

Banking and Finance terms in India – 2010

• What is Open Market operations(OMO)?

The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system by RBI. Open market operations are the principal tools of monetary policy.

• What is Micro Credit?

It is a term used to extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.

• What is Liquidity Adjustment Facility(LAF)?

A tool used in monetary policy that allows banks to borrow money through repurchase agreements. This arrangement allows banks to respond to liquidity pressures and is used by governments to assure basic stability in the financial markets.

• What is RTGS System?

The acronym 'RTGS' stands for Real Time Gross Settlement. RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a 'real time' and on 'gross' basis. This is the fastest possible money transfer system through the banking channel. Settlement in 'real time' means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. 'Gross settlement' means the transaction is settled on one to one basis without bunching with any other transaction.

• What is Bancassurance?

It is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products.

• What is Wholesale Price Index(WPI)?

The Wholesale Price Index (WPI) is the index used to measure the changes in the average price level of goods traded in wholesale market. A total of 435 commodity prices make up the index. It is available on a weekly basis. It is generally taken as an indicator of the inflation rate in the Indian economy. The Indian Wholesale Price Index (WPI) was first published in 1902, and was used by policy makers until it was replaced by the Producer Price Index (PPI) in 1978.

• What is Consumer price Index(CPI)?

It is a measure estimating the average price of consumer goods and services purchased by households.

• What is Venture Capital?

Venture capital is money provided by an outside investor to finance a new, growing, or troubled

business. The venture capitalist provides the funding knowing that there's a significant risk associated with the company's future profits and cash flow. Capital is invested in exchange for an equity stake in the business rather than given as a loan, and the investor hopes the investment will yield a better-than-average return.

• **What is a Treasury Bills?**

Treasury Bills (T-Bills) are short term, Rupee denominated obligations issued by the Reserve Bank of India (RBI) on behalf of the Government of India. They are thus useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely, 91-day, 182-day and 364-day. There are no treasury bills issued by State Governments.

• **What is Banking Ombudsmen Scheme?**

The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks. The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services. The Banking Ombudsman Scheme was first introduced in India in 1995, and was revised in 2002. The current scheme became operative from the 1 January 2006, and replaced and superseded the banking Ombudsman Scheme 2002.

• **What is Subsidy?**

A subsidy is a form of financial assistance paid to a business or economic sector. Most subsidies are made by the government to producers or distributors in an industry to prevent the decline of that industry or an increase in the prices of its products or to encourage it to hire more labor.

• **What is a Debenture? How many types of debentures are there? What are they?**

A debenture is basically an unsecured loan to a corporation. A type of debt instrument that is not secured by physical asset. Debentures are backed only by the general creditworthiness and reputation of the issuer.

i) Convertible Debentures: Any type of debenture that can be converted into some other security or it can be converted into stock..

ii) Non-Convertibility Debentures (NCB): Non Convertible Debentures are those that cannot be converted into equity shares of the issuing company, as opposed to Convertible debentures. Non-convertible debentures normally earn a higher interest rate than convertible debentures do.

• **What is a hedge fund?**

'Hedge' means to reduce financial risk.

A hedge fund is an investment fund open to a limited range of investors and requires a very large initial minimum investment. It is important to note that hedging is actually the practice of attempting to reduce risk, but the goal of most hedge funds is to maximize return on investment.

• **What is FCCB?**

A Foreign Currency Convertible Bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency. In other words, the money being raised by the issuing company is in the form of a foreign currency. A company may issue an FCCB if it

intends to make a large investment in a country using that foreign currency.

• **What is Capital Account Convertibility(CAC)?**

It is the freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange. This means that capital account convertibility allows anyone to freely move from local currency into foreign currency and back.

The Reserve Bank of India has appointed a committee to set out the framework for fuller Capital Account Convertibility.

Capital account convertibility is considered to be one of the major features of a developed economy. It helps attract foreign investment. capital account convertibility makes it easier for domestic companies to tap foreign markets.

• **What is Current Account Convertibility?**

It defines at one can import and export goods or receive or make payments for services rendered. However, investments and borrowings are restricted.

• **What is Arbitrage?**

The opportunity to buy an asset at a low price then immediately selling it on a different market for a higher price.

• **What is Capitalism?**

Capitalism as an economy is based on a democratic political ideology and produces a free market economy, where businesses are privately owned and operated for profit; in capitalism, all of the capital investments and decisions about production, distribution, and the prices of goods, services, and labor, are determined in the free market and affected by the forces of supply and demand.

• **What is Socialism?**

Socialism as an economy is based on a collectivist type of political ideology and involves the running of businesses to benefit the common good of a vast majority of people rather than of a small upper class segment of society.

• **What is corporate governance?**

The way in which a company is governed and how it deals with the various interests of its customers, shareholders, employees and society at large. Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Is defined as the general set of customs, regulations, habits, and laws that determine to what end a firm should be run.

• **Functions of RBI?**

The Reserve Bank of India is the central bank of India, was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Reserve Bank of India was set up on the recommendations of the Hilton Young Commission. The commission submitted its report in the year 1926, though the bank was not set up for nine years. To regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”

Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker. Banker to banks: maintains banking accounts of all scheduled banks.

• **What is monetary policy?**

A Monetary policy is the process by which the government, central bank, of a country controls (i) the supply of money, (ii) availability of money, and (iii) cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy.

• **What is Fiscal Policy?**

Fiscal policy is the use of government spending and revenue collection to influence the economy. These policies affect tax rates, interest rates and government spending, in an effort to control the economy. Fiscal policy is an additional method to determine public revenue and public expenditure.

• **What is Core Banking Solutions?**

Core banking is a general term used to describe the services provided by a group of networked bank branches. Bank customers may access their funds and other simple transactions from any of the member branch offices. It will cut down time, working simultaneously on different issues and increasing efficiency. The platform where communication technology and information technology are merged to suit core needs of banking is known as Core Banking Solutions.

• **What is bank and its features and types?**

A bank is a financial organization where people deposit their money to keep it safe. Banks play an important role in the financial system and the economy. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner.

Regional Rural Banks were established with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State.

ii. Banking services for individual customers is known as retail banking.

iii. A bank that deals mostly in but international finance, long-term loans for companies and underwriting. Merchant banks do not provide regular banking services to the general public

iv. Online banking (or Internet banking) allows customers to conduct financial transactions on a secure website operated by their retail or virtual bank.

v. Mobile Banking is a service that allows you to do banking transactions on your mobile phone without making a call, using the SMS facility. Is a term used for performing balance checks, account transactions, payments etc. via a mobile device such as a mobile phone.

vi. Traditional banking is the normal bank accounts we have. Like, put your money in the bank and they act as a security and you will get only the normal interests (decided by RBI in our case, FED bank in US).

vii. Investment banking is entirely different. Here, people who are having so much

money (money in excess which will yield only less interest if in Banks) will invest their money and get higher returns. For example, If i have more money instead of taking the pain of investing in share market, buying properties etc. I will give to investment banks and they will do the money management and give me higher returns when compared to traditional banks.

• **What is E-Governance?**

E-Governance is the public sector's use of information and communication technologies with the aim of improving information and service delivery, encouraging citizen participation in the decision-making process and making government more accountable, transparent and effective.

• **What is Right to information Act?**

The Right to Information act is a law enacted by the Parliament of India giving citizens of India access to records of the Central Government and State governments. The Act applies to all States and Union Territories of India, except the State of Jammu and Kashmir – which is covered under a State-level law. This law was passed by Parliament on 15 June 2005 and came fully into force on 13 October 2005.

• **Credit Rating Agencies in India?**

The credit rating agencies in India mainly include ICRA and CRISIL. ICRA was formerly referred to the Investment Information and Credit Rating Agency of India Limited. Their main function is to grade the different sector and companies in terms of performance and offer solutions for up gradation. The credit rating agencies in India mainly include ICRA and CRISIL (Credit Rating Information Services of India Limited)

• **What is Cheque?**

Cheque is a negotiable instrument instructing a Bank to pay a specific amount from a specified account held in the maker/depositor's name with that Bank. A bill of exchange drawn on a specified banker and payable on demand. "Written order directing a bank to pay money".

• **What is demand Draft?**

A demand draft is an instrument used for effecting transfer of money. It is a Negotiable Instrument. Cheque and Demand-Draft both are used for Transfer of money. You can 100% trust a DD. It is a banker's check. A check may be dishonored for lack of funds a DD can not. Cheque is written by an individual and Demand draft is issued by a bank. People believe banks more than individuals.

• **What is a NBFC?**

A non-banking financial company (NBFC) is a company registered under the Companies Act, 1956 and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by government, but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property.

NBFCs are doing functions akin to that of banks; however there are a few differences:

- (i) A NBFC cannot accept demand deposits (demand deposits are funds deposited at a depository institution that are payable on demand — immediately or within a very short period — like your current or savings accounts.)
- (ii) it is not a part of the payment and settlement system and as such cannot issue cheques to its customers; and
- (iii) Deposit insurance facility of DICGC is not available for NBFC depositors unlike in case of banks.

• Diff between banking & Finance?

Finance is generally related to all types of financial, this could be accounting, insurances and policies. Whereas banking is everything that happens in a bank only. The term Banking and Finance are two very different terms but are often associated together. These two terms are often used to denote services that a bank and other financial institutions provide to its customers.

• What is NASSCOM ?

The National Association of Software and Services Companies (NASSCOM), the Indian chamber of commerce is a consortium that serves as an interface to the Indian software industry and Indian BPO industry. Maintaining close interaction with the Government of India in formulating National IT policies with specific focus on IT software and services maintaining a state of the art information database of IT software and services related activities for use of both the software developers as well as interested companies overseas. Mr. Som Mittal – President. Chairman-Pramod Bhasin

• What is ASSOCHAM?

The Associated Chambers of Commerce and Industry of India (ASSOCHAM), India's premier apex chamber covers a membership of over 2 lakh companies and professionals across the country. It was established in 1920 by promoter chambers, representing all regions of India. As an apex industry body, ASSOCHAM represents the interests of industry and trade, interfaces with Government on policy issues and interacts with counterpart international organizations to promote bilateral economic issues. President-Swati Piramal

• What is NABARD?

NABARD was established by an act of Parliament on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premiere agency to provide credit in rural areas. NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts.

• What is SIDBI?

The Small Industries Development Bank of India is a state-run bank aimed to aid the growth and development of micro, small and medium scale industries in India. Set up in 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India.

• **What is SENSEX and NIFTY?**

SENSEX is the short term for the words “Sensitive Index” and is associated with the Bombay (Mumbai) Stock Exchange (BSE). The SENSEX was first formed on 1-1-1986 and used the market capitalization of the 30 most traded stocks of BSE. Where as NSE has 50 most traded stocks of NSE. SENSEX IS THE INDEX OF BSE. AND NIFTY IS THE INDEX OF NSE. BOTH WILL SHOW DAILY TRADING MARKS. Sensex and Nifty both are an “index”. An index is basically an indicator it indicates whether most of the stocks have gone up or most of the stocks have gone down.

• **What is SEBI?**

SEBI is the regulator for the Securities Market in India. Originally set up by the Government of India in 1988, it acquired statutory form in 1992 with SEBI Act 1992 being passed by the Indian Parliament. Chaired by C B Bhav.

• **What is Mutual funds?**

Mutual funds are investment companies that pool money from investors at large and offer to sell and buy back its shares on a continuous basis and use the capital thus raised to invest in securities of different companies. The mutual fund will have a fund manager that trades the pooled money on a regular basis. The net proceeds or losses are then typically distributed to the investors annually.

• **What is Asset Management Companies?**

A company that invests its clients’ pooled fund into securities that match its declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have by themselves. Mutual funds, hedge funds and pension plans are all run by asset management companies. These companies earn income by charging service fees to their clients.

• **What are non-performing assets?**

Non-performing assets, also called non-performing loans, are loans, made by a bank or finance company, on which repayments or interest payments are not being made on time. A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The nonperforming asset is therefore not yielding any income to the lender in the form of principal and interest payments.

• **What is Recession?**

A true economic recession can only be confirmed if GDP (Gross Domestic Product) growth is negative for a period of two or more consecutive quarters.

• **What is foreign exchange reservers?**

Foreign exchange reserves (also called Forex reserves) in a strict sense are only the foreign currency deposits and bonds held by central banks and monetary authorities. However, the term in popular usage commonly includes foreign exchange and gold, SDRs and IMF reserve positions.