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PAPER 4

ILLUSTRATED STUDY GUIDE

Retail Banking & Wealth Management

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UNDERSTAND	CONNECT	RECALL
Banking situations	Visual explanations	Practice and revision

How to use this book

Start with each chapter's case. Change one assumption, explain the result, then study the detailed notes. Try the five questions before reading the answers and finish with the 28 recall points.

The master contents, chapter learning tabs, bookmarks and topic index are clickable. Open the accompanying HTML for seven offline calculators with editable inputs and downloadable schedules.

Historical examples remain useful for learning. Read the adjacent clarifications before applying old rates, limits, tax provisions, customer codes or scheme figures. Product terms and legal requirements depend on their stated date and scope.

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MODULE A / A01

Retail Banking: Introduction

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A neighbourhood branch serves three people on the same morning. Meera receives a salary and needs a safe place for monthly spending, bill payments and an emergency reserve. Dev wants to replace a refrigerator but can afford only a fixed monthly payment. Farah runs a small tailoring shop and needs collections, payments and a modest working balance. Start with each person's need, rather than selling the same account or loan to all three.

For Meera, explain how an account, a suitable payment channel and an accessible reserve fit together. For Dev, distinguish the appliance price from the total cost of borrowing. Check repayment capacity and disclose terms before comparing instalments. For Farah, understand transaction frequency and business use before choosing an account. A small enterprise can be served through a retail business model, but this does not automatically decide its legal or prudential classification.

Now identify the bank's three roles. Deposits are liabilities because the bank owes customers their balances. Loans are assets because borrowers owe the bank repayment. Payment and distribution services can generate fees, subject to the product's terms. Retail banking brings many smaller relationships together through branches and digital channels. Its scale can spread individual credit exposures, but it also creates operational workload. Success therefore needs sound systems, suitable products, fair service and reliable controls, not merely a large customer count.

Change one assumption

Suppose the bank moves every routine transaction to an app. The channel cost per completed transaction may fall, but Meera has limited connectivity and Farah needs help resolving a payment error. A cheaper channel is useful only if it is accessible and works reliably. Offer an appropriate assisted alternative and a clear complaint route. Dev's loan should still be appraised even if the application is instant. Digitisation changes how a service is delivered; it does not remove the bank's obligations, the customer's repayment risk or the need to understand the product. Compare total service cost and outcomes, not app downloads alone.

Avoid this common mistake

A common shortcut is to say that retail banking is automatically safe because each loan is small. Many small loans can fail together when borrowers face the same employment, location or economic shock. A broad customer base reduces concentration only when the underlying risks are sufficiently different. Another mistake is to treat every digital sale as successful service. A customer who cannot use or understand a product may create avoidable harm, complaints and future losses.

Customer need > Suitable product > Accessible channel > Clear terms and controls > Review the outcome

Start with the need, then choose the service

Customer need > Suitable product > Accessible channel > Clear terms and controls > Review the outcome

Need determines product choice

Product can use several channels

Controls apply throughout

Connect the concepts

01. Retail banking combines deposit, credit and service relationships for a broad customer market; its exact business perimeter can differ between institutions.

02. A liability product records the bank's obligation to the customer. It is not a statement that the product is a burden or undesirable.

03. An asset product records an amount receivable by the bank. Recoverability matters as well as the nominal loan balance.

04. Service products support payment, access, advice or distribution needs. Fees and responsibilities depend on the actual arrangement.

05. Branches, ATMs, mobile and internet facilities are delivery channels. The product and its delivery channel are separate choices.

06. Mass-market scale supports standard processes, but exceptional customer circumstances still require appropriate assessment and assistance.

07. Diversification concerns the relationship between risks. A thousand borrowers from one vulnerable employer may still create concentration.

08. Customer retention can support stable relationships, but it must be earned through service rather than assumed from account age.

09. Product appropriateness asks whether the product solves the customer's problem at an understandable cost and acceptable risk.

10. Pricing should consider funding, servicing, credit and capital costs together with market conditions and fair customer treatment.

11. Growing transaction volumes make data quality, reconciliation, cybersecurity and continuity essential to the retail operating model.

12. Growth drivers such as income, demographics and technology are contextual factors. A dated market statistic is not a permanent fact.

Customer need > Suitable product > Accessible channel > Clear terms and controls > Review the outcome

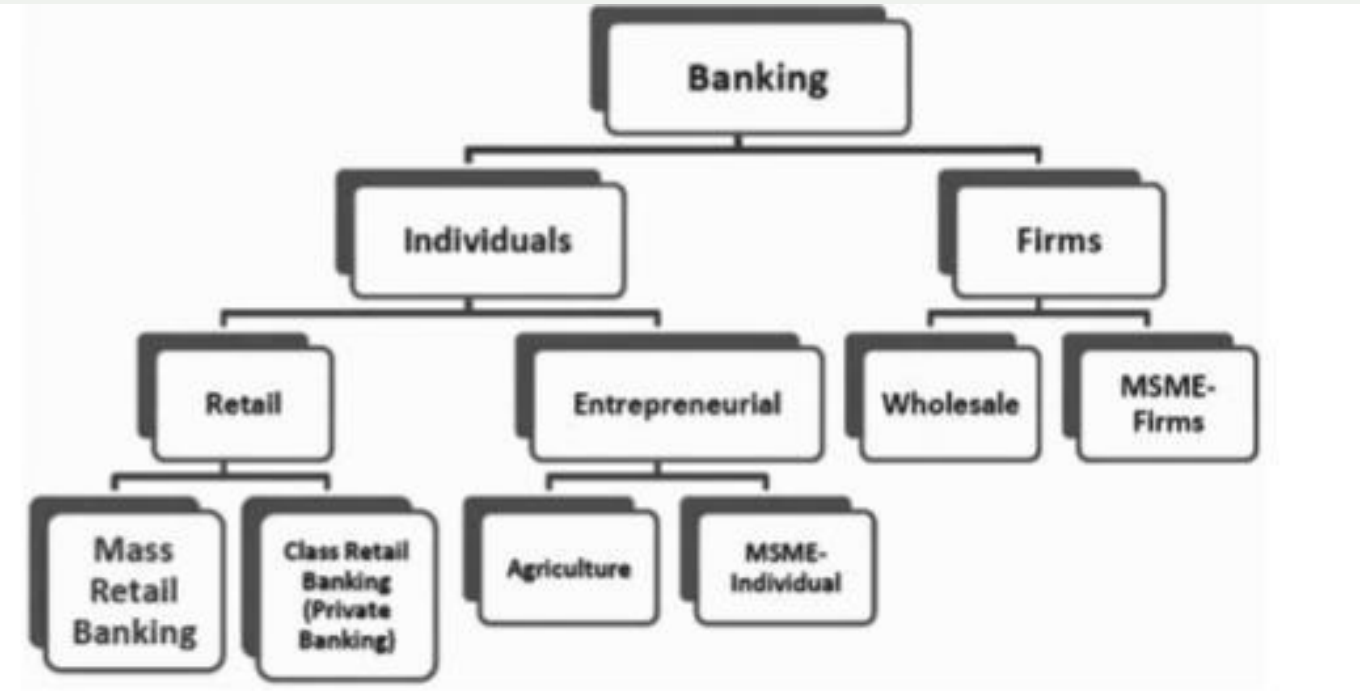


Observe the branch as a customer access point. Retail banking combines deposits, credit and services; the building alone does not define the business model.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Introduction



Customer need > Suitable product > Accessible channel > Clear terms and controls > Review the outcome

Retail Banking

"Retail Banking is a banking service that is geared primarily toward individual consumers. Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services, as well as debit and credit cards.

Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking."

Characteristics of Retail Banking

The definitions of retail banking as discussed above bring out the following characteristics:

Banking facilities targeted at individual customers.

Focused towards mass market segment covering a large population of individuals.

Offer different liability, asset and a plethora of service products to the individual customers.

The delivery model of retail banking is both physical and virtual i.e. services are extended through branches and also through technology driven electronic off site delivery channels like ATMs, Internet Banking and Mobile Banking.

Extended to small and medium size businesses.

Advantages of Retail Banking

Client base will be large and therefore risk is spread across the customer base.

Customer Loyalty will be strong and customers tend not to change from one bank to another very often.

Attractive interest spreads since spreads are wide, since customers are too fragmented to bargain effectively; Credit risk tends to be well diversified, as loan amounts are relatively small.

There is less volatility in demand and credit cycle than from large corporates.

Large numbers of clients can facilitate marketing, mass selling and the ability to categorize/select clients using scoring systems/data mining.

Constraints in Retail Banking

Though retail banking as a segment has a number of embedded advantages, the segment suffers from constraints also. A few of the constraints are listed below:

Problems in managing large numbers of clients, especially if IT systems are not sufficiently robust.

Rapid evolution of products can lead to IT complications

The costs of maintaining branch networks and handling large numbers of low- value transactions tend to be relatively high. (For this reason banks are encouraging clients to use cheaper distribution channels, such as ATMs, the telephone or internet for these transactions and reserve the branches for higher added value transactions).

Higher delinquencies especially in unsecured retail loans and credit card receivables.

Prerequisite for Success of Retail Banking

There are various factors that can subscribe to the success of retail banking in

India:

Presence of an efficient delivery mechanism

Product appropriateness

Pricing

Scoring models for assessing the credit worthiness

Consumer protection environment

Challenges for Retail Banking

Consumer Protection & Pricing

Inadequacy of MIS

Understanding of KYC/AML issues

Managing Risk

Effects of disruptive new technologies

Continuing growth

Reason for the Growth of the Retail Banking Segment

Rise of the young Indian Professionals

Growth as an Economic Superpower

Increasing purchasing power of middle class people

Financial market reforms

Engine of economic growth

Mass Market banking

Volume driven business

Automation of banking process

Easy and affordable access

Financial liquidity

Economic prosperity

Changing consumer demographics

Technology innovations

Increase the Bank Liquid cash

Decline in interest rates

Declining cost of incremental deposit

Changes of terms of loans

Scope of Retail Banking in India

Increase in economic activity is taking place with some recessionary trends.

Increase in purchasing power. The rural India has more purchasing power at their disposal and this is an opportunity to market Retail Banking.

India has 300 million households and 400 million middle class population. More than 90% of the savings come from the house hold sector. Falling interest rates have resulted in a shift. "Now People Want to Save Less and Spend More."

Nuclear family concept is gaining much importance which may lead to large savings. The number of banking services to be provided is increasing day-by-day.

Tax benefits are available. For example, in case of housing loans/ education loan the borrower can avail tax benefits for the loan repayment and the interest charged for the loan.

Future of Retail Banking

Growth in Digital Banking

Rapid Adaptation of Blockchain by Retail Bankers

Artificial Intelligence (AI) and Data Science in Banking

Cyber Security to be a Top Priority

Payment Innovations

Rise of Big Tech in Banking Industry

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Why is Meera’s deposit a liability of the bank?

Answer: The bank owes the balance to Meera.

Why: Classify the obligation from the bank’s books, not from the customer’s perspective.

Question 02 | Does approving Dev’s loan create an asset or a liability for the bank?

Answer: A loan receivable is an asset.

Why: An asset can still suffer credit loss; approval does not guarantee collection.

Question 03 | Are 1,000 loans to workers in the same factory necessarily well diversified?

Answer: No.

Why: A common employer creates correlated repayment risk.

Question 04 | Should all customers use the cheapest channel?

Answer: Choose an appropriate, accessible channel.

Why: Transaction cost is only one factor; reliable access, assistance and resolution matter.

Question 05 | Can a small business appear in a retail banking customer strategy?

Answer: Yes, depending on the bank’s business model.

Why: Do not confuse a commercial segment label with the separate regulatory classification of an exposure.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Retail banking begins with customer needs.	15. Accessibility affects channel choice.
02. Deposits are bank liabilities.	16. Retention must be earned.
03. Loans are bank assets.	17. Pricing has several cost drivers.
04. Fees relate to specific services.	18. Service quality affects complaints.
05. A product differs from its channel.	19. Data quality affects decisions.
06. Branches provide physical access.	20. Reconciliation supports accurate records.
07. Digital channels need reliable controls.	21. Cybersecurity protects service and information.
08. Small exposures can be correlated.	22. Continuity supports access during disruption.
09. Diversification does not eliminate credit risk.	23. Retail models can include small enterprises.
10. Customer count alone does not prove quality.	24. Commercial labels do not settle regulatory classification.
11. Standardisation supports scale.	25. Demographics can influence demand.
12. Exceptions still need assessment.	26. Growth statistics need dates.
13. Suitability includes affordability.	27. Technology does not remove obligations.
14. Understand total borrowing cost.	28. Explain why the chosen product meets the need.

Customer need > Suitable product > Accessible channel > Clear terms and controls > Review the outcome

MODULE A / A02

Retail Banking: Role within the Bank Operations

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A bank wants to improve its home-loan business. Applications are slow, customers repeat information and no single manager can explain the full journey. The board considers three organisational approaches. The question is not simply which name sounds modern; it is who owns decisions, performance and coordination.

In a strategic business unit, a dedicated retail or home-loan team can own its segment strategy, budget and performance within the bank's governance. It can see the complete customer journey, but needs agreed interfaces with treasury, risk, compliance and operations. Autonomy is not permission to ignore common controls.

In a departmental arrangement, specialist functions perform their respective tasks: marketing finds customers, credit appraises repayment, operations completes documentation and finance measures results. Expertise can improve consistency, but the bank must define hand-offs so that an application does not become nobody's responsibility while it moves between teams.

An integrated approach manages the business within the bank's overall plan. It can be practical where scale does not justify many separate units. Shared priorities and information help coordination, but unclear ownership can still delay service.

For this bank, draw the journey from enquiry to disbursement and servicing. Name the accountable owner at each stage, the information passed forward and the control that must be completed. Measure turnaround time, error rates, customer outcomes and risk-adjusted performance. An organisation chart becomes useful when it clarifies this work.

Change one assumption

Now double the application volume while leaving the staffing and systems unchanged. A separate business unit may focus attention, but changing the label does not create appraisal capacity or accurate data. First locate the bottleneck: incomplete applications, repeated checks, unclear authority or a genuine shortage of skilled staff. Set service expectations and escalation rules across functions. If more work is outsourced, the bank still needs oversight and accountability. Reassess the structure when the business changes; the best arrangement depends on scale, product complexity, controls and management capacity, rather than on whether the bank is public, private or foreign.

SBU: segment ownership > Departments: specialist functions > Integrated: shared overall plan > Common governance and controls

Avoid this common mistake

Do not assume that a strategic business unit is a separate legal company or that its manager has unrestricted powers. It is an organisational design with delegated responsibilities. Similarly, a departmental model is not necessarily inefficient, and an integrated model does not automatically reduce risk. Each can work well when authority, information, incentives and controls are aligned. Compare the actual customer journey and accountability, not the attractiveness of the model's label.

Three structures, one customer journey

SBU: segment ownership > Departments: specialist functions > Integrated: shared overall plan > Common governance and controls

All three require clear authority

All three require hand-offs

All three are judged by outcomes

Connect the concepts

01. An SBU focuses responsibility on a business or customer segment, normally within an overall strategy and common governance framework.

02. Delegated authority should specify decisions, limits and escalation. Autonomy without control can create inconsistent risk taking.

03. A departmental structure groups expertise by function; clear hand-offs connect those functions into an end-to-end customer service.

04. An integrated approach treats the business as part of the overall plan and relies on shared priorities, resources and information.

05. An organisation chart identifies reporting lines. A process map identifies work, hand-offs, checks and customer contact points.

06. Profit-centre reporting is useful only when income, costs, funding charges and shared services are measured consistently.

07. A customer-facing owner can track progress without replacing independent credit, compliance or operational decisions.

08. A service-level agreement should describe the work and standards expected; it cannot substitute for lawful and prudent decisions.

09. Business positioning asks which customer segment and value proposition the bank intends to serve, rather than merely a target ranking.

SBU: segment ownership > Departments: specialist functions > Integrated: shared overall plan > Common governance and controls

10. Performance measures should balance volume, quality, risk, costs and customer outcomes so that one target does not distort decisions.

11. Shared systems help coordination only if information is accurate, access is appropriate and responsibility for updates is clear.

12. An organisational choice should be reviewed as products, scale and customer needs change; no model is universally superior.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

the Bank Operations

The business models for retail banking show interesting revelations across types of banks. The models adopted by banks vary among the public sector, private sector and foreign banks. The main approaches are as follows:

Strategic Business Unit (SBU) Approach,

Departmental Approach,

Integrated Approach (part of the overall business plan).

Strategic Business Unit (SBU)

SBU approach aims at dividing the business on lines of Strategic Business Units (SBUs). SBUs are autonomous divisions, small enough to be flexible and large enough to exercise control over most of the factors affecting its long-term performance. SBUs can be defined as profit centres which focus on product offering and market segment. An SBU can be a business unit of a large corporation or it can be a business in itself.

Departmental Approach

In Departmental Approach, rather than dividing on strategic or

businesslines, an organisation can also be divided on the basis of functions, various teams perform. The departmental approach is a specialised functional approach within an organisation. This approach segregates the functions of the organisation into departments such as accounting, marketing, finance, planning, etc.

Generally, every department has its manager and chain of command. Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model. It indicates that the approach is more a general one with retail banking as one of the business models and not a focused business model.

The Integrated Approach

SBU: segment ownership > Departments: specialist functions > Integrated: shared overall plan > Common governance and controls

The Integrated Approach is usually adopted by smaller businesses. It combines allsocio economic aspects and adopts a cohesive approach to tackle problems of the business. It is assumed that having a unified business would reduce risk and increase profitability through scale rather than having separate entities for each business line.

If we go further deep into the models of retail banking followed by banks with regard to products, processes, delivery channels, technology, etc.,

Business Model

Banks generally structure their retail banking models mainly on a positioning platform and to be the best/top three among the peer group players or across players. Strategies are based on the positioning objectives and vary from bank to bank depending on the importance attached to the business model.

Among the public sector banks, some banks aim for a place among the top three retail players across banks including peer group banks while some other public sector aim for a space in the top three among the peer group. But the strategy adopted by these banks was a part of the overall strategy based on the business mix. projections and corporate objectives of the bank.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Does an SBU necessarily form a separate legal entity?

Answer: No.

Why: A business division and a separately incorporated company are different organisational arrangements.

Question 02 | Why can a departmental system delay an application?

Answer: Poorly defined hand-offs can leave work waiting.

Why: The weakness is coordination and ownership, not specialisation itself.

Question 03 | Does an integrated approach remove credit controls?

Answer: No.

Why: Shared planning does not eliminate independent appraisal, authority or documentation requirements.

Question 04 | What should be checked before reorganising a slow home-loan process?

Answer: Locate the actual bottleneck.

Why: A new reporting line will not repair missing documents, capacity constraints or unreliable systems by itself.

SBU: segment ownership > Departments: specialist functions > Integrated: shared overall plan > Common governance and controls

Question 05 | Is loan volume alone a good measure of a retail unit?

Answer: No.

Why: It must be read with risk, profitability, service quality, cost and customer outcomes.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. An SBU focuses on a business segment.	15. Access should reflect job responsibility.
02. SBU autonomy is delegated, not unlimited.	16. Profit-centre results require allocation rules.
03. An SBU need not be a separate company.	17. Funding cost affects product performance.
04. Departmental structures group specialist functions.	18. Volume is not the only performance measure.
05. Hand-offs connect departments.	19. Turnaround time measures speed.
06. Integrated structures use the overall business plan.	20. Error rates indicate process quality.
07. Scale affects organisational choice.	21. Customer outcomes matter.
08. Product complexity affects coordination.	22. Independent checks reduce conflicts.
09. Governance applies to every model.	23. A service target cannot override appraisal.
10. Authority needs defined limits.	24. Outsourcing does not remove accountability.
11. Escalation needs named responsibility.	25. Positioning starts with the target customer.
12. A process map shows work flow.	26. Business strategy differs from a ranking target.
13. An organisation chart shows reporting.	27. Bottlenecks need diagnosis.
14. Shared systems need reliable data.	28. Review the structure as the business changes.

SBU: segment ownership > Departments: specialist functions > Integrated: shared overall plan > Common governance and controls

MODULE A / A03

Application of Retail Banking Concepts and Distinction between Retail and Corporate/Wholesale Banking

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Consider two requests received by the same bank. A salaried customer seeks a vehicle loan and a company seeks finance for a new production line. Both require sound appraisal, but their information, ticket size, negotiation and servicing needs differ. Retail banking often handles many comparatively small relationships using repeatable processes. Corporate banking typically deals with fewer, larger and more individually structured relationships. These are business tendencies rather than rigid legal definitions.

For the vehicle loan, the bank checks identity, income, existing obligations, credit information, the vehicle and repayment capacity. Standard documentation and a central processing team may make the journey efficient, but the actual customer's circumstances still matter. For the factory request, the bank may assess business cash flows, project risks, management, contracts, security and covenants in greater detail. A negotiated structure does not make the corporate borrower safer merely because it is larger.

Next separate three design decisions. Product design asks what is being offered: a deposit, loan or service. Process design asks how it will be appraised, recorded and serviced. Channel design asks where the customer interacts: branch, app, dealer or another approved channel. A shared customer database can support several products, while specialist product teams can still perform different tasks.

Finally, compare costs and risks. A high retail lending rate is not the same as a high profit margin. Servicing, losses, funding and capital costs must be considered. A large corporate exposure can create concentration even at a lower contractual rate.

Change one assumption

Suppose the bank uses a central customer database for all products but keeps separate loan-processing teams. The arrangement combines common information with product specialisation; it cannot be understood from the word horizontal or vertical alone. Draw the actual structure and identify which data and steps are shared. If a dealer collects applications, the bank must still define authority, information security and checks. If the customer also owns a small business, classify each product and exposure under its applicable purpose and rules. One person can use several banking services without every account belonging to the same risk category.

Product: what is offered? > Process: how is work completed? > Channel: where does the customer interact? > Customer outcome and bank risk

Avoid this common mistake

Avoid three shortcuts: retail always means only individuals; corporate always means low risk; and outsourcing transfers the bank's responsibility. Customer segments can overlap, and a regulatory retail definition may use criteria different from the bank's marketing classification. Also describe horizontal and vertical models through their actual functions and shared information. A label is not evidence that the customer database, credit policy or servicing process is integrated.

Keep three choices separate

Product: what is offered? > Process: how is work completed? > Channel: where does the customer interact? > Customer outcome and bank risk

Each product needs a process

Each process can use several channels

All choices need controls

Connect the concepts

01. Retail and corporate banking are customer and operating models; the regulatory classification of an exposure requires its own criteria.

02. Many small transactions can support scale benefits but also require strong controls, reconciliation and exception handling.

03. A large corporate relationship can offer fee and cross-service opportunities while increasing single-name or group concentration.

04. A liability product gathers funds that the bank owes; an asset product deploys funds into a receivable with repayment risk.

05. A service can accompany a deposit or loan without being the same financial product; distinguish access features from contractual rights.

06. Product design, process design and channel design answer different questions and should be considered together.

07. A product-oriented arrangement can retain specialist workflows. A customer-oriented arrangement can share information across products.

08. When descriptions of horizontal and vertical structures vary, explain the concrete workflow rather than relying on a label alone.

09. Segmented, geographic and branch-category approaches choose where and whom to serve; they do not replace individual appraisal.

Product: what is offered? > Process: how is work completed? > Channel: where does the customer interact? > Customer outcome and bank risk

10. Pricing needs funding, operating, expected loss, capital, tenor and market considerations; a quoted interest rate is not net profit.

11. Internal, partly outsourced and outsourced processing each need clear control responsibilities and appropriate access to customer data.

12. Technology architecture should support the chosen process; a common database alone does not ensure accurate or complete information.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Distinction between Retail and Corporate/Wholesale Banking

The growth of retail banking is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. It facilitates the delivery of the right product at the right price at the right place and at the right time.

Today’s retail banking sector is characterized by three basic characteristics:

Multiple products (deposits, loans, cards, insurance, investments, securities, etc.)

Multiple channels of distribution (call centre, branch, internet, mobile banking, kiosk, etc.)

Multiple customer groups (consumer, small business, and corporate). This Unit deals with the various business process structure, product models, business approach, retail liability products, retail assets products, etc., in detail.

Business Process Structure in Retail Banking

Horizontally organized model is a modular structure using different process models for different products offering end to end solutions product wise.

Vertically organized model provides functionality across products with customer data base orientation and centralised customer data base is used across products.

Predominantly horizontally organized model is mostly product oriented with common customer information for some products.

In predominantly vertically organized model, common information is available for most of the products.

Business Approach (Domain Specific) in Retail Banking

The business strategies with regard to the domains targeted are approached in different ways by different banks. The most common approaches are as follows:

Segmented Approach - where branches are classified based on the business potential with regard to retail space and business targeted in these segments of branches only with focused marketing strategies. These

branches will be positioned as resource centre branches and will form part of the overall segmentation game plan of the bank. Branches are classified as Resource Centres, Profit Centres, Priority Centres and General Centres to have a clear business focus. This concept is an effective business model for PSBs with large network and useful for focused strategies and already getting implemented in some public sector banks.

Geography based approach - where retail models are built based on geographies.

Classification based approach - where strategies are designed based on the type of branch viz., Rural. Semi Urban. Urban and Metro. This strategy helps in better product structuring for specific types of branches.

Product Models in Retail Banking

Liability Products

Liability products are offered to retail banking customers basically under three spaces -

Savings Accounts, Current Accounts and Term Deposit Accounts. Product differentiation among these accounts is best achieved by adding different value propositions.

Retail deposit are stable and constitute core deposits.

They are interest insensitive and less bargaining for additional interest.

They constitute low cost funds for the banks.

Effective customer relationship management with the retail customers build a strong customer base.

Retail Asset Products

Retail asset financing is a major component of retail banking model of banks. In fact retail loans are the backbone of the revenue streams of banks. In any customer expansion strategy, retail loan is packed as the main attraction uniformly by all banks.

Retail banking results in better yield/improved bottom line for a bank.

Retail segment is good revenue for funds deployment.

Consumer loans are presumed to be of lower risk and NPA perception.

Helps economic revival of nation through increased production activity.

Improves lifestyles and fulfils aspirations of the people through affordable credit.

Retail banking involves minimum marketing efforts in a demand-driven economy.

Other Products/Services

Other products and services broadly cover the beyond product facilities tagged to the products and services. These enhance the service experiences of the customers by providing process and delivery efficiencies by additional service tools to the basic products.

One set of these products are Credit Cards, Debit Cards. ATM Cards, Telephone Banking. Mobile Banking, Internet Banking. Depository Service and Broking Services. Distribution of third party products like life and non life policies, mutual funds, retail sale of gold coins, bill payment services, multi city cheques, payment gateway for rail, air ticket.

Process Models for Products and Services

Processing of products and services in retail banking is basically approached from three dimensions viz., the entire processing is done through in house resources, some products processed in house and for some products outsourcing is done for process and the third approach is outsourcing of entire process subject to prescribing process standards.

In PSBs and old private banks the entire process for products and services are done through in house resources but in some banks, process part of some products are outsourced. But generally no outsourcing is done for the process part. In new generation private sector banks, outsourcing is attempted partially for some process areas. In foreign banks, the entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of retail banking services.

Pricing of Products and Services

Banks develop models for pricing of products and services based on certain fundamental parameters. Market dynamics, risk perception, return

expectations, tenor/duration, resources position, asset liability management positions and customer profile are some of the variables which are factored into the pricing model by banks. The balancing of these various variables dynamically with changing market dynamics is the key function for good pricing model.

In addition, regulatory advices (both overt and covert) also influence the pricing models. The fundamental concept of costing in pricing has now gelled with the asset liability management practices of banks.

Technology Models in Retail Banking

The technology platform for retail banking plays a major role in the retail banking initiatives of banks. In today's scenario, technology is the backbone of the process and delivery efficiencies of banks. The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models.

Each model will have advantages and disadvantages and the overall business will be the decider of the effectiveness of the model.

Distinction between Retail and Corporate/Wholesale Banking

Retail Banking and Corporate or Wholesale Banking differ in their basic approach to

banking. The major differences between the two segments are discussed as

follows:

Retail Banking targets at the individual segment while corporate banking deals mainly with corporate clients.

Retail Banking is a mass market banking model whereas wholesale/corporate banking look at a relatively smaller segment of business/corporate client base as compared to retail segment.

Retail Banking is a B2C approach (Business to Customer) whereas corporate banking is a B2B approach (Business to Business).

The ticket size of loans in retail banking is low whereas the ticket size is high in corporate loans.

Risk is widespread in retail banking as customer base is huge whereas in Corporate Banking, the risk is more as the ticket size is big though customer base is relatively small.

Returns are more in retail banking as the spreads are more for different asset classes in retail. But in corporate banking, the returns will be low as corporates bargain for lower rates due to higher loan amounts.

Monitoring and recovery in retail assets are more laborious because of the larger customer base as compared to corporate banking.

In the liability side also, the cost of deposits is relatively less and mostly go along with the card rates as the ticket size in retail deposits is small. In corporate banking, as the ticket sizes of deposits will be large, the cost of deposits will be high due to pressure from the corporates for higher rates and competitive forces to garner the deposits.

The impact of NPA will be more pronounced in corporate banking than retail banking as the ticket sizes in corporate loans are higher than retail loans.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Does a higher retail loan rate necessarily mean higher net profit?

Answer: No.

Why: Compare funding, servicing, credit-loss and capital costs as well as the revenue rate.

Question 02 | What is the difference between a product and a channel?

Answer: The product is the financial offering; the channel is the interaction route.

Why: A loan can be requested through a branch or app without becoming a different class of product solely because of the channel.

Question 03 | Can a large corporate loan create concentration risk?

Answer: Yes.

Why: One borrower or connected group can account for a material share of the bank’s exposure.

Product: what is offered? > Process: how is work completed? > Channel: where does the customer interact? > Customer outcome and bank risk

Question 04 | Does a common customer database prove full integration?

Answer: No.

Why: Workflows, controls, data quality and responsibilities may still be separate.

Question 05 | Who remains responsible when an agent gathers applications?

Answer: The bank retains responsibility for its lending decisions and required oversight.

Why: An agent's participation does not replace the bank's appraisal, controls or customer obligations.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Retail models usually serve broad customer markets.	15. Specialist workflows can remain separate.
02. Corporate relationships are often more individually structured.	16. Describe horizontal models concretely.
03. Business labels are not regulatory definitions.	17. Describe vertical models concretely.
04. Retail customers can include small businesses.	18. Segmented strategies target selected needs.
05. Large exposures create concentration concerns.	19. Geography can influence distribution.
06. Small exposures can share common risks.	20. Branch categories can guide strategy.
07. Deposits are liability products.	21. Pricing must consider costs.
08. Loans are asset products.	22. Contractual interest is not net margin.
09. Services differ from the underlying account.	23. Tenor affects pricing and risk.
10. A channel is an access route.	24. Funding cost affects profitability.
11. Product design defines the offering.	25. Outsourcing requires oversight.
12. Process design defines the work.	26. Data access requires controls.
13. Channel design defines interaction.	27. Technology must support the process.
14. Shared data can support several products.	28. Appraise the actual borrower and purpose.

Product: what is offered? > Process: how is work completed? > Channel: where does the customer interact? > Customer outcome and bank risk

MODULE A / A04

Branch Profitability

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A branch reports annual interest income of Rs.120 lakh and pays Rs.70 lakh as interest and internal funding charges under its performance framework. It earns Rs.15 lakh in other income and incurs Rs.35 lakh in operating expenses. Begin by separating the measures. Net interest income is 120 - 70 = Rs.50 lakh. Operating income before operating expenses is 50 + 15 = Rs.65 lakh. Operating profit before the stated provisions and tax is 65 - 35 = Rs.30 lakh. If provisions are Rs.8 lakh and the assumed tax charge is Rs.6 lakh, the simplified net profit is Rs.16 lakh. Real branch reporting may allocate funding, common costs and tax differently; use the bank's defined framework.

Suppose average total assets are Rs.2,000 lakh and average allocated equity is Rs.200 lakh. The illustrative return on assets is 16/2,000 x 100 = 0.8%; return on allocated equity is 16/200 x 100 = 8%. These ratios compare the same annual profit with different denominators. They cannot be compared sensibly if one branch uses average balances while another uses closing balances.

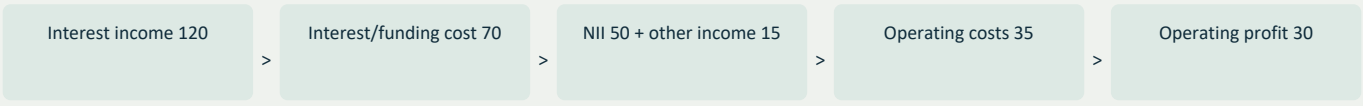
If average earning assets are Rs.1,800 lakh, a defined net interest margin is 50/1,800 x 100 = 2.78%. This is not ROA: its numerator is net interest income, not final profit. A branch can improve volume while worsening profitability if costs, funding charges or credit losses grow faster.

Change one assumption

Now assume interest income rises by Rs.10 lakh, but extra operating costs are Rs.4 lakh and provisions rise by Rs.8 lakh. Holding other stated amounts and the simplified tax charge unchanged, net profit falls from Rs.16 lakh to Rs.14 lakh: the additional revenue does not cover the additional costs and losses. If average assets also rise to Rs.2,500 lakh, ROA falls to 14/2,500 x 100 = 0.56%. The result shows why growth and efficiency must be interpreted together. Investigate underwriting, service capacity and recurring costs instead of rewarding balance-sheet growth alone.

Avoid this common mistake

Do not call net interest income divided by assets ROA. ROA uses a defined net-profit measure, while net interest margin uses net interest income and a stated asset base. Do not treat assets/equity, expressed as a multiple, as the regulatory Tier 1 leverage ratio. More borrowing can magnify shareholders’ returns and losses; it does not create an unlimited or risk-free way to raise profit. Always state whether figures belong to a branch or the whole bank.



Follow the profit bridge

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

All values Rs. lakh for one year

ROA: 16 / average assets 2,000

ROE: 16 / allocated equity 200

Connect the concepts

01. Profit is an amount for a period; profitability relates a defined profit amount to a relevant base such as assets, equity or revenue.

02. Interest income minus interest expense gives net interest income; this is before operating costs, provisions and tax.

03. Other income can include fees and other recognised income. Its recurring quality matters when evaluating sustainable performance.

04. Operating profit requires a stated framework. For the worked branch, it is net interest income plus other income less operating expenses.

05. Provisions recognise specified credit or other losses under the applicable framework; ignoring them can overstate performance.

06. ROA uses net profit divided by a defined average asset or working-funds base. Consistent periods and bases are essential.

07. ROE uses profit attributable to owners divided by the relevant average equity; allocated branch equity needs an explicit methodology.

08. Net interest margin uses net interest income divided by a stated average asset base, commonly earning assets; identify the convention.

09. Interest spread compares defined average yield and cost rates; NIM also reflects the volumes and mix of earning assets and funding.

10. Accounting assets/equity is an equity multiplier, whereas regulatory leverage uses prescribed capital and exposure measures.

11. Cost efficiency should be balanced with service quality, resilience and controls; cutting essential checks can create larger future losses.

12. Use a balanced improvement plan: appropriate income, sound credit, accurate pricing, cost discipline, productive capacity and customer outcomes.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

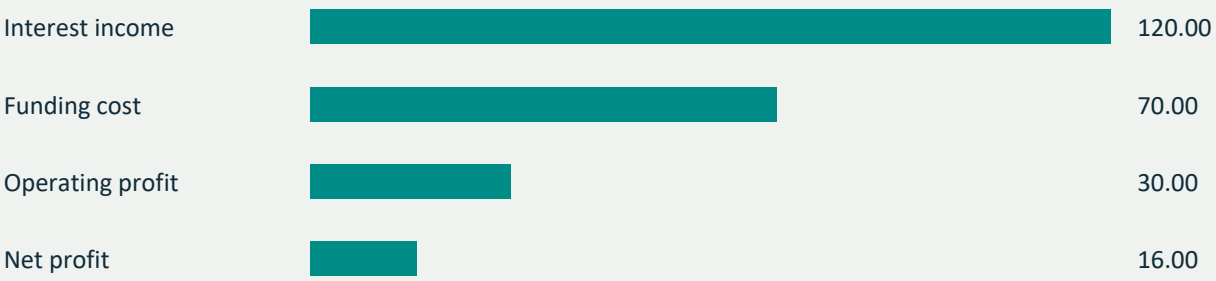
Work it out, then change an input

Enter the case income, costs, provisions, tax and average balances. Predict whether ROA rises or falls before changing one input. Explain why NII, operating profit and net profit differ.

Open the offline profit calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

Worked branch: annual amounts in Rs. lakh



2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Banking System: An Introduction

What Is Banking?

Banking is classically defined in the Banking Regulations Act, 1949 (BR Act).

As per Section 5(1) (b) of the BR Act, banking is ‘the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.’

Section 5(l)(c), further defines a banking company as any company which transacts the business of banking in India. Section 6 of the BR Act defines, in detail, the types of activities that banks are authorised to carry out, although under modern day banking, banks have embraced many other types of activities, too. The traditional types of businesses that banks

Another important aspect on banking in India is that, in terms of Section 7 (1) of the BR Act, ‘No company other than a banking company shall use as part of its name any of the words "bank", "banker" or "banking" and no company shall carry on the business of banking in India, unless it uses as part of its name at least one of such words.’

Further, Section 7(2) states ‘No firm, individual or group of individuals shall, for the purpose of carrying on any business, use as part of its or his name any of

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

the words "bank", "banking" or "banking company".'

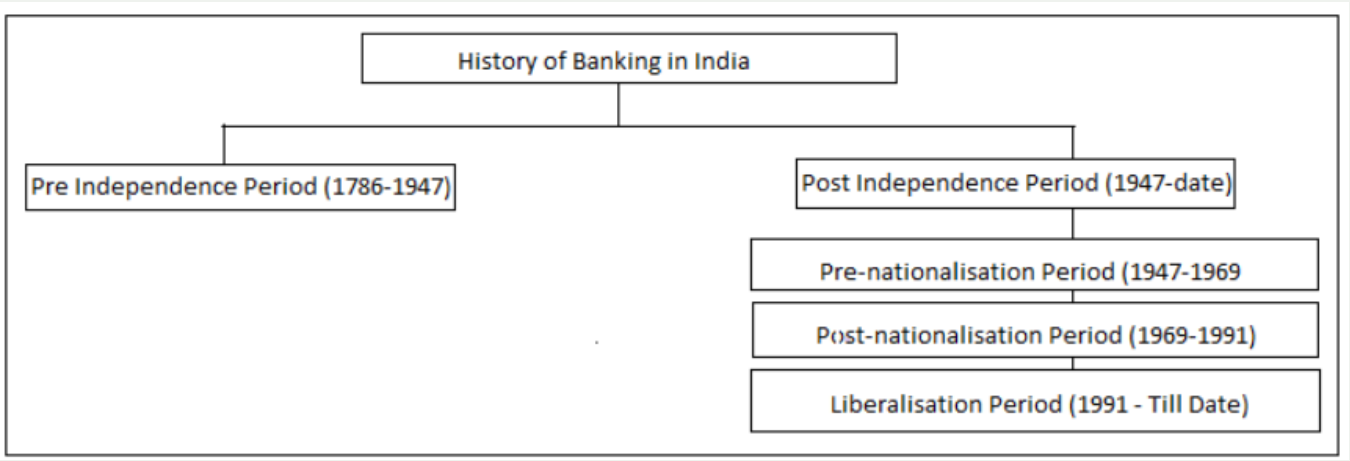
History Of Banking In India

The banking sector development can be divided into three phases:

Phase I: The Early Phase which lasted from 1770 to 1969

Phase II: The Nationalisation Phase which lasted from 1969 to 1991

Phase III: The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date



Pre Independence Period (1786-1947)

The first bank of India was the "Bank of Hindustan", established in 1770 and located in the then Indian capital, Calcutta. However, this bank failed to work and ceased

operations in 1832.

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Following the path of Bank of Hindustan, various other banks were established in

India. They were:

The General Bank of India (1786-1791)

Oudh Commercial Bank (1881-1958)

Bank of Bengal (1809)

Bank of Bombay (1840)

Bank of Madras (1843) During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential

Banks. These three banks were later merged into one single bank in 1921, which was called the "Imperial Bank of India."

The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Pre-Indepence Banks in India	
Bank Name	Year of Establishment
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

Post Independence Period (1947-1991)

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.

With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the Banking Regulation Act,

1949. Whereas, the Reserve Bank of India was nationalised in 1949.

Candidates can check the list of Banking sector reforms and Acts at the linked

article.

Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 14 Banks nationalised in 1969:

1.Allahabad Bank

2.Bank of India

3.Bank of Baroda

4.Bank of Maharashtra

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

5.Central Bank of India

6.Canara Bank

7.Dena Bank

8.Indian Overseas Bank

9.Indian Bank

10.Punjab National Bank

11.Syndicate Bank

12.Union Bank of India

13.United Bank

14.UCO Bank

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

Andhra Bank

Corporation Bank

New Bank of India

Oriental Bank of Comm.

Punjab & Sind Bank

Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

State Bank of Patiala

State Bank of Hyderabad

State Bank of Bikaner & Jaipur

State Bank of Mysore

State Bank of Travancore

State Bank of Saurashtra

State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which merged in 2008 and State Bank of Indore, which merged in 2010.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

Note: The Regional Rural Banks in India were established in the year 1975 for the development of rural areas in India.

Liberalisation Period (1991-Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role.

To provide stability and profitability to the Nationalised Public sector Banks, the Government decided to set up a committee under the leadership of Shri. M Narasimham to manage the various reforms in the Indian banking industry.

The biggest development was the introduction of Private sector banks in India. RBI gave license to 10 Private sector banks to establish themselves in the country. These banks

included:

Global Trust Bank

ICICI Bank

HDFC Bank

Axis Bank

Bank of Punjab

IndusInd Bank

Centurion Bank

IDBI Bank

Times Bank

Development Credit Bank

What Is Profitability

Before moving to Branch Profitability, let us first have a broad view of profit and profitability. Profitability is a measure of an organization’s profit relative to its expenses.

Organizations that are more efficient will realize more profit as a percentage of its expenses than a less-efficient organization, which must spend more to generate the same profit. In other words, Profitability is a measurement of efficiency - and ultimately its success or failure.

What Is Profit?

Profit is the money a business pullsin after accounting for all expenses. Whether it’s a lemonade stand or a publicly-traded multinational company, the primary goal of any business is to earn money, therefore a business performance is based on profitability, in its various forms.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

Some analysts are interested in top-line profitability (Gross Sales), whereas others are interested in profitability before taxes and other expenses. Still others are only concerned with profitability after all expenses have been paid (bottom- line profitability).

Three major types of profit

Gross profit

Operating profit, and

Net profit

Gross Profit

The first level of profitability is gross profit, which is sales minus the cost of goods sold. Sales are the first line item on the income statement, and the cost of goods sold (COGS) is generally listed just below it. For example, if Company A has Rs.1,00,00,000/- in sales and a COGS of Rs.60,00,000/- it means the gross profit is Rs.40,00,000/-, (i.e. Rs.1,00,00,000 minus Rs.60,00,000/-). Divide gross profit by sales for the gross profit margin, which is 40% (i.e. Rs.40,00,000/- divided by Rs.1,00,00,000/- multiplied by 100).

Gross Profit = Total Sales - Cost of Goods Sold

Operating Profit

The second level of profitability is Operating Profit, which is calculated by deducting operating expenses from gross profit. Gross profit looks at profitability after direct expenses, and operating profit looks at profitability after operating expenses. These are things like selling, general, and administrative costs (SG&A). Company A (stated above) has Rs.20,00,000/- in operating expenses, and hence, the Operating Profit is Rs.40,00,000/- minus Rs.20,00,000/-, which is equal to Rs.20,00,000/-. Divide operating profit by sales for the operating profit margin, which is 20%.

Operating Profit = Gross Profit - Operating Expenses

Operating Profit Margin = Operating Profit/ Total Sales

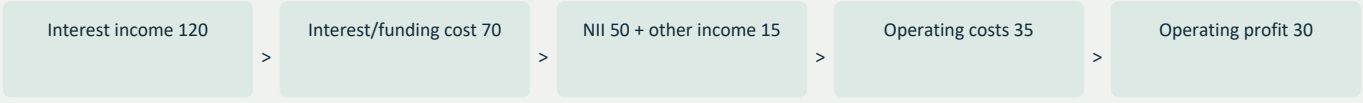
Net Profit

The third level of profitably is net profit, which is the income left over after all expenses, including taxes and interest, have been paid. If interest is Rs.5,00,000/- and taxes are another Rs.5,00,000/-, net profit is calculated by deducting both of these from operating profit. In the example of above Company, the answer is Rs.20,00,000/- minus Rs.10,00,000/-, which equals Rs.10,00,000/-. Divide net profit by sales for the net profit margin, which is 10%.

Net Profit = Operating Profit - Taxes & Interest

Profit And Profitability In The Context Of Banking

Like other businesses, banks profit by earning more money than what they pay in expenses. The major portion of a bank’s profit comes from the interest that it earns on its assets mainly and fees it charges for its services. Its major expense is the interest paid on its liabilities.



The major assets of a bank are its loans and advances to individuals, businesses, and other organizations and the securities that it holds, while its major liabilities are its deposits and the money that it borrows, either from its customers or other banks or by selling commercial paper in the money market.

Banks increase profits by using leverage or gearing, which is the extent to which the banks fund its assets with borrowings rather than equity. Profits can be measured as a return on assets and as a return on equity. Because of leverage, banks earn a much larger return on equity than they do on assets.

Traditional Measures Of Profitability

The traditional measures of the profitability of a business are primarily its

Return on Assets (ROA) and Return on Equity (ROE). Assets are used by businesses to generate income. Loans and securities are bank's assets and are used to provide most of a bank's income.

However, to make loans and to buy securities, a bank must have money, which comes primarily from the bank's owners in the form of bank capital, from depositors, and from money that it borrows from other banks or by selling debt securities - a bank buys assets primarily with funds obtained from its liabilities as can be seen from the following classic accounting equation:

Assets = Liabilities + Bank Capital (Owners' Equity)

Return on Asset (ROA)

Return on Asset is determined by the amount of income that it earns on its Net Interest income and fees on its services.

Net interest income depends partly on the Interest Rate Spread, which isthe Average Interest Rate earned on it assets minus the Average Interest Rate paid on its liabilities.

$$\text{Interest Rate Spread (Or Interest Spread)} = \text{Average Interest Rate Received on Assets} - \text{Average Interest Rate Paid on Liabilities}$$

$$\text{Net Interest Income} = \text{Interest Received on Assets} - \text{Interest Paid on Liabilities}$$

$$= \text{Interest Earned on Securities + Loans} - \text{Interest Paid on Deposits and Borrowings}$$

Net Interest Margin shows how well the bank is earning income on its assets. High net interest income and margin indicates a well- managed bank and also indicates future profitability.

Clarification for accurate understanding

ROA must not be defined as net interest income divided by assets. Use net profit over a consistent average total-assets/working-funds base. NIM has a separate numerator and explicitly stated denominator.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

Net Interest Margin = Net Interest Income / Average Total Assets

Return on Asset for Banks:

$$\text{ROA} = \frac{\text{Fee Income} + \text{Net Interest Income} - \text{Operating Costs}}{\text{Average Total Assets}}$$

$$= \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Because income is calculated over a time period, but assets, as a balance sheet factor, are determined at a particular time, average assets are used:

$$\text{Average Total Assets} = \frac{\text{Total Assets at Start of the Fiscal Year} + \text{Total Assets at End of the Fiscal Year}}{2}$$

Correct distinction: ROA uses net profit over a consistent average asset base. A net-interest-income ratio is a separately defined margin measure. Read the preceding clarification before using the historical formula illustration.

(Note: Herein we will refer to Average Total Assets as simply Bank Assets.)

Return On Equity (ROE) For Banks

The return on equity is what the bank's owners are primarily interested in because that is the return that they earn on their investment, and depends not only on the return of assets, but also on the total value of the assets that earn income. However, to purchase more assets, a bank needs to pay for it either with more liabilities or with bank capital. Therefore, if the owners want to earn a greater return, they would rather use liabilities rather than their own capital because this greatly increases their return.

When a bank increases its liabilities to pay for assets, it is using leverage, otherwise a bank's profit would be limited by the fees that it can charge and its interest rate spread. But the interest rate spread is limited by what a bank must pay on its liabilities and what it can charge on its assets. Since banks compete with each other for depositors and deposits compete with other investments, banks must pay competitive market rate to attract depositors. Likewise, banks can only charge so much for loans since there is competition from other banks and businesses can get loans by selling debt securities, either commercial paper or bonds, in the financial markets. Hence, interest rate spreads are not wide, so a bank can only earn more net interest income by increasing the number of loans that it makes compared with the amount of its bank capital, which it does by using leverage:

Clarification for accurate understanding

A historical assets/equity multiple is not a universal limit or the regulatory leverage ratio. State the measure, jurisdiction, institution type and effective date; commercial-bank regulatory leverage uses Tier 1 capital and a prescribed exposure measure.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

$$\text{Leverage Ratio} = \frac{\text{Bank Assets}}{\text{Bank Capital}}$$

Now the return for the owners is easy to calculate:

$$\text{ROE} = \text{Return on Assets} \times \text{Leverage Ratio}$$

$$= \frac{\text{Net Income}}{\text{Bank Assets}} \times \frac{\text{Bank Assets}}{\text{Bank Capital}}$$

$$= \frac{\text{Net Income}}{\text{Bank Capital}}$$

Distinguish accounting assets/equity from the prescribed regulatory leverage ratio. State the numerator, denominator and measurement period before comparing banks.

The leverage that banks use is similar to a business using debt to increase its earnings. After all, deposits are just money that the bank owes to its depositors. Hence, the leverage ratio is the same as the debt ratio used to determine the leverage of other business types. The return on equity can be increased by increasing leverage, but banks can only increase leverage by so much, because with increased leverage comes increased risk. For instance, let us consider the following hypothetical bank:

Bank Assets = Rs. 100

Bank Liabilities = Rs. 95

Bank Capital = Rs. 5

This is a leverage ratio of 20 to 1 (Rs.100/Rs.5). If the value of its assets drops just 5%, then the bank's capital will be wiped out. To protect the safety of the banking system, the regulator (i.e. RBI in India) restricts the amount of leverage that banks can have. In USA to protect the safety of the banking system, the Federal Reserve restricts the amount of leverage that banks that are depository institutions can use. Typically, the leverage ratio is about 10 to 12. In other words, a bank's assets may have at least 10 times the value of its capital, but not much more.

Branch Operating Efficiency

With the challenges banks are facing these days, it's becoming clear that banks must get the best "bang for the buck" from all resource expenditures. Continued inefficiency at a bank might be robbing important efforts of the resources banks need to be fully successful. But a focus on cutting costs alone is not a formula for long-term success. A balanced approach - one that enables a bank not only to improve operating efficiency but also to upgrade its capabilities to respond to market needs and prepare for the future - is imperative to the success of a bank's operations and profitability.

Why Efficiency matters for Bank Operations

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

As with any business, banks must be vigilant about spending wisely. Today, however, the banking industry faces a new combination of circumstances that are giving special impetus to the need for efficiency. Changes in customer preferences and expectations, new competition, and new technologies are transforming the nature of banking.

The business of banking is morphing toward a digital- and technology-based model while retaining important aspects of the traditional person-to-person business model. To remain competitive, banks need to invest in technology, marketing, automation, and self-service capabilities, and also must optimize their legacy investments in branches and traditional systems.

Setting operating targets for improvement

Banks today are focusing how, and by how much, efficiency and costs can be improved. Every institution is unique, of course, so the size of the improvement opportunity will vary greatly from one bank to another and also from one branch to another. Industry experience suggests that a concentrated and carefully executed efficiency initiative should be able to achieve significant savings.

The outcomes are not always realized through direct cost reductions. Ideally, improved efficiency means processes that are scalable and that support a faster pace of growth for the bank's revenue stream and asset base than for its overhead costs.

Strategies For Improving Efficiencies Of Banking Operations

Business realignment

Channel optimization

Process costs

Staff productivity

Technology and automation

Vendor Management

Product Bundling and Relationship Pricing

Cross-lob data sharing and building a 360-degree Customer View

Sophisticated customer segmentation

Real time cross -selling/up -selling

Innovative Reward Design

Automating Customer Care

Digital Revolution

Big Data

Multi-Channel Seamless Experience

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

Innovative Bank Branch Design

Instilling a culture that values efficiency

Factors Affecting Profitability of Banks In India

The results indicate that profitability of banks in India is affected by both internal and external factors. Strength of equity capital, operational efficiency, ratio of banking sector deposits to the gross domestic product (GDP, cost of funds, non-performing assets(NPA) are few of the external factors which affect bank profitability whereas inflation, government policies, competition, etc. are few external factors affecting the profitability. Broadly the profitability of banks is affected by three major factors as follows:

Macro-economic factors-The profitability of banks respond positively to GDP growth and negatively, to inflation growth rate. Inflation has a strong effect on profitability of banks and banks' profits are not significantly affected by the real GDP fluctuations. Low interest rates along with stiff competition among banks put pressure on interest margins of banks and hence negatively affect bank profitability.

Industry Specific Factors-NPAs have the most adverse impact on the profitability of banks. They reduce the profitability due to increase in operating costs and decline in their interest margins.

Other Bank Specific Factors-There exists a positive relationship between deposits and profitability as more deposits a bank collects, higher will be the availability of funds for generating loans and for other profitable uses such as investments. Non-interest income of the bank consisting of commission income, service charges, and fees, guarantee fees, net profit from sale of investment securities, and foreign exchange profit is another factor in determining the bank's profitability.

Steps To Improve Branch Profitability

Focus on balancing profit, growth and risk

Assess the strategic fit and unique role for each branch in the network

Analyse the current customer base for each branch

Identify your best new prospect (potential customers) opportunities

Analyse the competition

Set specific goals by branch for business and consumer markets

Execute effective marketing campaigns to drive customer origination, retention and expansion

Redefine the bank model of the future

Besides the strategic steps stated above, the branches should also ensure to focus

on the following steps too to improve profitability.

Relentless focus on NPA reduction

More quality loans

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

Focus on non-interest income

Low cost deposit

Holding Minimum Cash Balance

Cost Management

Good Customer Relationship

Courteous behaviour by Branch Head

Essential Factors To Make Continuous Improvement In Profitability

Locating areas in your business that could be improved or made more efficient, e.g. general business processes or administration

Using key performance indicators (KPIs) to analyse your strengths and weaknesses, e.g. rising costs or falling sales

Assessing your general business costs, e.g. overheads, how discounted deals with loyal customers affect your profits, how productive your staff are

Reviewing your areas of business waste and reduce them, e.g. power supply costs

Regularly reviewing the pricing of your products

Testing the prices of any products you review before making the changes permanent

Improving your profitability through your best customers - use up-selling, cross selling and diversifying techniques to improve your profit margins

Identifying areas of expenditure and limit these by bargaining with your suppliers

Long-term deals with suppliers to negotiate a better price on products

Researching new opportunities in your business sector and identifying where you could expand the market

Put monitoring systems and processes in place, e.g. benchmarking.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Find net interest income from Rs.120 lakh interest income and Rs.70 lakh interest/funding cost.

Answer: Rs.50 lakh.

Why: Subtract the cost of the defined funding base from interest income; do not deduct operating expenses at this stage.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

Question 02 | Find operating profit from NII Rs.50 lakh, other income Rs.15 lakh and operating expenses Rs.35 lakh.

Answer: Rs.30 lakh under the stated framework.

Why: Add recognised income streams, then deduct the stated operating costs.

Question 03 | What is ROA for net profit Rs.16 lakh and average assets Rs.2,000 lakh?

Answer: 0.8%.

Why: 16/2,000 x 100; annual profit should be compared with a consistent annual average base.

Question 04 | What is ROE on the stated Rs.200 lakh average allocated equity?

Answer: 8%.

Why: 16/200 x 100; this is an illustrative allocated-equity return, not a capital adequacy ratio.

Question 05 | Why does additional revenue of Rs.10 lakh fail to increase profit when costs rise Rs.4 lakh and provisions Rs.8 lakh?

Answer: The combined extra charges are Rs.12 lakh.

Why: Profit falls Rs.2 lakh before any changed tax effect; revenue growth alone is insufficient.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Profit is a period amount.	15. NIM also reflects balance-sheet mix.
02. Profitability requires a defined base.	16. Assets equal liabilities plus equity.
03. NII equals interest income less interest expense.	17. Assets/equity is an accounting multiple.
04. Other income is separate from NII.	18. Regulatory leverage has prescribed definitions.
05. Operating profit needs a stated framework.	19. Leverage magnifies losses too.
06. Provisions affect final profit.	20. Growth does not guarantee profit.
07. Tax affects net profit.	21. Credit quality affects sustainability.
08. ROA uses net profit.	22. Common-cost allocation affects comparisons.
09. ROA needs a consistent average base.	23. Transfer pricing affects branch results.
10. ROE uses a defined equity base.	24. Cost cutting can weaken service.
11. Branch equity can be allocated.	25. Controls support sustainable efficiency.
12. NIM is not ROA.	26. Period and units must match.
13. State the NIM asset convention.	27. Interpret ratios with asset quality.
14. Interest spread compares rates.	28. Use a balanced improvement plan.

Interest income 120 > Interest/funding cost 70 > NII 50 + other income 15 > Operating costs 35 > Operating profit 30

MODULE B / B01

Customer Requirements

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Meera has received her first salary and asks a branch officer for “the best account”. Naming a premium account immediately would confuse a product with a requirement. The officer first asks what Meera needs to do: receive salary, pay rent, keep an emergency reserve and save for a course beginning next year. Those needs have different time horizons. Money needed for rent must remain readily accessible; a course reserve may support a suitable deposit arrangement, subject to withdrawal conditions. A card or overdraft is not automatically needed simply because the customer is eligible.

The officer next asks about Meera's comfort with mobile banking, access to a branch, expected transactions, available balance and relevant charges. This turns an attractive sales description into a service that can actually be used. A low headline fee does not help if the required channel is unavailable or the balance condition is unsuitable. The officer explains the terms and asks Meera to describe how she will access money in an emergency. Her answer tests understanding rather than mere agreement.

Finally, the officer records the agreed requirement and follows up after account activation. Good service includes correct execution, timely communication and resolution when something fails. The decision succeeds when the product, channel and service standard fit the customer's circumstances; selling the most features is not the objective.

Change one assumption

Now suppose Meera's income becomes irregular because she starts freelance work. Her need to receive and use money remains, but a product requiring a consistently high balance may become unsuitable. The officer should revisit expected credits, transactions and emergency access before recommending a change. The earlier salary-based assumption is no longer reliable. A savings target may need smaller, flexible contributions rather than a fixed commitment that repeatedly fails. Reassessment follows a changed circumstance; it does not mean that every customer needs a new product whenever income fluctuates.

Avoid this common mistake

Do not turn a needs hierarchy into a rigid rule that every customer must follow in the same order. Security, convenience, recognition and future goals can coexist. A customer may express a wish for a prestigious card while actually needing reliable payments and expense control. The officer should clarify the underlying requirement, explain trade-offs and confirm understanding. Neither a sales target nor a customer segment label is a substitute for a suitable recommendation.

Ask about purpose > Establish timing and access > Compare conditions > Confirm understanding > Review actual delivery

Follow the decision: B01

Ask about purpose > Establish timing and access > Compare conditions > Confirm understanding > Review actual delivery

Connect the concepts

01. A requirement describes a job the customer needs done; a product is one possible way to do it.

02. Ask about cash-flow timing because money needed tomorrow cannot be treated like a long-term reserve.

03. Liquidity and return involve a trade-off: higher return may bring conditions, risk or reduced access.

04. Reliability means performing the promised service correctly, rather than merely offering many features.

05. Responsiveness concerns useful action and communication when the customer needs assistance.

06. Assurance grows from competence and clear explanations; confident selling alone does not create it.

07. Empathy means understanding circumstances without making unsupported assumptions about a customer group.

08. Physical and digital service cues shape trust, but appearance cannot compensate for incorrect execution.

09. Segmenting customers helps organise service; individual assessment still determines the actual recommendation.

10. Measure service using outcomes such as successful activation and resolved problems, not only product counts.

11. Record agreed needs and disclosures so a later review can test whether the recommendation remained appropriate.

12. Revisit a recommendation when income, family commitments, access needs or goals materially change.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Customer Requirement

Retail Product Overview

Approval Process for Retail Loans

Ask about purpose > Establish timing and access > Compare conditions > Confirm understanding > Review actual delivery

Due Diligence (Verification of KYC with relevant documents, Pan Number, House visit etc etc..)

Quantum of loan

Quantum of loan is either related to the product or to the income of the individual.

The quantum is expressed as 12th times the monthly income in the case of loans for personal expenses.

4 times the annual income in the case of vehicles,

48 to 60 times the monthly income for the purpose of housing etc.

Margin may vary from 15% to 30% of the value of asset, depending on the

type of loan/scheme.

Payment Period

The repayment period may vary from 3yrs to 30 yrs depending on the purpose.

Loans for personal expense are to be repaid within 3 years.

Auto loans are given for duration of 5 to 7 years;

Housing loans for 5 to 30 years.

Customer Requirements

Let us first try to understand the customer segment first before discussing about their requirements. Broadly customers are segmented based on their income levels as their need pyramid will vary with the rise in their income levels. Banks develop and market their products based on this segmentation and target the relevant segment for maximum conversion of business. The basic segmentation of customers based on their income levels is presented below.

Income Levels (Rs.	Lakhs)	Customer Segment
2-10	Mass Market	
10-50	Mass Affluent	
50-400	Super Affluent	
400-4,000	HN W	
4000-120,000	Super HNW	
Above 120,000	Ultra HNW	

The fundamental assumptions about customers for building retail banking products and services are briefly explained as follows:

Customers are different.

Needs of the customers are different

Each customer will have different sets of need for financial services.

The need requirements of customers for financial services will be unique.

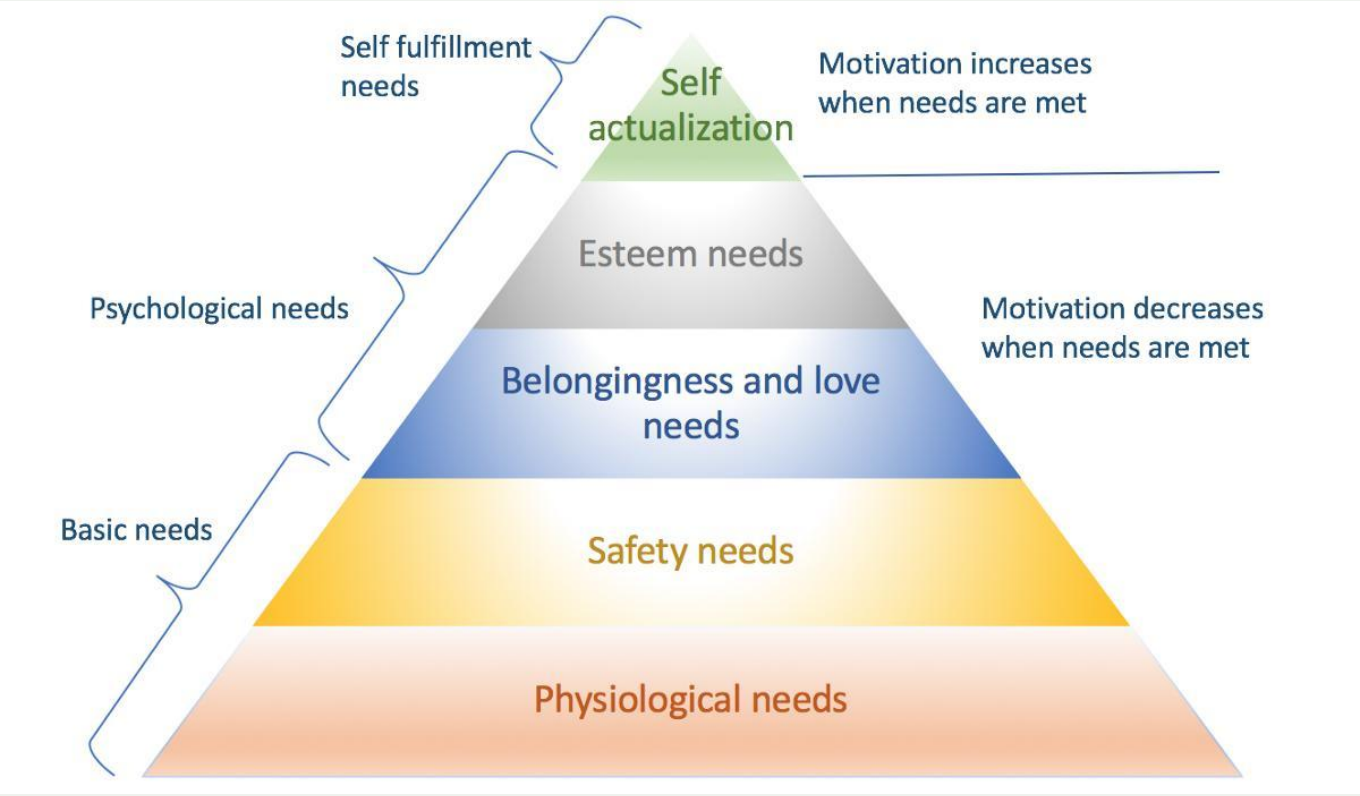
Customers can be broadly grouped together based on their need pyramids.

Customers can be grouped together based on their income, age, geography, profession, employment, vocation gender and family size.

Product and services can be developed for a single or a combination of the above elements to satisfy most of the needs.

Products and services can be structured on a niche basis within one or any of the above elements.

Moslow's Theory and Customer Requirements



Maslow has defined five needs of individuals in their various stages of life. The needs start from the basic requirements and move up the value chain during the life stage progression. Obviously, the need ladder will also move up with the change in the life stage of the customers. If banks structure products and services to match the different stages in the need spectrum, banks will achieve the twin objectives of

customer satisfaction and business conversion. Let us demonstrate the above concept with the following

illustration:

	Investment and Insurance
Need Level Matching Banking	
	Products
Physiological Needs	Core Savings Accounts
	Personal Accident Cover
	Housing Loans
Security/Safety Needs	**Recurring, Fixed Deposit Products.**
Life Insurance Products	Endowment Products with low
	premium, long tenor and high
	maturity amounts.
	Tax Planning Banking, Insurance and
	Mutual Fund Products
Social Needs	Consumer Loans
	Personal Loans
	Home Loans
	Car Loans
	Loans for Professional Development
	for Doctors, Engineers, Lawyers,
	Chartered Accountants, Management
	Consultants, Architects etc.,
	Insurance Cover tagged to above

Security/Safety Needs	Recurring, Fixed Deposit Products.
	loans.
	Retail Gold Coins.
	Health Policies for self and family.
	Investment Products like Mutual
	Fund Schemes.
	Systematic Investment Plans of
	Mutual Funds.
	Unit Linked Insurance Products.
Esteem Needs	Special Term Deposit Products.
	Term Insurance Products.
	Second Housing Loans/ Home
	Improvement/ Home Decor Loans.
Self Actualization Needs	Pensioners Loans
	Retirement Solutions in Banking &
	Pension Plans in Insurance
	Senior Citizens Term Deposit
	Products

Customer Requirements about Service Quality Service quality is what customers expect from Banks and has different dimensions. Following are some of the requirement s/expectations form the customers about the service quality of banks. (a)Tangibles: Appearance of physical facilities. equipment, personnel and communication materials

Are bank's facilities attractive?

Is my credit card statement easy to understand? (b)Reliability: Ability to perform the promised service dependably and accurately.

Ask about purpose > Establish timing and access > Compare conditions > Confirm understanding > Review actual delivery

Where an Officer says that the amount will be sanctioned in 2 days, does he follow up and inform the status?

Is my credit card statement accurate? (c)Responsiveness: Willingness to help customers and provide prompt service.

When there is a problem with the bank statement, does the bank resolve the bank quickly?

Are the charges which are debited wrongly are recredited to my account properly,

(d)Assurance

Competence - Possession of required skills and knowledge to perform services.

Courtesy - Politeness, respect, consideration and friendliness of the contact personnel.

Credibility - Trustworthiness about the service provider.

Security - Freedom from risk and doubt.

(e)Empathy

Access - Approachability and ease of contact.

Communication - Keeping customers informed in a language that they understand.

Understanding the customer - Making an effort to know customers and their needs. Service Quality

Savings Bank

The following dimensions revealed the service quality and delivery parameters

for savings accounts:

Touch point Experience: Overall Measures - At an overall level, the PSU bank is comparable to the PS banks average across touch points.

Branch-Layout and Cash transactions: Performance across parameters above PS banks average.

Savings Account: No serious concerns on savings account; Parameters at or above par vis-a-vis private banks.

Branch Non-Cash Transactions: Scores on most parameters at par with PS Banks average.

Communication: Communication channels available along with information How to customer meets average expectations.

Problem Incidence/Recurrence - Very low problem incidence just like the industry.

Key Performance Indicator - Savings Account Activation Time - Account activation within 3-day window similar to industry average.

Key Performance Indicator - Welcome Kit Receipt Time - Close to 90% receive welcome kit within 14 days.

Customer Mindspace (Image Map) - The PSU Bank differentiated on problem resolution & delivering on promise, amongst its customers. Further Mreasures Needed to Enhance Service Quality

The study suggested further measures to improve the service quality to meet the

customer expectations with regard to savings accounts.

Need to improve transaction time at the branch.

Branch offerings need to be relooked at, in terms of range of services offered, in light of people-related drivers being seen as driving overall customer satisfaction.

Lack of adequate channels is felt by the customer, in addressing his needs. Need to relook at current channels and their ease of access/usage for the customer.

Home Loans

The PSU Bank came second in the rankings for service quality with regard to

Home Loans. Important service parameters satisfied by the Bank are listed below

:

The PSU Bank index is above the average for the Cluster it belongs to.

Drivers of Satisfaction (Identifying the most important touch points): Product features and communication seen to be driving overall experience the most.

Overall Measures: At an overall level, the Bank scored above PS banks average across touch points.

Home loan parameters perform above PS banks average.

Communication channels & communication received from the bank, all score above PS banks average.

Loan Disbursement Time: Disbursement within the 14 day window for the bank far higher than Industry average.

Customer Mindspace (Image Map) -The Bank differentiated on responsiveness and customer service, amongst its customers. Measures Needed to Enhance Service Quality

The bank has scored across parameters at par or above PSU banks' average. But

to enhance the service quality, bank has to take the following initiatives.

Bank has to focus on strengthening performance across parameters

Bank has to pay special attention to range of product features.

Proactive customer communication needs to have a systemic approach.

Customer-friendly modules on branch network, new products and services need to be developed.

Score comparatively lower on handling special requests.

Need to reorient employees, towards this key aspect of customer experience, through training and reviews around service time. Customers' Requirement from Banks

Generally, customers require the following from their bank/s for maintaining their accounts/relationship.

Right product mix to satisfy different customer segments.

Right channel mix (both direct channels and e channels).

Structured process time across products and adherence to the time prescriptions.

Delivery of the promises with regard to products/services and channels.

Satisfactory service experience from the delivery channels and the service personnel.

Effective Communication about the different products and services.

Transparent service charges.

Good ambience.

Effective and time bound greivance redressal mechanism.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Why should the officer ask about rent before suggesting a deposit?

Answer: To establish the amount and timing of required access.

Why: A withdrawal restriction may conflict with a near-term payment even when the advertised return is attractive.

Question 02 | Does a higher account balance prove that a premium package is suitable?

Answer: No.

Why: Suitability depends on needs, transactions, charges, conditions and understanding, not balance alone.

Question 03 | Meera signs a form but cannot explain a balance condition. What is missing?

Answer: A meaningful understanding check.

Why: A signature records an action; it does not by itself show that the customer understood a condition.

Question 04 | Is a failed transfer only a technology issue?

Answer: No; it is also a service problem to manage.

Why: The customer needs timely information, correction and an appropriate resolution route, whichever team owns the fault.

Ask about purpose > Establish timing and access > Compare conditions > Confirm understanding > Review actual delivery

Question 05 | Which is the better service measure: ten accounts opened or ten accounts successfully activated and used as intended?

Answer: The second better reflects the stated customer outcome.

Why: Opening counts are useful activity data but do not establish successful delivery or suitability.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Begin with the customer's task.	15. Service appearance is only one dimension.
02. A product is a means, not the requirement itself.	16. Customer groups are not identical individuals.
03. Ask about income timing.	17. Segmentation supports planning.
04. Identify essential payment commitments.	18. Needs can coexist at several levels.
05. Keep emergency access visible.	19. A sales target does not establish suitability.
06. Match product conditions to the time horizon.	20. Agreement is different from understanding.
07. Explain balance requirements.	21. Use a changed situation to test the recommendation.
08. Explain relevant charges.	22. Record the agreed requirement.
09. Check channel access and confidence.	23. Activation is part of delivery.
10. High return can involve trade-offs.	24. Follow-up can reveal a service gap.
11. Reliability means correct execution.	25. A complaint needs an accessible route.
12. Responsiveness means timely useful assistance.	26. Measure outcomes as well as activity.
13. Assurance requires competence.	27. Reassess after material changes.
14. Empathy requires listening.	28. Recommend the fitting combination, not the most features.

Ask about purpose > Establish timing and access > Compare conditions > Confirm understanding > Review actual delivery

MODULE B / B02

Product Development Process

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A bank proposes a savings package for small shop owners. The marketing team wants a distinctive name, but the product manager begins with evidence: customers receive frequent payments, need a clear transaction record and worry about unpredictable charges. The proposed product must solve those problems before its branding matters. The team defines the target users, the basic service, expected transaction volume, permitted features, operating controls and a transparent price structure. It separates customer benefits from the bank's revenue expectations.

Next, the team maps the product lifecycle. During development, it tests feasibility, legal conditions, systems, staff readiness and customer understanding. During launch, it measures actual activation and service failures as well as account openings. During growth, capacity and controls must expand with demand. Maturity calls for review of value, pricing and retention. Decline may require redesign or orderly withdrawal rather than indefinite promotion.

Suppose a pilot has 100 customers. Eighty activate the service, but twenty repeatedly need help reconciling charges. Calling the launch an unqualified success because every account opened would miss the problem. The pilot result should change the design, disclosures or support process before expansion. Product development is therefore a repeated learning cycle. Approval to launch is not proof that the product will remain appropriate, profitable or compliant throughout its life.

Change one assumption

Change the pilot result: ninety customers activate, but a systems change causes duplicate charges for ten of them. The stronger activation rate does not cancel the execution defect. Expansion should depend on correction, customer remediation and evidence that the cause has been controlled. The team should also test whether staff can explain the revised price structure. A product may have real demand and still be unready for a wider launch. Review both commercial results and customer outcomes before moving to the next lifecycle stage.

Avoid this common mistake

Do not treat product development as changing a name, adding a feature or copying a competitor's price. Each choice affects customers, operations, controls, systems and economics. A service advertised as free may still have conditions or charges outside its stated scope. Nor should optional extras dilute mandatory minimum facilities of a regulated basic account. Compare the exact promise with actual delivery, and distinguish a bank's package design from requirements imposed by the applicable rules.

Customer evidence > Design and risk tests > Pilot and feedback > Controlled launch > Lifecycle review

Follow the decision: B02

Customer evidence > Design and risk tests > Pilot and feedback > Controlled launch > Lifecycle review

Connect the concepts

01. Product development starts with an evidenced customer problem; otherwise features may be technically impressive but unused.

02. A product line groups related offerings, whereas a product policy guides which offerings and conditions are acceptable.

03. Liability products mobilise funds for the bank; asset products create lending exposures and repayment obligations.

04. Fee services can complement accounts and loans, but a third-party product needs its own suitability and disclosure analysis.

05. Idea screening removes proposals that fail customer need, feasibility, risk or strategic tests before costly development.

06. Business analysis estimates income, costs and risks; optimistic sales assumptions do not establish profitability.

07. Product design includes terms, processes, controls, systems and support, not only the customer-facing brochure.

08. A pilot tests operation and understanding using a limited rollout, with recorded criteria for expansion or redesign.

09. Launch monitoring should compare promises with execution, customer outcomes and complaints.

10. The lifecycle explains changing management priorities; it does not prescribe the same life span for every product.

11. Withdrawal requires communication and servicing arrangements so existing customers are not left without support.

12. Basic account facilities and eligibility must be checked separately from optional features in a bank-designed package.

Customer evidence > Design and risk tests > Pilot and feedback > Controlled launch > Lifecycle review

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Product Development Process

In retail banking, product is the starting point of the marketing process. Product is the fulcrum on which the entire retail banking revolves. Everything is centered on it. The add on and the other value propositions are tagged to the products to offer better value and acceptance to the product. The different definitions for product are discussed below:

Theodre Levitt observes that "Products are almost always combinations of the tangible and the intangible. To the potential buyer, a product is a complex cluster of value satisfactions... A customer attaches value to a product in proportion to its perceived ability to help solve his problems or meet his needs. All else is derivate".

A bank product can be defined as "Anything that has the capacity to provide the satisfaction, use and return desired by the customer".

Product Life Cycle

There are various stages in the life of the product. The product after development goes through different stages in its sales journey and in each stage, the impact on sales will be different.

Introduction

Growth

Maturity

Decline

Product Lines of a Banker

To be successful in retail banking, any Bank has to understand different segments and develop appropriate products to meet these segments. Though different products cater to different segments, there are certain products like core products which cater to all segments.

Products can be broadly classified into following:

Deposit Products or Liability Products

Asset Products or Retail Credit Products

Other Products and Services.

Deposit Products or Liability Products

In the Deposit Product category, the products can be classified into

Saving Deposit

Customer evidence > Design and risk tests > Pilot and feedback > Controlled launch > Lifecycle review

Current Deposit

Term Deposit

Demand Deposit (CASA Deposit)

Current Accounts (CA)

Core Current Accounts

Basic Current Account with Cheque Book

Augmented Current Accounts

Basic Current Account with Cheque Book

+

Value Additions like tagged insurance cover (life and non life)

Other concessions like fi remittance etc.

Saving Accounts (SA)

Basic Savings Account with Cheque Book, Debit Card

Value Additions like tagged insurance cover (life and non life)

Personal Accident Cover

Sweep In/Sweep Out Facility

Other concessions like free remittance etc., Saving Accounts (SA)

Term Deposit (Fixed Deposits)

Recurring Deposits

Deposit can be built up on a monthly basis.

Term Deposit Interest Rate tor the relevant period.

Flexibility with respect of amount payable every month

Fixed Deposits

Deposits offered lor a fixed period.

Option to receive interest at maturity/monthly/quarterly/half yearly.

Interest also reinvested ad payable on matumy along with principal

Combination Term Deposits

Combination of Recurring Deposits and Fixed Deposits.

Different combinations are structured.

The first part will be in the form of RD and the second part will be on any one type of fixed deposit.

Basic Savings Bank Deposit Account (BSBDA)

The Basic Savings Bank Deposit (BSBD) Account has been designed as a savings account which will offer certain minimum facilities, free of charge, to the holders of such accounts.

Minimum Common Facilities

Clarification for accurate understanding

Basic-account minimum facilities must be read with the current applicable BSBDA directions; distinguish free minima from a maximum transaction entitlement and separate small-account KYC restrictions.

The ‘Basic Savings Bank Deposit Account’ should be considered a normal banking service available to all.

This account shall not have the requirement of any minimum balance.

The following basic minimum facilities will be offered in the BSBD Account, free of charge, without any requirement of minimum balance. 1. The deposit of cash at bank branch as well as ATMs/CDMs 2. Receipt/ credit of money through any electronic channel or by means of deposit /collection of cheques drawn by Central/State Government agencies and departments 3. No limit on number and value of deposits that can be made in a month 4. Minimum of four withdrawals in a month, including ATM withdrawals 5. ATM Card or ATM-cum-Debit Card

No charge will be levied for non-operation/activation of in-operative ‘Basic Savings Bank Deposit Account’.

Banks are free to provide additional value-added services, including issue of cheque book, beyond the above minimum facilities, which may/may not be priced (in non-discriminatory manner) subject to disclosure. The availment of such additional services shall be at the option of the customers. However, while offering such additional services, banks shall not require the customer to maintain a minimum balance. Offering such additional services will not make it a non-BSBD Account, so long as the prescribed minimum services are provided free of charge.

The BSBD Account shall be subject to RBI instructions on KYC/AML for opening of bank accounts.

Holders of ‘Basic Savings Bank Deposit Account’ will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a ‘Basic Savings Bank Deposit Account’.

The minimum free withdrawals available to the BSBD Account holders can be made at all ATMs (own-bank/other bank ATMs).

Small Account

In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where-

The aggregate of all credits in a financial year does not exceed rupees one lakh;

The aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and

The balance at any point of time does not exceed rupees fifty thousand .

Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

Know Your Customer Forms (KYC Forms)

KYC Forms, as said earlier, are required to be obtained from all the account holders while opening the account itself. It is obtained as an Annexure to the Account Opening Form. It throws light on the different dimensions of the customers and helps the banks to deal with them appropriately. The important details which are to be furnished in

the KYC Form are discussed below:

Name and Address of the Customer and PAN/TIN Number

Details of Spouse/Father and also Son(s)/Daughter(s)

Type of Account - Savings/Current/Term Deposit/Loan (iv) Age - Age band - < 20, 21 -40,41 -60 and >60.

Occupation - Details of Service, Profession, Others

Educational Qualifications - Non Graduate, Graduate, Post Graduate, Others

Nationality

Accomodation - Own/Residential

Conveyance - Two Wheeler/Car etc.,

Telephone

Credit Card - Details of Credit Cards held

Details of Deposits/Loans held with other branches/banks

Purpose of opening the account.

Source of funds - Salary/Business etc.,

Annual Income

If in business, all business details

Details of passport, if any.

Details of foreign countries visited during the past three years.

Any other relevant information.

Credit Products

Credit products offered by the bank, again, can be classified into two broad categories,

traditional credit schemes and market oriented new credit schemes.

Traditional credit products are cash credit accounts for business people to fix credit limits and allow them to operate freely within the limits subject to certain stipulations. Overdraft scheme is to allow credit for a short period to be adjusted in a very short time.

Retail Credit Products

Home Loans

Auto Loans

Personal Loans

Credit Card Receivables

Other Retail Loans

Other Services

In the other services category, all the services offered by the bank other than the Deposit schemes and Credit schemes can be grouped. Again it can be further classified

into Remittances and other Fee Based Services.

In the remittances services, issue of Drafts, Bank Orders/Bankers Cheques, National Electronic Funds Transfers (NEFT), Real Time Gross Settlements (RTGS) are the types of services offered to the customer. The cost of availing these services will depend on the quantum of transactions and the customer's business relationship with the bank.

In other fee based services, Collection of Cheques, Safe Deposit Lockers, Standing Instructions for carrying out the instructions of the customer on a periodic basis.

'Other Services' is the non fund based business of the banks. In these types of services, the bank will be guaranteeing on behalf of the customer for whom they will be offering these products. Two examples of non fund based business for the banks are:

Letter of Guarantee

Letter of Credit

Co-acceptance of bills

Stages In New Product Development

A new product development has to pass through several important stages as shown below:

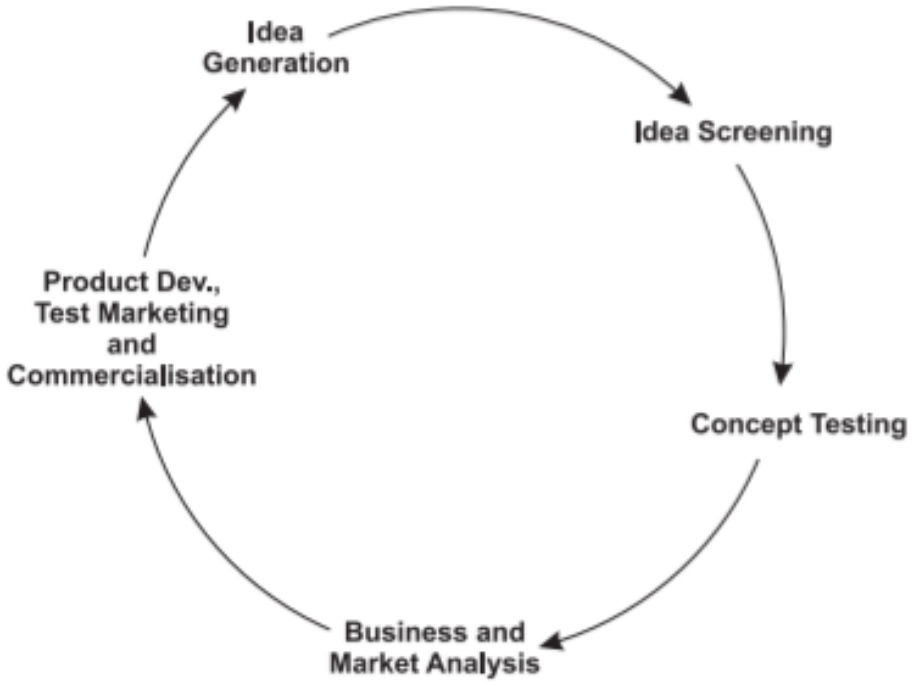


Fig. 6.6 New Product Development

Generating new product ideas

Idea screening

Concept Testing

Business analysis and Market analysis

Actual product development, test marketing and commercialisation :

Product Management

According to Theodre Levitt, product, over a period, evolved on the following lines :

The Generic Product

The Expected Product

The Augmented Product

The Potential Product

Product Policy

Product policy is one of the main tasks in product management. The marketer should decide what exactly the products to be offered to different segments are. Again if the customer base is fairly very large, the product line should be based on the homogenous needs of the heterogeneous customer base and customer segments. Otherwise it will result in unwieldy product range. But of course the marketer has to

consider designing product tailored to specific customer base if the segment is an important segment. For deciding that the marketer should develop a product policy which involves the following concepts:

Appraisal of the product line and individual products

Decisions on product differentiation

Product positioning

Brand decisions

Decisions on packaging

New Product Development

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What should be fixed first: the product name or an unresolved duplicate-charge defect?

Answer: The execution defect.

Why: Branding cannot make an unreliable process ready for expansion.

Question 02 | If 100 accounts open but only 80 activate, is activation 100%?

Answer: No; activation is 80% of the opened accounts.

Why: Use the defined denominator and outcome rather than substituting an opening count.

Question 03 | Why run a pilot?

Answer: To test assumptions and discover operational or understanding problems before wider rollout.

Why: A small controlled launch creates evidence; it does not remove all future risk.

Question 04 | Is a fee-based third-party product automatically suitable for every account holder?

Answer: No.

Why: A relationship with the bank does not establish the need, eligibility or suitability for another product.

Question 05 | Does a mature product need no further review?

Answer: It still needs review.

Why: Customer needs, competition, costs, systems and applicable rules can change after maturity.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Start with a customer problem.	15. Train staff before launch.
02. Collect evidence before designing features.	16. Test disclosures for understanding.
03. Specify target users.	17. Use a pilot to examine assumptions.
04. Define the core service.	18. Define launch success measures.
05. Separate customer value from bank revenue.	19. Account opening is not activation.
06. Product lines group related offerings.	20. Monitor service failures and complaints.
07. Product policy guides acceptable design.	21. Growth requires capacity and controls.
08. Deposits are bank liabilities.	22. Maturity still requires review.
09. Loans are bank assets.	23. Decline can prompt redesign.
10. Other services can generate fees.	24. Withdrawal needs customer arrangements.
11. Screen ideas before development.	25. A new name is not a new benefit.
12. Test feasibility and control requirements.	26. Optional extras do not replace minimum obligations.
13. Estimate costs and income realistically.	27. Bank package terms are not universal rules.
14. Design the operating process.	28. Review the product throughout its life.

MODULE B / B03

Credit Scoring

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Arjun applies for a vehicle loan. His credit report shows a strong repayment history, but his current monthly income is Rs.60,000. Essential household expenses are Rs.28,000 and existing loan payments are Rs.12,000. Before the proposed loan, the arithmetic leaves Rs.20,000. If the proposed instalment is Rs.18,000, only Rs.2,000 remains for contingencies under these assumptions. A strong score therefore does not, by itself, demonstrate comfortable repayment capacity.

The credit officer separates three questions. First, does the report belong to the applicant and contain accurate information? Second, what does the bureau's score and report indicate about recorded credit behaviour under that model? Third, can the proposed repayment be sustained from verified present cash flows? A score helps organise risk assessment, but it is neither a guarantee nor a replacement for due diligence. The bank also considers purpose, existing obligations, stability of income, documentation and relevant policy.

Arjun notices an unfamiliar overdue account in the report. The officer should not promise that paying an unrelated charge will instantly repair the score. The discrepancy requires verification through the lender/bureau correction process. Meanwhile, the credit decision must use properly evaluated information. The useful lesson is to read the underlying report, examine affordability and resolve data errors. A single number cannot explain every reason to approve, decline or redesign a loan.

Change one assumption

Suppose the disputed overdue account is corrected, but Arjun then discloses a further Rs.5,000 monthly repayment. The corrected report improves information quality; it does not create extra cash. His remaining amount after the proposed instalment would now be negative Rs.3,000: 60,000 minus 28,000 minus 12,000 minus 5,000 minus 18,000. The proposal must be reassessed. A lower amount, different timing or another suitable response may be considered under policy. Correcting a bureau error and making a sustainable lending decision are connected but separate tasks.

Avoid this common mistake

Avoid the shortcut “high score means approve” or “low score means a person is dishonest”. Scores summarise selected recorded information under a particular model, and errors or thin histories can affect the result. Different bureaus and score types need not have identical ranges or interpretation. Do not promise a particular score increase after a payment or dispute. Verify the report, investigate warning signs and explain the decision fairly without replacing the bank's assessment with a score label.

Verify identity and report > Interpret recorded conduct > Calculate affordability > Investigate discrepancies > Document the decision

Follow the decision: B03

Verify identity and report > Interpret recorded conduct > Calculate affordability > Investigate discrepancies > Document the decision

Connect the concepts

01. Credit risk concerns failure to meet agreed obligations; a score estimates aspects of that risk from selected information.

02. The report and the score are related but different: the report helps explain the recorded accounts and conduct.

03. Identity matching matters because a well-calculated score for the wrong person is still unusable evidence.

04. Past repayment behaviour is relevant, but current income and expenses determine whether a new instalment is affordable.

05. Outstanding balances, utilisation, enquiries and account history may influence a model; weights are not universal.

06. A thin credit history is limited information, not automatic proof of either low or high risk.

07. Several simultaneous applications may require explanation; an enquiry is not itself evidence of default.

08. A dispute should target an identified error and follow the lender/bureau process with supporting records.

09. Paying only a card minimum can leave debt and interest; timely minimum payment is not debt elimination.

10. A score threshold is a decision-policy input, not a universally sufficient lending rule.

11. A declined application should lead to an appropriate explanation and correction route where relevant.

12. Risk assessment should remain consistent, documented and open to review when verified facts change.

Work it out, then change an input

Enter a principal, annual rate and number of months. Predict the change when the term or rate increases. Compare the EMI, total interest and outstanding balance; use a repayment budget to test affordability.

Open the offline emi calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

Verify identity and report > Interpret recorded conduct > Calculate affordability > Investigate discrepancies > Document the decision

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Risk

The types of risks and the triggers for the risk are mentioned below:

Credit Risk - Customer fails to pay

Business Risk - Loosing money due to wrong strategy.

Market Risk - Change in market prices.

Operations Risk - Processing failures and frauds,

Credit Scoring -Concepts



Every borrower seeks the lowest interest rate, every lender the highest. The return a lender seeks factors in, apart from his profit, a premium for the risk he feels he bears of not being paid back. This risk perception

is different for different borrowers and, ideally, should be determined from their credit history.

What is a Credit Score?

A credit score takes a 'snapshot' of a consumer's credit report and through

advanced analytics turns the information into a 3-digit number representing the amount of risk he brings to a particular transaction. For instance, the Cibil- TransUnion model gives scores ranging from 300 to 900.

The higher the score, the lesser is the risk of the consumer going 91-plus days overdue in the next year. While credit scores are new to India, the US has had them since 1989, when the FICO scores were launched. The lines of credit assessed to arrive at this score would mainly be retail products like home loans, auto loans, personal loans, credit cards and overdrafts.

What's a Good Credit Score?

Whether a score is good or not will depend on the bank's internal policy, its customer profile and its risk appetite. Some bank may perceive 700 as a good

score and another may not. Thus, in India, different banks will rank

different scores as good. Still, any score over 800 will be considered

excellent across the board.

But credit score is only an indicative tool for managing risk and its effectiveness depends on the banks' internal control mechanism. An objective thing like the credit score will not only help the banks to reduce defaults but also make loan disbursing faster, improve operational efficiency and bring costs down.

Credit Scoring Model

CICs typically build scores using three historical data files:

Defaults on previous credit transactions

Payment behavior/ Payment history

Previous searches/inquiries

Managing the Credit Score

We have studied about the two important determinants of the credit scoring by banks. But to effectively manage the credit score, the following points are very important.

Credit Utilization: Effective credit utilisation is a very important step in individual's credit score. If your safe limit is Rs 10000 and you are using only Rs 5000, then you are a very safe customer. If your limit is Rs 10000 and you are not only fully using it, but also seeking further credit, you could be overleveraging yourself and your score could fall.

Payment Defaults: How many past accounts are due, by how many days and by how much? The fewer, the better.

Trade Attributes: How old are your lines of credit and what type are they? Do you have a good mix or is it, say, all credit cards? A history of consistent repayment of various types of credit will improve your score.

Positive Side of Credit Score

A good credit score will indicate the character of the borrower in his financial matters. The following are some of the indicators of good score.

Evidence of financial discipline.

If the borrower has defaulted once or twice due to reasons beyond their control, those would show up as clear aberrations in an overall consistent payment history.

The longer the credit history, the better. The lender's assessment presumably improves as he gets bigger spans of repayment. One should be judicious about closing old accounts and opening new ones.

Warning Signs In Credit Score

The behavioroul pattern of the borrowers will impact the credit score of the borrowers. The following are some of the signals.

Craving for credit.

Frequent and unnecessary shopping for credit,

Several new accounts or recent requests for loans can be taken as signs of an over- hungry borrower.

The length of credit history is also important. Older accounts are generally better, so you should be judicious about closing old accounts and opening new ones.

Trade attributes - does the customer use a good mix of credit?

Credit Information Companies in India

Presently, four CICs

Credit Information Bureau (India) Limited

Equifax Credit Information Services Private Limited

Experian Credit Information Company of India Private Limited

CRIF High Mark Credit Information Services Private Limited

have been granted Certificate of Registration by RBI. In terms of Section 15 of the

Credit Information Companies (Regulation) Act, 2005 (CICRA), every Credit Institution shall become member of at least one CIC. Further, Section 17 of CICRA stipulates that a CIC may seek and obtain credit information from its members (Credit Institution / CIC) only.

As a result, when a Specified User, as defined in CICRA and Credit Information Companies Regulations, 2006, obtains credit information on a particular

borrower/client from a CIC, it gets only such information that has been provided to the CIC by its members.

Factors lending to favourable credit score

On time loan EMI payments.

Regular payment of credit card bills.

Paying credit card bills in full rather than paying minimum due amount every time.

Avoiding over-leveraging

Maintaining strong financial records.

Too Many forms of credit (such as unsecured person loans) among family members.

Proper utilization of approved credit limit.

Factors leading to negative credit score

Too many credit report enquiries by banks and other institutions.

Cheque bounces/dishonours.

Irregular loan repayment.

Defaulting on credit card bills/making late payments or consistent part payements.

Too much unsecured credit such as multiple personal loans.

Multiple applications for unsecured loan getting rejected.

Defaulting as a guarantor.

High utilization of approved credit limit or overshooting the limit.

Errors in record by banks and other finance institutions.

Issues in credit scoring

Three common credit problems are:

Lack of enough credit history.

Denied credit application.

Fraud and identity theft.

Mistakes In Credit Scoring

Confusion of Names

Human Input Error

Identity Theft

Troubleshooting Credit Score

We have to accept that there are chances of mistake in arriving of credit score or mistaken identities creating confusion in the scoring process. Errors and inaccuracies are possible with Credit Information Report. The steps for seeking clarifications in

your credit report are as follows:

Contact the bank that declined a credit card or loan application on the basis of your poor credit score. Ask them for a clarification on the poor credit score and request them to provide the control number for your credit report.

The bank will provide you with the control number of the credit report and also share the information on the credit report that is responsible for your poor credit score.

Provisions are available in the website of the CICs for resolving disputes.

The control number is a nine-digit unique number that helps to track an individual's credit report from CIC's database. The control number is generated when banks pull out your credit report on a requirement basis. The control number is a unique number, which is generated every time any bank or credit institution pulls out a credit report on you.

CIC requires this number because it enables them to view the exact details that the bank has seen when they drew a report on you. Hence, it is important for you to request the bank to provide you the control number.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What remains after Arjun's income, expenses, existing EMI and proposed EMI?

Answer: Rs.2,000 under the first stated assumptions.

Why: 60,000 - 28,000 - 12,000 - 18,000 = 2,000; the small buffer needs consideration.

Question 02 | Does correction of a report error increase monthly income?

Answer: No.

Why: It improves the accuracy of credit information; affordability remains a separate cash-flow question.

Question 03 | Must every credit score use the same range?

Answer: No.

Why: Check the bureau, product and model rather than treating one familiar range as universal.

Question 04 | Is an unfamiliar account to be ignored because the total score is strong?

Answer: No.

Why: The report must be checked for identity and data accuracy before relying on its conclusions.

Question 05 | Why should the bank avoid promising a fixed score improvement?

Answer: The model and complete reported information determine the result.

Why: An individual action cannot justify a guaranteed numerical change across models and reporting periods.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Credit risk concerns agreed obligations.	15. Model weights can differ.
02. A report is more than its score.	16. An enquiry is not a default.
03. Verify the applicant’s identity.	17. Repeated applications may need explanation.
04. Check account ownership and accuracy.	18. High utilisation can require investigation.
05. Read repayment conduct.	19. Dispute specific inaccurate information.
06. Examine outstanding debt.	20. Keep supporting records for a dispute.
07. Compare income with expenses.	21. Correction does not erase real obligations.
08. Include existing instalments.	22. Do not promise an instant score repair.
09. Include the proposed instalment.	23. Minimum card payment does not eliminate debt.
10. Allow for contingencies.	24. A policy cutoff is not complete appraisal.
11. Past conduct does not create present income.	25. Use verified facts in the decision.
12. A strong score is not a repayment guarantee.	26. Document relevant reasons.
13. A thin file means limited information.	27. Reassess when material facts change.
14. Model ranges can differ.	28. Responsible lending combines report, cash flow and due diligence.

MODULE B / B04

Important Retail Liability Products

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Farah has Rs.1,00,000 to place with her bank. She needs Rs.30,000 available for household payments and can leave the remaining Rs.70,000 for a year. The officer compares a transaction account with a suitable term deposit, explaining access, interest, withdrawal conditions, nomination and charges. Deposits are liabilities in the bank's books because the bank owes the customer money; the same balance is a financial asset for Farah. This perspective prevents confusion between a customer's savings and a bank's lending assets.

For an illustration only, suppose the deposit pays 6% simple interest for exactly one year. Gross interest on Rs.70,000 is 70,000 x 0.06 x 1 = Rs.4,200, so gross maturity is Rs.74,200. Actual products may use different compounding, day-count and payout conventions. The quotation must identify which convention applies. Any tax deduction is a collection mechanism under applicable law; it should not be confused with the final tax liability or with an unconditional exemption.

The officer also checks the operating mandate and ensures that a survivor or nominee arrangement is understood in its legal context. Product selection is therefore more than choosing the highest rate. It connects purpose, access, ownership, instructions, risk, service and the agreed contract. Farah should know both how the deposit grows and how she can use or claim it.

Change one assumption

Suppose Farah may need the Rs.70,000 after six months instead of a year. The originally quoted maturity cannot simply be divided by two and promised. The bank must explain the actual premature-withdrawal conditions, applicable rate, penalty if any and payout convention. A shorter deposit, a suitably structured sweep arrangement or another product may fit better, depending on the need. The customer's changed access requirement must be assessed before recommending the same term again. A high contracted rate is not the only measure of usefulness.

Avoid this common mistake

Do not teach every deposit feature as a universal legal rule. Minimum balances, sweep triggers, maximum tenors and product benefits can be bank-specific. Historical tax years and thresholds must not be carried into a current example without checking their period and conditions. A joint mandate, nomination and beneficial succession answer different questions. Nor does an inactive account automatically become the bank's own money. Always identify the account type, operating instructions, contract and applicable regulatory framework before applying a treatment.

Purpose and access need > Select deposit type > Explain interest and withdrawal > Record operating mandate > Review and service

Follow the decision: B04

Purpose and access need > Select deposit type > Explain interest and withdrawal > Record operating mandate > Review and service

Connect the concepts

01. A current account normally supports frequent business transactions; its precise conditions must be read from the applicable product.

02. A savings account combines safekeeping, access and interest under the relevant terms and eligibility rules.

03. A term deposit commits money for an agreed period; liquidity and premature closure conditions therefore matter.

04. A recurring deposit builds a reserve through periodic contributions, with missed-payment and maturity conditions to explain.

05. A sweep arrangement links liquidity and deposits, but thresholds, break-up rules and interest treatment depend on its design.

06. Simple interest and compound interest use different growth assumptions; identify the actual payout convention.

07. Gross interest, tax deducted and net credit are distinct amounts, and tax deduction is not necessarily final liability.

08. Opening and operating an account requires suitable identification, due diligence and authorised instructions.

09. Nomination supports claim handling but should not be described as a universal replacement for succession law.

10. Joint operating mandates control transactions while holders are alive; survivorship and inheritance require separate analysis.

11. Inoperative and unclaimed deposits require identification, customer service and the applicable process, not casual appropriation.

12. Deceased claims should follow the correct category of mandate, nomination, evidence and applicable settlement requirements.

Purpose and access need > Select deposit type > Explain interest and withdrawal > Record operating mandate > Review and service

Work it out, then change an input

Enter the principal, annual rate, period and compounding frequency. Compare two frequencies with all other inputs unchanged. Explain the difference between interest earned and the maturity amount.

Open the offline deposit calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Products

An Introduction to Retail Liability

Intermediation is the primary function of banks and mobilisation of deposit is the first step to intermediation. They accept deposit from public and lend it to the enterprise class engaged in productive activities. On loans and advances banks charge some additional interest rate. Banks don’t have their own money and so they lend from the deposited money. Banks normally pay interest on the money deposited by public which lies with the banks. Therefore, the deposited money is the banks liability as interest is paid on that sum to the depositor. On the other hand, the money given out as loan becomes the asset for the bank and earns interest.

Main Retail Liability Products of Banks

As stated above, main Retail Liability Products of Banks constitute various types of DEPOSIT accounts.

Banks accept various types of deposits. These are,

Demand deposits: Are payable on demand

Term deposits: Are repayable on expiry of the period and also known as Time deposit/ Fixed deposit

Recurring Deposit: Help people with regular income to save a fixed income every month and at the same time earn interest at the rate applicable to Fixed Deposit.

Current Deposit Account

Current Deposit account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. In current account, amount can be deposited and withdrawn at any time without giving any notice.

It is also suitable for making payments to creditors by using cheques and online banking. Cheques received from customers can be deposited in this account for collection.

Main Features Of Current Deposit Account

Current deposit accounts are meant to run a business.

It is a non-interest bearing bank account.

It needs a higher minimum balance to be maintained as compared to the savings account.

Penalty is charged if minimum balance is not maintained in the current account.

It charges interest on the short-term funds/overdraft borrowed from the bank.

It is of a continuing nature as there is no fixed period to hold a current account.

It does not promote saving habits with its account holders.

Banker requires KYC (Know your Customers) norms to be completed before opening a current account.

The main objective of current bank account is to enable the businessmen to conduct their business transactions smoothly.

There is no restriction on the number and amount of deposits.

There is also no restriction on the number and amount of withdrawals made, as long as the current account holder has funds in his bank account.

Generally, bank does not pay any interest on current account.

Advantage Of Current Deposit Account To Customer

Since the purpose of the deposit is generally for ‘Trading’ and ’Business’ it differs from the object of other deposit accounts which are meant to tap/mobilize the savings of the people.

Current account is mainly opened by businessmen such as proprietors, partnership firms, public and private companies, trust, association of persons, etc. that has a large number of daily banking transactions, i.e. receipts and/or payments.

It enables businessmen to carry out their business transactions properly and promptly.

The businessmen can withdraw from their current accounts without any limit, subject to banking cash transaction tax, if any, as stipulated by the individual bank.

Home branch is that location where one opens his bank account. Normally, there are no restrictions on deposits made in the current account opened in a home branch of a bank. However, the current account holder can deposit the cash to any other branch of a bank other than the home branch by paying a nominal charge as applicable/stipulated by the individual bank.

It helps businessmen to make a direct payment to their creditors by issuing cheques, demand drafts or pay-orders, online fund transfers etc.

It enables a bank to collect money on behalf of its customers and credits the same in their customers’ current accounts.

It enables the current account holder to obtain overdraft (short-term borrowing) facility subject to satisfactory conduct of the account.

Third party cheques and cheques with endorsements may be deposited in the current account for collection and credit to the account, subject to certain conditions.

The creditors of the account holder can get credit-worthiness information of the account holder through inter-bank connection.

It facilitates the industrial progress of the country. Without its help, businessmen would face difficulties in running their businesses.

It has the facilities of Internet-banking and mobile-banking to carry out important business transactions with ease and quickly.

It also provides various other advantages (benefits) such as:

Deposit and withdrawal of money (cash) at any location

Multi-location funds transfer

Electronic funds transfer

Periodical (monthly, quarterly or yearly) e-mail or download of bank statements in various formats like '.XLS', '.TXT', '.PDF', etc.

Support from customer care executives

Documents Required for Opening Various Types Of Current Accounts

Individuals (singly/jointly): A certified copy of an OVD, as mentioned in the Master Directions on KYC, containing details of identity and address of the individual shall be obtained.

Sole proprietary firm: A certified copy of an OVD, as mentioned in the Master Directions on KYC, containing details of identity and address of the individual (proprietor) shall be obtained.

And Certified copy of any two the following:

Registration certificate.

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

Sales and income tax returns.

CST/VAT certificate.

Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities.

Licence/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.

Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax authorities.

Utility bills such as electricity, water, and landline telephone bills.

Partnership firm: One certified copy of each of the following documents shall be obtained:

Registration certificate

Partnership deed

Officially valid documents in respect of the person holding an attorney to transact on its behalf, PAN card of the entity

OVD of all the partners as per master directions on KYC

Hindu Undivided Family (HUF) or Joint Hindu Family:

Joint Hindu Family letter

A certified copy of an OVD, as mentioned in the master directions on KYC, containing details of identity and address of the individual operating the account shall be obtained.

PAN Card of the HUF

Limited Liability Partnership Firms:

Certificate of Incorporation

Copy of Resolution

PAN Card of the LLP firm

OVD of the designated partners as per master directions on KYC

Limited Companies: A certified copy of each of the following documents to be obtained:

Certificate of incorporation and Certificate of Commencement of Business in the case of public limited companies

Memorandum of Association

Article of Association

Are solution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf

Officially valid documents in respect of managers, officers or employees holding an attorney to transact on its behalf

PAN Card of the entity

Co-operative Societies:

Certificate of registration associations, clubs, etc. of the society/association/club, if any

Certified copy of the bye-laws of the society etc.

Resolution of the managing committee, appointing the bank a sits bankers and stipulating the conditions for the conduct of the account

List of members of the managing committee, with the copy of the resolution electing them to the committee

Charitable or Public Trust: A certified copy of each of the following documents to be obtained:

Registration certificate

Trust deed

Officially valid documents in respect of the person holding a power of attorney to transact on its behalf

Transgender Persons:

Banks have been advised by RBI to refer to the judgement dated April 15, 2014 of the Supreme Court in the case of National Legal Services Authority v. Union of India and others [AIR 2014 SC 1863: (2014) 5 SCC 438] on treating all transgender persons as 'third gender'.

Banks should therefore, include 'third gender' in all forms/applications etc. prescribed by the Reserve Bank or the banks themselves, wherein any gender classification is envisaged.

Apart from above business entities, current accounts can also be opened for the followings subject to completion of the necessary/required formalities:

All scheduled banks

All apex cooperative banks

All district cooperative banks

All land mortgage banks

All Regional Rural Banks sponsored by any bank

All urban cooperative banks

Government Departments/Bodies/Corporations/ Committees /Boards/Development Authorities/ Panchayat Bodies, etc.

Opening Of Current Account

The following points are to be kept in mind while opening Current accounts:

Cheques may also be accepted along with the cash.

When the party gives a cheque drawn on his own account with another bank, it may be accepted as an initial deposit.

Abundant care should be exercised while opening an account with an initial deposit by means of a demand draft.

Before opening a current account of a company or firm, banks should ensure that they do not enjoy any credit facilities with any other bank/branch. The purpose of this procedure is to discourage the likely misuse of such accounts to avoid the credit discipline.

As per RBI notification no. RBI/2021-22/116DOR.CRE.REC.63/21.04.048/2021- 22 dated October 29,2021 it has been clarified that banks may open current accounts for borrowers who have availed credit facilities in the form of cash credit (CC)/ overdraft (OD) from the banking system as per the provisions below:

(i) For borrowers, where the exposure of the banking system is less than Rs.5 Crore, there is no restriction on opening of current accounts or on provision of CC/OD facility by banks, subject to obtaining an undertaking from such borrowers that they shall inform the bank(s), as and when the credit facilities availed by them from the banking

system reaches Rs.5 crore or more.

(ii) In respect of borrowers where exposure of the banking system is Rs.5 crore or more, such borrower can maintain current accounts 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.

Operational Instructions In Current Account

Accounts of Individuals

Joint Accounts

Sole proprietorship firm

Partnership Firm

Limited Company

Transfer Of Accounts

As per recommendations of Damodaran Committee on Customer Service, IBA has given direction for implementing the facility of account number portability, whereby customer is allowed to maintain the same a/c number in the bank even when he/she moves to another city or shifts his a/c to another branch in the same city.

Inoperative Accounts

In current accounts where there are no operations continuously for two years, should be treated as inoperative accounts. Banks recover incidental charges every half year to the debit of inoperative accounts and credit to P/L Incidental Charges. The account can be made operative after the bank is satisfied with the reasons for non-operation and fresh KYC documents are obtained and duly verified.

Closure Of Current Account

To close your bank account permanently, you have to visit the bank and enquire about the process of closing a bank account and then write a letter to the branch manager by providing the reasons for closing the account. Also, provide the required documents for proof and verification.

Saving Account

Individuals have requirements to make a variety of payments regularly, such as electricity bills, telephone bills, water bills, school fees etc. Therefore, they require an account that helps them to make regular

payments without having cash to use. They also like to keep some amount in their savings account for meeting their near future expenditure and at the same time earn some interest. The SB Account has been designed to meet these needs of individuals. Individuals can open SB Account singly or Jointly.

Advantages And Importance Of Savings Bank Deposits To Customers

Saving account encourages savings habit among salary earners and others who have fixed income.

It enables the depositor to earn income by way of saving bank interest.

Saving account helps the depositor to make payment by way of issuing cheques.

It shows income of a salaried and other person earned during the year.

Saving account passbook acts as an identity and residential proof of the account holder.

It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.

It helps to do online shopping via facility like internet banking.

It aids to keep records of all online transactions carried on by the account holder.

It provides immediate funds as and when required through ATM.

Enables digital transaction 24*7*365 in 'AAA' mode of banking.

Advantages and Importance of Savings Bank Deposits to Bank

Savings deposits are valuable component of CASA deposits for banks, these accounts provide the broad retail deposit base.

It help banks to shore up their earnings through low cost deposits which can be profitably deployed into high yielding advances and thereby provide better interest spread and margin.

Provides potential customer base for marketing of other product's.

Relatively stable in nature.

Who Can Open a Savings Bank Account?

Person (s) who is/are legally capable of entering into a valid contract and make application to the bank in proper manner and accept the terms and conditions and are agreeable to follow/ accept the rules and regulations stipulated by the bank can open a Savings Bank Account either singly or jointly.

As the relationship between the bank and the depositor is essentially that of "Debtor" and "Creditor", the parties to the contract should be competent to enter into the contract. Documents Required for opening Savings Bank Account

Proof of identity (OVD)

Proof of address in case address is different than the identity proof or no address is mention in identity proof.

Recent photograph

PAN card or declaration in form 60 or 61 as per I.T. Act (vide section 39A) from the person opening the account.

Savings Bank Account of Minor:

Documents required to open a bank account for a minor:

Proof of a minor’s date of birth

KYC documents of the parents/guardian.

Aadhaar card of a minor.

Specimen signature of a guardian. The minor's specimen signature if he/she is 10 years old or above.

No overdraft should be granted in Savings Bank accounts of minors held either singly or jointly with

A minor is any person below the age of 18 years.

Savings Bank Accounts of Illiterates

No cheque book facility should be extended in account of an illiterate person.

Joint account of an illiterate can be opened with a literate close relative i.e. father, son, husband, wife, mother and daughter but not two cousins.

Savings Bank Account of Blind Persons

Like other persons, the blind persons are fully competent to enter into a valid contract. Accordingly, there is no any legal bar in opening savings bank accounts of blind persons by the banks as usual.

However, due care should be taken while opening of such accounts because blind persons can later on argue that the terms and conditions were not properly told to them.

They may also dispute their signatures due to which banks are required to take extra care while opening and allowing operations in the accounts of blind persons.

Savings Bank Accounts of Incapacitated (Handicapped/ Old/ Sick) Persons

As an alternative, the person may be requested to give a suitable power of attorney to a person of his/her confidence.

It would also be in order to open a joint account with his/ her near relative.

Where a person is incapacitated due to illness or other reasons to sign a cheque/withdrawal or is unable to come in person to bank to withdraw money, he can put his thumb impression which is to be witnessed by two independent witnesses known to the bank out of which one of them should be competent bank officials.

Accounts of Pardanashin Women

Joint account of two or more illiterates can be opened on following terms and conditions:

All the joint account holders should be close relatives, i.e. spouse, children, parents, brothers and unmarried sisters - not cousins.

The operations in the account should be allowed jointly by all account holders, survivors or survivor.

No cheque book facility should be provided and all the account holders should come personally to the branch for withdrawals.

The implications of opening the joint account and the mode of operation, withdrawal, payment etc. should be explained to the party in his/her vernacular language.

A note to this effect should be made in the relative account opening form, signed by a known person, besides an officer of the branch. (f) Photograph of all the joint account holders is to be obtained.

Where the joint account holders, as above, are not related to each other, a reference should be made to Regional Authorities giving all relevant particulars and the need for opening such accounts.

Savings Account for Non-Individual Entities

As per RBI guidelines, the following categories of non-individual entities are allowed to open savings account:

Primary Co-operative Credit Society which is being financed by the bank.

Khadi and Village Industries Boards.

Agriculture Produce Market Committees.

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 Cooperative Societies Acts and specific state enactment creating Land Mortgage Banks.

Companies governed by the Companies Act, 1956 which have been licensed by the Central Government under Section 25 of the said Act, 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’.

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 authorisation from the respective Central/ State Government departments to open savings Bank Account.

Development of Women and Children in Rural Areas (DWCRA).

Self-help Groups(SHGs), registered or unregistered, which are engaged in promoting savings habits among their members.

Farmers’ Clubs - Vikas Volunteer Vahini - VVV.

Services Offered In Savings Bank Accounts

Clarification for accurate understanding

The old distinction based on a Rs.15 lakh amount is not a current general minimum-tenor rule. For the relevant commercial-bank scope, the consolidated 2025 deposit direction provides a minimum offered tenor of seven days; check applicable entity directions and product terms.

Amongst various services being offered by banks, a few of the services are mentioned below:

Cash transactions - Deposit and withdrawal of cash

Clearing of cheques

Debit cards/ ATM Cards

Access to ATMs

Access to Internet Banking

Access to Phone Banking Services

Access to Mobile Banking Services

Standing instructions

Tax payments

Electronic Fund Transfer

Auto Sweep (Automatic creation of FDs beyond a specified minimum balance in SB account

Time Deposit - An Introduction

A time deposit is a contract entered into by the Bank with the depositor, to pay on a fixed or determinable future date, the amount of money deposited plus interest accrued thereon.

Each time deposit is a separate contract and various deposits in the name of the same depositor or in the names of members of the same family, should not be treated as one deposit.

A time deposit receipt is not a negotiable instrument and, therefore, cannot be transferred by endorsement by a depositor in favour of another.

Periodicity Of Time Deposit

Minimum period:

At present, the minimum period for a term deposit for banks is 7 days for deposit amount of Rs.15/- lacs and above & minimum 15 days for amounts less than Rs.15/- lacs. The amounts may vary in different banks.

Maximum period:

Banks accept fixed deposits for a period not exceeding 120 months. Where a deposit is offered for a period over twelve months, efforts should be made to accept deposits for periods in multiples of 3 months e.g., 15 months, 18 months, 21 months and so on.

But at the specific request of the customer, branches may accept deposits for any periods in multiples of complete months or even for a period where the terminal month is incomplete i.e. 13 months, 37 months, 41 months, 38 months and 12 days.

Operational Instructions

Term deposit accounts can be opened with instructions as ‘Singly’ or payable to ’Either or Survivor’, payable jointly, payable to any one of the depositors etc.

It can also be opened with instructions payable to "Former or Survivor" or

"Former, Survivors Jointly or Last Survivor" or "Latter or Survivor" in which case operational/ payment instructions at the time of opening the account or subsequent variations, if any, in these instructions, should be signed by all the joint depositors.

Interest On Fixed Deposit

Interest on FDs is paid at quarterly intervals. The customer can choose to have the interest reinvested in the FD account. In this case, the deposit is called the Cumulative FD or compound interest deposit.

For such deposits, the interest is paid with the invested amount on maturity of the deposit at the end of the term. If the customer instructs that the interest to be paid every quarter/month, it is credited to their Savings Account or sent to them by cheque. This is called Simple FD.

Form 15G, Form 15H to Save TDS on Interest Income

Forms 15G & 15H: What can you do to make sure the bank does not deduct TDS on interest if your total income is not taxable?

Banks have to deduct TDS when your interest income is more than Rs.40,000 in a year for individuals other than senior citizens (for senior citizens, the limit is Rs.50,000) under section 194A of the Income Tax Act. The bank aggregates the interest on deposits held in all its branches to calculate this limit.

However, if your total income is below the taxable limit, you can submit Form 15G and 15H to the bank and request them not to deduct any TDS.

What is Form 15G and Form 15H?

Form 15G and Form 15H are self declaration forms that an individual submits to the bank requesting not to deduct TDS on interest income as their income is below the basic exemption limit.

For this, providing PAN is compulsory. Some banks allow you to submit these forms online through the bank’s website.

FORM 15G	FORM 15H
Resident Individual or HUF or trust or any other assessee but not a company or a firm with age less than 60 years	Resident Individual with an age 60 years or more i.e Senior citizen.

Clarification for accurate understanding

The cited FY2020-21 tax illustration is historical. Match the applicable tax year, regime and declaration eligibility instead of using that old exemption figure as a universal current threshold.

Tax calculated on your total income is Nil	Tax calculated on your Total Income is Nil
The total interest income subject for the year is less than the basic exemption limit of that year, which is Rs.2.5 lakh for financial year 2020-21 (AY 2021-22)	
Please note that benefits of Form 15G and 15H cannot be claimed by Non residents.	

Important points

Form 15G and 15H are applicable only for ‘residents’, hence a non-resident cannot take the benefit of these forms.

Deepak cannot submit Form 15G even though tax on total income is Nil, because his interest income is more than the basic exemption limit.

A senior citizen of age 68 years in above example can submit form 15H as his tax liability is Nil.

Condition of interest income being more than the basic exemption limit is applicable for form 15G only and not for form 15H. Form 15H can be submitted by senior citizens even if the interest income is more than basic tax exemption limit ,provided that the taxable income (after deductions) is below the exemption limit.

Mode of Working of 2 in 1 Account

The mode of working in such accounts is that money in Savings or Current account in excess of the stipulated amount is swept into an FD for a particular period, which carries interest rate higher than Savings/ Current accounts. Such a sweep is called "Auto Sweep". Further, if Savings/ current account has insufficient fund to meet any debit transaction, the FD, up to the short fall amount is withdrawn and transferred to SB/ CA Account for honouring the debit transaction. Such a sweep is called Reverse Sweep. The following are the features of the 2 in 1 account:

Auto Sweep Facility: It offers maximum returns. The features of this facility are:

Balance in excess of the stipulated amount is automatically transferred to an FD for a particular period. Amount in multiple of Rs.1,000/- or any other amount as stipulated by the respective bank is transferred to FD.

Clarification for accurate understanding

The old1985-rule reference is historical. The2025amendments expanded the facility: deposits can use up to four nominees through simultaneous or successive nomination, while safe-custody articles and lockers use successive nomination. Apply the2025rules and current directions, with the relevant conditions; do not imply that the old framework is the complete current position.

FD formed through Auto sweep facility carry the rate of interest as applicable to FD and other relevant terms applicable on the day of Auto Sweep.

Reverse Sweep Facility: It offers liquidity. The features of this facility are:

This facility gives access to funds swept in FDs created by Auto sweep.

In case of shortfall in the SB account to honour any debit transaction or any other transaction FDs are automatically broken to the extent needed for meeting the shortfall. The remaining balance in FDs continue to earn higher interest at the original rate applicable to FD.

FDs are broken in multiple of Rs.1,000/- or any other amount as stipulated by the respective bank. For maximum benefit of interest to the customers, FDs are broken on Last in First Out (LIFO) basis. These calculations are all system driven and no manual intervention is required.

Recurring Deposit (RD)

Recurring deposit (RD) accounts help customers with regular income to save a fixed amount every month and at the same time earn interest at the rate applicable to FDs. The contract between the customer and the banker is similar to the contract related to FD. It is also for a fixed period. It is similar to making FD of a certain amount every month. Banks allow premature payment of RD on the same terms and conditions as that of FD.

Banks also provide loan against RD on the same terms and conditions as applicable to FD. Any person duly introduced to the Bank and fulfilling KYC norms may open a recurring deposit account.

A recurring deposit account may be opened by the following:

By a person in his own name.

By more than one person, in their joint names, the amount being payable to all of them jointly or to any one or more of them or any one or more of the survivors amongst them - specific instructions in this regard being required to be given in writing, at the time of opening the account.

By a minor of age 10 years and above on terms laid down by the bank. Accounts can also be opened in the name of minor with their father/mother, as guardian.

Nomination Facility

Nomination facility is made available to all types of deposit holders, irrespective of the nomenclature used by the banks.

The Central Government has framed in consultation with the Reserve Bank of India- the Banking Companies (Nomination) Rules, 1985 which together with the provision of new Sections 45ZA to 45ZF of the Banking Regulation Act, 1949 regarding nomination facilities were brought into force with effect from 1985.

The Banking Companies (Nomination) Rules, 1985 which are self-explanatory,

provide for:

Nomination Forms for deposit accounts, articles kept in safe custody and contents of safety lockers.

Forms for cancellation and variation of the nominations.

Registration of Nominations and cancellation and variation of nominations, and matters related to the above.

Settlement Of Claims In Respect Of Deceased Depositors

Banks adhere to the provisions of Sections 45 ZA to 45 ZF of the Banking Regulation Act, 1949 and the Banking Companies (Nomination) Rules, 1985 and facilitate the settlement of claims in respect of the deceased depositors as per the laid down guidelines.

Accounts with survivor/nominee clause

In the case of deposit accounts where the depositor had utilized the nomination facility and made a valid nomination or where the account was opened with the survivorship

clause ("either or survivor", or "anyone or survivor", or "former or survivor" or "latter or survivor"), the payment of the balance in the deposit account to the survivor(s)/nominee of a deceased deposit account holder represents a valid discharge of the bank's liability provided:

the bank has exercised due care and caution in establishing the identity of the survivor(s) / nominee and the fact of death of the account holder, through appropriate documentary evidence;

there is no order from the competent court restraining the bank from making the payment from the account of the deceased; and

it has been made clear to the survivor(s)/ nominee that he would be receiving the payment from the bank as a trustee of the legal heirs of the deceased depositor, i.e., such payment to him shall not affect the right or claim which any person may have against the survivor(s)/ nominee to whom the payment is made.

Time limit for settlement of claims

As per RBI guidelines, Banks should settle the claims in respect of deceased depositors and release payments to survivor(s)/ nominee(s) within a period not exceeding 15 days from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s), to the bank's satisfaction.

Complete the concept: additional learning

Term deposits of minors: ownership and operation are different

A term deposit can belong to a minor even though a guardian operates it. The officer must establish the minor's identity, the guardian's authority where applicable and the permitted operating instructions. Independent operation is subject to the applicable framework and the bank's disclosed age, amount and risk controls; an age mentioned in a textbook is not a promise of every facility at every bank. A minor's deposit account must not become an overdraft merely because a transaction was accepted by a channel.

For example, a guardian places Rs.50,000 for a child's education. The deposit is not automatically the guardian's personal money. Record ownership and authority correctly, explain the maturity instructions and obtain the required fresh instructions and signatures when the child attains majority. Where the account was guardian-operated, complete the applicable balance-confirmation and transition process. Link any proposed loan or premature withdrawal to the minor's interest and the relevant legal and policy conditions; do not treat a guardian's request as an unrestricted right to use the child's deposit.

Premature payment, renewal and an unpaid matured deposit

These are three different events. Premature payment ends a deposit before its contracted maturity; calculate the interest for the actual period and any permitted, disclosed penalty under the applicable terms. Renewal creates a further deposit period under valid instructions and the applicable rate framework. An unpaid matured deposit has reached maturity but has not necessarily become a fresh deposit at the original rate.

The domestic-deposit framework distinguishes the interest on an overdue renewal from the amount left unpaid and unclaimed after maturity. Under the lower-of-two-rates treatment for the latter, compare the applicable savings-account rate with the contracted rate on the matured term deposit. Illustratively, compare 3% and 6%: the lower comparison rate is 3%, not a continuation of 6%. Compare 3% and 2% instead: it is 2%. These are assumed rates, not a bank quotation. Match the institution, deposit category and effective direction; foreign-currency and non-resident deposits can have different provisions. Read any auto-renewal mandate, lien, deceased-depositor condition and customer instruction before applying the result.

Advances against the bank's own deposit: compare liquidity choices

A loan against a deposit is a separate borrowing arrangement. The deposit remains subject to its own terms while the bank marks the required lien or security restriction and documents the advance. Check ownership, joint-holder authority, nomination and guardianship issues, whether the deposit is eligible, the available margin, interest, repayment and maturity treatment. A receipt in someone's possession does not itself establish an unrestricted right to borrow against another person's money.

Suppose an eligible deposit is Rs.2,00,000 and an illustrative policy requires a 10% margin. The simple principal-based ceiling is Rs.1,80,000 before any further conditions. If only Rs.60,000 is needed briefly, compare the advance's interest and charges with the interest adjustment from breaking the deposit. Neither choice is always cheaper. Keep enough security throughout the borrowing period and explain that

the customer cannot freely withdraw the encumbered amount as though no advance existed.

TDS is a collection, reporting and credit workflow

The bank first identifies the taxable payment, applicable period, customer category, aggregation and threshold. It validates any eligible non-deduction declaration, applies the prescribed withholding treatment, records the deduction against the correct person and remits it within the applicable statutory timetable. It then files the required statement, issues the applicable certificate and corrects mismatches. Do not memorise one remittance deadline without identifying the deductor and payment context.

For an illustration only, assume interest of Rs.12,000 is wholly subject to an assumed 10% withholding rate. TDS is Rs.1,200 and the immediate net payment is Rs.10,800. The Rs.1,200 is not the bank's income and is not automatically the customer's final income-tax liability. The customer reconciles the credit with the tax record and return. A missing or incorrect PAN, declaration, reporting entry or credit needs correction; it does not justify simply ignoring the deduction. Forms named in older examples and their conditions must be matched to the applicable tax framework and year.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Whose liability is Farah’s deposit?

Answer: The bank’s liability; it is Farah’s asset.

Why: The bank has an obligation to repay the customer under the account contract.

Question 02 | Calculate the illustrative one-year simple interest on Rs.70,000 at 6%.

Answer: Rs.4,200.

Why: Principal x annual decimal rate x years = 70,000 x 0.06 x 1.

Question 03 | Is gross maturity necessarily the amount credited after tax?

Answer: No.

Why: Tax deduction and other applicable contractual adjustments may affect the net amount.

Question 04 | Does a nomination necessarily settle all beneficial-ownership disputes?

Answer: No.

Why: Receipt/settlement arrangements and the rights of lawful successors must be considered separately.

Question 05 | Can a sweep trigger of one bank be taught as the rule for all banks?

Answer: No.

Why: A sweep is a product arrangement whose thresholds and operating terms can differ.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. A customer deposit is a bank liability.	15. A tax declaration needs eligibility.
02. The deposit is the customer’s asset.	16. Product balance rules can differ.
03. Choose an account for its purpose.	17. Sweep triggers can differ.
04. Current accounts support transaction needs.	18. KYC supports proper account opening.
05. Savings accounts have eligibility and operating conditions.	19. A mandate authorises operation.
06. Term deposits have agreed periods.	20. Joint operation differs from succession.
07. Recurring deposits use periodic contributions.	21. Nomination assists claim handling.
08. Liquidity needs should guide the term.	22. Nomination is not a universal ownership ruling.
09. Read withdrawal conditions.	23. Inactive balances remain obligations.
10. Read the actual interest convention.	24. Inoperative status needs the applicable process.
11. Simple interest uses P x r x t.	25. Deceased claims need correct evidence and category.
12. Compounding reinvests interest under the stated convention.	26. Do not promise an old rate or threshold.
13. Gross interest differs from net credit.	27. Explain access as well as return.
14. Tax deduction need not equal final tax.	28. Confirm how the customer will use or claim the money.

MODULE B / B05

Important Retail Asset Products

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Dev and Isha want to buy a home costing Rs.40,00,000. For a teaching illustration, assume the proposed loan is Rs.30,00,000 and their own contribution is Rs.10,00,000, before transaction expenses. The simple loan-to-value ratio is 30,00,000 / 40,00,000 x 100 = 75%. This is a calculation from assumed figures, not a promise that a lender must offer that amount. The lender still needs to assess eligibility, repayment capacity, property value and title, the applicable regulatory ceiling and its own policy.

Their verified combined monthly income is Rs.1,00,000. Essential household spending is Rs.45,000 and existing instalments total Rs.10,000, leaving Rs.45,000 before a new home-loan payment and contingencies. The loan calculator can illustrate how rate and tenor affect an EMI. A longer tenor may reduce the monthly payment while increasing total interest under unchanged rate assumptions. Affordability must also allow for living costs, irregular expenses and the possibility of an interest-rate change.

The officer explains the application, appraisal, sanction conditions, documentation, security creation and disbursement stages. Approval is not the same as money being available for every demand from a builder. Disbursement follows the agreed conditions and verified stage of the transaction. A sound home-loan decision connects the property, the borrower and the cash flows; collateral alone does not repay the scheduled instalments.

Change one assumption

Now assume the property valuation accepted for the relevant assessment is lower than the buyer's agreed price. The borrower cannot simply insist that the original price be used for every limit calculation. The lender must apply the applicable valuation and exposure rules and explain any increased own contribution. Separately, if the rate rises, a previously comfortable repayment may need reassessment under the loan terms. The value of security and the ability to meet instalments are separate sensitivities. Test both instead of assuming that ownership of a home makes the lending risk disappear.

Avoid this common mistake

Do not present a bank's preferred salary buffer, vehicle margin, home-improvement limit, moratorium or maximum tenor as a universal legal entitlement. Product policy and regulatory ceilings are different constraints. A housing-scheme subsidy percentage is not automatically the borrower's loan interest rate, and an older scheme's eligibility or closing date cannot establish eligibility today. Read the actual offer, scheme version, appraisal assumptions and disbursement conditions. A sanctioned ceiling should never be confused with an unconditional instruction to disburse.

Follow the decision: B05

Purpose and borrower > Income and commitments > Value/title and security > Sanction and documents > Conditional disbursement

Connect the concepts

01. Retail asset products create repayment obligations for customers and credit exposures for the lender.

02. Home, vehicle, education and personal loans meet different purposes, so the appraisal and security can differ.

03. Loan purpose helps determine the appropriate product and the evidence needed to assess the proposal.

04. Income verification must examine sustainability, not merely the highest recent credit in an account.

05. Affordability should include existing commitments and living costs before adding the proposed instalment.

06. LTV compares the loan with the relevant property value; the denominator must follow the applicable definition.

07. Margin is the borrower contribution under the stated structure; additional expenses may require separate funds.

08. Longer repayment can lower EMI but increase total interest under a consistent positive-rate illustration.

09. A moratorium changes payment timing; it does not automatically mean that interest stops accruing.

10. Sanction sets approved terms; documentation and disbursement conditions still need completion.

11. Property title, valuation and construction progress require verification rather than reliance on a sales brochure.

12. Scheme benefits require the correct version, eligibility and effective date; old examples cannot promise current subsidy.

Work it out, then change an input

Enter a principal, annual rate and number of months. Predict the change when the term or rate increases. Compare the EMI, total interest and outstanding balance; use a repayment budget to test affordability.

Open the offline emi calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

Purpose and borrower > Income and commitments > Value/title and security > Sanction and documents > Conditional disbursement

See how the loan balance changes

Rs.10 lakh, 9% p.a., 120 end-month instalments



EMI = Rs.12,667.58; interest is charged on the outstanding balance. Early instalments contain more interest; the principal share grows as the balance falls. No fees or rate changes assumed.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

products

Types of Loans

Home loan

Vehicles loan

Personal loan

Education loan

Mortgages Loans, etc.

Home Loan

Home Loans Scheme

Eligibility	Salaried employees, Professionals, Self-employed persons. Requests are also considered from NRIs, PIOs, HUF, Proprietorship Firms, Partnership firms, and corporate for their employees/quarters.
Purpose	To purchase/construct house/flat. To renovate/extend/repair existing house/flat. To purchase a plot of land for construction of house. To acquire household articles along with the house/flat - for furnishing the house/flat.

Eligibility	Salaried employees, Professionals, Self-employed persons. Requests are also considered from NRIs, PIOs, HUF, Proprietorship Firms, Partnership firms, and corporate for their employees/quarters.
Quantum of Loan	For construction/purchase of a house/flat - No upper ceiling in many banks Repairs/renovation/extension to house/flat - amount varies from bank to bank Purchase of a plot - amount varies from bank to bank Purchase/acquire household articles for furnishing the house/flat - amount varies from bank to bank
Eligible Quantum of Loan/EMI	Calculation of quantum of loan The method of reckoning is related to Income/repayment eligible finance varies

Clarification for accurate understanding

The displayed salary take-home percentages, product maxima, margins and moratoria are bank-policy illustrations unless a specific current applicable rule is established; they are not universal borrower entitlements.

	capacity of propone nt/borrower. Salaried Employees:	**from bank to bank. However, repayment capacity needs to be ensured from the existing source of income**
	Self-employed/Prof essionals etc.:	Eligible finance is calculated by banks based on I-T Returns
	HUF/Proprietorship /Partnership Firm/Company:	Eligible finance is calculated by banks based on cash accruals

		capacity of propone nt/borrower. Salaried Employees:		from bank to bank. However, repayment capacity needs to be ensured from the existing source of income
		In case of Individuals: Net take home pay/income (net of all deductions including EMI of Proposed loan) should not be generally less than 40% of the gross monthly salary/income of applicant(s). But for high income applicants, lesser take home pay even up to 15% of gross income is being considered by some banks.		

		capacity of propone nt/borrower. Salaried Employees:		from bank to bank. However, repayment capacity needs to be ensured from the existing source of income
Margin (For 1st House)	Amount Margin (%) Upto 30 Lakh 10 > Rs. 30 Lakh and 20 upto Rs. 75 Lakh > Rs. 75 Lakh 25 Margin is subject to RBI stipulated LTV (Loan to Value) of Max. 90% for loans upto Rs. 30.00 Lakh,	Amount	Margin (%)	

		capacity of propone nt/borrower. Salaried Employees:	**from bank to bank. However, repayment capacity needs to be ensured from the existing source of income**
	Max. 80% for loans above Rs. 30.00 Lakh & upto Rs. 75 Lakh, and Max. 75% for loans above Rs. 75 Lakh. Banks should not include stamp duty, registration and other documentation charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted. However, in cases where the cost of the house/dwelling units does not exceed Rs. 10 lakh, bank		
		Upto 30 Lakh	10
		> Rs. 30 Lakh and upto Rs. 75 Lakh	20
		> Rs. 75 Lakh	25

	may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating LTV ratio.
Interest (Floating ROI - linked bank's base rate p.a. at monthly rests)	ROI varies from bank to bank. RBI has left ROI to the discretion of individual banks

	may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating LTV ratio.
Processing charges/other expenses	Processing charges vary from bank to bank. Some banks do not levy any processing charges and some do. The schedule is left at the discretion of individual banks.
Security	Mortgage/Equitable Mortgage on land/flat/house. (if mortgage could not be created at the time of disbursement, banks may get the loan secured by creating charge on alternative assets/obtaining third party guarantee).
Disbursement	Upfront disbursement in case of ready flat/house 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.
Repayment (can be customized)	Highly flexible - maximum 30 years including moratorium period is considered by banks. Maximum moratorium period of 18 months in case of construction and 3 months in case of purchase is allowed generally by banks. Loan to be normally repaid before date of retirement in case of salaried persons and before attaining 65 years of age in case of others.
Special features	Some banks stipulate health/life insurance of the borrowers as additional terms and conditions.
Other features	Interest on Daily Reducing Balance Basis No Pre-Payment Charges on Floating Rate Loan

Clarification for accurate understanding

The older CLSS subsidy percentages and historical eligibility periods must not be described as a current universal loan rate. Check the current housing scheme version, eligibility and interest-subsidy provisions.

Clarification for accurate understanding

The earlier CLSS periods and subsidy schedule are historical. PMAY-U2.0 has a distinct Interest Subsidy Scheme for eligible home loans sanctioned and disbursed on or after1September2024. Its household-income limits and subsidy conditions must be checked independently. A subsidy percentage is not the lender’s universal loan interest rate.

Repayment allowed up to age of 70 years in select

cases

Facility for step up/step down EMIs available

Inclusion of Income of Close relatives for enhanced

loan

Tax Benefit on Interest and Instalments repaid in Home

Loans

To have differentiation in housing loan products, many

banks add some features the generic products. For

example, the provisional sanction of Home Loan limits

to the customers before finalization of the property

which enables them to negotiate with the

Builder/Seller confidently. Cash credit facilities are also

provided by some banks to make the product more

attractive.

Housing Loan Under Pradhan Mantri Awas Yojana (PMAY)

What is PMAY?

The Pradhan Mantri Awas Yojana (PMAY) is an initiative of the Government of India which aims at providing affordable housing to the urban poor by the year 2022. The scheme was first launched on 1 June 2015. The interest rate for the PMAY scheme starts at 6.50% p.a. and can be availed for a tenure of up to 20 years. The deadline for availing the PMAY CLSS scheme for the MIG-I and MIG-II categories has been extended to 31 March 2021. The same has been extended to 31 March 2022 for the LIG and EWS categories.

Features and Benefits of PMAY Scheme

Under PMAY Scheme, subsidy interest rate is provided at 6.50% p.a. on housing loan for the term of 20 years to all the beneficiaries.

Differently abled and senior citizens will be given preference in allocation of ground floors.

Sustainable and eco-friendly technologies would be used for construction.

The scheme covers entire urban areas in the country which includes 4041 statutory towns with the first priority given to 500 Class I cities. This will be

done in 3 phases.

The credit linked subsidy aspect of the PM Awas Yojana gets implemented in

India in all statutory towns from the initial stages itself.

Pradhan Mantri Awas Yojana Beneficiaries

The beneficiaries under the PMAY scheme can be listed as follows:

Beneficiary	Annual Income
Middle Income Group I (MIG I)	Rs.6 lakh to Rs.12 lakh
Middle Income Group I (MIG II)	Rs.12 lakh to Rs.18 lakh
Lower Income Group (LIG)	Rs.3 lakh to Rs.6 lakh
Economically Weaker Section (EWS)	Up to Rs.3 lakh

Identification and Selection of Beneficiaries under PMAY

The Pradhan Mantri Awas Yojana - Urban scheme caters mainly to the housing requirements of the urban poor. The scheme also caters to the housing requirement of slum dwellers residing in confined areas of slums with inadequate infrastructure, poor sanitation and drinking facilities.

Beneficiaries of PMAY-U mainly include Middle Income Groups (MIGs), Low-

income Groups (LIGs) and Economically Weaker Section (EWS).

While the beneficiaries from the EWS category is eligible for complete assistance under the scheme, beneficiaries from LIG and LIG categories are only eligible for the Credit Linked Subsidy Scheme (CLSS) under PMAY.

In order to be recognised as a LIG or EWS beneficiary under the Scheme, the applicant is required to submit an affidavit as income proof to the authority.

PMAY Interest Subsidy

Particulars	Interest Subsidy	Maximum Loan for Subsidy
EWS	6.50% p.a.	Rs.6 lakh
LIG	6.50% p.a.	Rs.6 lakh
MIG -1	4.00% p.a.	Rs.9 lakh
MIG-2	3.00% p.a.	Rs.12 lakh

Home Improvement Loans

No.	Particulars	Features
1.	Eligibility and Other Conditions	Individuals/Group ot Individuals/Members of Cooperative Society who owns a

No.	Particulars	Features
		house/flat. Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of employment. In case of employed persons, minimum three years of confirmed service is necessary. In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary.
2.	Purpose	For repair, renovation, upgradation, painting, and other repairs.
3.	Amount	Maximum of Rs. 5 lacs but some banks give higher amounts upto Rs.10 lacs also.
4.	Margin	20% to 50%
5.	Security	Equitable mortgage of property under repair/ renovation or any other unencumbered immovable property also accepted by banks.
6.	Disbursement	Depending on the nature of repair/renovation.
7.	Moratorium	3 months.
8.	Repayments/Collection	As allowed by banks

Home Decor Loans

No.	Particulars	Features
1.	Eligibility and Other Conditions	Individuals/Group of Individuals/Members of Cooperative Society who owns a house/flat. Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of

No.	Particulars	Features
		employment.
		In case of employed persons, minimum three years of confirmed service is necessary. In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary.
2.	Purpose	For furnishing the house/flat, interior decoration/air conditioners, etc.
3.	Amount	Maximum of Rs. 5 lacs but some banks give higher amounts upto Rs.10 lacs also.
4.	Margin	20% to 50%
5.	Security	Equitable mortgage of property under repair/ renovation or any other unencumbered immovable property also accepted by banks.
6.	Disbursement	Depending on the nature of repair/renovation.
7.	Moratorium	3 months.
8.	Repayments/Collection	As allowed by banks

Note: Different banks offer different variations of the above loans. But the fundamental approaches of the banks will be to address the entire needs of the customers regarding housing loans.

Auto/Vehicle Loans

No.	Particulars	Feature s
1.	Eligibility	Individuals in confirmed service in Government, Public Sector Undertakings, reputed private organisations and institutions.

No.	Particulars	Feature s
		Professional & Self Employed persons ,Business people In case of employed people, take home pay not less than 50% of gross salary.
2	Purpose	To buy new or used car. In cased of used car, the age of the car should not be more than 5 years.
3	Margin	10% for new cars. 25/30% for used cars 10% for two wheelers. Margins also may vary with the banks.
4	**Security**	**Hypothecation of the vehicle to be purchased out of the loan.**
5	Disbursement	Directly to the Dealer/ Suppliers and invoice/receipts to be obtained for record.
6	Moratorium	Normally no moratorium. Repayment of the loan commences from the immediate following month.
7.	Prepayment issues	Public sector banks normally do not charge any pre payment penalty. Some Private Sector banks collect pre payment while some don't.
8.	Repayments/Collection	For Individuals- for new vehicles 4 Wheelers- Max. 7 years, generally 2 Wheelers- Max. 5 to 6 years, generally For Corporate/ Firms, etc- Max. 5 years, generally For Second Hand vehicles- Max. 3 years, generally or a period depend on the age of the vehicle.

Personal Loans

Personal Loans are basically unsecured in nature and are backed by personal guarantees only. As credit risk and delinquency rates are more in this segment, public sector banks tread cautiously in this segment and private banks do it aggressively.

Eligibility	Salaried employees, Professionals and individuals with High net worth, Regular pensioners or family pensioners drawing regular monthly pension through Bank.
Purpose	Marriage expense of self, children or a dependent. Medical expense For education of self/ children For Repairs, renovation, extension Any other personal expense
Amount	Clean/ Unsecured loans- Amount varies from bank to bank and depend on the schemes developed by each bank and the target group. Secured Loans- Amount varies from bank to bank and depend on the schemes developed by each bank and the target group.
Security	Equitable/legal Mortgage of commercial or residential properties. Hypothecation charge on assets acquired.
Disbursement	Directly to suppliers/ dealers wherever feasible. Credit to account of borrower in respect of clean loan
Rate of interest	**As applicable (vary from bank to bank)**
Moratorium	No moratorium normally
Repayments	Clean/Unsecured loans- 36 to 60 EMIs generally Secured loans- 60 EMIs

Educational Loans

No.	Particulars	Features
1.	Eligibility	Students studying Professional/Other Colleges Indian Banks' Association has brought out a Model Educational Loan Scheme prescribing the modalities to be followed by banks regarding disbursement of educational loans. The objective of IBA is to make the banks to adopt a uniform approach as per the prescribed guidelines. Amount of loan, purposes, approval requirements of colleges, security prescriptions. Loan to be given jointly to the student and their parent.

No.	Particulars	Features
2.	Purpose	To pursue professional degree/diploma and other course as prescribed in the IBA guidelines. For studies in India and abroad.
3.	Amounts	Inland Studies - Upto Rs.10 Lacs. Foreign Studies - Upto Rs.20 Lacs In case the amount required is more, the same can be considered by banks on a case to case basis.
4.	Security	Upto Rs.4 Lacs - No security. Above Rs.4 Lacs and upto Rs.7.50 Lacs - Additional Personal Guarantee worth the amount. Above Rs.7.50 Lacs - To be secured by tangible asset to cover the loan in the form of property, Govt. Securities like NSC.KVP etc.,
5.	Disbursement	To be disbursed in stages - semester wise or annual payments as per the requirements of the institutions Payment to be made direct to the institution.
6.	Moratorium	One year after completion of the studies or employment which ever is earlier.

7.	**Prepayment issues**	**No prepayment charges. But generally pre payment will not happen in Educational Loans as the repayment is fixed only after completion of the studies and revenue streams for pre payment will be very rare. But parents have the option to service the interest whenever due and if interest is serviced, Tax Exemption for interest serviced is available. Some banks offer Interest Rebate of 1% for prompt repayment of the loan.**
8.	Repayments	Repayable in 60 monthly instalments (EMIs) after the moratorium period as prescribed above.

Processing Of Retail Loans

The success of retail asset expansion by banks depends on the processing speed of retail loans and making the procedures hassle free for the customers. Banks adopt different models for processing of retail loans. The important models of retail loans processing are explained below:

Stand Alone Model and

Centralised Model

Stand alone Model for Retail Loan Processing: Stand alone model for retail loan processing refers to processing of retail loans independently at the branch level. Based on the discretionary powers given the Branch Head, Branch will market the retail loans and process and sanction the loans based on the eligibility of the applicants. Obtention of the necessary documents, appraisal of the proposal and sanction of the loans will be done independently at the branch level. The valuation, legal opinion etc, are obtained at the branch level through the approved panel valuers/lawyers.

Centralised Model for Retail Loans Processing: Centralised Model for retail loans processing refers to processing of loans at a centralised place depending upon the geography of branches. Banks adopt differen centralised models for processing of retail loans. Some of the names. Banks give to these retail loans processing centres are i)Retail Loan Factory ii)Retail Loan Hub iii)Retail Loan Processing Centres iv)Retail Asset Processing Centres v)Retail Loan Branches

Standalone Model Vs Centralized Model

	Standalone Model (Brand Level Processing)	Centralized Model (Retail Loan Processing Hubs/Centres)
1. 2. 3. 4. 5. 6. 7.	Better Understanding of the customer requirements. No standardised approach Retail Loans are only one part of the multiple activities. Difference in quality of appraisal based on the branch and its personnel. Processing time may differ based on the priorities of the branches and importance of the customers/proposals. Compliance of appraisal norms may be biased based on the customer profile. Documentation standards may not be uniform.	Based on documents only. Standardised approach. Exclusive activity and hence will be more faster and professional in approach. Quality will be uniform as the activity is exclusive. Processing time will be uniform and based on fixed Turn Around Time (TAT) for different retail loans Uniform and impersonal appraisal standards. Professional documentation standards.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Compute LTV for a Rs.30 lakh loan against the assumed Rs.40 lakh value.

Answer: 75%.

Why: Loan / relevant value x 100 = 30 / 40 x 100; the applicable valuation basis still matters.

Question 02 | Do Dev and Isha have Rs.45,000 after the new EMI?

Answer: No; Rs.45,000 is before the new EMI and contingencies.

Why: 1,00,000 - 45,000 - 10,000 = 45,000; do not omit the proposed commitment.

Question 03 | Does a longer tenor always make borrowing cheaper overall?

Answer: No.

Why: It can reduce EMI while increasing total interest when rate and other assumptions are held constant.

Question 04 | Does a moratorium automatically waive interest?

Answer: No.

Why: Payment deferment and interest accrual depend on the agreed terms and applicable rules.

Question 05 | Can the borrower treat an old subsidy table as current approval?

Answer: No.

Why: The scheme version, eligibility, period and processing conditions must be established.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Retail lending creates a credit exposure.	15. Sanction is conditional approval.
02. Match the loan to the purpose.	16. Documentation supports enforceability.
03. Verify income sustainability.	17. Disbursement follows agreed conditions.
04. Include existing instalments.	18. A moratorium is not automatically interest-free.
05. Include household expenses.	19. A lower EMI can mean longer debt exposure.
06. Allow for contingencies.	20. A longer tenor can increase total interest.
07. Check the proposed EMI.	21. Test a rate-change scenario.
08. LTV needs a defined value denominator.	22. Personal loans may have different security structures.
09. Margin is an own-contribution requirement.	23. Vehicle product terms can differ.
10. Transaction expenses may need separate funding.	24. Education finance needs suitable repayment assumptions.
11. Collateral is not a substitute for repayment capacity.	25. Bank policy is not a universal statutory limit.
12. Valuation is different from an agreed purchase price.	26. A scheme subsidy is not the quoted loan rate.
13. Verify property title.	27. Check scheme version and eligibility.
14. Assess construction and disbursement stages.	28. Explain total commitments before the customer signs.

MODULE B / B06

Credit and Debit Cards

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Nisha's credit-card statement shows Rs.20,000 total due. For a deliberately simplified example, suppose the statement's minimum amount due is Rs.1,000 and no other transactions are being examined. Paying Rs.1,000 does not extinguish the Rs.20,000 debt: Rs.19,000 of the stated amount remains before applicable interest, charges or further purchases. The minimum-payment option is a servicing feature with consequences, not a discount on the bill. Actual statements and terms must explain how the minimum is computed and how interest is charged.

The officer draws three separate dates: purchase date, statement date and payment due date. A purchase's available interest-free interval can differ depending on when it enters the cycle, and the benefit is subject to the agreed conditions. A cash advance may have different treatment from a retail purchase. The officer therefore compares the annualised interest rate, fees, repayment terms and transaction category rather than promising one interest-free period for every use.

Nisha also uses a debit card. A debit-card payment normally accesses the linked account, whereas a credit-card purchase uses an approved credit facility. The distinction matters for available funds, statements and repayment. In either case, she should protect credentials and promptly use the issuer's official reporting route for suspected misuse. Liability depends on the facts and applicable rules; the officer must not promise a fixed small loss cap for every incident.

Change one assumption

Suppose Nisha pays the total amount due within the stated conditions instead of paying only the minimum. The outstanding position and possible interest-free benefit can change materially, but the issuer's terms still govern transaction-specific treatment. Now change a different fact: the charge was unauthorised. The first task is prompt reporting and account protection, not assuming that the normal repayment explanation settles liability. Preserve the complaint reference and relevant evidence. A disputed transaction, cash advance and ordinary retail purchase may require different analysis even when they appear on one statement.

Avoid this common mistake

Do not teach a universal minimum-payment percentage, fixed late-fee band, guaranteed interest-free interval or fixed liability cap for lost cards. These claims depend on the applicable rules, product terms, transaction and facts. A reward or cashback can also have caps, exclusions and conditions. Comparing cards only by rewards can hide expensive borrowing. Distinguish credit, debit, charge and prepaid arrangements, and read the billing and repayment conditions before concluding that two cards work in the same way.

Follow the decision: B06

Identify card and transaction > Read cycle and statement > Compare repayment choices > Protect and report > Review cost and outstanding

Connect the concepts

01. A credit-card limit is an approved credit ceiling, not income that the customer has earned.

02. A debit card normally accesses the linked account; identify any separate permitted overdraft arrangement explicitly.

03. A charge card and revolving credit card can have different repayment structures and should not be treated as synonyms.

04. A prepaid instrument stores value under its own framework; it is not automatically a deposit account or credit line.

05. Purchase, statement and due dates answer different questions about billing and repayment.

06. Minimum payment leaves an unpaid balance; interest and other effects must be explained under the actual terms.

07. The annualised borrowing cost matters even when the quoted rate is expressed per month.

08. Cash advances can have different charges and interest treatment from normal retail purchases.

09. Rewards and cashback are conditional benefits; examine caps and exclusions rather than assuming a universal percentage.

10. Lost-card and unauthorised-transaction liability require fact-specific analysis and prompt official reporting.

11. Card issue, activation, limits, closure and co-branding must follow consent and conduct requirements applicable to the issuer.

12. Security includes protecting credentials and checking alerts; a logo or additional authentication is not a guarantee against all fraud.

Identify card and transaction > Read cycle and statement > Compare repayment choices > Protect and report > Review cost and outstanding



Illustrative ATM design. Identify card access, screen and cash-delivery functions. A debit withdrawal uses the linked account; a credit-card cash advance has different costs and terms.

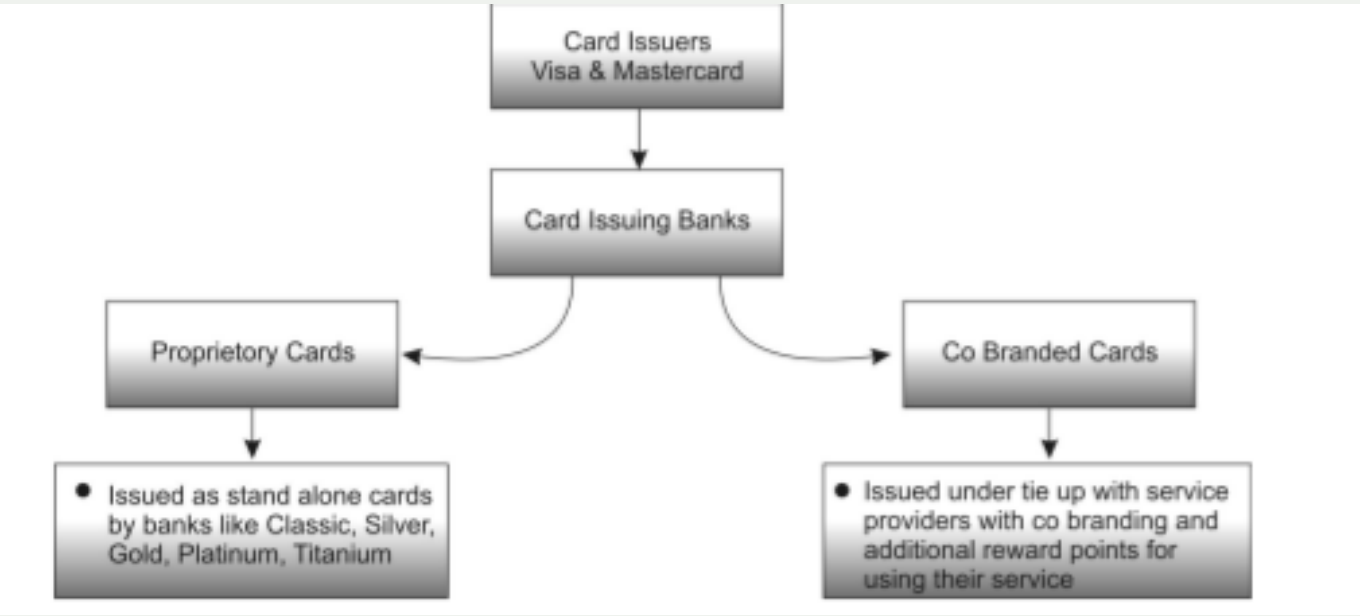
Open the offline emi calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Credit Card



Global Scenario

A credit card is a thin plastic card, usually 3-1/8 inches by 2-1/8 inches in size that contains identification information such as a signature or picture, and authorizes the person named on it to charge purchases or services to his account - charges for which he will be billed periodically.

The concept behind Credit Card is "Buy Now, Pay Later".

Credit Cards had their origin right from 1800s.

The first universal credit card that could be used at a variety of stores and

businesses - was introduced by Diner's Club Inc., in 1950.

Another major universal card - "Don't leave home without it!" - was

established in 1958 by the American Express Company.

The first national bank plan was Bank Americard, which was started on a statewide basis in 1959 by the Bank of America in California. This system was licensed in other states starting in 1966, and was renamed Visa in 1976.

Other major bank cards followed, including MasterCard formerly Master Charge.

Indian Scenario

Citibank and HSBC were the pioneers in the Indian credit card market in the

1980s.

Among the public sector banks, Andhra Bank, Bank of Baroda were the early starters followed by Bank of India.

Citibank, Standard Chartered Bank, State Bank of India, ICICI Bank and HDFC Bank dominate the credit card market with more than 90% market share.

Mainly credit cards are issued by banks in two formats viz.,

The proprietary format - banks issue the card in different brand names like Classic, Silver, Gold, Platinum, Titanium etc. Credit limits, cash withdrawal limits and other facilities will depend on the type of card.

The Cobranded format - banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc. and offer the cards as a co branded product with the brand name of the tied up company also embossed in the card.

National Payments Corporation of India (NPCI)

National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India. RuPay, a new card payment scheme launched by the National Payments Corporation of India (NPCI), has been conceived to fulfill RBI's vision to offer a domestic, open-loop, multilateral system which will allow all Indian banks and financial institutions in India to participate in electronic payments.

NPCI offers 'RuPay Credit card', 'RuPay Debit card', 'RuPay Prepaid card'& ''RuPay Global card'

The variants of RuPay Credit card are:

RuPay Select'

'RuPay Platinum'

'RuPay Classic'

Variant/Parameters	SELECT (Super Premium)	PLATINUM (Premium)
Personalized	YES	YES
Insurance Amount	₹10 Lakh for loss of life or permanent disability	₹2 Lakh for loss of life or permanent disability
Lounge program	Four free access per year in 300+ cities across the world	NO
Fuel Surcharge Waiver	Maximum ₹75/- per card per month	Maximum ₹75/- per card per month
Utility Bill – Cash Back Offer	Maximum ₹50/- per card per month	Maximum ₹50/- per card per month
Mobile Wallet Cash Back	Maximum ₹50/- per month for minimum transaction of ₹500/-	Maximum ₹50/- per month for minimum transaction of ₹500/-
IRCTC – Cash Back Offer	₹25/- for minimum transaction of ₹300/-	₹25/- for minimum transaction of ₹300/-

Historical product comparison: these card names, eligibility thresholds, charges and benefits are dated examples, not a current offer or universal rule.

Identify card and transaction > Read cycle and statement > Compare repayment choices > Protect and report > Review cost and outstanding

BharatQR

A QR code consists of black squares arranged in a squire on a white background, which can be read by an imaging device such as camera, QR contains information about the Merchant. It is developed by NPCI in collaboration with Mastercard, and Visa as an integrated interoperable QR code based payment system and was launched in September 2016. It facilitates users to transfer their money from one source to another(P2M) without the need of physical card and POS terminal. The money transferred through BharatQR is received directly in the user's linked bank account using IMPS. It provides a common interface between RuPay, Mastercard, Visa, American Express as opposed to other such individual proprietary systems. BharatQR is supported on both Android and iOS devices.

The QR code Payment System consists of the following parties:

Acquirer- merchant on-boarding, merchant management, and mobile app solutions

Issuer- consumer on-boarding and consumer mobile app solutions

Transaction processing Engine (NPCI) - end transaction routing engine.

Features of Bharat QR code transactions:

Low-cost infrastructure

Remote management of merchant and customers

Interoperable QR code

Push based transaction

No need to store any charge slip copy by merchant

Instant payment notification to merchant and consumer

Transaction history is available in the app

Nondisclosure of card details by consumer to merchant .

Clarification for accurate understanding

A universal 10% minimum is not a valid rule for every credit card. Read the current issuer statement and permitted minimum-due computation; paying only the minimum leaves debt and can affect interest-free benefits.

Clarification for accurate understanding

The fixed historical late-fee range and Rs.1,000 lost-card liability claim are not universal current rules. Apply issuer disclosures and current customer-liability requirements to the actual transaction facts.

Salient Features of Credit Cards

Credit Cards are accepted globally through their affiliation with Visa and Master Card.

Credit Cards are issued with limits of usage called "Card Limit" which fix the upper limit upto which the cards can be used.

Credit cards have a regular billing cycle and billing date and due date of payment is decided from the billing date. The period after which payment is to be made after the billing date is called as the free credit period and will be usually

between 20 days and 50 days and differ across banks.

To induce usage of cards, reward points are awarded based on the amount and type of usage. Reward points vary for different classes like Silver, Gold,

Platinum, Titanium etc.

Another promotional concept is in vogue now for usage of credit cards. The concept of "Cash Back Offer" was introduced in credit cards to promote more usage by incentivizing the usage. This incentivisation is offered from 2% to 10% and adjusted in the payment. Cash Back Offer always comes with a cap on the total amount.

The payment for the usage of the card after the credit period and on the due date can be paid in different ways. The payment can be made in full on or before the due date. Alternatively, a minimum of 10% of the outstanding amount can be paid every month on due date. The third option for payment is to convert the outstanding amount into a loan and repay the same in equated monthly installments (EMIs).

Charges for late payment beyond the due date is collected as late fees and varies

from Rs.200 to Rs.500 across banks.

Cards are issued with photos also as add on feature.

Liability for the card holder in case of loss of cards is limited to a small amount in case of most of the credit card issuers. Usually the liability is restricted to Rs. 1000/- (Rupees One Thousand Only) and the balance liability if any is borne by the card issuer through an insurance protection. Liability for lost card can be controlled from the time the loss is reported to the card centers which operate on a 24 hour basis.

For online purchases using credit cards, additional password protection just like PIN for ATM transactions can be secured with special security features such as Verified by Visa, Mastercard Secure Code etc., and the above procedure is mandated by Reserve Bank of India.

Some banks offer free personal accident insurance cover for the card holders ranging from Rs. 1 Lac to Rs. 10 Lacs depending on the type of card.

Credit Card Issuing Process

Issue of credit card involves the following processes.

Obtaining an application from the prospect.

Processing the application.

Analysing and arriving at the Credit Score.

Decision on the type of card to be issued.

Issue of Card & PIN Mailer

Dispatch of Card & Acknowledgement of Receipt.

Card Operations.

Charges

Finance Charges

Minimum Amount Due

Maximum Interest Free Period

Annualised Percentage Rate (APR)

Other Charges & Penalties

Eligibility of Credit Card

At least 18 years of age

Compliance of KYC norms

A regular sources in income to repay one’s credit card bills (Salaried or self employee)

A good credit History

Types of Credit cards

The proprietary format - banks issue the card in different brand names like Classic, Silver, Gold, Platinum, Titanium etc. Credit limits, cash withdrawal limits and other facilities will depend on the type of card.

The Co branded format - banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc. and offer the cards as a co branded product with the brand name of the tied up company also embossed in the card.

Credit Scoring Module for credit cards consists of two parts

Part I deals with the criterion to take a decision to issue a card or not.

Part II deals with the scoring for various parameters submitted by the applicant.

Prepaid Cards

Prepaid cards have radically changed the way individuals pay for their purchases on a daily basis. Most individuals tend to pay by using their card rather than cash. Prepaid cards are very similar to debit cards and credit cards in the way it looks. It even comes with a signature strip, the name of the company that has issued the card, and a card number.

NPCI offers Rupay prepaid cards of different variants. They are Gift card, Payroll

card, student card and Virtual card.

Prepaid Payment Instrument (PPI)

PPIs that can be issued in the country are classified under three types:

Closed System PPIs: These PPIs are issued by an entity for facilitating the purchase of goods and services from entity only and do not permit cash withdrawal.

Semi- Closed System PPIs: These PPIs are used for purchase of goods and services, including financial services, remittance facilities etc.

Open system PPIs: These PPIs are issued only by banks and are used at any merchant for purchase of goods ad services, including financial services, remittance facilities etc.

Issuance, loading, and reloading of PPIs

PPI issuers shall ensure that no interest is payable on PPI balance.

Cash loading to PPIs shall be limited to Rs 50,000/month subject to overall

limit of PPI.

PPIs may be issued as cards, wallets, and any such form/instrument.

Issuers shall enable the facility of cross- border outward transaction only on explicit request of the PPI holders and shall apply a per transaction limit no

exceeding Rs 10,000/ while per month limit shall not exceed Rs. 50000/-

for such cross-border transactions.

Debit Card

The characteristics of Debit Cards differ vastly from Credit Cards. As already explained, Credit Cards define the concept of "Buy Now, Pay Later" but Debit Cards explain the concept of "Buy Now and Pay Now". The important aspect of Debit Card is that at the point of purchase itself, the payment is made directly from their account balances.

RBI Guideline

In a bid to make transactions through debit cards and credit cards more secure and

convinient, the Reserve Bank of India (RBI) has issued new guidelines that have

come into effect from (October 1, 2020).

All new credit and debit cards issued by the banks will be only enabled for domestic transactions at ATMs and point of sale (PoS) terminals.

All the debit card and credit card users from now on are allowed to set up transaction limits.

Card users now have an option to opt-in or opt-out of services on their credit/debit cards such as online transactions (e-commerce), international transactions, and contactless transactions (NFC-based).

RBI has asked all the banks and card issuing companies to disable online payments for all those debit and credit cards which have never been used for online or contactless transactions in India or abroad.

Debit Cards v Credit Cards

Debit Cards Credit Cards

Spending limits	- Daily limits on spends and cash withdrawals	- Monthly credit limits based on card. - Monthly and daily limits on cash withdrawals
Benefits	- What you spend is instantly debited from your account - No repayment needed - No interest charges - Get cashbacks and discounts	- Buy now, pay later - Enjoy 50-days of interest free credit - Get cashbacks, discounts, rewards and miles - EMI-based repayment
Annual fees	- Low to nil	- Depends on card
Security features	- PIN, OTP, SMS notifications	- Zero liability insurance on lost or stolen card PIN, OTP, SMS notifications

Co-Branded Cards

Co-branding is a process where two or more facilities are combined in a card with added benefits. An airline or a hotel chain co-branded card isthe best example of a co-branded card.

Co-branded cards offer the usual facilities plus some rewards from the co- branded entities. For example, an airline co-branded card will give some special discounts to the card holder on booking tickets with the card.

Contactless Cards

A Contactless card is a faster way to pay with a credit or debit card for purchases under Rs.5000/- at participating stores. Instead of dipping (or swiping) the card at the billing counter, simply wave or tap the card on the contactless terminal and pay without entering a PIN (for amount under

Rs.5000/-).

These cards work on Near-Field Communication (NFC) technology, which employs radio transmission to ascertain contact when the cards are tapped or waved near a terminal.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | After paying Rs.1,000 against Rs.20,000, how much of the stated amount remains before other adjustments?

Answer: Rs.19,000.

Why: 20,000 - 1,000 = 19,000; minimum payment is not full repayment.

Question 02 | Is a credit limit the customer’s own savings?

Answer: No.

Why: It is an approved borrowing ceiling subject to terms and repayment obligations.

Question 03 | Does every transaction get the same interest-free period?

Answer: No.

Why: Cycle timing, transaction category and compliance with payment conditions can change the treatment.

Question 04 | Can a cashback promise be evaluated without its cap?

Answer: Not properly.

Why: A cap or exclusion can materially change the actual benefit.

Question 05 | Is the normal minimum-payment explanation sufficient for an unauthorised charge?

Answer: No.

Why: Reporting, protection, investigation and applicable liability rules must also be considered.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Credit-card use can create a debt.	15. Cash advances can have different treatment.
02. A credit limit is not income.	16. Interest-free benefits have conditions.
03. Debit and credit cards differ.	17. Reward rates can have caps.
04. A charge card can have a different repayment structure.	18. Cashback can have exclusions.
05. Prepaid value is a separate arrangement.	19. Consent matters in issue and activation.
06. Identify the purchase date.	20. Limit increases need the applicable process.
07. Identify the statement date.	21. Know the official blocking route.
08. Identify the payment due date.	22. Prompt reporting matters after suspected misuse.
09. Read the total amount due.	23. Keep the complaint reference.
10. Read the minimum amount due.	24. Liability is fact- and rule-dependent.
11. Minimum payment does not clear the whole bill.	25. Protect PINs and passwords.
12. Unpaid balances can attract interest.	26. Review transaction alerts.
13. Read the annualised rate.	27. Understand closure and outstanding dues.
14. Monthly quoted rates need careful comparison.	28. Compare borrowing cost as well as benefits.

MODULE B / B07

Remittance Products

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A family needs to send money for three different purposes: a small immediate household payment, a large property-related payment and a recurring monthly insurance premium. Choosing the same payment method without examining the purpose could create unnecessary difficulty. The officer first identifies the amount, urgency, beneficiary, available channel and whether the transfer is a one-off payment or a mandate-based collection. The customer should understand the instruction being authorised and the information needed to route it correctly.

For an account-based remittance, the customer must verify the beneficiary's details through a reliable channel. An apparently familiar name or a forwarded message is not sufficient evidence that a changed account instruction is genuine. The officer explains that payment initiation, processing, settlement and beneficiary credit are distinct events. A debit alert does not always establish that the intended beneficiary has received the money. The customer should retain the transaction reference and use the official tracking or complaint route if the outcome is uncertain.

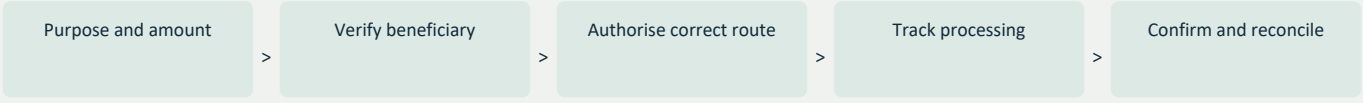
For a recurring payment, the mandate must specify the authorised arrangement and be managed through the applicable process. A bill-payment platform, an instant retail payment and a high-value settlement system have different designs. Their current limits, charges, availability and customer conditions must be checked for the actual transaction. The practical skill is choosing and executing the right route safely, then confirming its outcome; memorising one old comparison table cannot replace that judgement.

Change one assumption

Suppose the family receives a message saying that the property's beneficiary account has changed. Urgency should not override verification. The customer should contact the known beneficiary through an independently verified channel rather than using the contact details in the suspicious message. Now suppose a transfer has already been debited but its status is pending. Repeating the payment immediately could create a duplicate if the first instruction later succeeds. Check the reference, follow the bank's official resolution process and distinguish pending, failed, reversed and successfully credited outcomes before deciding the next step.

Avoid this common mistake

Avoid fixed statements that every NEFT transfer takes at least two hours, every UPI payment has the same limit, or every outward transfer through a particular rail is free. Processing design, transaction category, channel and bank conditions matter. Do not confuse a system's maximum permitted amount with a bank or application's operational limit. Also separate a transfer's authentication from confirmation that its purpose and beneficiary are genuine. A technically authorised payment can still have been induced by deception.



Follow the decision: B07

Purpose and amount > Verify beneficiary > Authorise correct route > Track processing > Confirm and reconcile

Connect the concepts

01. A remittance transfers value to a beneficiary; its purpose and timing should guide the payment route.

02. RTGS uses gross real-time settlement, whereas NEFT has a batch-based processing design.

03. UPI supports instant retail payments, but category and implementation limits need the current applicable conditions.

04. NACH supports bulk and recurring payment arrangements; a mandate is not the same as an individual ad hoc transfer.

05. AePS connects authorised banking services with Aadhaar-based authentication under its applicable framework.

06. Bill-payment arrangements organise biller discovery, payment and confirmation rather than replacing all underlying settlement processes.

07. Beneficiary account details must be checked carefully; an alias or displayed name is not complete protection against error.

08. Initiation, account debit, settlement and beneficiary credit should not be treated as identical events.

09. A transaction reference is essential for tracking, reconciliation and complaint handling.

10. A pending status requires checking before repetition because the first transfer may still complete.

11. Payment charges can depend on channel and customer category; identify the applicable fee rule or tariff.

12. Historic ECS/NECS descriptions explain system evolution but should not be read as a complete current payment directory.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Remittance Products

Purpose and amount > Verify beneficiary > Authorise correct route > Track processing > Confirm and reconcile

The two most traditional forms of making remittances used by the banks for making local payments and for remitting funds outstation are:

Banker’s Cheque: The Bank Cheques are issued for making local payments on behalf of customers. All local payments by branches should be made by means of Banker’s Cheques on account of purchase of stationery, furniture, sundry articles, telex/telephone/electricity bills, etc.,

Demand Draft: A bank draft is a negotiable instrument, drawn by one branch of a bank upon another instructing the latter to pay a certain sum of money only or to the order of a certain person. However, by prior arrangement, the paying bank may be a different bank also. A bank draft is a bill of exchange but is not a cheque as such.

Electronic Payment Systems

RBI set in motion necessary regulation and payment for electronic funds transfer. There are two sets of access criteria for Banks:

Centralised Payment Systems (CPC)

Real Time Gross Settlement (RTGC)

National Electronic Fund Transfer (NEET)

National Electronic Clearing Service (NECS)

Decentralised Payment Systems (DPS)

Clearing House at MICR centres

Electronic Clearing Service (ECS)

Note: Payment and Settlement Systems Act 2007.

Real-Time Gross Settlement (RTGS)

RTGS stands for Real-Time Gross Settlement system which can be described as a transfer system wherein the transfer of money takes place from one bank to any

other bank on a "real-time" and a gross basis.

‘Real Time’ means the processing of instructions at the time they are received and ‘Gross Settlement’ means that the settlement of funds transfer instructions occurs on a one-to-one basis.

In RTGS, the transactions are processed continuously on a one-to-one basis 24×7, 365 days. RGTS is most used for high-value transactions and is managed by the Reserve Bank of India. In India, there are more than 110,000 RTGS enabled bank branches.

Benefit

It is a safe mode of money transfer with no amount cap

It is a real-time fund transfer system

Purpose and amount > Verify beneficiary > Authorise correct route > Track processing > Confirm and reconcile

No additional charges

Available 24×7 from Monday to Sunday

Clarification for accurate understanding

Separate RBI charges to banks, inward customer transfers, online NEFT savings-account waivers and permitted outward customer charges. Do not infer that every outward RTGS/NEFT transaction for every customer is free.

Customers can initiate the remittances from his / her home or place of work using internet banking

Transaction through RTGS has legal backing

Charges

Inward transactions - Free, no charge to be levied

RBI has directed all the banks to not charge any service fee on transfer of funds through RTGS initiated online via internet banking and/or mobile banking

Outward transactions - Rs.2,00,000/- to 5,00,000/-: not exceeding Rs.30/-

Above Rs.5,00,000/- not exceeding Rs.55/-

Limit

The minimum amount to be transferred via RTGS is Rs.2,00,000/- and there is no maximum RTGS limit as RTGS service is meant for high-value transactions.

National Electronic Fund Transfer (NEFT)

National Electronic Fund Transfer (NEFT) is a nation-wide payments system that

allows the transfer of funds from one bank’s account to another. With an increased focus on online banking, NEFT has become one of the most popular ways of transferring funds. Since it can electronically transfer funds from any bank branch to any individual, it has eliminated the need to visit a bank branch for transfer of funds.

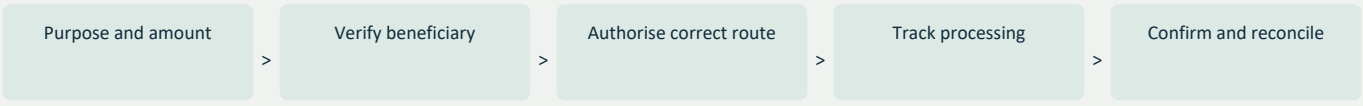
NEFT Timings

NEFT works on a round-the-clock basis i.e. 24×7, 365 days. Earlier, NEFT transactions were available from 8:00 AM to 6:30 PM from Monday to Friday only. However, RBI has regularised that NEFT transactions will be available 24*7 on all days of the year, including holidays.

Also, after usual banking hours, NEFT transactions are expected to be automated transactions initiated using ‘Straight Through Processing (STP)’ modes by the banks.

NEFT Transfer Limit

There is no upper or lower limit on the amount that can be transferred via NEFT. You can begin with an NEFT transfer with Rs. 1. There is only a single limitation on the amount of one-time transaction through



cash mode, which is

Rs. 50,000.

Depending on each bank, timings and settlement period for each transaction could be different. Ordinarily, if funds are transferred within the same bank account, one can expect to receive them within a matter of a few seconds. However, when such transfers take place between different banks, the settlement time could be longer.

Charges applicable to NEFT

Fund transfer charges applicable to remitter are: (GST excluded)

Clarification for accurate understanding

NEFT operates through half-hourly batches. The two-hour customer-credit/return benchmark after batch settlement is not a universal minimum transfer time.

Clarification for accurate understanding

UPI limits depend on transaction category and implementation; one historic Rs.1 lakh comparison cell is not an exhaustive current limit directory. Recheck the relevant NPCI category and bank/app limits.

Rs. 2.50 on transfers up to Rs. 10,000

Rs. 5 on the transfer of Rs. 10,000 to Rs. 1 Lakh

Rs. 15 on the transfer of Rs. 1 Lakh to Rs. 2 Lakh

Rs. 25 on the transfer of more than Rs. 2 Lakh

NEFT v/s UPI v/s RTGS

Given below is a detailed comparison between NEFT, UPI (Unified Payments Interface) and RTGS:

Parameter	NEFT: historical comparison	UPI: historical comparison	RTGS: historical comparison
Minimum amount	Rs.1	Rs.1	Rs.2 lakh
Mode	Online / offline	Online	Online / offline
Maximum	No upper limit	Rs.1 lakh	No upper limit
Time shown	Minimum 2 hours	Immediate	Immediate
Availability	24 x 7	24 x 7	24 x 7
Inward charges	No charges	No charges	No charges

Parameter	NEFT: historical comparison	UPI: historical comparison	RTGS: historical comparison
Details shown	Account number and IFSC	VPA and MPIN	Account number and IFSC
Beneficiary registration shown	Yes	No	Yes

National Electronic Clearing Service (NECS)

Payment and settlement systems in India are used for financial transactions. They

are covered by the Payment and Settlement Systems Act, 2007 (PSS Act), legislated in December 2007 and regulated by the Reserve Bank of India and the Board for Regulation and Supervision of Payment and Settlement Systems.

Electronic Clearing Service (ECS Credit)

Known as "Credit-push" facility or one-to-many facility this method is used mainly

for large-value or bulk payments where the receiver's account is credited with the payment from the institution making the payment. Such payments are made on a timely- basis like a year, half a year, etc. and used to pay salaries, dividends or commissions. Over time it has become one of the most convenient methods of making large payments.

Electronic Clearing Services (ECS Debit)

Known as many-to-one or "debit-pull" facility this method is used mainly for small

value payments from consumers/ individuals to big organizations or companies. It eliminates the need for paper and instead makes the payment through banks/corporates or government departments. It facilitates individual payments like telephone bills, electricity bills, online and card payments and insurance payments. Though easy, this method lacks popularity because consumer awareness is important.

Electronic Clearing Services (ECS)

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS includes transactions processed

under National Automated Clearing House (NACH) operated by National Payments

Corporation of India (NPCI).

Categories of ECS

Local ECS - this is operating at 81 centres / locations across the country. At each of these ECS centres, the branch coverage is restricted to the geographical coverage of the clearing house, generally covering one city and/or satellite towns and suburbs adjoining the city.

Regional ECS - this is operating at 9 centres / locations at various parts of the country. RECS facilitates the coverage all core-banking-enabled branches in a State or group of States and can be used by institutions desirous of reaching beneficiaries within the State / group of States.

National ECS - this is the centralized version of ECS Credit which was launched in October 2008. The Scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country. This system too takes advantage of the core banking system in banks.

National Automated Clearing House (Nach) System

National Automated Clearing House (NACH) has taken place of ECS on May 1, 2016. National Payments Corporation of India (NPCI) has implemented "National Automated Clearing House (NACH)" for Banks, Financial Institutions, Corporate and Government, 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 distribution of subsidies, dividends, interest, salary, pension, etc., and also for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium, etc.

Benefits to customer:

No need for a manual process in this case.

The process is easier and faster than ECS.

No need to keep track of due dates for payments such as utility bills, phone and credit card bills, interest payments, and a variety of other payments because they are all handled automatically through registered banks.

Benefits to Organization:

No dependence on cheques or clearance.

Payments such as scholarships, allowances, and subsidies take less time to process.

Salary, dividends, and pension payments are all made on scheduled date.

Much improved customer service and bill payment.

Benefits to Bank:

Better customer service, faster payment processing, and stronger ties with associated organisations.

No need to rely on checks or paperwork.

Registration, payment, and collection of EMI, loans, and advances are all done in a hassle free manner.

Because no manual processes are involved, there are fewer errors and a smoother workflow than before.

Transactions that are quick and do not take a long time to complete.

Comparison between ECS and NACH:

NACH is much faster with same day presentation, settlement and returns processing, compared to the ECS system, where the entire process spreads over 3-4 days.

NACH has a well-defined Dispute Management System, to raise and solves issues, which was absent in the case of ECS.

NACH also has a robust Mandate Management System, with standardised mandate format and verification workflow.

NACH introduced the Unique Mandate Reference Number to clearly identify each mandate with reference to a customer.

Aadhaar Enabled Payment System

Aadhar Enabled Payment System (AePS) is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale/ Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication. This needs a KYC compliant bank account in which Aadhaar has been linked. It allows online interoperable financial inclusion transaction at PoS (Micro ATM) through the Business correspondent of any bank using the Aadhaar authentication.

Services Offered by AePS

Cash Withdrawal

Cash Deposit

Balance Enquiry

Aadhaar to Aadhaar Fund Transfer

Mini Statement

Bharat Bill Payment System (BBPS)

Bharat BillPay

Bharat BillPay has multiple modes of payment and provides instant confirmation of payment via an SMS or receipt. It offers myriad Bill collection categories like electricity, telecom, DTH, gas, water bills, etc. and also other repetitive payments like insurance premium, mutual funds, school fees, institution fees, credit cards, fastag recharge, local taxes, housing society payments, etc. at one single window. An effective mechanism for handling consumer complaints has also been put in place to support consumer regarding any Bill related problems in Bharat BillPay

Different Payment Channels

Bharat BillPay transaction can be initiated through multiple payment channels like Internet, Internet Banking, Mobile, Mobile-Banking, Mobile Wallets, Kiosk, ATM, Bank Branch, Agents and Business Correspondents, by just looking at the Bharat BillPay logo

Different Payment Modes

Bharat BillPay facilitates myriad payment modes enabling Bill payments. The payment modes options facilitated under the ecosystem are Cards (Credit, Debit and Prepaid), NEFT Internet Banking, UPI, Wallets, Aadhar based Payments and Cash.

Key Features

Interoperable	**Bharat BillPay is an integrated ecosystem connecting banks and non-banks in bills aggregation business, Billers, payment service providers and retail Bill outlets.**
Accessible	Facilitate seamless payment of bills through any channel : Digital and physical.
Cost-effective	Most cost-effective for entire ecosystem - Flat fee charge vs current ad valorem.
Integration	BBPOUs will have to connect only to BBPCU to get access to all the billers. Utility companies just need to connect to maximum two BBPOUs to enable all customers to pay bills.

Complaint Management	**Standardised system to handle customer grievances for both ON-US and OFF-US transactions.**
Dispute Management	Facilitate BBPOU’s to raise and resolve disputes relating to transactions that have passed through the Bharat BillPay ecosystem.
Clearing & Settlement	Multiple Clearing & Guaranteed Settlements between different parties, standardised TAT.
Standardisation	Standardisation of processes for entire Bharat BillPay ecosystem.
Brand Connect	Single and trusted brand connect and Bharat BillPay Assurance.
Key Participants	
About Bharat Bill Payment Central Unit (BBPCU)	

Complaint Management	Standardised system to handle customer grievances for both ON-US and OFF-US transactions.
National Payments Corporation of India (NPCI) has been authorized by RBI as the	
Bharat Bill Payment Central Unit (BBPCU) and is responsible for setting business	
standards, rules and procedures for technical and business requirements for all	
participants. The BBPCU undertakes clearing and settlement activities related to	
transactions routed through Bharat BillPay.	
About Bharat Bill Payment Operating Unit (BBPOU)	

Bharat Bill Payment Operating Unit aka BBPOU is the entity that is authorized by Reserve Bank of India. It can be a Bank or a Non-Bank. BBPOU may choose to integrate either with the customers, (COU: Customer OU) or with the billers (Biller OU) or may wish to participate as both - which means such BBPOU will be integrated with customers as well as billers.

Going forward, only authorised BBPOU - both banks and non-banks authorised by RBI - can handle payment and aggregation of payment services relating to bills under the scope of Bharat BillPay.

Agent Institutions

Eligible Entities who wish to offer or those who are currently in Bill payment, collection and aggregation business, would operate under a COU (Customer BBPOU).

Customer BBPOU will on-board Agent institutions which may further on-board

agents and/ or set up customer service points in various regions and locations.

Agents

Agents are the customer touch points and service points in the Bharat BillPay ecosystem available in the form of agent outlets, Business Correspondent outlets, Bank branches, collection centres, retail outlets.

Biller/Utility Company

Service providers, who shall receive payments from customers for services rendered. By participating in the Bharat BillPay scheme, the biller will be able to receive payments from third party channels for the services provided to the customer. A biller may tie up with up to two BBPOUs to access the entire universe of its consumers and all payment channels.

Complete the concept: additional learning

Benchmarking payment systems: compare like with like

Payment-system benchmarking compares an ecosystem with comparable jurisdictions or its own earlier performance. It asks about regulation and oversight, access and acceptance infrastructure, available instruments, usage, cost, speed, reliability, inclusion, customer protection and cross-border arrangements. A country can perform strongly in one area while needing improvement in another. A historical report's rank is tied to its period, countries, indicators and available data; it is not a permanent current league-table position.

Use meaningful denominators. Suppose Country A records 100 million digital transactions for 10 million people and Country B records 150 million for 30 million people. A has 10 transactions per person; B has 5. B leads on total count while A leads on this per-person usage measure. Neither comparison establishes the value transferred, service quality, fraud experience or access for excluded groups. Similarly, a 99.9% success rate over one product and period cannot be compared fairly with a different definition of attempted transactions. Read volume and value separately, specify the period and population, and explain the practical improvement indicated by the evidence.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | A transfer is debited but pending. Should it automatically be repeated?

Answer: No.

Why: The first instruction may still succeed; check its reference and official status before risking a duplicate.

Question 02 | Does a system ceiling guarantee the same limit in every app?

Answer: No.

Why: An institution, channel or transaction category may have a different applicable operational limit.

Question 03 | Why verify changed beneficiary details independently?

Answer: To test whether the instruction is genuine.

Why: Authentication of the customer's action does not establish the truth of a fraudulent beneficiary-change message.

Question 04 | Are settlement and beneficiary credit always the same event?

Answer: They are distinct stages.

Why: A useful explanation identifies the processing stages and the actual confirmation received.

Question 05 | What should the customer retain after initiating a transfer?

Answer: The transaction reference and relevant confirmation.

Why: These support tracking, reconciliation and the correct resolution process.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Choose a route for the payment purpose.	15. A debit alert is not complete proof of receipt.
02. Consider amount and urgency.	16. Settlement and credit are distinct concepts.
03. Check the beneficiary.	17. Retain the transaction reference.
04. Verify changed instructions independently.	18. Check a pending status before repetition.
05. Read the actual transaction limit.	19. Duplicate payments can create a second problem.
06. System ceilings and app limits can differ.	20. Use official tracking routes.
07. RTGS uses gross settlement.	21. Charges can depend on channel.
08. NEFT is batch-based.	22. Charges can depend on customer category.
09. UPI supports instant retail payments.	23. An old fee table may be historical.
10. NACH supports bulk and recurring arrangements.	24. A familiar logo does not prove a message genuine.
11. A mandate defines an authorisation.	25. Never disclose authentication credentials casually.
12. AePS has a distinct authentication framework.	26. Reconciliation checks intended and actual outcomes.
13. Bill payment has a biller-service context.	27. Understand cancellation or mandate-change conditions.
14. Initiation is one stage.	28. Explain the route as well as the button to press.

Purpose and amount > Verify beneficiary > Authorise correct route > Track processing > Confirm and reconcile

MODULE B / B08

Digitisation of Retail Banking Products

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A customer applies for a loan through a mobile interface. The screen is attractive and the response is fast, but neither fact identifies the lender or proves that the offer is affordable. The learning task is to follow the entire digital journey: customer acquisition, identity checks, consent, credit assessment, offer disclosure, acceptance, disbursement, repayment, servicing and complaint handling. Technology can automate steps without removing the responsibilities behind them.

Consider two illustrative offers for the same amount and period. Offer A advertises a lower interest rate but includes a compulsory fee; Offer B has a higher stated rate but a lower total cost under the given cash flows. The customer must compare the disclosed all-in annualised cost and repayment schedule on a consistent basis, rather than ranking advertisements by one rate. Amount disbursed, fees, instalments and dates all affect the comparison. The lender must also be distinguishable from any platform or service provider that assists it.

The officer explains why consent should be specific to a legitimate function and why collecting every possible data item is not automatically better underwriting. Access controls, reconciliation and records are needed when several systems participate. If the application fails after a debit or submission, the customer needs a clear status and resolution path. A genuinely useful digital process is understandable, controlled and serviceable, not merely paperless or quick.

Change one assumption

Now suppose the platform changes the proposed lender while the customer is comparing offers. The customer should be able to identify the actual contracting lender, understand the terms and make an informed choice. A trusted interface must not blur responsibility or make different offers look identical. Change another assumption: the customer's income is seasonal. A fast automated approval based on a recent high credit may overstate sustainable cash flow. The process should assess the relevant pattern and provide suitable human review or exception handling rather than treating speed as proof of a sound credit decision.

Avoid this common mistake

Do not equate digitisation with digitising an old form or assume that a technology intermediary becomes the lender merely because its logo appears on the screen. Customer consent is not a blanket licence for unrestricted data collection. An advertised rate is not necessarily the all-in cost, and an instant response does not prove a complete appraisal. Follow each obligation, cash flow and data permission through the actual arrangement, including service providers, failure handling and complaints.

Identify lender and purpose > Verify information and consent > Compare complete offer > Accept and disburse > Repay, service and resolve

Follow the decision: B08

Identify lender and purpose > Verify information and consent > Compare complete offer > Accept and disburse > Repay, service and resolve

Connect the concepts

01. Digitisation redesigns the customer and operating journey; scanning a paper form is only one possible step.

02. The regulated lender, platform and service provider can perform different roles, which must remain identifiable.

03. Customer acquisition should lead to suitable verification and assessment rather than immediate approval based on marketing appeal.

04. Consent must relate to a legitimate purpose and be understandable, recorded and managed under the applicable rules.

05. A digital offer must allow a meaningful cost comparison using the actual amount, fees, repayments and timing.

06. Annualised cost is sensitive to cash-flow timing, so a flat fee and a monthly rate cannot be casually added as percentages.

07. Credit assessment must distinguish recurring income from one-off or seasonal account credits.

08. Data validation protects against missing, inconsistent and fraudulent information before automated decisions are made.

09. Access restrictions and audit trails support accountability across systems and service providers.

10. Direct processing can reduce manual work, but reconciliation and exception handling remain necessary.

11. Disbursement and repayment routes should be transparent and consistent with the applicable lending arrangement.

12. A usable digital service includes accessible support, clear status and a functioning grievance route after the sale.

Work it out, then change an input

Enter a principal, annual rate and number of months. Predict the change when the term or rate increases. Compare the EMI, total interest and outstanding balance; use a repayment budget to test affordability.

Open the offline emi calculator

Identify lender and purpose > Verify information and consent > Compare complete offer > Accept and disburse > Repay, service and resolve

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Banking Products

Technology In Retail Banking

Technology and Retail Banking are inseparable. Technology is the foundation on which the retail banking edifice is built across the globe. Technology is the enabler for building and translating a customer data base into retail banking business. Banks adopt different technology platforms in line with the global trends. The levels of technology implementation in PSBs started from standalone Automated Ledger Posting Machines (ALPMs) in the early days of computerisation in 1980s and graduated to Total Branch Automation and regional net worked hubs.

Few essential technology trends which is going to have a major impact on the

banking ecosystem as follows:

Increased use of Data Analytics and Artificial Intelligence

Develop self-learning banking systems using computer programs to serve in customer facing situations

New concepts like Open Banking and Embedded Finance through which banks will be able to offer their own customers access to third party products and services

Cloud-based infrastructure will support banking organizations react to marketplace changes at a faster pace in economical manner

A lot of banking activities will be automated in the coming years as next-level process automation and virtualization become more commonplace

Technology Processes In Retail Banking

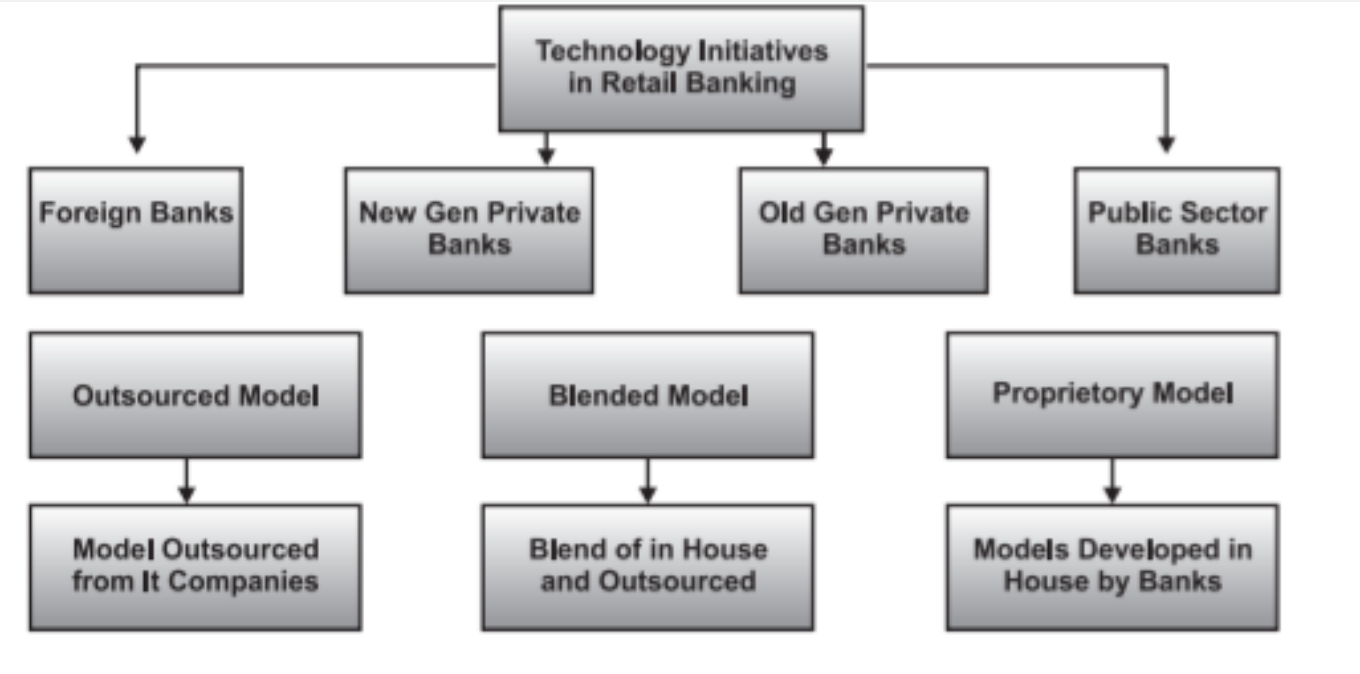
A Boston Consulting Group Study conducted in 2003, "Opportunities for Action in Financial Services - Transforming Retail Banking Processes" reported that in terms of processes for integration of technology in retail banking, retail banks are using different

approaches to modularise and standardise their processes. Four distinct process models have emerged from their study. They are:

Horizontally Organised Model where individual process platform supports one product only. The sub data in the model are not shared with other products and product platform.

Vertically Organised Model where functionality is provided across all products. In this model, customer information is centralised. Centralised customer information builds common origination and servicing processes across all its retail banking products.

Predominantly Horizontally Organised Model with some modularization within a product oriented feedback. Customer data integration is available to a certain extent for other products. iv. Predominantly Vertically Organised Model is a hybrid model that offers common information for most of the related services. The basic information is available across products for common services to the various products.



In the retail liabilities and asset side, the software is developed mainly to capture

the following types of information, viz.,

Static Information - Account Opening, Basic Loan Origination Data, etc.

Updated Information - Income Details at different frequencies, etc.

Transaction Information - Information from disbursement to final settlement in loan accounts and operation details in liability accounts.

Analytics and Alerts - Both operational and strategic alerts to take action or to develop strategies for further action.

Institute For Development and Research In Banking Technology (IDRBT)

Banking industry is in the path of growth leveraging Information Technology in a big way in all its strategic, functional and operational processes and applications.

The Reserve Bank of India constituted a committee on "Technology Upgradation in the Payments System" in the year 1994 under the Chairmanship of Shri W. S. Saraf, the then Executive Director of RBI. In its report submitted in December 1994, the committee emphasized that an apex- level Institute is set up to undertake development and research in the area of Information Technology applied to the financial sector, with a specific focus on banking.

Reserve Bank of India approved this recommendation and established an Institute with a brief to spearhead technology absorption in the banking and financial sector of the country. Accordingly, the IDRBT started functioning from March 06, 1996.

The Institute, over the years, conceptualized, designed and launched the following technology services for Indian banking and financial sector.

Indian Financial Network (INFINET)

Structured Financial Messaging System (SFMS)

National Financial Switch (NFS)

Indian Banking Community Cloud (IBCC)

Indian Financial Network (INFINET)

INFINET, a closed user group network is nationwide communication backbone for banking and financial sectors. Various inter-bank and intra-bank applications ranging from Structured Financial Messaging System (SFMS), Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS), Electronic Debit, Online Processing and Trading in Government Securities, Centralized Funds querying for Banks and Financial Institutions, Anywhere/Anytime Banking and Inter-bank reconciliation have been implemented using the INFINET. Funds transfer under NEFT and RTGS is being done through INFINET.

It is Financial Network in the form of a reliable communication backbone, facilitates running different applications/services. The advantages of INFINET being:

Banking and Financial services independent of their location.

Extended banking business sreach and hours as well as increased business volume and better fund utilisation, thereby facilitating reduced operational cost.

Increased security.

Reduction/elimination of payment risks.

Efficient Housekeeping.

Improvement in decision making process.

Innovative customer-oriented delivery mechanisms.

Structured Financial Messaging System (SFMS)

Structured Financial Messaging System (SFMS) is a secure messaging standard

developed to serve as a platform for intra-bank and inter-bank applications. It is

an Indian standard similar to Society for World- wide Interbank Financial Telecommunications (SWIFT) which is the international messaging system used for financial messaging globally. SFMS can be used practically for all purposes of secure communication within the bank and between banks.

Key Features

Template Builder to support flexible definition of messages similar to SWIFT, like user-touser and systems messages.

Flexible architecture that facilitates centralized or distributed deployment.

Directory services for maintenance of IFSC directory, network configuration.

Secured messaging and routing based on store and forward principles governed by push technology.

Messages can be clubbed and exchanged as a batch of files.

Smart card based user access.

Messages will be secured via standard encryption and authentication services conforming to ISO/SWIFT standards.

Complete auditing, logging, time-stamping and warehousing of messages.

Periodic computation of charges and billing of the services offered to the participating banks.

Multi-tiered solution covering INFINET HUB, Bank Gateways and Bank sites.

A modularized Web-enabled software to facilitate the participating banks to send and receive financial and non-financial messages through Bank Gateways and INFINET HUB.

National Financial Switch (NFS)

National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs) in India. Thus, NFS functions as the backbone of Indian ATM network. NFS was designed and implemented by the Institute for Development and Research in Banking Technology (IDRBT) in 2004. IDRBT launched the National Financial Switch on 27 August 2004, by connecting the ATMs of three banks. Thereafter, IDRBT worked towards the goal of inter-connecting the ATMs in the country for facilitating convenience banking.

How did National Financial Switch (NFS) come under NPCI?

National Payments Corporation of India (NPCI) was launched with the intention of bringing Retail Payment systems in India under a separate entity. When RBI authorised NPCI to take over the operations of NFS, IDRBT handed over NFS to NPCI. IDRBT hived off the operational aspects of NFS to focus more on it’s key targets of research and development. NPCI took over NFS operations from December 14,2009. ATMs were the first alternate payment channel introduced in India. ATMs propelled the journey towards digital channels and digital banking in India.

National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs)in India. The ATM network launched by IDRBT,is managed by

NPCI.

What is an ATM network?

All the ATM's of a bank are connected to an ATM switch. An ATM network is a network that connects the ATM switches of different banks. An ATM network can be set up with two ATM switches to hundreds of ATM switches of different banks. A customer can utilise another bank ATM only if both banks are connected through the same ATM network. 'Inter-operability of different bank ATMs are made possible through ATM network.

Indian Banking Community Cloud (IBCC)

Cloud computing is a promising technology that provides various services to the customers on demand over the Internet. The ease of this technology is increasingly expanding in almost all the industries across the globe for its resulting benefits.

A Community Cloud can possibly be a solution where the Cloud services are meant for organizations having common objectives and security controls. To furnish Cloud services to such like-minded organizations in India, IDRBT has setup a pilot approach to building Community Cloud for the Indian Banks to provide Infrastructure as a Service.

Cloud computing technology provides three fundamental services namely Software as

a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS) which can be deployed on top of Public, Private and Hybrid cloud models.

Software as a service (SaaS): SaaS is an "on-demand software" service where the required software is provided to the end users as an application to run on their systems through Internet.

Platform as a Service (PaaS): In PaaS, a computing environment is provided as a service to the customers to build their own applications that run on the provider's infrastructure.

Infrastructure as a Service (IaaS): A pool of equipment including servers, storage systems, network, data centres, etc., provided as a service to the customers where providers can handle customers' application workloads is referred as IaaS. The customer can host their own software on the cloud infrastructure.

Wealth Management Solutions

Wealth management solutions are mostly modular, fully scalable, integrated core banking and in- vestment management system designed for the specific needs of retail and private banks. They offer unique combination of an extensive portfolio of functions with impressive flexibility that enables end-to-end processing of investment products from diverse asset classes including structured deposits, structured notes, equities, mutual funds and insurance.

Key Modules

Structured Products

Mutual Funds

Equities

Clarification for accurate understanding

Read the current entity-specific consolidated RBI directions and relevant 2025 digital-lending provisions, including cost disclosure, lender identification, service-provider arrangements, data permissions and grievance handling. The older chapter is not a complete present-day compliance checklist.

Insurance

Business Benefits:

Leverage the HNWI Opportunity - For e.g.-Finacle wealth management solution enables financial institutions to derive rich integrated insights about the HNWI client's investment portfolio. Sophisticated analytics, relevant financial planning and asset allocation tools can be deployed, to leverage the opportunities presented by hot listed clients to explore prospects for cross-selling and fee- based personalized advice.

Ease of Enhancing Product Portfolio:

The user-friendly solutions provide flexibility to tailor solutions and create new product flavours for emerging customer segments.

It enables business users at the bank to add innovative functionalities and features to their offerings, without changing the source code of the application.

Higher Operational Efficiency

The solutions enable Straight Through Processing (STP) and are fortified with a powerful integration framework to interface with the bank's core banking solution and external data sources.

This plays a crucial role in minimizing operational delays and ensuring seamless transaction flows at the bank.

Lower Total Cost of Ownership (TCO)

Built on new-generation technologies, wealth management solutions are generally future-proof and can be seamlessly integrated with other enterprise applications.

With proven scalability and a flexible architecture, they ensure protection for the bank's technology investments.

Digital Lending

In today's financial world, there has been rapid advancements in technology brought in by cloud computing, artificial intelligence and blockchain which has supported the growth of Fintech start-ups. It has revolutionized the banking space in a big way including lending. The process of Digital Lending involves lending through the web or mobile interface, using technology to get the authentication done and evaluation of credit. The entire process of credit including sourcing, credit and risk assessment and disbursement happens on the digital platform in a seamless manner within a shortest amount of time.

The universe of digital lenders is classified 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.

The major highlights of the regulatory framework are as follows:

Customer Protection and Conduct Issues

All loan disbursals and repayments are required to be executed only between the bank accounts of borrower and the Regulated Entity (RE) without any pass- through/ pool account of the Lending Service Provider (LSP) or any third party.

Any fees, charges, etc., payable to the 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. APR shall also form part of KFS.

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.

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.

Technology and Data Requirements-

Data collected by Digital Lending Apps (DLAs) should be need based, should have clear audit trails and should be only done with prior explicit consent of the borrower.

Option may be provided for borrowers to accept or deny consent for use of specific data, including option to revoke previously granted consent, besides option to delete the data collected from borrowers by the DLAs/ LSPs.

Regulatory Framework-

Any lending sourced through DLAs is required to be reported to Credit Information Companies (CICs) by REs irrespective of its nature or tenor.

All new digital lending products extended by REs over merchant platforms involving short term credit or deferred payments are required to be reported to CICs by the REs.

Complete the concept: additional learning

Customer analytics and a usable digital journey

Customer analytics turns properly obtained data into a question, a defensible measure and a useful decision. Descriptive analysis shows what happened; diagnostic work asks why; predictive models estimate what may happen; a proposed action must still pass suitability, fairness and operational checks. Useful digital features include clear language, accessible controls, transparent charges, progress and confirmation messages, safe authentication, recoverable errors and a reachable support route.

If 1,000 eligible users start an application and 700 complete it, completion is 70%. Suppose 200 of the 300 dropouts occur at document upload. The first response is to investigate that step, not assume the customers lack interest. Compare device, language, connection and accessibility patterns using permitted data. Test whether a simpler upload raises completion without weakening verification. A better conversion rate achieved by hiding a fee or collecting unnecessary information is not a better customer outcome.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Does an instant approval screen prove affordability?

Answer: No.

Why: The underlying information, assessment and assumptions still need to support a sustainable repayment decision.

Question 02 | Why identify the actual lender?

Answer: To know the contracting party and accountable lending relationship.

Why: A platform may assist the journey without being the entity that grants the credit.

Question 03 | Can a lower advertised rate mean a higher total cost?

Answer: Yes.

Why: Fees, amount actually received and payment timing can change the all-in cost.

Question 04 | Is unlimited data collection automatically good risk management?

Answer: No.

Why: Data use must be necessary, relevant, controlled and consistent with applicable consent and privacy requirements.

Question 05 | What remains necessary after straight-through processing?

Answer: Reconciliation, controls and exception handling.

Why: Automating a process does not establish that every input or output is correct.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Digital lending covers the full journey.	15. Consent should have a defined purpose.
02. A paperless process can still be confusing.	16. Data collection needs limits and controls.
03. Identify the contracting lender.	17. Restrict privileged access.
04. Distinguish service providers from lenders.	18. Keep useful audit trails.
05. Read the actual offer.	19. Reconcile across systems.
06. Compare the amount received.	20. Handle failed or pending steps.
07. Compare all applicable fees.	21. Explain disbursement routes.
08. Compare payment dates.	22. Explain repayment routes.
09. Compare the repayment schedule.	23. Keep support accessible.
10. Understand annualised cost.	24. Maintain a grievance route.
11. A headline rate is not the whole cost.	25. Intermediaries do not erase lender responsibility.
12. Validate customer information.	26. Automation does not guarantee accuracy.
13. Examine sustainable income.	27. Human review may be needed for exceptions.
14. One-off credits can distort an assessment.	28. Measure understanding and service as well as speed.

MODULE B / B09

Role of AI and Technology in Retail Banking

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A bank tests an alert model on 1,000 card transactions whose outcomes have been independently reviewed. Twenty transactions are actually fraudulent. The model flags thirty transactions: sixteen are confirmed fraud and fourteen are genuine transactions incorrectly flagged. Four frauds are missed. This small table makes a powerful distinction. Detection among actual fraud is 16 / 20 = 80%, while the proportion of flagged transactions that are fraud is 16 / 30, approximately 53.33%. Both measures describe the same test but answer different questions.

The bank should not describe thirty alerts as thirty frauds prevented. An alert requires an appropriate investigation and response. False alerts can inconvenience genuine customers, while missed fraud can cause loss. The operating threshold should therefore be considered alongside the business purpose, response capacity, customer impact and risk. A model can support prioritisation without making every final decision independently.

The team checks whether the test data reflects the environment in which the model will operate. Missing outcomes, biased sampling, changing fraud patterns and poor data quality can weaken the conclusion. It also establishes access controls, records of decisions, monitoring and a review process when results deteriorate. Artificial intelligence is useful when its outputs are understood and responsibly acted upon. A sophisticated model name is not evidence that the system is accurate, fair or suitable for a particular decision.

Change one assumption

Suppose a stricter alert threshold reduces alerts to eighteen, of which fifteen are fraud. The proportion of correct alerts becomes 15 / 18, approximately 83.33%, but detection of actual fraud falls to 15 / 20 = 75%. Fewer false alerts can therefore coexist with more missed fraud. Neither threshold is automatically best without knowing the objective and consequences. The bank must compare the trade-off, investigate customer impacts and test performance on relevant data. A single percentage should not be used to conceal the second side of the decision.

Avoid this common mistake

Do not call every automated rule “AI”, or treat AI as a substitute for accountability. A rule that flags all payments above a fixed amount is different from a model trained on examples. Neither is automatically correct. In the worked case, precision and fraud detection have different denominators; choosing whichever percentage looks better would mislead the reader. Explain the task, data, errors, limitations and review process before relying on a model output.

Define task and data > Evaluate errors and denominators > Choose response threshold > Review customer impact > Monitor and improve

Follow the decision: B09

Define task and data > Evaluate errors and denominators > Choose response threshold > Review customer impact > Monitor and improve

Connect the concepts

01. Automation executes defined operations; AI can include models that infer patterns from data, though both need controls.

02. Define the decision task before selecting technology because a model is useful only relative to its purpose.

03. Training data helps fit a model, while independent evaluation is needed to test performance on other observations.

04. A true positive is an event correctly flagged; a false positive is a genuine event incorrectly flagged.

05. A false negative is a missed target event; reducing false alerts may increase missed events under a changed threshold.

06. Precision uses flagged cases as its denominator, whereas detection or recall uses actual target cases.

07. A threshold changes the trade-off between alert volume, detection and customer inconvenience.

08. Historical performance is not a promise about new customers, new products or changing fraud patterns.

09. Bias can enter through data, targets, sampling and processes, so a mathematical output is not automatically fair.

10. Explainability helps reviewers understand relevant reasons and limits rather than merely accepting a score.

11. Human review requires authority, training and evidence; a person clicking approval is not necessarily effective oversight.

12. Monitoring, audit trails, access security and response to deteriorating performance are parts of model governance.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

in Retail Banking

Define task and data > Evaluate errors and denominators > Choose response threshold > Review customer impact > Monitor and improve

Banking Technology

The term "Banking Technology" refers to the use of sophisticated information and communication technologies together with computer science to enable banks to offer better services to its customers in a secure, reliable, and affordable manner, and sustain competitive advantage over other banks.

Dimensions Of Banking Technology

Banking Technology is not a single, stand-alone discipline, but a confluence of several disparate fields such as finance (subsuming risk management), information technology, communication technology, computer science and marketing science. From the functional perspective, Banking Technology has mainly three important

dimensions. They are as follows:

The use of appropriate hardware for conducting business and servicing the customers through various delivery channels and payments systems and the associated software constitutes one dimension of Banking Technology. The use of computer networks, security algorithms in its transactions, use of ATM and credit cards, Internet banking, telebanking and mobile banking are all covered by this dimension. The advances made in information and communication technologies take care of this dimension.

On the other hand, the use of advanced computer science algorithms to solve several interesting marketing related problems such as customer segmentation, customer scoring, target marketing, market-basket analysis, cross-selling, up- selling and customer retention etc. faced by the banks to reap profits and outperform their competitors constitutes the second dimension of Banking Technology. This dimension covers the implementation of a data warehouse for banks and conducting data mining studies on customer data.

Moreover, banks cannot ignore the risks that arise in conducting business with other banks and servicing their customers, for otherwise, their very existence would be at stake. Thus, the quantification, measurement, mitigation and management of all the kinds of risks that banks face constitutes the third

important dimension of Banking Technology. This dimension covers the process of measuring and managing credit risk, market risk and operational risk.

Evolution Of Banking Technology

The Introduction of Credit Card: (1950)

ATMs, Computers, and Much More: (1960)

The Convenience of Online Banking: (1980s)

The Mobile Banking Revolution: (2000s)

Google Wallet (About seven years later in 2011, Google introduced Google Wallet, a mobile payment technology meant to rival credit cards)

Fingerprint authentication and Touch Id (2015)

Benefits Of Technology In Retail Banking

Increase in Efficiency

Cost Reduction

Accuracy

Customer Service

Products

Easy Communication

Self-guided financial wellness

Difference Between Artificial Intelligence (AI) And Automation

Artificial Intelligence	Automation
AI is the science of creating machines to solve problems that are too complicated for the human brain to process by itself.	Automation is the use of technology to automate processes with minimal or no human intervention.
The idea behind AI is to create technology that allows computers and machines to think like humans, behave like humans and learn from them.	The main objective of automation is to simplify and speed up common, repetitive tasks to increase productivity and efficiency of output.
Examples of AI include ride-sharing apps like Uber, Amazon Alexa, Google Now, Apple Siri, and more.	Examples of automation include online banking, automated waste management, thermostat, etc.

Automation can follow fixed rules; AI can also support automation. The categories overlap. Neither label removes the need for data controls, human accountability and testing.

Define task and data > Evaluate errors and denominators > Choose response threshold > Review customer impact > Monitor and improve

Why AI In Banking Industry?

Enormous challenges in the banking sector.

Thrust for a process-driven operation.

Initiate self-service in the branches.

Customer desire to deliver different personalized solutions.

Build functional efficiencies.

Escalating the productivity of employees.

To support focus on productivity and efficiency.

Visualization to extend human function with the use of robotics tools.

To minimize the chances of fraud and scam.

Manage an immense volume of data at record speed and gain valuable insights.

To carry out effective decision-making.

Benefits Of Artificial Intelligence Technology In Banking And Finance

Personalized Financial Services

Personalized connect will reach new heights as automated financial advisors and planners provide expertise in making financial decisions. They analyse market temperament against the user‘s financial goals and personal portfolio, and offer recommendation regarding stocks and bonds.

Smart Wallets

Digital wallets are touted as the future of real-world payment technologies, with major players like Google, Apple, Paypal and others, jumping on the bandwagon and developing their own payment gateways. This decreases the dependence on physical cash, thereby expanding the reach of money to greater levels.

Underwriting

The insurance sector is also coming up with a storm as they are moving towards congruent automation. By utilizing AI systems that automate the underwriting process, the organizations come armed with more granular information to empower their decisions.

Voice Assisted Banking

Physical presence is slowly fading away as technology empowers customers to use banking services with voice commands and touch screens. The natural language technology can process queries to answer questions, find information, and connect users with various banking services, eliminating the language barriers. This reduces human error, systemizing the efficiency.

Data-driven AI applications for lending decisions

Define task and data > Evaluate errors and denominators > Choose response threshold > Review customer impact > Monitor and improve

Applications embedded in end-user devices, personal robots, and financial institution servers are capable of analysing a huge volume of data, providing customized financial advice, calculations and forecasts. These applications can also develop financial plans and strategies through research, regarding various customized investment opportunities, loans, rates, fees, etc and track the progress.

Customer support

As speech processing and natural language processing technologies mature, we are drawing closer to the day, when computers could handle most customer service queries. This would mark an end to waiting in line and hence result in happier customers.

Digitalization instead of branch lines

Banking is a lengthy process, with past records of long queues and sluggish response marring the productivity. Even opening a bank account was viewed in negative terms as harried consumers would run pillar to post, while getting the necessary documentation complete. Digitization of documentation eases that pain and creates a comprehensive platform, where the consumers and providers connect.

Blockchain hastening payments

The customer base that banks serve is going through a major shift in terms of buying behaviours and preferences, driven by the digital revolution, particularly social media and mobile. An increased demand for more choice and control in how they interact with a bank is on a rise. Sluggish payment processes will be a thing of the past as Blockchain is set to inculcate the advantage of real-time payment process, hastening up the procedure of payment, thereby increasing support and satisfaction.

Benefits Of AI In Retail Banking

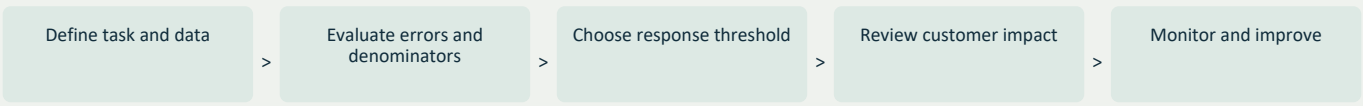
Customer Support and Helpdesk: Humanoid Chatbot interfaces can be used to increase efficiency and reduce cost for customer interactions.

Risk Management: Tailored products can be offered to clients by looking at historical data, doing risk analysis, and eliminating human errors from hand- crafted models.

Security: Suspicious behaviour, logs analysis, and spurious emails can be tracked down to prevent and possibly predict security breaches.

Digitization and automation in back-office processing: Capturing documents data using OCR and then using machine learning/AI to generate insights from the text data can greatly cut down back-office processing times.

Wealth management for masses: Personalized portfolios can be managed by Bot Advisors for clients by taking into account lifestyle, appetite for risk, expected returns on investment, etc.



Complete the concept: additional learning

From branch computing to connected banking in India

Understand the evolution as a change in how work and information move. Standalone branch computerisation improves local recording. Core banking connects an account and its authorised servicing across a bank. Shared payment networks and structured messages connect participants under agreed rules. Internet and mobile interfaces let customers initiate services remotely, while interfaces with external service providers extend the journey beyond the bank's own screen. These stages coexist; adopting a new channel does not instantly remove older processes.

Banking today combines people, rules, data and infrastructure. A mobile transfer still depends on account authority, authentication, funds availability, message routing, settlement and exception handling. This is the relationship between banking and technology: technology changes delivery and scale while the underlying obligations remain. India's technology journey also involves connecting varied branches, languages, devices and connectivity conditions. Avoid importing a global invention date as the date every Indian bank adopted it. In a new era of increasingly connected services, the bank must know which participant performs each step and who answers the customer when that step fails.

AI evolution and the Indian banking ecosystem

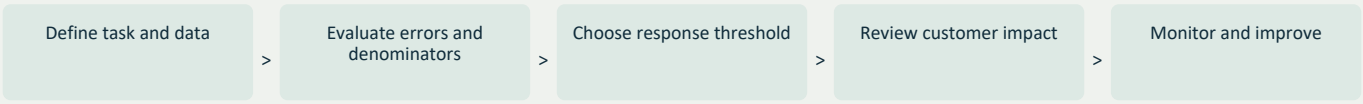
AI is a family of methods, not one product. Earlier rule-based expert systems use explicit knowledge; statistical machine learning learns patterns from examples; deep learning uses layered models; generative models can produce new text or other content. These approaches overlap and continue to coexist. A fixed repayment reminder can be ordinary automation; a model estimating which account may default uses learned prediction; a generated explanation introduces a further need to check factual accuracy.

India's AI ecosystem includes research and education, technology providers, start-ups, data and computing services, banks and other users, and public institutions concerned with policy and safeguards. In a bank, possible uses include document extraction, fraud signals, customer support, credit assessment and portfolio support. These are applications, not proof that every bank uses the same system or that a named deployment is current. A small bank might obtain a service from a vendor while a larger bank develops some models internally; both remain responsible for appropriate governance and customer outcomes. Learning the value chain is more useful than memorising an unsupported market-size forecast.

Technology adoption and AI development: challenges with consequences

Technology adoption can fail through poor-quality data, incompatible older systems, weak connectivity, scarce skills, vendor concentration, cyber threats, unclear ownership and exclusion of customers who need assisted service. AI adds model bias, difficult explanations, changes in data patterns, privacy risks, unreliable generated answers and dependence on suitable computing resources. Limited representation of a language or customer group in training data can turn a national development challenge into a wrong individual banking outcome.

Suppose a model flags 20 of 100 applications for review and 8 of those flags identify a real documentation problem. The useful flagged proportion is 8/20 = 40%; twelve other customers need fair handling rather



than automatic rejection. This measure alone says nothing about problems missed among the other eighty applications. Before rollout, compare outcomes across relevant groups, test exceptions and document human review. After rollout, monitor error patterns and changes in input data. Keep access controls, suitable records, incident response and a fallback process. Faster decisions help only when they remain accurate, fair, secure and explainable enough for the decision being made.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What is the fraud detection rate in the first test?

Answer: 80%.

Why: Sixteen of twenty actual frauds were flagged: 16 / 20 x 100.

Question 02 | What is the precision of the first set of alerts?

Answer: About 53.33%.

Why: Sixteen of thirty flagged transactions were fraud; the denominator is all alerts.

Question 03 | How many genuine transactions were incorrectly flagged initially?

Answer: Fourteen.

Why: Thirty total alerts less sixteen confirmed fraud alerts leaves fourteen false positives.

Question 04 | Does the stricter threshold improve both tested percentages?

Answer: No.

Why: Precision rises to about 83.33%, but detection falls from 80% to 75%.

Question 05 | Is a sophisticated model automatically fair?

Answer: No.

Why: Data selection, targets, decision rules and operating practices can create unfair outcomes that require testing and review.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Define the business task.	15. Customer inconvenience is a real outcome.
02. Automation and AI are not identical terms.	16. Missed fraud also has consequences.
03. Models depend on data quality.	17. Bias can arise from sampling.
04. Training and evaluation serve different purposes.	18. Bias can arise from target design.
05. Use relevant independent test data.	19. Mathematical output is not automatically fair.
06. A correct alert is a true positive.	20. A model score needs interpretation.
07. A false positive flags a genuine event.	21. Explain limitations to decision makers.
08. A false negative misses a target event.	22. Human review needs meaningful authority.
09. Alert counts are not confirmed fraud counts.	23. Keep decision records.
10. Precision divides correct alerts by all alerts.	24. Control access to data and models.
11. Detection divides detected fraud by actual fraud.	25. Monitor performance after deployment.
12. Check the denominator before interpreting a percentage.	26. New patterns can weaken old results.
13. Thresholds affect error trade-offs.	27. Investigate deterioration.
14. Fewer alerts need not mean better detection.	28. Technology supports accountable judgement.

Define task and data > Evaluate errors and denominators > Choose response threshold > Review customer impact > Monitor and improve

MODULE B / B10

Recovery of Retail Loans

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A retail term-loan instalment of Rs.10,000 is due on 1 May. The borrower pays Rs.4,000 on 10 May. For this simplified explanation, assume the payment is applied to that instalment and ignore interest adjustments, charges and other payments. Rs.6,000 of the May instalment remains unpaid. When another Rs.10,000 instalment falls due on 1 June, total unpaid instalments become Rs.16,000 under the same assumptions. The later due date does not erase the earlier unpaid amount.

The officer first checks the account records, due dates, payment allocation and the reason for difficulty. A temporary timing problem, a lasting reduction in income and a dispute over a debit may require different responses. Early contact can clarify facts and possible options under policy. Any modification of terms must be properly assessed and authorised; promising a rescheduling informally can mislead both customer and bank.

Asset classification and recovery action are related but separate. Classification follows the applicable facility-specific prudential requirements, not a collection officer's preference. Recovery must use enforceable documents, the appropriate legal route, fair communication and the required process. A mortgage does not permit immediate possession without the applicable procedure. The useful objective is a documented, lawful resolution that considers repayment capacity and rights while protecting the bank's claim. Pressure that produces an unsupported promise is not the same as sustainable recovery.

Change one assumption

Suppose the borrower disputes the Rs.4,000 credit allocation because it was applied differently under the loan contract. The worked arrears figure must be recalculated from the verified posting and terms rather than retained because it was convenient. Now suppose income has permanently declined. Repeated short promises may not resolve the underlying shortfall; the bank needs an authorised assessment of available resolution or recovery options. The age of an overdue amount, legal enforceability and the economic prospects of recovery should each be examined. Changing the repayment arrangement does not automatically remove every classification consequence.

Avoid this common mistake

Avoid the shortcut “any unpaid instalment permits immediate seizure” or the opposite claim that collateral makes every loan safe. Recovery routes have scope, exclusions, notices, remedies and procedural requirements. Facility-specific asset classification must not be reduced to one slogan for every account. A recovery agent's involvement does not remove the bank's responsibility for conduct. Verify records and enforceability, respect borrower dignity, and distinguish a payment plan, a legal remedy and prudential classification.

Verify dues and payments > Understand difficulty > Assess authorised options > Apply fair/legal process > Record and reconcile resolution

Follow the decision: B10

Verify dues and payments > Understand difficulty > Assess authorised options > Apply fair/legal process > Record and reconcile resolution

Connect the concepts

01. Repayment performance must be measured against the actual agreement, due dates and verified application of payments.

02. An amount overdue is not the same as the entire sanctioned limit or necessarily the entire current balance.

03. Early warning information helps investigate stress before it develops into a larger unresolved exposure.

04. Reasons for default can include cash-flow interruption, over-borrowing, operational error or unwillingness, requiring different assessment.

05. Rescheduling changes a contractual arrangement only through the authorised process and applicable prudential treatment.

06. Asset classification follows the relevant rules for the facility and entity; it cannot be chosen to improve a sales report.

07. Term loans, revolving facilities and other categories can have different tests for irregularity and classification.

08. Security and guarantees support claims but require valid creation, documentation and enforceability.

09. Recovery policy should explain fair contact, responsibilities, escalation and permitted resolution approaches.

10. A statutory enforcement route must meet its scope and procedural conditions; it is not a blanket right for every debt.

11. Tribunal, civil, statutory and consensual routes are distinct options whose applicability needs correct legal analysis.

12. Recovery agents must operate within lawful conduct standards, and the bank retains responsibility for its arrangements.

Work it out, then change an input

Enter a principal, annual rate and number of months. Predict the change when the term or rate increases. Compare the EMI, total interest and outstanding balance; use a repayment budget to test affordability.

Verify dues and payments > Understand difficulty > Assess authorised options > Apply fair/legal process > Record and reconcile resolution

Open the offline emi calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Repayment In Retail Loans

The success of any banking initiative is judged only by the profit generated from that business segment. Banks aggressively build up their retail asset portfolios to expand business as retail assets are one of the best revenue drivers in banking.

Holiday Period/ Moratorium Period

A Moratorium period/holiday period is a time allowed for the borrowers, during the loan term, when they are not required to make any principal repayment. It is a waiting before which repayment by way of EMIs begins.

Generally;

The repayment begins only after disbursement of entire loan. Term loan may be disbursed either in single debit or in multiple debits, as per the requirements.

Holiday period interest needs to be serviced. But it educational loans, this is not insisted upon.

In respect of housing loans, a holidays period upto 18 months is allowed in case of construction and 3 months in case of purchases.

The Holiday period is allowed with an intention to allow the borrowers to get themselves equipped for repayments. In the initial stages of availing the loan, there may be some miscellaneous expenses which they need to meet.

Types of Monthly Installments

Borrowers can choose among three types

Monthly instalment to repay their loan.

Repayment includes the principal loan amount and

Interest accrued on it.

Bullet Payment

In this case, the loan amount with interest is paid in a single payment at the end of the loan period. Small value gold loans are paid in this way.

Fixed Instalment loan

This payment is in equal monthly instalments. The loan amount is divided into equal monthly instalments. In this method, the interest servicing burden is more in initial stages. The borrower has to pay the loan instalment along with the entire interest accrued in the account during that period.

Equated Monthly Installments (EMI)

An equated monthly installment (EMI) is a fixed payment amount made by a

borrower to a lender at a specified date each calendar month. Equated monthly installments are used to pay off both interest and principal each month so that over a specified number of years, the loan is paid off in full.

Formula for calculation of EMIs

The mathematical formula for calculating EMIs is: EMI = [P x R x (1+R)^N]/[(1+R)^N-1]

Defaults and Rescheduling In Retail Loans

What is default?

Default is the occurrence of an event which happens due to non payment of agreed installments. If the repayment schedule is not adhered to as per the commitments made, then it translates into default. The strength of the default grades it according to the period of default from a simple overdue to the stage of NPA. What are the reasons for default in retail loans? Let us take the case of Home Loans.

Home Loans are offered in two price formats. One is fixed pricing and the second is variable pricing or floating pricing. The irony is that even fixed pricing takes the character of a floating pricing as interest is reset as per the reset clause agreed between the lender and borrower.

Rescheduling happens in Credit Cards and Personal Loan segments also where the interest rates are quite high and unsecured in nature. Here default happens mainly

due to the following reasons;

Genuine defaults due to reasons beyond the borrowers' control and

Willful defaults where the borrowers deliberately default with malafide intention.

Genuine Defaults: In genuine defaults, the customers fail to repay the EMIs due to personal set backs, job losses, unforeseen medical expenses etc., that tilt the balance of their monthly pay outs and results in non payment of banks' dues. Here the intention to pay is intact but the ability to pay is affected and results in defaults. The approach of the banks for recovery will be one of care and concern and will be a customer oriented approach because the chances of recovery are bright.

Willful Defaults: In willful defaults, the customers deliberately fail to pay the EMIs and the attitude is negative. The intentions of the borrowers are malafide and there is no attempt from the borrowers' side to service the loans as per the committed repayments. The objective is to delay the EMIs and put the banks into difficulties. In willful defaults the approach of the banks will be on a recovery basis as the chances of recovery are not so bright. So banks take a systematic and firm approach for recovery of these loans.

Penal Measures against Wilful Defaulters

No additional facilities should be granted by any bank/FI to the listed willful defaulters.

In addition, such companies (including their entrepreneurs/promoters) where banks have identified siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transaction should be debarred from institutional finance from the scheduled commercial banks.

The legal process, wherever warranted against the borrowers/guarantors and foreclosure for recovery of dues should be initiated expeditiously.

The lenders may initiate criminal proceedings against willful defaulters, wherever necessary.

Wherever possible, the banks and FIs should adopt a proactive approach for a change of management of the willfully defaulting borrower unit.

The bank can proceed against the guarantor, if any, along with the principal debtor also by virtue of the Contract Act.

Diversion of funds

The term ‘diversion of funds' should be construed to include any one of the undernoted occurrences.

Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction.

Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned.

Transferring borrowed funds to the subsidiaries/Group companies or other corporates by whatever modalities.

Routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender.

Investment in other companies by way of acquiring equities/debt instruments without approval of lenders.

Shortfall in deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for.

Siphoning of funds: The siphoning of funds refers to the occurrence of a situation that the unit has failed in meeting its payment/repayment commitments to the lender bank and also the funds borrowed from the bank was not utilized for the specific purpose for which the credit was released.

Monitoring of loan Accounts

Monitoring process is a scientific as well as an essential tool for maintaining the quality of retail assets. As discussed above it has to de designed in such a way that it addresses both genuine defaulters as well as willful defaulters. While genuine defaulters are to be handled very sensitively as they are otherwise good

customers and default have happened due to circumstances beyond their control.

Irregularities in Loan Accounts - Special Mention Accounts

To have more control over monitoring of accounts, the loan accounts are grouped us under:

SMA sub categories	Basis for classification Principal or interest payment or any other amount wholly or partly overdue between
SMA -0	1 to 30 days
SMA -1	31 to 60 days
SMA -2	61 to 90 days

Classification of Irregular loan Account

International practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), The RBI has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks.

Income Recognition

The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.

Clarification for accurate understanding

Read the current definitions and facility/entity scope precisely. The earlier teaching text has malformed substandard-period wording and gives a shorthand doubtful definition using totalNPA duration. The relevant distinction concerns the specified period in the substandard category; direct loss identification and other applicable conditions also matter. This is a qualification flag, not a finding that every outcome from the earlier teaching text shorthand is necessarily wrong.

A retail asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is a loan or 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', 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.

Asset Classification

Banks are required to classify non-performing assets further into the following three categories based the period for which the asset has remained non-performing and the realisability of the dues

Substandard Assets

Doubtful Assets

Loss Assets

Substandard asset: A sub-standard asset is one, which has remained NPA for a period less then to 12 months. 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: An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months.

Loss Assets: 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.

Recovery Policy of Banks

The recovery policy clauses are clearly spelt out in the recovery policy of the bank. The fundamental assumptions and approaches to recovery are clearly communicated to the customers. Let us see the different clauses of the recovery policy.

Preamble

The debt collection policy of the bank is built around dignity and respect to customers.

The Bank will not follow policies that are unduly coercive in collection of dues.

The policy is built on courtesy, fair treatment and persuasion.

The bank believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long- term relationship.

The repayment schedule for any loan sanctioned by the Bank will be fixed taking into account paying capacity and cash flow pattern of the borrower.

The Bank will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or payments through any other mode of repayment will be appropriated against interest and principal due from the customers.

The Bank would expect the customers to adhere to the repayment schedule agreed to.

The Bank Security Repossession Policy aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property.

The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the Bank for follow up and recovery of dues and repossession of security will be inconsonancc with the law.

General Guidelines

All the members of the staff or any person authorized to represent the Bank in

collection or/and security repossession would follow the guidelines set out below:

The customer would be contacted ordinarily at the place of his/her choice and in the absence of any specified place, at the place of his/her residence and if unavailable at his/her residence, at the place of business/occupation.

Identity and authority of persons authorized to represent the Bank for follow up and recovery of dues would be made known to the borrowers at the first instance. Bank staff or any person authorized to represent the Bank in collection of dues or/and security repossession will identify himself/herself and display the authority letter issued by the Bank upon request.

Bank would respect privacy of its borrowers.

Bank is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Bank will adopt civil manners for interaction with borrowers.

Normally Bank's representatives will contact the borrower between 0700 hrs and 1900 hrs, unless the special circumstance of his/her business or occupation requires the Bank to contact at a different time.

Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.

Bank will document the efforts made for the recovery of dues and the copies of communication set to customers, if any, will be kept on record.

All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.

Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls/visits to collect dues.

Giving Notice to Borrowers

While written communications, telephonic reminders or visits by the Bank's representatives to the borrowers place or residence will be used as loan follow up

measures, Bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. Bank will follow all such procedures as required under law for recovery/repossession of security.

SARFAESI ACT 2002

SARFAESI provide a structured platform to the banking sector for managing its

mounting NPA stocks and keep peace with international financial institutions, the Securitisation and reconstruction of financial Assets and Enforcement of Security Interest (SARFAESI) Act was put in place to allow banks and FIs to take possession of securities and sell them.

Provision of the SARFAESI Act

Verify dues and payments > Understand difficulty > Assess authorised options > Apply fair/legal process > Record and reconcile resolution

The SARFAESI Act introduced major changes in the legal framework for the recovery of dues by banks/FIs by giving those powers to realize the securities without the need to approach courts.

Securitization of financial assets.

Reconstruction of financial Assets.

Recognition of any 'interest' created in the security for due repayment of a loan as a 'security interest' irrespective of its form and nature but when it is not in the possession of the creditor.

The provisions of the SARFAESI Act, relating to enforcement of the security interest, applies only to cases in which the security interests are created for due repayment of financial assistance. As per

SARFAESI Act, financial asset means debt or receivables and includes:

A claim to any debt or receivables or part thereof whether secured or unsecured, or

Any debt or receivable secured by mortgage of or charge in immoveable property, or

A mortgage charge, hypothecation of moveable property, or

Any right or interest in the security, whether full or part, securing debt, or

Any beneficial interest in any moveable or immoveable property or in debt, receivables, whether such an interest is existing, future, accruing, conditional or contingent, or

Beneficial right, title or interest in any tangible property given on hire/conditional sale/contract which secures the obligation to pay any unpaid portion of purchase price.

Any right title or interest on any intangible asset or license or assignment of such intangible asset, which secures the obligations to pay any unpaid portions of purchase.

Any financial assistance.

Clarification for accurate understanding

Do not rely on the old consortium percentage without checking the amended statutory provision and its value/date basis. The SARFAESI checklist mixes statutory conditions with a bank-practice six-month limitation buffer; those must be labelled separately.

Enforcement of security interest

SARFAESI Act can be initiated only if the loan account satisfies the following conditions:

Loan account must have been classified as NPA, backed by security.

Outstanding in the account including the interest accrued/applied should be more than Rs. One lakh.

Outstanding dues should be 20% or above of the principal and interest.

Secured asset should not be an agricultural land.

Documents should be enforceable and unexpired period of a minimum of 6 months must be available (not specified in the Act). Action under SARFAESI Act 2002 will not extend limitation period of documents.

Verify dues and payments > Understand difficulty > Assess authorised options > Apply fair/legal process > Record and reconcile resolution

In case of multiple lenders/consortium advances, ensure lenders having a minimum of 60% of dues outstanding are agreeable for initiating action under SARFAESI Act 2002.

Demand Notice under section 13(2) can be issued by any one or more of the following

modes:

By Registered Post with Acknowledgement Due, or

By Speed Post, or

By Courier, or

By Fax Message, or

By electronic mail service (e-mail),

By hand delivery against proper acknowledgment addressed to the borrower at the place where he resides or carries on business or works for gain

On receipt of the notice if the borrower makes any representation or raises any objection, the secured creditor has to communicate his reply to the borrower within 15 days of the receipt of such representation based on factual position and on merits.

Sec 13(13) of the SARFAESI Act: Provides that after receipt of the demand notice, the Borrower/Mortgagor! Guarantor shall not transfer any of the secured assets by way of sale, lease or otherwise without the prior written consent of the Bank. Sec 29 of the Act

provides that if any person contravenes or attempts to contravene or abets the contravention of the provisions of the Act or Rules, he shall be punishable with imprisonment for a term which may extend to one year or with fine or both.

Debt Recovery Tribunals (DTRs)

Debt Recovery Tribunals are apex bodies to settle recovery issues in case of loans extended by financial institutions. Debt Recovery Tribunals (DRTs) are constituted for helping financial institutions recover their bad debts quickly and efficiently. DRTs are governed by provisions of the Recovery of Debt Due to Banks and Financial Institutions Act, 1993, also popularly called as the RDB Act. Rules have been framed and notified

under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993.

Clarification for accurate understanding

A historic operational Lok Adalat screening figure is not a universal current legal ceiling. Distinguish the forum’s jurisdiction, bank policy and the actual case type; verify the relevant current legal framework.

After the enactment of the Securitisation And Reconstruction of Financial Assets and Enforcement of Security Interests Act (S ARFAESI Act),borrowers could become first applicants before the Debt Recovery Tribunal. Earlier only lenders could be applicants.

Application for recovery of debts due shall be accompanied with a fee payable as follows:

Where amount of debt due is Rs. 10 lacs: Rs. 12000

Where the amount of debt due is above Rs. 10 lacs: Rs. 12000/-plus Rs. 1000/- for every one lakh rupee of debt due or part thereof in excess of Rs 10lakhs subject to a maximum of Rs 150000.

DRT will issue summons to the defendant requiring him to show cause within 30 days of the services of summons as to why the relief prayed for should not be granted.

Recovery Through LOK ADALAT

Recovery of NPAs through award of Lok Adalat is the easiest and fastest mode. One time Settlement (OTS) can be put through Lok Adalat, so that in case of default in payment as per OTS, the award could be executed by the Court, as in the case of execution of a decree.

Some Suggestive steps are given below for recovery of bank dues:

Identify NPAs in the branch with dues upto Rs. 20lacs, irrespective of whether secured or unsecured.

The Bank/branch shall prepare a petition, separately for each account, to be submitted before the Hon'ble forum of Legal Services authority.

The Identified cases can be referred to the usual Lok Adalat organized by the repective leagal Service Authorities, Periodically.

The district or Taluk Legal Services Authority shall also be approached by the bank with the list of accounts where settlement is feasible to conduct exclusive Lok Adalat for the bank's cases alone, if more number of cases is involved. Banks can organize Lok Adalats in association with other banks also in the locality.

With the consent of the respective Legal Service Authority the branch shall file petition, separately for each account, before the Hon'ble forum. The Legal Service Authority fixes the date of Lok Adalat and informs the same to the bank. Lok Adalat can be organized and award can be passed even on a holiday

The concerned branch of the bank should personally contact the borrowers, convince them the benefits of settling the matter through Lok Adalat and ensure that all parties be present at Lok Adalat on the fixed date.

The branch manager has to take the permission of Regional Office wherever necessary, with regard to proposed terms of settlement in Lok Adalat.

The Lok Adalat will be convened on the date fixed and passes the award with the consent of both the parties (Authorised official of the bank and the borrower/guarantor).

The Lok Adalat is presided over by a sitting or retired judicial officer as the chairman, with one or two other members, usually a lawyer and a social worker.

The settlement may be made prudently under the following terms:

i. Down Payment of awarded amount at the time of settlement itself.

ii. Full payment of the awarded amount within a short duration

iii. Full payment of the awarded amount in instalments within a short duration, etc.

The most important factor to be considered while deciding the cases at the Lok Adalat is the consent of both the parties. It cannot be forced on any party for a settlement in Lok Adalat. No appeal shall lie in any court against the Award.

While agreeing for a settlement, branch manager should ensure that a default clause - 'if not settled fully as per the terms of the award, the bank shall be at liberty to recover the contracted amount' is incorporated in the award.

In the event of failure to honour the Lok Adalat commitments EP proceedings should be initiated immediately. If the case referred is a suit filed one, entire court fee paid for filing suit will be returned back.

Recovery Agents

When we talk about recovery of retail loans, the first thing which flashes in our mind is the most dreaded recovery agents deployed by banks for recovery of loan in which defaults happen. Public Sector Banks' approach to recovery of loans is different from the strategies adopted by private sector banks and foreign banks.

RBI Guidelines For Recovery Agents

RBI vide their circular DBOD.No.Leg.BC.75/09.07.005/2007-08 dated April 24,2008, issued guidelines for all scheduled commercial banks for Recovery Agents engaged by them for recovery of loans. In view of the rise in the number of disputes and litigations against banks for engaging recovery agents in the recent past, it is felt that the adverse publicity would result in serious reputational risk for the banking sector as a whole. Hence RBI felt that a need has arisen to review the policy, practice, and procedure involved in the engagement of recovery agents by banks in India. Reserve Bank issued draft guidelines which were placed on their web-site for comments of all concerned. Based on the feedback received from a wide spectrum of banks/individuals/organizations, the draft guidelines have been suitably revised and the guidelines finalized and implemented by RBI are as follows:

Engagement of Recovery Agents

Banks are advised to take into account the following specific considerations while

engaging recovery agents:

'Agent' in these guidelines would include agencies engaged by the bank and the agents/employees of the concerned agencies.

Banks should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process. The due diligence process should generally conform to the guidelines issued by RBI on outsourcing of financial services vide circular DBOD.No.BP.40/21.04.158/2006-07 dated November 3, 2006. Further, banks should ensure that the agents

engaged by them in the recovery process carry out verification of the antecedents of their employees, which may include pre-employment police verification, as a matter of abundant caution. Banks may decide the periodicity at which reverification of antecedents should be resorted to.

To ensure due notice and appropriate authorization, banks should inform the borrower the details of recovery agency firms/companies while forwarding default cases to the recovery agency. Further, since in some of the cases, the borrower might not have received the details about the recovery agency due to refusal/non-availability/avoidance and to ensure identification, it would be appropriate if the agent also carries a copy of the notice and the authorization letter from the bank along with the identity card issued to him by the bank or the agency firm/company. Further, where recovery agency is changed by the bank during the recovery process, in addition to the bank notifying the borrower of the change, the new agent should carry the notice and the authorization letter along with his identity card.

The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. Banks should ensure that there is a tape recording of the reasonable precaution such as intimating the customer that the conversation is being recorded, etc.

The up to date details of the recovery agency firms/companies engaged by banks may also be posted on the bank's website.

Where a grievance/complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed of any grievance/complaint lodged by the concerned borrower:

However, where the bank is convinced, with appropriate proof, that the borrower is continuously making frivolous/vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance/complaint is pending with them. In cases where the subject matter of the borrower's dues might be sub judice, banks should exercise utmost caution, as appropriate, in referring the matter to the recovery agencies, depending on the circumstances.

Each bank should have a mechanism whereby the borrowers' grievances with regard to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency as at item (iii) above.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What remains unpaid from the May instalment in the example?

Answer: Rs.6,000.

Why: The assumed allocation gives 10,000 - 4,000 = 6,000.

Question 02 | What is the assumed unpaid instalment total after 1 June?

Answer: Rs.16,000.

Why: The unpaid May amount of 6,000 plus the new instalment of 10,000 remains outstanding.

Question 03 | Does a mortgage allow possession without procedure?

Answer: No.

Why: The applicable route has eligibility, notice, enforcement and remedy requirements.

Question 04 | Is an informal rescheduling promise enough?

Answer: No.

Why: Assessment, authorisation, documentation and applicable prudential treatment are necessary.

Question 05 | Does appointing a recovery agent end the bank's conduct responsibility?

Answer: No.

Why: An outsourced task does not remove responsibility for lawful and appropriate recovery arrangements.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Check the repayment agreement.	15. Documents must remain enforceable.
02. Identify each due date.	16. Use a permitted recovery route.
03. Verify actual credits.	17. Statutory routes have eligibility conditions.
04. Apply payments according to the relevant terms.	18. Notice and remedies matter.
05. Separate arrears from sanctioned limits.	19. Borrower dignity remains important.
06. Old unpaid dues do not disappear at the next due date.	20. Recovery agents need controls.
07. Investigate the reason for difficulty.	21. The bank retains responsibilities.
08. Early contact can clarify facts.	22. Keep accurate contact records.
09. Temporary stress differs from lasting unaffordability.	23. Escalate unresolved disputes appropriately.
10. Rescheduling needs authorisation.	24. A guarantee has its own terms.
11. Do not make unsupported repayment promises.	25. A consensual settlement needs proper approval.
12. Classification follows applicable prudential requirements.	26. Legal action does not remove the need for accounting control.
13. Facility tests can differ.	27. Reconcile recovery proceeds.
14. Security does not create repayment income.	28. Aim for a lawful, documented resolution.

MODULE B / B11

Management Information Systems

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A branch dashboard reports 200 loan applications received during a defined pilot cohort. Of these, 120 are sanctioned and 90 are disbursed by the chosen observation date. The manager asks three different questions. The sanction rate is 120 / 200 = 60%. Conversion from sanction to disbursement is 90 / 120 = 75%. Disbursements as a proportion of applications are 90 / 200 = 45%. All three percentages can be correct because their denominators and purposes differ.

The manager should first establish that the figures refer to the same cohort, period and product definition. If applications are counted for this month but disbursements include earlier months' sanctions, the apparent conversion rate can be misleading. A system can produce a neatly formatted report from inconsistent data. The dashboard therefore needs definitions, ownership, validation, reconciliation, exception reporting and an audit trail, not just an attractive chart.

The manager then investigates the thirty sanctioned cases not yet disbursed. They may await documents, customer acceptance, a condition precedent or a correct operational posting. The report identifies a question; it does not establish the cause without investigation. Useful MIS converts reliable data into timely information that supports an accountable decision. A growing number of accounts or applications should also be considered with quality, service, risk and cost measures. More activity alone does not show improved performance.

Change one assumption

Suppose forty applications are still awaiting a complete document set. If management excludes them from one report but includes them in another, the rates no longer answer the same question. Exclusion may be reasonable for a specifically defined measure, but the definition and reconciliation must be visible. Now suppose a delayed upload changes yesterday's application count. Record and explain the revision instead of silently rewriting the trend. A useful management report allows its users to understand the population, timing, exceptions and changes underlying a number before they act on it.

Avoid this common mistake

Do not confuse more reports with better management information. A dashboard can be timely but wrong, accurate but too late, or detailed but irrelevant. Never improve a ratio by quietly changing its denominator or mixing cohorts. A red exception does not prove fraud, and a green indicator does not prove that all controls worked. Explain definitions, verify data and investigate the cause before choosing an action. Formatting makes information readable; it does not establish its truth.

Define management question > Capture and validate data > Reconcile and calculate > Report exceptions > Act and feed back

Follow the decision: B11

Define management question > Capture and validate data > Reconcile and calculate > Report exceptions > Act and feed back

Connect the concepts

01. Data are recorded observations; information is data organised and interpreted for a defined management purpose.

02. MIS should link collection, validation, processing, reporting, action and feedback into a controlled cycle.

03. A measure needs a clear population, period, unit, numerator and denominator before comparison.

04. Cohort consistency matters when activity moves through application, sanction, disbursement and repayment stages.

05. Timeliness matters because correct information received after the decision point may be less useful.

06. Accuracy includes valid inputs and correct processing; a system-generated total is not automatically reliable.

07. Reconciliation connects reports to underlying records and exposes unexplained differences.

08. Exception reports direct attention to items needing investigation rather than establishing the cause themselves.

09. Access control protects confidentiality and prevents unauthorised changes to important management records.

10. An audit trail supports tracing who changed a record, when and under what authority.

11. Operational, risk, financial and customer-service information should be considered together when evaluating performance.

12. Feedback should improve definitions, data capture and decisions rather than merely produce another report.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Systems

Management Information System (Mis)

Define management question > Capture and validate data > Reconcile and calculate > Report exceptions > Act and feed back

What is Management Information System (MIS)?

Management Information System is an integrated man machine system that provides information to support the planning and control functions of managers in an organisation. Management Information System is a set of combined procedures that gathers and produces reliable, relevant, and properly organized data that supports the decision making process of an organization.

Management Information System (MIS) consists of three words,

Management

Information

System

Data	➢ Process	➢ Information	➢ Decision	➢ Action

Management is viewed as a function, a process, a profession and a class of people. It refers to the kind of task and activities that are performed by managers. The specific nature of the activities is determined by such managerial functions as planning, organising, directing, leadership and controlling.

Information is the result or product of processing data. Information can be defined as the data which is organised and presented at a time and place so that the decision-maker may take necessary act.

System is a group of elements or components joined together to fulfil certain functions. It is made up of sub-system. The systems are either natural or man- made.

The Main Elements Of MIS

An integrated system to give service to many users.

The computer system linking some of information software via a database.

User-machine interface responding to the temporary and immediate searches.

Presenting the information to all management level.

Supporting the operation and decision making.

Role Of Management Information Systems

Two main roles are played by MIS in decision making by the managers.

First it helps the managers to take decision based on the information being prepared.

Second when the decision making and decisions are fixed and only the input data change, it acts as a suitable repeat to support different types of managerial decisions.

It means that MIS is the tool that as the organizational information source provides the required information of the managers and makes them prepared for their decision making. The managers use MIS as a tool to define the problems being faced. MIS helps the managers to understand the problems and find

the solutions.

Role Of Mis In Banking Industry

A bank is understood as a place where the financial services such as mainly deposit/ savings and providing credit to the customers are offered. The scope of this service in today's world is expanded to a "Financial Services Super Shoppe" where the banks have become an instrument in providing financial assistance to some activities as a policy or by regulation or for meeting sociology-economic obligations. In banking also, the concept of the financial product has come in. The customers choose a bank mainly on the following three factors:

The ease of doing business.

The quality of personnel and service.

The range of the financial services.

Designing MIS For A Bank

Customer database: The service expectations and perceptions revolve around the following factors:

Customer - Individuals, Company, Institutions, etc.

Operator - Housewife, Employee, The officer of the organization.

The Range of Service - Savings, Credit checking/ credit history and payment, other financial services.

Class of Customers -Income group, Corporate Bodies, etc.

Working hours -Morning, Afternoon, Evening, etc.

Service to the account holders: The customers (account holders) need constant advice on the status and its operations. Most of the customers use their account for routine payments affecting the balance. Many times the account holds a large amount and it is not transacted for any purpose.

The MIS should give following reports to the management:

The non-moving account.

The account was having the balance of more than, say Rs.50, 000.

The account was going down below minimum balance.

The regular payments not made.

The routine credits not arrived.

The defaults on loan repayment.

The delays on crediting cheque amounts.

A sudden rise and fall in the account movement.

Service for business promotions: The bank finances can be utilized in some ways to increase the banking operations by offering credit to the right kind of customers.

The index monitoring system: One more feature of the MIS is to monitor the variety of indices and ratios related to banking operations, which are internal to the banking business.

Human resource upgrade: There is a lot of human aspect in the banking operations. With computerization, the service may become faster or quicker, but still, it requires a human touch and skill.

Issues Related To Management Information System (MIS)

Humanistic factors

The lack of understanding of the needs of the users by designers (the lack of correct definition of the needs and their analysis).

The lack of information of the managers and users as they don’t know exactly what they want and what their information needs are.

The lack of participation of the managers and users in system design.

The lack of understanding of the managers of software and information systems.

The lack of accuracy in the data collected.

Environmental factors

The lack of procedures and methodology and stages of creating the system.

The lack of suitable consultants for designing the system and software.

The lack of evaluation of environmental aspects in management information systems.

The lack of serious consideration and adequate investment in this regard.

Organizational factors

The lack of good conditions for participation and collaboration of the managers, users and system directors.

The lack of existing systems and methods analysis before the system design.

The lack of evaluation of the existing power.

Bad condition of educating the specialized forces.

Unsuitable implementation of the system.

Inadequate education of the users.

Inadequate and incomplete documentation.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What is the sanction rate in the stated cohort?

Answer: 60%.

Why: 120 sanctioned applications divided by 200 received applications, multiplied by100.

Question 02 | What is sanction-to-disbursement conversion?

Answer: 75%.

Why: 90 disbursements divided by120 sanctions, not by all200 applications.

Question 03 | What is the application-to-disbursement proportion?

Answer: 45%.

Why: 90 divided by200; it answers a broader funnel question than sanction conversion.

Question 04 | Can an exception report identify an investigation without proving the cause?

Answer: Yes.

Why: A pending document, customer decision or posting error can create the same displayed exception.

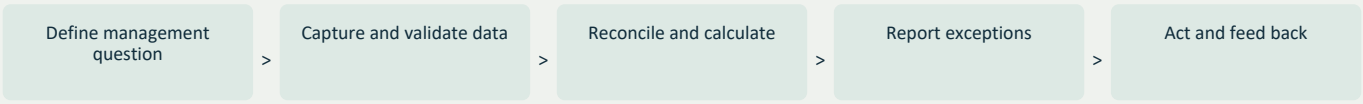
Question 05 | Why record a revised historical count?

Answer: So users can understand changes in the information series.

Why: An unexplained revision may be mistaken for a real business trend or conceal an error.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. MIS supports a defined management purpose.	15. Timeliness affects usefulness.
02. Data need interpretation.	16. Validation checks input quality.
03. Define the reporting population.	17. Processing logic needs checking.
04. Define the reporting period.	18. Reconciliation connects records and reports.
05. Define the unit of measure.	19. Exceptions need investigation.
06. State the numerator.	20. A dashboard does not establish causes alone.
07. State the denominator.	21. Restrict access appropriately.
08. Keep cohorts comparable.	22. Keep an audit trail.
09. Applications differ from sanctions.	23. Explain revised figures.
10. Sanctions differ from disbursements.	24. Compare quality as well as volume.
11. The case sanction rate is60%.	25. Include relevant risk measures.
12. The case sanction-conversion rate is75%.	26. Include customer-service outcomes.
13. The case application-disbursement proportion is45%.	27. Give information an accountable owner.
14. Different denominators answer different questions.	28. Use feedback to improve decisions.



MODULE B / B12

Securitisation

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A lender has a pool of 100 similar performing loans, each with an assumed outstanding principal of Rs.1,00,000. The pool's total principal is therefore Rs.1,00,00,000. For a simple teaching example, suppose a permitted securitisation structure transfers interests associated with the pool to a separate vehicle, which issues securities to investors. Assume the lender retains an economic exposure of 5% solely for this illustration. That retained exposure is Rs.5,00,000; the other95% corresponds to Rs.95,00,000 before pricing adjustments, costs or structural details. The assumed percentage is not a statement that every transaction has the same regulatory requirement.

Borrowers still make payments under their loan contracts. A servicer collects and administers those cash flows, which are distributed according to the transaction documents and priority structure. The security investors hold is connected to the underlying pool's performance; repackaging does not make missed payments disappear. Different tranches can allocate losses and payments differently, so their labels cannot replace analysis of the actual waterfall and retained risks.

The transaction must distinguish true transfer of credit risk from a mere funding arrangement or unsupported accounting presentation. Eligibility, due diligence, seasoning or holding conditions, retention, disclosure and servicing responsibilities must be checked under the applicable framework. Standard-asset securitisation should also be distinguished from stressed-loan transfer and asset reconstruction. The useful question is who receives cash flows, who bears each risk and what obligations continue after the transaction.

Change one assumption

Now suppose ten borrowers in the pool pay late. The securities do not continue performing simply because their original pool was described as diversified. The servicer must identify the actual shortfall, apply the documented collection and distribution arrangements and report performance appropriately. Retained exposure can be affected, and investors in different positions may experience different effects. Change another assumption: the originator has provided a credit enhancement. The transaction must analyse that additional exposure as well as the headline retention percentage. A sale label alone cannot demonstrate complete risk transfer.

Avoid this common mistake

Do not confuse securitisation with recovery merely because similar words appear in a recovery statute. Nor should a generic global list of receivables be presented as the current eligible-asset list for every Indian entity. Retention, holding, eligibility and disclosure conditions depend on the applicable framework and transaction. A rating, guarantee or senior label does not remove all risk. Trace the actual contracts, cash-flow waterfall and exposures rather than assuming that a pool sale permanently ends the originator's responsibilities.

Follow the decision: B12

Underlying borrowers and loans > Originator and eligible pool > Transfer/vehicle and securities > Servicer and collections > Waterfall, investors and retained risks

Connect the concepts

01. Securitisation repackages cash flows and risks associated with assets into securities held by investors.

02. The originator creates or holds the underlying exposure; its continuing responsibilities depend on the arrangement.

03. A special-purpose vehicle or entity has a defined transaction role distinct from borrowers and investors.

04. The servicer administers collections and records; it may or may not also be the originator.

05. Borrower obligations do not vanish when interests in their loan cash flows are transferred.

06. A waterfall specifies priority of receipts, expenses, payments and loss allocation under the documents.

07. Tranching can create different risk positions from one pool; it does not manufacture risk-free assets.

08. Credit enhancement supports a position but creates its own exposure and limitations.

09. Minimum holding conditions and minimum retention requirements address different issues and must not be interchanged.

10. Homogeneity and due diligence help assessment, but a diversified pool can still experience correlated stress.

11. Standard-asset securitisation, transfer of loans and stressed-asset reconstruction require distinct framework checks.

12. Accounting treatment, legal transfer and economic risk transfer are related questions that each require evidence.

Underlying borrowers and loans > Originator and eligible pool > Transfer/vehicle and securities > Servicer and collections > Waterfall, investors and retained risks

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

The generic description of receivables that can be pooled is not an Indian eligibility instruction. The later list of negative assets and the current entity-specific securitisation framework must be read together; do not say every revolving credit exposure is eligible.

Securitisation is the financial practice of pooling various types of contractual debt

such as residential mortgage, commercial mortgages, auto loans or credit card

debt obligation (or other non-debt assets which generate receivables) and selling their related cash flows to third party investors as securities, which may be described as Bonds, Pass-through Certificates, or Collateralized Debt Obligations (CDOs).

Securitisation of Assets

Definition of some of the terminologies used in securitisation

Obligor: means a person who is liable, whether under a contract or otherwise, to pay a debt or receivables in discharge any obligation in respect of a debt or receivables.

Originator: refers to a bank that transfers from its balance sheet a single asset or a pool of assets to an SPV as a part of a securitisation transaction and would include other entities of the consolidated group to which the bank belongs.

Securitisation: means a process by which a single performing asset or a pool of performing assets are sold to a bankruptcy remote SPV and transferred from the balance sheet of the originator to the SPV in return for an immediate payment.

Special Purpose Vehicle (SPV): means any company, trust, or other entity constituted or established for a specific purpose - (a) activities of which are limited to those for accomplishing the purpose of the company, trust or other entity as the case may be; and (b) which is structured in a manner intended to isolate the corporation, trust or entity as the case may be, from the credit risk of an originator to make it bankruptcy remote.

Sponsor: means any person who establishes or promotes a special purpose distinct entity.

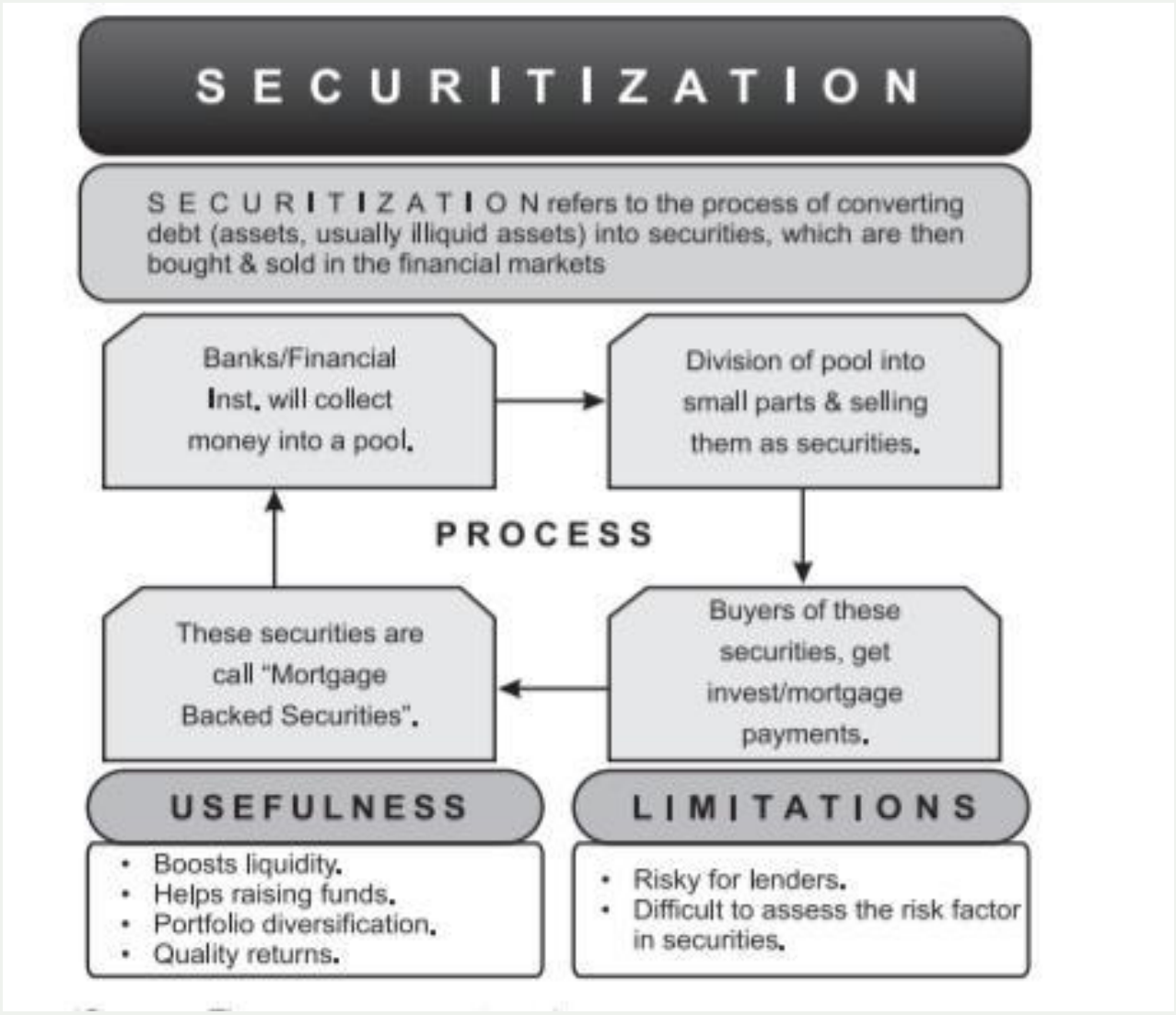
Securitization Process

The process of securitization begins when the lender (or originator) segregates loans/lease/ receivablesinto pools which are relatively homogenousin regard to types of credit, maturity and interest rate risk. The pools of assets are then transferred to a Special Purpose Vehicle (SPV).

Securitization thus follows a two stage process:

In the first stage, there is sale of single asset or pooling and sale of pool of assets to a Special Purpose Vehicle (SPV)in return for an immediate cash payment.

In the second stage repackaging and selling the security interests representing claims on incoming cash flows from the asset or pool of assets to third party investors by issuance of tradable debt securities. The securitization can be diagrammatically represented as follows:



Advantages of Securitization

Securitization is designed to offer a number of advantages to the seller, investor and debt markets. Advantages of securitization can be summarised as follows:

With its support, banks can keep loans off their balance sheet, thus reducing need for additional capital

It is an alternative form to banks and financial institutions of funding risk transfer and capital market development

It helps reduce lending concentration and improve liquidity

Supports attainment of funds at lower costs since these are isolated from potential bankruptcy risk of originator

Provides better matching of assets and liabilities and development of long-term debt market

Provides diversified pool of uniform assets to banks and financial institutions

Supports converting non-liquid loans or assets into liquid assets or marketable securities.

Facilitates transfer of funds from less efficient debt market to more efficient capital market through securitization.

RBI new directives for securitization of standard assets, Loan transfer

Reserve Bank of India (RBI) has issued separate master directions on transfer of loan exposures and securitization of standard assets. These master directions came after considering public comments on draft rules issued on June 8, 2020.

These master directions will apply to all scheduled commercial banks, excluding Regional rural banks, All-India Term financial institutions, Small Finance Banks,

Clarification for accurate understanding

The2021 text is historical. Identify the current consolidated direction applicable to the originator, together with subsequent amendments. Retention, holding and eligibility must not be taught as one interchangeable rule.

NBFCs on securitization of standard assets, RBI has directed that while complicated and opaque securitization structures could be undesirable with the perspective of financial stability, prudentially structured securitization transactions can be an important facilitator in a well-functioning financial market as it improves risk distribution and liquidity of lenders in originating fresh loan exposures.

In the Master Direction Reserve Bank of India (Securitization of Standard Assets) Directions, 2021, RBI specified the Minimum Retention Requirement (MRR) for different asset classes.

For underlying loans with original maturity of 24 months or less, the MRR will be 5 per cent of the book value of the loans being securitised. For those with original maturity of more than 24 months as well as loans with bullet repayments, the MRR shall be 10 per cent of the book value of the loans being securitised.

In the case of residential mortgage-backed securities, the MRR for the originator shall be 5 per cent of the book value of the loans being securitised, irrespective of the original maturity. The minimum ticket size for issuance of securitization

notes shall be Rs.1 crore, the direction added.

Securitisation by transfer of assets through securitisation

Assets Eligible for Securitisation

In a single securitisation transaction, the underlying assets should represent the debt obligations of a homogeneous pool of obligors. Subject to this condition, all on- balance sheet standard assets, except the following, will be eligible for securitisation by the originators:

Revolving credit facilities (e.g., Cash Credit accounts, Credit Card receivables, etc.)

Assets purchased from other entities

Securitisation exposures (e.g., Mortgage-backed/asset-backed securities)

Loans with bullet repayment of both principal and interest*

Minimum Holding Period (MHP)

Originating banks can securitise loans only after these have been held by them for a minimum period in their books. The criteria governing the determination of MHP for assets listed below reflect the need to ensure that:

The project implementation risk is not passed on to the investors, and

A minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards.

Minimum Retention Requirement (MRR)

The MRR is primarily designed to ensure that the originating banks have a

continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitized. The guidelines stipulate

Clarification for accurate understanding

The table describes one retention presentation but should not replace the applicable requirement measured against book value and permitted retention forms. The special treatment of residential mortgage-backed securities also needs separate analysis.

MRR of 5% of the book value of the loans being securitized for Loans with an original maturity of 24 months or less and 10% of the book value of the loans being securitized for Loans with an original maturity of more than 24 months. For Bullet repayment loans! receivables, 10% of the book value of the loans being securitized.

Minimum Retention Requirement (MRR)

Type of asset	MRR
Assets with original maturity of 24 months or less	Retention of right to receive 5% of the cash flows from the assets transferred on pari-passu basis.

Type of asset	MRR
Assets with original maturity of above 24 months	Retention of right to receive 10% of the cash flows from the assets transferred on pari-passu basis.
Assets with bullet repayment of both principal and interest	

Accounting and Asset Classification of MRR

The asset classification and provisioning rules in respect of the exposure

representing the MRR would be as under:

The originating bank may maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the consolidated amount receivable in amortisation of the MRR and its periodicity should be clearly established and the overdue status of the MRR should be determined with reference to repayment of such amount. Alternatively, the originating bank may continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.

In the case of transfer of a pool of loans other than retail loans, the originator should maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.

If the originating bank acts as a servicing agent of the assignee bank for the loans transferred, it would know the overdue status of loans transferred which should form the basis of classification of the entire MRR/individual loans representing MRR as NPA in the books of the originating bank, depending upon the method of accounting followed.

Securitisation of NPA

Sale of Stressed Assets by Banks

Acquisition of Stressed Financial Assets by ARCs

Issue of Security Receipts (SRs)

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What is the principal total for100 loans ofRs.1 lakh each?

Answer: Rs.1 crore.

Why: 100 x1,00,000 =1,00,00,000.

Question 02 | Under the assumed5% retention illustration, what is retained?

Answer: Rs.5 lakh.

Why: Five percent ofRs.1 crore =Rs.5,00,000; this is an assumption, not a universal rule.

Question 03 | Does pooling eliminate late-payment risk?

Answer: No.

Why: Underlying borrowers can still fail to pay, and the waterfall allocates the resulting effects.

Question 04 | Are minimum holding period and minimum retention requirement the same?

Answer: No.

Why: One concerns holding/seasoning before transfer; the other concerns continuing retained exposure under the relevant framework.

Question 05 | Does a sale label prove that the originator has no continuing exposure?

Answer: No.

Why: Retention, servicing obligations, credit enhancement and actual contractual risk transfer must be analysed.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Securitisation links securities to underlying asset cash flows.	15. Holding and retention are different requirements.
02. Identify the originator.	16. Check the applicable entity framework.
03. Identify the underlying borrowers.	17. Check eligible asset conditions.
04. Identify the transaction vehicle.	18. Check due diligence requirements.
05. Identify the investors.	19. Check disclosure requirements.
06. Identify the servicer.	20. Borrower obligations continue under their contracts.
07. Read the cash-flow waterfall.	21. A pool can have correlated stress.
08. Payment priorities affect risk.	22. Collections require reliable servicing.
09. Loss priorities affect risk.	23. Late payments affect actual cash available.
10. Tranches can have different exposures.	24. A rating does not remove all risk.
11. A senior label is not an absolute guarantee.	25. A sale label is not sufficient evidence of risk transfer.
12. Credit enhancement has limits.	26. Standard and stressed assets need different analysis.
13. Retention is continuing exposure.	27. Legal and accounting questions both matter.
14. Holding conditions concern timing before transfer.	28. Trace who receives cash and who bears loss.

MODULE C / C01

Marketing: An Introduction

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A branch wants to increase the use of savings accounts among newly employed customers. The manager initially proposes a large advertisement showing a higher balance as the only sign of success. The team instead begins with interviews. Customers need a convenient salary receipt, understandable charges, reliable payments and help when a transaction fails. These findings change the product proposition and the way it is delivered. Marketing therefore starts before the sale: identify a need, design a suitable service, explain its price, make it accessible and check the experience after enrolment.

The branch runs a small campaign for 300 suitable prospects. Eighty open an account, and sixty of those accounts show the intended customer-authorised use after one month. Conversion is 80/300 x 100 = 26.67%; activation among opened accounts is 60/80 x 100 = 75%. The two percentages answer different questions. An attractive advertisement may generate applications while a difficult onboarding process prevents useful relationships. If the campaign costs Rs.40,000, the simple acquisition cost is Rs.500 per opened account, before service costs and future income. That cost does not establish profit or customer satisfaction.

Apply the seven Ps together: the account is the product; disclosed charges are price; the branch and app are place; the message is promotion; trained staff are people; onboarding is process; and a clear statement or confirmation is physical evidence. Measure whether the whole promise is delivered.

Change one assumption

Suppose applications remain at eighty, but only twenty customers can complete their first intended transaction. Activation becomes 20/80 x 100 = 25%. Spending more on promotion may worsen the problem by sending more people into a broken process. First find whether the cause is unclear instructions, an unsuitable product, unavailable support or a delivery failure. Keep the same conversion denominator so that comparisons remain meaningful. After correcting the process, test the experience again. The marketing objective remains a sustainable, suitable relationship; the immediate management action changes from promotion to service improvement.

Avoid this common mistake

Selling and marketing are related but different. A sale records a transaction; marketing also identifies needs, designs the proposition, selects delivery channels and evaluates the customer's experience. A high opening count alone can hide inactive accounts, avoidable charges or unsuitable selling. Never use customer pressure, misleading comparisons or an unexplained fee to improve a conversion figure. The bank must deliver the service it promises and use a meaningful outcome measure.

Understand need > Design the seven-P mix > Deliver the promise > Measure outcomes > Improve the mix

Follow the relationship

Understand need > Design the seven-P mix > Deliver the promise > Measure outcomes > Improve the mix

Understand need -> Design the seven-P mix -> Deliver the promise -> Measure outcomes -> Improve the mix

Connect the concepts

01. Need identification comes first. A customer's goal explains why a product might be useful.

02. Product means the service and its actual benefits, not merely its name or brochure.

03. Price includes relevant fees, interest, conditions and the customer's effort in obtaining the service.

04. Place concerns access through suitable branches, intermediaries and remote channels.

05. Promotion communicates the proposition accurately to the intended audience.

06. People influence the quality of advice, processing and complaint handling.

07. Process determines whether the promise can be delivered consistently from application to servicing.

08. Physical evidence includes statements, confirmations, accessible premises and other tangible signs of service quality.

09. Analysis identifies the market; planning selects objectives and actions; implementation delivers them; control compares outcomes and corrects weaknesses.

10. Segmentation groups relevant needs. It does not justify unfair exclusion or unsuitable recommendations.

11. Acquisition, activation, retention and satisfaction measure different stages and need different denominators.

12. A marketing decision should connect customer value with sustainable bank economics and responsible conduct.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Customer response is important, but responsible marketing also needs suitability, service outcomes, risk, cost and sustainable economics. Do not treat response alone as a complete success test.

Understand need > Design the seven-P mix > Deliver the promise > Measure outcomes > Improve the mix

Marketing in Banking

Sir Frederick Seebohmn define 'the creation and delivery of customer - satisfying services at a profit to the bank'

Kenneth Andrew defines Bank Marketing as 'the matching of bank's resources with the customer's needs in the most profitable manner'.

Customer is the centre of attraction in retail banking and marketing and all the activities have to be focussed towards

Identifying the customers' needs,

Developing appropriate products to satisfy their needs,

Providing them with efficient delivery channels for availing the products.

Making them avail the products continuously.

Marketing in Retail Banking

The process of marketing comprises different stage:

Marketing Analysis

Marketing Planning

Marketing Implementation

Marketing Control

Marketing Mix in Retail Banking

Fundamental ingredients of an effective marketing mix in retail banking which are as follows:

Product

Price

Promotion

Place

People

Process

Physical evidence

The success of the seven Ps and the marketing strategies are measured only by the responses from the customers from the point of view of need satisfaction.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Why is an advertisement alone not a marketing strategy?

Answer: It covers promotion but omits the other decisions.

Why: Needs, product design, price, channels, people, process and evidence jointly determine the customer experience.

Question 02 | Calculate the case conversion rate.

Answer: 26.67%, rounded to two decimals.

Why: 80 openings divided by 300 suitable prospects measures the stated prospect-to-opening stage.

Question 03 | Why is 60/300 not the activation rate among opened accounts?

Answer: Its denominator is all prospects.

Why: Activation among the eighty opened accounts is 60/80; 60/300 measures the full prospect-to-active-account funnel.

Question 04 | Which P is affected by repeated onboarding delays?

Answer: Process.

Why: The service promise cannot be delivered reliably merely by changing the advertisement.

Question 05 | Should the branch advertise more when first-use success collapses?

Answer: First diagnose and correct the delivery failure.

Why: More acquisition can increase disappointment without solving the process or product problem.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Marketing begins with needs.	15. Segmentation groups relevant needs.
02. Selling is one part of marketing.	16. A segment is not every individual.
03. Customer value concerns usable benefits.	17. Conversion needs a stated denominator.
04. Product includes the service promise.	18. Activation differs from account opening.
05. Price includes disclosed conditions.	19. Retention concerns continued relationships.
06. Place concerns access.	20. Satisfaction requires useful evidence.
07. Promotion must be accurate.	21. More sales do not prove more profit.
08. People affect service quality.	22. Campaign cost is not total relationship cost.
09. Process supports consistent delivery.	23. Mis-selling weakens sustainable relationships.
10. Physical evidence makes service tangible.	24. 300 prospects produced 80 openings.
11. The marketing mix has seven Ps.	25. Case conversion is 26.67%.
12. Marketing analysis precedes planning.	26. 60 of 80 active accounts gives 75%.
13. Implementation turns plans into action.	27. Broken processes need correction.
14. Control compares outcomes with objectives.	28. Explain the customer's benefit before promoting.

Understand need > Design the seven-P mix > Deliver the promise > Measure outcomes > Improve the mix

MODULE C / C02

Delivery Channels in Retail Banking

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A customer needs cash for an urgent payment, another wants to correct a complex account mandate, and a third needs a routine balance enquiry. The branch should not send everyone to the same channel. A suitable channel connects the customer's task, ability and access needs with the service's controls. An ATM may suit a cash withdrawal, a branch may be necessary for a complex instruction, and a secure app may handle a routine enquiry. Availability of a digital channel does not establish that every customer can use it safely.

Now consider an ATM withdrawal: the account is debited but no cash is received. The customer should record the time, location, amount and available transaction reference, report promptly through the bank's authorised channel, and retain the acknowledgement. The bank traces the transaction and applies the relevant failed-transaction and customer-protection rules. A failed withdrawal and an unauthorised transaction are not automatically the same dispute. In the first, the customer initiated a transaction whose outcome failed; in the second, the customer contests authority for the transaction.

For an unauthorised transaction, the timing of reporting, bank or customer negligence, third-party breach and the applicable category of account or payment instrument can affect liability. Do not promise an automatic refund by quoting one time limit without its conditions. A good channel design combines convenience, alerts, secure authentication, accessible support and a clear route to resolution.

Change one assumption

Change the situation: the customer shared a credential with a caller and later sees an unauthorised debit. The complaint remains important, but its facts differ from a failure that occurred without the customer's involvement. Record the sequence and the time of reporting rather than assuming the same liability result. Report immediately and stop further misuse through the authorised blocking process. The bank must assess the applicable rules and evidence; the learning point is to separate authority, transaction outcome, cause and reporting time. Prompt reporting supports loss limitation and investigation, but does not erase the need to establish those facts.

Avoid this common mistake

A channel is a means of delivery, not a guarantee of safety or customer suitability. Digital does not mean risk-free, and a branch visit does not remove fraud risk. Never teach that every transaction reported within a stated number of days must receive the same liability outcome. Failed transactions, unauthorised transactions and customer-authorised payments induced by deception require careful factual classification and the applicable rules.

Identify the task > Choose an accessible channel > Authenticate and transact > Confirm the outcome > Report and resolve exceptions

Follow the relationship

Identify the task > Choose an accessible channel > Authenticate and transact > Confirm the outcome > Report and resolve exceptions

Identify the task -> Choose an accessible channel -> Authenticate and transact -> Confirm the outcome -> Report and resolve exceptions

Connect the concepts

01. A branch combines personal interaction with operational and automated services; its suitability depends on the task.

02. Extension counters provide a limited range of services under their arrangement and permissions.

03. ATM services vary by machine, network and bank; the presence of an ATM does not imply every listed service is available.

04. White-label ATMs are operated by authorised non-bank entities; location-based labels describe a different classification dimension.

05. Onsite and offsite classify location, while ownership and operational arrangements classify responsibility.

06. A point-of-sale terminal enables acceptance at a merchant; merchant, acquirer, issuer and network have different roles.

07. Mobile and internet banking are remote access channels requiring secure identification and user awareness.

08. A transaction alert helps detection; it does not replace the transaction record or determine liability by itself.

09. Failed-transaction handling asks whether an authorised transaction achieved its intended outcome.

10. Unauthorised-transaction handling first asks whether the customer authorised the transaction and what caused the loss.

11. Reporting time must be established from relevant communications and acknowledgements under the applicable rule.

12. Channel design must include accessibility, continuity, fraud controls, customer assistance and complaint escalation.

Identify the task > Choose an accessible channel > Authenticate and transact > Confirm the outcome > Report and resolve exceptions



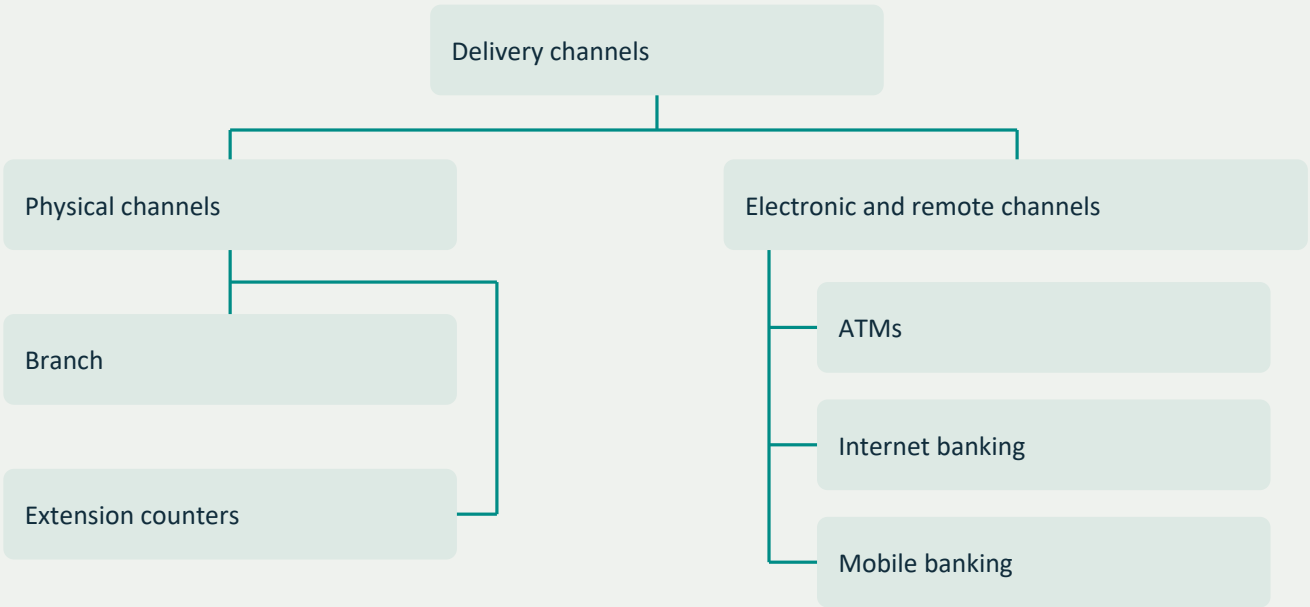
Observe the keypad and customer touchpoint. Privacy, accessibility and reliable service matter alongside transaction speed; terminal layouts vary.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Banking

Delivery Channels



Identify the task > Choose an accessible channel > Authenticate and transact > Confirm the outcome > Report and resolve exceptions

Clarification for accurate understanding

Separate operator/branding arrangements from onsite/offsite location. Brown-label is an outsourcing arrangement; specific responsibility follows the actual agreement and applicable requirements.

Clarification for accurate understanding

Limits, charges, availability and transaction handling are product-, category- and date-dependent. Do not turn old app/version or historical service figures into universal current instructions.

Physical / Direct Channels

Branch: A branch, banking center or financial center is a retail location where a bank, credit union, or other financial institution offers a wide array of face-to- face and automated services to its customers.

Extension Counter: Extension counters provide limited banking services such as deposit/withdrawal transactions, issuing and encashment of drafts and mail transfers, issue and encashment of travellers cheques, sale of gift cheques and collection of bills.

Electronic & Remote

Automated Teller Machines (ATMs)

An automated teller machine also known as an Automated Banking

Machine (ABM) is an electronic telecommunication device that enables the customers of a financial institution to perform financial transactions, particularly cash withdrawal, without the need for a human cashier, clerk or bank teller.

The Services Normally Offered At An ATM Are:

Cash withdrawal

Cash Deposit

Account information

Regular bills payment

Balance Enquiry

Mini Statements

Money Transfer

Purchase of Re-load Vouchers for Mobiles

Types Of ATMs

White Label ATM: White Label ATMs are those ATMs which set up, owned and operated by non-bank entities. To aid financial inclusion and drive ATM penetration in the country the Reserve Bank of India has permitted the launch of White Labelled ATMs (WLAs) i.e private non-bank companies to set up, own and operate its own brand of ATMs in the country. These white label ATMs will not display logo of any

particular bank. TATA launched the first white label ATM

in India under the brand name of Indicash.

Brown Label ATMs: These ATMs are owned and maintained by service provider whereas a sponsor bank whose brand is used on ATM takes care of cash management and network connectivity.

Onsite ATMs: These are ATM machines that are set up in the premises

where there is a bank branch so that both the physical branch and the ATM can be used. This is known as being on site and this can be used for several purposes. Many people can use this to avoid the lines that are present in the branch and hence save on the time required to complete their transactions.

Offsite ATMs: These are the machines that are set up on a standalone basis.

This means that the bank has a place where there is only an ATM machine then this becomes an offsite ATM. This is done to ensure that the bank reaches out to more geographical areas and that people are able to use its services even when there is no bank branch in the area.

Point-of-sale (POS) terminal

A point-of-sale (POS) terminal is a computerised replacement for a cash register which can process credit and debit cards. A customer needs to enter a card PIN to complete the transaction using the PoS terminal.

How to install one?

If you are a merchant, then you can request the bank where you have an account to install PoS machines at your establishment.

What are the charges?

The end-customer does not have to pay any charges for swiping his or debit/credit cards at the PoS terminals.

Separate charges for debit and credit cards

MDR is capped for debit cards but not for credit cards. Effective July 1, 2012, RBI capped the MDR for debit cards at 0.75 per cent of the transaction amount for value up to Rs.2,000 and 1 per cent for a transaction amount for value above Rs.2,000. For credit cards, the MDR varies between 1.5 per cent to 2.5 per cent. Following the withdrawal of legal tender status to the old Rs.500 and Rs.1,000 currency notes, RBI had asked banks to waive off the MDR till the end of December. Last week, RBI also lowered the MDR cap for debit cards effective between January 1 to March 31, 2017. In this period, MDR is capped at 0.25 per cent for debit card transactions up to Rs.1,000 and 0.5 per cent for transactions above Rs.1,000 up to Rs.2,000.

Mobile Banking

Mobile banking is a facility which enables customers to initiate and/or perform banking tasks on their mobile phones. This is provided by most of the banks in India and abroad. Customers can use mobile banking to view their account balance, make

instant fund transfers and pay bills, etc.

There are various types of mobile banking, viz. via SMS, USSD and mobile apps. Some of the banks like SBI, have incorporated services like loan approval and linking of insurance policy in their mobile banking apps. Let us read the features and benefits of mobile banking and how to use mobile banking.

Banks provide mobile banking services to their clients in the different ways listed

here:

Mobile Banking over mobile applications (for smartphones; e.g. SBI Yono and iMobile by ICICI Bank, etc.)

Mobile Banking over SMS (also known as SMS Banking)

Mobile Banking over Unstructured Supplementary Service Data (USSD)

Immediate Payment Service (IMPS)

The full form of IMPS is an Immediate Payment Service. It enables 24 x 7

electronic fund transfer services in which the transaction is carried out between two bank accounts in real-time and on an immediate basis. IMPS fund transfer can be done through online banking as well as mobile banking. Immediate Payment Service was launched in 2010 and is now one of the most widely-used forms of electronic payments across India.

Objectives of IMPS

To enable bank customers to use mobile instruments as a channel for accessing their banks accounts and remit funds

Making payment simpler just with the mobile number of the beneficiary

To sub-serve the goal of Reserve Bank of India (RBI) in electronification of retail payments

To facilitate mobile payment systems already introduced in India with the Reserve Bank of India Mobile Payment Guidelines 2008 to be inter-operable across banks and mobile operators in a safe and secured manner

To build the foundation for a full range of mobile based Banking services.

IMPS Transfer via MMID and Mobile Numbers

With IMPS it’s easier to transfer money through your mobile number. All you need to do is register your mobile number for IMPS service with your bank (can do it online as well). If not online you can visit the nearest bank branch and get this done. Once your mobile number is registered, you will be given a 7-digit MMID code from your bank. MMID code is essential to initiate IMPS transfers through your mobile number.

With your MMID number, the funds can be transferred easily using the following

steps:

Simply log in to your mobile banking app with your User ID and password

You will see the fund transfer section on the app, there you can select the IMPS option

Now enter the beneficiary's details like the bank account number, mobile number, and the MMID code

After this, you can simply verify the transaction using an MPIN or by entering the OTP sent you to via SMS

Unified Payments Interface (UPI)

Unified Payments Interface (UPI) is a system that powers multiple bank

accounts into a single mobile application (of any participating bank),

merging several banking features, seamless fund routing & merchant

payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.

With the above context in mind, NPCI conducted a pilot launch with 21 member

banks. The pilot launch was on 11th April 2016 by Dr. Raghuram G Rajan, Governor, RBI at Mumbai. Banks have started to upload their UPI enabled Apps on Google Play store from 25th August, 2016 onwards.

Features of UPI

Immediate money transfer through mobile device round the clock 24*7 and

365 days.

Single mobile application for accessing different bank accounts.

Single Click 2 Factor Authentication - Aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.

Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.

Bill Sharing with friends.

Best answer to Cash on Delivery hassle, running to an ATM or rendering

exact amount.

Merchant Payment with Single Application or In-App Payments.

Utility Bill Payments, Over the Counter Payments, Barcode (Scan and Pay) based payments.

Donations, Collections, Disbursements Scalable.

Raising Complaint from Mobile App directly.

Participants in UPI

Payer PSP

Payee PSP

Remitter Bank

Beneficiary Bank

NPCI

Bank Account holders

Merchants

UPI - Benefits to the Ecosystem participants

Benefits for banks:

Single click Two Factor authentication

Universal Application for transaction

Leveraging existing infrastructure

Safer, Secured and Innovative

Payment basis Single/ Unique Identifier

Enable seamless merchant transactions

Benefits for end Customers:

Clarification for accurate understanding

The 2017 framework distinguishes bank negligence, customer negligence and third-party breach. The reporting-time table is not an unconditional refund promise. Recheck any later final directions before declaring an exhaustive current-rule certificate.

Round the clock availability

Single Application for accessing different bank accounts

Use of Virtual ID is more secure, no credential sharing

Single click authentication

Raise Complaint from Mobile App directly

Benefits for Merchants:

Seamless fund collection from customers - single identifiers

No risk of storing customer’s virtual address like in Cards

Tap customers not having credit/debit cards

Suitable for e-Com & m-Com transaction

Resolves the COD collection problem

Single click 2FA facility to the customer - seamless Pull

In-App Payments (IAP)

BHIM UPI Payments App

BHIM or Bharat Interface for Money, is a complete payment solution app

that works on the Unified Payments Interface (UPI) system. BHIM is a digital payment method that allows users to make various transactions such as sending and requesting money with a Virtual Payment Address (VPA) on a real-time basis. Money can be sent and received instantly on all 365 days in a year on a 24/7 basis. The service can also be used on bank holidays.

There is no need to provide bank account details such as account number or IFSC code, all transactions can be carried out using a VPA. Customers can directly pay users using their VPA or scan and pay using the QR code option in the BHIM app.

Features of BHIM App:

Instant money transfer: With the BHIM app, money can be sent on a real-time basis at anytime and from anywhere. Also, there is no cumbersome process of adding beneficiary and filling up account details such as account number and IFSC code.

No bank holidays: The best part about this app is that you can send and receive money even on bank holidays and weekends.

Split bill with friends: The app also allows users to split bills with multiple users.

Payment reminders: Another feature of this app is the facility to schedule payment reminders.

Benefits of BHIM App

Transactions are simple, fast, and secure

No additional charges

The app is free for download

Payments can be made to non-UPI banks as well

The app works 24/7

How to Enroll Yourself as a Merchant on UPI

Download the BHIM Aadhaar Baroda Pay Android App

Fill the application form and sign the merchant agreement

The bank will carry out the on-boarding registration process and agreement through its regions/zones

Transaction Limit and Charges of BHIM

You can make a transaction where the maximum amount is Rs.10,000. The maximum amount of money you can transfer within 24 hours is Rs.20,000. There are now charges for making a transaction via the BHIM UPI app.

Internet Banking

What is Internet Banking?

Internet banking, also known as online banking or e-bankingor Net Banking is a facility offered by banks and financial institutions that allow customers to use banking services over the internet. Customers need not visit their bank's branch office to avail each and every small service.

Features of Online Banking

Check the account statement online.

Open a fixed deposit account.

Pay utility bills such as water bill and electricity bill.

Make merchant payments.

Transfer funds.

Order for a cheque book.

Buy general insurance.

Recharge prepaid mobile/DTH.

Advantages of Internet Banking

The advantages of internet banking are as follows:

Availability: You can avail the banking services round the clock throughout the year. Most of the services offered are not time-restricted; you can check your account balance at any time and transfer funds without having to wait for the bank to open.

Easy to Operate

Convenience

Time Efficient

Activity Tracking

Complete the concept: additional learning

Customer liability for unauthorised electronic transactions

Separate a transaction the customer authorised from one the customer disputes as unauthorised. A failed payment, a merchant dispute and a fraud complaint need different investigations. Preserve the alert, transaction reference, time of receipt and reporting acknowledgement; block further misuse through the bank's official reporting channel. Never request a customer's PIN, password or OTP to receive a complaint.

Dated liability framework: identify cause, then reporting time

Under the 6 July 2017 banking framework, bank fraud/negligence/deficiency gives zero customer liability. For a third-party breach attributable to neither customer nor bank: reporting within three working days gives zero liability; four to seven working days limits liability to the transaction amount or applicable cap, whichever is lower; beyond seven days follows Board-approved policy. Count home-branch working days, excluding the communication date. Customer negligence, such as sharing credentials, makes the customer bear pre-report loss; post-report loss belongs to the bank.

The four-to-seven-day caps are Rs.5,000 for BSBD; Rs.10,000 for other savings, bank PPIs/gift cards, MSME current/CC/OD, specified individual current/CC/OD up to Rs.25 lakh, and credit limits up to Rs.5 lakh; Rs.25,000 for remaining current/CC/OD and higher-limit cards. The bank bears the proof burden. Shadow credit is due within ten working days, value-dated to the transaction; resolution/compensation within ninety days, without customer interest loss/burden.

This dated framework teaches the liability logic. Apply the entity-specific consolidated directions and amendments effective for the transaction date; do not transplant bank rules automatically to non-bank wallets or treat a later effective amendment as already operative.

Worked complaint: why reporting time changes the answer

Assume an unauthorised Rs.18,000 debit to an ordinary savings account is established as a third-party breach, and apply the dated framework above. Reporting on the second relevant working day gives zero liability. Reporting on the fifth gives min(18,000, 10,000) = Rs.10,000. If the debit were only Rs.6,000, the same cap would limit liability to Rs.6,000. A cap is a ceiling, not a charge imposed in every fraud case. Establish the cause and facts first; reporting promptly does not by itself prove every complaint qualifies for zero liability.

Explain the decision before memorising the number

Ask four questions: Was the payment unauthorised? Where did the deficiency arise? When did the customer receive the communication and report it? Which institution, account category and dated rule apply? A bank should acknowledge, secure, investigate and communicate the decision. An automatically successful authentication event alone does not replace the required liability investigation.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Is a cash-not-dispensed ATM debit automatically an unauthorised transaction?

Answer: No.

Why: The customer may have authorised the withdrawal; the issue can be failure to deliver cash rather than absence of authority.

Question 02 | Are all offsite ATMs white-label ATMs?

Answer: No.

Why: Offsite classifies location, while white-label classifies the operating model.

Question 03 | What evidence should the customer retain?

Answer: Amount, time, location, reference and complaint acknowledgement.

Why: These details help trace the transaction and establish the reporting sequence.

Question 04 | Why is one universal refund promise unsafe?

Answer: The outcome depends on facts and the applicable rule.

Why: Cause, authority, negligence, reporting time and product scope are material.

Question 05 | Which channel is always best for every customer?

Answer: There is no universal best channel.

Why: The task, access needs, capabilities, controls and available support determine suitability.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. A channel delivers a banking service.	15. Alerts support detection.
02. Channel choice starts with the task.	16. Never disclose secret credentials.
03. Customer access needs matter.	17. Record disputed transaction details.
04. Branches support personal interaction.	18. Report suspicious activity promptly.
05. Extension counters have limited services.	19. Retain the complaint acknowledgement.
06. ATM capabilities vary.	20. A failure need not be unauthorised.
07. White-label describes an operator model.	21. Authority and outcome are distinct.
08. Onsite describes a location.	22. Customer negligence affects analysis.
09. Offsite describes a location.	23. Third-party breach needs factual assessment.
10. Ownership and location are different dimensions.	24. Read the applicable liability conditions.
11. POS supports merchant acceptance.	25. Rules differ by product and scope.
12. Mobile banking is a remote channel.	26. Accessibility is part of channel quality.
13. Internet banking is a remote channel.	27. Continuity planning supports availability.
14. Authentication supports access control.	28. Convenience needs effective support.

Identify the task > Choose an accessible channel > Authenticate and transact > Confirm the outcome > Report and resolve exceptions

MODULE C / C03

Delivery Models

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A branch uses its own staff, a dedicated marketing officer and a direct selling agent to reach prospective vehicle-loan customers. The delivery model decides who performs each task and how work passes between people. The agent may identify a prospect and help collect an application; the bank must still undertake the relevant verification, credit assessment, sanction and servicing responsibilities. A customer's application must not become an approved loan simply because a sales intermediary promises approval.

Assume the bank's agreed illustrative fee is Rs.1,000 for each valid disbursed loan, subject to the contract and conduct checks. Twenty files arrive, but only sixteen meet the stated eligibility and are disbursed. The simple fee is 16 x Rs.1,000 = Rs.16,000, not Rs.20,000 for all leads. The calculation shows why the fee trigger must be defined. It does not prove that the sixteen loans are suitable or that future recovery will be satisfactory.

Before the campaign, the bank trains the agent to explain costs, avoid misleading statements, use authorised identification, protect information and obtain required consent. The marketing officer checks that the promised turnaround time matches the operating team's capacity. Branch staff handle the application and subsequent service needs. A dealer tie-up improves access to customers but does not replace borrower assessment or verification of the asset. Good delivery joins sourcing, operations and servicing into one accountable customer journey.

Change one assumption

Suppose the sixteen disbursements remain unchanged but complaints show that the agent concealed charges. The bank should not treat the unchanged volume as proof that the arrangement is working. Investigate the representations, address affected customers and apply the contract and conduct framework. Future sourcing may need tighter supervision, retraining or suspension, depending on findings. This changes the evaluation from a simple volume-and-fee calculation to delivery quality, suitability and reputation. The bank's operational and regulatory responsibilities do not disappear because an outside agency performed the initial sales contact.

Avoid this common mistake

Outsourcing a task is not the same as outsourcing accountability. A direct selling agent is not automatically the sanctioning authority, and a preferred-financier tie-up does not make every buyer creditworthy. Equally, do not label every intermediary dishonest merely because mis-selling is a recognised risk. Evaluate the role, authority, incentives, controls and actual conduct. Clear handoffs and supervision matter more than the title used for the channel.

Source a suitable lead > Explain terms accurately > Verify and assess > Sanction and disburse > Service and supervise

Follow the relationship

Source a suitable lead > Explain terms accurately > Verify and assess > Sanction and disburse > Service and supervise

Source a suitable lead -> Explain terms accurately -> Verify and assess -> Sanction and disburse -> Service and supervise

Connect the concepts

01. Internal branch staff connect sales promises with processing, servicing and customer relationships.

02. Dedicated marketing personnel can specialise in market intelligence, lead identification and presentations.

03. A DSA sources business under an agreement; its authority must be understood and communicated accurately.

04. A lead is a possible opportunity, not an approved facility.

05. Application completeness, verification, sanction, documentation and disbursement are separate milestones.

06. Compensation triggers should identify what service was actually completed and what conditions apply.

07. Dealer and builder tie-ups can improve access but create conflicts and require independent checks.

08. Institutional arrangements may help reach employees or students without proving every applicant's eligibility.

09. Training should cover accurate pricing, product conditions, identity, consent and responsible selling.

10. Information collected by an intermediary requires controlled handling and authorised use.

11. Customer complaints and early loan performance provide feedback about the quality of sourcing.

12. The bank must coordinate intermediary conduct, operational capacity and after-sales service.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Mis-selling is a risk to control, not a universal factual assertion about every DSA employee. Explain sourcing authority, supervision, accurate disclosures and bank accountability.

Source a suitable lead > Explain terms accurately > Verify and assess > Sanction and disburse > Service and supervise

The success of the Retail Banking depends on how the products and services are delivered to the customer. Delivery effectiveness in physical channels is determined more by the persons who are delivering the services.

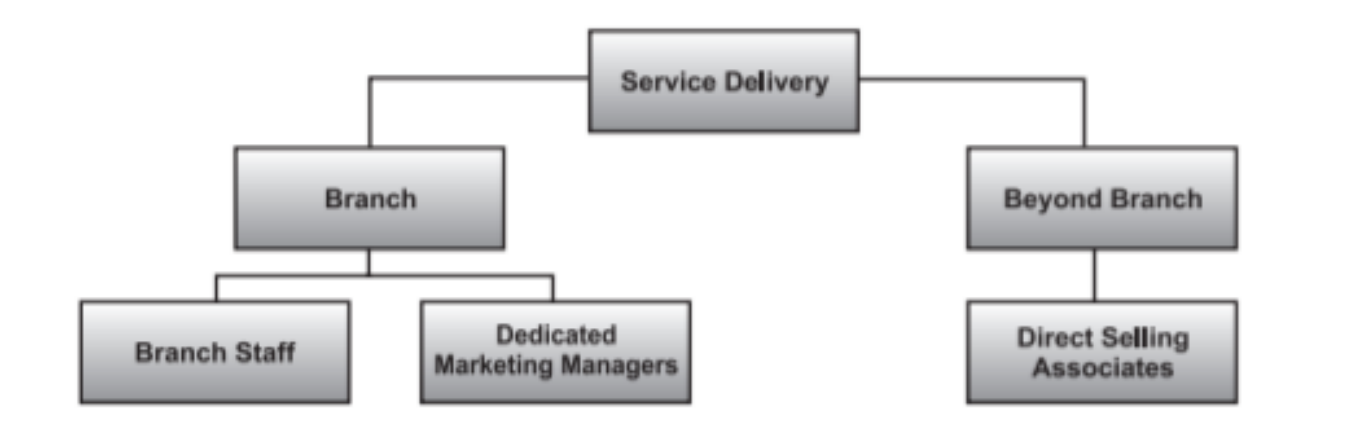
Delivery Models

The three important human interventions in physical channels are

Internal Customer - Staff of the Branch

Specialised Marketing Personnel

Direct Selling Associates (DSAs).



Dedicated Marketing Managers

Dedicated Marketing Managers were appointed in addition to existing internal

human resources.

These specialist Marketing Managers (MBAs in Marketing) were young and energetic and recruited from the campuses of management Schools.

Some banks appointed them in Junior Management and some other banks in middle management.

The expectations from these officers are explained:

Market Intelligence

Potential Sourcing

Product and Service Delivery Presentations to the identified customer segments

Right selling to the targeted customer group

Sales Conversions

Closing the leads with sales

Compliance of promises made and conforming to the services delivery standards

Following up with the operations department for effective process and delivery of products sold.

Direct Selling Agents (DSAs)

DSAs are agencies appointed by banks to source business for them on a fee basis.

DSAs are primarily engaged in sourcing Credit Cards and Retail Loans.

The employees of the DSAs missell credit card products and make the customers fall into a debt trap by misusing the cards.

Same is the case with misselling of retail loans and in this space, the pricing for the loans are not explained clearly.

Ultimately this will result in dissatisfaction for the customers and reputation risk for the bank.

Reputation Risk is always a threatening factor in the DSA model

DSAs focus on pure selling by pushing the products than effective marketing after verifying the needs of the customers and their actual requirements.

TIE-UP with Institutions/ OEMS/DEALERS ETC….

Banks enter into tie ups with the following agencies for extending different types

of loans.

Tie up with Builders as a preferred financier for extending Home Loans to prospective buyers.

Tie ups with auto dealers is another method adopted by banks for expanding retail credit.

Sanctioning of Personal Loans under tie up with different institutions is another model adopted by banks to expand retail loans.

educational loans are disbursed on a tie up basis. Banks set up special counters during the admission season in reputed educational institutions and offer education loans based on merit.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Can the sourcing agent guarantee sanction?

Answer: No.

Why: Sourcing authority and the bank's credit decision are different functions.

Question 02 | What is the case fee for sixteen qualifying disbursements?

Answer: Rs.16,000.

Why: The assumed trigger is a valid disbursed loan, so 16 x Rs.1,000 applies.

Question 03 | Does a dealer tie-up prove borrower eligibility?

Answer: No.

Why: It provides a channel, not independent proof of repayment ability or documentation quality.

Question 04 | Who should examine complaints about an intermediary's representations?

Answer: The bank must investigate within its responsibilities and arrangements.

Why: An outside sales contact does not remove accountability for the customer journey.

Question 05 | Is unchanged loan volume sufficient to retain a failing delivery arrangement?

Answer: No.

Why: Mis-selling, service failures and risk outcomes can worsen while volume remains stable.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Delivery models organise people and tasks.	15. Sixteen valid loans at Rs.1,000 cost Rs.16,000.
02. Internal staff are part of delivery.	16. Volume alone does not prove quality.
03. Marketing officers can specialise.	17. Pricing must be explained.
04. DSAs source business under agreements.	18. Customer consent matters.
05. A lead is not a sanction.	19. Customer information needs protection.
06. A promise is not an approval.	20. Training supports responsible conduct.
07. Bank authority must be clear.	21. Supervision must follow actual activities.
08. Eligibility requires assessment.	22. Complaints reveal delivery weaknesses.
09. Dealer tie-ups do not remove risk.	23. Reputation can be affected by agents.
10. Builder tie-ups need independent checks.	24. Outsourcing does not erase accountability.
11. Fees need defined triggers.	25. Operations must support sales promises.
12. Valid disbursement may trigger a fee.	26. Handoffs need clear ownership.
13. Contract terms must be understood.	27. Servicing continues after disbursement.
14. Twenty leads need not yield twenty loans.	28. Assess outcomes as well as conversion.

MODULE C / C04

Customer Relationship Management in Retail Banking

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A customer receives three separate calls from different teams of the same bank. One promotes a deposit, another offers a loan the customer does not need, and the third asks for information already provided. Each team has a product list, but nobody has a reliable view of the relationship. Customer relationship management connects relevant customer information, suitable service and coordinated follow-up. Its purpose is not simply to send more messages.

The branch begins by checking and updating customer profiles through authorised processes. It records the customer's stated goal, current products, servicing needs and permitted communication preferences. It then groups relevant needs, proposes suitable options, delivers the chosen service and reviews the result. A change in employment or family circumstances may change needs; the original profile must not be treated as permanent.

Assume 1,100 customers were in a defined active cohort at the start of the year and 1,000 remain active under the same definition at year-end. The simple cohort retention rate is 1,000/1,100 x 100 = 90.91%. New customers acquired during the year must not be inserted into this numerator if the measure is retention of the original cohort. A customer holding five unused products may be less well served than one using a single suitable account. Evaluate continuity, usefulness, complaints, costs and relationship value together. Technology helps organise the information; staff judgement and responsible service turn it into a relationship.

Change one assumption

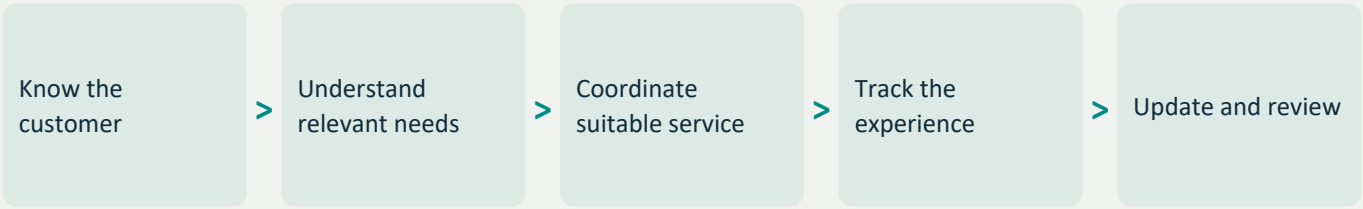
Suppose a customer now needs funds for a near-term medical expense. A previous preference for long-term investment does not justify an automatic long-lock-in sale. Update the goal, timing and liquidity requirement before discussing options. The CRM record should help identify the changed situation and avoid repeated unsuitable contact. The customer's relationship remains valuable even if the immediate best service produces little sales income. In the retention calculation, continue using the same cohort and activity definition; changing definitions to improve the displayed percentage destroys the comparison.

Know the customer > Understand relevant needs > Coordinate suitable service > Track the experience > Update and review

Avoid this common mistake

CRM is not merely software, a customer database or a target for products per person. Data may be old, incomplete or obtained for a different purpose. More products do not establish satisfaction, and a higher fee does not prove a better relationship. The bank must respect customer choices, communicate accurately and coordinate service. Information should support suitable action, not create an excuse for excessive contact or pressure.

Follow the relationship



Know the customer -> Understand relevant needs -> Coordinate suitable service -> Track the experience -> Update and review

Connect the concepts

01. The customer, the relationship and management must be connected; a database is only an enabling tool.

02. Profile capture should be accurate, relevant and conducted through authorised processes.

03. Segmentation groups similar needs while allowing individual circumstances to differ.

04. Acquisition starts a relationship; retention and expansion concern its later development.

05. A suitable expansion meets a real need rather than merely increasing product count.

06. Channel preferences and accessibility needs affect the way a relationship is serviced.

07. Implementation requires processes, staff ownership, usable technology and reliable information.

08. Dynamic updating prevents old assumptions from driving new recommendations.

09. Feedback and complaints reveal gaps between the promise and experience.

10. Relationship profitability requires income, costs and risk, not gross revenue alone.

11. Retention measures need a defined starting cohort, observation period and activity rule.

12. CRM supports efficiency and loyalty when it improves service rather than replacing judgement.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Know the customer > Understand relevant needs > Coordinate suitable service > Track the experience > Update and review

Clarification for accurate understanding

Commercial relationship goals do not displace suitability, fair service, accessibility, consent or privacy. CRM is more than pushing products or moving customers to an unsuitable channel.

Banking

Customer Relationship Management In Retail Banking

What is Customer Relationship Management (CRM) in banking in general and retail banking in particular? As we are all aware, there are three elements in CRM viz.

Customer

Relationship

Management

The purpose of CRM is to increase the share of wallet of the customer with the

banks' services and increase the per customer profitability of banks. The stages involved in a CRM initiative are

Capturing the customers' profile through a technology enabled model.

Dissecting the profiles into common information buckets.

Designing suitable products and services to cater to the different information buckets.

Offering the products and services to the targeted and segmented customers from the information buckets with the right pricing.

Providing the right sales and service processes to achieve total customer satisfaction.

Tracking the customer information on a dynamic basis to design new products and services to meet the changing dynamics of the customers.

Customer optimisation is the essence of CRM and can be addressed through three

dimensions viz.

Acquisition of New Customers who are immediately profitable to the bank.

Retention of Existing Customers who are most profitable and valuable to the Bank for the longest duration.

Expansion of the customer relationship with the bank encouraging more purchases and shifting the less profitable customers to lower - cost delivery channels.

WHY CRM?

Why CRM? This is an important question which has to be answered by all concerned in retail banking Without CRM, whether banks cannot track the customers' profile and offer those products and services to match their expectations and needs? But the following needs for banks for implementation of a CRM program will answer the above questions.

Need to increase operational efficiencies

Need to derive more value from employees.

Increasing Competition in retail banking.

Rising NPAs.

Increasing Importance of Fee Based Income.

Delivery Channel Efficacy

Application of Technology

CRM is not just an option for the banks but a compulsion to achieve business synergies and optimization of resources. CRM as a tool can be effectively utilized to explore new frontiers in product development and management and improve the per customer profitability in addition to building and sustaining customer loyalty and brand equity. Let us discuss each of these needs in detail for a better understanding of CRM.

Implementation Aspects of CRM in Bank

How does CRM Work?

CRM systems are designed to compile information on customer across different channels- or points of contract between the Customer and the Bank. Likes telephone,

live chat, direct mail, social media Etc.

Security concerns of CRM

Business need to ensure that the strange and analysis of the customer data must have

the highest levels of protection against cyber criminals, identity theft and other

breaches of securities.

Features of CRM Software

Marketing automation

Sales force automation

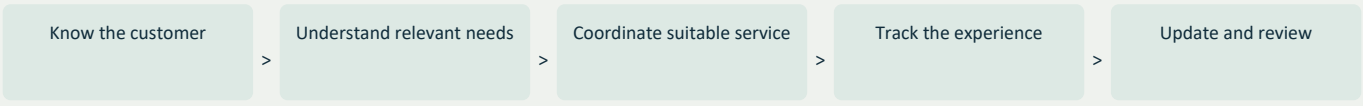
Contract centre automation

Geolocation technology or location-based services

Main Component of CRM

The main Component of CRM are building and managing customer relationship

through marketing, observing relationship as they mature through distinct phases, managing these relationship at each stage and recognizing that the distribution of value of a relationship to the firm is not homogenous.



Implementation Process of CRM In Banks

Though CRM is a must in the retail banking scenario in India, the process of implementation is a tough one because of the different nature of business process structure, organization structures and the technology structure and architecture, to

name a few. Let us see the different key issues in the implementation of CRM by

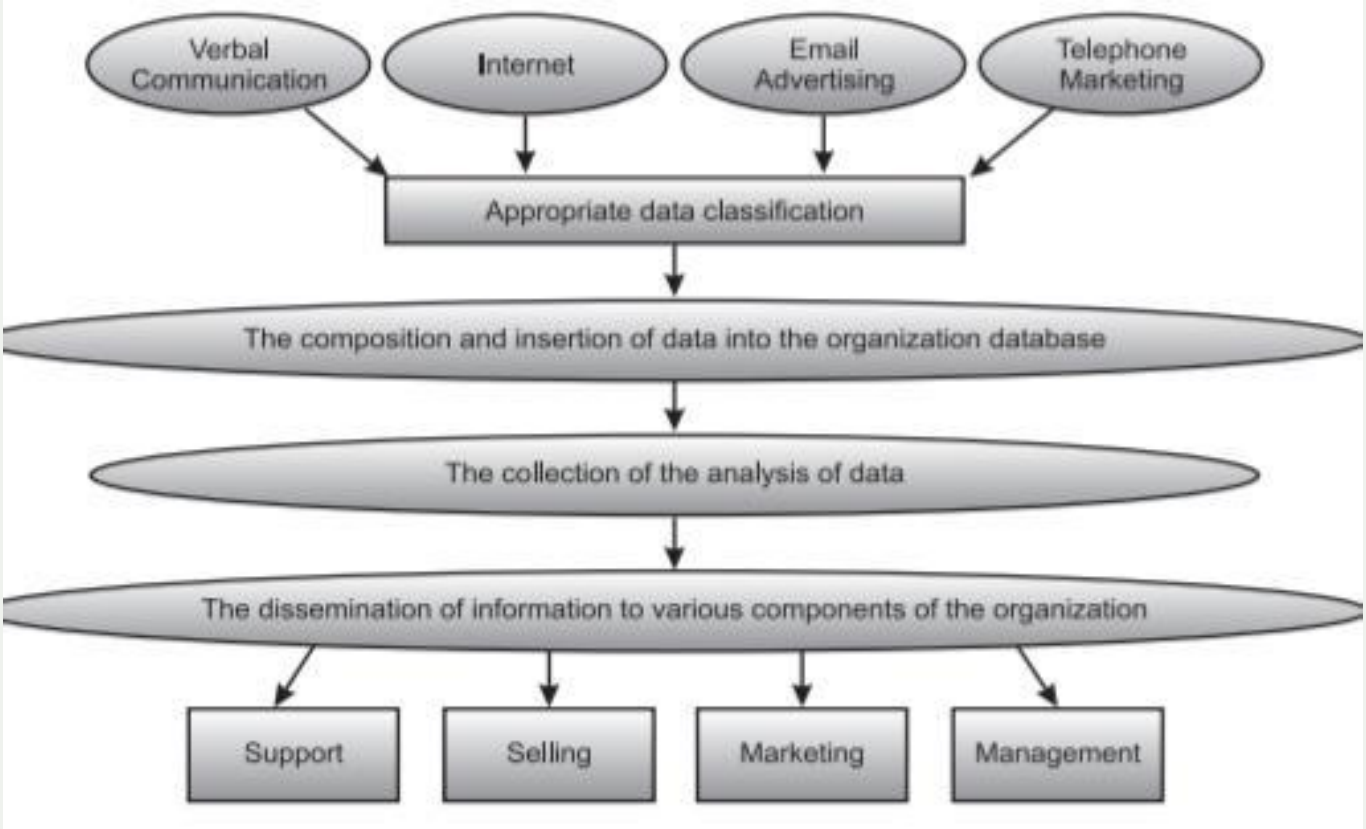
banks.

Business Processes

Information Processes

Information Systems

Internal Organisational Culture



Implementation Stages In CRM

Four stages through which CRM is implemented. Let us now discuss the four stages.

Identification of Customers

Classification of Customers

Interaction With the most Valued Customers

Know the customer > Understand relevant needs > Coordinate suitable service > Track the experience > Update and review

Customisation of Bank's Products and Services for Different Customer Segments

Benefits of CRM

An effective CRM implementation in retail banking will benefit the banks in more than

way. The following are some of the important benefits that accrue to banks and

enhance the customer focus of the banks:

Improves the customer satisfaction and cross selling potential for the banks.

Helps the banks to derive increased share of wallet from the customer.

Enhances the operational efficiencies of the banks.

Helps to take on competition as CRM results in more customer focus and retention.

Helps to understand Customer Lifetime Value through the structured data base on a dynamic basis.

Improves customer service through effective integration of all remote delivery channels.

Helps to manage multi delivery channels in a better way to adopt and maintain uniform service standards across channels.

Enables to achieve seamless information flow across functions in delivery.

Results in better relationship marketing as customer segments are better target based on the data available in CRM.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Is buying CRM software sufficient to create good CRM?

Answer: No.

Why: Accurate information, coordinated processes, staff action and suitable service are still required.

Question 02 | Calculate retention for the defined cohort.

Answer: 90.91%.

Why: 1,000 retained original customers divided by the starting 1,100 gives the stated cohort measure.

Question 03 | Can new accounts increase that cohort's retention numerator?

Answer: No.

Why: New acquisitions are not members of the original cohort being measured.

Question 04 | Does five-product ownership prove a stronger relationship?

Answer: No.

Why: Usage, suitability, cost, satisfaction and risk are also relevant.

Question 05 | Why should the bank review a profile after a major life event?

Answer: The customer's goals and constraints may have changed.

Why: A recommendation suitable earlier may no longer meet timing, liquidity or protection needs.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. CRM means customer relationship management.	15. Communication preferences matter.
02. The customer is central.	16. Accessibility affects service.
03. Software enables but does not equal CRM.	17. Complaints provide feedback.
04. Profiles must be relevant.	18. Staff ownership is essential.
05. Information must be accurate.	19. Operations must support promises.
06. Circumstances can change.	20. Dynamic profiles support timely review.
07. Segmentation supports suitable service.	21. Revenue differs from profit.
08. Individual needs still differ.	22. Costs and risk affect value.
09. Acquisition begins a relationship.	23. Retention needs a starting cohort.
10. Retention concerns continuity.	24. Use consistent activity definitions.
11. Expansion must meet a need.	25. New acquisitions are not retained originals.
12. Products per customer is incomplete.	26. Case retention is 90.91%.
13. Unused products may add little value.	27. Do not manipulate the denominator.
14. Repeated calls can reduce trust.	28. Good CRM improves the customer journey.

MODULE C / C05

Service Standards for Retail Banking

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A customer is promised an explanation of a charge but receives no clear answer. Good service standards turn a general promise of fairness into observable actions: disclose applicable terms, explain a debit, provide an accessible complaint route and maintain records of the response. The first step is to identify the charge, account and disputed transaction, not to recite a slogan about customer satisfaction. The bank should give the customer a complaint acknowledgement and investigate the facts through its stated grievance process.

Historical banking codes help explain transparency, fair treatment, privacy and the communication of product conditions. They should not be mistaken for an operating regulator or a complete statement of current law. The relevant present-day framework and the bank's commitments must be checked for the type of complaint. As at this edition's date, the Reserve Bank-Integrated Ombudsman Scheme, 2026 operates from 1 July 2026. Earlier complaints, appeals and awards can remain under the saved 2021 arrangements.

Suppose the bank sends a final written reply rejecting the customer's concern. The customer should read the reasons, retain the correspondence and examine the applicable external grievance route if dissatisfied. The scheme's entity coverage, maintainability, time limits and complaint conditions still matter; an escalation is not an automatic award. The learning principle is practical: standards must be translated into disclosure, access, evidence, fair investigation and a reasoned outcome.

Change one assumption

Now assume that the customer has only copied an external authority into an email to the branch and has not made a complaint in the required manner. Copying an address does not necessarily satisfy the external scheme's filing requirements. The customer should follow the prescribed route and supply the required facts and documents. Equally, the bank should not ignore a genuine service problem merely because external escalation is not yet maintainable. Internal service responsibility and external admissibility are different questions. Identify the relevant framework and dates before choosing the next step.

Avoid this common mistake

Do not treat a historical code, a bank's internal target and a statutory grievance requirement as identical. BCSBI-era codes remain useful teaching context, but BCSBI should not be presented as a currently operating complaint authority. A complaint acknowledgement is not proof that the complaint is correct, and external escalation does not guarantee compensation. Standards are meaningful only when the bank's actions, records and explanations can be examined.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

Follow the relationship

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

Disclose clearly -> Receive and acknowledge -> Investigate the facts -> Give a reasoned reply -> Escalate under the applicable framework

Connect the concepts

01. Service standards describe expected conduct and outcomes in a form that customers and staff can understand.

02. Transparency requires understandable product information and relevant charges before a decision is made.

03. Fair treatment requires consistent attention to circumstances rather than a mechanical preference for profitable customers.

04. Privacy concerns the controlled use and disclosure of customer information.

05. Suitability connects the product's characteristics with the customer's needs and ability to understand them.

06. Historical voluntary codes and present regulatory requirements have different legal and institutional status.

07. BCSBI-era material should be read historically; do not describe the former body as a current regulator.

08. A grievance process needs acknowledgement, investigation, ownership, escalation and a reasoned reply.

09. The 2026 integrated Ombudsman framework applies from 1 July 2026, with transitional treatment for earlier matters.

10. Entity coverage, filing method, maintainability and time limits must be checked before external escalation.

11. A bank can owe a service obligation even where a particular external complaint is not maintainable.

12. Complaints should also feed back into process correction, staff training and recurring-failure prevention.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Treat BCSBI institutional descriptions and its code-administration arrangements as historical. Distinguish the former body, continuing bank commitments and current binding requirements.

Clarification for accurate understanding

From 1 July 2026 use RB-IOS 2026, with its transition for earlier matters.

Clarification for accurate understanding

For external escalation examine current scheme coverage, the bank-first requirement, the response or dissatisfaction and maintainability. Do not infer a guaranteed award or a valid complaint merely from copying an authority on an email.

Banking

Banking Codes and Standards Board of India (BCSBI)

In November 2003, RBI had constituted a committee on "Procedure & Performance Audit of Public Service" under the chairmanship of Shri S.S Tarapore (Former Deputy Governor).

Banking Codes and Standards Board of India (BCSBI) prescribed the various compliance requirements for the promises made by the banks for offering services to retail banking customers and they have codified the promises into a document. The commitments made by banks for various services offered by banks are reproduced in the following pages. Most of the prescriptions are applicable to individual customers availing retail banking services.

The Code has been developed to:

Promote good and fair banking practices by setting minimum standards while dealing with you.

Increase transparency so that you can have a better understanding of what you can reasonably expect of the services.

Encourage market forces, through competition, to achieve higher operating standards.

Promote a fair and cordial relationship between you and your bank.

Foster confidence in the banking system.

The Banking Codes and Standards Board of India (BCSBI) in collaboration with the Indian Banks' Association (IBA) has evolved two codes - Code of Bank's Commitment to Customers and the Code of Bank's Commitment to Micro and Small Enterprises which have been voluntarily adopted by member banks.

As per Annual Report of RBI dated 25th August 2020, Reserve Bank of India (RBI) has decided to dissolve the Banking Codes and Standards Board of India (BCSBI). BCSBI was set up by the Reserve Bank in February

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

2006 as an independent and autonomous body,

assigned to formulate codes of conduct to be adopted by banks voluntarily for ensuring fair treatment of customers. However, the Code has left itsimprint in the customer service policies of the banks and hence, it is critical to have a fair understanding of the Code. The customer service policies of most of the banks are based on the guidelines designed as per the code.

Chairman, BCSBI and members of the Governing Council held a meeting with the Principal Code Compliance Officers of member banks at Mumbai on March 27, 2010 which was very well attended. Issues emanating during discussions are listed below with BCSBI's clarifications.

Main Aims and Objects Of Forming BCSBI

To plan, evolve, prepare, develop, promote and publish voluntary comprehensive Codes and Standards for banks, for providing for fair treatment to their customers.

To function as an independent and autonomous watch dog to monitor and to ensure that the banking Codes and Standards voluntarily adopted by banks are adhered to, in true spirit by banks in delivering the services, as promised, to their customers.

To conduct and undertake research of the Codes and Standards currently in vogue in and outside India.

To enter into covenants with banks on observance of the codes and standards and for that purpose to train employees of such banks about the Banking Codes.

Other Aims and Objects

To advertise and publish promotional literature in newspapers and otherwise about the Codes and Standards for the guidance and knowledge of the public through Web site, advertisements in the newspapers, magazines, journals, TV/Radio, hoardings or any other mode which the Society may deem fit.

To take up specific assignments, if any, in the areas coming under the Society's objects as projects, turnkey solutions or on any other terms of contracts with in- house resources or with the participation of outside agencies in order to fully implement the Code.

To organize teaching and training courses, conferences, seminars, lectures and similar other activities relating to the Codes and Standards or implementation of the said Codes and Standards.

To publish journals, reports, pamphlets, books, booklets, research papers in furtherance of the objects of the Society.

To maintain close contacts with Indian Banks Association, other similar institutions, Boards and organizations having similar objects or allied objects by way of subscription, enrolment as a member thereof, financial or other kind of assistance, collaboration, cooperation and in any manner as the Society may deem fit.

Clarification for accurate understanding

Preserve historical code rows, but do not label each old promise as a current universal legal deadline. Distinguish voluntary commitment, bank policy and binding regulation; verify scope and date for each quantitative row.

To initiate, establish and participate in collaborative activities with other institutions/ organizations having similar objects within and outside the country.

To establish, acquire, maintain and manage facilities such as offices, other accommodation, library, computer centres, etc.

Code of Bank's Commitment to Customers

Sl. No.	Para of the Code	Issues Raised by Member Banks	BCSBI Clarifications
1		There are multiple codes and charters for customer service from BCSBI, IBA and RBI. There may be need to move towards unification thereof. The contents covered in the Fair Practices Code are also covered in the BCSBI Code. BCSBI member banks are required to follow, practice and provide information on both the codes to customers. Branches are often getting confused.	IBA has clarified on its website that the following codes evolved by them are not applicable to members of the BCSBI. Bankers' Fair Practice Code Fair Practice Code for Credit Card Operations Model Code for Collection of Dues and Repossession of security. Member banks are, therefore, required to follow BCSBI Codes. A reference is invited to the introductory para in the Code which clarifies that the Code does not replace or supersede regulatory or supervisory instructions of the Reserve Bank of India (RBI) and that banks will comply with such instructions/directions issued by RBI from time to time. Provisions of the Code may set higher standards than what is indicated in the regulatory instructions and such higher standards will prevail as the Code represents best practices voluntarily agreed to by banks as their commitment to customers.
2	2.1.6 To Publicise The Code We Will: a. provide you with a copy of the Code, on request,	As the Code is a large document, portions applicable to the product opted for may	The full text of the Code must be given to the customer as he may avail of different products / services offered by the bank and he must be made aware of all his rights.

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No.	Code / commitment	Issue raised	Historical clarification
	over the counter or by electronic communication or mail b. provide you (new customer) with a copy of the Code when you open your account	be given to the customer	
3	3.2 'Do Not Call Service' When you become our customer, we will automatically register your name under our 'Do Not Call ' Service. We will not inform/extend to you through telephone calls/SMS/e-mails any new product /service unless and until you inform us in writing that you consent to avail of this information/ service	Why cannot there be an entry in the DNC only at the specific instance of the customer? i)The customer is entitled to receive all updated information on our products / services to enable him to take a prudent decision. ii)It is the responsibility of the bank to inform the customers also, as to the latest information on products and services. iii)In the era of technology the most convenient way of marketing is e-mail, telephone,	The underlying principle of the Code is the need for explicit consent and not implicit consent. The customer has a right to privacy and should not be taken for granted. Member banks can ask the customer to exercise his option, in writing, as to whether he would like to receive information about new products / services offered by the bank over the telephone, through SMS or e-mail before using these modes for marketing their products.

No.	Code / commitment	Issue raised	Historical clarification
		SMS etc. but item 3.2 of the Code says that it should be done only after seeking specific consent under 'Do Not Call' service.	
4	3.4.2 Changes in Fees & Charges If we increase any of these charges or introduce a new charge, it will be notified one month prior to the revised charges being levied / becoming effective.	The medium through which customers can be intimated about changes in fees and charges should be included in the Code. For example: any of the following modes: i. Notice at the branches ii. Annexure to the statement of account iii.Letters iv.e-mail v.SMS vi.Website vii. Newspaper	A reference is invited to Para 3.5.1 of the Code wherein the modes of communicating changes to terms and conditions have been listed. Banks need to ensure that changes to terms and conditions including fees and charges reach the customer 30 days prior to the changes becoming effective.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Code / commitment	Issue raised	Historical clarification
5		Is Email a valid mode of communication for customers who have given their email ID to the bank for regulatory purpose - informing that the account is inoperative / dormant / Nomination	If a customer has registered an e-mail id with the bank, communications may be sent to him by e- mail.

No.	Code / commitment	Issue raised	Historical clarification
		confirmation etc	
6	4. Advertising, Marketing and Sales d. We may, from time to time, communicate to you various features of our products availed by you. Information about our other products or promotional offers in respect of our products/services, will be conveyed to you only if you have given your consent to receive such information/ service either by mail or by registering for the same on our website or on our phone banking/customer service number.	In spite of DNC registrations, we (the bank) will continue to intimate changes in product features and send email/SMS alerts for security purposes.	Please see clarifications at items 3 & 4 above.
7	5.1 Credit Reference Agencies d. If your loan account has been in default, and thereafter regularised, we will take steps to update this information with the CRA in the	This para needs to be modified to read as "If your loan account has been in default, and thereafter regularised, bank will take steps to update this information as applicable with the	As per Regulation No.10 (a) (ii) (A) to the Credit Information Companies (Regulation) Act, 2005 credit information is to be updated on a monthly basis or at such shorter intervals as may be mutually agreed upon between the credit institution and credit information company.

No.	Code / commitment	Issue raised	Historical clarification
	next monthly report.	CRA in 60 days in the format as per guidelines issued by CRA/RBI from time to time	
8	6. Collection of Dues Whenever we give loans, we will explain to you the repayment process by way of amount, tenure and periodicity of repayment. However, if you do not adhere to repayment schedule, a defined process in accordance with the laws of the land will be followed for recovery of dues. The process will involve reminding you by sending you notice or by making personal visits and/ or repossession of security, if any.	'Calling and SMS alerts' should be included as modes for contacting the borrower.	It is preferable for the bank, in its own interest, to send reminders in writing or through personal visits.
9	6. Collection of dues b. We will also make available on request details of the recovery agency firms/ companies at our branches.	The provision should be amended to read as "these details are available on the website and can also be obtained by writing to the	The bank is committed to have details of recovery agents on their websites. Therefore, if a customer requests the branch for details of the recovery agency firms the same can be provided to the customer at the branch.

No.	Code / commitment	Issue raised	Historical clarification
		Nodal officer of the Bank."	
10	8.1.1 Savings/Current Accounts - Statements (a) a. To help you manage your account and check entries in it, we will provide you with a monthly statement of account unless you have opted for a pass book.	Banks should have the freedom to decide periodicity of sending physical statements to customers. However, the customer can walk into the branch to collect monthly statements free of cost.	According to RBI regulations banks must issue monthly statements of account, free of cost to those customers who opt for statements of account.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Code / commitment	Issue raised	Historical clarification
11	8.1.1 Savings/Current Accounts Statements e. We will ensure that entries in your pass book / statements are brief and intelligible	i)Entry of the name of the payee of a cheque in case of debit entries need not be entered as the customer is expected to keep a record of the cheques he issues. ii)Existing systems do not allow such entries.	This is a fraud-prone area and the source of several complaints. It is, therefore, imperative that member banks modify their procedures and systems to enter the name of the payee in the pass book / statements of account.
12	8.1.2 Term Deposit When you place a term deposit with us, we will f: obtain Form 15 H / 15 G from you at the time of application if you are not liable to	The provision may be modified to read as We will accept Form 15 H / 15 G from you at the time of application if you are not liable to pay tax	The bank is committed to explain the IT rules and obtain Form 15 G /15H, at the time of placement of Term Deposit. If a bank is willing to accept an application for FD through electronic media, it can also transmit Form 15G / 15 H through internet to the customer to enable him to submit the same.

No.	Code / commitment	Issue raised	Historical clarification
	pay tax on your interest income.	on your interest income. Additionally it needs to be mentioned that: For FDs booked through Internet banking/ phone banking the customer will have to walk into the branch and submit Form 15H/15G	

No.	Code / commitment	Issue raised	Historical clarification
13	8.1.6 Dormant / Inoperative accounts We will b. notify the joint holder/s also before an account is classified as inoperative / dormant	How can the bank notify the joint account holders before an account is classified as dormant, when the address of the joint account holders are different? The system only captures the address of the 1st account holder.	It is important to advise the joint account holder(s) that the account is proposed to be classified as dormant / inoperative. The joint account holder(s) has the power to operate the account, except if mandated otherwise. The account opening form should have the provision for address of the joint account holder(s) and the system should be enabled to capture contact details of all the account holders. Yes. The

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Code / commitment	Issue raised	Historical clarification
			Code provides that the account holders be advised that their account is liable to be classified as dormant after a period of inoperation of 1 year and 9 months i.e. three months before the account is classified as dormant / inoperative.

No.	Code / commitment	Issue raised	Historical clarification
		ii) Is it practically possible to assess any account as dormant / inoperative or unclaimed three months in advance? Decision to classify any account as dormant / inoperative or unclaimed could be taken only after the expiry of the stipulated period?	
14	8.2 Clearing Cycle / Collection Services b. We will pay you compensation as per our Cheque Collection / Compensation policy for any delay in collection of instruments, without waiting for a demand.	i)With regard to collection of cheques, it is mandated that the collecting bank should compensate its customer for delay in collection. No liability is fixed on the paying bank, for delay, if any, at its end. The paying bank is expected to remit the proceeds of the inward instrument as early as possible, but in	A person who deposits a cheque to be collected from another bank is a 'customer' of the collecting bank. Compensation for delay, must, therefore, be paid by the collecting bank. The customer has a relationship with his bank and not with the paying bank. In the present CBS environment banks should keep all details of accounts including phone number(s) of customer(s) up-to-date so that the data can be accessed at all branches besides the home branch.

any case by Bankers have to use their discretion and exercise the following due diligence while allowing operations in such day of receipt. accounts. Time limit and compensation amount should be set for delays at the paying bank and such amount should be remitted voluntarily.

ii)RBI has instructed that a customer should not be inconvenienced in any way, just because his account has been rendered inoperative. In the scenario of 'Anywhere banking' cheques drawn on a dormant account may be presented at another centre. The non-home branch may not be able to contact the customer. Hence, it will be difficult for them to honour the cheque which may cause inconvenience to the customer.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Code / commitment	Issue raised	Historical clarification
15	8.3 Cash Transactions d. We will reimburse amounts wrongly debited in failed ATM transactions within a maximum period of 12 days from the date of receipt of your complaint.	While RBI has set a limit of 12 working days for settling these transactions, many a times there is a delay beyond 12 working days when the ATM is owned by some other bank. In such cases, the compensation to be paid should be shared by the other bank and time limit for responding to other bank ATM failed transactions should be specified.	Compensation should be paid by the card issuing bank to its customer. The customer has a relationship with his bank and not with the ATM owning bank.
16	8.3.1 Direct debits and standing instructions We will b. act upon mandates given by you for direct debits [say Electronic Clearing Service (ECS)] and other standing instructions. In case of any delay or failure in executing the mandate resulting in financial loss or	In case of pensioners' account Life Certificate is obtained during November every year. In the event of death of pensioner say during December and bank not being informed, the bank shall continue to pay pension till October (till due date for next Life	"The paying branch before commencement of pension obtains an undertaking from the pensioner in the prescribed form for this purpose and therefore, can recover the excess payment made to the pensioner's account due to delay in receipt of any material information or due to any bonafide error. The bank has also right to recover the excess amount of pension credited to the deceased pensioner's account from his/ her legal heirs/nominees."

No.	Code / commitment	Issue raised	Historical clarification
	additional cost, we will compensate as per the compensation policy of the bank. If the mandate cannot be executed due to insufficient balance in your account, we will levy charges as per the Tariff Schedule as amended from time to time	Certificate). Standing Instructions accepted under such accounts will allow transfer of funds even after death of the pensioner. Pension paid after death cannot be recovered under such circumstances.	

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Code / commitment	Issue raised	Historical clarification
17	8.9 Foreign Exchange Services f. In case of delay beyond the day when the amount is due for credit, you will be compensated (a) for any loss on account of interest for due period beyond the due date and (b) also for adverse movement of forex rate as per the Compensation Policy of the bank.	Compensation would be paid provided the beneficiary details are correctly mentioned by the remitting bank	The beneficiary of the remittance is a customer of the receiving bank. Compensation for delay, must, therefore, be paid by the receiving bank. The customer has a relationship with his bank and not with the remitting bank. The receiving bank has to make efforts to ascertain correct beneficiary details.
18	8.11.1 Loan products Applications for loans and their processing c. We will give you the Most	i)The various terms of the loan are provided to the loan applicants while applying for a loan and also clearly	The MITC must necessarily contain the most important terms and conditions including those which affect the customer adversely. The sanction letter may not contain all terms and conditions of the loan. Some conditions may form part of the loan agreement. The Most Important

No.	Code / commitment	Issue raised	Historical clarification
	Important Terms and Conditions (MITC) governing the loan / credit facility you have availed.	indicated on the sanction letter which is accepted by the applicant / borrower. In view of the above the MITCs may not be insisted upon ii)BCSBI may prescribe a format of MITC so that uniformity is maintained and to avoid subjectivity between most important and important terms of loan sanctioned.	Terms and Conditions may, therefore, be listed separately. Banks should be able to decide the most important terms and conditions for each of their products. Terms and conditions of similar products may differ from bank to bank.

No.	Code / commitment	Issue raised	Historical clarification
19	8.11.1 Loan Products Applications for loans and their processing l. We will compensate you for any	Compliance with the provision may not be possible under the following circumstances: i) A third party makes final	The mortgager should be advised to collect the documents. The bank should compensate the borrower and assist the customer in obtaining duplicate

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Code / commitment	Issue raised	Historical clarification
	delay in return of securities / documents / title deeds to mortgaged property beyond 15 days of the repayment of all dues agreed to or contracted.	payment and the mortgager does not claim the document; ii)Documents have been mutilated / destroyed due	documents. Courts have to be made aware of the Code commitment and compensation has to be paid for the delay.

No.	Code / commitment	Issue raised	Historical clarification
		to natural calamity; iii)The account is closed by intervention of Courts and there is a delay in receipt of the title deeds from the Courts.	
20	8.14.3 Credit Card Statements a. To help you manage your credit card account and check details of purchases/cash drawings using the credit card, we will offer you free of cost a facility to receive credit card transaction details either via monthly mail and, if you so desire, also through the Internet. Credit card statement will be dispatched on a predetermined date of every month free of cost at your mailing address	Some banks may choose not to send statements in following scenarios- 1) In case no transactions or outstandings are involved 2) In cases after sending the statements the customer is delinquent for over 180 days 3) For oustandings below Rs. 100	Item No. 1 has been noted for consideration at the appropriate time. Credit card statements are required to be sent in the case of scenarios 2 & 3.
21	8.14.3 Credit Card Statements c. We will let you know / notify changes in schedule of fees	Besides monthly statement we can let a customer know of changes through emails	A reference is invited to para 3.5.1 - Changes in terms and conditions. (Account statements is one of the modes)

and charges and or SMS or terms and letters. conditions. However it is Normally, also the changes (other customer’s than interest rates responsibility to and those which have latest are a result of address/mobile regulatory number and requirements) will email id be made with updated with prospective effect the bank giving notice of at least one month. The changes will be notified along with the monthly statement of

account or copy thereof

Code of Bank's Commitment To Micro And Small Enterprises

Record	Historical customer-code issue
Reference	1 | Para 5.3
Issue raised	Parameters for credit sanction / rejection and whether those parameters should be shared with customers.
Clarification	Banks should share the parameters with customers to enable them to improve their position and access credit. Read this historical code discussion with the current applicable requirements.

Other Issue

Sl. No.	Issues Raised	BCSBI's Clarifications
1	Nomination is recorded in the principal account of the depositor (Savings a/c) and FDR is issued at the request of the depositor by debit to the Savings account. Do we need to obtain a separate nomination for FDR. Whether position will change when the account is opened with sweep facility.	Fixed Deposit is a separate account and will need separate nomination even though the FDR is issued to the debit of the Savings Bank account of the customer. When an account is opened with sweep facility the application form itself should clearly specify the position regarding nominee for the deposit.
2	Issuance of chequebook to blind and illiterate person. How will the bank clear such cheques which are with thumb impression?	RBI has issued instructions that banks should offer all the banking facilities including cheque book facility, ATM facility and locker facility to the visually challenged persons and also assist them in withdrawal of cash following the orders dated 05.09.2005 passed, in Case No. 2791/2003, by the Honourable Court of Chief Commissioner for Persons with Disabilities. The Honorable Court observed that visually impaired persons cannot be denied the facility of cheque book, locker and ATM on account of the possibility of risk in operating / using the said facility, as the element of risk is involved in case of other customers as well. Banks may please note that a visually impaired person may be able to sign documents just like other customers.
3	BCSBI newsletter can be provided in e-mail format and contents thereof can focus on Banking Codes initiatives so that it can be widely circulated to bank branches	BCSBI newsletters are available on our website under quick link - Publications. Banks may make use of the same. Initiatives of the BCSBI are included in the newsletters.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

Sl. No.	Issues Raised	BCSBI's Clarifications
4	BCSBI can publish small handy booklets of do's and don'ts regarding customer service which can be purchased by member banks for wide circulation amongst their branches.	BCSBI has placed FAQs on BCSBI, MSE Code, Housing Loans and Credit Cards on its website BCSBI also publishes a quarterly newsletter 'Customer Matters' to

No.	Issue raised	Historical clarification
		create awareness which is also available on its website.
5	Training Plan for the BCSBI Code. Trainers' training: The faculties of training institutes of banks can be trained by BCSBI BCSBI can also introduce a system of accreditation for proficiency in customer service like NCFM by NSE or certified by AMFI or IIBF. A chapter on banking code should be made a part of course curriculum of any course on banking done by public or private institutions like NIBM, IIBF, NIIT etc.	BCSBI has held workshops for faculty of banks. BCSBI is willing to lend faculty support to any member bank, if required. Matter is being taken up with IIBF to introduce a Certificate Course on Customer service with due emphasis on the Codes. BCSBI is taking up the matter with NIBM.
6	A trend analysis of customer complaints received by BCSBI may be carried out every month and BCSBI can provide findings of the analysis to all member banks , which will facilitate timely review and corrective actions by the member banks.	The Annual Report of the BCSBI has a paragraph on customer complaints as also a profile of complaints under various heads.
7	Keeping in view the technology interface of the banking services and increasing role of IT in banking services and increasing prominence of alternate delivery channels like ATMs and Internet, a periodical interaction of BCSBI and IT heads of banks would be fruitful.	BCSBI has noted the suggestion and is open to dialogue with IT officials of member banks, if necessary.
8	A periodical report on decisions from Banking Ombudsmen where the bank concerned was found wanting in service levels, can also be provided to all member banks which would also facilitate systemic corrections and improvements in customer service.	Compendium of cases handled by the offices of the Banking Ombudsmen, classified under certain heads like Operations in Deposit accounts, Complaints relating to loans etc. are available at

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

No.	Issue raised	Historical clarification
9	BCSBI may suggest inclusion of a para on Customer service Initiatives under Directors' Report in the Annual Report of banks.	The activities of the Customer Service Committee of the Board of a bank are reported in the Directors Report which forms part of the Annual Report of the bank.
10	BCSBI can follow the SLBC model for spreading the organisational reach to State capitals. In each of the States, one of the member banks can take the responsibility for holding periodical meetings of all member	BCSBI has requested Convenors of SLBCs to disseminate the MSE Code.

No.	Issue raised	Historical clarification
	banks on the subjects related to Banking Code compliance and customer service in which a representative of BCSBI as well as a representative from Head Offices of the member bank can also participate.	
11	BCSBI officials visiting the branches are requested to submit branch-wise report regarding the deficiencies observed to facilitate speedy compliance.	BCSBI's objective is to ensure that systemic gaps do not exist in any of the bank branches and not mere compliance of Code provisions by a particular branch.
12	BCSBI officials conduct incognito visits to select branches to evaluate the level of compliance of the codes adopted by the banks. It is considered desirable that the level of compliance is given a rating over a scale of 1-10 or 1-100 and the rating system is made known to the banks so that they can strive for improvement and carry out self assessment periodically.	The suggestion has been noted for consideration

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Can a historical banking code be treated as the entire current grievance law?

Answer: No.

Why: Institutional status, later regulation, product scope and dates must be considered.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

Question 02 | Which integrated Ombudsman framework applies from 1 July 2026?

Answer: The Reserve Bank-Integrated Ombudsman Scheme, 2026.

Why: It replaces the 2021 framework prospectively, subject to the stated savings for earlier matters.

Question 03 | Does copying an authority on an email guarantee a valid external complaint?

Answer: No.

Why: The prescribed filing and maintainability conditions still have to be met.

Question 04 | What should the customer retain?

Answer: The complaint acknowledgement, supporting records and bank reply.

Why: They establish the facts and procedural history of the dispute.

Question 05 | Does a complaint rejection remove the bank's duty to explain its decision?

Answer: No.

Why: A reasoned response is central to transparent grievance handling and helps the customer assess further options.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Standards turn promises into actions.	15. External admissibility is a separate question.
02. Terms should be understandable.	16. Copying an email may not file a complaint.
03. Charges need clear explanation.	17. Read the prescribed filing route.
04. Fairness is more than a slogan.	18. Check the covered entity.
05. Privacy requires controlled information use.	19. Check time limits and conditions.
06. Suitability considers customer circumstances.	20. An escalation is not an automatic award.
07. Historical codes need historical labels.	21. The 2026 scheme starts 1 July 2026.
08. BCSBI is not a current regulator.	22. Earlier matters have transitional rules.
09. A code is not every applicable law.	23. A rejected complaint needs reasons.
10. Internal policy differs from regulation.	24. Recurring failures need process correction.
11. Complaints need acknowledgement.	25. Accessibility supports fair service.
12. Investigation needs relevant facts.	26. Training supports consistent delivery.
13. Retain the written response.	27. Feedback should inform management.
14. Escalation needs clear ownership.	28. Judge standards by observable conduct.

Disclose clearly > Receive and acknowledge > Investigate the facts > Give a reasoned reply > Escalate under the applicable framework

MODULE C / C06

Marketing Information Systems: A Longitudinal Analysis

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

Two branches run deposit campaigns. Branch A contacts 400 suitable prospects and obtains eighty completed, customer-authorised relationships. Branch B contacts 100 and obtains thirty. A report listing only total successes puts Branch A first: eighty exceeds thirty. A report examining conversion rates finds 80/400 = 20% at A and 30/100 = 30% at B. Both statements are correct, but they answer different questions. A marketing information system must preserve the underlying definitions so that management does not confuse volume with effectiveness.

The manager next asks whether the campaigns reached comparable groups, used the same observation period, incurred similar costs and produced customers who actually use the service. Complaints and early closures might change the interpretation. The information system should connect internal transaction records, wider market intelligence, specific marketing research and analytical models. Data are collected, checked, processed, stored and presented as useful information for decisions.

A longitudinal analysis follows change through time. If Branch A's conversion rose from 15% to 20% under a consistent definition, the improvement is five percentage points. It is not a twenty-per-cent rise: the relative increase is 5/15 = 33.33%. Check the definition and denominator before interpreting a trend. General management information supports the whole bank; MKIS concentrates on decisions about products, pricing, promotion, customers and distribution. A dashboard becomes useful only when it leads to a reasoned action and a later review of its outcome.

Change one assumption

Suppose Branch B used only existing customers while Branch A approached new-to-bank prospects. The higher conversion rate does not by itself establish that B's campaign was better designed. Split the data into comparable groups, inspect costs and review the customer's experience. A model trained on last year's pattern may also fail when income, channel use or product conditions change. Preserve the original series and explain any change in definition. Replacing the old denominator silently can create a false improvement, even if every number on the new dashboard is calculated correctly.

Collect relevant data > Check definitions and quality > Analyse comparable measures > Choose an action > Review results through time

Avoid this common mistake

A dashboard is not automatically a decision system. Accurate arithmetic can still mislead when the denominator, period or customer group differs. MIS and MKIS overlap but are not interchangeable labels: one serves wider management, while the other focuses on marketing decisions. More data can also create more noise. Collect information for a defined purpose, check its quality and interpret it in context before acting.

Follow the relationship

Collect relevant data > Check definitions and quality > Analyse comparable measures > Choose an action > Review results through time

Collect relevant data -> Check definitions and quality -> Analyse comparable measures -> Choose an action -> Review results through time

Connect the concepts

01. MKIS supports marketing decisions about customers, products, pricing, promotion and distribution.

02. Internal records show the organisation's own activity but may not explain competitors or unmet needs.

03. Market intelligence tracks relevant external developments and must be assessed for reliability.

04. Marketing research investigates a defined question through an appropriate study design.

05. Analytical models organise relationships and assumptions; their outputs require interpretation.

06. Collecting, processing, analysing, storing and disseminating are linked information-system functions.

07. Routine reports support recurring decisions; ad hoc enquiries explore a specific issue.

08. A longitudinal analysis tracks change over time under clearly stated definitions.

09. Volume, conversion, cost, retention and complaints measure different aspects of a campaign.

10. A percentage-point change is an arithmetic difference between percentages, not the same as relative percentage change.

11. Comparisons need compatible periods, customer groups and denominator definitions.

12. Useful information leads to action, and feedback tests whether that action improved the outcome.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Collect relevant data > Check definitions and quality > Analyse comparable measures > Choose an action > Review results through time

Clarification for accurate understanding

MKIS focuses on marketing decisions and is not simply a replacement name for general management information systems. Retain the input/database/output relationships in the diagram, plus routines and ad hoc enquiries.

Systems - A Longitudinal Analysis

Marketing Information Systems

Any organization is studded with different Systems, Management Information System (MIS), Computer Information System (CIS), Marketing Information System (MKIS), all of which aid as a proactive tool for Decision Support System (DSS). In order to carry out marketing function effectively, firms would need information and data in respect of various aspects impacting the market of the product or service.

Functions Of MKIS

Marketing information system is a tool for dealing with data pertaining to marketing management. Hence, its functions are related to the process of database management.

The principal functions of MKIS are briefly discussed below:

Collecting and assembling data

Processing of data

Analysing the data

Storage of data

Dissemination of information

Components Of MKIS

MKIS consists of four subsystems, which facilitate the entire system. These are:

Internal records system

Market intelligence system

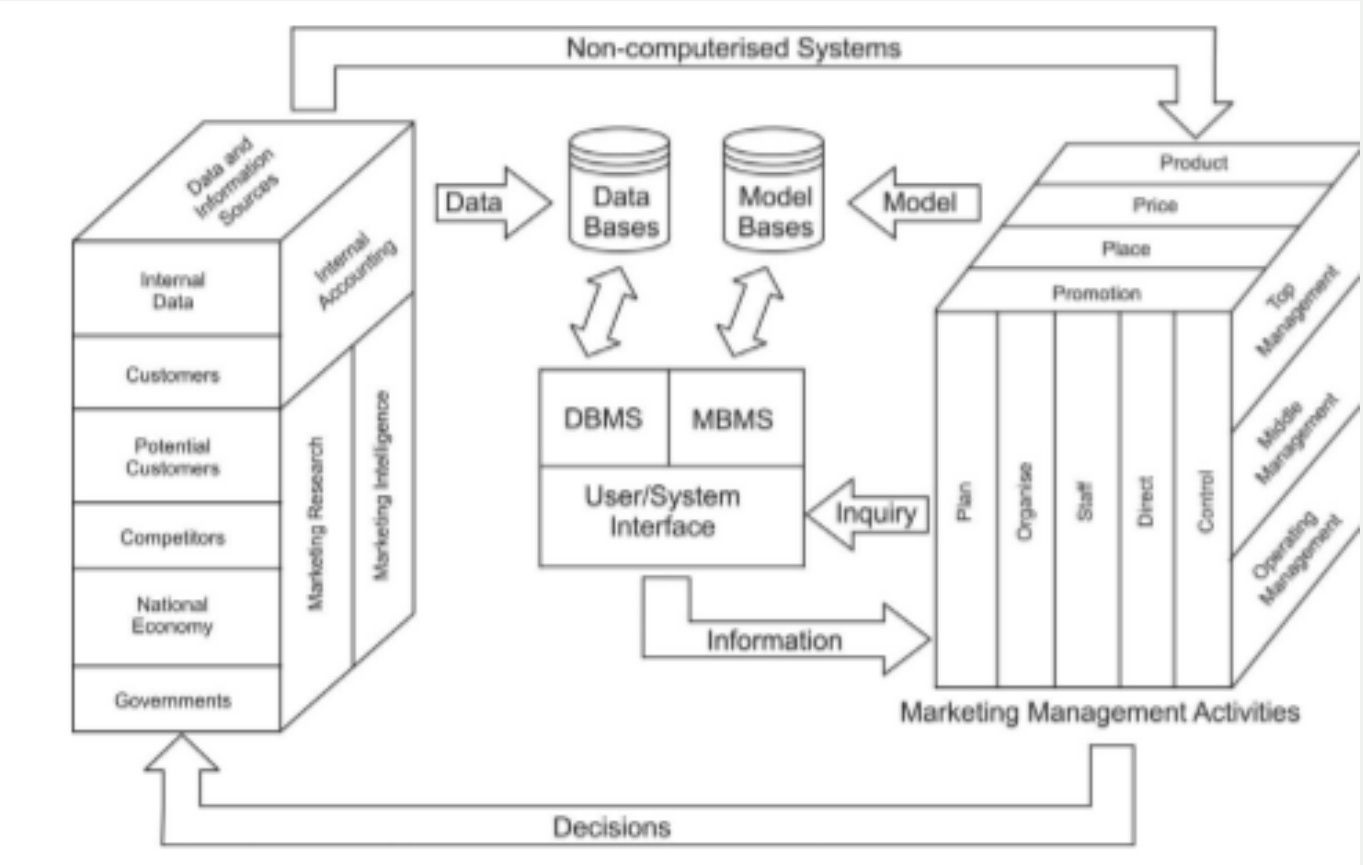
Marketing research system

Marketing management and science system

MKIS Model

For the purpose of this study, the MKIS model of McLeod and Rogers is shown in Figure In this, there are two general subsystems which are fairly consistent with the others: they are the input and output subsystems. The input subsystems are internal accounting, marketing intelligence, and marketing research. They gather internal and environmental data for the databases. The output subsystems utilize the databases to produce marketing management information. Marketing managers will not only receive routine reports but enquires are also made interactively to produce ad hoc reports. Through this

information, marketing managers can make their decisions on pricing, products, advertising/promotion, distribution and packaging, under the constraints imposed by economics, the government, competitors and the customer needs. This process should be integrated into organizational strategies and decision-making processes to support all levels of marketing functions - planning, organizing, staffing, directing and controlling.



Observations

Any business should process some marketing-related information (e.g. customer

addresses, sales orders, merchandise returns, etc.). As McLeod and Rogers suggested, the perceived MKIS support might be of such a low level that it did not seem to exist, which resulted in losing its identity. Alternatively, managers might rely on external MKIS services for marketing information. For the purpose of this study, the companies having no MKISs are excluded from further analyses.

Roles of Computer in Information Systems

Information systems are in use from an ancient time. With the development of computing technology, computers became an important part of today's modern information systems which satisfies speed, dependability etc.

Following are the roles of computers in Information Systems

Data Collection

Collect relevant data > Check definitions and quality > Analyse comparable measures > Choose an action > Review results through time

Data Verification

Data Processing

Data Storing

Information Supply

Information Presentation

Data Updates

Security of Data

Information Sharing

System Automation

Recommendations

The specific patterns of MKIS usage includes:

Computers are needed by marketing managers, for retrieving data and then storing and processing it.

Internal accounting continues to be the most important source of MKIS information while the use of marketing intelligence and marketing research, as information sources, are more balanced.

Most companies collect data about their customers. Collection of data about competitors and prospective customers is also popular, but this is less computerized.

The major users of MKIS are the middle-level managers.

Planning and controlling are still the management functions using most MKIS support.

Price and product related decisions consume most of the MKIS resources. However, support for marketing mix ingredients is likely to become more balanced.

Decision models are used mostly for product and price decisions. Computer assisted decision models reflect this.

The computer software, being used in an MKIS, includes modelling/spreadsheets, conventional/ third-generation programming languages and database management systems. Statistical analysis software, logic programming languages and expert system shells are not used very much.

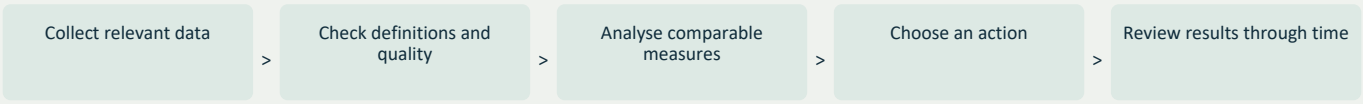
Advantages Of MKIS

MKIS gives several advantages in managing information for marketing function.

Some of these are discussed:

The MKIS framework provides a set of procedures and methods for regular, planned, purpose oriented and systematic collection of data, its analysis, storage and retrieval.

It helps in improving the data capture process, checks for reliability, consistency and quality of data.



The operation of collecting, processing and transmitting data becomes smooth and the information flow to the decision-makers takes place in a ready for decision form.

Provides tailor made information for specific needs.

It facilitates repetitive use of the same information for different purposes.

It also helps in sorting out conflicting information, which otherwise would lead to confusion and misdirect the decisions.

It results in integration of information obtained from various sources regarding different aspects. It also helps in providing instant access to company wide information and cross sharing of data, enabling better service to the customer.

It creates customer insights from routine transactional data. This helps in developing and delivering customer-oriented offers and building of better customer relations.

It serves as a total knowledge-management mechanism. It supports capture of knowledge, makes the knowledge flow where it is required and ensures its availability in readily usable form.

Complete the concept: additional learning

Measure MKIS performance by the decision it improves

MKIS performance is not simply the size of a database or number of reports issued. Evaluate accuracy, completeness, timeliness, accessibility, relevant use, operating cost and the quality of decisions supported. A product manager may need demand and profitability information; a branch team may need a timely, authorised follow-up list. The same data can support different decisions, but access and purpose must remain appropriate.

Suppose a monthly report takes fifteen days to reach a team whose campaign lasts ten days. The figures may be correct yet arrive too late to influence that campaign. Reducing the delay can improve usefulness, provided the earlier release remains accurate. Track whether managers actually use the information, whether the underlying definitions stay consistent and whether the action improves a customer or business outcome. A higher response rate after a campaign does not, by itself, establish that the model caused the improvement; comparable groups, cost and suitability still matter.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Which branch has the higher case conversion rate?

Answer: Branch B, at 30%.

Why: 30/100 exceeds A's 80/400 = 20%, although A has more total successes.

Question 02 | Is a rise from 15% to 20% a five-per-cent relative rise?

Answer: No; it is five percentage points or 33.33% relative.

Why: The relative change divides the five-point increase by the original 15%.

Question 03 | Why must customer groups be compared?

Answer: Different starting groups can have different propensities to respond.

Why: A higher rate can reflect selection rather than a better campaign.

Question 04 | How does MKIS differ from general MIS?

Answer: MKIS focuses on marketing decisions.

Why: Its inputs and analyses support products, markets, pricing, promotion and channels within the wider management system.

Question 05 | What completes the information-to-decision cycle?

Answer: Action followed by feedback and review.

Why: A report has limited value if management neither acts on it nor checks the result.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. MKIS means marketing information system.	15. Volume differs from conversion.
02. MIS supports wider management.	16. Eighty successes can coexist with a lower rate.
03. Internal records are one input.	17. Case A conversion is 20%.
04. Market intelligence adds external context.	18. Case B conversion is 30%.
05. Research answers a defined question.	19. Compare similar customer groups.
06. Models use assumptions.	20. Consider campaign costs.
07. Data need quality checks.	21. Track complaints and closures.
08. Processing is not the same as analysis.	22. Five percentage points is an absolute change.
09. Storage supports later retrieval.	23. 15% to 20% is a 33.33% relative rise.
10. Dissemination must reach the right user.	24. Changed definitions can break a trend.
11. Routine reports serve recurring needs.	25. More data need not mean more insight.
12. Ad hoc enquiry serves a specific issue.	26. Model outputs need judgement.
13. Longitudinal means through time.	27. Information should lead to action.
14. Use consistent definitions.	28. Feedback closes the decision loop.

Collect relevant data > Check definitions and quality > Analyse comparable measures > Choose an action > Review results through time

MODULE D / D01

Importance of Wealth Management

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A household asks for the investment with the highest advertised return. The adviser first draws a simple map of the household's financial position: assets, debts, income, expenditure, protection needs and goals. This changes the conversation. A school-fee payment due next year, an emergency reserve and retirement thirty years away do not have the same time horizon or ability to absorb a market fall. Wealth management coordinates these decisions instead of treating each product sale as a separate objective.

Suppose the household has Rs.1,00,000 earmarked for a goal two years away. Under an explicitly assumed constant return of 5% a year, the projected amount is 1,00,000 x 1.05 x 1.05 = Rs.1,10,250 before taxes, fees and other costs. This is a planning projection, not a promise that a market product will earn 5%. If the goal requires Rs.1,20,000, the illustration identifies a projected gap of Rs.9,750. The household can reconsider savings, timing, cost of the goal or the assumptions; taking more risk is not automatically the best answer.

An integrated plan also considers dependants, insurance, liquidity, nominations, wills or trusts where appropriate, and the roles of qualified professionals. Implementation follows a suitable agreed plan, then monitoring checks whether circumstances or results have changed. A plan succeeds by supporting the client's goals within constraints, not by maximising the number of products held.

Change one assumption

If the school-fee payment becomes due in six months rather than two years, the goal's amount has not changed but its time constraint has. A portfolio chosen for a long horizon may now be unsuitable because a temporary market decline could coincide with the payment date. Review liquidity, risk capacity and the available saving period before selecting a product. If income falls, contribution assumptions must also change. The plan should be revised openly; simply retaining the old projected return does not solve a shorter horizon or a lower ability to save.

Avoid this common mistake

Wealth management is broader than selecting the highest-return investment, and it does not require every client to buy every available service. Risk willingness differs from financial capacity to bear loss. A projection is conditional on assumptions, while a product guarantee must come from enforceable terms. Nominations, ownership, wills and trusts also serve different purposes; one document does not automatically solve every estate-planning issue.

Assess the position > Define goals and constraints > Design a suitable plan > Implement with consent > Monitor and review

Follow the relationship

Assess the position > Define goals and constraints > Design a suitable plan > Implement with consent > Monitor and review

Assess the position -> Define goals and constraints -> Design a suitable plan -> Implement with consent -> Monitor and review

Connect the concepts

01. Start with the financial position: assets minus liabilities show a balance-sheet measure of net worth.

02. Cash flow shows income and expenditure over a period; it differs from accumulated wealth.

03. A goal needs an amount, time horizon and priority before a funding strategy can be assessed.

04. Emergency liquidity supports resilience and should be distinguished from long-term investment.

05. Risk appetite is willingness to accept uncertainty; risk capacity is the financial ability to absorb a loss.

06. Asset allocation distributes investments among categories in line with goals and constraints.

07. Diversification can reduce concentration without eliminating every market or product risk.

08. Protection planning considers dependants and adverse events rather than investment return alone.

09. Tax and costs affect the net result and must be tied to the relevant period and product.

10. Estate planning can involve ownership arrangements, nominations, wills and trusts with different legal effects.

11. Implementation requires clear responsibilities, relevant consent and an agreed suitable plan.

12. Monitoring and review respond to changes in goals, circumstances, markets and the plan's assumptions.

Work it out, then change an input

Enter a target, time horizon and assumed return. Compare the required monthly saving before and after reducing the assumed return. Returns are model assumptions, not a guarantee.

Open the offline goal calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

Assess the position > Define goals and constraints > Design a suitable plan > Implement with consent > Monitor and review

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Wealth-management charging models differ and planning cannot guarantee removal of financial stress. Assess actual service, competence, conflicts, costs and contractual terms rather than idealised universal claims.

Management

Wealth Management- An Introduction

Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients. Using a consultative process, the advisor gleans information about the client's wants and specific situation, then tailors a personalized strategy that uses a range of financial products and services.

In brief Wealth Management Services can be summarized in three stages,

Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients.

A wealth management advisor is a high-level professional who manages an affluent client's wealth holistically, typically for one set fee.

This service is usually appropriate for wealthy individuals with a broad array of diverse needs.

Wealth Management - Broad View

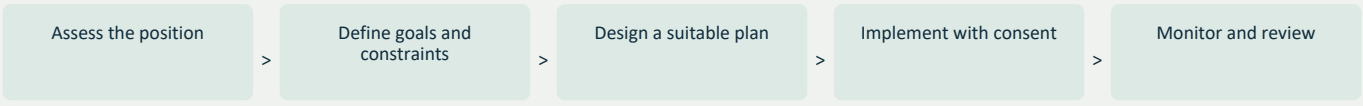
Wealth management is not just investment advice rather more than that. It can encompass all parts of a person's financial life. Instead of attempting to integrate pieces of advice and various products from multiple professionals, high net worth individuals may be more likely to benefit from an integrated approach. In this method, a wealth manager coordinates the services needed to manage their clients' assets, along with creating a strategic plan for their current and future needs-whether it is will and trust services or business succession plans.

Following are some of the important aspects of wealth management:

Understanding Investment needs: Clarity of the investment needs should be of the utmost priority to set the direction.

Products and Services: Knowing the right products and services suitable for you will enable you to take the right decision to achieve your financial goal.

Advisory Services: Involving the professionals will enable you to take advantage of their professional experience and expertise.



Estate Planning: Estate Planning is also a very essential part of your wealth management as it ensures and preserves wealth for a longer term.

Wealth Management Process

Wealth Management process involves the following steps:

Assessing the current financial situation of the client.

Identifying financial goals.

Designing a customized solution to achieve the goals.

Implementing the financial strategies into the plan.

Monitoring the results and reviewing the plans.

Wealth management provides direct and dynamic Customer Services. Wealth management deals in Asset Allocation Management, Tactical Management, and Diversified Management.

Asset Allocation management: The Asset allocation management is an investment advisory fully dedicated to managing investment portfolios with the only focus on initiating the income generation. It aims to balance the risk by moving among investment categories.

Tactical Management: Tactical management helps in selecting the appropriate ways to achieve financial strategies by choosing the best alternatives and tactics.

Diversified Management: Diversifier management team help its clients in providing a flexible model which helps in meeting the need of the client.

Wealth Management Products and Services

There are so many wealth products and services in the market. Traditionally, customers have been investing large amount of money in bank deposits owing to convenience and safety. we shall discuss here a few important and common products and services which are generally offered by wealth management professionals.

Alternative Asset

Bonds, Corporate Fixed Deposits, Fixed Maturity Plan & Debentures

Insurance

Mutual Funds

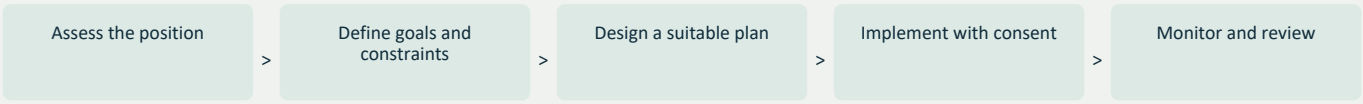
Systematic Investment Plan

Portfolio Management Services

Real Estate Services

Retirement planning

Strategic Business Strategy



Will Writing

Wealth Management Products and Services

Clarification for accurate understanding

A debt fund does not automatically offer a fixed or guaranteed return; credit, interest-rate, liquidity and other risks remain.

Clarification for accurate understanding

ELSS can qualify for the relevant deduction under the applicable regime and conditions; this is not a blanket exemption for the investment and all returns. Each qualifying instalment has its own lock-in.

Clarification for accurate understanding

Open-ended redemption is subject to business days, cut-offs, scheme terms, applicable restrictions, exit loads and settlement arrangements. It is not literally unconditional access at every time.

Clarification for accurate understanding

Do not teach a universal one-to-three-year closed-end term. Distinguish maturity, exchange liquidity where applicable and redemption under the scheme terms.

There are so many wealth products and services in the market. Traditionally, customers have been investing large amount of money in bank deposits owing to convenience and safety. we shall discuss here a few important and common products and services which are generally offered by wealth management professionals.

Alternative Asset

Bonds, Corporate Fixed Deposits, Fixed Maturity Plan & Debentures

Insurance

Mutual Funds

Systematic Investment Plan

Portfolio Management Services

Real Estate Services

Retirement planning

Strategic Business Strategy

Will Writing

Alternative Asset

It is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these

assets can be difficult for most people, examples of alternative assets would include:

Art and Antiques

Precious Metals

Fine Wines

Rare Stamps

Coins

Sports Cards

Other Collectibles

BOND

Bonds are fixed-income instruments derived from a loan forwarded by an investor to a borrower. In case of a bond, the issuer promises to pay a specific interest for the life of the bond and the principal amount or the face value at maturity to the investor. Bonds are generally issued by governments, corporations, municipalities and other sovereign bodies. Just like securities, bonds are tradeable.

Bond Market and Types

Convertible bond

A convertible bond gives the purchaser a right or an obligation to convert the bond into shares of the issuing company. The quantum of shares and the value of the shares are usually predetermined by the issuing company. However, an investor can convert the bond into stock only at certain specified times during the bond' stenure. It features a fixed tenure and pays out interest payments periodically at predetermined intervals.

Convertible bonds can be further classified as:

Regular convertible bonds - Regular convertible bonds come with a fixed maturity date and a predetermined conversion price but they give the investor merely the right, and not an obligation, to convert. Companies generally prefer to issue these types of convertible bonds to the public.

Mandatory convertible bonds - Unlike regular convertible bonds, these bonds obligate the investor to convert them into equity shares of the issuing company upon maturity. Since investors are essentially forced to convert their bonds, companies usually offer a higher rate of interest on mandatory convertible bonds. Reverse convertible bonds - With reverse convertible bonds, the issuing company holds the right to convert them into equity shares upon maturity at a predetermined conversion price.

Government Bonds

Bonds are issued by the Central as well as state governments of the country in order to tide its liquidity crisis which can be used to develop infrastructure. Serving as long-term investment tools they can be issued for periods that range from 5 to 40 years.

Types of Government Bonds

Fixed-rate bonds - The interest rate applicable on these government bonds is fixed for the entire tenure of the investment regardless of fluctuating market rates. The lock-in period for such bonds is usually one to five years.

Floating rate bonds (FRBs) - These bonds have variable interest rates based on periodic changes experienced by the rate of returns. The intervals within which these changes occur are made clear prior to the bonds being issued. These bonds can also exist with the rate of interest being split into a base rate and a fixed spread. This spread is determined via auction and remains stable right up to maturity.

Sovereign Gold Bonds (SGBs) - Under this scheme, entities are allowed to invest in digitized forms of gold for an extended period of time without having to avail of gold in its physical form. Interest generated via these bonds is tax-free.

Inflation-Indexed Bonds - the principal and interest earned on such bonds are in accordance with the inflation. Ordinarily, these bonds are issued for retail investors and are indexed in accordance with the consumer price index (or CPI) or wholesale price index (or WPI).

Zero-Coupon Bonds - These bonds don’t earn interest. Instead, investors accrue returns via the difference that exists between the issuance price and the redemption value. They aren’t issued via auction but are created via existing securities.

Municipal Bonds

Municipal bonds are debt instruments that are issued on behalf of municipal corporations or bodies associated with them across the country aimed at socio- economic development. Municipal bonds can be purchased with a maturity period that amounts to three years.

Types of Municipal Bonds in India

General Obligation Bonds - These bonds generate finance for various projects in general and therefore their repayments are made from the general revenues of the municipality.

Revenue Bonds - These bonds are focused on generating funds for specified projects and the repayment and interest issued to bondholders are processed via revenue explicitly generated via the projects declared in the bonds. They have extended maturity periods of upto 30 years and higher returns than GO bonds.

Retail bonds

A retail bond offering allows a company to raise additional capital by borrowing at a fixed rate from an investor for a specific length of time. Companies typically issue retail bonds to expand their business, pay off debt, or fund a specific project, as with any capital raising. Retail bonds are typically listed and can thus be bought and sold during regular market hours, allowing investors more flexibility.

Insurance

Protecting or safeguarding loss is done through Insurance. Insurance is a policy representing a contract in which an individual or entity receives financial protection from the insurance company against any losses.

An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage is called the

premium.

The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.



Types of Insurance Policies:

Life insurance protects our family in unforeseen situations like death or accidental death.

Term life insurance is one of the types of life insurance for financial safety which provides a lumpsum benefit to the nominee of the insured person after the death of the insured.

Health insurance facilitates a person to insure coverage against surgical and medical expense.

Disability insurance will insure a person for coverage against physical disability for longer period with no productive work.

Auto insurance facilities you to cover car or any vehicle against damages or accidents.

Home insurance will protect one's house against any damages like structural damage, fire, earthquake, etc.

Insurance provides protection against the following:

Protecting family from loss of income from premature death.

Ensuring obligation repayment after death.

Covering unforeseen liability losses.

Protecting business against the loss or disability of a critical employee.

Buying out a partner or co-shareholder after his or her demise.

Income protection insure from one's job, business against unforeseen business stoppage.

Protecting one against unforeseeable medical, health or hospital expenses.

Protect one's property from fire, thief, or any other natural calamities like flood, etc.

Protecting assets against employee lawsuits.

Protecting oneself in the event of disability.

Protecting one's car against theft or losses incurred because of accidents.

And many more types of risk.

Mutual Fund

Mutual Funds are the funds created with the mutual requirement needs of the investors. It is a basket created with varieties of investment options. similar to basket of shares, bonds, money market or a mixture of all instruments or a basket of shares based on sectors like Bank, IT, Infrastructure, FMCG, etc. or basket of diversified shares.

Types of Mutual Funds

In India, Mutual Funds are categorized based on various fundamentals like investment objectives and structure. Based on investment objectives, mutual funds are categorized into, Equity

Mutual Fund: It will invest money in the stock markets. The investments under this category of mutual funds in primarily in stock markets and returns on

investments are purely based on stock performance of the fund. These funds are off the record best type of mutual fund in long run.

Debt Mutual Funds: It will invest money in debt instruments like Treasury bills, Government Bonds, etc. These investments ensure you fixed rate of returns.

Balanced Mutual Funds: It will invest money partially into equities and partially into debts. Investor prefers this sort of investment when they want to minimize the equity investment risk.

Sectorial Funds: It will invest your money as per selected sector like IT, Banks, FMCG, Pharma, etc.

ELSS or Equity Linked Savings Schemes: These are commonly known as Tax saving funds. Investment made towards ELSS funds are exempted from Income tax under section 80 C. However, ELSS funds have 3 years of lock-in period. Further, on the basis of structure, mutual funds are classified into,

Open Ended Fund: These are funds that allow you to invest money and redeem anytime as per one's needs and one's strategies regardless of any time circumstances.

Close ended Funds: These are funds allowing a person to invest with some lock- in period, mostly within 1 to 3 years; before that one cannot redeem the fund since there is a time-bound investment horizon involved with it.

Systematic Investment Plan (SIP)

Systematic Investment Plan, most popularly known as SIP is a disciplined way of investing offered by mutual funds, where one invests a fixed amounts at a regular frequency (say, every month). It allows an investor to invest a fixed sum of money in a selected scheme of mutual fund at pre-defined intervals like monthly, quarterly, etc.

Systematic Withdrawal Plan (SWP)

A Systematic Withdrawal Plan (SWP) is a facility which allows an investor to withdraw a fixed amount at pre-determined intervals. One can choose the amount and frequency of withdrawal also. At the set date, units from the portfolio are sold and the funds are transferred to your account.

Portfolio Management Services (PMS) It is a tailor-made professional service offered to cater the investment objectives of different investor classes. The investment solutions provided by PMS caters to a niche segment of our clients.

Private Banking

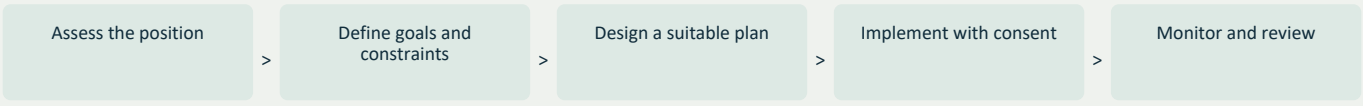
Private banking involves providing banking, investment, tax management, and

other financial services to high-net-worth individuals (HNWIs). Unlike mass- market retail banking, private banking focuses on providing more personalized financial services to its clients, through banking personnel specifically dedicated to providing such individual services.

Benefits Of Wealth Management

Function on a relationship-based approach

Wealth manager is constantly thinking of our financial well-being which is why, when the need arises, they level with us like a friend would. They are not interested in impressing us with financial jargons but rather invest their time to help us navigate through troubled financial waters. They also help us to make better investment decisions. Wealth managers use this relationship based approach through which we can have a healthy exchange of ideas and perceptions and formulate various financial strategies.



Creation of a financial plan: Wealth management services help investors calculatedly and systematically create their corpus. Wealth managers come armed with the skills that help them understand client requirement and financial goals. These are taken into account when financial strategies are formulated. Wealth manager puts in a lot of time to comprehend our needs and helps us to meet as many of your financial goals as possible.

Elimination of financial stress: Wealth advisors have a deep understanding of financial uncertainties. They have expertise in the field of taking critical financial decisions for us, should the need arise. Wealth advisors can help us to manage our finances during the roughest market conditions, which can often lead to stress. They help us to prioritize our financial decisions based on a timeline. Wealth advisor takes all our financial considerations in account while creating our goals and also helps us to organize our funds from time to time.

Personalized services: Wealth managers understand that there is no "one size fits all" formula when it comes to wealth management. As such, every individual client gets personalized services of a dedicated wealth manager.

Complete the concept: additional learning

Wealth-management business structures and assessment

A wealth service may operate inside a bank, through a specialist group entity, through an independent adviser, or through a family-office arrangement. An open architecture can consider products from multiple providers, while a restricted product range limits the available shelf. These are business arrangements, not automatic statements about regulatory permissions or independence. Establish who contracts with the customer, what the person is authorised to do, who holds the assets and how fees or commissions create potential conflicts.

Assessment begins with assets and liabilities, income and expenditure, dependants, protection, tax residence, existing commitments and goals. Separate willingness to take risk from capacity to bear loss. A customer may say they enjoy market risk while needing most savings for a home payment in six months. That short commitment changes the suitable allocation. Personal financial planning joins cash management, protection, debt, investments, retirement and succession into a reviewable plan; private wealth management adds the coordination required for more complex ownership and family needs.

Real estate, retirement and business succession are different goals

Real-estate service can include evaluating a proposed property investment, its title and transaction checks, financing, rental cash flows, management and exit. An attractive purchase price does not remove vacancy, repair, illiquidity or concentration risk. Suppose annual rent is Rs.2,40,000 on a Rs.40,00,000 property: gross rental yield is 6%. If the assumed annual operating costs are Rs.60,000, the simple net operating yield is 4.5%, before financing, tax, vacancy and changes in value.

Retirement planning maps expected spending, inflation, life expectancy assumptions, existing pensions, medical and emergency needs and the risk of outliving the corpus. Illustratively, today's annual spending of Rs.6,00,000 becomes about Rs.9,77,337 after ten years at an assumed 5% annual inflation. This is a

projection, not an inflation forecast. A business strategy within wealth planning also considers how business value, personal guarantees and family dependence affect the owner's finances. Business succession asks who can own and manage the enterprise after retirement, incapacity or death and where liquidity for obligations will come from. A retirement product purchase alone does not settle these questions.

Will writing: connect wishes with ownership and execution

A will records a person's intended distribution of relevant property on death, subject to applicable law and valid execution. It should identify the person, beneficiaries, assets or distribution approach and the intended executor clearly, and address important contingencies. Capacity, signature, witnesses and other validity requirements must be handled under the applicable personal and succession law; a casually signed list is not automatically an effective estate plan.

Distinguish a will from a nomination, joint account instruction, trust arrangement and a lifetime transfer. Each answers different ownership, authority and succession questions. For example, naming one child as a nominee to facilitate receipt from a bank does not by itself establish that every beneficial claim of other legal heirs disappears. Review major life changes, asset ownership, existing liabilities and earlier documents. Where the family or asset structure is complex, obtain appropriate legal assistance rather than promising that one form settles every inheritance or tax issue.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Is net worth the same as monthly surplus?

Answer: No.

Why: Net worth compares accumulated assets and liabilities; monthly surplus compares income and expenditure for a period.

Question 02 | What is the case two-year projected amount?

Answer: Rs.1,10,250 before excluded costs.

Why: Rs.1,00,000 x 1.05 squared applies the stated constant-return assumption.

Question 03 | What is the projected gap to Rs.1,20,000?

Answer: Rs.9,750.

Why: The goal less the conditional projection identifies the assumed shortfall.

Question 04 | Does willingness to take risk establish capacity to lose money?

Answer: No.

Why: A client can be willing but financially unable to withstand a loss near an essential goal.

Question 05 | Why review a plan after income or family circumstances change?

Answer: Its assumptions and priorities may no longer fit.

Why: An integrated plan must respond to actual constraints rather than preserve an old product allocation mechanically.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Wealth management coordinates financial needs.	15. Costs reduce net outcomes.
02. A product sale is not a complete plan.	16. Taxes depend on period and product.
03. Net worth is assets minus liabilities.	17. A projection is conditional.
04. Cash flow covers a period.	18. A guarantee needs enforceable terms.
05. Goals need dates and amounts.	19. Estate documents have different functions.
06. Priorities help allocate scarce resources.	20. Implementation follows an agreed plan.
07. Liquidity supports near-term commitments.	21. Monitoring checks progress.
08. Risk appetite is willingness.	22. Review follows material changes.
09. Risk capacity is financial ability.	23. At assumed 5%, Rs.1 lakh becomes Rs.1,10,250 in two years.
10. The two risk concepts can differ.	24. The example excludes taxes and fees.
11. Diversification reduces concentration.	25. A Rs.1.20 lakh goal leaves a Rs.9,750 projected gap.
12. It does not remove all risk.	26. A shorter horizon changes suitability.
13. Asset allocation shapes exposure.	27. More risk is not an automatic remedy.
14. Protection planning considers adverse events.	28. Explain assumptions before choosing products.

MODULE D / D02

Investment Management

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

An investor has Rs.10,00,000 and proposes putting all of it into the investment that performed best last year. An investment manager asks a different set of questions: What is the money for? When is it needed? What loss can the investor absorb? How liquid must it remain? What fees, taxes and contractual restrictions apply? Investment management connects these questions with portfolio construction and review. It is different from investment banking, which commonly concerns services such as capital raising and corporate transactions.

For a simple planning illustration, assume 40% is allocated to an asset with an expected annual return of 6% and 60% to another with an expected return of 10%. The weighted expected return is 0.40 x 6% + 0.60 x 10% = 8.4%, equivalent to Rs.84,000 on Rs.10,00,000 before fees and tax. The weighting matters because the amounts invested differ. Taking an unweighted average would wrongly give 8%.

The 8.4% is not a guaranteed outcome. If the first asset actually earns 6% while the second loses 10%, the portfolio's simple realised return is 0.40 x 6% + 0.60 x (-10%) = -3.6%, a Rs.36,000 loss before other effects. Diversification can reduce concentration, but the result still depends on exposures and how their returns move together. Portfolio review compares actual conditions with the investor's objectives and mandate, not only with the best-performing product in hindsight.

Change one assumption

Suppose the investor needs Rs.4,00,000 in three months. The portfolio cannot be assessed solely through an annual expected-return calculation. Liquidity and the chance of loss before that withdrawal become central. Revisit allocation, maturity, costs and the planned withdrawal rather than treating a high long-term average return as protection against a near-term fall. If weights also change to 70% and 30%, the expected weighted return becomes 0.70 x 6% + 0.30 x 10% = 7.2%. A lower expected return may reflect a different chosen exposure; suitability depends on the complete circumstances.

Avoid this common mistake

Expected return is not a promise, past performance is not a guaranteed forecast, and a diversified portfolio can still lose value. Portfolio management, mutual-fund investing and investment banking are different arrangements with different mandates, ownership, cost and regulation. A PMS minimum investment is an entry requirement under its applicable framework, not a certificate of suitability or safety. Read the actual product and mandate before comparing results.

Set the objective > Choose allocation > Select investments under mandate > Measure return and risk > Review and rebalance

Follow the relationship

Set the objective > Choose allocation > Select investments under mandate > Measure return and risk > Review and rebalance

Set the objective -> Choose allocation -> Select investments under mandate -> Measure return and risk -> Review and rebalance

Connect the concepts

01. Saving is income not consumed during the stated period; investment deploys resources with an expected future benefit.

02. Return can include income and capital change, and its measurement period must be stated.

03. Risk includes uncertainty of income, value and recovery rather than only daily price movements.

04. Liquidity concerns the ability to obtain funds when needed without unacceptable cost or loss.

05. Asset allocation is chosen before assessing individual investments within each category.

06. Weighted portfolio return uses each asset's share of the investment, not a simple average unless weights are equal.

07. Diversification addresses concentration and correlation, but does not guarantee a positive return.

08. A portfolio manager works within a mandate that defines objectives, constraints and authority.

09. Discretionary and non-discretionary arrangements differ in who makes investment decisions.

10. PMS and mutual funds differ in structure, service, ownership and cost; the labels are not interchangeable.

11. Investment banking and investment management solve different client problems, although institutions can offer both.

12. Review considers results, risks, costs, changing goals and any necessary rebalancing.

Work it out, then change an input

Enter a target, time horizon and assumed return. Compare the required monthly saving before and after reducing the assumed return. Returns are model assumptions, not a guarantee.

Open the offline goal calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

Set the objective > Choose allocation > Select investments under mandate > Measure return and risk > Review and rebalance

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

A higher risk exposure may require a higher expected return but does not ensure a higher realised return. Avoid calling every investment literally risk-free.

Investment Management

All of us whether individuals or organizations earn money by different economic activities and spend it for satisfying our wants. Sometimes, Income of people is more than their expenditure and other times, their expenditure on goods and services is more than income, these differences result into saving and borrowing of money respectively. When income is more than consumption people incline to save (surplus money).

It can be understood in the form of equation also.

Saving = Income - expenditure.

Element Of Investment

The characteristics or elements of investment can be understood in terms of return, risk, safety and liquidity.

Return: The prime objective of any type of investment is to drive return. The expected return may be regular income (interest, dividend, rent, etc.) or increase in the value of investment/ capital appreciation, i.e. difference between the selling price and buying price of assets. The nature of investment (risky, less risky, non- risky) is the deciding factor of required return from it.

Risk: Risk is the basic attribute of investment. Risk means variability in return because of loss of capital or non-payment of income what so ever reason. More the risk, normally more is the expected return and vice versa.

Safety: Safety rule of investment states that investors get back their original principal on maturity with no loss in value and hindrance. Liquidity: It means an investor can sell his investment in market as need arise without incurring much transaction costs, less energy and time.

Objectives of Investment: The basic objectives of any investment is maximizing the return and minimizing the risk. In addition to the basic objectives other objectives of investment are safety, liquidity, hedging against the inflation etc.

Basics Of Investment Management

Professional investment management aims to meet particular investment goals for the benefit of clients whose money they have the responsibility of overseeing. These clients may be individual investors or institutional investors such as pension funds, retirement plans, governments, educational institutions, and insurance companies.



In short, Investment management may be summarized as follows:

Investment management refers to the handling of financial assets and other investments by professionals for clients.

Clients of investment managers can be either individual or institutional investors.

Investment management includes devising strategies and executing trades within a financial portfolio.

Steps In Investment Management

Deciding investment goals

Analysis of Securities

Construction of portfolio

Evaluating performance of Portfolio

Revision of portfolio

Investment Banking

Investment banking is a specific division of banking or financial institution that serves Governments, corporations, and institutions by providing underwriting (capital raising) and mergers and acquisitions (M&A) advisory services. Investment banks act as intermediaries between investors (who have money to invest) and corporations (who require capital to grow and run their businesses).

Role of Investment Banking

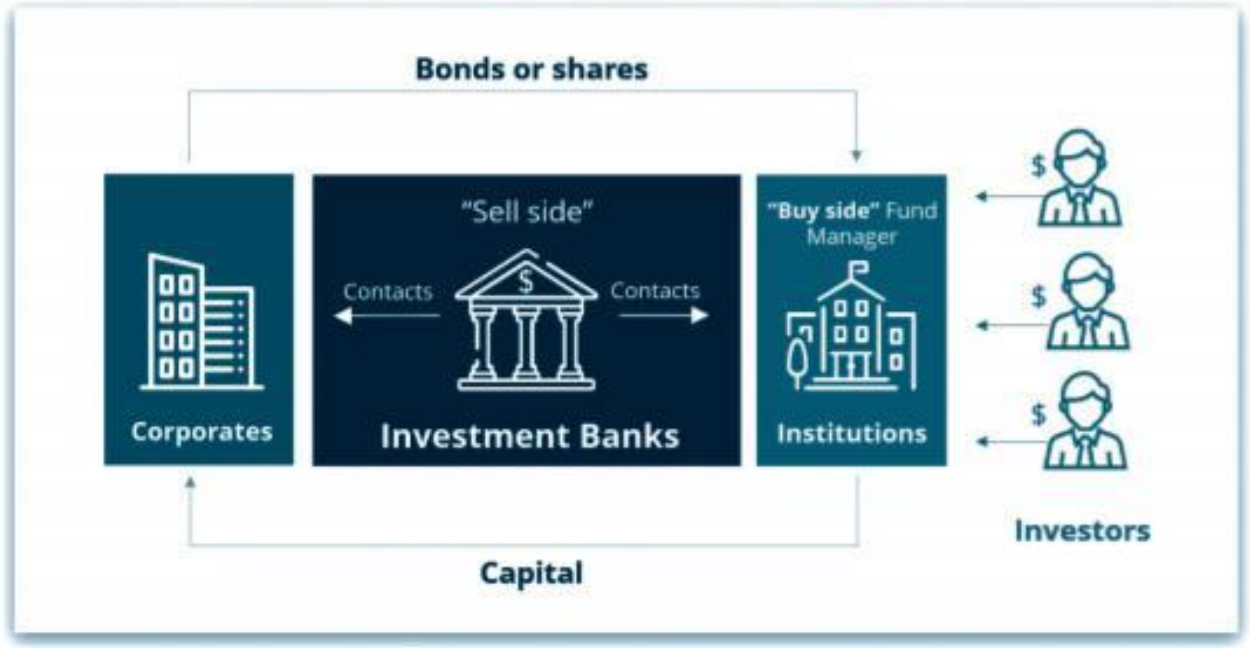
Investment banking deals primarily with the creation of capital for other companies, governments, and other entities.

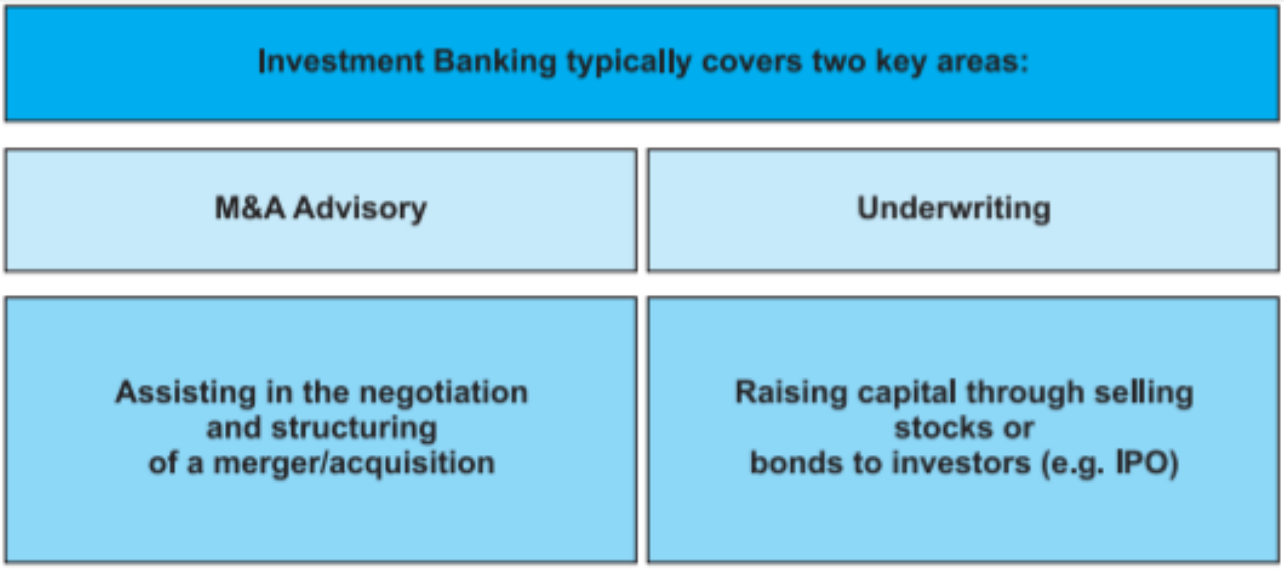
Investment banking activities include underwriting new debt and equity securities for all types of corporations, aiding in the sale of securities, and helping to facilitate mergers and acquisitions, reorganizations, and broker trades for both institutions and private investors.

Investment bankers help corporations, governments, and other groups plan and manage the financial aspects of large projects.

Broadly speaking, investment banks assist in large, complicated financial transactions. They may provide advice on how much a company is worth and how best to structure a deal if the investment banker’s client is considering an acquisition, merger, or sale.

Pictorial Presentation of Working of Investment Banking:





Services Being Offered By Full-Service Investment Banks

Full Service Investment Bank offer the following services:

Underwriting - Capital raising and underwriting groups work between investors and companies that want to raise money or go public via the IPO process. This function serves the primary market or "new capital".

Mergers & Acquisitions (M&A) - Advisory roles for both buyers and sellers of businesses, managing the M&A process start to finish.

Sales & Trading - Matching up buyers and sellers of securities in the secondary market. Sales and trading groups in investment banking act as agents for clients and also can trade the firm's own capital.

Equity Research - The equity research group research, or "coverage", of securities helps investors make investment decisions and supports trading of stocks.

Asset Management - Managing investments for a wide range of investors including institutions and individuals, across a wide range of investment styles.

Underwriting Services in Investment Banking

Underwriting is the process of raising capital through selling stocks or bonds to investors (e.g., an initial public offering IPO) on behalf of corporations or other entities.

Firm Commitment - The underwriter agrees to buy the entire issue and assume full financial responsibility for any unsold shares.

Best Efforts - Underwriter commits to selling as much of the issue as possible at the agreed upon offering price but can return any unsold sharesto the issuer without financial responsibility.

All-or-None - If the entire issue cannot be sold at the offering price, the deal is called off and the issuing company receives nothing.

Once the bank has started marketing the offering, the following book-building steps are taken to price and complete the deal (Book building process):

Prospects with price range

Institutional investor commitment @firm price

Book demand Built

Price is set to ensure clearing

Allocation

Investment Bank Organizational Structure

Investment banks are split up into three main offices - front office, middle office, and

back office.

Front Office - The revenue for an Investment Bank is generated by the front office. It consists of three primary divisions: investment banking, sales & trading, and research. Sales and trading department involves Buying and selling products. The research department comes up with various research reports on the firms or industry.

Middle Office - The main function of the middle office is to ensure that the investment bank doesn't engage in activities that can be detrimental to the bank's health. It includes functions like risk management, financial control, corporate treasury, corporate strategy, and compliance.

Back Office - Back office basically provides supporting activities like operations and technology to the front office so that it can do the jobs needed to make money for the investment bank.

Investment Management Vs Investment Banking

Investment managers help clients reach their investment goals by managing their money. Clients of investment managers can include individual investors as well as institutional investors such as educational institutions, insurance companies, pension funds, retirement plans, and governments. Investment managers can work with equities, bonds, and commodities, including precious metals like gold and silver.

Investment managers can have varied roles and responsibilities, depending on the firm, which can include:

Financial statement analysis

Portfolio allocation such as a proper mix of bonds and stocks

Equity research and buy and sell recommendations

Financial planning and advising

Estate and retirement planning as well as asset distribution

Investment bankers help with corporate finance needs, such as raising funds or capital. Companies and governments hire investment bankers to facilitate complicated financial transactions, including:

Debt issuance such as a bond offering

New securities underwriting

Mergers and acquisitions

Initial public offerings (IPOs) Investment banking can involve equity and security research and making buy, sell, and hold recommendations. Investment banking firms are also market makers, which provide liquidity or connect buyers and sellers to "make" the market.

Portfolio Management

What is Portfolio Management?

In a layman’s language, the art of managing an individual’s investment is called as portfolio management. Portfolio management is the art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution. It is managing an individual’s investments in the form of bonds, shares, cash, mutual funds, etc.

Who is a Portfolio Manager?

An individual who understands the client’s financial needs and designs a suitable investment plan as per his income and risk taking abilities is called a portfolio

manager.

Objectives Of Portfolio Management

Set the objective > Choose allocation > Select investments under mandate > Measure return and risk > Review and rebalance

The fundamental objective of portfolio management is to help select best investment options as per one's income, age, time horizon and risk appetite. Some of the core

objectives of portfolio management are as follows:

Capital appreciation

Maximising returns on investment

To improve the overall proficiency of the portfolio

Risk optimization

Allocating resources optimally

Ensuring flexibility of portfolio

Protecting earnings against market risks

Who Should Opt for Portfolio Management?

The following should consider portfolio management:

Investors who intend to invest across different investment avenues like bonds, stocks, funds, commodities, etc. but do not possess enough knowledge about the entire process.

Those who have limited knowledge about the investment market.

Investors who do not know how market forces influence returns on investment.

Investors who do not have enough time to track their investments or rebalance their investment portfolio.

Key Elements of Portfolio Management

Asset Allocation

Diversification

Rebalancing

Portfolio Management Vs Investment Banking

Portfolio Management refers to the management of the portfolio of assets of the client whereas, investment banking refers to the various different type of function performed by the investment banker in the economy by offering different financial services to their clients by mainly dealing in the purchase and sale of the stock and helping in raising the capital.

Portfolio Management (Asset management) is all about managing clients' investments whereas Investment Banking is all about raising the capital for clients.

So, the basic difference between these two is in case of Portfolio Management or Asset management, clients already have the money which portfolio manager need to manage whereas, in the case of investment banking, clients don't have the money and investment banking professional need to raise capital to support your clients. Let's take an example to illustrate the difference between the two. We will

take two scenarios and will try to understand how this works.

Scenario#1

In the first scenario, Client A hires Bank B to help them with investing their money in different areas. Client A tells Bank B - "Take my money and invest in portfolios where you think our money will grow better and will make us wealthier." Bank B then takes the money and invests to get better returns on the portfolios they rely upon. This is portfolio management. In this case, clients have money; your job as a portfolio manager is to manage the investment ad try to maximize the client's wealth.

Scenario#2

Clarification for accurate understanding

The ordinary PMS minimum is not necessarily an amount strictly greater than Rs.50 lakh. Read the applicable minimum, exceptions, mandate and current regulation; the threshold is not proof of suitability.

In this scenario, Client A wants someone to invest in their business. An investment banker will search for the investor; look for capital raising opportunities in the equity market or via debt or run IPOs or advises companies on Merger & Acquisition deals. So, in this case, the client doesn't have money; investment banking professional helps the client get the money via capital raising opportunities. In finance parlance, asset management is also known as buy-side and investment banking is termed as sell-side. So, the outlook for these two are different. This is why investment banking needs more inputs as it needs to bring the business whereas portfolio management requires skill and knowledge about investment.

Role of Portfolio managers

Portfolio managers are investment decision-makers. They devise and implement investment strategies and processes to meet client goals and constraints, construct and manage portfolios, make decisions on what and when to buy and sell investments.

Portfolio Management Service Vs Mutual Funds (Mfs)

The following attributes distinguish between PMS and MF:

Customization: PMS offers a higher degree of customization tailored specifically to the goals of an investor. Mutual funds, on the other hand, offer customization to the extent of the classification and diversity of the fund.

Engagement: PMS is personalized promoting a dialogue between the portfolio manager and investor. An investor can convey any changes in the risk profile or personal situations to maximize returns. MFs offer low engagement with the investor limited to fact sheets. Portfolio managers for PMS are also directly accountable to the investors.

Fee structures: MFs charge a fixed fee attributed to the entry and exit of investments as well as annual expenses for maintenance (known as the expense ratio). PMS demands a share in the profit over a particular rate of return (known as hurdle rate) in addition to the annual maintenance fee. The alignment of incentives is highly preferred in the case of PMS so that the portfolio manager takes responsible decisions in an attempt to attain supernormal returns.

Asset ownership: Under PMS, the investor retains direct ownership of shares of the company. However, MFs offer units in the form of investment.

Investment size: MFs entertain any amount of capital. However, PMS demand a capital investment which must be over the minimum limit of Rs.50/- Lakh as per Securities and Exchange Board of India (SEBI) guidelines.

Types Of Portfolio Management Services

Active Portfolio Management: The aim of the active portfolio manager is to make better returns than what the market dictates. Those who follow this method of investing are usually contrarian in their approach. Active managers buy stocks when they are undervalued and start selling when they climb above the norm

Passive Portfolio Management: At the opposite end of active management comes the passive investing strategy. Those who subscribe to this theory believe in the efficient market hypothesis. The claim is that the fundamentals of a company will always be reflected in the price of the stock. Therefore, the passive manager prefers to dabble in index funds which have a low turnover, but good long-term worth.

Discretionary Portfolio Management: A discretionary manager is given full leeway to make decisions for the investor. While the individual goals and time- frame are taken into account, the manager adopts whichever strategy he thinks best.

Non-Discretionary Portfolio Management: The non-discretionary manager is simply a financial counselor. He advises the investor in which routes are best to take. While the pros and cons are clearly outlined, it is up to the investor to choose his own path. Only once the manager has been given the go ahead, does he make a move on the investor's behalf.

Processes of Portfolio Management

Steps	Process of Investment Portfolio Management	Description
Step 1 –	Identification of objectives	For a capable investment portfolio, investors need to identify suitable objectives which can be either stable returns or capital appreciation.
Step 2 –	Estimating the capital market	Expected returns and associated risks are analysed to take necessary steps.
Step 3 –	Decisions about asset allocation	To generate earnings at minimal risk, sound decisions must be made about the suitable ratio or asset combination.
Step 4 –	Formulating suitable portfolio strategies	Strategies must be developed after factoring in investment horizon and risk exposure.
Step 5 –	Selecting of profitable investment and securities	The profitability of assets is analysed by factoring in their fundamentals, credibility, liquidity, etc.
Step 6 –	Implementing portfolio	The planned portfolio is put to action by investing in profitable investment avenues.
Step 7 –	Evaluating and revising the portfolio	A portfolio is evaluated and revised regularly to evaluate its efficiency.
Step 8 –	Rebalancing the composition of the portfolio	Portfolio's composition is rebalanced frequently to maximise earnings.

Advantages of Portfolio Management

Makes Right Investment Choice: Portfolio management is a tool that helps the investor in choosing the right portfolio of assets. It enables in making more informed decisions regarding investment plans in accordance with the goals and objectives.

Maximizes Return: Maximizing the return is one of the important roles played by portfolio investment. It provides a structured framework for analyses and selecting the best class of assets. Investors are able to earn high returns with limited funds.

Avoids Disaster: Portfolio management avoids the disaster of facing huge risks by investors. It guides in investing among different classes of assets instead of investing only in one type of asset. If an investor invests in only one type of security and supposes it fails, then the investor will suffer huge losses which could be avoided if he might have invested among different assets.

Track Performance: Portfolio management helps management in tracking the performance of their portfolio of investments. A consolidated investment held within the portfolio can be evaluated in a better

way and any of its failures can be easily detected.

Manages Liquidity: Portfolio management enables investors in arranging their investment in a systematic manner. Investors can choose assets in such a pattern where they can sell some of them easily whenever they need funds.

Avoids Risk: Investment in securities is quite risky due to the volatility of the security market which increases the chance of losses. Portfolio management helps in reducing the risk through diversification of risk among large peoples.

Improves Financial Understanding: It helps in improving the financial knowledge of investors. While managing their portfolio they came across numerous financial concepts and learn how a financial market works which will enhance the overall financial understanding.

Disadvantages of Portfolio Management

Risk Of Over Diversification: Sometimes portfolio managers invest funds among large categories of assets whose control becomes impossible. In his efforts to diversify the risk it goes beyond the limit to manage efficiently. Loss arising in such situations is quite high and can bring serious repercussions.

No Downside Protection: Portfolio management only reduces the risk through diversification but does not provide full protection. At times of market crash, the concept of portfolio management becomes obsolete.

Faulty Forecasting: Portfolio management uses historical data for evaluating the returns of securities for investment purposes. Sometimes the historical data collected is incorrect or unreliable which leads to wrong forecasts.

Complete the concept: additional learning

PMS service categories, strategies and practical disadvantages

Separate decision authority from investment style. In discretionary PMS the manager makes investment decisions within the agreed mandate; in non-discretionary PMS the client's directions or approvals govern the relevant decisions; advisory services provide advice with execution arranged as agreed. Active versus passive describes an investment strategy, and is not the same classification as discretionary versus non-discretionary authority.

PMS can provide individual ownership and customisation, but it can also involve concentration, illiquid holdings, manager dependence, higher or differently structured costs, tax consequences of portfolio transactions and a substantial entry amount. A portfolio spread over many holdings still carries market risk. Illustratively, a Rs.50,00,000 portfolio earning a gross 8% gains Rs.4,00,000 before costs. If assumed total costs are Rs.1,00,000, the simple gain falls to Rs.3,00,000 before tax and other adjustments. This is not a quotation of any manager's charges or performance. Compare an appropriately defined net return, relevant benchmark, risk, liquidity and mandate instead of choosing the highest advertised gross return.

Recent PMS developments: distinguish publication from commencement

A dated developments timeline helps explain the direction of oversight. A May 2024 initiative addressed digital onboarding and disclosure transparency. A September 2025 circular dealt with the disclosure-document format, and an October 2025 circular addressed transfers of clients' PMS portfolios. The July 2025 master circular provides a consolidated reference for the framework at that point. The learning implication is to examine how a client enters a service, understands its terms and risks, receives information and is treated when the business changes hands.

As at 2 November 2026, another important date distinction is necessary: Portfolio Managers Regulations, 2026 were published on 12 October 2026 with effect from 1 April 2027. Publication in 2026 does not make the future commencement date disappear. Apply the framework effective for the transaction and read its transition provisions. A consultation proposal, published regulation, circular and effective contractual change are not interchangeable events. Keep this timeline dated and check later amendments when studying or advising in a later period.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Why is the case expected return 8.4%, not 8%?

Answer: The allocations are unequal.

Why: The calculation weights 6% by 40% and 10% by 60%.

Question 02 | Can the illustrated portfolio lose despite diversification?

Answer: Yes; the adverse case loses 3.6%.

Why: The positive 2.4 percentage-point contribution is outweighed by the negative six-point contribution.

Question 03 | Does last year's winner automatically suit a near-term goal?

Answer: No.

Why: Liquidity, downside risk, time horizon, fees and the investor's constraints remain relevant.

Question 04 | Is investment banking identical to investment management?

Answer: No.

Why: Corporate finance and capital-raising services differ from managing investments under a client mandate.

Question 05 | What happens to expected return at 70%/30% weights?

Answer: It becomes 7.2% under the same assumptions.

Why: 0.70 x 6% plus 0.30 x 10% gives the revised weighted expectation.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Saving is income less consumption.	15. Expected return is not guaranteed.
02. Investment seeks a future benefit.	16. Case adverse realised return is -3.6%.
03. Return can include income.	17. Diversification reduces concentration.
04. Return can include capital change.	18. Correlation affects portfolio behaviour.
05. Risk is uncertainty of outcome.	19. Past performance is not a forecast guarantee.
06. Safety is not the same as liquidity.	20. PMS differs from a mutual fund.
07. Liquidity is important for dated needs.	21. Discretionary authority must be understood.
08. A mandate defines authority.	22. Non-discretionary decisions follow client directions.
09. Objectives guide allocation.	23. Investment banking is a different activity.
10. Asset allocation shapes exposures.	24. Fees reduce net performance.
11. Weights must sum to the stated whole.	25. Tax treatment can alter comparisons.
12. Weighted return reflects invested amounts.	26. Review checks goals and constraints.
13. Case expected return is 8.4%.	27. Rebalancing changes weights.
14. The simple unweighted average would be 8%.	28. Near-term withdrawals require liquidity planning.

MODULE D / D03

Tax Planning

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A salaried individual compares two tax-saving products solely by the advertised deduction. The first useful question is not which deduction is largest; it is which period, tax framework and regime apply to the individual's income. An exemption, deduction, rebate and tax credit operate at different stages. A deduction can reduce the relevant income measure, a rebate can reduce eligible tax, and TDS is a collection and credit mechanism. None should be mixed up with the rate applied to every rupee earned.

For a teaching calculation under the normal-income bands for Tax Year 2026-27, assume an eligible individual has taxable income of Rs.16,00,000, no special-rate income, and no relevant rebate, surcharge or other adjustment. The first Rs.4,00,000 falls in the nil band. The next Rs.4,00,000 at 5% gives Rs.20,000; the next Rs.4,00,000 at 10% gives Rs.40,000; the remaining Rs.4,00,000 at 15% gives Rs.60,000. Base tax is Rs.1,20,000. The illustration deliberately stops before other applicable additions or credits. Applying 15% to the entire income would incorrectly give Rs.2,40,000.

The Income-tax Act, 2025 applies from 1 April 2026 with transitional rules for earlier periods and proceedings. Old financial-year, assessment-year, section and slab examples must therefore be tied to their own period. A sound planning decision also considers liquidity, lock-in, risk, return and the actual conditions for a benefit; spending money merely to claim a deduction can leave the household worse off.

Change one assumption

Change the taxable normal-rate income to Rs.12,00,000 under the same band illustration. Base tax before any eligible rebate or other adjustment becomes Rs.20,000 + Rs.40,000 = Rs.60,000. It is not automatically the final payable amount: the relevant rebate and conditions must be examined separately. If the person instead has special-rate capital gains, or a different applicable regime, this simplified calculation cannot simply be carried across. Tax planning begins by classifying income, period and regime correctly; a calculator should show the assumptions rather than hide them behind one final number.

Avoid this common mistake

A nil-rate band and a rebate-related effective tax-free outcome are different concepts. Do not treat old slabs or section numbers as current universal instructions. Citizenship is not the same as tax residence, and RNOR status does not justify saying that every foreign income is automatically outside Indian tax. GST also did not replace every indirect tax. Match the law, period, income category, person and regime before calculating a liability.

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Follow the relationship

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Identify person and period -> Classify income and regime -> Apply eligible deductions and rates -> Consider rebate, additions and credits -> Interpret the conditional result

Connect the concepts

01. Identify the relevant person, period and applicable law before considering tax benefits.

02. The 2025 Act applies from 1 April 2026; earlier periods and proceedings can remain governed by transition provisions.

03. Tax residence depends on applicable statutory tests, not citizenship alone.

04. Income classification affects computation, rates and possible exemptions or deductions.

05. Deductions, exemptions, rebates and tax credits operate differently and must not be combined casually.

06. TDS is collected by the deductor from the relevant payment or credit; the deductee receives the associated credit subject to the rules.

07. TAN means Tax Deduction and Collection Account Number; PAN serves a different identification purpose.

08. Marginal slabs apply the specified rate to the income in each band, not to all income at the highest reached rate.

09. Special-rate income, surcharge, cess, rebate and relief require separate consideration when applicable.

10. A tax benefit requires eligibility and conditions, not merely purchase of a product with a familiar name.

11. Capital-gain analysis requires the asset, acquisition and transfer dates, holding period, consideration and applicable provisions.

12. Estate and tax planning must be integrated with legal ownership, succession needs, liquidity and responsible compliance.

Work it out, then change an input

Enter an already established final tax liability and separately entered tax credits. Explain whether the difference is payable or refundable. A credit reconciliation does not calculate slab tax or prove deduction eligibility.

Open the offline tax calculator

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Date old Act examples and section references. The 2025 Act applies from 1 April 2026; earlier periods/proceedings have transition rules.

Taxation

Taxation is the means by which a government or the taxing authority imposes or levies a tax on its citizens and business entities. From income tax to goods and services tax (GST), taxation applies to all levels.

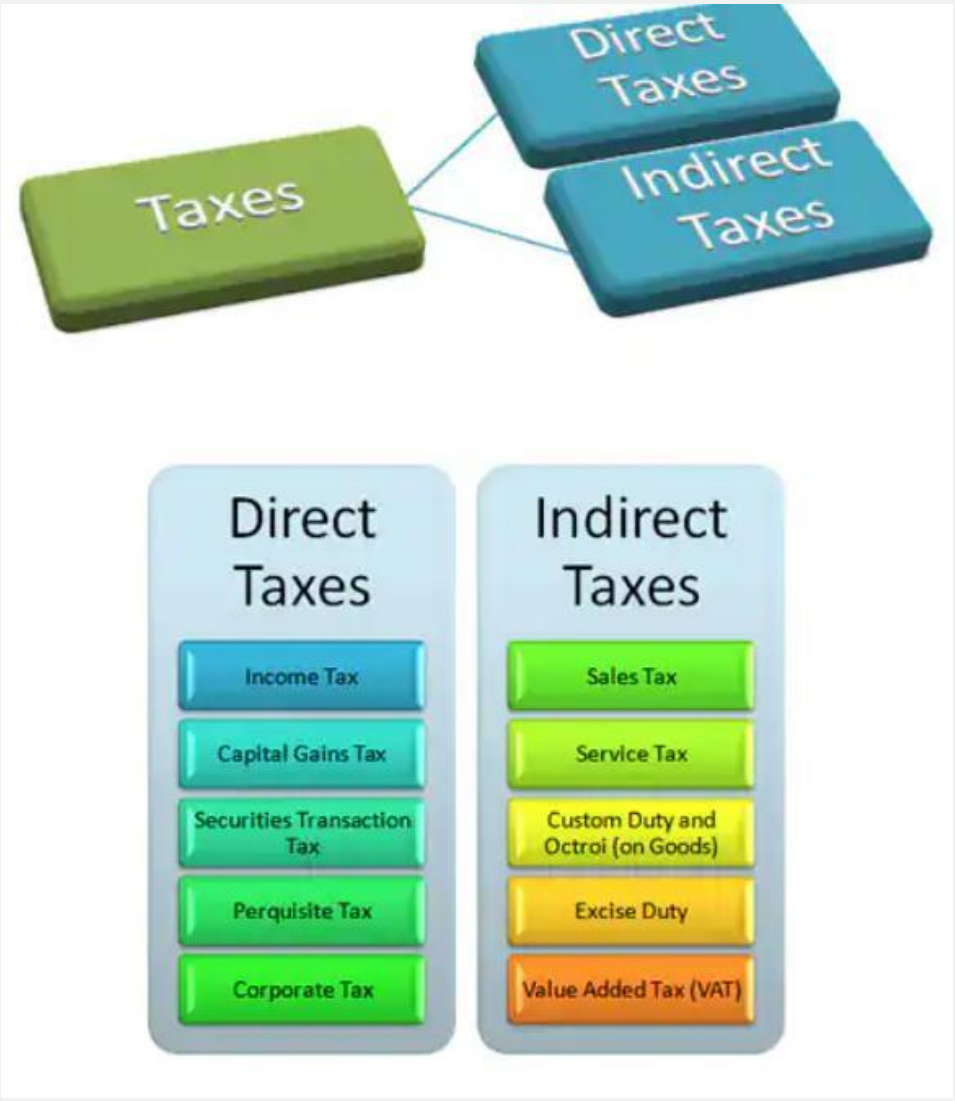
Classification Of Tax Structure In India

The tax structure in India can be classified into two main categories:

Direct Tax

Indirect Tax

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result



Historical tax classification. GST replaced many earlier indirect taxes; some legacy levies continue only for specified subjects. This is a concept map, not a current tax-liability checklist.

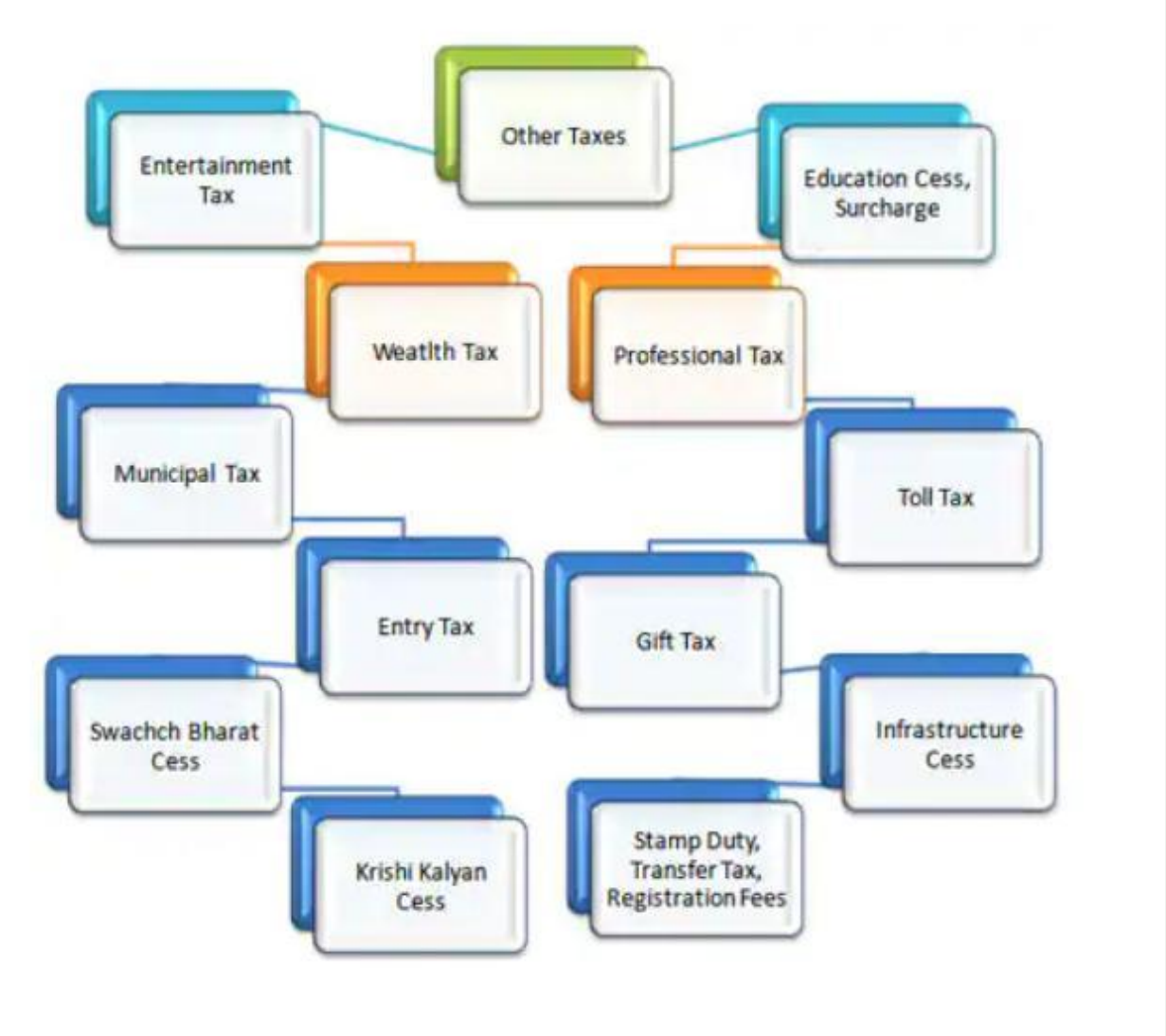
Clarification for accurate understanding

GST subsumed specified taxes, not every indirect tax. Classify remaining taxes separately.

Clarification for accurate understanding

The comparison table mixes historical and current tax labels. Do not present it as a live comprehensive tax directory. Wealth tax and the old separate gift-tax regime are historical; taxation of gifts under income-tax rules is a different question.

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result



Historical list: wealth tax and several cesses in this graphic are obsolete or replaced. Different taxes and duties follow their own legal scope, year and jurisdiction.

Direct tax: the legal liability is imposed on the person taxed. This contrasts with the usual collection-and-pass-through structure of indirect taxes; it does not mean an authorised representative cannot arrange a tax payment.

Indirect tax is generally levied on transactions in goods or services and may be passed through in prices. GST, introduced on 1 July 2017, subsumed many earlier central and state levies, including major parts of service tax, sales tax and VAT. It did not abolish every indirect levy: customs and specified excise/VAT subjects continue under their own scope.

Taxes		
Direct Taxes	Indirect Taxes	Other Taxes

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Taxes		
Income Tax	Sales Tax	Property Tax
Wealth Tax	Goods & Services Tax (GST)	Professional Tax
Gift Tax	Value Added Tax (VAT)	Entertainment Tax
Capital Gains Tax	Custom Duty	Education Cess
Securities Transaction Tax	Coctroi Duty	Toll Tax
Corporate Tax	Service Tax	Registration Fees

Financial Year and Assessment Year

What is Financial Year?

A Financial Year (FY) is the period between 1 April and 31 March - the accounting year in which you earn an income.

What is Assessment Year?

The assessment year (AY) is the year that comes after the FY. This is the time in which the income earned during FY is assessed and taxed. Both FY and AY start on 1 April and end on 31 March. For instance, for FY 2020-21, the assessment year is AY 2021-22.

The difference between Financial year and Assessment year

Financial Year	Assessment Year
The financial year is the time period where income is earned.	The assessment year that follows is the financial year and the period in which tax returns are filed.
The financial year is when salaried professionals, businessman and senior citizens earn their money.	While AY is the time when the income that was earned in the financial year gets evaluated.
Taxation and evaluation are carried out in the AY for the income that has been earned in the financial year.	Income Tax Return Forms are specialized forms for the evaluation and taxation of FY income.
Income is always earned in the period known as the financial year it cannot be taxed prior to being earned.	After money has been earned by an individual it will be evaluated for the purpose of taxation in the latter, that is the AY.

Historical FY/AY illustration. Distinguish the earlier framework from the tax-year terminology and transition under the Income-tax Act, 2025. Do not mix periods or governing Acts.

Previous Year

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

In simple language, for the purpose of income tax or income tax return, terms financial year and previous year are used interchangeably. So, the financial year (FY) 2020-21 can also be termed as the preceding (previous) year (PY) 2020-21 & the income of such year will become taxable in assessment year (AY) 2021-22. As per Sec.2(34) of Income Tax Act, 1961, unless the context otherwise requires, the term 'previous year' means the previous year as defined in section 3. In view of above, we need to visit Section 3 of Income Tax Act, 1961, which defines the term previous year as under:

"For the purposes of this Act, "previous year" means the financial year immediately preceding the assessment year:

Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year."

In such cases income of the previous year is subject to charge of tax in the same previous year, wherein previous year and assessment year are considered as the same in

the case of certain assessee to avoid situations of income escaping assessment:

Income from Shipping business in India in the case of non-residents (Section

172)

Assessment of persons leaving India permanently or for longer duration

(Section 174)

Assessment of association of persons (AOP) or body of individuals (BOI) or artificial juridical person (AJP), which are formed for a particular short period of time/ event/ purpose, i.e. which are dissolved within the same previous year

(Section 174A)

Assessment of persons suspected to transfer their property to avoid tax liability

(Section 175) and

Assessment of income from a business which has been discontinued during the previous year (Section 176).

Finance Bill (Finance Budget) is presented, discussed in Parliament, passed and executed as per Financial Year. Financial year can be classified into two categories (Sec. 3):

i)Year in which Income is earned;

ii)Year of paying taxes on income earned or deemed to be earned on advance basis.

Residential Status For Income Tax

The individual taxability of a person depends upon the residency status as per Income Tax Act and it is not to be confused with an individual's citizenship in India. An individual may be citizen of the country but will

be considered at non-resident as per tax guidelines and vice versa.

How to determine residential status?

For the purpose of income tax in India, the income tax laws in India classifies taxable persons as:

A resident

A resident not ordinarily resident (RNOR)

A non-resident (NR)

The taxability differs for each of the above categories of taxpayers. Before we get into taxability, let us first understand how a taxpayer becomes a resident, an RNOR or an NR.

Resident

A taxpayer would qualify as a resident of India if he satisfies one of the following 2

conditions:

Stay in India for a year is 182 days or more or

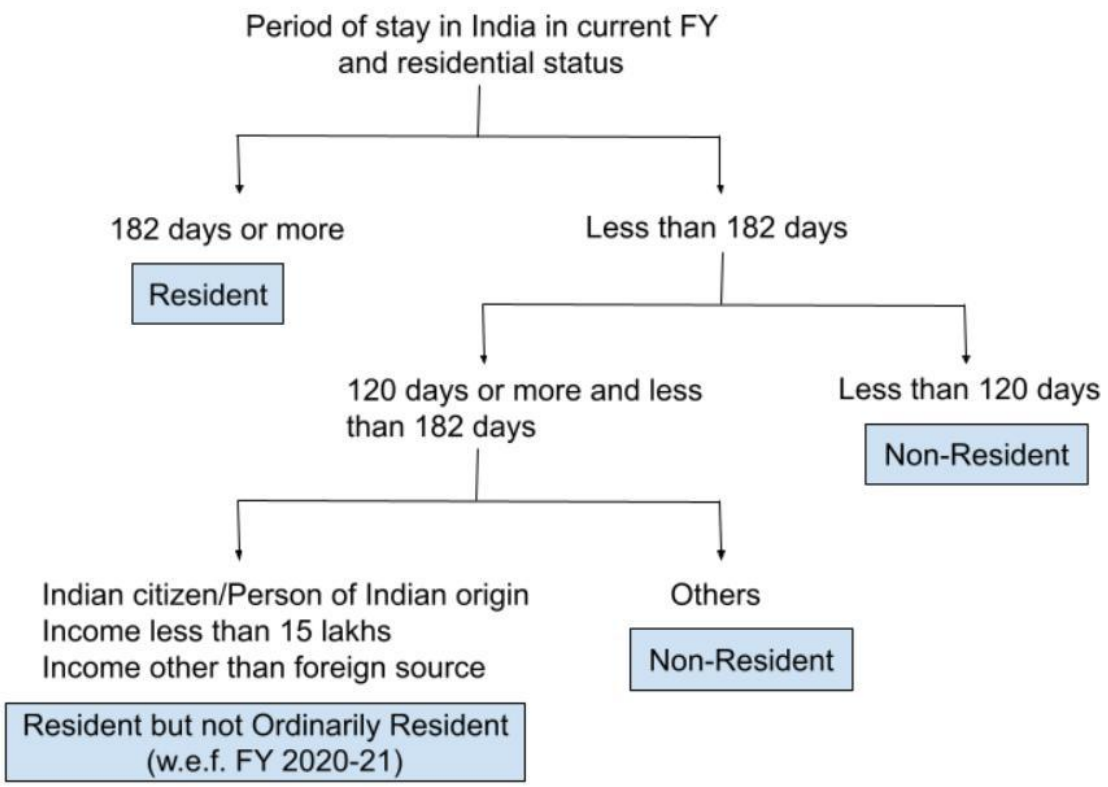
Stay in India for the immediately 4 preceding years is 365 days or more and 60 days or more in the relevant financial year

Clarification for accurate understanding

NR and RNOR have different scope-of-income rules. RNOR can include specified foreign income from a business controlled in or a profession set up in India; Indian receipt/deemed-receipt and accrual rules must also be considered.

Historical 1961 Act residence tests distinguish an Indian citizen leaving for employment outside India or as qualifying crew from an Indian citizen/person of Indian origin visiting India. The departure exception and the visiting-person exception must not be merged. The 120-day substitution for specified visitors with income other than foreign-source income exceeding Rs.15 lakh has additional conditions, including the relevant preceding-year stay test; it is not a universal 120-day residence rule.

In another significant amendment from FY 2020-21, an individual who is a citizen of India who is not liable to tax in any other country will be deemed to be a resident in India. The condition for deemed residential status applies only if the total income (other than foreign sources) exceeds Rs 15 lakh and nil tax liability in other countries or territories by reason of his domicile or residence or any other criteria of similar nature.



Residence requires all applicable conditions, exceptions and look-back tests. A simplified day-count chart alone does not establish an individual's tax residence or taxable foreign income.

Non-resident

An individual satisfying neither of the conditions stated in (a) or (b) above would be an NR for the year.

Taxability

A resident and ordinarily resident individual is generally taxable on worldwide income, subject to the Act and any applicable treaty. First establish whether a resident is ordinarily resident or RNOR; 'resident' alone is not enough to apply the worldwide-income statement to every individual.

For non-residents, examine income received or deemed received in India and income accruing, arising or deemed to accrue or arise in India. RNOR treatment also includes specified foreign income from a business controlled in or profession set up in India. It is incorrect to exempt every item labelled foreign income. Treaty relief or foreign-tax credit is subject to eligibility, documentation and the relevant provisions; it is not an automatic cancellation of all double taxation.

Clarification for accurate understanding

TAN expands to Tax Deduction and Collection Account Number.

Clarification for accurate understanding

The deductor deducts/remits; the deductee is the recipient whose tax credit is relevant. The earlier teaching text swaps the role in this sentence.

A Few Important Terms In Income Tax

Assessee: As per Income Tax Act 1961 section 2(7), an assessee is a person who is liable to pay the taxes under any provision of the Income Tax Act 1961. Assessee can also be a person with respect to whom any proceedings have been initiated or whose income has been assessed under the Income Tax Act 1961.Assessee is any person who is deemed assessee under any of the provisions of this act or an assessee in default under any provisions of this Act.

Person: As per Sec 2(31) of the Income Tax Act, 1961, a person would be anyone who is

An Individual

A HUF (Hindu Undivided Family)

A Company

A Firm

An association of person or body of individuals

A local authority

Every artificial or juridical person who is not included in any of the above- mentioned categories

PAN Number: PAN stands for Permanent Account Number which is a ten-digit unique alphanumeric number issued by the Income Tax Department as a unique identification ID. The PAN is applicable whether an Individual, HUF, Company, Firm, or any other assessee. The PAN number is a prerequisite for filing ITR and also, the tax department can trace all communications, returns, refunds, and other activities relating to Income Tax through it.

TAN means Tax Deduction and Collection Account Number, a ten-character alphanumeric identifier used by persons required to deduct or collect tax, subject to the applicable exceptions and procedures.

Tax Deducted at Source (TDS): The option of Tax Deducted at Source (TDS) was introduced in order to collect tax from the very source of income. As per the guideline, a person (deductor) who is liable to make payment of specified nature to any other person (deductee) shall deduct tax at source and remit the same into the account of the Central Government. The deductee from whose income tax has been deducted at source would be entitled to get credit of the amount so deducted on the basis of Form 26AS or TDS certificate issued by the deductor.

Covered Under TDS Under The Income Tax Act, 1961

Salaries- Section 192

Interest in securities- Section 193

Payment of interest, other than interest of securities- Section 194A

Payment to contractors or sub- contractors- 194C

Payment of brokerage and commission- Section 194H

Historical 1961 Act reference: payment by way of rent - section 194-I (capital letter I, not the digit 1).

Payment of professional and technical fees- Section 194J

Clarification for accurate understanding

The displayed default-regime bands are historical. For the stated normal-income computation for Tax Year 2026-27, use current bands and separately consider special-rate income, rebate, relief, surcharge and cess.

Clarification for accurate understanding

A qualifying rebate reduces eligible tax; a refund arises when eligible prepaid/withheld tax exceeds final liability. Rebate and refund are not synonyms.

Clarification for accurate understanding

For an ordinary individual under the stated old-regime framework, the Rs.5-10 lakh band is 20%, not 15% on Rs.5-7.5 lakh. Check person, residence/age and period before applying basic exemptions.

Clarification for accurate understanding

Do not use Rs.2.5 lakh as a universal nil band across both regimes, all ages and all periods. State the applicable person, regime and date.

Clarification for accurate understanding

The percentage is 30%, not a rupee amount. Preserve the historical slab context rather than treating this typographic correction as a current-rate endorsement.

Payment to non-resident- Section 195

Taxpayers and Income Tax Slabs

Taxpayers in India, for the purpose of income tax includes:

Individuals, Hindu Undivided Family (HUF), Association of Persons (AOP) and Body of Individuals (BOI)

Firms

Companies

Historical new-regime illustration: FY 2023-24 / AY 2024-25. These are not current-year slabs.

Income of Rs 0-3 lakh is nil.

Income above Rs 3 lakh and up to Rs 6 lakh to be taxed at 5% under new regime.

Income of above Rs 6 lakh and up to Rs 9 lakh to be taxed at 10% under new regime.

Income of above Rs 9 lakh and up to Rs 12 lakh to be taxed at 15% under new regime

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Income above Rs 12 lakh and up to Rs 15 lakh to be taxed at 20% under new regime.

Historical FY 2023-24 new-regime band: ordinary taxable income above Rs.15 lakh bears a 30% marginal rate, before applicable additions and adjustments.

Means

Pay 5% tax between 3-6=15k tax

pay 10% tax between 6-7 lacs= 10k

In the historical AY 2024-25 example of an eligible resident individual with Rs.7 lakh ordinary taxable income, computed slab tax is Rs.25,000 before rebate. The applicable section 87A rebate can reduce that tax; it is not an automatic Rs.25,000 cash refund. A refund requires tax credits/payments exceeding the final liability.

Historical old-regime illustration for an individual aged below 60; compare years and deductions separately.

The historical old-regime ordinary-income basic exemption for an individual aged below 60 is Rs.2.5 lakh. Do not assume identical exemptions under every year's new regime.

Under that historical old-regime illustration, the slice above Rs.2.5 lakh and up to Rs.5 lakh bears 5%.

For the historical FY 2021-22 new-regime comparison, use the complete dated table in the additional learning section.

Under the historical old-regime illustration, the slice above Rs.5 lakh and up to Rs.7.5 lakh bears 20%,

the old regime

Income between Rs.7.5 lakh to Rs.10 lakh is taxed at a rate of 20 per cent in the old

regime

Under the old regime personal income above Rs.10 lakh is taxed at a rate of 30 per

cent.

Complete the concept: additional learning

Five heads of income: classify before calculating

Income is classified by its legal character, not by the bank account receiving it. The five heads are: Salaries; Income from house property; Profits and gains of business or profession; Capital gains; and Income from other sources. Classification determines the permitted deductions, loss rules and, sometimes, the rate.

A bank employee's employment remuneration normally belongs under Salaries. Rent from an owned building is examined under house-property rules; it is not simply the rent collected minus every cash expense. A consultant's professional receipts require business/professional computation. A gain from transferring an investment asset is examined under capital gains. Ordinary deposit interest generally enters other sources unless properly attributable to another head.

Own employment pension and family pension illustrate why names can mislead: the former ordinarily follows Salaries, whereas family pension is generally examined under other sources. A loan credit is not automatically income. Ask what generated each receipt before applying any slab.

Historical slab comparison: FY 2021-22 / AY 2022-23 only

This learning table covers an individual aged below 60, ordinary slab-rate income, and the 1961 Act framework for FY 2021-22, assessed in AY 2022-23. It is NOT a current-year tax table. Rates apply only to income within each band.

Income band (Rs.)	Old regime	Then-optional new regime
Up to 2,50,000	Nil	Nil
Over 2,50,000 to 5,00,000	5%	5%
Over 5,00,000 to 7,50,000	20%	10%
Over 7,50,000 to 10,00,000	20%	15%
Over 10,00,000 to 12,50,000	30%	20%
Over 12,50,000 to 15,00,000	30%	25%
Over 15,00,000	30%	30%

Add the applicable surcharge and health and education cess after computing slab tax. Special-rate income requires separate treatment. The historical new regime required giving up specified exemptions and deductions; identical gross receipts therefore need not produce identical taxable incomes.

Historical worked example: Rs.9 lakh taxable income

Assume a resident individual aged below 60 in FY 2021-22, with Rs.9,00,000 ordinary taxable income under each regime, no special-rate income, surcharge, relief or other adjustment. This compares equal taxable bases, not equal gross salaries.

Old regime: Rs.2,50,000 at 0% + Rs.2,50,000 at 5% + Rs.4,00,000 at 20% = Rs.92,500. Cess at 4% = Rs.3,700. Total = Rs.96,200.

Historical new regime: Rs.2,50,000 at 0% + Rs.2,50,000 at 5% + Rs.2,50,000 at 10% + Rs.1,50,000 at 15% = Rs.60,000. Cess at 4% = Rs.2,400. Total = Rs.62,400. Difference = Rs.33,800.

Why not tax all Rs.9 lakh at the highest applicable band? A slab is marginal: only the slice falling in it bears that rate. A tax rebate is also different from TDS credit; this example does not satisfy the historical Rs.5 lakh resident-individual rebate income ceiling.

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Change one assumption: compare deductions separately

Now start with a comparable Rs.9,00,000 income base before a specific assumed deduction. Suppose a documented Rs.1,50,000 deduction is valid only in the historical old-regime calculation, and no other difference exists. Old-regime taxable income becomes Rs.7,50,000: tax Rs.12,500 + Rs.50,000 = Rs.62,500; 4% cess Rs.2,500; total Rs.65,000. Historical new-regime taxable income remains Rs.9,00,000 and total tax Rs.62,400. The difference has narrowed to Rs.2,600.

This arithmetic does not prove the deduction is available to every person. Nor is the starting Rs.9 lakh a gross-salary promise: salary deductions, exemptions and other income must first be computed correctly. For a real comparison, create two complete computations for the same person and year. Check eligibility and evidence for each claimed item, then compare final liabilities. A higher deduction total alone does not establish which regime wins.

Date bridge: what changed from 1 April 2026?

Read the date attached to every tax example. Income earned during FY 2025-26 is returned for AY 2026-27 under the Income-tax Act, 1961 and its applicable forms. The Income-tax Act, 2025 took effect from 1 April 2026. Income for the year beginning that date uses Tax Year 2026-27: the new tax-year term replaces the previous-year/assessment-year naming system for that income.

Earlier-year assessments, returns and other proceedings continue under the relevant transitional provisions. The replacement does not retrospectively turn the historical FY 2021-22 table into a current table. The new default individual regime continues under section 202 of the 2025 Act. Eligible options exercised under the old Act are carried into the corresponding new provision, subject to the transition rules. Always identify the income period, applicable Act, taxpayer and regime before selecting rates or forms.

Choosing a regime: business and non-business cases differ

Position checked on 2 November 2026, with the following form procedure specifically describing AY 2026-27 under the 1961 Act. The new regime is the default for the eligible taxpayer categories; choosing the old regime requires a valid option.

Without business/professional income, the eligible person can choose through the appropriate return each year, filed by the applicable due date. Form 10-IEA is not required merely because a salaried person selects the old regime.

With business/professional income, opting out requires Form 10-IEA by the applicable return due date. A valid old-regime option normally continues; it is not re-filed each year simply to continue. Re-entering the new regime requires the prescribed withdrawal procedure and has restricted future switching: after the permitted withdrawal, another old-regime option is generally unavailable while business/professional income continues; cessation has a specific exception.

Do not assume that informing the employer about salary TDS completes the return option. For TY 2026-27, use section 202, saved-option rules and the forms prescribed for that tax year; do not mechanically relabel a 1961 Act form.

Non-individual taxpayers: identify the person and rate category

A sole proprietor remains an individual taxpayer; a firm, LLP and company are different taxpayer categories. Do not apply an individual's slab table to every business account.

For illustration of dated categorisation, AY 2026-27 guidance gives firms/LLPs a 30% ordinary-income base rate, with applicable surcharge, cess and other provisions considered separately. A domestic company's ordinary or concessional regime may depend on turnover in the specified reference year, qualifying conditions and a valid option: the familiar 25%, 30%, 22% and 15% labels are not interchangeable universal company rates.

Co-operative societies have their own ordinary-rate framework and conditional optional regimes. AOPs/BOIs require attention to membership, shares and applicable provisions. Trusts require analysis of their type and beneficiaries; charitable treatment is conditional. Special-rate income and minimum-tax provisions may change a simple rate comparison. The learning sequence is: legal taxpayer category, relevant year, nature of income, valid regime, base tax, then applicable additions and credits.

Tax-saving products: deduction, return and liquidity are separate

A tax deduction reduces the eligible income base; it is not a rupee-for-rupee refund of an investment. A rebate reduces computed tax, an exemption excludes qualifying income, and a credit recognises qualifying tax already paid.

In the old-regime framework, eligible PPF/provident-fund contributions, specified life-insurance premiums, NSC, ELSS, notified deposits, qualifying housing principal and specified tuition payments can enter deduction provisions, subject to the item conditions and combined limits. Health-insurance deductions and pension contributions have their own provisions; do not put every payment into one unrestricted bucket. Most ordinary section-80C-style personal deductions are not available in the default new-regime computation.

Compare products on purpose and cash flow as well as tax: life cover addresses protection, a deposit/savings instrument has its own withdrawal terms, and an equity-linked investment carries market risk. An eligible contribution does not establish tax-free interest, gains or maturity proceeds. Verify each stage separately. Retain proof, avoid double counting, and never buy an unsuitable product merely to fill a deduction limit.

Wills, trusts and taxation: three questions, not one promise

A will directs succession; a trust provides an arrangement for holding and managing property for beneficiaries. Neither label automatically eliminates tax. Separate receipt of the asset, income earned afterwards, and a later sale.

Under the 1961 Act gift-income framework, receipt under a will or inheritance falls within a specified exception. Interest or rent subsequently generated is a separate income question. A later sale may require capital-gains computation using the applicable inherited-asset cost and holding-period rules; the value on inheritance is not automatically a fresh tax-free sale basis.

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

For a trust, identify the settlor, trustee, beneficiaries, whether shares are determinate, whether the arrangement is revocable, and whether it earns business income. These facts can affect whose income is assessed and the applicable treatment. A private family arrangement and a registered charitable/religious trust cannot share a blanket exemption assumption. Charitable benefits require the relevant registration, purpose, application and other statutory conditions. Obtain the governing documents and evidence before treating an arrangement as tax-efficient.

Capital gains: compute the gain before choosing a rate

Capital gains concern the transfer of a capital asset, not simply the money credited after sale. First identify the asset and whether the transaction is a taxable transfer. Establish acquisition and transfer dates, relevant cost, allowable improvements and transfer expenses. Then apply the applicable short-/long-term classification, special provisions and any qualifying relief.

Simplified illustration only: sale consideration Rs.12,00,000 less assumed allowable transfer expenses Rs.20,000 and assumed acquisition cost Rs.8,00,000 gives Rs.3,80,000 before any further statutory adjustment or relief. This is a computation illustration, not a statement of the final taxable gain or rate for a particular asset.

Holding periods, indexation, rates and exemptions depend on asset class and transfer date. Special rules can apply to specified debt investments, depreciable assets, inherited property and other cases. Reinvestment relief has conditions and deadlines; buying any asset does not automatically exempt any gain. Do not apply an old property example to shares, or a pre-amendment rate to a later disposal. A capital loss also follows specific set-off and carry-forward rules.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Why is 15% of all Rs.16 lakh wrong in the case?

Answer: The bands are marginal.

Why: Each rate applies only to income falling in its band, producing Rs.1.20 lakh base tax under the stated assumptions.

Question 02 | Is the Rs.12 lakh example's Rs.60,000 automatically final tax payable?

Answer: No.

Why: Any applicable rebate, special-rate income, cess, relief, credits and other adjustments must be assessed separately.

Question 03 | Who deducts tax at source?

Answer: The deductor.

Why: The payer or other responsible person deducts under the applicable law; the deductee is the recipient whose credit is relevant.

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

Question 04 | Can citizenship alone establish Indian tax residence?

Answer: No.

Why: The statutory residence tests and special provisions must be examined for the relevant period.

Question 05 | Should a tax-saving product be selected only by its deduction?

Answer: No.

Why: Eligibility, regime, risk, liquidity, costs and the underlying financial goal also affect the decision.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Tax planning begins with person and period.	15. Slab rates are marginal.
02. Identify the applicable Act.	16. The highest slab rate is not a flat rate.
03. The 2025 Act starts 1 April 2026.	17. Special-rate income needs separate treatment.
04. Transition matters for earlier periods.	18. Check rebate conditions.
05. A tax year is not an old section number.	19. Check surcharge and cess separately.
06. Residence differs from citizenship.	20. Capital gains need asset and date facts.
07. Income categories affect computation.	21. A benefit needs statutory eligibility.
08. A deduction is not a rebate.	22. A lock-in affects liquidity.
09. A credit is not a deduction.	23. Tax saving does not guarantee investment suitability.
10. TDS is not necessarily final liability.	24. GST did not replace every indirect tax.
11. The deductor deducts tax.	25. Historical slabs need period labels.
12. The deductee receives the payment and relevant credit.	26. Case Rs.16 lakh base tax is Rs.1.20 lakh.
13. TAN includes deduction and collection.	27. Case Rs.12 lakh base tax is Rs.60,000 before eligible adjustments.
14. PAN has a different purpose.	28. Explain exclusions before reading a calculator result.

Identify person and period > Classify income and regime > Apply eligible deductions and rates > Consider rebate, additions and credits > Interpret the conditional result

MODULE D / D04

Other Financial Services Provided by Banks

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A bank customer asks whether a mutual fund distributed by the branch has the same protection as a bank deposit. The branch must explain the role it is performing. Deposits, insurance, mutual funds, depository services, pensions and factoring solve different needs and involve different contracts and risks. Using the same distribution counter does not make them the same product. A bank acting as distributor should not turn a market-linked investment into an assured-return promise.

Consider a financial-literacy session for twenty-five eligible adults who independently choose to enrol in both PMJJBY and PMSBY under their applicable conditions. Using the stated full annual premiums of Rs.436 and Rs.20, the combined annual amount per person is Rs.456; for twenty-five people it is 25 x Rs.456 = Rs.11,400. These are distinct covers, not one combined insurance policy. PMJJBY concerns life cover on the applicable terms, whereas PMSBY is accident cover, including specified accidental death and disability benefits. Eligibility, consent, renewal, exclusions and claim conditions still require explanation.

The same customer may also need a demat account to hold eligible securities electronically, an investment product for a longer-term goal, or a pension arrangement for retirement. Cross-selling is useful when it connects a genuine need with a suitable service. It becomes harmful when fees or sales targets drive an unrelated purchase. A good banker explains the provider, the bank's role, relevant costs, material risks and the route for servicing or complaints before seeking an informed decision.

Change one assumption

Suppose only ten of the twenty-five adults choose both covers after the explanation. The simple combined annual premium for those ten is Rs.4,560, not Rs.11,400 collected from everyone for the convenience of a target. Consent and eligibility are individual. Change the product again to a market-linked mutual fund: the insurance-premium arithmetic no longer says anything about its return, safety or suitability. Product categories must be explained separately even when one bank distributes them. The appropriate result is an informed customer decision, not maximum attachment of unrelated products to an account or loan.

Avoid this common mistake

A bank's name on the sales channel does not make every third-party product a bank deposit or an assured return. Life cover and accident cover are different. An insurance sale requires the relevant eligibility and informed choice; a customer should not be pressured into an unrelated purchase to obtain another service. Similarly, dematerialisation changes how securities are held, not the underlying investment risk. Explain each provider's and intermediary's role clearly.

Identify the need > Explain provider and bank role > Assess suitability and terms > Obtain informed consent > Service and review

Follow the relationship

Identify the need > Explain provider and bank role > Assess suitability and terms > Obtain informed consent > Service and review

Identify the need -> Explain provider and bank role -> Assess suitability and terms -> Obtain informed consent -> Service and review

Connect the concepts

01. Distribution of a third-party product differs from accepting a deposit on the bank's own balance sheet.

02. Mutual funds pool investments under their scheme structure; their risks and costs follow the portfolio and terms.

03. Read historical scheme-category lists with their dates; the 2026 categorisation framework and scheme-specific transition must be considered.

04. Insurance addresses defined insured events; cover, premium, exclusions and claim conditions must be read together.

05. PMJJBY and PMSBY have different insured risks even where their benefits are expressed in similar rupee amounts.

06. The stated full annual premiums are Rs.436 for PMJJBY and Rs.20 for PMSBY; eligibility and applicable terms still govern enrolment.

07. Cross-selling should meet an identified need and should not become coercive bundling.

08. A depository holds eligible securities electronically through its framework; a DP provides the investor-facing services under that arrangement.

09. PMS is a distinct investment-management service and is not interchangeable with a mutual fund or deposit.

10. Factoring concerns receivables and agreed services; financing, collection and credit-risk allocation depend on the contract.

11. APY eligibility for new joining includes the income-tax-payer restriction introduced from 1 October 2022; earlier co-contribution illustrations are historical.

12. Service quality includes provider identification, suitability, disclosures, consent, records, renewals and complaint handling.

Identify the need > Explain provider and bank role > Assess suitability and terms > Obtain informed consent > Service and review

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Product investment risk and the bank’s duties as distributor/intermediary are separate. A disclaimer cannot be used to excuse mis-selling or failures within the bank’s own responsibilities.

Provided by Banks

Banks are permitted to undertake certain eligible financial services or para

banking activities either departmentally or by setting up subsidiaries. Para

banking activities, including bancassurance, depository service, insurance, MFs, credit

and debit cards, etc, have helped increase the reach of the banks and brought a vast

segment of the population into the fold of basic financial services.

Mutual Fund Business

A mutual fund pools money from many investors and invests the money in stocks,

bonds, short-terms money-market instruments, other securities or assets, or

some combination of these investments. The combined holdings the mutual fund

owns are known as its portfolio. Each unit represents an investor’s proportionate

ownership of the fund's holdings and the income those holdings generate.

The function of Mutual Fund can be easily understood by the diagram given below.

Identify the need > Explain provider and bank role > Assess suitability and terms > Obtain informed consent > Service and review



Salient Features of Mutual Funds

Professional Management - Money is invested through fund managers.

Clarification for accurate understanding

The old solution-oriented category is historical. SEBI’s February 2026 framework uses life-cycle funds and discontinues that category with transition requirements; check the actual scheme status.

Diversification - Diversification is an investing strategy that can be neatly summed

up as "Don’t put all your eggs in one basket". By owning shares in a mutual fund

instead of owning individual or bonds, the risk is spread out.

Economies of Scale - Because a mutual fund buys and sells large amounts of

securities at a time its transaction costs are lower than what an individual would pay

for securities transactions

Liquidity - Just like individual shares, mutual fund units are convertible into money by way of sale in the market.

Simplicity - Buying a mutual fund unit is simple. Any bank has its own line of mutual funds, and the minimum investment amount is small.

Investors should examine each of the above features carefully before investing in mutual funds.

Types of Mutual Funds

Each fund has a predetermined investment objective that tailors the fund's assets, regions of investments and investment strategies. At the fundamental level, there are

three varieties of mutual funds:

Equity funds (stocks)

Fixed-income funds (bonds)

Money market funds

All mutual funds are variants of these three asset classes. For example, while equity funds that invest in fast-growing companies are known as growth funds, equity funds that invest only in companies of the same sector or region are known as specialty funds.

Mutual Funds can also be classified as open-ended or closed-ended, depending on the maturity date of the fund.

Closed - ended Funds

Closed-end funds run for a specific period.

On the specified maturity date, all units are redeemed and the scheme comes to a close.

The units shall be listed on a stock exchange to provide liquidity.

Investors buy and sell the units among themselves, at the price prevailing in the stock market.

Categorization of mutual fund schemes

In order to bring the desired uniformity in the practice, across Mutual Funds and to standardize the scheme categories and characteristics of each category, SEBI advised to categorize the open-ended MF schemes s given below.

The Schemes would be broadly classified into following groups:

Equity Schemes

Debt Schemes

Hybrid Schemes

Solution Oriented Schemes

Other Scheme

Equity Schemes

Invest in shares and stocks:

Represent the largest category of mutual funds.

Investment objective is long-term capital growth with some income.

Many different types of equity funds because of the different types of investment

objective.

In equity schemes, a company is referred based on its market capitalization. Market

capitalisation is the value of the stock that you arrive at by multiplying the stock price by the

company's outstanding number of equity shares. There are three main classifications, viz.,

Large Cap, Mid Cap and Small Cap.

Large Cap: 1st - 100th company in terms of full market capitalization

Mid Cap: 101st - 250th company in terms of full market capitalization

Small Cap: 251st - company onwards in terms of full market capitalization

Debt Scheme

Invest in debt instrument of different maturities. This ensures regular income.

Clarification for accurate understanding

Do not reverse earlier to later: the historical solution-oriented definition used earlier. The main update is the 2026 category change, not an invented change to this old wording.

Hybrid Schemes

Invest in Equity and debt instruments depending on the objectives of the schemes.

Solution Oriented Schemes

In case of Solution oriented schemes, there will be specified period of lock in. Examples of

fund in the scheme are:

Retirement fund scheme: An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).

Children's Fund: An open ended fund for investment for children having a lock-in for atleast 5 years or till the child attains age of majority (whichever is earlier).

Other Schemes: Examples of this Schemes are Index fund schemes and ETF.

RBI guidelines on mutual fund business

Banks shall not undertake mutual fund business with risk participation except through a subsidiary joint venture set up for the purpose.

Where a sponsoring bank undertaking the mutual fund business lends its name to the bank sponsored mutual fund, a suitable disclaimer clause shall be inserted while publicising new schemes to the effect that the bank is not liable or responsible for any loss or shortfall resulting from the operations of the scheme.

Banks shall undertake agency business of mutual fund companies departmentally

subject compliance of the following additional conditions:

o The investors' applications for purchase/sale of mutual fund units shall be forwarded to the mutual funds/registrars/transfer agents.

o The purchase of units shall be at the customers' risk without the bank guaranteeing any assured return.

o No mutual fund units shall be acquired from the secondary market or bought back from a customer for selling it to other customers.

o Extension of credit facility to individuals against the security of mutual fund units shall be in accordance with the Master Directions on Credit Management.

o A bank holding custody of mutual fund units on behalf of its customers shall keep the investments of the customers distinct from its own investments.

Insurance Business

Insurance is a financial risk management tool in which the insured transfer a risk of potential financial loss to the insurance company that mitigates it in exchange for monetary compensation known as the premium.

Insurance policies are of different types depending on the risk they mitigate. Broad categories include:

Health Insurance

Life Insurance

Asset Insurance

Health Insurance

Health insurance is a contract between the insurance company and the insured person to cover the medical cost that might arise from illness, accidental injuries, surgeries and other medical complications. The Liberalization of the insurance sector as well as the increasing demand for health insurance covers. specially from the middle class, have given a fillip to the growth of health insurance and today the sector is emerging as fastest growing segment in the non-life insurance industry. These insurance companies provide individual as well as floater policies. Group insurance are also in vogue.

Present players in Health Insurance Industry:

We can divide them into THREE categories.

Standalone health insurance companies

Health Insurance from General insurance companies

Health Insurance from Life Insurance Companies.

Life Insurance Products

There are different Life insurance products offerings catering to the investment needs and objectives of different kinds of investors. The broad categories of life insurance **products are:**

Endowment Policies: An endowment policy is the life insurance agreement that is mapped out to pay the lump sum after a specified term that is on maturity or upon death. The typical maturities are 10, 15 or 20 years up to a specified age limit. Moreover, in the case of any critical illness, the endowment policy also pays out.

Term Insurance Policy: Term life insurance or term assurance is life insurance

that provides coverage at a fixed rate of payments for a limited period of time, the relevant term.

Money Back Policies

Pension Plans

Asset insurance

Many movable and immovable assets can be insured. It is the need of any bank to protect the assets charged to it. These assets are to be safeguarded by covering

under insurance. Insurance on vehicles, machinery, livestock insurance etc. are some of the examples. The Insurance Regulatory and Development Authority, an agency of the Government of India, is the regulatory body for the insurance sector's supervision and development in India.

Cross Selling

Cross-selling is the action or practice of selling an additional product or service to an existing customer. In practice, businesses define cross-selling in many different ways.

Strategies for Effective Cross Selling

A robust customer database is foremost for effective cross-selling. The database is the core on which the entire cross-selling strategy is built.

Based on the customer relationship history and the cross-selling model, a broad mapping of the customer profile and retail products to be cross sold has to be done.

The mapped data has to be sliced and diced to develop specific asset related cross-selling information.

The cross-selling information has to be put in place for staff (internal customers) to view and communicate to the target customer group.

The internal customers should be trained to effectively cross sell and convert the initiatives into business.

Cross-selling is a team effort and success depends on the attitude and involvement of all the staff concerned.

The success of cross-selling depends on offering at the right time, the relevant

product to customer. It will be a futile exercise to cross sell a product which is not needed or relevant for the customer.

The strategy has to percolate from the corporate to the branch level based on customer database across geographies.

Dynamic feedback from the line level should be taken cognizance of for fine-tuning/re-tuning the strategies.

Selecting the target customer group is essential for cross-selling success. Selling the right product to the right customer improves the relationship.

Cross-selling is more relationship- than transaction-based. At any point of time, the cross-selling initiative by the line staff should not be an irritant for the customer.

Depository Services by Banks

With a view to adding value to banking services and making available the numerous benefits of depository system to clients, some banks have been offering DEMAT/Depository services through both the Depositories viz., National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL).

A "Depository" is a provider of the facility for holding and/or transacting securities (like shares, debentures, bonds, government securities, mutual fund units, etc.) in, book entry form.

Depository Participant

Depository Participant (DP) is an agent of the depository who is authorized to offer depository services to investors and is registered as a DP with SEBI. Financial institutions, banks, custodians, stockbrokers and other types of intermediaries specified under SEBI (Depositories and Participants) Regulations, 1996, complying with the requirements prescribed by SEBI/Depositories can be registered as DP. An investor will always interact with a DP for the services and cannot directly approach the depository for any services except for Redressal of Grievances.

A Depository provides following services to investors through a DP:

Opening a demat account.

Dematerialization.

Rematerialization.

To maintain record of holdings in the electronic form.

Facilitate settlement of trades by exchanges/Clearing corporations by delivering/receiving underlying securities from/in Beneficial Owner (BO) accounts.

Facilitate transfer of securities between BOs.

Receiving electronic credit in respect of securities allotted by issuers under IPO or otherwise.

Receiving non-cash corporate benefits, such as, allotment of bonus and rights shares or any other non-cash corporate benefits given by the issuers in electronic.

Facilitate pledging of dematerialized securities.

Freezing of the demat account for debits, credits or both.

Subscription/Redemption of mutual fund units in demat form.

Demat Account

What is a Dematerialisation (Demat) Account?

Investing in equity shares in physical form entails a lengthy procedure, lot of paperwork and risk of getting fake shares. In order to keep the entire experience easy and streamlined, a demat account is required. While trading online, demat account is used to hold shares and securities in dematerialised/electronic format.

Facilities offered by a Demat Account

Transfer of shares

Loan facility

Dematerialization & rematerialization

Multiple access options

Corporate actions

Freezing Demat accounts

Speed E-Facility

How to open a Demat Account?

You can open a Demat Account by following these easy steps:

Firstly choose a Depository Participant (DP) with whom you would like to open a Demat Account.

Afterwards, fill an account opening form and attach a passport-sized photograph along with photocopies of the required documents stating proof of address and identity. You should have a PAN card unless otherwise exempted. Remember to carry the original documents along for verification.

The DP will give you a copy of the rules and regulations, the terms of the agreement and necessary charges that you need to pay.

During an In-Person Verification, a representative of the DP would contact you to verify the details provided in the account opening form.

After processing of the application, you will get an account number/ client ID from the DP. These details will be required to access Demat Account online.

When you become a demat account holder, you would be required to pay an annual maintenance fee for maintenance of your account. Additionally, you would be charged a transaction fee for conducting buying/selling transaction via the Demat Account. In case your shares are in physical form, the DP may charge you a separate fee for dematerialisation of the shares.

You can open a Demat Account without having any shareholdings. Moreover, there’s no mandate to maintain a minimum balance.

Some Social Security Insurance Schemes

PM Jeevan Jyoti Bima Yojana Scheme

As mentioned earlier, this scheme is a one-year Insurance Scheme, and it offers life insurance cover for death due to any reason. The plan would be offered/administered through LIC (Life Insurance Corporation of India) and

Clarification for accurate understanding

The stated full annual PMJJBY premium is Rs.436 in the May 2026 government description. Do not retain Rs.330 as current.

Clarification for accurate understanding

The stated annual PMSBY premium is Rs.20 in the May 2026 government description. Do not retain Rs.12 as current.

Clarification for accurate understanding

Distinguish full annual premium from PMJJBY pro-rata enrolment amounts, lien/renewal conditions and consent. Do not imply a combined premium creates one combined insurance contract.

other Life Insurance companies willing to provide the product on similar terms

with the required approvals and tie-ups with Banks for this purpose.

PMJJBY can be availed by the people who fall under the age group of 18 to 50

years (life covers up to age 55) and have a savings bank account. Interested

people who give their consent to join and enable auto-debit can avail of the

benefits of this scheme.

A life cover of Rs. 2 lakhs is available under the PMJJBY scheme, at a

premium of Rs.330 per annum per member, and is renewable every year. If

someone has a joint account, all the account holders can join the scheme,

provided they meet its eligibility criteria and agree to pay the premium at the

rate of Rs.330 per person.

Benefits: Rs.2 lakh is payable on member’s death due to any cause.

Premium: Rs. 436/- per annum per member.

Appropriation of Premium:

Insurance Premium to LIC/insurance company: Rs.289/- per annum per member

Reimbursement of Expenses to BC/Micro/Corporate/Agent: Rs.30/- per annum

per member.

Reimbursement of Administrative expenses to participating Bank: Rs.11/- per

annum per member

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Pradhan Mantri Suraksha Bima Yojana is a government scheme launched on 9th May 2015 by PM Narendra Modi. It intends to provide an affordable insurance scheme for the poor and underprivileged people in the age group of 18 to 70 years with a bank account at a premium of Rs.12 per annum; risk coverage of Rs.2 lakh for accidental death and full disability and Rs.1 lakh for partial disability.

Benefits of Pradhan Mantri Suraksha Bima Yojana

Pradhan Mantri Suraksha Bima Yojana (PMSBY) provides an insurance policy to the people belonging to the underprivileged sections of society. The scheme is administered by insurance companies from both the private and public sectors. Some of the benefits

provided by the scheme are mentioned below:

Clarification for accurate understanding

PMSBY is accident insurance for the defined accidental death/disability events, not general life cover.

The Pradhan Mantri Suraksha Bima Yojana offers a life cover of Rs. 2 lakhs for one year to all its account holders. This life cover is provided in case of accidental death or permanent disability.

A life cover of Rs. 1 lakh is provided to the beneficiary in case of partial disability.

This scheme can be availed by any individual aged between 18 years to 70 years.

In case of the death of the account holder, the benefits of the scheme can be availed by his/her nominee.

The scheme provides an annual premium of Rs. 12 per annum per member. This premium is auto-debited in one instalment on or before 1st June of every year.

Eligibility for Pradhan Mantri Suraksha Bima Yojana

Any individual must follow the below-mentioned criteria to be eligible for the Pradhan

Mantri Suraksha Bima Yojana:

Any individual aged between 18 years to 70 years are eligible to apply for the scheme.

He/she must have a bank account along with their phone number linked to the account.

The individual should submit their Aadhaar details while applying for the scheme. This Aadhaar details will be linked with their bank account.

If any individual has multiple bank accounts of one or different banks, then he/she will be eligible to join the scheme through one bank account only. In the case of a joint account, the scheme benefits can be availed by all the bank account holders.

In the case of an NRI beneficiary, the claim benefits will only be provided to the nominee in Indian currency.

Factoring

Factoring implies a financial arrangement between the factor and client, in which the firm (client) gets advances in return for receivables, from a financial institution (factor). It is a financing technique, in which there is an outright selling of trade debts by a firm to a third party, i.e. factor, at discounted prices.

Type of Factoring

Recourse and Non-recourse Factoring: In this type of arrangement, the financial institution, can resort to the firm, when the debts are not recoverable. So, the credit risk associated with the trade debts are not

assumed by the factor.

On the other hand, in non-recourse factoring, the factor cannot recourse to the firm, in case the debt turn out to be irrecoverable.

Disclosed and Undisclosed Factoring: The factoring in which the factor's name is indicated in the invoice by the supplier of the goods or services asking the purchaser to pay the factor, is called disclosed factoring.

Conversely, the form of factoring in which the name of the factor is not mentioned in the invoice issued by the manufacturer. In such a case, the factor maintains sales ledger of

the client and the debt is realized in the name of the firm. However, the control is in the hands of the factor.

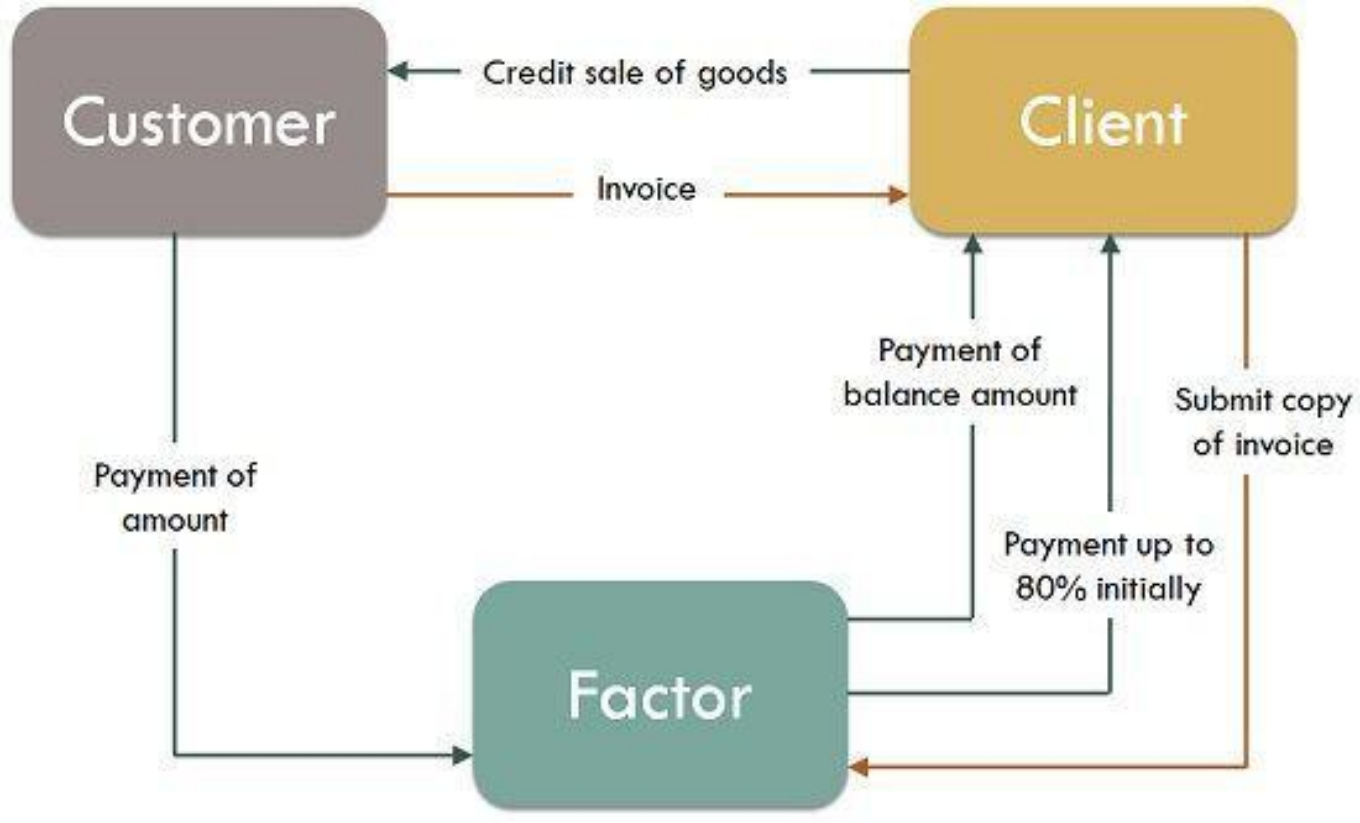
Domestic and Export Factoring: When the three parties to factoring, i.e. customer, client, and factor, reside in the same country, then this is called as domestic factoring.

Export factoring, or otherwise known as cross-border factoring is one in which there are four parties involved, i.e. exporter (client), the importer (customer), export factor and import factor. This is also termed as the two-factor system.

Advance and Maturity Factoring: In advance factoring, the factor gives an advance to the client, against the uncollected receivables.

In maturity factoring, the factoring agency does not provide any advance to the firm. Instead, the bank collects the sum from the customer and pays to the firm, either on the date on which the amount is collected from the customers or on a guaranteed payment date.

Procedure of Factoring



Factoring process illustration. An 80% advance is an assumed contractual share; recourse, collection responsibility, fees and risk transfer follow the actual arrangement.

Atal Pension Yojana (APY)

The Government of India has announced a new scheme called Atal Pension Yojana (APY). APY is a guaranteed pension scheme and is administered by the Pension Fund Regulatory and Development Authority (PFRDA).

There is an option of getting a fixed pension of Rs 1000, Rs 2000, Rs 3000, Rs 4000, or Rs 5000 on attaining an age of 60. The pension will be determined based on the individual's age and the contribution amount. The contributor's spouse can claim the pension upon the contributor's death, and upon the death of both the contributor and

Clarification for accurate understanding

New APY joining has an income-tax-payer restriction from 1 October 2022, in addition to the age/account and other conditions.

Clarification for accurate understanding

The quoted government co-contribution relates to the specified historical joining window and conditions; do not promise it to every current new subscriber.

his/her spouse, the nominee will receive the accumulated corpus. However, if the contributor dies before completing 60 years of age, the spouse can either exit the scheme and claim the corpus or continue the

scheme for the balance period.

APY Features

Guaranteed monthly pension for subscribers, ranging from Rs. 1,000 to Rs. 5,000

per month.

Government of India (GoI) will also co-contribute 50% of the subscriber's contribution or Rs. 1,000 per annum, whichever is lower. The Government co- contribution is available for those who are not covered by any Statutory Social Security Schemes and is not an Income Tax payer

GoI will co-contribute to each eligible subscriber for a period of 5 years, who joined the scheme during the period Jun 1, 2015 to Mar 31, 2016. The benefit of five years of Government co-contribution under APY would not exceed 5 years for all subscribers, including the migrated Swavalamban beneficiaries.

Eligibility

APY is applicable to all citizens of India aged between 18 - 40 years

KYC compliant Bank account is mandatory for this product

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Does bank distribution make a mutual fund a deposit?

Answer: No.

Why: The underlying provider, contract and investment risks differ despite the common sales channel.

Question 02 | What is the case combined annual premium per person?

Answer: Rs.456.

Why: Rs.436 plus Rs.20 combines the two stated premiums without merging their insurance contracts.

Question 03 | What is the amount for ten eligible consenting participants?

Answer: Rs.4,560.

Why: Only the ten stated combined enrolments are included, so 10 x Rs.456 applies.

Question 04 | Does a demat account guarantee that the securities held will retain value?

Answer: No.

Why: Electronic holding affects custody and transfer arrangements, not the issuer's or market's investment risk.

Question 05 | Why must APY co-contribution statements be dated?

Answer: The old incentive covered a specific historic joining period and conditions.

Why: It is not a universal current benefit for every new subscriber.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. A distributor and a product provider can differ.	15. Twenty-five combined enrolments cost Rs.11,400.
02. A mutual fund is not a bank deposit.	16. Ten combined enrolments cost Rs.4,560.
03. Market-linked returns are not assured.	17. A sum of premiums is not one policy.
04. Scheme terms and costs matter.	18. Cross-selling should meet a need.
05. Historical categories need date labels.	19. Do not confuse selling with coercive bundling.
06. Insurance covers defined risks.	20. Demat holding does not remove investment risk.
07. Life and accident cover differ.	21. DP and depository have different roles.
08. PMJJBY is a life-insurance scheme.	22. PMS differs from mutual funds.
09. PMSBY is an accident-insurance scheme.	23. Factoring terms allocate risks.
10. Eligibility must be checked individually.	24. Recourse affects credit-risk allocation.
11. Enrolment requires relevant consent.	25. APY new-entry tax-payer restriction needs checking.
12. Renewal conditions matter.	26. Old APY co-contribution periods are historical.
13. Full annual premiums used are Rs.436 and Rs.20.	27. Identify servicing and complaint routes.
14. Their sum is Rs.456.	28. Explain roles before seeking a decision.

MODULE HL / HL01

Lender’s Appraisal Procedure

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A home buyer agrees to pay Rs.50 lakh for a flat and asks a bank for a loan of Rs.40 lakh. The property value alone cannot answer whether the bank should lend. The bank must assess the borrower, the property, the proposed transaction and the security, each for a different purpose. This example uses assumed figures; it does not prescribe a permissible LTV or income ratio.

The buyer earns Rs.80,000 a month and has existing monthly instalments of Rs.10,000. If the proposed home-loan instalment is Rs.30,000, total monthly debt payments become Rs.40,000. The simple instalment-to-income ratio is 40,000/80,000 = 50%. That ratio is a starting signal, not an automatic approval. Consider reliable net income, essential expenditure, dependants, variable earnings and the lender's applicable policy. Do not count uncertain rental income at its full hoped-for amount without an appropriate assessment.

Separately, examine the sale agreement, title chain, approvals, construction status and valuation. A valuer's report does not certify legal title, and a legal opinion does not prove repayment capacity. Establish the borrower's contribution and the evidence for its source. Then determine the required security, documentation, registration and charge-recording steps for the particular transaction.

Sanction must describe conditions clearly. Disbursement follows satisfaction of those conditions and the approved purpose, often in stages for construction. Monitoring continues afterwards: repayment, insurance and security conditions, construction progress where relevant and eventual release of documents after proper closure.

Change one assumption

Suppose the buyer receives a large annual bonus but cannot demonstrate that it is regular. Using it as guaranteed monthly income could overstate repayment capacity. Assess the reliable portion under the lender's policy and explain the sensitivity if that income disappears. Alternatively, suppose title documents reveal an unresolved prior charge. A strong salary does not cure the security defect. Resolve the legal issue before the relevant disbursement rather than assuming a higher property valuation compensates for it. Credit capacity, title quality, valuation and documentation are complementary checks; strength in one does not cancel weakness in another.

Avoid this common mistake

Do not treat the application checklist as a universal statute. The documents and ratios depend on the borrower, property, lender policy and applicable law. A historical percentage for recognising proposed rent or a state-specific registration fee is not an all-India rule. Nor is an agent's completed application evidence that appraisal is finished. The bank must verify the information, communicate the terms and complete the required security and documentation steps.

Four checks before the disbursement decision

Borrower and repayment > Property and technical review > Title and security > Terms and documentation > Controlled disbursement

All checks contribute to the decision

Valuation does not establish title

Security does not replace cash flow

Connect the concepts

01. Appraisal begins with the purpose, borrower and transaction; it tests whether the requested finance is appropriate and repayable.

02. Income assessment should distinguish reliable recurring income from uncertain or one-off receipts and identify existing obligations.

03. An instalment-to-income ratio is useful only with a defined income base and a full view of relevant debt payments.

04. LTV compares a defined loan amount with a defined property value; the applicable cap and valuation basis require separate checks.

05. The borrower’s own contribution must be assessed and evidenced; a nominal margin does not prove the funds are available.

06. Legal title examination, technical appraisal and valuation address different questions and should not substitute for one another.

07. A mortgage transfers an interest in specified immovable property as security; its form and creation requirements must be identified.

08. Stamp duty, registration and security-interest registration are distinct matters; one completed process does not automatically satisfy the others.

09. The Key Facts Statement helps an eligible borrower understand the cost and main terms; compare the disclosed APR, charges and schedule.

Borrower and repayment > Property and technical review > Title and security > Terms and documentation > Controlled disbursement

10. Sanction conditions should be completed before the relevant disbursement, with payments controlled for the approved loan purpose.

11. Construction finance requires appropriate progress monitoring; a demand for funds does not itself prove work is complete.

12. Closure includes confirming repayment and other liabilities, completing release formalities and recording delivery of documents appropriately.

Work it out, then change an input

Enter a principal, annual rate and number of months. Predict the change when the term or rate increases. Compare the EMI, total interest and outstanding balance; use a repayment budget to test affordability.

Open the offline emi calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Procedure

Application Form

The appraisal process begins with an application form. An application form is designed to collect all relevant information that a lender needs, to decide whether prima facie the loan exposure would be an acceptable risk and falls within the policy parameters of the bank. This is a first step preceding other processes. Housing loans are generally sanctioned against the security of immovable properties viz., land and building. Again, this is a personal segment loan and the source of repayment of these loans come from

the existing income of the borrower/s. Therefore, banks need to gather full particulars of:

The land and building.

Existing income and the source of it. How long this income is expected to continue.

Existing liability, if any, and monthly financial repayment obligation on the proposed loansam other things.

Power Of Attorney

This act may be called as "POWER OF ATTORNEY ACT, 1882", which was passed in

the year 1882 on 24th feb and the act came into force on first day of May, 1882. This act applies to the whole of India. The main aim of passing this statute is to make it easy for your designated attorney to access your finances and, in that way, take care of your property.

‘Power Of Attorney’ is an authority given by an instrument by one person, called as the donor or principal, authorising another person, called donee or agent to act on his behalf. There may be possibility of giving

'Power Of Attorney' by two or more persons jointly to one or more persons. Here a legal authority is given by the principal to the agent which may be broad or limited and an agent can take all necessary decisions i.e. financial, property related matters and all other matters where principal cannot be present to sign or in the case of principal's illness and disability. A paper signed by principal giving powers to an agent is sometimes itself called a power of attorney. A paper giving a power of attorney should be clear and understandable.

Appraisal of Loan Request

The appraisal comprises a validation of the information submitted by the applicant, collected by the various credit verification agencies, property appraisers, bank's solicitors, etc. In the process of validation, the information is checked against the bank's policy, budgetary guidelines, risk management practices any negative list, etc.

Agreements/letters/application forms required for the appraisal process:

Housing Loan application.

Appraisal form.

Term Loan agreement for Home Finance.

Guarantee Agreement (if required). Arrangement letter (Terms and conditions for Housing Finance).

Equitable Mortgage intent letter.

Equitable Mortgage confirmation letter.

Letter of undertaking (where finance is availed for purchase of plot).

Letter to be addressed by the borrower to his/her employer. An undertaking letter from the borrower that the construction will be carried out only as per the plan approved (in case of construction only).

Letter to be addressed by the borrower's employer to the bank. Letter when the applicant himself/herself is the drawing officer.

Mortgage Deed (in case of Registered Mortgage).

Mortgage Confirmation Letter.

Documents in connection with pledge of other securities, wherever applicable.

Appraisal Form for a Home loan

Eligible loan amount

Eligible: The Lender could have a policy laying down the criteria for acceptance of a home loan exposure, against which a loan application is checked. The parameters could be:

A preferred age group.

Minimum salary/income level.

Score in credit information report

Areas/localities where home loan will be given; and areas where he will not take an exposure.

Negative list containing other disqualifications.

The banker/lender would be well advised to develop such Risk Asset Acceptance Criteria (RAAC). This will ensure that the portfolio quality is developed and maintained in terms of the policy of the bank. Leaving the same to the skills of the several credit officers of the institution could result in disparate credit standards being applied in selection of the borrowers.

Parameter 1:

Loan Amount Requested Rs.

Cost of purchase/construction/renovation/repair of flat/house Plus registration fee/stamp duty Rs.

Amount under b) above less margin stipulated Rs.

Loan amount: (a) or (c) whichever is less Rs.

Parameter 2:

a. Gross monthly income Rs.

Gross income of the applicant Rs.

Clarification for accurate understanding

The percentage of expected rent recognised in an appraisal is an illustrative policy assumption, not a universal regulatory entitlement. Assess reliability and the lender’s current policy.

Add: Income of the spouse, if any Rs.

Add: Other income, if any (say 50-60% of future rental) Rs.

Total Rs.

b. Net monthly income: Rs.

Net income of the applicant Rs.

Add: Net Income of the spouse, if any Rs.

Add: Other net income, if any Rs.

(say 50-60% of future rental)

Total Rs.

c. Certain multiples of (a) (say 36 times) Rs.

d. Certain multiples of (b) (say 60 times) Rs.

e. Loan amount (c) or (d) whichever is higher Rs.

Eligible loan limit: Lower than Parameter 1 or Parameter 2

(In case of take-over, the loan amount should not exceed the balance principal outstanding)

A. EMI for eligible loan amount for a repayment period of... years Rs. B. Net monthly income minus 40% of Total Monthly Gross Income Rs. (B should be equal to or more than A)

II. Service Eligibility

Minimum years of service ..... years (applicable for loan to salaried class people)

III. Age Eligibility

Present age of the borrower

Repayment period

Age at the end of the repayment period

Retirement age (in case of salaried class people)

IV. Legal Opinion

Date of opinion

Name of the advocate (who should be in the panel of the financing institution)

Layer's opinion on the title of the property

V. Valuation Details

Date of valuation

Name of the valuer (who should be in the panel of the financing institution)

Value of the property as per valuer's report: Rs. .....

Estimated cost of construction/repair Rs. ..... Whether the property is encumbered: Yes/No

If yes, name of the mortgagee

Amount of loan take Rs. .....

Amount of loan outstanding Rs. .....

VI. Inspection Details

Date of inspection by staff of the financing institution: .....

Inspection done by: .....

Observation: Specific comments on interaction with neighbours/officials of society in case of existing building, discussion with builder and observation regarding the state of construction in case of a building under construction, land mark of the area, approach details to the building, boundary details of the building and any other relevant information

VII. Rate of Interest

Rate of interest: .... % per annum

Type of interest: Fixed/Floating

VIII. Security Details

Market value of the land and house/flat (proposed to be financed) Rs.

Collateral security value, if any Rs.

Total Rs.

Margin (.....%) Rs.

Drawing limit (Total minus Margin amount) Rs.

IX. Repayment Details

Holiday period, if any …… months

Repayment to start from ..... (Month)..... (Year)

Type of EMI: Regular/Variable

Repayment in ..... EMIs of Rs. …… each

X. Other Charges

Processing Fee/Administrative Fee Rs. ..... Date of collection..... .

Upfront Fee Rs. ..... Date of collection .....

XI. Litigation Details, if any

XII. Relaxation/Concession, if any

XIII. Disbursement details

First Stage: Rs. …… Date of disbursement .....

Second Stage: Rs. …… Date of disbursement ……

Third Stage: Rs. …… Date of disbursement .....

Total: Rs. ……

Typical Format used by Banks for Assessment of Housing Loan

Loan for Construction of House

1. In Case of House

Area of Plot Sq. ft.

Proposed built up area Sq. ft.

Purchase Price of Plot Rs.

Architect's fees Rs.

Cost of construction Rs.

2. In case of Flat

Area of undivided share of land Sq. ft.

Cost of undivided share of land Rs.

Cost of semi-finished flat Rs.

Cost of Completion and/or additional items Rs.

Registration Charges Rs.

Total Cost Rs.

Market Value as per Report Rs.

3. Loan for Purchase of House/Flat (Ready Built)

Is the Unit New Old

Age of existing structure if old ……. Years

Purchase Price Rs.

Cost of additional items Rs.

Total Cost Rs.

Area of Plot undivided share of land …….

Built up area in Sq. Ft. …….

Market Value/Land Value Rs.

Structure Value Rs.

4. Loan for Extension

Age of Existing structure ……

Plot Area/Built up area of Flat ……. In sq. ft.

Market value of existing structure Rs.

Is the property mortgaged to any institution? YES/NO

If yes, name of Institution …….

Value of outstanding loan ……

Mortgage Value Rs.

Details of proposed repair extension ……

Estimated cost of repairs/extension Rs.

5. Loan amount request:

Cost of Property	Amount in INR	Source of funds	Amount in INR
1. Cost of land 2. Cost of construction extension 1. Cost of amenities, service charges. 2. Cost of repairs, improvement 3. Cost of flat/house 4. Cost of stamp duty, electrical connections, municipal charges Total costs*		1. Amount already invested 2. Saving in Bank 3. Disposal of investment, property 4. PF (a) refundable (b) non-refundable 5. Other, specify 6. Loan applied for Total Funds	

*Total cost should equal Total funds

Other Relevant issues at Pre- Sanction Stage

Interest: Both Fixed rate loans and floating rate loans may be offered.

Insurance: The house/ flat should be insured against the risk of fire/riots/earthquakes/lighting/floods, etc..

Moratorium: A repayment holiday may be allowed for a home loan when the construction is undertaken by a reputed builder, a Government agency, etc. and the borrower makes payments in stages over the construction period. The moratorium will be upon 18 months after the first disbursement of the loan or two months after completion of construction whichever falls first.

If the loan under consideration is for purchase of land with building/flat, a maximum holiday period of 3 months may be allowed.

Equated Monthly Instalment (EMI)

Pre EMI Interest

EMI Reset

Mortgage

The next section deals with an important part of the security documentation, viz. mortgage. The basic steps in creating a mortgage are listed herein. The legal position surrounding the creation of mortgage and the precautions to be taken by a lender to secure his position are discussed in some detail.

Mortgage

Section 58(a) of the Transfer of Property Act, 1882 defines mortgage as "a transfer of an interest in specific immovable property for the purpose of security, for the payment of money advanced or to be advanced by way of a loan, an existing or future debit or the performance of an engagement which may give rise to a pecuniary liability".

Types of Mortgage:

In India, Immovable property is accepted by the banks as security usually by way of:

Registered or Simple Mortgage,

Mortgage by Deposit of Title Deeds.

Registration of Documents

In each State the relevant Stamp Acts and registration formalities are required to be followed. The following points are relevant in connection with registration of documents in respect properties located in Maharashtra. Those persons who are referring this courseware should study the relevant provisions as prevailing in the particular State.

The Bombay Stamp Act (BSA), 1958 is applicable in the State of Maharashtra. This Act pertains to levy of stamp duty on certain types of documents executed in the State. The

Clarification for accurate understanding

A Maharashtra-specific historical fee is not an all-India current rate. Stamp and registration rules depend on the State, instrument and date; do not reproduce the percentage as a universal requirement.

rates at which stamp duty is levied on these documents are mentioned in Schedule I of BSA. The stamp duty is payable on instrument and not on the transactions. Instrument means any document by which any right or liability is created or recorded. The payment of proper stamp duty on instruments bestows legality on them. The instruments which are not properly stamped are not admitted in evidence.

The Documents relating to the following transactions of immovable properties are

required to be compulsorily registered:

Gift

Lease of immovable property from year to year or for any term exceeding one year

Instruments which create any right in an immovable property of a value of more than one hundred rupees.

Fees for Registration of a Document

The State Government has been empowered to fix the fees for registration of the document. The registration fees at present fixed by the Govt, of Maharashtra are approximately 1% of the consideration of the document but subject to a maximum limit of Rs. 30,000. The registration fee for the following immovable property transactions is leviable on the market value of property on which stamp duty is

charged.

The transactions are as under:

Conveyance,

Exchange

Gift,

Partition,

Transfer of Lease by way of Assignment,

Sale,

Settlement,

Power of Attorney given for consideration, and

Authorising the attorney to sell the property.

Detection of Forged and Fabricated Title Deeds

The title deeds submitted by the applicants need to be examined to detect any fake/forged title deeds. The following are certain tips:

Schedule of property and Registration of the document: It is necessary to verify the Schedule of the property where it is situated and the Registration of the same with the Sub-Registrar Office concerned. Any discrepancy could indicate forgery/fraud.

Stamp Duty affixed on the document and the consideration shown in the document: It is necessary to verify the consideration paid in the document and also verify the Stamp Duty affixed on the document.

Affixation of stamps, cancellation and date of execution: It is necessary to verify the source of purchase of stamps and its cancellation and also the execution of the document. The execution of the document should be subsequent to the cancellation of stamps/date of purchase.

Examine security marks on the stamp paper, which are visible only on a close examination.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | The borrower's salary is strong. Can the bank ignore an unresolved title defect?

Answer: No.

Why: Repayment ability and enforceable security are separate appraisal questions.

Question 02 | What is the simple total instalment-to-income ratio in the example?

Answer: 50%.

Why: (Rs.10,000 + Rs.30,000)/Rs.80,000. This is an assumed calculation, not an approval threshold.

Question 03 | Does a high valuation prove the borrower can repay?

Answer: No.

Why: Collateral value is a potential secondary protection, while cash flow normally services the instalments.

Question 04 | Does paying stamp duty automatically complete registration and CERSAI requirements?

Answer: No.

Why: Identify and complete each applicable legal step; their purposes and procedures differ.

Question 05 | Why monitor a loan after disbursement?

Answer: Repayment and the transaction’s conditions can change.

Why: Monitoring identifies arrears, misuse, incomplete construction or other exceptions while action remains possible.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Appraisal begins with the loan purpose.	15. Sanction conditions need clear communication.
02. Identify the borrower and property.	16. APR is broader than a headline rate.
03. Verify the application information.	17. Read the repayment schedule.
04. Assess reliable income.	18. Check applicable fees.
05. Recognise existing debt obligations.	19. Stamp duty and registration differ.
06. Income ratios need a defined base.	20. CERSAI has a separate purpose.
07. A ratio is not an approval by itself.	21. Complete required security steps.
08. LTV needs a defined valuation base.	22. Control disbursement for the approved purpose.
09. Margin must be available.	23. Construction can require staged release.
10. Title review addresses legal rights.	24. Monitor progress where relevant.
11. Valuation addresses an estimate of worth.	25. Track repayment exceptions.
12. Technical review considers the property itself.	26. Verify fraud warning signs.
13. Legal and technical checks differ.	27. Confirm obligations before closure.
14. An agent does not replace appraisal.	28. Record document release and receipt.

MODULE HL / HL02

Housing Finance and Tax Planning

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A borrower pays a home-loan instalment containing Rs.18,000 principal and Rs.22,000 interest in one month. The bank statement shows one payment of Rs.40,000, but tax analysis cannot treat the whole instalment as one deduction. First separate principal from interest, then identify the taxpayer, ownership, property use, tax period and chosen regime. A loan amount, a repayment and an allowable tax deduction are different quantities.

Suppose an exercise explicitly states that annual qualifying interest is Rs.2,40,000 and that the applicable deduction limit for that taxpayer and property is Rs.2,00,000. The admissible amount under those assumptions is the lower of the qualifying payment and the stated cap: Rs.2,00,000. Rs.40,000 remains outside that particular capped deduction. Do not infer the applicable cap merely from the size of the instalment. If the exercise instead states that the relevant regime does not allow this self-occupied-property deduction, the amount under that provision is nil.

Principal repayment may belong to a different deduction category with an aggregate limit and conditions. It must not be counted again as interest. Confirm completion and other eligibility conditions, documentary evidence, ownership and the qualifying share where co-borrowers are involved. An interest certificate supports analysis but does not create an entitlement by itself.

For periods beginning before 1 April 2026, relevant earlier-Act rules continue to govern the corresponding income period. Later tax years use the applicable 2025 Act provisions. Match the law to the income period, not simply the date on which a return is filed.

Change one assumption

Now change the property from self-occupied to let-out, or change the taxpayer's regime. The treatment of interest, property income and losses may change; do not carry the previous conclusion across automatically. Rebuild the computation from the relevant property category and period. Likewise, if the building is still under construction, the timing of an interest deduction may differ from the timing of the cash payment. This is why a tax illustration must name its assumptions. A larger deduction also does not make a larger loan economically cheaper: interest is a real cost, while any tax benefit depends on eligibility and taxable income.

Identify period and taxpayer > Identify property use and regime > Separate principal and interest > Test eligibility and limits > Compute tax effect

Avoid this common mistake

The tempting mistake is to say “home-loan EMI is tax free.” EMI is repayment of principal plus interest, and neither part becomes deductible solely because the loan is called a home loan. A second mistake is to copy an old section number or ceiling into a current calculation. Period, regime, property use and statutory conditions come first. Use the lender’s certificate as evidence, then apply the relevant law to the eligible amount.

Do not start with the deduction

Identify period and taxpayer > Identify property use and regime > Separate principal and interest > Test eligibility and limits > Compute tax effect

EMI splits into two components

Eligibility comes before arithmetic

A deduction is not a cash refund of the payment

Connect the concepts

01. EMI is a cash-payment structure, while a deduction is a tax-law result; separate the two before calculating any benefit.

02. A repayment schedule distinguishes principal from interest so that each component can be tested under its relevant rules.

03. The taxpayer’s ownership and eligible share matter; being named as a borrower alone does not settle every deduction condition.

04. Property use affects the computation. Self-occupied, let-out and other applicable categories must not be assumed interchangeable.

05. Tax regime choice can change which deductions are available; compare final liability with all relevant conditions.

06. A capped deduction requires both a qualifying amount and an applicable limit; the smaller amount does not establish eligibility by itself.

07. Principal-related relief may share an aggregate deduction ceiling with other qualifying investments and payments.

08. Completion, acquisition dates and the purpose of borrowing can affect eligibility and timing; check the specified rule.

09. Pre-construction interest needs its own timing analysis; do not equate the payment date with the allowance date.

Identify period and taxpayer > Identify property use and regime > Separate principal and interest > Test eligibility and limits > Compute tax effect

10. An interest certificate, repayment schedule and ownership documents support the computation but do not override legislation.

11. The Income-tax Act, 2025 operates from 1 April 2026, while earlier income periods continue under the relevant transition rules.

12. Compare total borrowing cost with any conditional tax saving; a deduction reduces taxable income rather than reimbursing the entire cost.

Work it out, then change an input

Enter an already established final tax liability and separately entered tax credits. Explain whether the difference is payable or refundable. A credit reconciliation does not calculate slab tax or prove deduction eligibility.

Open the offline tax calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Historical section numbers and limits need the income period and regime. For tax years beginning from 1 April 2026 apply the 2025 Act; earlier income periods remain subject to transition provisions. Avoid implying every self-occupied interest deduction is available under the default/new regime.

Tax Benefits In Respect of Housing Finance

In respect of Loan taken for Purchase/Construction of a Residential Unit, the borrower can avail benefit of payment of interest as well as repayment of principal.

Home Loan Tax Benefits

Tax deduction on payment of home loan interest - section 24

Tax deduction on principal repayment of housing loan - section 80C

Tax deduction for first time home buyer - section 80EE

Tax benefit under section 24(b)

Interest on housing loan can be claimed as a deduction from income from property, salary, business profession, capital gains, or any other source upto a maximum of Rs. 2,00,000

under section 24(b) of the Income tax Act, 1961 every year subject to fulfilment of the following conditions.

Loan has been taken on or after 1st April 1999.

Loan is for purchase or construction of a residential property or as re-finance (takeover) of the principal amount outstanding under a loan taken earlier for purchase or construction of a residential property. However, in case of loan for construction, the construction should get completed within 35 Years of raising the Loan. Deduction can be claimed only from the financial year when the purchase/construction is completed.

The lender issues a certificate at the end of the financial year mentioning therein the interest and principal paid during the year in respect of that loan.

Interest payment of home loan taken for a self-occupied property.

If the loan is availed for repair or renewal an amount of Rs. 30,000 is only allowed under Section 24(b)

Clarification for accurate understanding

Historical principal-repayment deduction is part of a conditional aggregate category, not a separate automatic benefit for every home loan. Test law, property, holding conditions and regime.

Computation of income from Self occupied property

Particulars	Amount
Gross annual value	Nil
Less - Municipal taxes paid during the year	Nil
Net Annual Value (NAV)	Nil
Less- Deduction under section 24	
Deduction under section 24(a) @ 30% of NAV Deduction under section 24(b) on account of interest on borrowed capital	Nil (XXXX)
Income from house property	XXXX

Under Section 80C

Tax benefit on Home Loan Principal Repayment under section 80C

The maximum tax deduction allowed under section 80C is Rs. 1,50,000. The tax deduction on principal repayment is also a part of the various deductions allowed under section 80C which includes amount

Identify period and taxpayer > Identify property use and regime > Separate principal and interest > Test eligibility and limits > Compute tax effect

invested in PPF Account, Tax Saving Fixed Deposits, Life Insurance premium, National Savings Certificate, Senior Citizens Saving Scheme, etc.

Conditions for claiming deduction under section 80C: Certain conditions must be satisfied to claim deduction under section 80C for principal repayment of home loan:

Only if the construction of property is complete and have received a completion certificate for the same.

No deduction would be allowed under this section for repayment of principal for those years during which the property was under construction.

Deduction is also available whether the property is self-occupied or let out.

The benefit can also be claimed for more than 1 house property.

Reversal of tax benefits availed under section 80C

If a house property for which tax benefit was availed under section 8OC, is sold within a period of 5 years from the end of the financial year in which the property has been received in possession, then:

Tax benefit under 80C will not be eligible for claim in that financial year.

The total amount of tax deduction already claimed in respect of earlier years shall be deemed to be income of such year in which the property has been sold and will be liable to pay tax on that income.

Section 80EE

Tax benefit under Section 8OEE: Deduction for First Time Home Buyers

Just like deduction under section 24, the deduction under section 80EE is also available on the interest paid on the home loan by taxpayer or assessee. But his deduction is only available to first time home buyers. The quantum of deduction is Rs. 50,000 for interest paid on the home loan This deduction is available over and above the deduction of section 24 and section 80C which are Rs. 2,00,000 and Rs. 1,50,000 respectively.

Conditions Necessary for Claiming Deduction under Section 80EE: To claim this special tax

benefit, the taxpayer must satisfy the following conditions:

The deduction can be availed on home loans sanctioned only between 1st April to 31st March in the financial year.

The value of property for which the loan has been taken should be less than Rs. 50 lakh.

The home loan amount should not exceed Rs. 35 lakhs.

The tax benefit here can be claimed till the time repayment of loan continues

Deduction is only applicable on home loan paid for first house property.

The property in question can be either self-occupied or non-self-occupied.

The amount of claim deducted under this section will not be eligible to claim the deduction u/s 24 again for the same amount of interest.

As on the date of sanction of loan no other house is owned by you.

Eligibility for Claiming Section 80EE Deductions

The deductions under this section can be claimed only by individual taxpayers on properties purchased either singly or jointly.

Section 80EE is applicable on a per person basis instead of a per property basis. So, suppose you have purchased property jointly with your spouse and you both are paying the instalments of loan then you both can individually claim this deduction.

It is not necessary to reside in the property for which you want to claim this deduction. So borrowers staying in a rented accommodation can also claim this deduction.

If the property is rented out, interest paid on Loan can be fully deducted from the Income derived from the property without the limit of Rs. 2,00,000 or Rs. 30,000, as the case may be.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | Can the full Rs.40,000 monthly EMI be classified as interest?

Answer: No.

Why: The example states Rs.18,000 principal and Rs.22,000 interest; the components have different economic and tax meanings.

Question 02 | An exercise states qualifying interest Rs.2.40 lakh and an applicable Rs.2 lakh cap. What amount fits that cap?

Answer: Rs.2 lakh, assuming all stated eligibility conditions hold.

Why: The eligible amount is limited by the cap; the exercise does not establish a universal ceiling for every property or regime.

Question 03 | What if the relevant regime disallows the stated self-occupied interest deduction?

Answer: The deduction under that provision is nil.

Why: The actual tax rule prevails even when the borrower has paid the interest.

Question 04 | Does a loan certificate guarantee a deduction?

Answer: No.

Why: It evidences amounts; eligibility still depends on the taxpayer, property, period, regime and statutory conditions.

Question 05 | A return for FY 2025-26 is filed after 1 April 2026. Does filing date alone move it to the new Act?

Answer: No.

Why: Identify the income period and transition rule; the earlier period remains governed by the relevant earlier-Act provisions.

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. EMI combines principal and interest.	15. Filing date is not the only date.
02. Principal and interest must be separated.	16. Principal may have an aggregate ceiling.
03. A cash payment is not automatically deductible.	17. Other investments can use that ceiling.
04. Eligibility precedes the deduction ceiling.	18. Completion conditions may matter.
05. A cap does not establish entitlement.	19. Pre-construction interest needs timing analysis.
06. Property ownership matters.	20. Certificates are evidence, not law.
07. The taxpayer’s qualifying share matters.	21. A repayment schedule supports classification.
08. Borrower status alone is insufficient.	22. Keep documentary support.
09. Property use affects tax treatment.	23. Avoid double counting interest.
10. Regime choice affects deductions.	24. Avoid double counting principal.
11. Match the relevant income period.	25. Deductions reduce taxable income.
12. Old section numbers need period context.	26. Tax saving is not the full deduction amount.
13. The 2025 Act begins from 1 April 2026.	27. Borrowing still has a real cost.
14. Earlier periods retain relevant earlier-Act treatment.	28. Recompute when facts or regime change.

MODULE HL / HL03

Mortgage Advice

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A customer compares a Rs.10 lakh mortgage over ten years at a hypothetical fixed nominal annual rate of 9%, with monthly reducing-balance instalments. To understand the quote, translate each input into the same time unit. Principal P is Rs.10,00,000, monthly rate r is 0.09/12 = 0.0075 and the number of instalments n is 120. For equal end-of-month payments, EMI = P x r / [1 - (1+r)^(-n)], giving approximately Rs.12,667.58 before fees and contractual rounding.

The first month's interest is 10,00,000 x 0.0075 = Rs.7,500. Principal repaid is 12,667.58 - 7,500 = Rs.5,167.58, leaving about Rs.9,94,832.42. Next month's interest is calculated on that lower balance, so its principal component rises if rate and EMI remain unchanged. This is why a reducing-balance schedule does not simply charge the original principal's annual interest for every year.

The nominal total of 120 unrounded equal payments is about Rs.15,20,109.28, with interest about Rs.5,20,109.28. Actual schedules can differ by rounding, dates, fees and resets. Compare the APR and disclosed terms, not just the instalment.

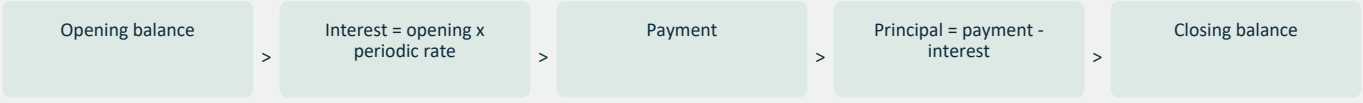
An adviser should also test affordability, deposit contribution, reserves and risks. A customer choosing the smallest EMI by stretching tenor may pay more total interest and remain exposed to income and rate changes for longer.

Change one assumption

Raise the hypothetical nominal rate to 10% while keeping Rs.10 lakh principal and 120 monthly periods. The level-payment EMI rises to about Rs.13,215.07. A floating-rate contract may instead allow changes in tenor, EMI or a combination under its applicable terms and requirements. Explain the options and their costs rather than promising the same instalment forever. If the existing EMI is no more than the period's interest, the balance cannot reduce under an ordinary amortising schedule. Also test an income reduction: a mathematically valid instalment can still be unaffordable for the household.

Avoid this common mistake

Do not compare loans using EMI alone. A lower EMI may reflect a longer tenor rather than a lower cost. Do not use 9 as the periodic rate when the formula requires 0.09/12, or use ten years as n when the payments are monthly. A calculator is only as reliable as its timing, rate convention and fee assumptions. Tax and capital-gain examples must also be tied to the relevant period and conditions.



One EMI, changing components

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

Interest and principal add to EMI

Closing becomes next opening

Recalculate when rate or timing changes

Connect the concepts

01. Mortgage advice begins with the customer's objective, finances, risk capacity and alternatives, not merely with a product quotation.

02. A home information pack can organise relevant information, but it is not a substitute for legal title checks or the lender's appraisal.

03. Present value compares payments at one valuation date using an appropriate rate and matching time periods.

04. An ordinary annuity places equal payments at period ends; an annuity due places them at beginnings and changes present value.

05. For nominal annual rate j compounded monthly, a simple monthly-rate assumption is j/12; other quoted conventions need conversion.

06. A reducing-balance EMI splits into interest on the opening balance and repayment of principal; the proportions change over time.

07. A longer tenor normally reduces the instalment for a fixed principal and positive rate but increases total interest if other terms stay unchanged.

08. APR incorporates the relevant overall annual cost of credit under the applicable disclosure framework; it differs from the headline interest rate.

09. Rate resets require clear explanation of the impact on payments and tenor and the applicable borrower options and charges.

10. An amortisation schedule should reconcile opening balance, interest, payment, principal and closing balance for every period.

11. Affordability needs reliable income, living costs, other obligations and a buffer for changed circumstances; a calculator result is not approval.

12. Capital-gain and tax-planning decisions require current period-specific rules and eligibility checks; do not infer relief from reinvestment alone.

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

Work it out, then change an input

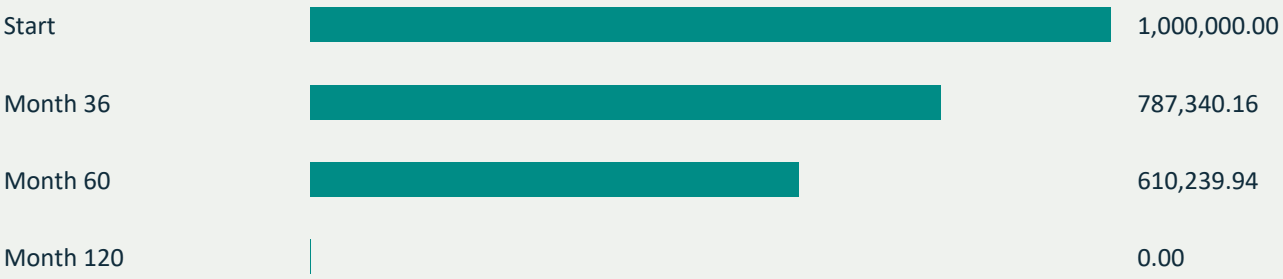
Enter a principal, annual rate and number of months. Predict the change when the term or rate increases. Compare the EMI, total interest and outstanding balance; use a repayment budget to test affordability.

Open the offline emi calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

See how the loan balance changes

Rs.10 lakh, 9% p.a., 120 end-month instalments



EMI = Rs.12,667.58; interest is charged on the outstanding balance. Early instalments contain more interest; the principal share grows as the balance falls. No fees or rate changes assumed.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Clarification for accurate understanding

Do not teach the broad statement that mortgage advice has no regulation as a current universal proposition. Lending, disclosure, consumer protection, professional and distribution obligations depend on the actor and activity.

Economic and Regulatory Context For Giving Mortgage Advice

In India, mortgage advice profession is carried out without any regulations. There is no entry barrier and no code of conduct or ethics are stipulated by any regulation. Any person can enter the profession and can provide advice and do business. There are regulations in US, UK and other countries regulating the mortgage advice services. It would be worthwhile to look at some of the legal provisions in US to understand the position prevailing in these counties and to feel the need of such regulations in India.

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

Development of "Home Information Packs"

This concept is being introduced in UK from 1st August 2007. An attempt has been made to explain in brief the concept and its utility. It is not at all applicable in India. However, the study of this concept and understanding its usefulness may be advisable. This may also pave the way for introducing the same in the country on a limited basis in a gradual manner.

What is Information Pack?

The Home Information Pack contains important information that buyers and sellers need to know. Home Information Packs including Energy Performance Certificates will be implemented on a phased basis from 1st August 2007 in UK. From then, on Packs will be required for the sale of four bedroom properties and larger, with smaller properties being phased in as soon as sufficient energy assessors are fully qualified.

Time Value of Money-Interest and Annuities

The Rule of 72

This rule allows you to determine the number of years before your money doubles whether in debt or investment. Here is how to do it.

Divide the number 72 by percentage rate you are paying on your debt (on earning on your investment.

For Illustration: Suppose, you borrowed Rs. 1,000 at 6% interest. 72 divided by 6 is 12. That makes 12 the number of years it would take for your debt to double to Rs. 2,000, if you did not make any payment. Similarly, a saving account with Rs. 500 deposited in it earning 4% interest. 72 divided by 4 is 18. It will take, 18 years for your Rs. 500 to double to Rs. 1,000 if you don't make or with any deposit.

Future Value of Money

For finding out future value (FV), we must use compounding formula which is given below:

FV = PV(1 +r)n

Where PV means present value, 1 means one rupee, r means rate of interest and n means period or term

Opening balance	>	Interest = opening x periodic rate	>	Payment	>	Principal = payment - interest	>	Closing balance

Example:

If Rs. 1,00,000 is invested for a period of 6 years at interest at 11% p.a. find the maturity sum i.e., future value

Future value = PV × future value factor

FV = 1,00,000 x 1.87 = 1,87,000

Solving problem through MS EXCEL program

The in-built function of FV in excel is -

FV (RATE, NPER, PV, TYPE)

FV = Future value, RATE = rate of interest, NPER = Total number of periods, PV - present value. PMT and TYPE are included to handle annuities (a series of payments equally spaced over a period of time). TYPE is for indicating whether the cash flow occurs at the beginning (1) or at the end (0) of the period.

In order to do calculation with EXCEL go to Insert, go function, click financial function.

Calculating the Future Value of an Ordinary Annuity

If you know how much you can invest per period for a certain time period, the future value of an ordinary annuity formula is useful for finding out how much you would have in the future by investing at your given interest rate. If you are making payments on a loan, the future value is useful for determining the total cost of the loan. In order to calculate the future value of the annuity, we have to calculate the future value of each cash flow.

(1+i)n-1 F = A i

Where, F = future value of an annuity

A = annuity

I = interest rate

n= term

Calculating the Future Value of an Annuity Due

Since each payment in the series is made one period sooner, we need to discount the formula one period back. A slight modification to the FV-of-an-ordinary-annuity formula accounts for payments occurring at the beginning of each period.

Notice that when payments are made at the beginning of the period, each amount is held

Opening balance	>	Interest = opening x periodic rate	>	Payment	>	Principal = payment - interest	>	Closing balance

for longer time at the end of the period. For Illustration, if the Rs. 1,000 was invested on January 1st rather than December 31st of each year, the last payment before we value our investment at the end of five years (on December 31st) would have been made a year prior (January 1st) rather than the same day on which it is valued. The future value of annuity formula would then read:

(1+i)n-1 F = A x (1+r) i

Therefore, future value of annuity due of Rs. 1,000 for a period of 5 years at interest rate of 5% would be

(1+0.5)5-1 FV (Annuity Due) = 1000 x x (1 + .05) .05

= Rs. 1000 * 5.53 * 1.05

= Rs. 5801.91

The same value can be calculated by using annuity table.

Future value of annuity = Annuity x CV factor

Compound value factor for annuity (CVA) of Re. 1 at different rates of interest are given below for information. Assume rupee to be invested at the end of the year.

Accumulated end-year deposits: factors

Year	7%	8%	9%
1	1.000	1.000	1.000
2	2.070	2.080	2.090
3	3.215	3.246	3.278
4	4.440	4.506	4.573
5	5.751	5.867	5.985
6	7.153	7.336	7.523

Year	10%	11%	12%
1	1.000	1.000	1.000
2	2.100	2.110	2.120

Year	10%	11%	12%
3	3.310	3.342	3.374
4	4.641	4.710	4.779
5	6.105	6.228	6.353
6	7.716	7.913	8.115

Example:

If Ms. Anusaya is paying home loan instalment at Rs. 12,000 per year for a period of 6 years how much she paid till the end of the loan period (What is the future value of an annuity of Rs. 10,000 p.a. at 11% for a period of 6 years)

Solution:

By using the annuity table above, find CVA factor for 6 years at 11% and multiply by Rs. 10,000 CVA for 6 years @ 11% = 7.913

Annuity = Rs. 10,000

So Future value of annuity = 7.913 x 10,000 = Rs. 79,130

Present Value

Present value is nothing but the reverse of future value. For finding out present value (PV), we must use counting formula which is given below:

PV = FV + (1 +r)^n

Where PV means present value, 1 means one rupee, r means rate of interest and n means period or term and FV means future value.

Capital Gains

Any profit or gain from transfer of a capital asset is chargeable to tax under the head "capital gains". Capital asset means any property whether movable or immovable, tangible or intangible. Transfer, in relation to capital asset, includes sale, exchange of the asset.

The following assets are, however, excluded from the definition of capital assets:

i)Stock-in-trade, stores, raw material,

ii)Personal effects (excluding Jewellery, archaeological collections, drawings, paintings,

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

sculptures, etc.);

iii)Agricultural land in India, not being a land situated;

Within jurisdiction of municipality, notified area committee, town area committee, cantonment board and which has a population of not less than 10,000;

Within range of following distance measured aerially from the local limits of any municipality or cantonment board:

o Not being more than 2 KMs, if population of such area is more than 10,000 but not exceeding 1 lakh;

o Not being more than 6 KMs, if population of such area is more than 1 lakh but not exceeding 10 lakh; or

o Not being more than 8 KMs, if population of such area is more than 10 lakh.

Bonds/securities under certain schemes, as announced by Government.

For the purpose of income tax Law "Transfer", in relation to a capital asset, includes:

Sale, exchange or relinquishment of the asset;

Extinguishment of any rights in relation to a capital asset;

Compulsory acquisition of an asset;

Conversion of capital asset into stock-in-trade;

Maturity or redemption of a zero-coupon bond;

Allowing possession of immovable properties to the buyer in part performance of the contract;

Any transaction property which has the effect of transferring an (or enabling the enjoyment of) immovable property or

Disposing of or parting with an asset or any interest therein or creating any interest in any asset in any manner whatsoever.

Types of Capital Assets Shon-term capital assets

Long-term capital assets

Short Term Capital Assets

Opening balance	>	Interest = opening x periodic rate	>	Payment	>	Principal = payment - interest	>	Closing balance

Short Term Capital Assets

Short term capital asset means a capital asset held for less than 36 months immediately prior to the date of transfer. However, in following cases, asset held for less than 12 months is treated as short term capital asset. However, in respect of certain assets like shares (equity or preference) which are listed in a recognised stock exchange in India, units of equity oriented mutual funds, listed securities like debentures and Government securities, Units of UTI and Zero Coupon Bond, the period of holding to be considered is 12 months instead of 36 months.

In case of unlisted shares in a company, the period of holding to be considered is 24 months instead of 36 months.

With effect from Assessment Year 2018-19, the period of holding of immovable property (being land or building or both), shall be considered to be 24 months instead of 36 months.

Short Term Capital Gain (STCG):

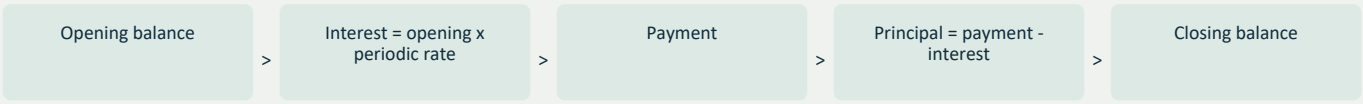
Short Term Capital Gain on property is considered as a gain from selling a property which was held by an assessee for not more than 36 months.

Long Term Capital Assets

Long term capital asset means a capital asset held for more than 36 months immediately prior to the date of transfer. However, in respect of certain assets like shares (equity or preference) which are listed in a recognised stock exchange in India, units of equity oriented mutual funds, listed securities like debentures and Government securities, Units of UTI and Zero Coupon Bonds, the period of holding to be considered is 12 month instead of 36 months.

In case of unlisted shares in a company, the period of holding to be considered is 24 months instead of 36 months.

With effect from Assessment Year 2018-19, the period of holding of immovable property (being land or building or both), shall be considered to be 24 months instead of 36 months.



Long Term Capital Gain (LTCG)

Gain arising on transfer of long-term capital asset is termed as long-term capital gain.

Method of Computation of Short-term and Long-term Gain

Computation of short-term Cap. Gain	Computation of Long-term Cap. Gain
1. Find out full value of consideration 2. Deduct the following: a. Expenditure of transfer b. Cost of acquisition c. Cost of improvement 3. From the sum so arrived at deduct the exemptions provided by sections 54B, 54D 4. The balancing amount is short term capital gain	1. Find out full value of consideration 2. Deduct the following: a. Expenditure of transfer b. Indexed cost of acquisition c. Indexed cost of improvement 3. From the sum so arrived at deduct the exemptions provided by sections 54, 54B, 54D, 54EC, 54F 4. The balancing amount is long term capital gain

Cost Inflation Index

Indexation is a process by which the cost of acquisition is adjusted against the inflationary rise in the value of the asset. For this purpose, Central Government has notified cost inflation index. The benefit of indexation is available only to long-term capital assets. For computation of indexed cost of acquisition following factors are to be considered:

Year of acquisition/improvement

Year of transfer

Cost inflation index of the year of acquisition/improvement

Cost inflation index of the year of transfer

Computation of indexed cost of acquisition

$$\text{Indexed cost of acquisition} = \frac{\text{Cost of acquisition x Cost inflation index of the year of transfer of capital asset}}{\text{Cost inflation index of the year of acquisition}}$$

Computation of indexed cost of improvement

Cost of improvement x Cost inflation index of the year of transfer of capital asset

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

Indexed cost of improvement =_____

Cost inflation index of the year of improvement

Capital Gains: When and to What Extent Exempt from Tax

Section in IT Act	Gain eligible for claiming exemption	Asset in which the capital gain is to be re-invested to claim exemption
section 54	Long-term capital gain arising on transfer of residential house property.	Gain to be re-invested in purchase or construction of one residential house property in India.
section 54B	Long-term or short-term capital gain arising on transfer of agricultural land.	Gain to be re-invested in purchase of agricultural land.

Clarification for accurate understanding

Historical capital-gain relief tables include dated eligibility and sunset provisions. Check the relevant period, asset, taxpayer, reinvestment route and current legislation rather than implying every gain receives relief.

Section 54EC	**Long-term capital gain arising on transfer of any capital asset.**	**Gain to be re-invested in bonds issued by National Highway Authority of India or by the Rural Electrification Corporation Limited. The investment should be made within a period of 6 months from the date of transfer of capital asset and bonds should not be redeemed before 3 years. This benefit cannot be availed in respect of short-term capital gain. The Maximum amount which qualifies for investment will be Rs. 50,00,000. Thus, the deduction under section 54EC cannot be claimed for more than Rs. 50,00,000.**
Section 54EE	Long-term capital gain arising on transfer of any capital asset.	Gain to be re-invested in units of specified fund, as may be notified by Govt. to finance start-ups.
section 54F	Long-term capital gain arising on transfer of any capital asset other than residential house property.	Net sale consideration to be re-invested in purchase or construction of one residential house property in India.

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

Section 54EC	**Long-term capital gain arising on transfer of any capital asset.**	**Gain to be re-invested in bonds issued by National Highway Authority of India or by the Rural Electrification Corporation Limited. The investment should be made within a period of 6 months from the date of transfer of capital asset and bonds should not be redeemed before 3 years. This benefit cannot be availed in respect of short-term capital gain. The Maximum amount which qualifies for investment will be Rs. 50,00,000. Thus, the deduction under section 54EC cannot be claimed for more than Rs. 50,00,000.**
section 54D	Gain arising on transfer of land or building forming part of industrial undertaking which is compulsorily acquired by Government and was used for industrial purpose for a	Gain to be re-invested to acquire land or building for industrial purpose.
	period of 2 years prior to its acquisition.	
section 54G	Gain arising on transfer of land, building, plant or machinery in order to shift an industrial undertaking from urban area to rural area	Gain to be re-invested to acquire land, building, plant or machinery in order to shift the industrial undertaking from an urban area to a rural area
section 54GA	Gain arising on transfer of land, building, plant or machinery in order to shift an industrial undertaking from urban area to any Special Economic Zone	Gain to be re-invested to acquire land, building. plant or machinery in order to shift the industrial undertaking from urban area to any Special Economic Zone.
	period of 2 years prior to its acquisition.	
Section 54GB	Long-term capital gain arising on transfer of residential property (a house or a plot of land). The transfer should take place during 1st April, 2012 and 31st March 2017. However, in case of	The net sale consideration should be utilised for subscription in equity shares of an "eligible company: W.e.f. April 1, 2017, eligible start-up is also included in definition of eligible company

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

	period of 2 years prior to its acquisition.
	investment in "eligible start-up", sunset limit of 31st March 2017 is extended to 31st March 2019.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What monthly rate enters the assumed 9% nominal annual monthly EMI calculation?

Answer: 0.0075.

Why: Convert 9% to 0.09 and divide by twelve; rate and payment periods must match.

Question 02 | Why does the principal component rise in a fixed-rate level-EMI schedule?

Answer: Interest falls as the outstanding balance reduces.

Why: The same total payment leaves a larger amount for principal when less interest is due.

Question 03 | Does extending tenor always make the loan cheaper?

Answer: No.

Why: It can lower EMI while increasing the total interest paid, holding other assumptions constant.

Question 04 | What happens if a payment is less than the period interest?

Answer: The loan does not amortise under that simple schedule.

Why: Unpaid interest and the balance require contract-specific treatment; do not present it as normal principal reduction.

Question 05 | At 10% nominal annual, monthly payments and ten years, what is the approximate EMI on Rs.10 lakh?

Answer: Rs.13,215.07.

Why: Using the same formula with r = 0.10/12 shows the effect of a higher rate without changing the other inputs.

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Start mortgage advice with the customer.	15. Longer tenor can reduce EMI.
02. Clarify the borrowing purpose.	16. Longer tenor can increase interest cost.
03. Consider household affordability.	17. Headline rate differs from APR.
04. Maintain a financial buffer.	18. Fees affect comparison.
05. Match rate and payment periods.	19. Rate resets can affect EMI.
06. Convert percentages to decimals.	20. Rate resets can affect tenor.
07. Monthly n counts months.	21. Explain applicable options and charges.
08. Ordinary annuities pay at period end.	22. Negative amortisation needs attention.
09. Annuity due pays at period start.	23. Final payments may need rounding adjustment.
10. EMI contains interest and principal.	24. Check the whole amortisation schedule.
11. Interest uses the opening balance.	25. A calculator is not a sanction.
12. Principal equals payment less interest.	26. A legal pack does not establish affordability.
13. Closing balance equals opening less principal.	27. Tax relief needs period-specific conditions.
14. A fixed EMI can have changing components.	28. Compare cost, risk and flexibility together.

Opening balance > Interest = opening x periodic rate > Payment > Principal = payment - interest > Closing balance

MODULE HL / HL04

Valuation of Real Property

Understand the situation. Connect the ideas. Work through the details. Test yourself. Recall the essentials.

1 Learn through a banking situation

A building's replacement cost is estimated at Rs.15 lakh. For a simplified straight-line depreciation exercise, assume a Rs.3 lakh residual value and a useful life of twenty years. The depreciable amount is 15 - 3 = Rs.12 lakh, so annual depreciation is (15,00,000 - 3,00,000)/20 = Rs.60,000. The brackets matter: divide the difference by life, not only the residual value. An accounting depreciation calculation is not, by itself, a market valuation or an income-tax allowance.

Next consider a separate replacement reserve. To accumulate Rs.15 lakh through equal end-of-year contributions over twenty-five years at an assumed 5% annual return, use annual contribution A = F x i / [(1+i)^n - 1]. With F = 15,00,000, i = 0.05 and n = 25, A is about Rs.31,428.69. A table factor rounded to 0.021 gives Rs.31,500; round the final answer consistently and explain the difference. The reserve factor is not the same as a future-value accumulation factor.

Finally distinguish cost, price and value. Cost records expenditure; price is the transaction amount; value is an estimate under a stated valuation basis and date. Location, permitted use, title, condition and comparable evidence can make a property's value different from its historical cost. A lender should use an appropriate professional valuation and examine its assumptions. Neither the reserve calculation nor the original purchase price proves the amount recoverable from a forced sale.

Change one assumption

Suppose the reserve earns only 3% instead of 5%. A larger annual contribution is needed to reach the same target by the same date; do not keep the earlier contribution while promising the unchanged outcome. In a different scenario, a senior owner considers a reverse mortgage. The property supports a growing loan balance while the owner receives payments under the contract. If those payments are advanced at period ends, a simple model accumulates them to a terminal debt limit rather than discounting them as though the customer were repaying a normal EMI. Eligibility, expenses, valuation reviews, events of settlement and actual product terms require separate checking.

Avoid this common mistake

Do not equate an appraised value with a guaranteed sale price. Do not copy a formula with missing brackets or exponents, and do not confuse an annual reserve contribution with the target capital. For reverse mortgages, an incoming payment is borrowing, not automatically investment income or a permanent pension. A mathematical payment model must state its debt limit, interest period, payment timing and assumptions; it cannot promise a lender's actual sanctioned amount.

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

Two cash-flow directions

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

Reserve contributions accumulate

Loan advances plus interest become debt

Neither calculation establishes market value

Connect the concepts

01. A valuation must specify the property, purpose, valuation date, basis, evidence and assumptions; different purposes can give different measures.

02. Cost is expenditure, price is an amount agreed in a transaction and value is an estimate under a stated basis; they need not coincide.

03. Comparable-sales valuation needs adjustments for location, size, permitted use, title, access, condition and the valuation date.

04. Income capitalisation uses sustainable net income and a justified capitalisation basis; gross rent is not automatically net income.

05. For a level perpetual net income N and constant positive capitalisation rate i, the simplified value is N/i, subject to those assumptions.

06. Replacement-cost analysis distinguishes land from improvements and assesses physical deterioration and relevant obsolescence.

07. Straight-line depreciation under stated assumptions is (cost - residual value)/useful life; it differs from a market appraisal.

08. A simplified written-down-value model is C x (1-p)^n, where p is a decimal annual reduction rate and n is the number of years.

09. An end-of-period sinking-fund contribution is F x i/[(1+i)^n - 1]; at zero return its limiting value is F/n.

10. The sinking-fund factor is the contribution needed per unit of future target, not the accumulated value of a unit contribution.

11. In a simple end-period reverse-mortgage model, payment A grows into a future debt limit F through A[(1+i)^n - 1]/i; costs and contract terms alter the available amount.

12. A reverse mortgage requires eligibility and contractual analysis, including property use, settlement events and heirs' options; it is not an unconditional lifelong pension.

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

Work it out, then change an input

Enter a future amount, assumed annual return and accumulation period. Calculate equal end-year deposits. Change the period, explain the effect, and distinguish a rounded factor from a full-precision result.

Open the offline sinking calculator

Keep the calculator HTML beside the book. If your PDF viewer blocks the link, open the HTML directly in a browser. The inputs are illustrative learning assumptions.

Explore the reverse-mortgage model

This companion model assumes equal end-month advances, a chosen accumulation rate and a terminal debt ceiling. Compare its cash-flow direction with a normal amortising loan. It is not a contractual payout quotation.

2 Detailed concepts and exam notes

Read definitions with their conditions. Old dates, rates, limits, tax examples and product terms are historical illustrations unless a dated clarification says otherwise.

Valuation means assessment of the worth of an asset or property. The worth or value of a property is based on the income and other advantages that will accrue from the property in future. It is distinct from cost, which refers to the actual amount spent in producing an asset. Price is the cost of production plus profit of the producer. Price depends on demand and supply of a commodity and rises or falls accordingly. Cost is

related to the past while value refers to the future. Thus, cost is not the same as value and price are not necessarily equal to value.

Who Does Valuation?

Valuation is a specialized area practiced by qualified engineers and architects who possess knowledge of building costs, awareness of market conditions and economic trends, developmental plans, legal statutes and provisions governing real property, rental income and outgoings, etc.

The valuer is required to collect data on aforesaid aspects but as the information is not easily accessible and/or authentic particularly about demand and supply, the valuer has to rely on his own experience and judgment in arriving at the fair market value.

It is hence inevitable that there will be difference of opinion between two Valuers in respect of the value of same property. The Income-tax Department grants registration to Valuers u/s 34AB of the Wealth TaxAct, 1957, on the basis of their technical background and experience. For the purpose, the Department has classified Valuers under separate categories - those for (a) immovable property, (b) agricultural land, (c) plant & machinery (d) jewellery, etc.

Types of Real Property

Agricultural land: Agricultural land means land capable of being used for farming or for raising plants or trees that carry value. The factors that influence the return from agricultural land are:

Location

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

Soil quality

Availability of water & electricity

Size of holding

Clear Title of land

Access by road and approaches

Cottage or Farm house, fencing and gates

Types of crops that can be cultivated

Valuation of agricultural land is done by following two methods:

Income Capitalisation Method: The income is determined by assuming that the land is rented on crop-sharing basis. The net annual income is arrived at after deducting the expenses incurred such as local taxes, cost of maintenance, cost of inputs, insurance etc. and the amount is then capitalized at an appropriate rate of interest to get the value of land.

Capitalised value means the amount of money required today to get a certain fixed income in the form of annual instalments over a very long time (perpetuity). The present value of future annual income is obtained by multiplying it by a factor called 'Years Purchase'(YP). The factor or multiplier is

so called because it represents the purchase price for the yearly income. It is obtained from Present Value tables and for annual income in perpetuity (asset that does not depreciate), it is equal to 1/i where 'i' is the rate of interest.

Sales Statistics Method: In this method, the valuation is based on the comparable sale value of similar agricultural land located in the vicinity of the land to be valued.

The factors generally considered for comparison are:

i)Size of holding

ii)Physical features, roads, fencing, cottages, soil quality, etc.

iii)Title of land and conditions of letting out for cultivation

Urban land

Urban open lands could be put to residential or industrial use and their value depends on their potential for development through construction of appropriate structures. The factors that have a bearing on value of vacant land are:

Location - near ness to schools, shops, entertainment, transport, medical, recreation facilities, police station, etc.

Size, shape and level - there is larger demand for plots of certain sizes in particular locality. Similarly, plots of irregular shape or at lower than road level carry lower value.

Usage: A commercial land is more valuable than residential or industrial land. Similarly, residential and industrial lands are more valuable than agricultural land. Hence, it is important to determine the usage of land to evaluate its price.

Soil quality, water availability - low bearing capacity of soil increases the cost of foundation.

Frontage & depth - Street frontage adds to value while disproportionate depth reduces value of plot.

Restrictions on development - Land with higher FSI commands higher price. FSI or Floor Space Index (also called Floor Space Area - FAR) refers to the ratio of total built-up area inclusive of all floors to the area of land on which the building is constructed. It is determined by local authority and varies for different areas or different buildings in the city. Available FSI refers to the difference between the permissible FSI and the FSI utilized.

Encumbrances - such as easement rights, unauthorized hutment dwellers, etc. - The value of land with encumbrances is much less compared to land with no encumbrance.

Vastu: Many people in India believe in Vastu Shastra. North facing and East facing plots command premium over West facing and South facing plots.

Return Frontage: A plot with multiple frontages commands premium over a plot with single frontage. For eg. a corner plot or a three side open plot will be priced higher than a plot with only one side open to road.

Valuation of open land is done by following methods-

Comparative Method: It is the most popular method. The value is determined on the basis of a fair rate for land situated in the vicinity as reflected from various recent sale-purchase transactions. The Valuer has to draw on his experience while using this method, as the land rates as per sale deeds do not often reflect the actual rate. Land value in urban areas is a function of the collective demand for real property, both present and future.

Rent Capitalisation Method: First, a comparable property in nearby area on rent is used as benchmark and the capitalised value is calculated by multiplying the net income by Years Purchase. Next, the replacement cost of the building is worked taking into account the quality of construction, etc.,

Belting Method: This method of valuation of land takes into account the frontage and depth of the plot. It is adopted for big size plots with lesser frontage and more depth. The land is divided into several belts running parallel to the frontage and progressively lower rates are taken for belts farther from the frontage.

Extraction Method: In this method of land valuation, the unit prices for comparable land are extracted from a developed property in the vicinity by deducting the estimated value of the

Guideline Value: In order to ascertain the value of the land for the purpose of stamp duty, property tax, wealth tax etc. government publishes guideline values for relevant period and location.

Land With Building

The methods used for valuation of land with building are:

Comparative Method: The Town Planning Deptt. Generally adopts the Comparative Method for estimating the value of land with building because the property is generally sold as a single piece

Rent Capitalisation Method: The rental income is the rent actually paid when the property has been let out in the recent past vis-á-vis the date of valuation. However, the actual rent may not always represent the fair rental income in cases where the tenant has paid some lump-sum amount upfront or the property is newly constructed, etc.

Valuation based on profits: In cases of property which is used for conducting trade or business, like hotels, cinema houses, restaurants, etc., the valuation is done on the basis of capitalized value of the net profit as reflected in the books of account of the business entity. The net profit is capitalized by multiplying it by the YP for certain number of years or in perpetuity, for a rate of return pertinent to the specific business.

Valuation based on cost: The present cost of building is estimated with prevalent rate staking into account the type of construction, age and condition of the building and appropriate depreciation is charged to get the depreciated value. The value of land is worked out on the basis of current

Valuation of specialized buildings: Buildings erected to serve specific purpose such as bars, breweries, hotels, motels, cinema houses are valued by specialists

Clarification for accurate understanding

Correct arithmetic: 15,00,000 x 0.021 = 31,500. Full-precision annual end-period reserve at 5% over 25 years is approximately Rs.31,428.69. Preserve both rounded-factor and full-precision explanation.

Clarification for accurate understanding

Straight-line annual depreciation must be (C-S)/n under stated cost, residual and life assumptions. Brackets must not be lost.

having experience of market practices and rules that apply to the particular trade. The business can be pursued only after a license is obtained from the authorities. When the business is sold as a going concern, one has to take into account the value of intangible assets such as monopoly, goodwill, competence of management, etc.,

Sinking Fund

A sinking fund accumulates periodic deposits to replace or redeem capital at a specified future date. Its annual deposit depends on the assumed compound return and period. With a rounded factor of 0.021 for a 25-year, 5% example, Rs.15,00,000 x 0.021 = Rs.31,500, not Rs.3,15,000. Using the full factor 0.05 / ((1.05)^25 - 1) gives approximately Rs.31,428.69 for equal end-year deposits. In a dual-rate valuation illustration, an assumed years-purchase factor of 8.27 at a stated income yield and capital-redemption rate multiplies the net annual income. If net annual income is Rs.8,00,000, the indicated capitalised value is 8.27 x 8,00,000 = Rs.66,16,000. A property purchase cost of Rs.8 lakh alone would not establish that result. State the income, life, yield, redemption return and factor convention.

Depreciation

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

Depreciation means loss in value. A building loses value due to deterioration in its physical condition as a result of usage (wear & tear), effect of climatic conditions, poor structural design or workmanship. An estimate of the useful life of the building is made after which it will become unserviceable and depreciation is charged accordingly so that accumulated depreciation becomes equal to the original investment at the end of its life. Abuilding also loses value due to obsolescence. There is continual improvement in construction technology and architecture and new buildings provide more comfortable living conditions by providing better amenities such as modular kitchen, wash basins, hot and cold water, geyser, lift, better ventilation, etc. There are several methods to calculate depreciation but the following two methods are usually adopted:

Straight Line Method: In this method, the depreciation is allocated uniformly over the life of the property and is generally adopted for tax purposes and preparing financial statements. The annual depreciation is given by:

D = (C - S) / n

D is annual depreciation, C is original cost,

S is salvage value (value that property may fetch at the end of useful life),

n is life of building in years.

Clarification for accurate understanding

Write the exponent clearly: WDV = C x (1-p)^n for the stated simplified zero-residual model. Do not treat a conceptual depreciation rate as a prescribed current tax rate.

Written Down Value (WDV) Method: In this method, it is assumed that the property will lose value by a constant percentage of its value at the beginning of the year. Thus, the amount of depreciation goes on reducing every year because while depreciation is charged at fixed percentage, the capital value of asset decreases by depreciation charged every year. The object is to charge higher depreciation in initial years when the asset yields higher income due to low cost of repairs & maintenance and lower depreciation in later years when cost of repairs goes up. This method is also called the Declining Balance Method and is generally adopted by industrial units because of advantage of lower income-tax. The WDV of an asset can be found out by the formula:

WDV = C x (1 - p)^n, where p is the assumed depreciation rate per period and n is the number of periods.

C being original cost, n being life in years, and p being the percentage at which depreciation is charged. Here, salvage value is assumed as zero.

Reverse Mortgage

Reverse Mortgage Loan provides an additional source of income for senior citizens of India, who have a self-acquired or self-occupied home in India. This product is beneficial for senior citizens who do not have adequate income to support themselves. The Bank makes payments to the borrower /borrowers (in case of living spouse), against mortgage of his / their residential house property. The borrower is not expected to

service the loan during his lifetime.

Difference between Mortgage and Reverse Mortgage:		
	Mortgage	Reverse Mortgage
Type of Security	Immovable Property	Immovable Property
Possession and Ownership	Generally with the borrower(Depends on the agreement and type of mortgage)	With borrower till death of the borrower
Parties	Mortgagor(borrower) and Mortgagee(lender)	Mortgagor(borrower) and Mortgagee(lender)
Age	Not exceeding the defined age by a lender	Must be a senior citizen
Home equity	Increases as the EMI's decreases	Decreases as the loan outstanding will increase
EMI's	The borrower pays to the lender	The lender pays to Borrower

Clarification for accurate understanding

Historical RML scheme descriptions should not be used as a complete current description of HFC regulation. HFC regulation transferred to RBI; match institution and current framework. NHB scheme material remains relevant to the scheme's mechanics.

Reverse Mortgage Loan - Salient Features

Reverse Mortgage Loan - Salient Features Reverse Mortgage Loan (RML) enables a Senior Citizen i.e. above the age of 60 years to avail of periodical payments from a lender against the mortgage of his/her house while remaining the owner and occupying the house.

The Senior Citizen borrower is not required to service the loan during his/her lifetime and therefore does not make monthly repayments of principal and interest to the lender.

RMLs are extended by Primary Lending Institutions (PLIs) viz. Scheduled Banks and Housing Finance Companies (HFCs) registered with NHB.

The loan amount is dependent on the value of house property as assessed by the lender, age of the borrower(s) and prevalent interest rate.

The loan can be provided through monthly/quarterly/half-yearly/annual disbursements or a lump-sum or as a committed line of credit or as a combination of the three.

The maximum period of the loan is 20 years. (The maximum period over which the payments can be made to the reverse mortgage borrower).

The loan amount may be used by the Senior Citizen borrower for varied purposes including up-gradation/ renovation of residential property, medical exigencies, etc. However, use of RML for speculative, trading and business purposes is not permissible.

Valuation of the residential property would be done at such frequency and intervals as decided by the reverse mortgage lender, which in any case shall be at least once every five years.

The quantum of loan may undergo revisions based on such re-valuation of property at the discretion of the lender.

The borrower(s) will continue to use the residential property as his/her/their primary residence till he/she/they is/are alive, or permanently move out of the property, or cease to use the property as permanent primary residence.

The lender will have limited recourse i.e. only to the mortgaged property in respect of the RML extended to the borrower.

All reverse mortgage loan products are expected to carry a clear and transparent 'no negative equity' or 'non-recourse' guarantee. That is, the Borrower(s) will never owe more than the net realizable value of their property, provided the terms and conditions of the loan have been met.

On the borrower's death or on the borrower leaving the house property permanently, the loan is repaid along with accumulated interest, through sale of the house property.

The borrower(s)/heir(s) can also repay the loan with accumulated interest and have the mortgage released without resorting to sale of the property.

Clarification for accurate understanding

The printed RML expression is malformed. For a simple zero-initial-debt model with equal end-period loan advances and terminal debt cap F: A=F*i/((1+i)^n-1). If F=property value x specified loan-to-value ratio, this is a teaching assumption; fees, revaluations, actual scheme conventions and earlier debt change F. For beginning-period advances divide that A by (1+i). Verify actual product terms separately.

The borrower(s) or his/her heirs also have the option of prepaying the loan at any time during the loan tenor or later, without any prepayment levy.

Formula to Calculate the Periodic Payments under RML

Illustrative reverse-mortgage cash-flow model: assume equal end-period advances, compound interest each period and a fixed terminal debt ceiling.

Let C = PV x LTVR be the assumed terminal debt ceiling. This mathematical illustration is not a universal lender payout formula.

Periodic advance = C x i / ((1 + i)^n - 1). At zero interest use C / n. Match i to the advance frequency and n to the number of advances.

Where, PV = Property Value;

LTVR = LTV Ratio;

n = No. of Instalment Payments;

I = the value of I will depend on Disbursement Frequency selected.

3 Check your understanding

Attempt each question before reading its answer. Explain the reason aloud; recall without reasoning is incomplete.

Question 01 | What annual straight-line depreciation follows from cost Rs.15 lakh, residual Rs.3 lakh and life twenty years?

Answer: Rs.60,000.

Why: Subtract residual from cost first, then divide Rs.12 lakh by twenty.

Question 02 | Using a rounded sinking-fund factor of 0.021, what annual amount corresponds to a Rs.15 lakh target?

Answer: Rs.31,500.

Why: 15,00,000 x 0.021 = 31,500; the target and annual contribution have different meanings.

Question 03 | Why does the full-precision 5%, twenty-five-year calculation differ from Rs.31,500?

Answer: The factor was rounded in the table.

Why: Using i/[(1+i)^n - 1] gives about Rs.31,428.69; consistent final rounding is preferable.

Question 04 | Does depreciation of a building establish the market value of the land and building?

Answer: No.

Why: Valuation also depends on evidence, land, rights, location, permitted use and market conditions.

Question 05 | Why is a reverse-mortgage payment not simply a normal repayment EMI?

Answer: The customer receives loan advances instead of repaying principal each period.

Why: In the simple illustrated model the advances accumulate with interest into a terminal debt amount; payment timing and costs must be stated.

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

4 Quick revision: 28 recall points

Recall 01-14	Recall 15-28
01. Valuation has a purpose and date.	15. Depreciation is not a complete valuation.
02. Cost differs from price.	16. Straight line uses cost less residual.
03. Price can differ from value.	17. WDV uses a declining opening base.
04. Comparable evidence needs adjustment.	18. Rates must be decimal in formulas.
05. Location affects property value.	19. Sinking funds target future capital.
06. Title and encumbrances matter.	20. State contribution timing.
07. Permitted use affects value.	21. At zero return contribution is target divided by periods.
08. FSI rules depend on local authority.	22. Rounded factors can change the answer.
09. Condition affects improvements.	23. Rs.15 lakh times 0.021 is Rs.31,500.
10. Land and building need distinction.	24. A lower assumed return needs more saving.
11. Net income differs from gross rent.	25. A reverse mortgage creates a loan balance.
12. Capitalisation rates need justification.	26. Receiving advances differs from repaying EMI.
13. A perpetuity assumes continuing level income.	27. Contract conditions determine settlement.
14. Replacement cost is not automatically market value.	28. A calculator does not replace professional appraisal.

Replacement reserve: pay contributions now > Target capital at end > Reverse mortgage: receive advances now > Debt balance accumulates to settlement

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