month for outward

transactions

• For credit from cross-border inward remittances- Ceiling: Upto Rs. 50,000/- for a remittance, balance to be credited to bank account.

Electronic Banking

Anytime-Anywhere Banking

• Access to the account through the Alternate delivery channels is secured through measures like Password, PIN, OTP, Biometric authentication etc. With the

Important distinction / reviewed 30 October 2026

Do not infer that low-value mobile transactions may dispense with suitable security merely because an older example mentions Rs 5,000. Apply the operative authentication and channel-security requirements. Internet access, an app and a payment system are different layers. [IT]

introduction of payment systems like IMPS UPI and making NEFT/RTGS 24 × 7, any time banking payments across Banks also became a reality.

By utilising remote banking facility, corporate customers will be able to get the

following services:

• Getting their current balance or getting their statement of accounts for any

pre-defined period

• Ordering cheque books

• Ordering/transferring intra-bank and inter-bank fund transfers

• Instructing stop payments of cheques

• International remittances

• Opening letter of credits

• Treasury services to manage their working capital requirements

• Customized loans and lease agreements for the purchase of equipment, machinery, etc.

• Portfolio analysis

Tele Banking

• By using a telebanking facility, customers can dial up the Bank's designated telephone number, which is connected to the Bank's server. By dialing his identification number, the customer will be able to avail of some banking services using a secure PIN.

Some of the services that can be availed with telebanking facility are:

• Balance Inquiry,

• Last few transaction details

• Request for a cheque book online

• Stop payment of any cheque

• Initiate fund transfers to self-account

• Generate ATM PIN

• Get the interest certificate

• Get the Deposit Interest Certificate

• Update mobile information or mail ID This facility is now being served through Voice assistants/Bots using Artificial Intelligence to help the Customer in availing banking services.

Internet Banking

• It removes the traditional geographical barriers as it could reach out to customers of different countries/legal jurisdictions.

• It has added a new dimension to different kinds of risks traditionally associated with banking, heightening some of them and throwing new risk control challenges and risk perceptions.

• It poses a strategic risk of loss of business to those banks who do not respond in time to this new technology efficient and cost-effective delivery mechanism of banking services.

• Internet is the Backbone for popular Social Networking Sites. Nowadays Banks are using these Social media networks for customer engagement through advertisements, quizzes and offers, apart from offering banking services.

Mobile Banking

• Banks are permitted to offer mobile banking services (through SMS, USSD or mobile banking application) after obtaining necessary permission from the Department of Payment and Settlement Systems, RBI.

• Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

• MPIN are critical for use of mobile banking services. For MPIN generation several modes should be provided through: an option in own ATMs; USSD menu;

internet banking; MPIN mailers; and Industry level common website.

• Fund transfer services from the accounts of their customers can be provided for delivery in cash to the recipients, including non-account holders.

The disbursal of cash can be facilitated at ATMs or through business

correspondents. The conditions for this are:

• Cash out: Maximum amount – Rs. 10,000/- per transaction.

• Velocity cap to be decided by banks with Maximum amount – Rs. 25,000/- per month, per beneficiary.

• Disbursal of funds at the agent/ATM: Only after identification of the recipient.

• USSD (*99#) based mobile banking service was introduced by NPCI to take the banking services to every common man across the country. NPCI later launched Unified Payments Interface (UPI) with member banks. UPI allows customers to send and receive money using a unique ID (UPI ID) or payment address. UPI is now available for non-internet based mobile devices in the form of dialing option *99#.

• All mobile transactions should be encrypted end-to-end except transactions up to Rs. 5000/-, which can be facilitated by banks without end- to-end encryption.

Electronic Commerce

• E-commerce include a higher degree of personalization, round-the-clock advantage, fast and flexible execution, immediate customer reaction, and reduction in operating cost.

• E-commerce poses new challenges for all market participants. Banks face competition from non-banks and near banks, which because of the low barrier to

Important distinction / reviewed 30 October 2026

Quick Revision includes historical product descriptions. HWAK benefits are promotional performance claims, not guarantees; electronic cheque is not defined by placing a smart card in a PoS reader. Branches, ATMs, cards, mobile and internet serve different needs; an intermediary is not automatically authorised to accept every instruction.

market entry, can play much more easily in the electronic payment services market than in the markets for traditional bank services.

Neo Banking

• A Neo Bank is a Fintech firm that provides digital and mobile-first services like payments, debit cards, money transfers, lending, and more.

• Since Neo-Banks don’t have physical branches, consumers can create their accounts from their mobile devices from the comfort of their home in a matter of minutes, by accessing the designated mobile application.

• In India, Neo-Banks partner with Banks to provide a gamut of banking services.

The likes of Jupiter, Fi, Niyo, and Razorpay X are currently working in partnerships with traditional banks.

Compare before you answer

Concept / service	Practical distinction
ATM	Self-service access; available functions and limits depend on configuration.
Card	Payment instrument; debit, credit, charge and prepaid funding differ.
Internet / mobile	Interfaces for authorised online services.
Branch / intermediary	Assisted service within the assigned authority and service scope.

Practice / answer beside the question

Q01. An account is debited but the ATM dispenses no cash. What should happen next?

Answer / Record the failed transaction and complaint, verify logs and follow the applicable reversal and compensation process.

Q02. Does a no-preset-limit charge card allow unlimited spending?

Answer / No. The issuer’s approval, risk controls and agreed repayment terms still apply.

Q03. May a small-PPI limit be used as the maximum balance for every wallet?

Answer / No. Identify the PPI category, KYC status and the particular balance, loading or transaction limit.

Q04. Are an app and UPI the same layer?

Answer / No. The app is an interface; UPI is a payment system accessed through supported interfaces.

Q05. Can every bank card withdraw cash at every ATM without conditions?

Answer / No. Network acceptance, account conditions, limits, charges and service availability must be checked.

Q06. Does a smart-card reader interaction by itself define an electronic cheque?

Answer / No. A PoS card payment and an electronic cheque are distinct instruments and processes.

Q07. A caller asks for a PIN to reverse a failed ATM withdrawal. What should the customer do?

Answer / Do not disclose the PIN. Use the bank's verified complaint channel and follow its secure process.

Q08. Does offering a banking channel remove the need for customer support?

Answer / No. Accessible service, exception handling and grievance resolution remain necessary.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

Automated Teller Machines (ATMs)

Automated Teller Machines (ATMs) are primarily used for performing some of the banking functions such as the withdrawal of cash or the deposit of cash/cheque, etc., by using an ATM card.

The committee headed by Dr. C. Rangarajan recommended the setting up of ATMs in India.

Convenience of ATMs

To the Customers:

(a) 24 x 7 access availability (b) Less time for transactions (less queue) (c) Privacy in transactions (d) Any branch/anywhere banking enabled (e) Acceptability of card across multiple bank ATMs, even foreign tourists can access

Maestro/VISA / ATMs

To the Bank:

(a) Cost of setting up ATMs is lower than setting up a branch (b) Migration of the routine transactions to the ATMs frees the bank staff for more

productive work

(c) ATMs serve as the crucial touch point for cross-selling of the bank's products (d) Enables the bank to display products on the screen and serves as a media for publicity

for the bank

(e) Less hassle in handling cash.

The following components of the ATM provide the customer interface:

(a) Video Display Monitor (b) Keyboard/Keypad (c) Touch Screen (d) Slots: There are slots in the ATM for various purposes as detailed below:

(i) Card Reader (ii) Cash Dispenser (iii) Envelope Dispenser (iv) Deposit Slot

HWAK (The Intelligent Auto-teller and Netware Management System)

Intelligent auto -teller systems are a special breed of auto -teller machines capable of thinking for themselves, that means they are fast, impose less demands on your banking systems and serve the customers more like a personal banker than less sophisticated auto teller systems.

HWAK provides unsurpassed service even without benefit of a reliable communication network.

Benefits of HWAK are:

(a) Customer satisfaction.

(b) High availability (c) Online and offline auto-recovery (d) Anytime full banking service (e) Low cost, shorter queues and less number of tellers with ease of use (f) Quick and early implementation (g) Enhanced security and audit control (h) Network management (i) Predictable cost of ownership (j) Comprehensive 'One Stop' autobanking.

White Label ATM (WLA)

Traditionally, Automated Teller Machines (ATMs) have respective bank's logo. So just by looking, this is SBI's ATM, this is ICICI's ATM and so on.

But White label ATM doesn't have such Bank logo, hence called White label ATMs.

RBI has given license / permission to non-bank entities to open such ATMs.

Any non-bank entity with a minimum net worth of Rs.100 crore, can apply for white label ATMs. (not

just NBFC, any non-bank entity can apply.)

Late 80s: first ATM in India; 2012: RBI issues guideline for White label; 2013: RBI gives license/permission.

Tata Communications Payment Solutions Limited =the first company to get RBI's permission to open White label ATMs.

They started their chain under brandname "Indicash".

Other White label= Muthoot Finance, Srei Infra., Vakrangee Software, Prizm Payments, AGS. More than 15 companies given such permission.

Credit Card

a. It allows the cardholder to pay for goods and services based on the holder's promise to pay for them.

b. The issuer of the card creates a revolving account and grants a line of credit to the cardholder, from which the user can borrow money for payment to a merchant or as a cash advance.

c. The size of most credit cards is 3 3⁄8 × 2 1⁄8 in (85.60 × 53.98 mm).

d. It allows the consumers a continuing balance of debt, subject to interest being charged.

Charge Card

a. Transactions are accumulated over a period of time, generally a month and the total amount charged, i.e. debited to the account.

b. The credit card holder is given about 25 to 50 days' time to credit his account in case there are insufficient funds in his account at the time of debit.

c. Since the transactions are accumulated, it is only charged, i.e. not debited to the account immediately, such cards are called charge cards.

Debit Card

a. A debit card (also known as a bank card or check card) is a plastic payment card that provides the cardholder electronic access to their bank account(s).

b. Payments using a debit card are immediately transferred from the cardholder's designated

bank account

Electronic Purse

Type of smart card which, with an embedded microchip, provides multiple options, such as debit card or credit card type payments.

Smart card

a. A smart card is a payment card embedded with a computer chip, essentially functioning like a mini-computer on a card. The memory and the computing power of the chip on the card could transform payments in many ways. The chip, a true technological breakthro ugh, holds at least 80 times more data than the magnetic stripe on existing credit cards.

b. Unlike the magnetic stripe, the chip can process data as well as store it, and because each program on the chip runs on independent software, several different progra ms can operate on the same card at the same time.

c. An added bonus: the smart card is a more secure method of payment that protects the cardholder's account information from fraudulent use.

Electronic Cheque

The smart card can be used during electronic fu nd transfer at the point -of-sales (EFTPOS). At a retailer's checkout, the card is placed in the reader, where it automatically goes through authentication sequences.

Electronic Cash

Funds can be loaded into a card for use as cash. This electronic cash can then be used for making

purchases

Electronic Token

The principle here is that a prepaid area is set aside to store electronic units of time or electronic tickets, etc., for a specific service or item. Magnetic strip cards are often used with public telephones, parking meters and vending machines.

Anytime Banking

ATMs have eliminated the time limitations of customer service, and offer a host of banking services, including deposits, withdrawals, requisitions, instructions and transfers. HSBC Ltd., for inst ance, has taken the concept of remote banking further by providing a service called Hexagon, which allows the customer to access his accounts from a PC that is installed at his office or at his home - that is desktop banking - for the customer.

Anywhere Banking

With the introduction of ATMs and tele -banking, financial details can be accessed from remote locations and basic transactions can be effected even outside the bank.

Corporate Banking

At present, by utilising remote banking facility, corporate cust omers will be able to get the following

services:

(a) Getting their current balance or getting their statement of accounts for any pre-defined

period

(b) Ordering cheque books (c) Ordering intra-bank and inter-bank fund transfers (d) Instructing stop payments of cheques (e) International remittances (f) Opening letter of credits.

Mobile Banking

a. Undertaking banking transactions using mobile p hones by bank customers that involve credit/debit to their accounts.

b. Only banks which are licensed and supervised in India and have a physical presence in India will be permitted to offer mobile banking services.

Only banks who have implemented core banking solutions would be permitted to provide mobile banking services.

c. The services shall be restricted only to customers of banks and/or holders of debit/credit cards issued as per the extant Reserve Bank of India guidelines.

d. Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

Channels for Banking Services

The following factors affects the channel decision

Intangibility

Inseparability

Variability

Perishability

Client Relationship

Channels

1. Branches are the primary distribution outlets for banking services. These are fixed in location and customer is required to visit the branches.

2. Other Channels

Tele-banking and Call Centres

ATMS

Personal Computer

Plastic Cards

Virtual Branches

3. Intermediaries in Banking Services

Direct Sales Agents

Automobile Dealers

Merchant Establishments

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

ATM / RBI: ATM and white-label ATM FAQs

IT / RBI: Commercial Banks - Cybersecurity, Technology: Risk, Resilience and Assurance Framework, 2026; updated 1 October 2026

PPI / RBI: prepaid payment instruments FAQs

UPI / NPCI: UPI product FAQs

28 facts / final recall

01-14 / foundations	15-28 / application
01. A delivery channel is a service access route.	15. Gift instruments are a separate PPI category.
02. ATM functions depend on configuration.	16. A mobile app is an access interface.
03. An ATM debit does not prove cash delivery.	17. Internet banking uses an online service channel.
04. Protect the PIN and authentication factors.	18. Authentication verifies the claimed user.
05. White-label ATMs are operated by authorised non-banks.	19. Authorisation permits a particular action.
06. Cardless cash is product-dependent.	20. Corporate channels may support bulk instructions.
07. Debit cards use linked account funds.	21. Tele-banking provides remote assistance/services.
08. Credit cards provide credit under agreed terms.	22. A virtual branch is a digital access form.
09. Charge cards require settlement as agreed.	23. Intermediaries have defined service roles.
10. No preset limit is not unlimited spending.	24. Availability depends on service and controls.
11. A smart card contains a chip.	25. Do not share OTPs or PINs.
12. A prepaid instrument holds prepaid value.	26. Report unauthorised transactions promptly.
13. Small and full-KYC PPIs differ.	27. Resolve failed transactions using the applicable rules.
14. PPI balance and transaction limits differ.	28. Choose a channel suited to the transaction and customer.

C04 / Data Communication Networks and EFT Systems



At the branch

A branch receives a payment message and treats it as settled funds. Separate message transmission, settlement in the payment system and actual beneficiary credit.

1. Encode message → 2. Transmit securely → 3. Route instruction → 4. Settle and reconcile

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Simplex means one-way transmission; half-duplex alternates directions; full duplex supports both directions simultaneously. The capability and speed of a medium depend on the actual technology and design, not a single universal number.

JAIIB PPB Module C Unit 4-Data Communications

Networks and EFT Systems

Data Communication Networks

Data communications helps in drastically cutting and the time involved in transferring data from the point of origin to the computer and information from the computer to the point of use.

Components of Data Communications Networks

Data communications typically consists of various data communication components.

When the components operate together for the sharing of resources, they are said to form a network. It has three basic components.

Transmission Devices and Interface Equipment

The data is transmitted along the communication path between computer devices using electrical signals and bit sequences to represent number and characters.

Modem: A modem is a device or program that enables a computer to transmit data over, for example, telephone or cable lines. Computer information is stored digitally, whereas information transmitted over telephone lines is transmitted in the form of analog waves. A modem converts between these two forms.

Transmission Medium

For Communications between computers, the data has travel through some medium during its transmission. The prevalent technologies for data communications media are terrestrial, microwave and satellites.

(a)Terrestrial Cables (Three types)

• Twisted Pair

• Coaxial Cable

• Optical fibre (b)Microwave systems: A microwave system is a system of gear used for microwave data transmission. The typical microwave system includes radios located high atop microwave towers, which are used for the transmission of microwave communications using line of sight microwave radio technology.

(c) Communication satellite: A satellite is a body that moves around another body in a mathematically predictable path called an Orbit. A communication satellite is nothing but a microwave repeater station in space that is helpful in telecommunications, radio, and television along with internet applications.

A repeater is a circuit which increases the strength of the signal it receives and retransmits it. But here this repeater works as a transponder, which changes the frequency band of the transmitted signal, from the received one.

The frequency with which the signal is sent into the space is called Uplink frequency, while the frequency with which it is sent by the transponder is Downlink frequency.

Transmission Processors

The Purpose of communication processors is to enhance is to data communication between two points. Communications processors can be broadly categorized as:

- Message Switches
- Multiplexers
- Front end processors

Modes of transmission

- Simplex
- Half- Duplex
- Full Duplex

Network Scenario in India: Major Networks

The Committees on communication networks for banks, set up in 1987 under the chairmanship of "T.N Anantharam Lyer" executive director, RBI, had strongly recommended for the establishment of a cooperative communication network especially for the banking industry.

INET

- INET was set up by the department of telephones in the year 1991. It is a fast, reliable, flexible and quite cost effective data communication network.

NICNET

- NICNET has been set up by the National Informatics Centre (NIC), a Government of India organization. It is India's largest Wide Area Network (WAN). The Master

Important distinction / reviewed 30 October 2026

INET, NICNET, INDONET, VSAT counts, modem/dial-up examples and older protocols describe historical arrangements. Optical fibre is not universally capped at 2 Gbit/s. Distinguish the physical medium from the network service and communication protocol.

Earth station is installed in New Delhi, to provide access to satellites and operates from around 2000 VSAT terminals.

INDONET

- It was set up by CMC Ltd. In the 1980 and was among the first countrywide networks in India.

RBINet

- After recognising the pressing need to harness information technology for intra- bank and inter-bank communications in the 1980s, RBI commissioned the BANKNET in 1991.

RBI Net is also being used by several departments of banks for various applications

such as:

- Transmission of section 42(2) o the RBI Act, 1934, data by commercial

banks to regional offices of department of banking operations and

development (DBOD) and furnishing of consolidated data by the regional offices of DBOD to central DBOD.

- Press relations division daily news summary of important financial matters.
- Department of economic analysis and policy macroeconomic indicators on a weekly basis.

Emerging Trends in Communications Networks for Banking

RBI's VSAT Network

The Indian Financial Network (INFINET) is a Closed User Group (CUG) Network for the exclusive use of Member Banks and Financial Institutions. It was set up by the Reserve Bank in 1999 through the Institute for Development and Research in Banking and Technology (IDRBT) Hyderabad. The Institute explored capability, methods, procedure to expand the network using a blend of communication technologies such as VSATs and Terrestrial Leased Lines. In order to have a careful combination of technologies in the INFINET, a Leased Line Network (LLN), connecting 21 major cities has been seamlessly integrated with it. The LLN is a mix of 2 Mbps and 64 Kbps lines. The LLN provides gateways to banks from each of these 21 cities. The Network Management System (NMS) of the LLN is located at the INFINET Hub at Hyderabad. The Backup NMS is

located in the Main Office of RBI in Mumbai

Among various inter-bank and intra-bank applications ranging from simple messaging, MIS, EFT (Retail), Electronic Clearing Service (ECS) for both Credits and Debits, online dealing and trading in Government securities, Centralized Funds Management System(CFMS) for Banks and Financial Institutions, Anywhere banking/Anytime Banking (ATM), Inter-Branch Reconciliation, Structured Financial Messaging System (SFMS) and Electronic Funds transfer (RTGS/NEFT) System, transmission of Inter-city Cheque Realisation advices, government securities trading, and currency chest accounting are done through this service. VSAT technology service can also be used for one-way and/or interactive communications via satellite. Presently, the network consists of over 950 VSATs located in 127 cities of the country. All Banks and financial institutions in the country are eligible to become members of the INFINET.

Internet

The Internet is a global network of networks. It is a system of computers which allows user computers exchange data, message, files etc.

- The Internet is a global network of networks. It is a system of computers which allows user computers exchange data, message, files etc.
- Serial Line Protocol (SLIP)
- Point to Point Protocol (PPP)

Internet Access Service

- E-mail
- Usenet
- Gopher
- File Transfer Protocol (FTP)
- World Wide Web (WWW)

SWIFT (Society for Worldwide Interbank Financial Telecommunication)

SWIFT message types are the format or schema used to send messages to financial institutions on the SWIFT (Society for Worldwide Interbank Financial Telecommunication) network. The original message types were developed by SWIFT and retrospectively made into an ISO standard, ISO 15022. In many instances, SWIFT message types between custodians follow the ISO standard. This was later supplemented by a XML based version under ISO 20022.

SWIFT India Domestic Services Pvt Ltd ("SWIFT India" or "the Company"), founded on similar principles, is a financial messaging services provider formed by SWIFT SCRL and Indian banks, for the domestic Indian financial community and by the community.

Through shared resources and capital, SWIFT India functions with the objective of enabling harmonised exchange of structured financial information between domestic

participants in the domestic Indian community, thereby

(a) Reducing costs and risks,

Important distinction / reviewed 30 October 2026

Swift provides secure financial messaging. A message is not itself the movement or final settlement of funds; institutions settle through the relevant accounts and systems. A particular retrieval period or message feature is not a universal current entitlement. [SWIFT]

(b) Expanding the reach of automated, standardised and secure exchange of information across the industry,
(c) Enabling new instruments, opportunities and markets for the industry.

Message types:

- Real-time and bulk messages
- File transfer of structured and unstructured information

Security:

- Role-based access control
- Maker-checker controls
- 3 layers of asymmetric encryption to ensure integrity, authenticity and

confidentiality

- Hardware security modules
- Support for local Controller of Certifiying Authorities (CCA) licensed public key

infrastructure (PKI)

International and domestic standards:

- Support for international ISO 15022 (MT) and ISO 20022 (MX) message formats,

including domestic to international message transformation

- Support for local market practices and flows
- Support for local addressing schemes such as the Indian Financial System Codes (IFSC)

Value added message features:

- Guaranteed delivery
- Delivery confirmation and non-delivery warning
- Broadcast messages
- Syntax and rule-book message validation
- Non-repudiation proof of messsage transmission in case of dispute
- Message retrieval for 124 days in case of messages lost or corrupted by either

sender or receiver

- Store-and-forward for when counterparties are not online

Back-office integration for straight-through-processing

- Message transformation
- Multiple protocols (incluing SOAP, MQ, file transfer, etc)
- Custom workflows

Premium support

- Standard 24/7 online and phone support



Apply the distinction

Explain the decision: Optical fibre carries light signals. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Older descriptions of CHIPS, CHAPS, CHATS, Fedwire and Bankwire are historical system examples. Do not infer universal hours, membership, guarantees or risk elimination from them. RTGS settles individually in real time; it reduces settlement exposure but does not eliminate every operational or fraud risk. [RTGS]

• Native support by back-office certified partners and services providers across Core Banking System, Treasury System, Cash Management Systems, Retail and Corporate Banking Systems. Payments Middleware and Enterprise Resource Planning Systems.

• Other premium support features such as onsite support, pro-active network monitoring and health checks, coordinated business continuity exercises, and others. Visit Support & Training for more information.

Automated Clearing System

Most of the large banks in the European countries and the USA have independent communication networks. Other banks are also members of some of the networks on a sharing basis. These banks uses distributed data processing techniques with a central system acting as the main database server. This has helped them to provide certain specialised functions like transfer of funds, automated teller systems, and credit card systems in an online mode. CHIPS, CHAPS, CHATS are some of these networked systems which allow direct funds transfer facilities in the USA, UK and Hong Kong, respectively and are largely responsible for bringing about the true concept of Electronic Funds Transfer in these countries.

Clearing House Inter-Bank Payment System (CHIPS)

• The CHIPS started operating in 1970, run by a New York clearing house, the world's premier system for transfer of payments internationally. Settlement failures in the history of CHIPS operation have never been reported, and the operational time is claimed to be 99.9 to 100 per cent.

• Most of the international fund transfers go through CHIPS, as most of the international trade is transacted in US dollars.

Clearing House Automated Payment System (CHAPS)

• CHAPS is a sterling same-day system that is used to settle high-value wholesale payments as well as time-critical, lower-value payments. The CHAPS system set- up in the UK provides almost instantaneous service for the settlement of payments, and the payments are guaranteed on receipt and cannot be recalled.

• CHAPS is one of the largest high-value payment systems in the world, providing efficient, settlement risk-free and irrevocable payments.

Clearing House Automated Transfer System (CHATS)

• CHATS provide inter-bank funds' transfer facilities in Hong Kong, which has long been regarded as the hub of financial activities the world over. The success of this system depends largely on reliable communication networks.

• CHATS provide the same day inter-bank settlement, instant online confirmation and enquiry facilities. All the inter-bank entries are first validated at entry before transmission to the CHATS central system for settlement.

Important distinction / reviewed 30 October 2026

NEFT operates 24x7 in half-hourly batches. RBI sets no minimum or maximum amount, though banks may impose limits. RTGS operates 24x7, with a minimum of Rs 2 lakh and no RBI upper ceiling. The two systems differ in settlement method. Online NEFT from savings accounts is not chargeable; other applicable charges and taxes require the current schedule. [NEFT] [RTGS]

Two-Level Funds Transfer System

In USA, Fedwire, Bankwire and POS have established themselves as some of the major systems for electronic funds transfer and settlement facilities as well.

Fedwire

The Federal Reserve Wire System, in operation since 1956, is used by the member banks for EFT and is the main funds transfer system in the USA. Presently, about 800 banks are linked together over computer-based telecommunications networks to transmit funds and statements. It is used primarily for transferring reserve account balances of depository institutions and Government securities, high-value domestic payments, bank to bank and third-party transfers and corporate-to-corporate payments made through banks.

The inter-region funds are transferred through FEDWIRE access is made through

three modes:

• Direct access computer-to-computer connectivity for major banks.

• Direct terminal access through leased lines for online transmissions.

• Dial-up terminal facility for transmission as per requirements and needs.

Bankwire

• Bankwire is the pioneer private sector electronic telecommunication network owned by an association of banks in the USA and used to transfer messages between the subscribing banks. It was originally conceived for reducing the cost of transmitting messages between participating banks.

Point of Sale (POS) Systems

• The POS system allows payments to be made at the point of sales through EFT.

With the advent of cards, the concept of POS has become synonymous with the EFT Point of Sales (EFTPOS).

• The system can handle not only the records of the sales, inventory level, accounting entries and related functions of the retailers but also are connected to the financial institution for effecting a transfer of funds to make payments. In POS, the retailer's terminal is directly connected to the bank's network, and the transaction can be communicated online.

Emergence Of Electronic Payment Systems In India

The introduction of MICR clearing was the first step towards the process of automated settlement. The use of electronic media is one of the prerequisites for a true EFT system.

Phenomenal progress has been made with the introduction of various EFT systems in the country, as described below.

Important distinction / reviewed 30 October 2026

The comparison below preserves historical descriptions and dates. Launch dates may refer to different rollout phases. The blanket UPI ceiling of Rs 2 lakh is not a universal current limit: limits vary by transaction category and bank. PPI form, stored value and cash/transfer permissions require the operative PPI rules. BBPS organisational arrangements must be read with current product information. [UPI] [PPI] [NPCI]

Illustrated comparison / key details

Payment service	Description / historical summary	Launch date / operator
Electronic Funds Transfer (EFT)	One-to-one fund transfer facility; replaced by more efficient NEFT for the general public.	1997 / RBI
RTGS	Fund transfer orders settled individually, continuously in real time. Minimum Rs 2 lakh; no upper limit. Available 24x7 on all days; real-time beneficiary transfer.	2004 / RBI
NEFT	One-to-one fund transfer; half-hourly net settlement. No minimum or maximum. Available 24x7 on all days, including holidays.	November 2005 / RBI
National Electronic Clearing Service (NECS)	Multiple credits to beneficiary accounts at destination branches across the country against a single debit to the sponsor bank.	October 2008 / RBI

Payment service	Description / historical summary	Launch date / operator
Credit and debit cards	Purchases at PoS using credit/debit cards. RBI also permitted cash withdrawal using debit cards at PoS and ATMs.	November 2009 / Banks

Illustrated comparison / key details

Payment service	Description / historical summary	Launch date / operator
PPIs: cards and wallets	Goods and services purchased against stored value, paid by the holder in cash, by bank-account debit or credit card. Forms listed: smart cards, magnetic-stripe cards, internet wallets, mobile accounts, mobile wallets and paper vouchers.	2009 / PPI operators
IMPS	Round-the-clock peer-to-peer instant fund transfer through mobile, internet, ATM, SMS, branch and USSD channels.	November 2010 / NPCI
NACH	Web-based solution for interbank, high-volume, repetitive and periodic transactions.	2011 / NPCI
CTS	Stops physical movement of cheques. Amendment of the Negotiable Instruments Act, 1881; image with MICR line replaces the physical instrument.	February 2008 / NPCI
AePS	Basic banking transactions at the micro-ATM of a business correspondent using Aadhaar authentication.	January 2016 / NPCI
UPI	Immediate peer-to-peer mobile money transfer, 24x7x365. BHIM accesses multiple bank accounts in a single app. Historical stated upper limit: Rs 2,00,000.	August 2016 / NPCI
National Electronic Toll Collection (NETC)	Electronic Toll Collection programme meets electronic-tolling requirements in the Indian market; interoperable nationwide framework with clearing-house settlement and dispute management.	2016 / NPCI
Bharat Bill Payment System (BBPS)	Umbrella system for payment of all bills.	July 2017 / NPCI

Compare before you answer

Concept / service	Practical distinction
Message	Conveys a payment instruction or information.
Clearing	Exchanges and determines payment obligations.
Settlement	Discharges the obligation through the relevant system/accounts.
Beneficiary credit	Credits the customer account under the applicable processing rules.

Practice / answer beside the question

Q01. Which transmission mode supports simultaneous communication in both directions?

Answer / Full duplex. Half-duplex supports both directions at different times; simplex is one-way.

Q02. Is a Swift message conclusive evidence that beneficiary funds have finally settled?

Answer / No. Messaging, interbank settlement and beneficiary credit are distinct stages.

Q03. A customer wants to remit Rs 50,000 through RTGS. Is the RBI minimum met?

Answer / No. The RTGS minimum is Rs 2 lakh; consider an eligible alternative such as NEFT.

Q04. Does no RBI upper limit mean a bank cannot impose a channel limit?

Answer / No. Bank and channel controls may impose limits; distinguish them from the system-level RBI ceiling.

Q05. Which system uses half-hourly batches: NEFT or RTGS?

Answer / NEFT. RTGS settles transactions individually in real time.

Q06. What is truncated in CTS?

Answer / Physical movement of the cheque is stopped and its image with relevant data is used for processing.

Q07. Is optical fibre universally limited to 2 Gbit/s?

Answer / No. That is a historical technology example; capacity depends on the installed system.

Q08. Does a historical list of NEFT charges override the current savings-account online exemption?

Answer / No. Apply the operative RBI requirements and bank schedule for the actual transaction.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

Cheque Truncation

Process of stopping the flow of the physical cheque issued by a drawer to the drawee branch.

The physical instrument will be truncated at some point en -route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc.

Data commu nication consists of various data communication components. It has three basic components.

1. Transmission Devices and Interface Equipment Modem conversion between the digital and analog forms is carried out by an interface device called

Modem

2. Transmission Medium

Terrestrial Cables

a. Twisted-wire Pair - A twisted pair consists of two insulated copper wires b. Coaxial Cable - The Coaxial cable consist of an inner copper conductor held in position by circular spacers.

c. Optical Fibre - Optical fibre has been a technological breakthrough in communications. It supports data rate of 2 giga bits/sec. Fibre Optics provide high quality transmission of signals at very high speeds. Not affected by electromagnetic interference. The transfer of data is through very thin glass or plastic fibres with a beam of light. The light source is the laser beam driven by a high speed high current driver.

3. Microwave System microwave signals may be passed on to the satellite.

4. Transmission Processors Message Switcher is used to s tore and forward data to large number of terminals over a single communication channel.

Multiplexer send more than one signal simultaneously over a single communication channel.

Front End Processors used to intercept and handle communication activities for the host computer.

A device located at the site of the CPU or the host computer. It relives the computer of the communication tasks leaving it free for processing application programs.

Modes Of Transmission

Simplex – transmitting data in only one directi on (commercial radio) Half-Duplex – transmission is both directions, but in only one direction at a time. WALKY TALKY

Full Duplex – Simultaneous two-way transmission. MOBILE

Major Networks

INET

NICNET

INDONET

Emerging Trends in Communication Networks For Banking

RBI's VSAT Network

Internet – The connection to the host computer of the ISP is established through the interface

protocol software, using following two protocols :

a. Serial Line Protocol (SLIP)

b. Point to Point Protocol (PPP)

Automated Clearing Systems

a. CHIPS - Clearing House Inter-bank Payment System

b. CHAPS – Clearing House Automated Payment System

c. CHATS – Clearing House Automated Transfer System

Two-Level Funds Transfer System

a. Fed Wire

b. Bank Wire

c. Point of Sale Systems

NationalElectronicFundsTransfer (NEFT)System

1. Amount - There is no minimum or maximum amount to be remitted.

2. Batches: The settlement of transactions is in batches.

3. Normally, the beneficiary should get credit within 2 hours from the time of completion of batch i.e. on B+2 basis on the same day.

4. Processing Charges/Service Charges: Upto Rs 10,000: Maximum Rs 2.5; Upto Rs 1 lac: Maximum Rs 5. More than 1 lac to Rs 2 lac: Rs 15; More than Rs 2 lac: Max Rs 25. (Service tax extra).

Update yourselves with latest charges.

6. Difference between IFS Code and MICR: Indian Financial System Code (IFSC) is an alpha numeric code designed to uniquely identify the bank-branches in India. This is 11 digit code with first 4 characters representing the banks code, the next character reserved as control character (Presently 0 appears in the fifth position) and remaining 6 characters to identify the branch. The MICR code has 9 digits to identify the bank-branch. IFSC code is printed on cheques leaves issued to their customers.

Real-Time Gross Settlement (RTGS) System

PI – Participant Interface.

a. The message is passed on by PI to IFTP (Inter – Bank Fund Transfer Processor) which acts as a broker.

b. RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.

c. This is the fastest possible money transfer system through the banking channel.

d. RTGS helps in preventing Systemic and Settlement Risks.

e. Minimum/maximum amount for RTGS transactions : Minimum amount : Rs 2 lakh; Max : No limit.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

NEFT / RBI: NEFT FAQs

NPCI / NPCI: organisation and payment products

PPI / RBI: prepaid payment instruments FAQs

RTGS / RBI: RTGS FAQs, updated 14 October 2026

SWIFT / Swift: what is Swift? Messaging and the movement of money

UPI / NPCI: UPI product FAQs

28 facts / final recall

01-14 / foundations	15-28 / application
01. Data communication connects sending and receiving endpoints.	15. A protocol specifies communication rules.
02. A modem converts signals for its medium.	16. A network name does not define a payment instrument.
03. Twisted pairs use insulated copper wires.	17. Swift carries financial messages.
04. Coaxial cable has an inner conductor and shielding.	18. Messaging and settlement are different.
05. Optical fibre carries light signals.	19. NEFT settles in batches.
06. Fibre speed depends on the technology.	20. NEFT is available round the clock.
07. Microwave is a wireless transmission form.	21. RBI sets no NEFT minimum or maximum.
08. A satellite can relay communication signals.	22. RTGS settles individually on a gross basis.
09. A multiplexer combines multiple signals.	23. RTGS minimum amount is Rs 2 lakh.
10. A message switcher stores and forwards messages.	24. RBI sets no RTGS upper ceiling.
11. A front-end processor handles communication tasks.	25. IFSC has eleven alphanumeric characters.
12. Simplex is one-way transmission.	26. The fifth IFSC character is normally zero.
13. Half-duplex alternates directions.	27. MICR routing code has nine digits.
14. Full duplex permits simultaneous two-way communication.	28. CTS transmits cheque images and related data.

C05 / Digital Payment Systems and NPCI



At the branch

A customer assumes that every UPI transfer has the same ceiling and every Aadhaar-based service needs the same steps. Identify the product, transaction category and authentication requirements first.

1. Identify product → 2. Check permitted use → 3. Authorise payment → 4. Confirm and resolve

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

NPCI operates multiple payment products; it is not the Reserve Bank. Historical promoter lists and the former Companies Act section 25 description should be read in their original period, not as a current ownership list. [NPCI]

JAIIB PPB Module C Unit 5- Payment System and

Electronic Banking

The RBI has been playing a vital role in the development and conducting of India's payment and settlement systems for both large-value and retail payments. The central bank played a pioneering role in setting up various clearing systems like ECS, National Electronic Fund Transfer (NEFT), Real-Time Gross Settlement (RTGS) system.

Electronic Clearing Systems In India

The following are some of the electronic clearing systems in India which are systemically important financial market infrastructures (SIFMIs).

- ECS
- NACH
- NEFT
- Credit Cards
- RTGS
- Debit Cards
- CTS
- PPIs
- IMPS
- Government Securities Clearing
- UPI
- Forex Clearing

National Payments Corporation of India (NPCI)

The National Payments Corporation of India (NPCI) is an initiative taken by the Reserve Bank of India (RBI) and Indian Bank's Association (IBA) to operate the retail payments and settlement systems in India. This organisation was founded in the year 2008 under the Payment and Settlement Systems Act, 2007. NPCI has been incorporated as a 'not for profit' company under section 8 of Companies Act 2013.

Important distinction / reviewed 30 October 2026

UPI is a payment system, while BHIM is an application. A virtual payment address is an identifier, not permission to debit without valid authorisation. Product features, supported collect flows and transaction limits follow operative NPCI/bank instructions; old descriptions do not establish present availability. [UPI] [CIRC]

NPCI Full form National Payments Corporation of India

Year of foundation 2008

NPCI headquarters Mumbai (Maharashtra)

Latest Updates on National Payments Corporation of India

• NPCI launches Global hackathon 'NPCI PayAuth Challenge'. It aims to identify alternative solutions around payment authentication methods in UPI. You can know in detail about the Unified Payment Interface – UPI on the link provided here.

• WhatsApp has introduced payment services in India following approval by the NPCI. The National Payment Corporation of India approval also follows another recent direction imposing a cap of 30% of the total volume of transactions processed in Unified Payments Interface (UPI), applicable to all third-party app providers, effective from 1st January 2021.

Some payment systems/products managed by NPCI are detailed here.

• National Financial Switch (NFS)
• NACH
• Rupay Cards
• Immediate Payment Service (IMPS)
• Aadhaar Enabled Payment System (AEPS)
• Bharat Interface for Money (BHIM)
• Unified Payments Interface (UPI)
• Bharat Bill Payment System (BBPS)
• Bharat QR
• National Common Mobility Card (NCMC)
• National Electronic Toll Collection (NETC)

National Financial Switch (NFS)

It is the largest network of shared ATMs in India. It was developed and deployed by the IDRBT in 2004, with the goal of inter-connecting the ATMs in the country and facilitating convenience banking. It is taken over by NPCI from IDRBT on December 14, 2009. As on 31st January' 22, there were 1,203 members using NFS network connected to more than 2.55 Lac ATM. NFS has established a strong and sustainable operational model with in-house capabilities and today can be compared at par with other major and well-established switch networks. The operational functions and services are at par with most of the global ATM networks. NFS offers the following basic services to the member like Cash Withdrawal, Balance Enquiry, PIN Change and Mini Statement.

NFS also offers value-added services on ATMs/CDMs to cardholders of participating

member banks like:

• Interoperable Cash Deposit (ICD)

Illustrated comparison / key details

NPCI / entry	Detail
Full form	National Payments Corporation of India
Year of foundation	2008
Headquarters	Mumbai, Maharashtra
Latest updates on NPCI	See the dated distinctions in this chapter.

Important distinction / reviewed 30 October 2026

Do not memorise the Rs 10,000/Rs 20,000 BHIM figures and a separate Rs 1 lakh figure as simultaneous universal limits. UPI limits depend on category and product controls. Also, a proposed or extended third-party-app volume-cap timeline is not a permanent property of UPI. [UPI] [CIRC]

- Mobile Banking Registration (MBR)
- Card-to-Card Fund Transfer (C2C)
- Cheque Book Request (CBR)
- Statement Request (SR)
- Aadhaar Number Seeding (ANS)

National Automated Clearing House (NACH)

- National Automated Clearing House (NACH) was implemented by NPCI for Banks, Financial Institutions, Corporates and Government as a web-based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature.
- NACH System can be used for making bulk transactions towards the distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards the collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium, etc.

Immediate Payment Service (IMPS)

IMPS is an instant payment inter-bank robust electronic funds transfer system in India.

IMPS offers an inter-bank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS. The service is available 24x7 throughout the year including bank holidays.

The objectives of IMPS are:

- To facilitate mobile payment systems to be inter-operable across banks and

mobile operators in a safe and secured manner

- Enable customers to use mobile devices as a channel for accessing their bank

accounts and remitting funds

- To make payment simpler just with the mobile number of the beneficiary
- To sub-serve the goal of the Reserve Bank of India (RBI) in the digitization of

retail payments

- To build the foundation for a full range of mobile-based Banking services.

Registration for Remitter/Receiver:

- Register for the mobile banking service of the bank.
- Get Mobile Money Identifier (MMID) (7 digit code) and MPIN from the bank

Download Software (Application) for mobile banking

UPI (Unified Payment Interface)

UPI (Unified Payment Interface) is a 24*7 payment system which allows instant money transfer money to any bank account. You can also make merchant payments in a jiffy through Scan & Pay.

Features:

- Instant money transfers through mobile device 24*7 and 365 days.
- Single mobile application for accessing different bank accounts.

• You can pay through different methods – send to mobile, send to virtual address/UPI ID, send to account number + IFSC, accept a collect money request,

scan & pay

• You can also set mandates i.e. AutoPay for recurring payments.

• You can also pay Bills using UPI

Advantages of UPI over IMPS:

• Provides Pull functionality to request money

• Simplifies Merchant Payments through virtual id, QR Code

• Single APP for money transfer

• Facilitates transactions through single-click two-factor authentication

Bharat Interface for Money (BHIM)

Bharat Interface for Money (BHIM) is a mobile payments application based on NPCI's Unified Payments Interface (UPI). BHIM is developed by the National Payments Corporation of India (NPCI)—the umbrella organization for all retail payment systems in India.

Key Features of BHIM

• The BHIM app was launched in December 2016 by the National Payments Corporation of India (NPCI). A new and modified version of Bharat Interface for Money (BHIM), BHIM 2.0 has been launched under the Ministry of Electronics and Information Technology. Under BHIM 2.0, the existing cap of Rs. 20,000 has been increased to Rs. 1,00,000, from verified merchants.

• The BHIM app can replace the existing mobile wallets and can appear as a comparatively reliable option for the bank to bank transfers, unlike other e- wallets. Since the transactions happen directly from the bank accounts, there is no need to recharge the wallet and no commissions/hidden charges are required for using the app. With the BHIM UPI app, the upper limit of a single transaction is Rs. 10,000 and one can transfer Rs. 20,000 in 24 hours.

Some of the key features of BHIM are mentioned below:

• The BHIM app is tied to the mobile number and device ID. So using the app on a different handset will require a separate authentication process.

• Three-point authentication via mobile number, device ID, and UPI PIN.

• Fingerprint-based biometric verification of transactions via Aadhaar will prevent fraudulent transactions.

• UPI PIN is needed for both opening the app as well as for transactions.

• Resetting UPI pin requires debit card details and OTP SMS to authenticate.

• To know what other initiatives such as this is part of the Digital India campaign

Bharat Bill Payment System (BBPS)

Important distinction / reviewed 30 October 2026

RuPay is an NPCI card scheme; it is not a card issued by RBI. NACH bulk mandates, IMPS immediate transfers, NETC toll payments and bill-payment services solve different needs. Historical product/rollout dates and availability are not universal eligibility rules. [NPCI]

Bharat Bill Payment System eases the payment of bills and improves the security & speed of payments through the central unit (BBPCU) & operating units (BBPOUs).

The Bharat Bill Payment System has recently been launched by the Reserve Bank of India as a mandatory system, for easing the payments of bills across geographies. The BBPS offers integrated and interoperable bill payment service with security, certainty and reliability of transactions.

The service is available in multiple payment modes, online and through a network of agents. An instant confirmation is generated for the bill payments. The BBPS will transform the society from cash to electronic payment system, making it less dependent on cash.

Objectives of BBPS

• The system is accessible anytime from anywhere, making it convenient for the customers.

• The system increases the trust of the customers by providing reliable services.

• The multiple numbers of payment modes is an added advantage.

• The system provides on the spot payment confirmation making it easily verifiable.

Benefits of BBPS

• The benefits of the Bharat Bill Payment System can be divided into two categories, namely customer benefits and participant benefits.

Customer Benefits

The customers will enjoy the facility of payment of bills anywhere and at any time just by connecting to the BBPS network, online or through agents.

• The access to the system will be available everywhere, including the no or minimal banking region.

• Multi-modes of payment could be used like debit cards, credit cards, e-wallets, etc.

• Payment for any bill from any biller could be made through a single portal.

• The service centres for the bill payments will be available at the nearest to a customer's workplace or residence.

• The bank branches, ATMs, Customer Service centres, etc., could be the outlet of BBPS. A customer could make payment from any BBPS outlet.

• The instant confirmation in the form of SMS or email or paper receipt for the bill payment is a sign of relaxation for the customers.

• Security and reliability could be entrusted in the customers with the use of this system.

Bharat QR



Apply the distinction

Explain the decision: Payment limits depend on transaction category. Check the supporting documents and applicable conditions.

• A QR code consists of black squares arranged in a square grid on a white background, which can be read by an imaging device such as a camera. QR contains information about the item to which it is attached. Bharat QR is P2M (Person to Merchant) Mobile payment solution which is mutually derived among NPCI, Visa and MasterCard payment networks. Users can pay the utility bills at BQR registered Merchant locations using BQR enabled mobile banking apps without sharing any user credentials with the merchant. It is a quick method of payment.

• RuPay is an Indian multinational financial service payment network launched by the Reserve Bank of India (RBI) in the year 2012. It is a National Payment Corporation of India's (NPCI) initiative to boost retail payments in India. RuPay was launched with an objective of a less cash economy. It is derived from the words "rupee" and "payment", which highlights that it is India's approach to virtual card (Vcard) payments.

• A RuPay debit card is a plastic card used as a method of payment issued by the bank to a customer who has a bank account with them. It has wide acceptance at any point of sale (POS) devices, automated teller machines (ATMs) and e- commerce platforms. RuPay is India's entry into the international payment market through a local card facility.

• RuPay is an Indian multinational financial service payment network launched by the RBI in 2012. Here's all you need to know about RuPay debit cards.

Benefits:

• Lower cost and affordability: Since the transaction processing will happen domestically, it would lead to a lower cost of clearing and settlement for each transaction. This will make the transaction cost affordable and will drive the usage of cards in the industry.

• Customized product offering: RuPay, being a domestic scheme, is committed to the development of customized product and service offerings for Indian consumers.

• Protection of information related to Indian consumers: Transaction and customer data related to RuPay card transactions will reside in India.

• Provide electronic product options to untapped/unexplored consumer segments: There are underpenetrated/untapped consumerssegmentsin rural areasthat do not have accessto banking and financial services. Right pricing of RuPay products would make the RuPay cards more economically feasible for banks to offer to their customers. In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments.

• Inter-operability between payment channels and products: RuPay card is uniquely positioned to offer complete inter-operability between various payments channels and products. NPCI currently offers varied solutions across platforms, including ATMs, mobile technology, cheques etc. and is extremely well placed in nurturing RuPay cards across these platforms.

Digital Initiatives By The Government Of India

The vision of Digital India:

The Indian government initiated the Digital India programme to ensure that all citizens have access to the government's electronic services. Strengthening the internet infrastructure and improving internet connectivity, or making India more technologically savvy, is the best way to attain this goal. Vision of Digital India programme is to transform India into a digitally empowered society and knowledge economy.

The three key vision areas are:

• Digital Infrastructure as a basic utility to Every Citizen

• Governance & Services on Demand

• Digital Empowerment of Citizens

Aadhar:

• 12-digit Aadhar number provided by the UIDAI (Unique IDentification Authority of India) to Indian individuals. Uniqueness is achieved through the process of demographic and biometric de-duplication.

• The deduplication process compares the resident's demographic and biometric information, collected during the process of enrolment, with the records in the UIDAI database to verify if the resident is already in the database or not.

Pradhan Mantri Jan Dhan Yojana (PMJDY):

PMJDY is a nationwide scheme launched by the Government of India to ensure the financial inclusion of every individual who does not have a bank account in India

Advantages of PMJDY

• Not a necessity to keep a minimum balance.

• Rupay Debit card provided to account holders.

• Accident Insurance Coverage is available.

• An overdraft (OD) facility of up to Rs. 10,000 is available to qualifying account holders.

• PMJDY accounts holders avail the benefits under Direct Benefit Transfer (DBT), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Atal Pension Yojana (APY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and (MUDRA) schemes etc.

JAM (Jan Dhan Yojana, Aadhaar, and Mobile Number)

• JAM is an acronym that stands for Jan Dhan Yojana, Aadhaar, and Mobile Number. The government intends to employ these three ways of identification to secure direct payments of subsidies to the poor.

• Subsidy systems now in place employ an indirect approach to reaching thecountry's underprivileged. Public Distribution System (PDS), Mahatma

Important distinction / reviewed 30 October 2026

Aadhaar identifies eligible residents under its legal framework; it is not proof of citizenship. Aadhaar-based payment, enrolment, bank-account linkage and subsidy eligibility are separate matters. JAM and DBT do not mean that every individual automatically receives every scheme benefit.

Gandhi National Rural Employment Gurantee Act (MGNREGA), and other programmes are examples.

Key benefits of JAM are:

• The JAM trinity has boosted the DBT programme and expanded its coverage from partial to ubiquitous. Aadhaar has facilitated legitimate databases while Jan-Dhan has offered bank accounts for all. JAM has helped minimize avenues of corruption, irregularities, wrong-doings, and pilferages by eliminating the need for middlemen or conduits. It has also, therefore, promoted the ease of doing business.

• JAM promotes online transactions among the beneficiaries, using ATMs and payment cards instead of physical visits to the banks. In the longer run, DBT schemes like JAM will make the rural population acquainted with the concept of 'saving', thus contributing to the country's GDP as a whole.

Digidhan Abhiyaan

• DBT was established to overhaul the government delivery system by, re- engineering the existing process in welfare schemes, to facilitate an easier and quicker flow of information/funds and to assure accurate beneficiary targeting, de-duplication, and fraud reduction.

• DBT will improve the efficiency, effectiveness, transparency, and accountability of the government system and instil citizens' trust in the government. The use of contemporary technologies and information technology instruments will help to realise the aim of Maximum Governance Minimum Government.

Government e Marketplace (GeM)

GeM is a one-stop-shop for the online procurement of common-use goods and services required by numerous government departments, organisations, and public sector units.

GeM intends to improve openness, efficiency, and speed in government procurement. It also includesfacilitiesfor direct purchase, e-bidding, and reverse e-auction to help government users get the most bang for their buck. The portal allows all parties to register online, including government users, product sellers, and service providers.

Advantages for buyers on GeM

• Rich listing of products for individual categories of Goods/Services
• Search, Compare, Select and Buy facility
• Buying Goods and Services online, as and when required.
• Transparent and ease of buying
• Continuous vendor rating system
• User-friendly dash board for Buying and monitoring supplies and payments
• Easy Return policy

Advantages of GeM for sellers

• Direct access to all Government departments.
• One stop shop for marketing with minimal efforts.

Important distinction / reviewed 30 October 2026

Scheme benefits, overdrafts and insurance depend on the relevant account, issuance date, eligibility and operative conditions. Historical promotional summaries should not be read as unconditional promises. RuPay interoperability and data-location descriptions also require the operative product and regulatory arrangements. [NPCI]

• One stop shop for bids/ reverse auction on products/ services
• New Product Suggestion facility available to Sellers
• Dynamic pricing: Price can be changed based on market conditions
• Seller friendly dashboard for selling and monitoring of supplies and payments
• Consistent and uniform purchase procedures

Compare before you answer

Concept / service	Practical distinction
IMPS / UPI	Immediate retail payment mechanisms with different interfaces and rules.
NACH	Bulk and repetitive mandate-based transactions.
AePS / RuPay	Aadhaar-authenticated banking access versus a card scheme.
NETC / bill payments	Toll collection versus bill-payment services.

Practice / answer beside the question

Q01. Are BHIM and UPI interchangeable names for the same thing?
Answer / No. UPI is the payment system; BHIM is an application using that system.

Q02. Must a customer enter a UPI PIN merely to receive a normal incoming payment?
Answer / No. A PIN authorises the relevant debit or approved action; verify any request carefully.

Q03. Which fits recurring bulk account transactions better: NACH or NETC?
Answer / NACH. NETC is associated with electronic toll collection.

Q04. Does possession of Aadhaar prove citizenship or automatic subsidy eligibility?
Answer / No. Identification, citizenship and scheme eligibility are separate questions.

Q05. Is RuPay an RBI-issued credit card?
Answer / No. RuPay is an NPCI card scheme; the actual card is issued by a participating issuer under its terms.

Q06. Can one historical UPI amount be used as the limit for every transaction category?
Answer / No. Check the operative category, bank and product limits.

Q07. Is bank-account linkage enough to guarantee an insurance or overdraft benefit?
Answer / No. The specific scheme and account conditions must be satisfied.

Q08. What should be checked before approving a QR payment?
Answer / Check the payee and amount, then use the authorised authentication process and verify completion.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

National Payments Corporation of India (NPCI)

National Payments Corporation of India (NPCI) was incorporated in December 2008 and the Certificate of Commencement of Business was issued in April 2009.

It has been incorporated as a Section 25 company under Companies Act and is aimed to operate for the benefit of all the member banks and their customers.

Presently, there are ten core promoter banks (State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank and HSBC).

RuPay

The Indian market offers huge potential for cards penetration despite the challenges. RuPay Cards will address the needs of Indian consumers, merchants and banks. The benefits of RuPay debit card are the flexibility of the product platform, high levels of acceptance and the strength of the RuPay brand-all of which will contribute to an increased product experience.

Lower cost and affordability :

Since the transaction processing will happen domestically, it would lead to lower cost of clearing and settlement for each transaction. This will make the transaction cost affordable and will drive usage of cards in the industry.

Customized product offering :

RuPay, being a domestic scheme is committed towards development of customized product and service offerings for Indian consumers.

Protection of information related to Indian consumers :

Transaction and customer data related to RuPay card transactions will reside in India.

Provide electronic product options to untapped/unexplored consumer segment :

There are under-penetrated/untapped consumers segments in rural areas that do not have access to banking and financial services. Right pricing of RuPay products would make the RuPay cards more economically feasible for banks to offer to their customers. In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments.

Inter-operability between payment channels and products :

RuPay card is uniquely positioned to offer complete inter-operability between various payments channels and products. NPCI currently offers varied solutions across platforms including ATMs, mobile technology, cheques etc and is extremely well placed in nurturing RuPay cards across these platforms.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CIRC / NPCI: UPI circulars and operative product instructions

NPCI / NPCI: organisation and payment products

UPI / NPCI: UPI product FAQs

28 facts / final recall

01-14 / foundations	15-28 / application
01. NPCI supports retail payment systems.	15. RuPay is an NPCI card scheme.
02. UPI is a payment system.	16. NETC supports electronic toll collection.
03. BHIM is a UPI application.	17. FASTag is used in electronic toll payments.
04. A VPA is a payment identifier.	18. Bill payment is distinct from account transfer.
05. Authorisation is required for a debit.	19. Interoperability links supported participants.
06. Payment limits depend on transaction category.	20. Clearing and settlement remain separate stages.
07. A QR code supplies payment information.	21. Aadhaar is not proof of citizenship.
08. Verify the payee before authorising.	22. JAM links inclusion-related components.
09. Do not enter a PIN merely to receive money.	23. DBT routes eligible benefits directly.
10. IMPS supports immediate transfers.	24. Scheme eligibility is not universal.
11. NACH supports repetitive bulk transactions.	25. Account linkage does not create subsidy entitlement.
12. A mandate records permitted debit authority.	26. Customer support must address failed payments.
13. AePS uses Aadhaar-based authentication.	27. Historical rollout dates need context.
14. A micro-ATM is an access device.	28. Apply current product rules to the actual transaction.

C06 / Impact of Technology Adoption and Trends



At the branch

A loan app promises instant approval and asks for all phone contacts. Speed does not replace lender identification, proper disclosures, necessary consent and accountable grievance handling.

1. Collect reliable data → 2. Automate carefully → 3. Analyse outcomes → 4. Govern innovation

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

A warehouse integrates data for analysis; integration does not guarantee that all data are correct. Mining finds patterns and supports predictions, not certainty. Data quality, purpose and access controls remain essential.

JAIIB PPB Module C Unit- 6: Impact of Technology

Adoption and Trends in Banking Technology

Role And Uses of Technology Upgradation

Data And Message Transferring

• With the help of information technology, the banks are able to reduce the operational time in data and information communications.

• Whereas e-mail has found its application in sending unstructured free format messages, the newer concept of Electronic Data Interchange (EDI) refers to the transmission of structured and formatted messages for further analysis and use in business applications.

Electronic Data Interchange

• EDI is the inter-organisational exchange of business documentation, which can be processed by computers.

• Banks have been using EDI in the form of SWIFT messages. EDI is usually referred to as electronic funds transfer (EFT). Credit clearing and debit clearing are different forms of EDI for making the transfer of funds electronically. The credit card network is another EFT system using EDI standards.

• Electronic data interchange for the administration of commerce and transport (EDIFACT) is the universal set of standards and guidelines for communication by EDI.

E-MAIL

• E-mail is basically used for transmitting unstructured messages.

Corporate Websites

Many banks now have their own websites on the internet as a platform for service

delivery. Banks uses the website for:

• Dissemination of information about their products and services.
• Financial advice
• Highlighting non-banking activities
• A node for commerce
• Selling financial products
• Account services

Management Information System

• The concept of MIS places particular emphasis on the availability of data and the ease with which it can be analysed and turned into meaningful information for managerial decision making.

Computer Based Information System

• Data is consistent, and hence, the processed information is more accurate and relevant for decision making.

• Data redundancy is minimised, reducing labour in data reporting.

• These are more flexible and can suitably be modified with ease to match the changing requirements.

In order to meet the need for correct and consistent data, RBI has initiated a project called Automated Data Flow (ADF). ADF ensures submission of correct and consistent data from banks to RBI without any manual intervention.

Decision Support Systems

• DSS are easy to use, flexible and interactive computer-based systems designed to facilitate decision making.

• DSS provides the management use of query languages, ad hoc reports, statistical analysers, graphics, etc. In simulations, the DSS make use of complex mathematical models to aid decision making.

• For example, the impact of any change in CRR/SLR requirements can be easily ascertained to help the management decide on different investment options for available funds.

• Similarly, in the competitive market, DSS helps bank in generating precise information for pricing their products and services.

Global Trends In Banking Systems

Following trends are visible in the banking systems:

• Banks are installing more and more ATMs for banking transactions

• Customers are provided more choices to collect their cash

• Mobile banking, Debit cards, Credit cards, Internet Banking

• Increasingly venturing into fee-based services like the following: marketing of insurance and annuity sales, mutual funds, financial planning, trusteeship

services

Additionally, the following activities are also using technology

• Automated clearing systems

• Customer information databases

• Imaging of paper documents

Important distinction / reviewed 30 October 2026

EDI exchanges structured business documents; EFT transfers funds. Automated data flow and RPA can reduce repetitive work, but neither guarantees zero errors or removes review. RPA does not necessarily use artificial intelligence. EASE 5.0 is a dated reform agenda, not a description of every subsequent reform.

• On-line access to regulatory agencies

• Use of the Internet and mobile for customer services

• RTGS

• Cheque truncation

• Customised solutions for corporates

Impact of Information Technology on Banks

Changes in Organisational Structure and Orientation

• The need for faster information and better control has resulted in establishing a direct liaison between the top management and the field functionaries.

• As the technology helps collect, interpret, and transmit information, the need for middle tiers of management vanishes and more self-managing groups with autonomy and access to information emerge strongly.

• Several traditional jobs no longer remain relevant, and several new jobs come up.

• Managerial attitudes also undergo a change under the impact of IT. This is reflected in the way the top executives look at IT as a functional requirement and apply it for improving organisational efficiency and effectiveness.

• The organisational change can facilitate the increased involvement of information systems in the mainstream product offerings in the banking and financial sector.

• The systems and procedures within banks have to adapt themselves in accordance with the IT needs without sacrificing privacy and security.

Impact on Service Quality

• The technology is forcing the banks to develop a strategy for an online delivery system to broaden the customer relationship.

• The advent of virtual banking in the form of Internet banking and mobile banking has removed the barriers for entry of these non-banking financial institutions to compete with conventional banks.

• The Enhanced Access and Service Excellence (EASE) program, driven by Indian Banks' Association (IBA), stresses on data analytics, automation, and digitization, foster new-age reforms in Public sector banks (PSBs) to improve profitability, asset quality, customer service and digital capabilities.

• Ease Next Programme 5.0 version launched in June '22, would prioritise digital customer experience and integrated and inclusive banking, focusing on small businesses and agriculture.

Impact on Human Resources

• With the increased use of I.T., there is an ever-increasing demand for specialised personnel in the fields of IT management.

• There is the high turnover rate of computer-skilled manpower. This may necessitate the banks to formulate their own manpower policies to retain these professionals within the organisations.

• Banks have groomed their existing staff to handle IT operations. Now with ever- evolving technologies banks are recruiting skilled personnel in various specialised areas of Information Technology.

Impact on Privacy and Confidentiality of Data

• The data about individuals which is held for processing must have been obtained fairly for a specific lawful purpose only.

• The data must be accurate, up-to-date and kept no longer than necessary.

• Data must be used only for the specific purpose and may be disclosed in accordance with the specific purpose only.

Banks have been implementing various security measures like Data Encryption, Data Checksum, Data Leakage prevention, Database Monitoring, Privilege User monitoring etc., to protect the customer data and to ensure the privacy of data.

Emerging Technology Trends In Banking

Artificial Intelligence

• Artificial intelligence (AI) is an area of computer science that emphasizes the creation of intelligent machines, software that work and react like humans.

• AI can also be deployed to offer personalized services for each customer, enhance data security, decision-making speed and accuracy, and employee output.

• AI is being used in Banks for predictive analysis, voice recognition, risk management, fraud prevention, wealth management etc.

Robotic process automation (RPA)

• Is the practice of automating routine business practices with software robots.

• It uses artificial intelligence to build software robots that automate tasks that

once required human intervention, such as customer service and IT

management.

• Some of the major advantages of RPA are 24 × 7 working without fatigue, time and cost savings, zero typos or copy/paste mistakes, compliance.

• RPA is being used in banking activities like KYC, customer onboarding, Loan origination, etc.

Important distinction / reviewed 30 October 2026

Digital currency is a broad expression. The digital rupee, e₹, is a central-bank digital currency and a liability of RBI; it is distinct from a crypto-asset and from a prepaid voucher. Cryptocurrencies differ in governance, identifiability and ledger access, so the simplified comparison is not a universal taxonomy. [CBDC]

Chatbots

• Chatbots are software applications that mimic written or spoken human speech for the purposes of simulating a conversation or interaction with a real person.

• A Chabot can be deployed for customer service, as a standalone application or on a website. etc. Some examples are virtual assistants such as Google Now, Apple's Siri, and Microsoft's Cortana.

5G Network

• 5G networks are digital cellular networks, in which the service area covered by providers is divided into small geographical areas called cells.

• 5G technology is characterized by low latency, high data capacity, and reliability.

This will eventually help Banks create new ways to deliver mobile, online and in- branch services.

• Some areas where 5G can be useful are next-generation mobile user experience, facial recognition for identity authentication, Video chatbots,

Remote troubleshooting for IT personnel, Real-time fraud

detection/analytics and Customer profiling.

Blockchain Technology

• Blockchain is a distributed ledger technology (DLT) that stores groups of transactions known as "blocks" and then links and sequences the list of transactions using cryptography.

• Blockchain technology can be used in banking activities like secure document management, reporting, payments, treasury & securities and trade finance.

• The banking industry can benefit from blockchain technology as it helps in fraud prevention, increases the resilience of the bank's IT infrastructure and also increases the transparency of processes.

Digital currency

• The functionality of digital currency is similar to physical currencies but can be exchanged remotely with instantaneous transactions across the world.

• Cryptocurrencies are a type of digital currencies. Cryptocurrency is an asset used as a means of exchange. Some of the popular cryptocurrencies are Bitcoin (BCH), Ethereum (ETH), Litecoin (LTC), Ripple.

• A central bank digital currency (CBDC) which is also known as digital fiat currency, is a digital currency issued and guaranteed by a central bank, which can be used to make digital payments.

• RBI announced the launch of the first pilot for retail digital rupee on December 1, 2022. The pilot would cover select locations in closed user



Apply the distinction

Explain the decision: Data mining discovers useful patterns. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

Do not confuse e₹, a wallet balance, a cryptocurrency and e-RUPI. A public blockchain may expose transaction addresses without directly naming every owner. The legacy Bitcoin/BCH example should not be used to identify assets: BCH denotes Bitcoin Cash, while Bitcoin is commonly identified as BTC. [CBDC] [BTC] [BCH]

group, comprising of participating customers and merchants. Transaction can be both P2P (Person-to-Person) & P2M (Person-to-Merchant).

Virtual Reality / Augmented Reality

• Augmented reality (AR) is an interactive experience of a real-world environment where the objects that reside in the real world are enhanced by computer- generated perceptual information. Virtual reality completely replaces the user's real-world environment with a simulated one.

• With the usage of VR, AR, AI, and sensor technologies, Banks can improve operational efficiency and individual productivity.

Wearables

• Wearable technology involves the usage of wearable gadgets that can be comfortably worn by a person on his body for the purpose of recording tracking information for personal or business usage related to health and fitness.

Digital Lending and Relevant Regulations in India

Financial Stability Board (FSB) has defined FinTech as "technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services".

Illustrated comparison / key details

Digital currency / legacy comparison	Cryptocurrency / legacy comparison
Centralised: a group regulates the state of transactions.	Decentralised: regulations are made by the majority of the community.
User identification is required.	Partially anonymous; protects identity.
Not transparent: wallet transactions are confidential.	Transparent: everyone can see the transactions of users as revenue streams on a public chain.

Important distinction / reviewed 30 October 2026

The lending tree is a historical taxonomy, not an authorisation to lend. The 2022 guidelines were followed by RBI's 2025 Digital Lending Directions and later entity-specific consolidated directions. Identify the regulated lender, applicable category and operative provisions. Digital lending covers more than a lending app. [DL] [CREDIT]

Digital Lending involves lending through web platforms or mobile apps, utilizing technology for authentication and credit evaluation.

Reserve Bank of India has published a discussion paper on August 10, 2022,

classifying the universe of digital lenders into three groups:

• Entities regulated by the RBI and permitted to carry out lending business;

• Entities authorized to carry out lending as per other statutory/regulatory provisions but not regulated by RBI;

• Entities lending outside the purview of any statutory/regulatory provisions.

In order to ensure customer protection, conduct issues and transparency in lending ecosystem, Reserve Bank of India has introduced the following major

guidelines:

• All loan disbursals and repayments are required to be executed only between the bank accounts of borrower and the Regulated Entities (RE) without any passthrough/pool account of the Lending Service Providers (LSP) or any third party.

• Any fees, charges, etc., payable to LSPs in the credit intermediation process shall be paid directly by RE and not by the borrower.

• A standardized Key Fact Statement (KFS) must be provided to the borrower before executing the loan contract.

• All-inclusive cost of digital loans in the form of Annual Percentage Rate (APR) is required to be disclosed to the borrowers.

• Automatic increase in credit limit without explicit consent of borrower is prohibited.

• A cooling-off/look-up period during which the borrowers can exit digital loans by paying the principal and the proportionate APR without any penalty shall be provided as part of the loan contract.

Illustrated comparison / key details

Digital lending / parent	Child / relationship
Digital lending	Lending by regulated financial institutions, viz. banks and NBFCs.
Regulated financial institutions	Consumer lending (B2C); small-business lending (B2B).
Regulated consumer lending (B2C)	Unsecured lending; secured lending, e.g. gold loans, vehicle loans and home loans.
Regulated small-business lending (B2B)	Invoice discounting, SME lending and PoS-based lending.
Models shown below the regulated group	Balance-sheet lenders (banks/NBFCs); marketplace lenders (NBFC-P2P); hybrid lenders (balance-sheet lenders also participating in the marketplace).
Digital lending	Lending by individuals/entities other than banks and NBFCs.
Other individuals/entities	Consumer lending (B2C); small-business lending (B2B).
Other consumer lending (B2C)	Unsecured lending; secured lending, e.g. gold loans, vehicle loans and home loans.
Other small-business lending (B2B)	Invoice discounting, SME lending and PoS-based lending.
Models shown below the other-entity group	Registered moneylenders (not much evidence about their digital foray); non-bank non-financial companies (NBNCs); proxy lenders (e.g. corporate cards, buy now pay later / BNPL); fringe lenders (illegal lending activities).

Important distinction / reviewed 30 October 2026

For digital lending, examine KFS/APR disclosure, fund flows, LSP fees, consent, cooling-off and grievance redressal under the applicable directions and exceptions. The regulated lender remains accountable for its arrangement. Digital convenience does not justify unnecessary collection of personal data. [DL] [CREDIT]

• REs shall ensure that they and the LSPs engaged by them shall have a suitable nodal grievance redressal officer to deal with FinTech/digital lending related complaints.

• As per extant RBI guidelines, if any complaint lodged by the borrower is not resolved by the RE within the stipulated period (currently 30 days), he/she can lodge a complaint under the Reserve Bank – Integrated Ombudsman Scheme (RB-IOS).

Compare before you answer

Concept / service	Practical distinction
Warehouse / mining	Organise integrated historical data; discover patterns from data.
EDI / EFT	Exchange documents; transfer money.
RPA / AI	Automate specified tasks; infer or generate using a model. They may be combined.
e₹ / e-RUPI	Central-bank digital currency; prepaid purpose-linked voucher.

Practice / answer beside the question

Q01. Does an integrated warehouse guarantee that the stored data contain no errors?

Answer / No. Integration still requires validation, reconciliation, quality checks and controlled access.

Q02. Is EDI another name for an electronic funds transfer?

Answer / No. EDI exchanges structured documents; EFT transfers funds.

Q03. Must every RPA process contain artificial intelligence?

Answer / No. Rule-based repetitive automation can operate without AI.

Q04. Are the digital rupee and e-RUPI the same?

Answer / No. e₹ is CBDC; e-RUPI is a purpose-linked prepaid voucher mechanism.

Q05. Does a model's prediction prove the customer will default?

Answer / No. Predictions are probabilistic decision support and require validation and appropriate human accountability.

Q06. Does a lending taxonomy permit an unregulated app to lend?

Answer / No. Permission, legal status and applicable lending requirements must be assessed separately.

Q07. Can an app collect all personal contacts merely to speed up lending?

Answer / No. Check the applicable need-based data and consent requirements; convenience does not justify unnecessary collection.

Q08. What should a borrower identify before accepting a digital loan?

Answer / The actual lender, key terms and APR, fund-flow arrangement, consent scope and grievance/cooling-off provisions.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

Data Warehouse : Data from heterogeneous sources is stored to generate critical information for decision support systems. The main characteristics of the data stored in a Data Warehouse are:

a. It is Subject-Oriented

b. It is integrated, and there are no inconsistencies

c. The data in a Data Warehouse is non-volatile

d. It is time variant

Data Warehouse can be established even across multiple computer platforms as long as the transaction details are made available to the data warehouse in standardized formats.

Data Mining is a technique to reveal the strategic information hidden in Data Warehouse(s). It helps in exposing the patterns that are critical to business and provide an advantage through insight and

knowledge of:

a. Sound predictions of customer behavior

b. Highly targeted market focus

c. Maximized operational effectiveness

d. Optimal return on Investment.

Establishment of Data Warehouse : Vasudevan Committee

Data Mining techniques can be applied in Predicting future trends based on information available

Credit Risk Analysis

Analyzing demographic information about customers

Banks can use a corporate website for

a. Dissemination of information

b. Financial Advice

c. To highlight non-banking activities

d. A node for commerce

e. Selling financial products

f. Gateway to the internet

g. Account Services

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

BCH / BitGo developer documentation: Bitcoin Cash asset identifier

BTC / BitGo developer documentation: Bitcoin asset and ticker

CBDC / RBI: digital rupee FAQs, 9 January 2025

CREDIT / RBI: Commercial Banks - Credit Facilities Directions, 2025; consolidated directions

DL / RBI: Digital Lending Directions, 8 May 2025

28 facts / final recall

01-14 / foundations	15-28 / application
01. A data warehouse supports analytical information.	15. AI requires appropriate oversight and validation.
02. Subject orientation organises data by subject.	16. Cloud services need risk and access controls.
03. Integration combines heterogeneous data.	17. Digital currency is a broad category.
04. Time variance preserves historical context.	18. CBDC is a central-bank liability.
05. Non-volatility supports stable analytical records.	19. The digital rupee is e₹.
06. Data quality still requires controls.	20. A crypto-asset is not automatically legal tender.
07. Data mining discovers useful patterns.	21. Blockchain and cryptocurrency are distinct concepts.
08. Prediction is not certainty.	22. A public ledger need not name every owner.
09. MIS supports management decisions.	23. e-RUPI is distinct from e₹.
10. EDI exchanges structured business documents.	24. A digital lender must be identified.
11. EFT moves funds.	25. An LSP supports the lender’s process.
12. Automated data flow reduces manual transmission.	26. KFS presents important loan information.
13. RPA automates defined repetitive tasks.	27. APR helps express the cost of credit.
14. RPA does not necessarily use AI.	28. Consent and grievance arrangements protect borrowers.

C07 / Security Considerations and Mitigation Measures



At the branch

The same employee can change a customer record, approve it and delete the log. Separate the permissions and preserve evidence before relying on a successful system message.

1. Identify exposure → 2. Design controls → 3. Test independently → 4. Track remediation

Important distinction / reviewed 30 October 2026

Confidentiality, integrity and availability are different security objectives. A checksum can detect changes in suitable circumstances but is not encryption, and an ordinary checksum does not necessarily protect against deliberate tampering. Controls reduce risk; they do not guarantee fraud-free operations. [PD]

JAIIB PPB Module C Unit 7- Security Considerations and

Mitigation Measures in Banks

Risk Concern Areas

The Customer Demands have triggered a fierce competition among banks and financial companies for the application of information technology in their operations to help them offer innovative products and services at reduced costs. This also helps those entering new geographical areas.

• Data and software: Data is critical resource, necessary for an organisation’s continuing operations. Incorrect data can have serious implications in decision making, as well. The increasing availability and use of expert system and the potential impact erroneous data can result in playing havoc with an organisation’s business.

• Infrastructure: Banks have to invest heavily for implementing technology- based tools and solutions. In addition to software and data, same hardware components are required for operations of the computer and communication systems.

• Peopleware: Peopleware refers to the group of persons directly or indirectly involved in managing and running the computerized systems.

Different types of Threats

The threats to computerized system manifests in the form of business interruptions as

under:

• Errors and omissions in data and software
• Unauthorised disclosure of confidential information
• Computer abuse and mis-utilisation of banks assets
• Computer/cyber frauds

Accidental Damages

Computers and communications systems have found their applications to be quite extensive in banking and other financial organisations. However, at the same time, these systems are vulnerable to damages caused accidentally, both due human failures and natural calamities.

• Environmental Hazards
• Human Error and Omissions
• Unreliable systems

Malicious Damages

Risk of malicious damages to computerized systems can be from disgruntled employees who wish to disrupt the services or from individuals with malafide intentions, using the technology for perpetrating fraud for financial gains.

• Interruptions in Services
• Frauds

Control Mechanism

Implementation of effective control mechanism is required management of risks associated with the use of IT tools.

Physical Control

Internal Control

• Accounting Control
• Administrative Control

Operational Control

• Audit Trails (i)Accounting Audit Trail (ii) Operations Audit Trail
• Checksum
• Data Encryption

Computer Audit

• Banks can achieve effective, secure and reliable computer systems only through the use of appropriate control techniques discussed above. The control techniques selected, varies from bank to bank, reflecting the particular risks within each bank and the costs of related security and control procedures.
• A regular programme of independent tests of security and control procedures by auditors help in in identifying lapses before the banking operations land into serious risk. The generic organizational function aimed at evaluation of the asset safeguarding, data integrity, system effectiveness, and system efficiency in computerized systems is termed as “Computer Audit”.

Information System Audit (IS Audit)

Important distinction / reviewed 30 October 2026

Audit planning and frequency should reflect risk, materiality and the applicable governance framework. Logs require protection and review; their mere existence does not prove that controls operated. Separate preventive, detective and corrective objectives. [IT]

An information system (IS) audit or information technology(IT) audit is an examination of the controls within an entity's Information technology infrastructure. These reviews may be performed in conjunction with a financial statement audit, internal audit, or other form of attestation engagement. It is the process of collecting and evaluating evidence of an organization's information systems, practices, and operations. Obtained evidence evaluation can ensure whether the organization's information systems safeguard assets, maintains data integrity, and are operating effectively and efficiently to achieve the organization's goals or objectives.

Information Systems Audit Methodology

• PHASE 1: Audit Planning
• PHASE 2 – Risk Assessment and Business Process Analysis
• PHASE 3 – Performance of Audit Work
• PHASE 4: Reporting

Benefit of IS Audit

• It would identify the risks of exposure to an existing computerized environment.
On Identification of the risks, remedial measure can be taken to protect the interests of an organisation.
• It would deter people/employees/ users from indulging in corruption/ manipulation of data, frauds etc. An undesired activity will be detected through implementation of IS audit.

Information System Security (IS Security)

Information systems security, also known as INFOSEC, is a broad subject within the field of information technology (IT) that focuses on protecting computers, networks, and their users. Almost all modern companies, as well as many families and individuals, have justified concerns about digital risks to their well-being.

Need for IS Security

• To Comply with law of the land and regulator’s guidelines.

• To comply with business policy.
• To comply with business partner's requirements.

IS Security in Banking

Banks must meet their customers requirement for security aspects in special way on many levels, whether it is with their saving, taking advantage of over-the counter services at a branch office, withdrawing money from the teller machines, making deposits via the cash recycling system, online banking etc.

Threats to IS Security

• E-mail Viruses
• Phishing Attacks
• Hackers Attack
• Vishing
• Smishing

Modus Operandi Of Online Frauds and Cyber Security Awareness

Cyber Fraud

• The goal of cybercriminals is to steal user credentials and introduce fraudulent transactions into back office systems. Criminals hide their tracks and destroy any proof they may have left behind after sending fraudulent funds.
• Doing so, they erase or alter records and disrupt computer systems to thwart investigators. This puts the back office at risk and undermines the very business controls that are supposed to keep fraud at bay.

Modus Operandi of a Cyber-Attack

The modus operandi of Cyber fraud comprises the following steps.
• Reconnaissance and Compromise
• Obtain credentials
• Send fraudulent messages
• Hide/cover up evidence

Modus Operandi of Cyberattacks

The common modus Operandi followed by cyber attackers are;
• ATM card skimming
• Phishing/Vishing/Smishing Payment Fraud
• Lottery Fraud/Fake Prize Fraud
• Frauds due to using Unknown/Unverified Mobile Apps
• Account takeover Fraud
• Online Marketplaces Fraud
• Card fraud
• Sim Swapping



Apply the distinction

Explain the decision: A risk assessment identifies exposure and impact. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

The historical legal list needs a transition note. BNS, BNSS and BSA came into force on 1 July 2024; applicability to earlier events/proceedings depends on the relevant saving and transition provisions. The banking evidence statute is the Bankers' Books Evidence Act, 1891. Recognition of an electronic record does not dispense with admissibility requirements. [LAW]

Evaluation Requirements

The IT resources continuously undergo changes in the form of development of new applications, acquisition of new hardware, turnover of trained employees etc.

- Computer Hardware
- Computer Software
- Data
- Communication channels
- Disaster Recovery Management
- System Development Process

Legal Framework for Electronic Transactions

At present, many legal provisions recognize the paper-based records and documents that should bear signature. Since, electronic commerce eliminates the need for paper- based transactions. Therefore to facilitate e-commerce, there was a need for enactment/amendment of necessary Law.

Indian Parliament enacted a comprehensive information Technology Bill, which received the Present's assent on 9 June 2000.

Consequent upon the recognition given to the electronic records, electronic documents and electronic signatures, incidental amendments have also been made

in the following Acts:

- The Indian Penal Code, 1860
- The Indian Evidence Act, 1872
- The Banker's Bank Evidence Act, 1891
- The Reserve Bank of India Act, 1934 The Act purports to include the work "electronic record" along with the word "record"/"document" appearing generally in various sections of these act.

The amendment to Indian Penal Code, 1860, also states that for the purpose of the Section 466 (dealing with forgery of records) a "register" shall include any list, data or record of any entires maintained in the electronic form as defined in the IT Act 2000.

Bankers Books Evidence Act, 1891 redefines banker's books as ledgers, daybooks, cash books and account Books used in the ordinary business of the Bank.

The RBI act, 1934 has been amended by the IT act, 2000, empowering the central board to make regulations for fund transfers through electronic means between the banks or between the banks and other financial institutions.

Important distinction / reviewed 30 October 2026

The Information Technology Act, 2000 received assent on 9 June 2000; its commencement was 17 October 2000. Distinguish these dates. An older committee discussion supplements the applicable directions; it does not replace the bank's current governance and assurance obligations. [ITACT] [IT]

Read One time Gopalakrishana Committee Report Click Here

Compare before you answer

Concept / service	Practical distinction
Preventive	Restrict access and require independent approval.
Detective	Review alerts, reconciliations and protected logs.
Corrective	Restore safely, remediate the cause and verify recovery.
Assurance	Test control design and operation; follow up findings.

Practice / answer beside the question

Q01. Which objective is affected when an unauthorised person reads customer records?

Answer / Confidentiality. Unauthorised alteration affects integrity; service disruption affects availability.

Q02. Is a checksum a method of keeping account data secret?

Answer / No. It can support change detection; confidentiality requires suitable protections such as access controls and encryption.

Q03. A log exists but nobody reviews it. Is that enough for a detective control?
Answer / No. Protect the log, define review and escalation, and retain evidence of action.

Q04. Which type of control restores a corrupted service?
Answer / Corrective control. Prevention seeks to stop the event; detection identifies it.

Q05. Does an IS audit guarantee that fraud cannot occur?
Answer / No. It evaluates risks, controls and evidence within its scope; residual risk remains.

Q06. Can a historical reference to the IPC or Evidence Act be used without checking applicability?
Answer / No. Consider the new criminal/evidence laws and the applicable saving and transition provisions.

Q07. Who should own resolution of an audit finding?
Answer / An accountable management owner with an agreed action and timeline, followed by verification of effective closure.

Q08. May one employee modify data, approve the modification and remove its audit trail?
Answer / That combines conflicting powers. Separate roles and protect the audit evidence.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

A typical computerised environment constitutes three independent but separate components Software,
Hardware and Data
The Risks broadly lead to
a. Incorrect decision-making leading to setback to business
b. Interruption in activities due to loss of data, hardware, software, Peopleware.
c. Violation of Privacy
d. Direct Financial loss due to computer frauds.
The objective of Computer Auditing is:
a. Assets safeguarding
b. Preserving data integrity
c. Achieving system efficiency
Risk prone components in computerised systems
a. Errors and omissions in data and software
b. Unauthorised disclosure of confidential information
c. Computer abuse and mis-utilisation of banks assets
Effective Control Mechanism in computerised environment
a. Preventive
b. Detective
c. Corrective
Scope of System Audit is
a. Review of operations to establish compliance
b. Review of the adequacy of procedures and controls
c. Integrity review focused at fraud detection/prevention of IT system d. Audit Trail is a chronological record of all events occurring in a system
Legal Framework for Electronic Transactions
Consequent upon the recognition given to the electronic records, electronic documents and electronic signatures, incidental amendments have also been made in the following acts:

a. The Indian Penal Code, 1860
b. The Indian Evidence Act, 1872
c. The Bankers' Books Evidence Act, 1891
d. The Reserve Bank Of India Act 1934

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

IT / RBI: Commercial Banks - Cybersecurity, Technology: Risk, Resilience and Assurance Framework, 2026; updated 1 October 2026

ITACT / India Code: Information Technology Act, 2000

LAW / Government of India: commencement of new criminal laws on 1 July 2024

PD / NIST: glossary of information-security terms

28 facts / final recall

01-14 / foundations	15-28 / application
01. Systems involve hardware, software and data.	15. Logical controls restrict system access.
02. People and procedures affect system risk.	16. An audit trail records events chronologically.
03. Confidentiality restricts unauthorised disclosure.	17. Logs require protection and review.
04. Integrity guards against unauthorised changes.	18. Checksums and encryption have different purposes.
05. Availability supports timely authorised access.	19. Encryption does not replace access control.
06. Errors and omissions can create losses.	20. Backups do not replace restoration testing.
07. Fraud can exploit weak access controls.	21. IS audit evaluates systems and controls.
08. A risk assessment identifies exposure and impact.	22. Audit planning should reflect risk.
09. Preventive controls seek to stop an event.	23. Evidence supports audit conclusions.
10. Detective controls identify events or exceptions.	24. Findings need accountable remediation.
11. Corrective controls restore or remediate.	25. Follow-up checks closure and effectiveness.
12. Segregation limits conflicting responsibilities.	26. Electronic records still face evidence requirements.
13. Least privilege restricts unnecessary authority.	27. Historical legal lists need transition context.
14. Physical controls protect facilities and equipment.	28. Controls reduce risk; residual risk remains.

C08 / Cyber Crimes and Fraud Risk Management



At the branch

A workstation begins sending unusual traffic. Preserve evidence and activate the incident process: isolate through approved controls, investigate scope and restore safely.

1. Prepare controls → 2. Detect incidents → 3. Contain and recover → 4. Learn and improve

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

Threat actors include outsiders and insiders; motive and opportunity differ. A recognised threat does not itself establish that a compromise occurred. Use evidence, detection and appropriate escalation.

JAIIB PPB Module C Unit 8: Operational Aspects Of Cyber

Crimes/Fraud Risk Management In Cyber Tech

Fraud

• Fraud is defined as the intentional use of deception to acquire an unfair advantage over another individual, most typically in the form of money.

Cybercrime is defined as any criminal act that involves the use of computers or networks. Fraud can be conducted against individuals as well as against corporations.

• Fraud is described in a variety of ways, including scam, con, swindle, extortion, sham, double-cross, hoax, cheat, ploy, ruse, hoodwink, and confidence trick,

among others. Importance of cybersecurity in banking:

Risks for Banks from Cyber Attacks

Cyber risk continues to be a top concern for banks and regulators, with the evolving focus to include both systemic and idiosyncratic risks. The focus on systemic risk is to build better industry preparedness and cyber resiliency.

The following are the risks that can arise from Cyberattacks:-

• Financial loss
• Critical Data loss/breach
• loss of productivity due to business disruption
• Cost of investigation
• Compensation to customers
• Reputational damage
• Regulatory penalties
• Costs of recovering from disruptions
• Investment loss

Threat Actor

Illustrated comparison / key details

Threat actors	Categories
Threat actors	Cybercriminals
Threat actors	Criminals

Threat actors	Categories
Threat actors	Business competitors
Threat actors	Employees

Important distinction / reviewed 30 October 2026

The eight controls below form a useful baseline, not a guarantee against every attack. Priorities and implementation should follow risk, applicable directions and the bank's technology environment. [IT]

Cyber Threats

The common threats to the bank are given below

- Identity Theft
- Data Breach/Theft
- Hacking
- Malware
- Viruses
- Ransomware
- Phishing/Vishing/smishing/Pharming
- Distributed Denial-of-Service (DDoS)
- Cyber Squatting/bullying/warfare

Cyber Risk Mitigation Strategies

Cybersecurity risk mitigation is the practice of implementing security policies and procedures in order to lower the total risk or impact of a cybersecurity threat.

Risk mitigation can be divided into three categories in the context of cybersecurity

- Prevention
- Detection and
- Remedy.

Essential mitigation strategies for business continuity:

Defense In Depth

- Defence-in-Depth security strategy is in which a succession of security procedures and controls are carefully placed throughout a computer network in order to safeguard the network and the information contained within it.
- This strategy can dramatically improve network security by protecting against a wide range of attack vectors. It prevents any single point of failure and significantly increases the time and complexity required to compromise a network successfully.

Illustrated comparison / key details

Essential control	Purpose
1. Application whitelisting	Control unauthorised software execution.
2. Patching applications	Remediate known security vulnerabilities.
3. Configuring Microsoft Office macro settings	Block untrusted macros.
4. Application hardening	Protect against vulnerable functionality.
5. Restricting administrative privileges	Limit powerful access to systems.
6. Patching operating systems	Remediate known security vulnerabilities.
7. Multi-factor authentication	Protect against risky activities and credential theft.
8. Daily backups	Maintain availability of uninfected critical data.

Important distinction / reviewed 30 October 2026

Security architecture uses multiple layers so that one failed control need not expose every asset. VA is not inherently internal-only and penetration testing is not inherently external-only; scope, authorisation and method determine the assessment. [IT]

Handling Cyber Risk by Banks

• Banks have developed individual security operations centres (SOCs). These centres house an information security team that is responsible for continuously monitoring and assessing an organization's security posture.
• The purpose of the SOC team is to detect, analyse, and respond to cybersecurity issues using a combination of technology solutions and a robust set of policies and procedures.
• Advanced forensic analysis, cryptanalysis, and malware reverse engineering are some of the additional capabilities that some SOCs can offer in order to evaluate occurrences.

Common Measures Adopted by Banks Against Cyber Threats

• Banks have established Security Operation Centres (SOC) to monitor threats and protect the systems.

Some of the commonly deployed tools/measures are:

• SIEM (Security Information and Event Management)
• Vulnerability Assessment/Management
• NBAD (Network behaviour anomaly detection)
• Anti-APT (Anti Advanced persistent Threat)
• Anti-DDoS (Anti Distributed Denial of Service)
• Anti-Phishing, Malware Monitoring
• PIM (Privileged Identity Management)
• FIM (File Integrity Management)
• WAF (Web Application Filtering)
• Cyber Insurance
• Involvement of Top Management
• Staff/customer awareness of cyber security
• Vulnerability/Penetration Testing
• Adopting Best Practices and Frameworks

Illustrated comparison / key details

Defence in depth / inner to outer	Layer
1	Data
2	Application
3	Host
4	Internal network
5	Perimeter
6	Physical
7	Policies, procedures and awareness



Apply the distinction

Explain the decision: Hardening reduces exposed functionality. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

WAF usually means Web Application Firewall; FIM commonly means file-integrity monitoring. These controls and SOC/SIEM/NBAD/NAC serve complementary roles without guaranteeing detection. For covered commercial banks, the CISO's office manages/monitors SOC; the CISO must not report directly to the Head of IT. [PD] [IT]

Security Operations Centre (SOC)

• The Chief Information Security Officer heads the operations of the SOC. The purpose of the SOC team is to detect, analyse, and respond to cybersecurity issues using a combination of technical solutions and a solid set of processes.

• Security operations centres monitor and analyse network, server, endpoint, database, application, website, and other system activities for anomalies that could indicate a security event or breach.

• The SOC guarantees that possible security issues are recognised, assessed, defended, investigated, and reported accurately.

Cyber SOC or Cyber Security Operation Centre

Banks need to Set up and Operationalize (C-SOC) as per the RBI guidelines.

The systems that need to be put in place as a part of the Cyber SOC requires the following aspects to be addressed.

• Top Management/Board Briefing on Threat Intelligence
• Dashboards and oversight.
• Policy, measurement and enforcement
• Informing stakeholders, stakeholder participation.
• Methods to identify the root cause of attacks,
• Incident investigation, forensics and deep packet analysis need to be in place
• Dynamic Behaviour Analysis
• Analytics with good dashboard
• Counter Response

Security Information and Event Management (SIEM)

• SIEM is a platform for detecting, analysing, and responding to security threats of the next generation. Applications and network hardware security alarms may be analysed in real-time using SIEM software.

Illustrated comparison / key details

Network segment / relationship	Nodes and controls
Main external-to-internal path	Internet → Border Router → Perimeter Firewall → Router → Switch.
Controls connected near the perimeter	Web Content Filter; IPS; Breach Detection.
Switch branch: Guest and Mobile Network	Guests; Tablets; Phones.
Switch branch: Employee Network	Printer; VoIP Phone; Employee; Host Security.
Switch branch: Quarantine Network	Malicious User; Rogue Device; Non-compliant.
Switch branch: Data Center + SOC Tools	SOC; PCI; Non PCI; Security Tools; Data Collection; Servers.
Monitoring / access-control connections	NetFlow and NAC link to the main switch/network path.

Important distinction / reviewed 30 October 2026

CERT-In: covered entities report specified incidents within six hours of notice and retain ICT logs securely for a rolling 180 days in India. Separately, covered commercial banks report cyber incidents to RBI within six hours of detection on DAKSH and proactively notify CERT-In. Preserve evidence; do not await a completed investigation before required reporting. [CERT] [IT]

• SIEM software can have many features and benefits, including: Consolidation of multiple data points, Custom dashboards and alert workflow management, Integration with other products.

VAPT (Vulnerability Assessment and Penetration Testing)

• VAPT aims at Identifying vulnerabilities in the network, server, and system infrastructure.

• Vulnerability assessment focuses on internal organisational security, whereas penetration testing focuses on the external real-world threat.

• Banks conduct periodical VAPT exercises through approved third-party vendors, and the observations are classified into High, Medium and Low risks. It is mandatory to mitigate these vulnerabilities and report to the top management.

NBAD

• Network behaviour anomaly detection (NBAD) provides one approach to network security threat detection. It is a complementary technology to systems that detect security threats based on packet signatures.

NBAD technology/techniques are applied in a number of network and security

monitoring domains including:

• Log analysis
• Packet inspection systems
• Flow monitoring systems and
• Route analytics.

Phases Of an Effective Incident Response Plan

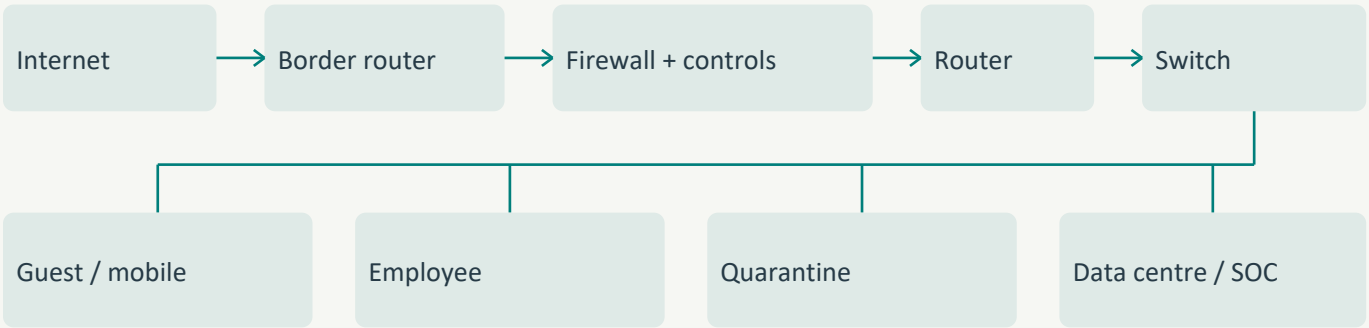
Banks must develop a robust Cyber Incident Response (CIR) plan to stay ahead of the cybersecurity curve.

• Proactive Capabilities: Preparation, Detection Analysis
• Responsive Capabilities: Containment, Eradication, Recovery

Illustrated comparison / key details

Incident Response Process	Next stage / loop
Preparation and Prevention	Incident Identification
Incident Identification	Containment
Containment	Cleansing and Eradication
Cleansing and Eradication	Recovery
Recovery	Follow-up
Follow-up	Preparation and Prevention

Illustrated network / controlled segments



Segment access; monitor events; isolate suspect devices. See the relationship table for all labelled components.

Compare before you answer

Concept / service	Practical distinction
Prepare	Owners, contacts, detection coverage, clean backups and rehearsed procedures.
Detect / contain	Validate the event, preserve evidence and restrict spread.
Eradicate / recover	Remove the cause, restore safely and verify service integrity.
Follow up	Report as required, learn and test corrective actions.

Practice / answer beside the question

Q01. Does an employee account eliminate the possibility of an insider threat?
Answer / No. Insider misuse, compromised credentials and excessive privileges remain possible.

Q02. Is vulnerability assessment always internal and penetration testing always external?
Answer / No. Either may assess internal or external exposure within its authorised scope.

Q03. Which control can separate a suspected infected device from normal service networks?
Answer / Approved quarantine or segmentation controls, applied under the incident process while preserving evidence.

Q04. Does installing SIEM guarantee that every attack will be detected?
Answer / No. Detection depends on coverage, logs, rules, skilled review and response; residual risk remains.

Q05. May reporting of a covered CERT-In incident wait until the investigation is complete?
Answer / No. The six-hour rule runs from noticing or being informed of the specified incident; provide the available information through the required process.

Q06. Is restoration alone enough to close an incident?
Answer / No. Verify clean recovery, preserve evidence, address the cause and complete follow-up and required notifications.

Q07. What is the purpose of least privilege for administrators?
Answer / Limit powerful access to approved duties and reduce the impact of misuse or credential compromise.

Q08. Why are backups part of security as well as operations?
Answer / Clean, protected and tested backups support availability and recovery after corruption or attacks.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

The Risks broadly lead to

a. Incorrect decision-making leading to setback to business

b. Interruption in activities due to loss of data, hardware, software, Peopleware.

c. Violation of Privacy

d. Direct Financial loss due to computer frauds.

The objective of Computer Auditing is:

a. Assets safeguarding

b. Preserving data integrity

c. Achieving system efficiency

Risk prone components in computerised systems

a. Errors and omissions in data and software

b. Unauthorised disclosure of confidential information

c. Computer abuse and mis-utilisation of banks assets

Effective Control Mechanism in computerised environment

a. Preventive

b. Detective

c. Corrective

Scope of System Audit is

a. Review of operations to establish compliance

b. Review of the adequacy of procedures and controls

c. Integrity review focused at fraud detection/prevention of IT system d. Audit Trail is a chronological record of all events occurring in a system

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

CERT / CERT-In: directions under section 70B, 28 April 2022

IT / RBI: Commercial Banks - Cybersecurity, Technology: Risk, Resilience and Assurance Framework, 2026; updated 1 October 2026

PD / NIST: glossary of information-security terms

28 facts / final recall

01-14 / foundations	15-28 / application
01. Cyber risk includes insider and outsider threats.	15. A perimeter firewall controls boundary traffic.
02. Threat, vulnerability and incident differ.	16. A WAF protects web-application traffic.
03. Malware can steal, disrupt or corrupt.	17. IPS can detect and block configured threats.
04. Credential theft can bypass weak controls.	18. NAC governs network admission.
05. Phishing uses deception to obtain actions or information.	19. Segmentation limits unnecessary reach.
06. Whitelisting limits unauthorised execution.	20. Quarantine separates suspect devices.
07. Application patches remediate known flaws.	21. SIEM correlates security event information.
08. Macro settings can block untrusted code.	22. A SOC coordinates security monitoring and response.
09. Hardening reduces exposed functionality.	23. VA identifies vulnerabilities.
10. Administrative access should be restricted.	24. Penetration testing tests exploitable exposure within scope.
11. Operating systems also require patching.	25. Incident response begins before an incident.
12. MFA adds independent authentication factors.	26. Containment limits spread and damage.
13. Backups support recovery of clean data.	27. Covered CERT-In incidents have a six-hour reporting rule.
14. Defence in depth uses multiple layers.	28. Recovery must include verification and follow-up.

C09 / Technology Trends: e-RUPI, Fintech, RegTech and SupTech



At the branch

A customer receives an e-RUPI voucher and assumes it is digital rupee cash. Explain its stated purpose and redemption conditions before comparing it with a payment app or CBDC.

1. Define the service → 2. Identify the operator → 3. Share with consent → 4. Apply oversight

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 30 October 2026

e-RUPI is an NPCI prepaid e-voucher mechanism implemented through participating issuer banks; RBI regulates the relevant payment/PPI framework. The historical table's assertion that RBI operates e-RUPI is incorrect. e-RUPI is distinct from the digital rupee, e₹, and from a general UPI application. [ERUPI] [CBDC]

JAIIB PPB Module C Unit 9: Technology Trends In Banking

E-RUPI

• E-RUPI was launched on 2nd August 2021 by the National Payments Corporation of India (NPCI). E-RUPI is an innovative digital solution, and 'e- RUPI' is a seamless one-time payment mechanism.

• The users of the e-voucher can redeem the voucher at the merchants accepting e- RUPI without using a digital payments app, card or internet banking. E-RUPI would be shared by organizations or Governments to the beneficiaries for a specific purpose or activity through SMS or QR code.

• As of 31st January 2022, there are 16 Banks live on e-RUPI. Even users without a smartphone can use e-RUPI because of its offline transaction feature.

• E-RUPI can be issued upto INR 10,000 per voucher. No charges are payable by e-RUPI beneficiaries for using e–RUPI. e-RUPI is distributed only in digital form.

Difference Between E-RUPI and UPI

Financial Technology

• Fintech can be described as the use of technology to deliver financial solutions. It aims to improve and automate the delivery and utilization of financial services. It simplifies financial transactions for consumers or businesses, making them more accessible and affordable.

• The Fintech ecosystem (FE) consists of five elements that synergise to stimulate the economy, enhance customer experience and promote social

inclusion: start-ups, technology firms, government, customers and

traditional financial institutions like banks.

• Peer-to-peer (P2P) lending platforms, crowdfunding, blockchain technology, distributed ledgers technology, Big Data, smart contracts, Robo advisors, E-aggregators, and other major Fintech products and services are currently in use.

Benefits Of Financial Technology

Illustrated comparison / key details

e-RUPI / historical comparison	UPI / historical comparison
One-time cashless and contactless payment mechanism.	Application used for receipt or payment of money.
An e-voucher.	Application used for receipt or payment of money.
Historical statement: RBI operates e-RUPI. Read the correction above.	NPCI operates UPI.
Vouchers redeemed at service-provider counters.	Used for receipt or payment of money.

Important distinction / reviewed 30 October 2026

The Rs 10,000 voucher ceiling and sixteen-bank count are dated examples, not permanent universal limits or participation counts. Voucher amount, permitted purpose, redemption and issuer conditions require the operative programme. Do not assume every voucher is freely transferable or usable as ordinary cash. [ERUPI]

The Fintech movement can transform the financial landscape, allowing consumers to choose from a broader range of options at competitive prices while also allowing financial institutions to improve efficiency through lower operational costs.

Some benefits of fintech products that are helping Banks are:

- Reduced Costs
- Reduced time to market
- Customer Services and Revenue
- World-class compliance and security
- Greater speed and convenience
- Innovative products
- Transparency of products

Regulatory Technology

RegTech or regulatory technology refers to technological solutions that streamline and improve regulatory processes. RegTech is a technology system that assists a bank or any financial institution in managing regulatory compliance.

RegTech can be used for the following broad purposes.

- Regulatory Monitoring
- Regulatory Obligations
- Compliance Management
- Execution of Compliance.

RegTech companies are delivering solutions in Regulatory Reporting, Risk Management, Identity Management & Control, Compliance, and Transaction Monitoring.

Supervisory Technology

- Supervisory technology or SupTech offers technological solutions that assist financial supervisory authorities in managing regulatory compliance.
- Supervisory agencies must ensure that all such rules and regulations are complied with by financial institutions. SupTech provides technological tools to regulatory authorities to improve their supervisory efficiency through automation.
- Reserve Bank of India has been using SupTech to collect and analyse data. Some examples are Import Data Processing and Monitoring System (IDPMS),

Export Data Processing and Monitoing System (EDPMS) and Central

Repository of Information of Large Credits (CRILC).

Social Media Banking

- Social networking has become a new and crucial ability for everyone these days, including for those who don’t know much about technology. Knowledge of various media allows users to make better use of these tools.

Important distinction / reviewed 30 October 2026

Fintech applies technology to financial services; RegTech supports regulatory compliance; SupTech supports supervisory work. These terms do not exempt a provider from regulation. Historical bank/social-media examples in Quick Revision illustrate engagement channels, not comparative claims about the banks today.

• Todays' consumers are highly reliant on social media platforms such as Instagram, Facebook, LinkedIn, and Snapchat. Hence, banks must be active across accounts.

• Customers nowadays expect to be heard and answered through social media and receive the services they require. Instead of dealing with officials or bank managers directly, they should raise their expectations of banks via social media platforms.

Hashtag Banking

Indian banks have started using the hashtag to provide services such as fund transfer, balance inquiry, prepaid mobile recharges etc., to their customers.

To participate in Hashtag Banking, the customer has to follow his Bank on Twitter.

Customers can send messages to the Bank, which are passed on to the Bank, to act on the hashtags sent by the customer.

Some examples of services offered using Hashtag banking are:

• Banking services

• Credit card services

• FASTag services

• Loan Services

• Fixed Deposit services

• Block/Unblock card Whatever be the social media platform is being used, the ultimate transfer of funds happens through the usual payment system channels like NEFT, IMPS etc. More banks will launch Banking services on Social Media platforms like Twitter, WhatsApp, Facebook etc.

Account Aggregators

• An Account Aggregator (AA) is a type of RBI regulated entity (with an NBFC- AA license) that retrieves or collects information related to financial assets of a customer from the holders of such information (termed as Financial Information Providers (FIPs)) and aggregates, consolidates and presents it to the customers or specified users (termed as Financial Information Users (FIUs)).

• The transfer of such information is based on an explicit consent of the customer and the response is envisaged to occur in real time. Data cannot be stored by the aggregator or used by it for any other purpose and shall be shared only with the regulated financial entities.

• AA framework assists in decision making required for provision of various financial services viz., lending, loan monitoring, wealth management, personal finance management, etc., by eliminating paper trails.

Open Banking



Apply the distinction

Explain the decision: A UPI app provides a user interface. Check the supporting documents and applicable conditions.

Important distinction / reviewed 30 October 2026

An Account Aggregator enables consent-based financial-information sharing; it is distinct from an ordinary funds-transfer service. Open banking does not make customer records public. Authorised interfaces, purpose, security and consent govern access. A hashtag banking example does not prove universal current bank support. [AA]

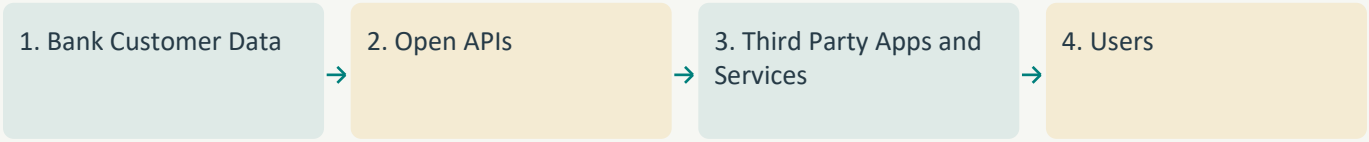
• Banks and non-bank financial institutions use application programming interfaces (APIs), to provide third-party financial service providers with open access to consumer banking, transactional, and other financial data.

• Application programming interface, or API, enables businesses to make the specific data and functionality of their applications available to external third- party developers, business partners etc.
• In Open banking, banks grant access to and control over their customers' personal and financial data to third-party service providers, often software startups and online financial service suppliers, under certain conditions. The third-party providers that provide APIs can then use the shared data. Customers typically need to provide consent before a bank allows its stakeholders to access their accounts.

Risks Of Open Banking

• The potential for severe hazards to financial privacy and the security of consumers' funds, as well as ensuing liabilities to financial institutions, exist because of open banking.
• Open banking APIs are not without their security hazards, such as the possibility that a malicious third-party app will empty a customer's bank account without their knowledge. This would be a severe (and unlikely) threat to the system.
• Concerns that are more widespread would be data breaches caused by inadequate security, hacking, or insider threats, which have become relatively common in the modern era, including at financial institutions, and will likely continue to be commonplace as more data is interconnected in more ways.

Illustrated comparison / key details



Open banking workflow / four parallel services follow this bank–API–service–user pattern.

Compare before you answer

Concept / service	Practical distinction
e-RUPI / e₹ / UPI	Voucher mechanism; CBDC; payment system.
Fintech / RegTech / SupTech	Financial-service innovation; compliance support; supervisory technology.
FIP / AA / FIU	Information provider; consent-based sharing service; permitted information user.
Open API / public data	An authorised interface does not make personal data publicly accessible.

Practice / answer beside the question

Q01. Is e-RUPI another name for the digital rupee?
Answer / No. e-RUPI is a prepaid voucher mechanism; e₹ is central-bank digital currency.

Q02. Does RBI regulation mean RBI operates the e-RUPI platform?
Answer / No. Distinguish RBI's regulatory role from NPCI's platform and the participating issuer banks.

Q03. Which term fits a supervisor's use of technology for oversight?
Answer / SupTech. RegTech is commonly used for technology that helps regulated entities meet compliance requirements.

Q04. Does open banking make a customer's account data public?
Answer / No. Access must be authorised and controlled, with the required consent and security.

Q05. Can an AA share financial information without the customer's required consent?
Answer / No. The framework is based on explicit consent and the permitted purpose.

Q06. Is sharing a bank statement through an AA the same as transferring the account balance?
Answer / No. Financial-information sharing and funds transfer are separate services.

Q07. May a customer post a PIN on a bank's social-media page to obtain help?

Answer / No. Keep credentials private and use the bank's verified secure support process.

Q08. Does a historical hashtag-banking example establish present availability at every bank?

Answer / No. Verify the specific bank's current supported service and conditions.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

Banks in India and Social Media Marketing

Indian Banking Indust ry has shown a tremendous growth on Social Media platforms like Facebook, Twitter, YouTube etc. The Banking sector in India has proven that its not just about opening saving bank accounts, credit cards, investments, wealth management, mutual funds, insuran ce and so on. With the increasing growth in Social Media in India, banks have understood that likes, tweets, shares do matter to engage with the young generation.

With a more globalized approach and increasing competition, banks have increased their marke ting budgets and Social Media is one of the major portion of it. There are banks that we have seen, using social platforms as another customer care, using them to showcase their thought leadership, using them to launch new products, endorsing celebrities and many more.

Social media is being used by businesses to discuss products and services. Consumers like to use services which not only tell them about themselves but also listen to them. A few private banks like ICICI and HDFC have begin to understand thi s shift and have started to be engaging rather than selling but majority of the banks in India still have a long way to go.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 30 October 2026

AA / Department of Financial Services: Account Aggregator framework

CBDC / RBI: digital rupee FAQs, 9 January 2025

ERUPI / NPCI: e-RUPI product

28 facts / final recall

01-14 / foundations	15-28 / application
01. e-RUPI is a prepaid e-voucher mechanism.	15. An ecosystem includes providers and users.
02. NPCI provides the e-RUPI platform.	16. Innovation requires governance and risk controls.
03. Participating issuer banks issue vouchers.	17. Open banking uses authorised interfaces.
04. RBI regulation differs from platform operation.	18. An API defines interaction between systems.
05. Voucher redemption follows stated conditions.	19. Open banking does not mean public customer data.
06. An e-voucher is not ordinary unrestricted cash.	20. Consent limits permitted information sharing.
07. e-RUPI and e₹ are different.	21. An Account Aggregator enables financial-data sharing.
08. e₹ is central-bank digital currency.	22. Registration with an AA is voluntary.
09. UPI is a payment system.	23. A FIP provides permitted financial information.
10. A UPI app provides a user interface.	24. A FIU uses information within its permitted purpose.
11. Fintech applies technology to finance.	25. Data sharing differs from fund transfer.
12. Fintech services remain subject to applicable law.	26. Social media can support customer engagement.
13. RegTech supports regulatory compliance.	27. Never post account credentials in public messages.
14. SupTech supports supervision.	28. Verify current support before using a named channel.

Clerk2Officer

Principles & Practices of Banking

Module D / General-purpose study edition

5 chapters. Learn through explanations, illustrated branch cases, comparison tables and practical distinctions. Practise with answers beside questions, then use Quick Revision and the 28 final recall facts in each chapter. Click a contents row to open a chapter.

CHAPTER	PDF PAGE
D01 Ethics, Business Ethics and Banking	2
D02 Ethics at the Individual Level	8
D03 Ethical Dimensions: Employees	15
D04 Work Ethics and the Workplace	21
D05 Banking Ethics: Changing Dynamics	27

Page guide: contents numbers refer to this combined PDF. Chapter footers and navigation tabs use local chapter numbering.

Study note: historical examples retain their stated dates and assumptions. Read them with the dated distinctions and reference notes. Eligibility, rates and scheme benefits depend on the applicable rules and sanction.

D01 / Ethics, Business Ethics and Banking



At the branch

A customer is offered an unsuitable product because it gives the branch a higher commission. An ethical decision considers the customer's needs, truthful disclosure and the bank's long-term trust.

1. Identify the duty → 2. Consider stakeholders → 3. Choose fairly → 4. Explain and record

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module D Unit 1: Ethics, Business Ethics &

Banking: An Integrated Perspective

Ethics and Business values: Myth and Reality

Values And Ethics

Basic values are those which are at the core of being human. Values are stable long- lasting beliefs about what is important to someone. These are qualities one chooses to embody to guide one's actions and conduct. Merriam-Webster defines 'Ethics' as:

- "The discipline dealing with what is good and bad and with moral duty and obligation".
- "A set of moral principles: a theory or system of moral values".
- "The principles of conduct governing an individual or a group".

Important distinction / reviewed 31 October 2026

Values describe priorities; ethics evaluates conduct and duties. These are useful teaching distinctions rather than a claim that every society or professional code resolves every question identically. In the comparison, read morally or incorrect as morally correct or incorrect.

- "A set of moral issues or aspects (such as rightness)".

So, ethics is a set of moral standards and values acceptable in a society and guides human behaviour. It holds people from taking decisions that may be harmful to others or the society. Ethical principles are universal in nature. Ethics is prescriptive in nature - deals with what must be or ought to be done.

Business Value

- Business value are an informal term and it explains the core principles or standards that guide the way business is done. Values sum up what your business stands for and what makes it special.

Business ethics

Established principle and standard that guide behaviour in the world of business.

Different Between Business Ethics and Business Values

Business Ethics Business Values

Ethics refers to the guidelines for conduct,

that address questions about morality

Value is defined as the principles and ideals,

which help them in making judgment of

what is more important.

Moral Principle system Induces thinking

What is morally or incorrect in the given situation?

What we want to be or achieve?

Magnitude of rightness or wrongness of

one's options.

It explains the level of significance.

Myths vs Reality

Myth No. 1: Entrepreneurs are Essentially Inventors

Many aspirations die in the bud due to the existence of this perceived prerequisite.

Entrepreneurship is often confused with the invention, where it's taken as a condition to be able to tangibly invent an app, system, product or a new equation in order to create market value. For example, the way Ola/Uber disrupted travel and Airbnb/Oyo Rooms disrupted hotel stays.

Reality: Entrepreneurs are Ideators

Entrepreneurship is a phenomenal journey which is flagged off with something as basic and simple as an idea. Entrepreneurs arise from an existing gap, and the right idea to fill that gap. Once the idea stands out as disruptive, innovation and invention automatically fall in line. Work it up to the top before someone else works on it to build an empire.

Myth No. 2: Entrepreneurs are Mainly Motivated by Money

Illustrated comparison / key details

Business Ethics	Business Values
Ethics refers to the guidelines for conduct, that address questions about morality	Value is defined as the principles and ideals, which help them in making judgment of what is more important.
Moral Principle system	Induces thinking
What is morally or incorrect in the given situation?	What we want to be or achieve?
Magnitude of rightness or wrongness of one's options.	It explains the level of significance.

Important distinction / reviewed 31 October 2026

The entrepreneur myth/reality examples are illustrations, not evidence that every entrepreneur has the same motive, background, risk appetite or path to profitability. An idea does not automatically become a viable or ethical business.

While money is the big game, it definitely isn't the end game. Money making makes for a very narrow viewpoint for those who certainly wish to establish a business. There are a larger passion and a bigger purpose that every budding entrepreneur holds or must hold onto than just making big bucks.

Reality: Entrepreneurs are Motivated by Passion

Most entrepreneurs believe in taking a risk and living life on the edge. They carry small phones but wider visions, live on bare necessities but live for huger possibilities. For any new business, the first few years are all about reaching a breakeven, profits become a part once execution is patiently handled and aimed for. Passion is the biggest motivation.

Myth No. 3: Entrepreneurs Have to be Risk-takers

A myth almost ingrained in the market almost believed to be a fact. Risk taking is more of an attitude when it comes to entrepreneurship. In the sea of bigger things, risk-taking is only one of the sailing boats. Very often many fierce risk takers fail due to the lack of ability to be risk avengers or that of being on the safe side of the spectrum at all times.

Reality: Entrepreneurs Have to be Challenge-takers

As an entrepreneur, all you need to be is a relentless challenger, which encompasses taking risks as well as avoiding them. To pose your idea as the distinguisher, all that you need is the attitude of a go-getter. The always prepared to face the adversity attitude should always come in play while facing obstacles, financial ups-downs and severe, cut- throat competition. Nothing is as strong as a strong will.

Myth No. 4: Entrepreneurs are Born

Where do we think they plan for the idea, while they develop in the womb? This is one of the biggest scandals of a myth, which makes thousands of people miss the chance of being the next big entrepreneur. Intelligence, high scores, family blood, none of these actually guarantees your ticket to the top.

Reality: Entrepreneurs are Made

Nothing begets dedication, will-power and courage. You aren't born an entrepreneur, you become one. The greatest entrepreneurs come from very average set-ups with almost no fortune in the bloodline. There will never be a shortcut to Hard work.

Business Ethics

Ethics means the set of rules or principles that the organization should follow.

While in business ethics refers to a code of conduct that businesses are expected to follow while doing business.

Through ethics, a standard is set for the organization to regulate their behavior. This helps them in distinguishing between the wrong and the right part of the businesses.

Important distinction / reviewed 31 October 2026

Integrity means doing what is ethically justified even under pressure. Loyalty is subject to lawful duties and professional independence; it does not require concealing misconduct. Profit and customer welfare still require practical controls and accountable decisions.

Business ethics compromises of all these values and principles and helps in guiding the behavior in the organizations. Businesses should have a balance between the needs of the stakeholders and their desire to make profits.

While maintaining these balances, many times businesses require to do tradeoffs.

To combat such scenarios, rules and principles are formed in the organization.

This ensures that businesses gain money without affecting the individuals or society as a whole. The ethics involved in the businesses reflect the philosophy of that organization.

Principles of Business Ethics

Integrity

• Whenever there is great pressure to do right instead of maximizing profits, this principle is tested. The executives need to demonstrate courage and personal integrity, by doing what-what think is right.

• These are the principles, which are upright, honorable. They need to fight for their beliefs. For these principles, they will not back down and be hypocritical or experience.

Loyalty

• No ethical behavior can be promoted without trust. And for trust, loyalty needs to be demonstrated. The executives need to be worthy of this trust while remaining loyal to the institutions and the person.

• There should be friendship in the time of adversity and support and devotion for the duty.

Honesty

• The ethical executives are honest while dealing with their regular work. They also need to be truthful and do not deliberately deceive or mislead the information to others.

• There should be an avoidance of the partial truths, overstatements, misrepresentations, etc. Thus, they should not have selective omission by any means possible.

Respect and Concern

• These are two necessarily different forms of behavior in the organization. But they go in tandem that is why they have been put under one principle.

• When the executive is ethical he is compassionate, kind, and caring.

Fairness

• The executives need not be just fair in all the dealings, but they also should not exercise the wrong use of their power.



Apply the distinction

Explain the decision: Ethics evaluates conduct and duties. Check the supporting documents and applicable conditions.

Important distinction / reviewed 31 October 2026

Ethical culture can reduce misconduct and support trust; it cannot guarantee that a bank will avoid every loss, legal issue or breach. Reputation depends on sustained conduct and remediation, not a written code alone.

• They should not try to use over each or other indecent manners to gain any sort of advantage. Also, they should not take undue advantage of anything or other people's mistakes.

Leadership

• Any executive, if ethical, should be a leader to others. They should be able to handle the responsibilities.

• They should be aware of the opportunities due to their position. The executives need to be a proper role model for others.

Ethical Foundation of Banking: Finance Depends on Trust

Need and Important of Ethics in Banking

Bank need to deliver high quality services to its customers, which are driven by high ethical standards and therefore maintain the same in its work culture, management and also with the quality of its employees. Banks can only work well when the public trust them. Warranting safety of banking activities is certainly a challenging task. It depends heavily both on the economic condition of the country and in the environment of an open economy, the tendencies of development of countries worldwide as well.

Ethics help in dealing with dilemmas

Any banking business however well-placed, at times, it may have to confront moral dilemmas in their regular course of business. Banks have to deal with complex dilemmas in decision making, which is not about distinguishing between right and wrong, but between right versus less right. This, a Bank needs to adhere to a set of strong moral principles, which helps its employees in navigating through the obstacle of ethical choice, while making important decision.

Guards Reputation/ Goodwill

This is a two-pronged process, First, bank's ethical practices aid in safeguarding depositor's interest, thus, maintaining the stability of the system and preserving the reputation of the bank.

Second, Employees adhering to ethical practices prevent the breaches of law and corrupt activities. Besides this, it will also protect stakeholder's interest and enhance the bank's competitiveness and brand image.

Helps avoid risk

A well- defined code of ethics following by the superiors will ensure that the bank at all times maintain high ethical standards and have preventive and corrective measures against unethical practices by any of the staff members.

Principles of ethical banking

Banks are dependent on people to carry out its business who are reflection of the ethical standards of follows. Therefore, it is important for banking professionals to know what

Important distinction / reviewed 31 October 2026

The unfinished accepting gifts, benefits, compensation sentence must be read as an objectivity warning. Apply the bank's gift/conflict rules; do not infer unconditional permission. Refuse a bribe and use the approved reporting route. A professional duty does not require obeying an unlawful instruction.

is expected from them and also help them to avoid temptations and pressures.

Principles of ethics in banking business provide a guideline to the banking professional, which helps them in dealing with ethical issue.

Principle of trust- Trust is the confidence in quality or attribute of a person or a thing.

It also includes truth of a statement. It includes both trustfulness and trustworthiness.

In business, trust always means trustworthiness- which is established by trustfulness. It inspires customers, investors, regulators and lenders to feel confident in an individual, a product or an organization.

The other standard banking code of conduct includes-

- Integrity
- Neutrality
- Reliability
- Transparency

Ethical Foundation of Being a professional

Professionals must possess knowledge of law and comply with all applicable laws and regulations of the government, even in the event of conflict. Professionals should disassociate themselves from violation of laws or rules and regulations.

Professionals must take reasonable care and judgment in maintaining their independence and objectivity in their activities. Accepting gift, benefits, compensation etc.

Professional must not engage in any conduct of dishonesty, deceit, fraud, or an action, which might affect their reputation and integrity.

Professionalism in Banking

The image and reputation of a bank as well as people's confidence in a bank depends heavily on the behviour of its employees, their ability to interact and show attention to their co-workers and clients.

Compare before you answer

Concept / duty	Practical distinction
Integrity / honesty	Consistency with justified principles; truthful and complete communication.
Loyalty / independence	Commitment to the institution alongside lawful duties and objective judgment.
Profit / trust	Financial results need fair conduct and sustainable customer relationships.
Code / culture	Written standards need leadership, controls and action.

Practice / answer beside the question

Q01. A higher-commission product is unsuitable for a customer. What should guide the employee?

Answer / The customer's needs, accurate information and applicable duties, rather than commission alone.

Q02. Is loyalty a reason to conceal a colleague's falsified record?

Answer / No. Preserve the evidence and follow the authorised reporting process.

Q03. Can a technically true statement still be misleading?

Answer / Yes. Omitting a material qualification or cost can create a false impression.

Q04. Does writing an ethics manual guarantee ethical conduct?

Answer / No. Leadership, incentives, controls, training and accountability must support it.

Q05. Are all entrepreneurs necessarily motivated only by passion?

Answer / No. Motives vary; the myth/reality discussion is a teaching illustration.

Q06. What is the distinction between values and ethics in this chapter?

Answer / Values identify priorities; ethics evaluates the conduct and duties involved in acting on them.

Q07. Should an employee accept a valuable gift because it is called a courtesy?

Answer / Check the gift and conflict rules; the label does not remove the risk to independence.

Q08. Does an apparently profitable action become ethical merely because it benefits the bank?

Answer / No. Consider law, duties, customer impact, fairness and the means used.

Quick Revision

Use the final recall table below.

28 facts / final recall

01-14 / foundations	15-28 / application
01. Values identify what matters.	15. Profit targets do not excuse misconduct.
02. Ethics evaluates conduct and duties.	16. A code needs implementation.
03. Business ethics applies to business decisions.	17. Reputation follows actual behaviour.
04. Integrity supports consistent conduct.	18. Ethical dilemmas require careful judgment.
05. Honesty requires truthful communication.	19. A viable idea still needs execution.
06. Selective omission can mislead.	20. Entrepreneurial motives can differ.
07. Fairness restrains abuse of power.	21. Risk-taking alone does not ensure success.
08. Respect recognises dignity.	22. Ethical culture supports risk reduction.
09. Concern considers effects on others.	23. Neutrality supports impartial treatment.
10. Loyalty does not justify concealment.	24. Reliability builds confidence.
11. Leadership includes setting an example.	25. Transparency makes terms understandable.
12. Banking depends on public trust.	26. Objectivity requires managing conflicts.
13. Customers are important stakeholders.	27. Gifts can impair independence.
14. Depositor interests require protection.	28. Record and explain important decisions.

D02 / Ethics at the Individual Level



At the branch

An employee is asked to skip an inconvenient disclosure to meet a sales target. Pause, identify who could be harmed, check the facts and duties, and seek an authorised ethical alternative.

1. Recognise the issue → 2. Gather facts → 3. Compare options → 4. Act and reflect

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB Module D Unit 2- Ethics at the Individual Level

Values, Norms, Belief and their Role

Values

Values refer to the important and enduring beliefs or principles, based on which an individual makes judgements in life. It is at the centre of our lives which act as a standard of behaviour. They severely affect the emotional state of mind of an individual. They can be personal values, cultural values or corporate values.

Values are forces that cause an individual to behave in a particular manner. It sets our priorities in life, i.e. what we consider in the first place. It is a reason behind the choices

Important distinction / reviewed 31 October 2026

Norms describe expectations in a group. They are not necessarily universal, unpublished or unenforceable: expectations can be written, and some may also be reflected in law or policy. Personal beliefs are not proof that a proposed action is justified.

we make. It reflects what is more important for us. So, if we are true to our values and make our choices accordingly, then the way we live to express our core values.

Moreover, if you understand an individual's values, you can easily identify what is important for them.

Differences Between Ethics and Values

The fundamental differences between ethics and value are described in the given

below points:

• Ethics refers to the guidelines for conduct, that address question about morality.

Value is defined as the principles and ideals, which helps them in making the judgement of what is more important.

• Ethics is a system of moral principles. In contrast to values, which is the stimuli of our thinking.

• Values strongly influence the emotional state of mind. Therefore it acts as a motivator. On the other hand, ethics compels to follow a particular course of action.

• Ethics are consistent, whereas values are different for different persons, i.e. what is important for one person, may not be important for another person.

• Values tell us what we want to do or achieve in our life, whereas ethics helps us in deciding what is morally correct or incorrect, in the given situation.

• Ethics determines, to what extent our options are right or wrong. As opposed to values, which defines our priorities for life.

Norms

• Norms are expectations of proper behaviour and not the requirements of that behaviour. Norms are the ways an individual expects all the people to act in a given situation. They are inconsistent but universal. Norms are not published, therefore, may not be obeyed and cannot be made obligatory except by sanctions of a group who use penalties as condemnation or exclusion.

• Norms are informal guidelines about pertaining to behaviour and actions, which are considered normal (what is correct and incorrect) social behaviour in a particular group or social unit.

Beliefs

• Beliefs in the ethical code are standards of thoughts. Beliefs are criteria of intangible thought that does not necessarily evoke action. It may stimulate or force certain pursuit in the environment that corresponds with one to behave in a certain manner.

• Beliefs are among the most primitive and central of mental constructs, and yet there is little agreement as to what they are or how they should be constructed.

Role of Norms, beliefs and values in management

• A corporate culture is a set of values, beliefs, norms and goals and ways of solving problems, which is shared by the employees of an organization.

Core Values

Core value are the fundamental beliefs of a person or organization. These guiding principles dictate behavior and can help people understand the different between right and wrong. Core values also help companies to determines if they are on the right path and fulfilling their objectives by creating an unwavering guide.

Every organization must have a set of core values, which are referred to as the Business or Corporate values. The below mentioned are the few of core values practiced by

Fortune 500 Companies across the world:

• Customer services
• Employee care’
• Quality
• Ethics
• Integrity
• Growth and stability
• Innovation
• Flexibility
• Social Responsibility

Morality and Personal Values

Morality

Morals are one’s guiding principles. Morals are those principles that have internalized automatic response to the situations. They are part of who we are our unique personality. Moral standards are first absorbed as child family friends and various social influences.

Different moral standards emerge from the different value systems which people and society hold. Moral standards include the norms we have about the kinds of actions we believe are morally right and wrong and also the values we place on the kind of objectives we believe are morally good and morally bad.

Personal Values

Individual values- system is like a fingerprint. It is unique in case of each individual.

Because it in the form of a combination of different instrument and terminal values. And this combination varies from person to person. Therefore, in the context of an

Important distinction / reviewed 31 October 2026

Personal and organisational values may conflict, but the organisation’s goal does not automatically override lawful duties, fair treatment or individual accountability. Considering stakeholders is broader than considering shareholders alone.

organization when different business managers come across similar ethical dilemma, their interpretation of the situation and responsive actions may differ significantly.

Personal values serve five purposes in organizations

• Values serve as standards of behaviour.
• Guidelines for decision-making and conflict- resolution
• Values affect our thoughts and actions.
• It influences the perception and motivation of employees.
• It also has strong influence on behaviour and attitude.

Personal Ethics and Business Ethics: Individual Integrity and Responsibility

Personal Ethics

• Personal ethics is a category of philosophy that determines what an individual believes about morality and right and wrong. This is usually distinguished from business ethics or legal ethics.
• These branches of ethics come from outside organizations or governments, not the individual's conscience.

Business ethics

• Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects.
• Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities.

Conflict Between Personal ethics and Business Ethics

The organization’s ethics dilemmas are often resolved and decision taken by committees and formal and informal group and not by an individual. Moreover, the decision that are taken are based in business goals and exclude individual goals. Ethical

clashes or dilemmas may arise in several situations like:

• The individual ethics may clash with the group ethics predominant in the organization.
• The individual ethics of a single powerful person in the organization may be pre- dominant in the organization. If that individual is ethical and works for the good of all the shareholders, it results in positive outcome but if that person is unethical, it may result in negative impact on the organization.

Important distinction / reviewed 31 October 2026

The Golden Rule is a useful test of consideration, not an exchange of favours, a promise of equivalent repayment or permission to override another person’s needs and choices. Responsibility for one’s conduct does not mean blaming a person for every circumstance outside their control.

• In some cases, employees may be taught to ignore an issue, which he or she thinks is unethical.

Individual Integrity and responsibility

Integrity is explained as firm adherence to a code of values. For an individual or for a Business, Integrity is the quality or state of being complete or undivided, In other words, it means being true to our values and ourselves and also keeping our commitment not only towards others but to ourselves also. In the individual value-set, Integrity is the core value, which makes an individual complete or undivided.

Why is it important to restore integrity?-

This is mainly because it gives you the ability to powerfully deal with not only specific situation but also in other areas of one’s life.

Individual Responsibility

• Responsibility is defined as a moral, legal or mental accountability. This makes an individual a cause of doing something with a motive or an agent of some action.
• An Individual’s responsibility is taking on accountability for our personal situation. Suppose of an organization declares that we are responsible for what we do and what we have, who we are and for all the conversations we have and situation we are in. Therefore, individual responsibility is the commitment one makes to himself for being an agent in the world, i.e. the cause of who we are and what we have.

The Golden Rule

The moral principle known as the 'The Golden Rule' has been espoused by many humanists, which otherwise is also known as the ethic of reciprocity. Reciprocity is an interchange of giving and receiving in social relationships. Reciprocity occurs when an action that has effect upon another is reciprocated with an action that has an approximately equal effect upon the other. In other words, it is like the return of favours that are almost equal in value. The Golden rule suggests that people should aspire to treat each other as they would like to be treated themselves – with tolerance, consideration and compassion. It suggests that one should treat inferiors, as you would want superiors to treat you.

There are three Golden rules of ethics, which establish the foundation of human moral values.

- Everything you want others to do to you, you should do to others.
- Do not do to others that you do not wish them to do to you.
- Do not do anything to others, which, if done to you can cause harm to you.

Ethical Reasoning and Real-world Application



Apply the distinction

Explain the decision: Beliefs are convictions about what is true. Check the supporting documents and applicable conditions.

Important distinction / reviewed 31 October 2026

An ethical dilemma can involve more than two alternatives. First separate unlawful or clearly improper conduct from a genuine conflict between defensible duties. Test assumptions and seek a third option; the largest short-term benefit does not automatically justify the means.

Ethical reasoning is the process recongnizing, which decision requires ethical judgments, determining potential reasonable course of action, finding support for potential course of action, and then selecting the course of action best supported.

- General purpose: Firstly, an individual is tying to determine the ethical goals or an objective that he or she is trying to achieve.
- Raise questions: The key ethical question person is trying to answer, that is identification of issues he or she facing and then formulating key ethical question embedded in the issues, keeping in mind the relevant point of views.
- Use information: One must identify the information, collect all the data and facts, which will enable a person to understand and consider the requirement of evidences or observations relevant to others. Individual's own experiences also helps in developing suitable reasons.
- Utilizes concepts: The key ethical concepts and principles that would assist in developing a thought process. Identification of ethical definitions, theories, models etc. that is applicable for reasoning through the issues.
- Makes assumption: The main assumptions pre- suppositions used in reasoning in the ethical issue. Assumptions should also be justified for reasoning.

Assumptions must also be evaluated from the perspective of understanding the ethical issues along with available alternatives.

Ethics Dilemmas: Resolving Ethical Dilemmas

An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective. Although we face many ethical and moral problems in our life, most of them come with relatively straightforward solutions.

On the other hand, ethical dilemmas are extremely complicated challenges that cannot be easily solved. Therefore, the ability to find the optimal solution for ethical dilemmas is critical to everyone.

Every person can encounter an ethical dilemma in almost every aspect of their life, including personal, social, and professional.

An ethical dilemma exists when one is faced with having to a make choice among

following alternatives:

• Significant Value--- Conflicts among differing interests.
• Real alternatives that is equally justifiable.
• Significant consequences on stakeholders in situation.

Resolving Dilemmas

Steps for dealing with ethical dilemma are as follows-

• Acknowledge that there is a moral issue.
• Ascertain the people who will be affected by the decision. Also, determine your role.
• Gather the facts about sequence of occurrence of event. Because the more facts we know, we can better comprehend the situation.
• Ascertain your test for right versus wrong. How would you define the problem, if you ware to stand on the other side of the fence.
• Ascertain the test for right versus right theory, for example trust vs loyalty, justice vs Mercy etc.
• Apply the resolution principle. Work through all three approaches to resolve the dilemma, namely.
• Thinking based on end-do whatever produces the greatest good for maximum people.
• Rule based thinking-follow the rule strictly.
• Care based thinking –treat other with love and compassion. Do to others, what you would like the do to you.
• Your approach must look reasonable and persuasive
• Investigate, if there is any third way out of the situation
• Make decision and take action
• Revisit and reflect on the decision.

A Framework for Ethical Decision- Making

Making good ethical decisions requires a trained sensitivity to ethical issues and a practiced method for exploring the ethical aspects of a decision and weighing the considerations that should impact our choice of a course of action. Having a method for ethical decision making is essential. When practiced regularly, the method becomes so familiar that we work through it automatically without consulting the specific steps.

This is one reason why we can sometimes say that we have a “moral intuition” about a certain situation, even when we have not consciously thought through the issue. We are practiced at making ethical judgments, just as we can be practiced at playing the piano, and can sit and play well “without thinking.” Nevertheless, it is not always advisable to follow our immediate intuitions, especially in particularly complicated or unfamiliar situations. Here our method for ethical decision making should enable us to recognize these new and unfamiliar situations and to act accordingly.

The more novel and difficult the ethical choice we face, the more we need to rely on discussion and dialogue with others about the dilemma. Only by careful exploration of the problem, aided by the insights and different perspectives of others, can we make good ethical choices in such situations.

Ethical decision-making has involved weighing of four factors as under:

Important distinction / reviewed 31 October 2026

Quick Revision contact examples come from a model/bank-code context. A referral or an approved database is not unlimited marketing permission. Apply the operative consent/preferences framework and the bank’s approved process; older calling-hour examples do not override current requirements. [TRAI] [PREF]

• The desired outcome of a decision.
• The means used to achieve the desired outcome,
• The motivation behind the decision; and
• The possible consequences of decision.

Compare before you answer

Concept / duty	Practical distinction
End-based test	Who benefits or suffers, and what are the likely consequences?
Rule-based test	Which duties, laws and legitimate policies apply?
Care-based test	How are dignity, vulnerability and relationships affected?
Four-factor check	Outcome, means, motivation and consequences.

Practice / answer beside the question

Q01. A manager says the target justifies concealing a fee. Is this merely a personal preference?
Answer / No. It raises truthful-disclosure and customer-fairness duties; the target does not justify concealment.

Q02. Must every ethical dilemma offer exactly two options?
Answer / No. Look for further alternatives and a justified third way.

Q03. A customer referral is available. Does that create unlimited permission to market?
Answer / No. Check the applicable consent, preferences and approved contact process.

Q04. How should an uncertain assumption be handled?
Answer / Identify it explicitly, test it against evidence and consider how a different assumption changes the decision.

Q05. Does the Golden Rule mean helping a client in exchange for a personal favour?
Answer / No. It concerns considerate treatment, not a reciprocal benefit or improper inducement.

Q06. Which four factors close the decision framework?
Answer / Desired outcome, means, motivation and possible consequences.

Q07. Is a widely shared workplace norm automatically ethical?
Answer / No. Test it against justified principles, duties, law and the effect on stakeholders.

Q08. What follows an ethical decision and action?
Answer / Record the justification as appropriate, review the result and correct unintended harm.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

IBA Model Code of Conduct for Direct Selling Agents

1. Tele-calling a Prospect (a prospective customer) A prospect is to be contacted for sourcing a bank product or bank related product only under the

following circumstances:

a. When prospect has expressed a desire to acquire a product through the bank's internet site/call centre/Branch or th rough the Relationship Manager at the bank or has been referred to by another prospect/customer or is an existing customer of the bank who has given consent for accepting calls on other products of the bank.

b. When the prospect's name/telephone no/ addres s is available & has been taken from one of the lists/directories/databases approved by the DSA Manager/Team leader, after taking his/ her consent.

The TME should not call a person whose name/number is flagged in any "do not disturb" list made available to him/her.

2. When you may contact a prospect on telephone Telephonic contact must normally be limited between 0930 Hrs and 1900 Hrs. However, it may be ensured that a prospect is contacted only when the call is not expected to inconvenience him/her.

Calls earlier or later than the prescribed time period may be placed only under the following **conditions:**

When the prospect has expressly authorized TME/BDE to do so either in writing or orally

DURING CALL

- Identify yourself, your company and your principal

- Request permission to proceed

- If denied permission, apologize and politely disconnect.

- State reason for your call

- Always offer to call back on landline, if call is made to a cell number

- Never interrupt or argue

- To the extent possible, talk in the language which is most comfortable to the prospect

- Keep the conversation limited to business matters

- Check for understanding of "Most Important Terms and Conditions" by the customer if he plans to buy **the product**

- Reconfirm next call or next visit details

- Provide your telephone no, your supervisor's name or your bank officer contact details if asked for by the customer.

- Thank the customer for his/her time

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 31 October 2026

PREF / TRAI: customer preference registration

TRAI / TRAI: commercial communications, consent and preferences

28 facts / final recall

01-14 / foundations	15-28 / application
01. Values influence priorities.	15. Gather relevant facts.
02. Norms express group expectations.	16. Distinguish facts from assumptions.
03. Beliefs are convictions about what is true.	17. Test assumptions before relying on them.
04. Moral principles guide judgments of conduct.	18. Consider more than two alternatives.
05. Corporate culture includes shared expectations.	19. Reject clearly unlawful options.
06. Personal values can differ.	20. Examine outcomes and the means.
07. Business goals do not cancel lawful duties.	21. Consider motive and consequences.
08. Integrity links commitments and actions.	22. End-based reasoning considers consequences.
09. Responsibility includes accountability for choices.	23. Rule-based reasoning considers duties.
10. The Golden Rule encourages consideration.	24. Care-based reasoning considers relationships.
11. Reciprocity is not a bribe or a favour exchange.	25. Seek advice without unnecessary disclosure.
12. Identify the ethical issue first.	26. Consent must fit the contact purpose.
13. Identify affected stakeholders.	27. Explain the chosen action.
14. Clarify your role and authority.	28. Revisit and learn from the result.

D03 / Ethical Dimensions: Employees



At the branch

An employee is assigned a relative's loan file and receives a gift from the applicant. Disclose the conflict, follow the gift rules and arrange an independent decision through the approved process.

1. Protect information → 2. Disclose conflicts → 3. Follow lawful duties → 4. Report misconduct

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

Important distinction / reviewed 31 October 2026

Bank duties are subject to a valid mandate, available funds, law and applicable restrictions. Do not merge general lien, pledge, sale and set-off into one automatic power. Contract Act section 171 concerns general lien; section 176 separately addresses a pawnee's sale after reasonable notice. A locker's contents and an ordinary deposit also require different legal analysis. Inoperative classification is not by itself automatic account closure. [CONTRACT]

JAIIB PPB Module D Unit 3- Ethical Dimension Employees

Obligation to Bank: Obligations of Bank

- Obligation to Honour Cheques
- Obligation to Maintain Secrecy
- Obligation to follow all financial instructions of customers
- Obligation to keep records in order
- Obligation to give Notice before closing the account
- Besides the Obligation towards the bank's customers, they also have got the obligation to follow all the laws, guidelines, directives and policies of the

regulator- RBI

Right of Bank

For fulfilling the obligations towards the customers, bankers enjoy the following

rights:

- Right of General Lien: A general lien authorizes a bank to retain and securities till al the bank's claims against the customer are satisfied. A lien is an implied such that if a default is made by the debtor, the bank, by giving a reasonable notice to the borrower, can sell and recover the amount due to it. No other valuables, cash, etc, kept in lockers or fixed deposits etc, should be set off against the claim.
- Right to charge interest and commission: Bank has implied right to charge interest on loans and advances and commission on services rendered to the customer.
- Closure of Account: The Bank has the right to close a customer's account if it is inoperative for the specified duration, provided it informs in writing to the customer to respond within a stipulated time.

Obligation to Third Parties: Fiduciary Responsibilities

Obligations under the KYC for regulated Entities

As per the Master Direction issued by RBI on February 25, 2016 (which was updated as on April 20, 2018), know as the RBI (KYC) direction 2016 , the following are the directives issued for the Regulated Entities (REs refer to Bank, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers etc).

Important distinction / reviewed 31 October 2026

Use the applicable entity-specific KYC directions and amendments rather than the 2018 snapshot. RBI's commercial-bank directions require third-party CDD records/information immediately, not within two days. The bank retains ultimate CDD/EDD responsibility. Existing-customer identification reuse does not remove ongoing monitoring or other due diligence. [KYC]

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, REs, shall at their option, rely on customer due diligence done by a third party, subject to the following conditions:

• Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.

• Adequate steps are taken by REs to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.

• The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act.

• The third party shall not be based in a country or jurisdiction assessed as high risk.

• The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the RE.

REs shall frame a Customer Acceptance Policy.

• No account is opened in anonymous or fictitious/benami name.

• No account is opened where the RE is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.

• No transaction or account-based relationship is undertaken without following the CDD procedure.

• The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.

• 'Optional'/additional information, is obtained with the explicit consent of the customer after the account is opened.

• REs shall apply the CDD procedure at the UCIC level. Thus, if an existing KYC compliant customer of a RE desires to open another account with the same RE, there shall be no need for a fresh CDD exercise.

• CDD Procedure is followed for all the joint account holders, while opening a joint account.

• Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.

Important distinction / reviewed 31 October 2026

The simplified NBFC account example is category-specific historical wording, not a universal bank-account opening rule. Do not transfer those limits or eligibility to every institution. Decisions on KYC compliance remain with the regulated institution. Official position must not be used for private benefit. [KYC]

• Suitable system is put in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanctions lists circulated by Reserve Bank of India.

For Non- Banking Financial Companies

Simplified procedure for opening accounts by Non-Banking Finance Companies (NBFCs): In case a person who desires to open an account is not able to produce documents, as specified in Section 16, NBFCs may at their discretion open accounts

subject to the following conditions:

(a)The NBFC shall obtain a self-attested photograph from the customer.

(b)The designated officer of the NBFC certifies under his signature that the person opening the account has affixed his signature or thumb impression in his presence.

(c)The account shall remain operational initially for a period of twelve months, within which CDD as per Section 16 shall be carried out.

(d)Balances in all their accounts taken together shall not exceed rupees fifty thousand at any point of time.

(e)The total credit in all the accounts taken together shall not exceed rupees one lakh in a year.

(f)The customer shall be made aware that no further transactions will be permitted until the full KYC procedure is completed in case Directions (d) and (e) above are breached by him.

(h)The customer shall be notified when the balance reaches rupees forty thousand or the total credit in a year reaches rupees eighty thousand that appropriate documents for conducting the KYC must be submitted otherwise the operations in the account shall be stopped when the total balance in all the accounts taken together exceeds the limits prescribed in direction (d) and (e) above.

Abuse of Official Position: Insider Trading, Proprietary Data, Bribes Etc.

Employees are advised to follow Code of Conduct laid down by the Bank. Abuse of official position for personal gains or providing gains to friends, family members and other with selfish motive amounts to violation of employee's to the Bank. Examples of

abuse of power can be:

• Bank employee goes for a personal travel and claims reimbursement as official

travel

• Showing discrimination to the customers based on their proximity to the

employee (his relatives friends, etc, showing special preference)

• Use of official resources for personal use

• False claims beyond the fixed perquisites



Apply the distinction

Explain the decision: Secrecy is subject to lawful exceptions. Check the supporting documents and applicable conditions.

Important distinction / reviewed 31 October 2026

The 1992 insider-trading reference is historical. The operative SEBI framework is the Prohibition of Insider Trading Regulations, 2015, as amended; access to unpublished price-sensitive information matters, not merely a job title. In the harassment list, respect should read request. The 2013 workplace-harassment Act provides the relevant statutory framework for covered complaints, alongside applicable service rules. [SEBI] [POSH]

Insider Trading

In India, SEBI (Insider Trading) Regulation, 1992 framed under the Section 11 of the SEBI Act, 1992 intends to curb and prevent the menace of insider trading in securities. An insider is a person who is an accepted member of a group or organization who has special knowledge regarding his firm.

Proprietary Data

Proprietary Data refers to the information relating to the intellectual property right and trade secrets of any company. All employees are expected to keep confidentially of the data relating to all stakeholders, customers, vendors, promoters, investors and other who are associated with the Bank.

Bribes

Bribes refers to paying money or gift to a person with a motive of getting some favour done. Bank's Services regulations provide details of dos and don'ts with respect to bribes.

Obligations to third Parties

When the Bank is outsourcing its functions to the Third Parties, it needs to have clear, transparent contracts and agreements with all terms & conditions incorporated.

Especially in service contracts, the service level agreement have to be defined minutely and ensure that the Third party do not cause an inconvenience to the Bank customer.

Job Discrimination

• Job discrimination is when an employee is treated badly by a supervisor or boss for something they cannot control, like their age or race.

• Mistreatment can range from verbal or sexual harassment, withholding benefits, withholding opportunities for advancement, pay, or someone being fired from their job.

Sexual Harassment

Sexual harassment is a type of harassment technique with explicit or implicit sexual overtones, including the unwelcome or inappropriate promise of rewards in exchange for sexual favors. Sexual harassment includes a range of actions from verbal transgressions to sexual abuse or assault.

The Guidelines and norms prescribed included the definition of sexual harassment

and details as under:

• Physical Contact

• A demand or respect for sexual favours

• Sexually coloured remarks

• Showing pornography

Important distinction / reviewed 31 October 2026

Disclose actual, potential or perceived conflicts and apply appropriate management or recusal; disclosure alone may not resolve the conflict. Harassment complaints require the applicable confidential process and fair inquiry. In Quick Revision, a named-bank script is a bank-specific example, not permission to represent that bank or disclose a customer's affairs. [POSH]

• Any other unwelcome physical, verbal or non-verbal conduct or sexual nature

Managing Conflict of Interests

The Dictionary meaning of conflict of interest is "a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official

capacity."

Some examples for conflict of interest are:

• A given bank and its client/ clients

• Among the employees of a bank

• Employee of a bank and a client

• Between a given bank and one or more of its clients

• Provision of bank's services to two or more clients

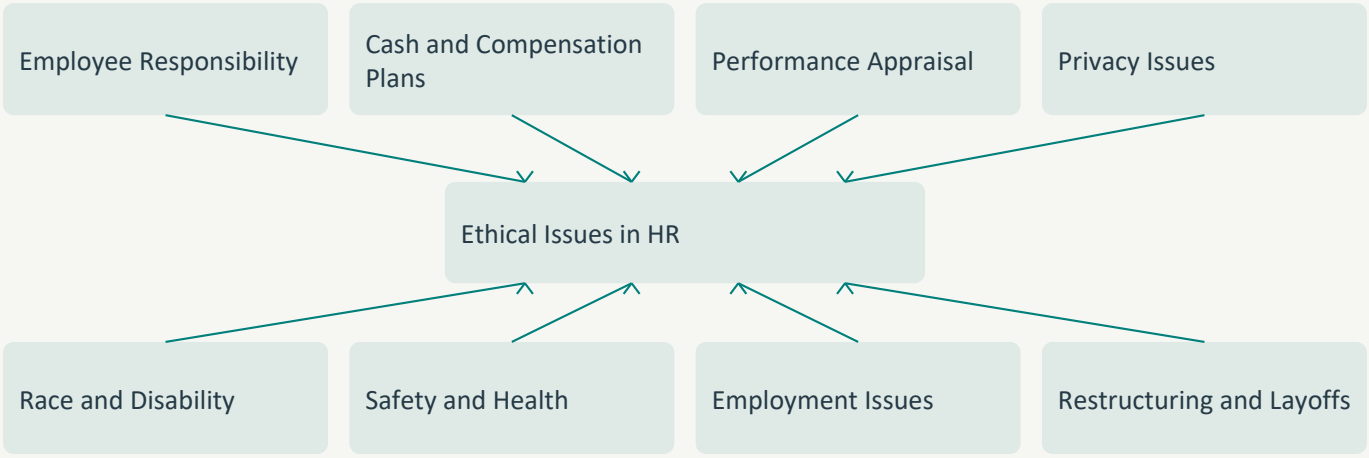
HRM Ethics

• Human Resource Management (HRM) deals with work force management, manpower planning and other employee related activities in an organization.

Therefore, we can say that it is a special branch of management where ethics play a crucial role.

• HRM concerns human issues, especially those related with compensation, development, industrial relations, health and safety issues. However, there are sufficient disagreements in managing HRM issues that stem from various quarters.

Illustrated comparison / key details



Compare before you answer

Concept / duty	Practical distinction
Bank / customer	Lawful mandate, fair treatment, confidentiality and accurate records.
Employee / bank	Honest claims, protected information and no abuse of position.
Employee / personal interest	Disclosure, independent review and recusal where appropriate.
Employer / workforce	Fair assessment, safe conditions and proper complaint handling.

Practice / answer beside the question

Q01. A relative applies for a loan assigned to the employee. What is the first control?

Answer / Disclose the relationship and follow the bank's conflict-management or recusal process before influencing the decision.

Q02. Does third-party KYC checking remove the bank's ultimate responsibility?

Answer / No. The bank retains responsibility for CDD and applicable enhanced due diligence.

Q03. Should the old two-day CDD-record period be used for covered commercial banks?

Answer / No. The current direction requires obtaining the third-party records/information immediately.

Q04. Does a general lien automatically permit sale of any item in a locker?

Answer / No. Lien, pledge, sale, set-off and locker custody require separate legal analysis and applicable conditions.

Q05. Is insider status confined to employees with a senior title?

Answer / No. The applicable connected-person and access/possession-of-UPSI criteria must be considered.

Q06. Does disclosure alone always resolve a conflict?

Answer / No. Restrictions, independent review or recusal may also be necessary.

Q07. A customer offers a gift for faster approval. Does calling it gratitude remove the issue?

Answer / No. Decline an improper inducement and follow the approved gift/reporting process.

Q08. May a harassment complaint be settled informally by suppressing the record?

Answer / No. Use the applicable confidential statutory/internal process with fair handling and preserved records.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

3. Can the prospect's interest be discussed with anybody else? DSA should respect a prospect's privacy. The prospect's interest may normally be discussed only with the prospect and any other individual/family member such as prospect's accountant/secretary /spouse, authorized by the prospect.

4. Leaving messages and contacting persons other than the prospect.

Calls must first be placed to the prospect. In the event the prospect is not available, a message may be left for him/her. The aim of the message should be to get the prospect to return the call or to check for a convenient time to call again. Ordinarily, such messages may be restricted to:

Please leave a message that _____ (Name of officer) representing Axis Bank called and requested to call back at _____ (phone number)".

As a general rule, the message must indicate:

That the purpose of the call is regarding selling or distributing a bank product of Axis Bank 5. No misleading statements/misrepresentations permitted

TME/BDE should not -

- Mislead the prospect on any service / product offered;
- Mislead the prospect about their business or organization's name, or falsely represent themselves.
- Make any false / unauthorised commitment on behalf of Axis Bank for any facility/service.

7. Gifts or bribes TME/BDE's must not accept gifts from prospects or bribes of any kind. Any TME/BDE offered a bribe or payment of any kind by a customer must report the offer to his/her management.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 31 October 2026

CONTRACT / India Code: Indian Contract Act, 1872; sections 171 and 176

KYC / RBI: Commercial Banks - Know Your Customer Directions, 2025; updated 1 October 2026

POSH / India Code: Sexual Harassment of Women at Workplace Act, 2013

SEBI / SEBI: Prohibition of Insider Trading Regulations, 2015; amended 12 March 2025

28 facts / final recall

01-14 / foundations	15-28 / application
01. Customer instructions require valid authority.	15. False expense claims are misconduct.
02. Legal restrictions can limit a mandate.	16. Proprietary information needs protection.
03. Banking confidentiality is a duty.	17. UPSI means unpublished price-sensitive information.
04. Secrecy is subject to lawful exceptions.	18. Insider status is not limited to job titles.
05. Records must be accurate and orderly.	19. The SEBI insider-trading framework dates from 2015.
06. Lien, pledge and set-off differ.	20. A bribe seeks an improper favour.
07. Pledge sale has separate legal conditions.	21. Gift labels do not remove conflicts.
08. Inoperative classification differs from closure.	22. Outsourcing needs clear accountability.
09. KYC rules depend on the regulated category.	23. Unwelcome sexual conduct can be harassment.
10. Third-party CDD does not transfer responsibility.	24. Use the applicable complaint process.
11. CDD records must be obtained immediately.	25. Respect confidentiality during an inquiry.
12. CDD applies to joint holders.	26. Disclose a relevant personal interest.
13. Identification reuse is not an end to monitoring.	27. Recuse where required by the approved process.
14. Position must not bring improper private benefit.	28. Fair HR decisions need consistent criteria.

D04 / Work Ethics and the Workplace



At the branch

A team is praised only for volume, while staff who question unsuitable sales are ignored. A sound workplace rewards how results are achieved and provides a safe, appropriate way to raise concerns.

1. Work reliably → 2. Treat fairly → 3. Raise concerns → 4. Follow through

Study the core explanation with the important distinctions. Historical examples retain their stated dates and assumptions; use the dated updates when revising.

JAIIB PPB MODULE D Unit 4- Work Ethic and The

Workplace

What is Work Ethocs?

Important distinction / reviewed 31 October 2026

Work ethic includes diligence and reliability, but it does not require unsafe work, ignoring fatigue or constant availability. The purpose hierarchy is an illustrative value framework, not a prescribed religious ranking. Workplace ethics can support good outcomes without guaranteeing a trouble-free workplace or business success.

Work ethic is a belief that hard work and diligence have a moral benefit and an inherent ability, virtue or value to strengthen character and individual abilities. It is a set of values centered on importance of work and manifested by determination or desire to work hard. Social ingrainment of this value is considered to enhance character through hard work that is respective to an individual's field of work

Factors of a good work ethics

• Goal-oriented actions: It is not about making plans or the next logical steps; it's about getting things done so that the work invested wouldn't be counter- productive.

• Prioritized focus: Focusing on qualitative activities that a person is responsible for and in areas where they can make a difference or a high impact based on objectives.

• Being available and reliable: Spending time on the work and building oneself up for the task.

• Conscientiousness: A desire to do a task well, being vigilant and organized.

• Creating a rewarding routine/system: Engaging in tasks that provide strength and energy which can be transferred to your ultimate goals, creating a habit and a habitat for success.

• Embracing positivism: Shape a problem with the statement "good, (action) (problem)", e.g. "I'm tired and it is time for a workout" leads to "Good. Workout tired".

Something Bigger Than the self

There is a hierarchy in which one needs to think about the purpose of one’s life

The hierarchy can be as under:

• Oneself

• Family

• Community

• Religion

• Society at large

• Global causes (Like peace, human right, environment etc)

Ethical Behaviour at The Workplace: Benefit

- Asset Protection and Assurance
- Productivity will increase
- Team Work will develop
- Public Image and Brand Value Increases
- Adaptive to changes
- Decision making and implementing is always easy
- Trouble-free working environment

Important distinction / reviewed 31 October 2026

Fair documentation means seeking information justified by law, risk and the approved process. It does not prohibit every additional risk-based document. Explain a valid request and avoid arbitrary burdens. Respectful conduct and clear product information are observable practices, not merely statements in a manual. [KYC]

- There is no one left negative
- Less Legal Issues
- The company will Touch New level of Success

Recognising Ethical WorkPlaces

The following are some of the ways and means to recognize an ethical workplace:

- Respectful treatment of all categories of customers by the front- office personnel;
- Employees' awareness of the business process and quick and to the point clear answers to queries;
- Giving correct and authentic information to customers on matters like interest rates/premature withdrawals of term deposits, actual eligibility for insurance claim on assets like house/flat etc.
- Guiding a person on a short visit for multi-currency travel card and whether to take fixed exchange rate or to go in for real-time exchange rate;
- Strict adherence to minimal prescribed documentation as prescribed by the regulator/internal management and not insisting for additional documents from the borrower;
- Appropriate attire befitting the profession of the employee, and it should provide comfort to all customers who need to speak to the employee;
- Acceptable body language of the employees at the workplace.
- Fair and appropriate treatment given to all co-employees. Etc, Etc

Unethical Behaviours: Causes and Remedies

Causes

The major causes for unethical behaviour at workplace are as follows:

- Non-availability of code of Ethics Manual
- Lack of fear of Action
- Unrealistic Targets
- Influence of Co-employees
- Unprincipled Leadership
- Means are not appreciated

Remedies

Many of the preventive or remedial measures have already been discussed earlier. The following can be tried some of the remedies to rectify unethical behaviour at workplace.

- Developing Ethics Manual
- Starting Conversations about ethics in the organization
- Nipping of unethical behaviour in the bud
- Frequent utilization of the Manual

• Imitable behavior by the Top Management
• Appreciation and Rewards for ethical behaviour
• Encouragement of counter viewpoints and discussions in meetings



Apply the distinction

Explain the decision: Availability does not mean unsafe overwork. Check the supporting documents and applicable conditions.

Important distinction / reviewed 31 October 2026

The 5–7, 7–15 and over-15-year career stages are teaching examples, not universal promotion/service rules. Distinguish ordinary service grievances, internal misconduct reporting, CVC/PIDPI disclosures and RBI's protected-disclosure framework. Their jurisdiction and procedures differ. [PIDPI] [PDS]

• Care for reputation rather than results Some of the following situations gives a comprehension about some of the unethical

practices at the workplace:

• Abuse of the official email
• Pre-employment Tests
• Personal Habits
• Data Leakage
• Helping Friends in Social Decision

Ethics of a Banker

A Banker can be evaluated for the ethical commitment at three stages of his/her

career-

• At the initial stages up to first 5-7 years of taking up banking as career,
• At the middle management stage, typically after 7-15 years into banking sector, and
• At the senior management level, normally after 15 years into banking service.

The following are some of the major ethical qualities expected of a banker

throughout his/her career-

• Honesty and Integrity
• Commitment to Customers
• Confidentiality
• Fair treatment
• Transparency
• Duty-Mindedness

Whistleblowing in Banks

In the Indian context, the Government of India had passed a resolution on April 21, 2004 authorizing the Central Vigilance Commission (CVC) as the 'Designated Agency' to receive written complaints or disclosure on any allegation of corruption or of misuse of office and recommend appropriate action. The jurisdiction of the CVC in this regard is restricted to employees of the Central Government or of any corporation established by it or under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government.

As a proactive measure for strengthening financial stability and with a view to enhancing public confidence in the robustness of the financial sector, RBI has formulated a scheme called "Protected Disclosures Scheme for Private Sector and

Foreign Banks". The salient features of the Scheme are as under:

Scope and Coverage

As Public Sector Banks and Reserve Bank of India (since it is an entity established under Central Statute) have already been brought under the purview of Government of India

Important distinction / reviewed 31 October 2026

A protected disclosure is not the same as publishing allegations publicly. Follow the applicable scheme's identity, evidence and confidentiality requirements; anonymity and confidentiality differ. In Quick Revision, calling hours, three-month follow-up examples and dress/contact procedures are model or bank-code descriptions, not universal statutory rules. Current consent/preferences and bank requirements still apply. [PIDPI] [PDS] [TRAI] [PREF]

scheme, with a view to avoid duplication, this Scheme would cover all private sector and foreign banks operating in India.

The complaints under the Scheme would cover the areas such as corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with existing rules and regulations such as Reserve Bank of India Act, 1934, Banking Regulation Act 1949, etc. and acts resulting in financial loss / operational risk, loss of reputation, etc.

detrimental to depositors' interest / public interest.

• Under the Scheme, employees of the bank concerned (private sector and foreign banks operating in India), customers, stake holders, NGOs and members of public can lodge complaints.

• Anonymous / pseudonymous complaints will not be covered under the Scheme and such complaints will not be entertained.

• Reserve Bank of India (RBI) will be the Nodal Agency to receive complaints under the Scheme. RBI would keep the identity of the complainant secret, except in cases where complaint turns out to be vexatious or frivolous and action has to be initiated against the complainant as mentioned in the below point.

• The institution against which complaint has been made can take action against complainants in cases where motivated / vexatious complaints are made under the Scheme, after being advised by RBI. An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action.

• Final action taken by RBI on the complaint will be intimated to the complainant.

Compare before you answer

Concept / duty	Practical distinction
Everyday service problem	Use the applicable customer grievance route.
Internal conduct concern	Use the bank's authorised ethics, vigilance or reporting channel.
CVC / PIDPI	Check covered jurisdiction and the protected-disclosure procedure.
RBI protected disclosure	Check the private-sector/foreign-bank framework and scheme conditions.

Practice / answer beside the question

Q01. An employee is exhausted. Does work ethic require continuing an unsafe task?

Answer / No. Work responsibly, report the risk and use safe staffing or escalation arrangements.

Q02. A colleague asks a fair question about a sales practice. How should management respond?

Answer / Consider the concern on its merits and use a proper review process instead of rewarding silence.

Q03. Does minimal documentation mean refusing all additional risk-based evidence?

Answer / No. Seek documents justified by law, risk and the approved process, and explain the request.

Q04. Is a written ethics code sufficient without leadership example?

Answer / No. Conduct, incentives, control and follow-up must support the written standard.

Q05. Is a general customer-service complaint automatically a protected disclosure?

Answer / No. Identify the issue and the applicable grievance or protected-disclosure jurisdiction and procedure.

Q06. Does confidentiality mean a complaint is anonymous?

Answer / No. The receiving authority may know the identity while protecting it under the relevant scheme.

Q07. May the old career-year examples be used as binding promotion eligibility?

Answer / No. They illustrate career stages; actual service rules govern eligibility.

Q08. Can an old calling-hour example override a customer's operative preferences?

Answer / No. Apply current consent/preferences requirements and the bank's approved process.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

6. Telemarketing Etiquettes

PRE CALL

No calls prior to 0930 Hrs or post 1900 Hrs unless specifically requested.

- No serial dialing

- No calling on lists unless list is cleared by team leader

POST CALL

- Customers who have expressed their lack of interest for the offering should not be called for the next 3 **months with the same offer**

- Provide feedback to the bank on customers who have expressed their desire to be flagged "Do Not **Disturb"**

- Never call or entertain calls from customers regarding products already sold. Advise them to contact the Customer Service Staff of the bank.

8. Precautions to be taken on visits/contacts

BDE should :

• Respect personal space - maintain adequate distance from the prospect.

• Not enter the prospect's residence/office against his/her wishes;

• Not visit in large numbers - i.e. not more than one BDE and one supervisor, if required.

• Respect the prospect's privacy.

• If the prospect is not present and only family members/office persons are present at the time of the visit, he/she should end the visit with a request for the prospect to call back.

• Provide his/her telephone number, supervisor's name or the concerned bank officer's contact details, if asked for by the customer.

• Limit discussions with the prospect to the business - Maintain a professional distance.

9. Other important aspects - Appearance & Dress Code

BDE's must be appropriately dressed -

10. Handling of letters & other communication Any communication sent to the prospect should be only in the mode and format approved by the Bank.

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 31 October 2026

KYC / RBI: Commercial Banks - Know Your Customer Directions, 2025; updated 1 October 2026

PDS / RBI: Protected Disclosures Scheme for Private Sector and Foreign Banks

PIDPI / CVC: PIDPI Resolution guidance, hosted by CAG

PREF / TRAI: customer preference registration

TRAI / TRAI: commercial communications, consent and preferences

28 facts / final recall

01-14 / foundations	15-28 / application
01. Diligence supports reliable work.	15. Encourage reasoned counter-views.
02. Conscientiousness means doing the task carefully.	16. Reward ethical conduct as well as results.
03. Priorities should reflect legitimate objectives.	17. Protect official email and customer data.
04. Good outcomes need proper means.	18. Keep personal relationships from distorting decisions.
05. Availability does not mean unsafe overwork.	19. Career-stage years are illustrative.
06. Ethics supports customer confidence.	20. Confidentiality differs from anonymity.
07. Treat all customer categories respectfully.	21. Whistleblowing concerns reporting wrongdoing.
08. Provide accurate product information.	22. Scheme jurisdiction determines the route.
09. Explain justified document requests.	23. A service grievance is a different matter.
10. Avoid arbitrary documentary burdens.	24. Protected disclosures follow specified procedures.
11. Fairness also applies to co-workers.	25. Preserve relevant evidence safely.
12. Unrealistic targets can create misconduct pressure.	26. Avoid unnecessary public disclosure.
13. Leadership sets behavioural expectations.	27. Professional appearance follows bank policy.
14. An ethics manual needs regular use.	28. Track concerns through to appropriate closure.

D05 / Banking Ethics: Changing Dynamics



At the branch

A staff member copies customer records to a personal account for convenience. Digital access is not unrestricted permission: consider purpose, authority, secure handling and the bank's reporting process.

1. Use data lawfully → 2. Limit access → 3. Protect and monitor → 4. Respect rights

JAIIB PPB Module D Unit 5- Banking Ethics: Changing

Dynamic

Ethics and Technology

Role of Information Technology in Banking

• The banking industry is going through a period of rapid change to meet competition, challenges of technology and the demand of end user. Clearly technology is a key differentiator in the performance of banks. Banks need to look at innovation not just for product but for process also.
• Today, technology is not only changing the environment but also the relationship with customers. Technology has not broken barriers but has also brought about superior products and channels.
• This has brought customer relationship into greater focus. It is also viewed as an instrument of cost reduction and effective communication with people and institutions associated with the banking business.
• The RBI has assigned priority to the up gradation of technological infrastructure in financial system. Technology has opened new products and services, new market and efficient delivery channels for banking industry. IT also provides the framework for banking industry to meet challenges in the present competitive environment. IT enables to cut the cost of global fund transfer.

Important distinction / reviewed 31 October 2026

Separate committee constitution from report year. RBI's historical account identifies the first Rangarajan report in 1984 and the second computerisation report in 1989; do not confuse the 1988 committee reference with the report year. Technology benefits depend on implementation and controls. [HIST]

Important events in evolution of Information Technology:-

• Introduction of MICR based cheque processing
• Arrival of card based payments
• Introduction of Electronic Clearing Services
• Introduction of RTGS/NEFT
• Introduction of Cheque Truncation System (CTS) or Image-based Clearing

System (ICS)

• Introduction of Core Banking Solutions (CBS)
• Introduction of Automated Teller Machine (ATMs)
• Introduction of Phone and Tele Banking
• Introduction of Internet and Mobile Banking

Background

Committees headed by Dr. C. Rangarajan, RBI's Committee on Mechanisation in the Banking Industry (1984) and RBI's Committee on computersation in Bank (1988) laid the foundation for larger-scale introduction of IT in India's Banking Sector. Futher, The Reserve Bank of India Constituted a committee called 'Committee on Technology Issues relating to the Payments system, cheque Clearing and Securities Settlement in the Banking Industry (1994) under the Chairmanship of Shri W S Saraf. This Committee made a number of recommendations that covered payment systems including Establishment of an Electronic Fund Transfer (EFT) system, introduction of Electronic Clearing Service Credit for low value repetitive transactions such as interest, dividend, salary, pension payment and an Electronic Debit Clearing for payments to utility companies. Large scale induction of computers and communication technology in service branches, etc, were also part of the recommendations.

Role of Ethics in Technology

Using theories and methods from multiple domains, technoethics provides insights on ethical aspects of technological systems and practices, examines technology-related social policies and interventions, and provides guidelines for how to ethically use new advancements in technology. Technoethics provides a systems theory and methodology to guide a variety of separate areas of inquiry into human-technological activity and ethics. Moreover, the field unites both technocentric and bio-centric philosophies, providing "conceptual grounding to clarify the role of technology to those affected by it and to help guide ethical problem solving and decision making in areas of activity that rely on technology." As a bio-techno-centric field, technoethics "has a relational orientation to both technology and human activity"; it provides "a system of ethical reference that justifies that profound dimension of technology as a central element in

the attainment of a 'finalized' perfection of man.'

Important distinction / reviewed 31 October 2026

The 2011 SPDI Rules are not the whole data-protection landscape. The DPDP Act, 2023 and Rules, 2025 have phased commencement; check the operative provision/date rather than assuming every duty is already in force. Consent is not the sole possible basis for a lawful disclosure. The credit-information statute is the Credit Information Companies (Regulation) Act, 2005; section 20 addresses privacy principles. [DPDP] [CIC]

• Ethics address the issues of what is 'right', what is 'just', and what is 'fair'. Ethics describe moral principles influencing conduct; accordingly, the study of ethics focuses on the actions and values of people in society (what people do and how they believe they should act in the world).

• Technology is the branch of knowledge that deals with the creation and use of technical means and their interrelation with life, society, and the environment; it may draw upon a variety of fields, including industrial arts, engineering, applied science, and pure science. Technology "is core to human development and a key focus for understanding human life, society and human consciousness."

Data Security and Privacy

With the increased intervention of technology in the banking sector globally, the need for sophisticated laws to protect customer information has gained significant attention.

While several countries have enacted comprehensive legislations to protect customer's sensitive information, some countries are still in the process of introducing legislations to keep up with the changing pace of technology. In India, banks are regulated by the Reserve Bank of India (RBI) and the RBI through various notifications, circulars, directions and guidelines from time to time, obligates banks to maintain customer confidentiality and protect the privacy of customers' data.

The government of India also introduced the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011 with an aim of creating a robust legislation, which would protect customer's sensitive personal data by only allowing banks to release data when the customer has explicitly consented to such disclosure. The Rules also permit banks to only collect sensitive personal information for lawful purposes connected with the function or activity of banks and when the collection of the information is necessary for such purpose.

Credit Information

• However, while providing the necessary protection to customers there is also a need to ensure that banks are not victimized for no fault of theirs by not being able to recover their debts from defaulting customers. To meet this end, the Credit Information Companies Act, 2005 (CIC Act) was introduced in India in 2005.

• Credit Information Companies (CICs) are independent third party organizations that provide credit information to banks and financial institutions and asses credit worthiness of individuals based on their past repayment and default records. Banks can, through such information, determine whether they should provide credit facilities to the client. A CIC is required to furnish information to its members and has to maintain principles of privacy enumerated under Section 20 of the CIC Act.

Information Utilities

Important distinction / reviewed 31 October 2026

A CIC and an information utility have different statutory purposes and access rules. Neither is a public customer-data directory. IP ownership depends on law and applicable employment/licensing arrangements; not every creative idea is automatically patentable. In India, the patent term is ordinarily twenty years from filing, including the relevant international filing date for PCT applications; renewal and other statutory conditions matter. [PATENT]

• Recently, with the introduction of the Insolvency and Bankruptcy Code, 2016 (the Code), a new concept of the Information Utilities (IU) was brought into the picture and subsequently notified with effect from 1 April 2017.

• An IUs under the Code is an infrastructure facility which, like the CIC, is to create a financial information database of all entities availing credit in the country with the aim to enable better decision making by creditors and to ensure discipline among debtors.

• To ensure data privacy, IUs are required to store all the information received in a facility located in India and should have high quality data storage systems to avoid loss/ corruption of data.

• The information stored with an IU can only be accessed by certain specific categories of persons, which includes inter alia any user who submitted the information, National Company Law Tribunal, insolvency professionals and the Insolvency and Bankruptcy Board of India.

Intellectual Property Right and Patents

Intellectual Property refers to creation of an asset by any individual or anyone using his or her creativity, innovation. Such intellectual property (IP) belongs to that individual and any unathorised use of such IP is strictly under the applicable law of land. Some example of IP is artistic works; and symbols, innovative process, method etc.

Intellectual property included into two categories:

• Intellectual Property includes patents for inventions, trademarks, industrial designs and geographical indications.

• Copyright covers literary works (such as novels, poems and plays), films, music, artistic works (drawing, paintings etc) and architectural design.

What is Patent?

• A patent is a form of intellectual property that gives its owner the legal right to exclude others from making, using, selling and importing an invention for a limited period of years (Generally 20 years) , in exchange for publishing an enabling public disclosure of the invention.

Ethics of Information Security

As technology is taking over most of the Banking activities; threats associated with the use of technology also need to be tackled. The IT team of the bank or financial institution in a way becomes the custodian of the information of its customers/dealings/ activities.

The following aspects relating to information security may be worth following by

the employees:



Apply the distinction

Explain the decision: Security and privacy are related but different. Check the supporting documents and applicable conditions.

Important distinction / reviewed 31 October 2026

The June 2016 cyber framework is historical. Use the applicable 2026 entity-specific RBI directions and amendments; the commercial-bank framework includes governance, security controls, assurance and resilience. Password examples do not justify using personal facts or sharing credentials. Modern technical guidance favours long, unique secrets and appropriate authentication, not complexity alone; NIST guidance is not Indian banking law. [CYBER] [PASS]

• Making the employee (IT and non-IT) be aware of their professional obligations relating to the information security of the bank, customers and other stakeholders.
• Notifying from time to time the existing laws and crimes as and when the cyber laws get amended in the country or internationally (for off-shore transaction).
• Making the bank employees (especially the IT employees) aware of the patterns of IT attacks on bank customers/servers/ other assets like ATMs, etc. and to familiarize the profiles of attackers and patterns of the thefts, modus operandi, if any.

Cyber Threats

Need for Cyber Security Awareness

Despite the Indian Banking system having completed its process of computerization and online-ready transactions, a significant proportion of the customers of banks are still not adequately well-versed with the importance of cyber security. Banks are making their sincere efforts to educate and bring in awareness among their customers on the importance of memorizing their passwords. Firstly, setting the password itself is not taken seriously by many customers.
There are four characteristics advised by typical IT personnel of banks while setting

a password. The passwords are ideally to be:

• Personal
• Unique
• Secret
• Complex

Cyber Security Framework in Bank

Reserve Bank of India, thought its Notification dated June 2, 2016, advised all commercial banks in India’s to have in place a cyber- security policy with the the approval of their Boards. RBI gave about 4 months timeframe to the commercial banks to set up such cyber security policy and give a compliance conformation to the RBI. RBI notification directed the commercial Banks further on this aspect us under:
“In order to address the need for the entire bank to contribution to a cyber-safe environment, the Cyber Security Policy should be distinct and separate from the broader IT policy/ IS security policy so that it can highlight the risk from cyber threats and the measures to address/mitigate these risks.

Banks need to promote the following enabling programs

• Take preventive steps
• Provide guidelines steps
• Engage state- of- the art IT security protection systems
• Build confidence in staff and customers

Important distinction / reviewed 31 October 2026

DRM can restrict access, copying or use through technical controls. It does not make theft or unauthorised copying impossible, determine ownership by itself, or remove applicable legal exceptions. Ethical information handling remains a responsibility of IT and non-IT staff.

Digital rights management (DRM)

• Digital rights management (DRM) is a systematic approach to copyright protection for digital media. The purpose of DRM is to prevent unauthorized redistribution of digital media and restrict the ways consumers can copy content they've purchased.
• DRM products were developed in response to the rapid increase in online piracy of commercially marketed material, which proliferated through the widespread use of peer-to-peer file exchange programs. Typically DRM is implemented by embedding code that prevents copying, specifies a time period in which the content can be accessed or limits the number of devices the media can be installed on.

• Although digital content is protected by copyright laws, policing the Web and catching law-breakers is very difficult. DRM technology focuses on making it impossible to steal content in the first place, a more efficient approach to the problem than the hit-and-miss strategies aimed at apprehending online poachers after the fact.

Compare before you answer

Concept / duty	Practical distinction
Privacy / security	Privacy governs justified data use; security protects data and systems.
CIC / information utility	Different statutory services; access is controlled.
Patent / copyright / trademark	Identify the subject matter and the applicable IP law.
DRM / ownership	Technical controls do not establish ownership or remove legal exceptions.

Practice / answer beside the question

Q01. May access to CBS data be used for a private side business?
Answer / No. Access is limited by assigned authority, justified purpose and the bank's confidentiality/security requirements.

Q02. Does a customer's consent remove every other legal restriction?
Answer / No. Consider the scope of consent, applicable law, purpose and security requirements.

Q03. Are all DPDP obligations assumed to have commenced on one date?
Answer / No. The Act and Rules have phased commencement; check the operative provision and date.

Q04. Are a CIC and an information utility identical public databases?
Answer / No. Their purposes and permitted access differ; neither is an unrestricted public directory.

Q05. Is the ordinary Indian patent term counted from the grant date?
Answer / No. It is ordinarily twenty years from filing, with the relevant PCT international filing date and statutory conditions.

Q06. Does DRM make unauthorised copying impossible?
Answer / No. It is a technical control, not an absolute prevention guarantee.

Q07. Is information security only an IT department responsibility?
Answer / No. IT and non-IT employees have duties within the bank's governance and control framework.

Q08. Should a bank rely only on the old June 2016 cyber-policy description?
Answer / No. Apply the relevant current entity-specific directions and amendments.

Quick Revision

Read these concise revision statements with the distinctions in this chapter. Older limits, terminology and scheme descriptions may be historical.

A typical computerised environment constitutes three independent but separate components Software, **Hardware and Data**

The Risks broadly lead to

a. Incorrect decision-making leading to setback to business

b. Interruption in activities due to loss of data, hardware, software, Peopleware.

c. Violation of Privacy

d. Direct Financial loss due to computer frauds.

The objective of Computer Auditing is:
a. Assets safeguarding
b. Preserving data integrity
c. Achieving system efficiency
Risk prone components in computerised systems
a. Errors and omissions in data and software
b. Unauthorised disclosure of confidential information
c. Computer abuse and mis-utilisation of banks assets
Effective Control Mechanism in computerised environment
a. Preventive
b. Detective
c. Corrective
Scope of System Audit is
a. Review of operations to establish compliance
b. Review of the adequacy of procedures and controls
c. Integrity review focused at fraud detection/prevention of IT system d. Audit Trail is a chronological record of all events occurring in a system

Use the dated distinctions above for current thresholds and conditions. Bank-specific and historical illustrations do not establish universal eligibility, charges or legal rights.

Reference Notes / reviewed 31 October 2026

CIC / India Code: Credit Information Companies (Regulation) Act, 2005

CYBER / RBI: Commercial Banks - Cybersecurity, Technology, Risk, Resilience and Assurance Framework, 2026

DPDP / MeitY: Digital Personal Data Protection Rules, 2025 and enforcement timeline

HIST / RBI: IT for the Financial Sector; Rangarajan committee reports

PASS / NIST SP 800-63B-4: authentication and password guidance

PATENT / IP India: Patents Act, 1970, section 53 - term of patent

28 facts / final recall

01-14 / foundations	15-28 / application
01. Technology changes products and processes.	15. Limit unnecessary collection and access.
02. Digital convenience needs ethical oversight.	16. Protect data in storage and transit.
03. Data use must have a justified purpose.	17. Employees need security awareness.
04. Access should follow assigned authority.	18. Report suspected misuse through the approved route.
05. Customer confidentiality remains important.	19. Cyber controls need governance and review.
06. Security and privacy are related but different.	20. The 2016 cyber framework is historical.
07. Consent is not unlimited permission.	21. Current entity-specific directions matter.
08. Legal disclosure duties may also apply.	22. Use long and unique authentication secrets.
09. Check phased commencement of data laws.	23. Do not share credentials.
10. CIC stands for credit information company.	24. IP rights depend on the relevant law.
11. The CIC statute includes privacy principles.	25. Patentability has statutory conditions.
12. Information utilities serve a separate framework.	26. Patent term is ordinarily twenty years from filing.
13. A database is not automatically public.	27. DRM controls certain digital uses.
14. Data accuracy supports fair decisions.	28. DRM does not guarantee that copying is impossible.

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