ABM — Advanced Bank Management

Complete Book | Table of Contents | 32 chapters + 4 sections

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LEARNING SESSIONS

CH-1 Definition of Statistics, Importance & Limitations & Data Collection, Classification & Tabulation

Topic 1 — Statistics — Origin and Nature

The word **Statistics** is derived from the Latin **'statisticum'**, Italian **'statistia'** and German **'statistik'**. Each means a group of numbers or figures that represent some information of human interest.

Data may be **qualitative** or **quantitative**. Statistics uses **numerical measurements** and **categorical counts** to describe data and to draw **inferences**.

Topic 2 — Four Phases of Statistical Analysis

Phase	What happens
1. Collection of data	First stage of investigation; numerical data is collected from different sources.
2. Classification and tabulation	Raw data is divided into groups or classes and presented in a table.
3. Analysis of data	Classified and tabulated data is analysed using formulas and statistical methods.
4. Interpretation of data	Final stage; relevant conclusions are drawn after thorough analysis.

Remember this

- Sequence: **Collection → Classification & Tabulation → Analysis → Interpretation**.

Topic 3 — Importance and Functions of Statistics

Statistics is used in **business and economics**, **medicine**, **weather forecasting**, the **stock market**, **banking** and **sports**.

No.	Function of statistics
1	Presents facts in a **definite** (numerical) form.
2	**Simplifies** complex data.
3	Provides a technique of **comparison**.
4	Studies the **relationship** between two or more variables.
5	Helps in **formulating policies**.
6	Helps in **forecasting** outcomes.

Example: A bank uses past deposit growth to forecast next year's CASA mobilisation (forecasting) and compares branch NPA ratios (comparison).

Topic 4 — Limitations of Statistics

Limitation	Explanation
Does not deal with individuals	Statistics studies **mass data** or groups of observations; it deals with **aggregates** of facts, not a single item.
Qualitative data	Categories are studied only through **counts, proportions and contingency tables**; numerical measures alone cannot capture every qualitative feature.
Results are true only on an average	A **sample** is studied and conclusions are drawn for the whole; results hold on average, not for every unit.
Results can be biased	**Biased data collection** can make the whole investigation useless.

Topic 5 — Population and Sample

Population is the entire collection of observations from which data may be collected. A **sample** is a part of the population selected for study.

Example: Study of weight of adult men in India: population = weights of all adult men in India. Study of infant health: population = all children born in India in a particular year; sample = all babies born on one particular day of that year.

- **Common measures** — Mean, median, mode and standard deviation describe both samples and populations.
- **Statistics** — For a **sample**, these measures are called **statistics**.
- **Parameters** — For a **population**, these measures are called **parameters**.
- **Notation** — Sample statistics use **lower-case Roman** letters. Population parameters use **Greek or capital** letters.

Notation for size, mean and standard deviation — population on the left, sample on the right:

$$\text{Population}: N,\ \mu,\ \sigma$$

$$\text{Sample}: n,\ \bar{x},\ s$$

Remember this

- **P**opulation → **P**arameter; **S**ample → **S**tatistic.

Topic 6 — Variates and Attributes

Data is classified by its characteristics into **variates** and **attributes**.

Type	Nature	Examples
Variate	Varies from one individual to another and **can be expressed numerically**	Prices of a commodity, wages of workers, heights and weights of students, marks
Attribute	Varies from one individual to another but **cannot be expressed numerically**	Colour of a ball (black, blue, green), religion

Quantitative (numerical) variables are of two kinds.

Type	Nature	Examples
Discrete variable	Takes distinct, **countable** and usually finite values	Number of members in a family, number of accidents, age in completed years
Continuous variable	Can take **any value within a range** (integral or fractional)	Percentage of marks, height, weight

Topic 7 — Primary and Secondary Data

- **Primary data** — Collected directly, for the first time, by the investigator from the respondents.
- **Secondary data** — Second-hand information already collected and processed by some agency or person.
- **Reuse** — Secondary data is being used a second time.

Methods of collecting primary data: **direct interview**, **questionnaires**, and **census and sample survey**.

Basis	Primary data	Secondary data
Source	Collected for the first time	Taken from published or unpublished sources
Status	Primary data of one person becomes **secondary for all others**	Already processed by someone else
Accuracy	Depends on collection design and quality; **not automatically more accurate**	Depends on the original collector's quality
Cost	Requires **more money, time and energy**	Cheaper and quicker

LEARNING SESSIONS

Example: RBI data on bank credit used by a branch manager for a project report is secondary data; a customer-satisfaction questionnaire run by the branch itself is primary data.

Topic 8 — Classification and Tabulation

- **Classification** — Arranging data into **homogeneous groups or classes** by a common characteristic.
- **Condenses data** — It removes unimportant details.
- **Fewer classes** — It fits a large number of observations into a few classes.
- **Relationships** — It helps study relationships between characteristics.

Presenting classified data in an organised form (rows and columns) for easy interpretation and comparison is **tabulation**.

Basis of classification	Grouping by	Example
Qualitative	An attribute or category	Religion, literacy status, gender
Quantitative	A measurable characteristic	Height, weight, age, marks
Geographical	Region or location	Population of different states, cities, countries
Chronological (temporal)	Time of occurrence — years, months, weeks, days; also called **time series**	Sales of a company over different years

Age measured in years is a **quantitative** base, not a qualitative one.

Type	Characteristics used	Example
One-way	One	Population by religion
Two-way	Two at a time	Population by religion and age
Multi-way	More than two	Population by religion, age and literacy

Topic 9 — Frequency Distribution and Class Intervals

- **Frequency** — The number of observations of a value or category, or the number falling within a class interval.
- **Any count** — A frequency can be **zero, one or more**. Repetition is not required.
- **Class intervals** — They are normally of **equal size** and cover the range of observations.

Term	Meaning
Class limits	The two values forming a class: **lower class limit** and **upper class limit**
Class width (length)	Upper class limit − lower class limit
Class mark (mid-value)	Mid-point of the class
Exclusive class	e.g. 0–10, 10–20; 500–1000, 1000–1500. **Upper limit is excluded** and counted in the next class
Inclusive class	e.g. 60–69, 70–79. **Both limits included**; 60 and 69 both belong to 60–69
Class boundaries	Exclusive classes obtained by converting inclusive classes
Open-end class	Lower limit of the first class or upper limit of the last class (or both) is missing, e.g. **Below 10**, **Above 40**

Class width, class mark and the correction factor for converting inclusive classes to class boundaries:

$$\text{Class width} = \text{UCL} - \text{LCL}$$

$$\text{Class mark} = \frac{\text{LCL} + \text{UCL}}{2}$$

$$\text{Correction} = \frac{\text{LCL of next class} - \text{UCL of this class}}{2}$$

Subtract the correction from every lower limit and add it to every upper limit.

Example: Classes 5–9, 10–14: correction = (10 − 9)/2 = **0.5**. Boundaries become **4.5–9.5, 9.5–14.5**. Class mark of 5–9 = (5 + 9)/2 = **7**; width of 4.5–9.5 = **5**.

Topic 10 — Relative, Percentage and Density Frequencies

These express a class frequency relative to the total or to the width of the class.

$$\text{Relative frequency} = \frac{\text{Class frequency}}{\text{Total frequency}}$$

$$\text{Percentage frequency} = \frac{\text{Class frequency}}{\text{Total frequency}} \times 100$$

$$\text{Frequency density} = \frac{\text{Class frequency}}{\text{Class width}}$$

Example: Class 20–30 has frequency 12 out of a total of 32. Relative frequency = 12/32 = **0.375**; percentage frequency = **37.5%**; frequency density = 12/10 = **1.2**.

Remember this

- Sum of all relative frequencies = **1**; sum of percentage frequencies = **100**.

Topic 11 — Discrete and Continuous Frequency Distributions

A **discrete frequency distribution** is used when the variable takes distinct values. A **continuous frequency distribution** is used when values are expressed in class intervals within certain limits.

Example: Number of post-graduates in 10 families: 0, 1, 3, 1, 0, 2, 2, 2, 2, 4.

Post-graduates (x)	0	1	2	3	4	Total
Frequency	2	2	4	1	1	10

Example: Marks of 20 students (out of 50): 18, 23, 28, 29, 44, 28, 48, 33, 32, 43, 24, 29, 32, 39, 49, 42, 27, 33, 28, 29 — grouped in exclusive classes of width 5.

Marks	15–20	20–25	25–30	30–35	35–40	40–45	45–50	Total
Frequency	1	2	7	4	1	3	2	20

ABM | Module A | CH-1 | MCQs

Q1. In a statistical study, raw data has been divided into groups and shown in a table. Which phase of statistical analysis comes next? *[Ref: Topic 2, p. 2]*

(a) Analysis of data (b) Collection of data
(c) Interpretation of data (d) Sampling of data

Q2. A study finds that average deposit per account in a branch is ₹85,000. A customer argues that his deposit is only ₹20,000, so the study is wrong. Which limitation of statistics explains this? *[Ref: Topic 4, p. 2]*

(a) Statistics cannot handle quantitative data
(b) Statistics results are always biased
(c) Statistics does not deal with individuals
(d) Statistics cannot be used for comparison

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Q3. A bank computes the mean loan size of all 12,000 home loans in its portfolio. This value is a: *[Ref: Topic 5, p. 2]*

(a) Statistic (b) Parameter (c) Attribute (d) Class mark

Q4. A survey records the colour of credit cards preferred by customers (gold, silver, platinum). The characteristic studied is a/an: *[Ref: Topic 6, p. 2]*

(a) Variate (b) Continuous variable
(c) Discrete variable (d) Attribute

Q5. Which of the following is a continuous variable? *[Ref: Topic 6, p. 2]*

(a) Number of accounts opened in a day
(b) Weight of gold ornaments pledged for a gold loan
(c) Number of members in a family
(d) Number of ATMs in a district

Q6. A manager uses data from an RBI publication for a branch business plan. For the manager, this data is: *[Ref: Topic 7, p. 2]*

(a) Secondary data (b) Primary data
(c) Attribute data (d) Census data

Q7. Monthly CASA balances of a bank for the last 36 months are arranged month-wise. The base of classification is: *[Ref: Topic 8, p. 3]*

(a) Geographical (b) Chronological
(c) Qualitative (d) Quantitative

Q8. Customers are classified by gender, age group and occupation at the same time. This is: *[Ref: Topic 8, p. 3]*

(a) One-way classification (b) Two-way classification
(c) Geographical classification (d) Multi-way classification

Q9. Inclusive classes are 20–29, 30–39, 40–49. The class boundaries of the second class are: *[Ref: Topic 9, p. 3]*

(a) 30–40 (b) 29–39 (c) 29.5–39.5 (d) 30.5–39.5

Q10. In a distribution of 80 observations, class 40–60 has a frequency of 24. Its percentage frequency and frequency density are: *[Ref: Topic 10, p. 3]*

(a) 24% and 1.2 (b) 30% and 0.6 (c) 30% and 1.2 (d) 24% and 0.3

Q11. In exclusive classes 0–10, 10–20, an observation of exactly 10 is counted in: *[Ref: Topic 9, p. 3]*

(a) 0–10 (b) Both classes
(c) Neither class (d) 10–20

Q12. Raw data: 3, 1, 2, 3, 0, 3, 1, 2, 3, 4. In a discrete frequency distribution, the frequency of the value 3 is: *[Ref: Topic 11, p. 3]*

(a) 3 (b) 2 (c) 5 (d) 4

Q13. Inclusive classes are 15–19, 20–24, 25–29. The correction factor and the class boundaries of 20–24 are: *[Ref: Topic 9, p. 3]*

(a) 0.5 and 19.5–24.5 (b) 1 and 19–25
(c) 0.5 and 20.5–24.5 (d) 0.5 and 19.5–25.5

Q14. In a marks distribution, the class 40–60 has a frequency of 30. Its frequency density is: *[Ref: Topic 10, p. 3]*

(a) 0.67 (b) 1.5 (c) 30 (d) 3.0

Q15. In a distribution of 250 borrowers, a loan-size class has a percentage frequency of 18%. The number of borrowers in that class is: *[Ref: Topic 10, p. 3]*

(a) 18 (b) 72 (c) 45 (d) 14

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	d	7	b	10	c	13	a
2	c	5	b	8	d	11	d	14	b
3	b	6	a	9	c	12	d	15	c

CH-2 Sampling Techniques

Topic 1 — Types of Sampling

- **Samples, not census** — Decision-makers rarely study the entire population of customers, borrowers or transactions. They rely on samples.
- **Two families** — Sampling methods are either **judgement (non-random)** or **random (probability)**.

Family	Basis of selection	Banking example
Judgement / non-random	Investigator picks units by personal expertise or convenience; **no probability mechanism**; error cannot be quantified	Branch manager hand-picks 10 'good' borrowers for a quick credit-quality check
Random / probability	Every unit has a **known, non-zero chance** of selection under a probability rule	RBI inspection of a randomly drawn set of NPA accounts

Only **random sampling** supports valid statistical inference about the population. Judgement sampling is fast and cheap but cannot measure error.

Random method	How it works	Use when / example
Simple random (SRS)	Every possible sample of a fixed size has **equal probability**; drawn by lottery, random-number tables or computer	Homogeneous population with a complete list (sampling frame); audit 50 random savings accounts out of 5,000
Systematic	Pick every **kth** unit from an ordered list after a random start; sampling interval k as in the formula below	Audit every 100th of 10,000 KYC files from a random start between 1 and 100. Caution: a hidden periodic pattern matching k causes bias
Stratified	Divide population into **non-overlapping strata** sharing an attribute; draw a separate random sample from **each** stratum	Heterogeneous population needing guaranteed representation; customers split into age groups 15–25, 26–40, 40+
Cluster	Divide population into clusters (usually geographical); randomly choose a few clusters; study **all units** (or a sub-sample) in them	Geographically spread population; survey every household in 20 villages chosen at random out of 500

Aspect	Stratified	Cluster
Within-group variability	Low (homogeneous strata)	High (each cluster is a mini-population)
Between-group variability	High (strata differ)	Low (clusters resemble each other)
What is sampled	A sample from **every** group	**All** units of a few chosen groups
Purpose	Improve precision	Reduce cost / logistics

Sampling interval for systematic sampling (N = population size, n = sample size):

$$k = \frac{N}{n}$$

Example: 10,000 accounts, sample of 50: k = 10,000/50 = **200**. After a random start, say account 37, select 37, 237, 437 and so on.

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BFM — Bank Financial Management

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LEARNING SESSIONS

CH-1 Exchange Rates and Forex Business

Topic 1 — Foreign Exchange — FEMA Definition

- **Need** — Cross-border trade needs conversion of the invoice currency into the trader's home currency.
- **Exporter's view** — For an Indian exporter, **USD or EUR** is foreign exchange.
- **Buyer's view** — For the American buyer or German seller, the **Indian rupee** is foreign exchange.

Section 2 of FEMA, 1999 defines **foreign exchange** as foreign currency, and includes:

Limb	Instruments covered
(i)	All **deposits, credits and balances payable in foreign currency**, and drafts, traveller's cheques, LCs and bills of exchange **expressed or drawn in Indian currency but payable in foreign currency**.
(ii)	Drafts, traveller's cheques, LCs and bills of exchange **drawn by banks, institutions or persons outside India but payable in Indian currency**.

- **Forex transaction** — A **contract to exchange funds in one currency for another** at an agreed rate.
- **Exchange rate** — The price or ratio at which one currency is exchanged for another.
- **Examples** — USD 1 = ₹76.10; EUR 1 = USD 1.19.
- **Dynamic** — The rate changes several times a second.

Topic 2 — Foreign Exchange Markets and Participants

- **Nature** — The forex market is a **communication-system based market** with no physical boundaries.
- **Timing** — It operates **round the clock**, within and across countries.
- **Time zones** — The **Indian and Middle East** markets open before **Singapore and Hong Kong** close.

Major participants	
1. Central banks	2. Commercial banks
3. Investment funds / banks	4. Forex brokers
5. Corporations	6. Individuals

Topic 3 — Factors Determining Exchange Rates

Spot rates are the base quotes in the market and are the most dynamic. Factors fall into two groups.

Factor	Effect on currency
Balance of payments	Surplus generally strengthens; deficit weakens. BoP records all monetary transactions between residents and the rest of the world in a period.
Economic growth	Affects imports and capital flows; net effect depends on productivity, investment and expectations.
Fiscal policy	Expansionary policy (e.g., lower taxes) can lead to higher growth.
Monetary policy	Central bank control over interest and money supply affects currency value.
Interest rates	Higher relative rates can attract capital; inflation, risk and expectations also matter — not mechanical.
Political issues	Stability → steady currency; instability → weak currency.

Technical reasons

Factor	Effect
Government controls	Can create an unrealistic currency value and violent rate swings.
Capital movement	Freedom or restriction on capital flows moves rates sharply (e.g., oil-surplus funds invested overseas). Capital moves from **lower-yielding to higher-yielding** currencies.
Speculation	Expecting devaluation, speculators **short-sell** a currency to buy it back cheaper, which itself moves the market.

Topic 4 — Settlement Types — Cash, Tom, Spot and Forward

Deal	Settlement (value date)	Deal on Mon 5 Oct → value
Ready / Cash	Same day as deal (**T + 0**)	5 Oct
Tom	Next working day (**T + 1**)	6 Oct
Spot	Second working day (**T + 2**)	7 Oct
Forward	Any day **after spot** (> T + 2)	e.g., 30 Oct or 30 Nov

If a settlement day is a holiday in **either** country, settlement moves to the next working day in **both** countries. The **spot** market has the highest volume, depth and volatility.

Example: Contract dated 29/09/2020: delivery 29/09 → Cash; 30/09 → Tom; 01/10 → Spot; 15/10 → Forward (all days working).

Topic 5 — Forward Margins — Premium and Discount

Forward rates are derived from spot rates. A currency is at a **premium** when its forward value is **higher (costlier)** than spot, and at a **discount** when forward is **cheaper** than spot.

Forward rate, where p = premium and d = discount:

$$\text{Forward rate} = \text{Spot} + p$$

$$\text{Forward rate} = \text{Spot} - d$$

In a two-way quote, if the forward points are **ascending** (e.g., 68/69) they are a premium and are **added**; if **descending** (e.g., 40/35) they are a discount and are **deducted**.

Example: USD/INR spot 48.10/11; six-month premium 68/69 paise → forward 48.78/48.80. USD is at a premium, INR at a discount. GBP/USD spot 1.6000, 1-month 1.6050 → GBP at premium; 3-month 1.5900 → GBP at discount, USD at premium.

- **Main driver** — Forward margins depend mainly on the **interest rate differential**.
- **Other driver** — Demand and supply of forwards also affect forward margins.
- **Perfect market** — In a perfect market, the interest factor is basic.
- **Example** — US 3-month bills yield **2%** and UK bills yield **4%**.
- **Result** — US investors buy GBP spot and sell GBP forward.
- **Effect** — This creates spot demand for GBP and forward demand for USD.

Forward points depend on (i) spot price, (ii) interest rate differential and (iii) the forward period. Approximate forward points, where S = spot, D = annual interest differential, n = days:

$$\text{Forward points} \approx S \times D \times \frac{n}{360}$$

Example: EUR 1 = USD 1.60, differential 6%, 90 days: 1.60 × 0.06 × 90/360 = **0.024**. Spot 2.00, 4%, 60 days: 2.00 × 0.04 × 60/360 = **0.013333**.

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Exact covered interest parity uses both interest rates, where Rh = home-currency (INR) rate, Rf = foreign-currency rate and t = period in years:

$$F = S \times \frac{1 + R_h t}{1 + R_f t}$$

Example: Spot USD/INR 83.00, INR rate 6%, USD rate 4%, 180 days (t = 0.5): F = 83 × 1.03 / 1.02 = **83.8137**. The differential shortcut is only an approximation.

Annualised forward premium or discount, where F = forward rate, S = spot and m = months:

$$\text{Annualised premium } (\%) = \frac{F - S}{S} \times \frac{12}{m} \times 100$$

Example: Spot 83.00, 3-month forward 83.83: (0.83 / 83) × 12/3 × 100 = **4% p.a.** premium on USD.

Topic 6 — Direct and Indirect Quotes, Bid–Offer, Per Mille

Quote	Fixed / variable	Profit rule	Example
Direct	Foreign currency fixed; home currency variable	**Buy low, sell high**	USD 1 = ₹76.10
Indirect	Home currency fixed; foreign currency variable	**Buy high, sell low**	₹100 = USD 1.31

Conversion between the two forms:

$$\text{Direct rate} = \frac{100}{\text{Indirect rate per } 100}$$

Example: ₹100 = USD 1.20 → USD 1 = 100 / 1.20 = ₹**83.33**.

- **Bid** — The rate at which the quoting bank **buys**.
- **Offer** — The rate at which the quoting bank **sells**.
- **USD/INR 76.10/11** — The bank buys USD at 76.10 and sells USD at 76.11.
- **GBP/USD 1.6000/10** — The bank buys GBP at 1.6000 and sells GBP at 1.6010.

Per cent is one part per hundred (₹1 per ₹100); **per mille** is one part per **thousand** (₹1 per ₹1,000).

Fixed rate is the official rate set by the monetary authority, sometimes allowed to move within upper and lower **bands**. **Floating rate** is determined by **demand and supply**.

Value date is the date on which a payment or entry becomes effective or interest-bearing. For **TT**, the value date is usually the same in both centres, so no party gains or loses interest.

Topic 7 — Cross Rates

When a currency pair is not directly quoted, its rate is derived through a common currency (usually USD).

For a customer buying EUR against INR, where USD/INR is the offer side and USD/EUR the units of EUR per USD:

$$\text{EUR/INR} = \frac{\text{USD/INR}}{\text{USD/EUR}}$$

Example: USD 1 = ₹76.10/76.25 and USD 1 = EUR 1.06. Customer remits EUR (bank sells): 76.25 / 1.06 = ₹**71.9340 per EUR** before margin. With single rates USD 1 = ₹76.10 and USD 1 = EUR 1.10: 76.10 / 1.10 = ₹69.18.

Topic 8 — Arbitrage

Arbitrage is simultaneous buying and selling in two or more markets to profit from temporary price discrepancies. In forex, a currency is bought in one centre and almost immediately resold in another.

Type	Centres involved
Simple / direct arbitrage	Two centres only
Compound / three-point arbitrage	Three or more centres and several currencies

Topic 9 — Merchant Rates — TT and Bill Buying / Selling

Rate	Used when	Base rate
TT buying	Bank buys FC already credited to Nostro — inward remittance, purchase of FC DD, cancellation of a sale contract	Spot **bid** − margin
Bill buying	Bank purchases / discounts an export bill (Nostro credit later)	Spot bid + forward premium for transit/usance (rounded up to month) − margin
TT selling	Bank sells FC with no handling of documents — outward remittance, DD issue, NRE → FCNR transfer, crystallisation of export bills, cancellation of a purchase contract	Spot **offer** + margin
Bill selling	Retirement of import bills (bank handles documents)	Spot offer + bill-selling margin

TT buying rate, where m = exchange margin:

$$\text{TT buying} = \text{Spot bid} \times (1 - m)$$

Example: USD 10,000 already in Nostro; spot 76.30/45; margin 0.10%: 76.30 × 0.999 = **76.2237**; pay ₹7,62,237. Forward points are irrelevant as funds are already received.

Bill buying rate, where p = forward premium for transit period rounded to the higher month:

$$\text{Bill buying} = (\text{Spot bid} + p) \times (1 - m)$$

Example: Export bill USD 50,000; spot 72.30/40; 1-month premium 0.40/0.50; transit 20 days (→ 1 month); margin 0.15%: (72.30 + 0.40) × 0.9985 = **72.59095**; pay ₹36,29,547.50 before interest and charges.

TT selling rate:

$$\text{TT selling} = \text{Spot offer} \times (1 + m)$$

Example: DD on USA for USD 50,000; spot 76.32/48; margin 0.15%: 76.48 × 1.0015 = **76.59472**; debit ₹38,29,736 before fees.

Bill selling rate, where Mb = stated total bill-selling margin:

$$\text{Bill selling} = \text{Spot offer} \times (1 + M_b)$$

Example: Import bill USD 50,000 retired now; spot 72.30/40; total bill-selling margin 0.20%: 72.40 × 1.002 = **72.5448**; debit ₹36,27,240. Do not add the TT margin again when the 0.20% is the stated total; forward points are irrelevant for immediate retirement.

Remember this

- Bank **buys at bid, sells at offer**; buying margin is **deducted**, selling margin is **added**.

Topic 10 — Dealing Room Operations

The dealing room buys and sells FC for customers of all branches, manages FC assets and liabilities, funds and **Nostro accounts**, and undertakes proprietary trading. It is a **separate profit centre**.

Office	Role
Front office (dealers)	Maintains two positions. **Funds position**: inflows/outflows; mismatches cause Nostro overdraft interest or idle balances. **Currency position**: overbought/oversold; exchange risk. Works within management-set limits and manages currency gaps.
Back office	**Processing of deals, accounts and reconciliation**; supportive and checking role over dealers.
Mid office	**Risk management** and parameterisation of risks, market information, **compliance**; independent function.

LEARNING SESSIONS

RBI requires the **Board** to frame a policy and fix limits for forex dealing, focusing on risks arising from complex, volatile markets.

Topic 11 — Authorised Persons under FEMA

Under FEMA, RBI authorises banks and others as **Authorised Persons**. Under the **2026 authorisation framework (effective May 2026)**:

Category	Scope	Entry conditions
AD Category-I	Any current and capital account transaction permissible under FEMA	Must be a **licensed bank**
AD Category-II	Permissible non-trade current account transactions (other than gifts/donations) and foreign trade up to **₹25 lakh per transaction**	Licensed banks / registered NBFCs / qualifying FFMCs or Forex Correspondents with **2 years** of operations and average forex turnover **₹50 crore** over the previous two years; net worth **₹10 crore**
AD Category-III	Activities specified in its RBI authorisation (not restricted money changing)	Net worth **₹2 crore**
FFMC	Money changing and MTSS agency	No fresh applications except those under process; existing ones renew under stated conditions

- **Forex Correspondents (FxC)** — AD-I / AD-II may appoint them on a **principal–agent** basis.
- **Activities** — Purchase of notes/TCs, travel sales and MTSS sub-agency.
- **Books** — The transactions appear in the principal's books.
- **Multiple ADs** — An FxC may serve more than one AD.
- **Franchisees** — From **6 May 2026**, no fresh franchisee arrangements are allowed.
- **Existing franchisees** — They end within **two years** and may convert to FxCs.

Topic 12 — FEDAI and its Rules

- **FEDAI** — A non-profit body formed in **1958** with RBI approval.
- **Membership** — All ADs are members and must follow its rules.
- **Rules cover** — Market operations, merchant rates, quotations, delivery dates, holidays, interest on defaults, export-import bills, transit period and crystallisation.
- **Advisory role** — It also advises RBI.

Rule area	Current position
Normal Transit Period (DP/sight bills, not under LC)	Foreign currency bills **25 days**; rupee bills **20 days**. Not applicable to fixed-due-date bills. Finance beyond NTP limited to **90 days from shipment**.
Crystallisation of export bills	Overdue FC bills converted to rupee liability at **TT selling rate**; day of crystallisation decided by the bank's policy.
Cancellation rate	At opposite TT rate — **TT selling** for purchase contracts; **TT buying** for sale contracts.
Late interbank delivery	Interest at **2% over** overnight benchmark (INR FBIL MIBOR, USD SOFR, GBP SONIA, EUR €STR, JPY TONA, CHF SARON, CAD CORRA). Claim within **15 working days** covers full delay; later claims capped at **60 days'** interest.

- **See** — Ch 8 (p. 27) for the full FEDAI rules on forward contracts, holidays, matured contracts and direct merchant quotes; Ch 4 (p. 11) for crystallisation of unpaid import bills under LC.

Remember this

- NTP: **25 days** FC bills, **20 days** rupee bills; option period max **1 month**.

Topic 13 — RBI Guidelines for Authorised Dealers

Area	Guideline
Vostro accounts	AD-I banks may open/close non-interest-bearing rupee accounts of overseas branches/correspondents without RBI reference (except Pakistani banks outside Pakistan). Exchange House rupee accounts need **prior RBI approval**.
Nostro accounts	May open/close FC accounts abroad and hold Board-approved balances.
Overseas investment	Money market/debt instruments of foreign states with residual maturity **< 1 year**, rated as per guidelines.
Use of Nostro surplus	Loans to residents for FC or rupee working capital/capex (with natural hedge or exchange-risk policy); credit to overseas WOS/JV with **≥ 51%** resident equity.
Overseas borrowing	Up to **100% of unimpaired Tier 1 capital or USD 10 million, whichever is higher**. Excludes export-credit borrowings, HO subordinated Tier II funds and specified capital instruments.
Borrowing above 50%	Beyond **50% of Tier 1** needs Board policy, CRAR **12%** and minimum **3-year** maturity. Excess is reported to FMRD within **15 days** of month-end.
Hedging	Residents may hedge contracted or anticipated exposure. The underlying must exist, be unhedged elsewhere and be provable. Contracted exposure up to **USD 100 million** outstanding across all ADs needs no initial documentary proof.
Products	Retail: forwards, FX swaps, purchased European calls/puts, call/put spreads. Non-retail threshold: net worth **₹500 crore** or turnover **₹1,000 crore**.

- **Capital account transaction** (Section 2(e)) — It alters assets or liabilities, including contingent liabilities, outside India of a resident.
- **See** — Ch 8 (p. 27) for capital and current account transactions under FEMA.

BFM | Module A | CH-1 | MCQs

Q1. A contract dated 10 July is settled on 12 August. The rate applied is the: *[Ref: Topic 4, p. 2]*

(a) Ready rate (b) Tom rate (c) Spot rate (d) Forward rate

Q2. Spot rate 2.00, interest differential 4% p.a., forward period 60 days (360-day year). Forward points are approximately: *[Ref: Topic 5, p. 2]*

(a) 0.011111 (b) 0.012222 (c) 0.013333 (d) 0.014444

Q3. EUR/USD spot 1.3200/1.3210; 1-month forward points 40/35. The 1-month outright EUR/USD quote is: *[Ref: Topic 5, p. 2]*

(a) 1.3240/1.3245 (b) 1.3160/1.3175
(c) 1.3160/1.3245 (d) 1.3175/1.3240

Q4. USD/INR 84.10/84.25 and USD 1 = EUR 0.92. A customer remitting EUR will be quoted, before margin, approximately: *[Ref: Topic 7, p. 3]*

(a) ₹77.51 per EUR (b) ₹91.58 per EUR
(c) ₹91.41 per EUR (d) ₹77.37 per EUR

LEARNING SESSIONS

Q5. USD 20,000 is already credited to the bank's Nostro. Spot USD/INR 84.20/35, 1-month points 20/30, margin 0.15%. The rupee amount paid to the beneficiary is: ***[Ref: Topic 9, p. 3]***

(a) ₹16,81,474 (b) ₹16,85,474 (c) ₹16,86,000 (d) ₹16,89,474

Q6. Export bill USD 25,000; spot 84.10/25; 1-month premium 0.30/0.40; transit 25 days; margin 0.15%. The bill buying rate is: ***[Ref: Topic 9, p. 3]***

(a) 84.0838 (b) 84.4000 (c) 84.3734 (d) 84.2734

Q7. An importer wants a DD for USD 10,000. Spot 84.15/84.30, margin 0.20%. The amount debited before charges is: ***[Ref: Topic 9, p. 3]***

(a) ₹8,41,500 (b) ₹8,43,000 (c) ₹8,44,686 (d) ₹8,46,686

Q8. Spot USD/INR 83.00 and 3-month forward 83.83. The annualised forward premium on USD is: ***[Ref: Topic 5, p. 2]***

(a) 1.00% (b) 3.33% (c) 4.00% (d) 12.00%

Q9. A rate of ₹100 = USD 1.20 is an indirect quote. The equivalent direct quote is: ***[Ref: Topic 6, p. 3]***

(a) USD 1 = ₹120.00 (b) USD 1 = ₹83.33
(c) USD 1 = ₹82.00 (d) USD 1 = ₹1.20

Q10. Spot USD/INR 83, INR interest 6% p.a., USD interest 4% p.a., 180 days. The covered-interest-parity forward rate is about: ***[Ref: Topic 5, p. 2]***

(a) 83.81 (b) 82.19 (c) 84.66 (d) 83.00

Q11. A customer asks the bank to transfer funds from his NRE account to his FCNR(B) account. The rate applied is: ***[Ref: Topic 9, p. 3]***

(a) TT buying rate (b) Bill buying rate
(c) Bill selling rate (d) TT selling rate

Q12. Which office of the dealing room handles processing of deals, accounts and reconciliation? ***[Ref: Topic 10, p. 3]***

(a) Front office (b) Mid office
(c) Treasury office (d) Back office

Q13. Under FEDAI rules, an export purchase contract cancelled by the customer is cancelled at the bank's: ***[Ref: Topic 12, p. 4]***

(a) TT buying rate (b) TT selling rate
(c) Bill buying rate (d) Spot mid rate

Q14. An AD Category-I bank's overseas foreign currency borrowing ceiling is: ***[Ref: Topic 13, p. 4]***

(a) 50% of Tier 1 capital or USD 10 million, whichever is lower
(b) 25% of Tier 1 capital
(c) 100% of unimpaired Tier 1 capital or USD 10 million, whichever is higher
(d) USD 100 million flat

Q15. Under the 2026 framework, an AD Category-II entity may handle foreign trade transactions up to: ***[Ref: Topic 11, p. 4]***

(a) ₹10 lakh per transaction (b) ₹25 lakh per transaction
(c) ₹50 lakh per transaction (d) USD 25,000 per transaction

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	d	4	b	7	c	10	a	13	b
2	c	5	a	8	c	11	d	14	c
3	b	6	d	9	b	12	d	15	b

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CH-2 Liberalised Remittance Scheme (LRS) and other Remittance Facilities for Residents

Topic 1 — Capital and Current Account Transactions

Transaction	FEMA section	Scope
Capital account	**Section 2(e)**	Alters assets / liabilities, including contingent liabilities, **outside India of a resident**, or **in India of a non-resident**.
Current account	**Section 2(j)**	Any transaction other than capital account — trade payments, interest on loans, income on investments, travel, family maintenance, medical treatment, etc.

Topic 2 — Key FEMA Sections for LRS

Section	Provision
Section 4	Residents may hold, acquire or transfer foreign exchange, foreign securities or immovable property abroad **only as permitted** under FEMA rules and regulations.
Section 6	Any person may draw or sell foreign exchange through an authorised person for **permissible capital account transactions** within limits. **Section 6(4)** protects assets acquired while non-resident or inherited from a non-resident.
Section 10(6)	Foreign exchange must be used for the **declared purpose** or surrendered within the prescribed period; otherwise deemed contravention.
Section 13	Penalty up to **thrice the amount involved** (if quantifiable) or up to **₹2,00,000** (if not); continuing contravention up to **₹5,000 per day** after the first day.

- **See** — Ch 8 (p. 27) for Section 11 — RBI directions to Authorised Persons; penalty up to ₹10,000, plus up to ₹2,000 per day for continuing contravention.

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CH-1 Basics of Management

Topic 1 — Management

- **Harold Koontz** — Management is **"the art of getting things done through others and with formally organised groups"**.
- **Process** — It means **planning and organising resources and activities** of a business.
- **Aim** — It achieves specific goals in the **most effective and efficient** manner.

Thinker	View of management
F. W. Taylor	Knowing **what should be done** and achieving it **efficiently**.
Henri Fayol	"To manage is to **forecast and plan, organise, command, coordinate and control**."
Peter Drucker	A manager **sets objectives, organises, motivates and communicates, sets yardsticks and measures**, to develop people.

Topic 2 — Functions of Management

Function	What it involves
Planning (basic function)	Looking ahead and **deciding in advance** the most appropriate course of action to achieve pre-determined goals. Bridges the gap between **"where we are" and "where we want to be"**.
Organising	Provides **human and non-human resources**. Identify, classify and group activities; assign duties. **Delegate authority and create responsibility**. Coordinate authority-responsibility relationships.
Staffing	Putting the **right person on the right job**: recruitment, selection and placement; training and development; remuneration; performance appraisal; promotion and transfer.
Directing	Sets people **in motion**; plan, organise, staff only prepare. **Supervision** — watching work, workers. **Motivation** — positive/negative, monetary/non-monetary. **Leadership** — guiding staff. **Communication** — sharing information, experience, opinion.
Controlling	Measures performance and **corrects deviations** from plans.

Remember this

- Fayol sequence: **Plan → Organise → Staff → Direct → Control**; directing has 4 elements — **S-M-L-C**.

Topic 3 — Importance of Management

Benefit	How management helps
Change management tool	Helps the transition of an organisation **from good to great**.
Achieves group goals	Better quality decisions and better control over departments.
Optimum use of resources	Efficient allocation of **scarce resources**.
Better functioning, lower cost	**Maximum results through minimum input** by proper planning.
Development of resources	All-round development of human resources, machines, materials and capital.
Better organisation	Defines **authority and responsibility** at each level and ensures right job fit.
Proper direction	Directs the organisation towards its goals.
Integration of interests	Integrates the interests of various groups in the organisation.

Topic 4 — Classical or Traditional School

Classical Management Theory is the **oldest** management theory. Its main focus is **increasing employee efficiency**, concentrating on **operations** and rewarding high performers through **wages or bonuses**.

- Integrated and **centralised** system
- Greater emphasis on **production**
- Concentration on **errors and their rectification**
- Assumes employees' continuity irrespective of organisational changes
- Based on an **accounting model**
- Gives **equal weightage** to different types of jobs and employees

Topic 5 — Neo-Classical or Behavioural School

- **Motivation** — Different persons are motivated differently to satisfy their specific needs.
- **Communication** — It is a critical input for efficiency measurement.
- **Team-work** — It is essential for organisational performance.
- **Two perspectives** — The school has a **Human Relations** and a **Psychological** perspective.

Theory	Key idea
Maslow's Hierarchy of Needs	Needs follow a **hierarchy**: **physiological → safety → social → esteem → self-actualisation**. **Only unsatisfied needs influence behaviour**. Lower needs usually come first; the order is not rigid.
McGregor's Theory X and Y	Managerial assumptions about employees. **Theory X**: people avoid work and need **control**. **Theory Y**: people exercise **self-direction** and accept responsibility in suitable conditions.
Herzberg's Motivation-Hygiene (Two-Factor / Satisfier-Dissatisfier)	**Motivators** (challenging work, recognition, responsibility) give positive satisfaction. **Hygiene factors** (status, job security, salary, fringe benefits) **do not motivate if present** but cause **demotivation if absent**.

Remember this

- Herzberg: **salary is a hygiene factor**, recognition is a motivator.

Topic 6 — Modern Management Theory

Modern theory uses tools such as **statistics** to measure performance and encourages **cross-functional cooperation**. It comprises **3 major theories**.

Theory	Key idea
Quantitative	Built mainly for **military decision-making**; integrates people and materials. Uses models, hypotheses, empirical data and statistical models. Uses data analysis, controlled experiments, variable testing and instruments.
Systems	Management is an **interrelated component** of the organisation; it must support goals and process flows serving **overall organisational health**.
Contingency	Effective management **depends on the situation and context**. Contributor: **Joan Woodward**. Criticised as **reactive, not proactive**, and for giving **no standard principles** for specific situations.

LEARNING SESSIONS

Topic 7 — Ohio State and Michigan Leadership Studies

Ohio State University	University of Michigan	Focus
Consideration: rapport with subordinates, good interpersonal relations, support and concern	**Relation-oriented**: encourages social interaction, mutual respect and trust, empowers people	People
Initiating structure: proper structure for planning, scheduling and aligning roles with task completion and business goals	**Task-oriented**: defines structure and goals, emphasises planning, defines priorities, has a reward-and-punishment model	Task

Topic 8 — Contemporary School — Total Quality Management

- **Basis** — The contemporary school is built on **Total Quality Management (TQM)** and the **Learning Organisation**.
- **TQM thinkers** — TQM is associated with **Deming, Juran and Crosby**.
- **Aim of TQM** — It manages the organisation to deliver **high-quality goods and services** to customers.
- **Origin** — TQM originated in **Japan after the Second World War**.

TQM principle	Meaning
Employee involvement	High involvement of employees prevents quality issues.
Customer focus	Understand customers' business and wants; deliver suitable products and services.
Standardisation	Use **industry standards as benchmarks** to compare with competitors and evaluate own performance.
Continuous monitoring	Monitor and change for the better to improve **all areas**.

Deming's 14 Points

No.	Point	No.	Point
1	Consistency of purpose	8	Drive out fear through two-way communication
2	Adopt the new philosophy	9	Remove barriers between departments
3	Cease dependence on **inspection**	10	No targets, slogans or exhortations without new methods
4	End the **lowest-bid** system	11	Avoid arbitrary **production quotas**
5	All-round improvement	12	Remove barriers to pride of workmanship and **annual rating/merit system**
6	On-the-job training	13	Vigorous programme of education and self-improvement
7	Culture of leadership	14	Management to drive transformation involving everyone

Topic 9 — Learning Organisation

A **learning organisation** is one where **all employees take part in identifying and solving problems**, enabling the organisation to continuously enhance its capacity to grow, learn and achieve its goals.

Discipline (5)	Meaning
Personal mastery	Capacity to achieve personal goals; environment for an employee's personal vision, leading to a shared vision.
Shared vision	Leaders and employees trust and collaborate for a **joint vision**, rather than mere compliance with instructions.
Mental models	Understanding the impact of our **assumptions and generalisations**.
Team learning	Members reflect on and consider the views of others.
Systems thinking	Everything is **interrelated**; look at the whole picture and how each part connects.

It matters because it finds **innovative ways** and stays ahead of competition, has very high effectiveness and efficiency, higher productivity and output, and enhances the **company's image**.

Remember this

- Senge's 5 disciplines: **P-S-M-T-S** — Personal mastery, Shared vision, Mental models, Team learning, Systems thinking.

Topic 10 — Business Models

A business model is based on the **clients served, product offerings, revenue model**, ways of differentiating and sustaining competitive advantage, and the manner of delivering products or services.

Model	Feature	Example
Solution / consulting	Consulting services that improve client operations	IBM
Profit pyramid	Low-priced products first, then customers move to **expensive, high-profit** products	General Motors
Multi-component system	Base product at **no-profit no-loss**; profit on components/consumables	Gillette (razors vs blades)
Advertisement	Basic product **free**; earns through advertising	YouTube, Google
Switchboard	Intermediary connecting **multiple sellers with multiple buyers**	eBay, Amazon, Flipkart
Time	Depends on speed of R&D; pioneer succeeds until competitors join	—
Efficiency	Enters a **mature, standardised** market with low-cost, low-margin mass products	Southwest Airlines, Wal-Mart, Dell
Blockbuster	Profits depend on a **few major successes**; patents or copyright	Pharmaceuticals, films
Profit multiplier	One concept drives many products through **synergy**	Walt Disney characters
Entrepreneurial	Specialised offerings not attractive to large firms but with fast growth	1MG (acquired by Tata)
De facto industry standard	Free/low price to saturate market and become standard, then high-margin products	Microsoft

Topic 11 — Information Explosion and Managing Change

- **Information explosion** — Digitisation and **information explosion** will keep increasing.
- **Realign** — Business entities must **adjust and realign** themselves.
- **Manager's role** — Managers must **learn new management techniques, adapt to new technologies, and undergo training** to hone skills.
- **Smooth change** — Change must be **smooth** and must not affect **productivity and profitability**.

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- **New products and services** — They rely on a continuous **customer feedback mechanism** and research.
- **Testing** — They must be **properly tested before launch**.
- **Triggers** — Lack of demand, changed consumption patterns or customer expectations may need them.
- **Other triggers** — Technological innovation, competition, or changes in government/regulatory rules.
- **Technological change** — The car industry is adapting to electric vehicles alongside petrol and diesel.
- **Healthcare** — Robots perform surgery with greater precision.
- **Banking** — **Fintech** is changing the role and relevance of banks.
- **Two sides** — New business models with technology enhance bank capabilities but also cause **disruption**.

Topic 12 — Globalisation and Environmental Sustainability

- **Phil Harding** — "Without **environmental sustainability**, economic stability and social cohesion cannot be achieved."
- **Growth** — Globalisation creates opportunities to grow business and exports.
- **Sourcing and tie-ups** — Firms can source raw materials and enter collaborations and joint ventures.
- **Funding and presence** — Firms can **borrow from international markets at cheaper rates** and set up subsidiaries abroad.

Impact on environment	Effect
Increased transport of goods	Higher emissions, habitat destruction, harm to species
Economic specialisation	Overuse of natural resources, lower forest cover, habitat loss
Reduced biodiversity	Climate change, invasive species, forest loss, greenhouse gases, **ocean acidification**

Global challenges — poverty, inequality, climate change, environmental degradation, peace and justice — led the **United Nations** to set **17 Sustainable Development Goals (SDGs)**.

SDG	Goal	SDG	Goal
1	No poverty	10	Reduced inequalities
2	Zero hunger	11	Sustainable cities and communities
3	Good health and well-being	12	Responsible consumption and production
4	Quality education	13	Climate action
5	Gender equality	14	Life below water
6	Clean water and sanitation	15	Life on land
7	Affordable and clean energy	16	Peace, justice and strong institutions
8	Decent work and economic growth	17	Partnerships for the goals
9	Industry, innovation and infrastructure		

Topic 13 — Strategic Management — Planning vs Strategy

Strategy comes from the Greek **strategos**, meaning a general or military commander.

Planning	Strategy
Anticipation and preparation in advance for uncertain future events	**Best plan chosen** among alternatives to accomplish objectives
Like a **map** for guidance	The **path** that takes you to the destination
Leads to programmes	Leads to planning
Future-oriented	Action-oriented
Based on assumptions	Based on practical experience
Short-term or long-term	Long-term
Part of the managerial process	Part of decision-making

Type of strategy	Feature
Corporate	Three categories: **stability, growth, retrenchment** (e.g., selling a marginal software unit to focus on a stronger consultancy business).
Business	**Competitive** (e.g., differentiate services) or **cooperative** (alliances to reach global markets).
Functional	Develops a **distinctive capability** for competitive advantage, e.g., R&D and technology.

Topic 14 — Environmental Scanning and Strategy Formulation

SWOT analysis — Strengths, Weaknesses, Opportunities, Threats — is one of the easiest ways of environmental scanning.

Environment	Elements	Control
Internal	Strengths and Weaknesses	Usually controllable by top management in the **short run**
External	Opportunities and Threats; **general** factors (whole economy/industry) and **specific** factors (an industry or organisation)	Generally **outside** top management's short-term control

- **Strategy formulation** — It uses situation analysis to set direction through **vision and mission statements**.
- **Vision** — It answers **"What do we want to become?"**
- **Order** — Vision is established **first**; it is the foundation for the mission.

Entity	Vision	Mission
SBI	Be the Bank of choice for a transforming India	Committed to providing simple, responsive and innovative financial solutions

Topic 15 — Phases, Benefits and Importance of Strategic Management

Phase	Feature
Basic budgetary planning	Annual budgeting or financial planning
Forecast-based planning	**Extrapolation** techniques used for prediction
Externally oriented (strategic) planning	Top management controls planning with **external consultants**; bare minimum contribution of lower-level managers
Strategic management	Plans for **5 years** with continuous review at shorter intervals; information shared with all levels through **LAN and intranets**

- **Benefits**: clearer strategic vision; focus on strategically important issues; better understanding of a dynamic environment.
- **Importance**: sets objectives, identifies key issues, coordinates resources, supports implementation, evaluation

LEARNING SESSIONS

and adaptation; crucial for **long-term success** but **cannot guarantee** success.

- **Business environment analysis**: a business does not operate in isolation; SWOT helps managers understand the external environment and stay prepared for contingencies.

ABFM | Module A | CH-1 | MCQs

Q1. A branch head assigns duties to officers, delegates loan-sanctioning powers and fixes reporting lines. Which management function is this? *[Ref: Topic 2, p. 2]*

(a) Organising (b) Planning (c) Staffing (d) Controlling

Q2. A regional manager compares actual CASA growth with the target and initiates corrective action at lagging branches. This is: *[Ref: Topic 2, p. 2]*

(a) Directing (b) Staffing (c) Controlling (d) Organising

Q3. Under Herzberg's theory, an increase in salary for a dissatisfied officer will most likely: *[Ref: Topic 5, p. 2]*

(a) Strongly motivate the officer
(b) Remove dissatisfaction but not create motivation
(c) Have no effect on dissatisfaction
(d) Act as a self-actualisation need

Q4. A manager believes staff dislike work and must be closely supervised. This reflects: *[Ref: Topic 5, p. 2]*

(a) Theory Y (b) Systems theory
(c) Contingency theory (d) Theory X

Q5. Which school holds that the best management style depends on the situation and is criticised for being reactive? *[Ref: Topic 6, p. 2]*

(a) Classical (b) Contingency (c) Quantitative (d) Behavioural

Q6. Which feature belongs to the Classical school of management? *[Ref: Topic 4, p. 2]*

(a) Communication as critical input for efficiency
(b) Different persons motivated differently
(c) Team learning
(d) Emphasis on production and a centralised system

Q7. 'Initiating structure' leader behaviour was identified by: *[Ref: Topic 7, p. 3]*

(a) University of Michigan (b) Deming
(c) Ohio State University (d) Peter Senge

Q8. Which is one of Deming's 14 points? *[Ref: Topic 8, p. 3]*

(a) Award business on lowest bid (b) Fix production quotas
(c) Use slogans to push output (d) Cease dependence on inspection

Q9. In a learning organisation, understanding the impact of our assumptions and generalisations is called: *[Ref: Topic 9, p. 3]*

(a) Personal mastery (b) Mental models
(c) Systems thinking (d) Shared vision

Q10. A printer company sells printers at near cost and earns profits on ink cartridges. The business model is: *[Ref: Topic 10, p. 3]*

(a) Profit pyramid (b) Switchboard
(c) Multi-component system (d) Efficiency

Q11. Which statement on planning and strategy is correct? *[Ref: Topic 13, p. 4]*

(a) Strategy leads to planning; planning leads to programmes
(b) Planning is action-oriented; strategy is future-oriented
(c) Strategy is only short-term
(d) Planning is part of decision-making; strategy is part of the managerial process

Q12. A bank decides to exit a marginally profitable business and focus on its core lending. This is an example of: *[Ref: Topic 13, p. 4]*

(a) Functional strategy
(b) Business strategy
(c) Corporate strategy (retrenchment)
(d) Cooperative strategy

Q13. In SWOT, which elements are usually controllable by top management in the short run? *[Ref: Topic 14, p. 4]*

(a) Opportunities and threats (b) Strengths and weaknesses
(c) General external factors (d) Specific external factors

Q14. In the strategic management phase, strategic plans typically cover: *[Ref: Topic 15, p. 4]*

(a) 1 year (b) 3 months
(c) 10 years without review (d) 5 years with periodic review

Q15. Which is NOT a benefit of globalisation for business entities? *[Ref: Topic 12, p. 4]*

(a) Borrowing abroad at cheaper rates
(b) Setting up subsidiaries abroad
(c) Guaranteed reduction in environmental degradation
(d) Joint ventures

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	d	7	c	10	c	13	b
2	c	5	b	8	d	11	a	14	d
3	b	6	d	9	b	12	c	15	c

CH-2 Planning

Topic 1 — Planning and its Features

Planning is the **first primary function** of management, followed by the other functions, and is **closely related to controlling**. It means deciding beforehand **what to do, how, where and who** is to do it.

Koontz and O'Donnell: "Planning bridges the gap from **where we are to where we want to go**. It makes possible things to occur which would not otherwise happen."

Feature	Meaning
Pervasive	Present in all segments and required at **all levels** of the organisation
Futuristic	Looks ahead and takes a view of the future

Topic 2 — Planning Process

Step	Action
1	Be aware of **opportunities** in the external environment and within the firm; conduct **SWOT analysis**
2	Establish **objectives** for the whole organisation and departments (long and short term)
3	Set **planning premises** — assumptions in the form of forecasts, existing plans, past policies
4	Identify **alternative** courses of action
5	**Evaluate** alternatives (pros and cons) against objectives
6	**Select** the best and most feasible plan
7	**Implement** the plan through one or more **supporting (derivative) plans**
8	**Follow up and review**; compare actual with desired results

LEARNING SESSIONS

BRBL — Banking Regulations and Business Laws

Complete Book | Table of Contents | 62 chapters + 4 sections

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LEARNING SESSIONS

CH-1 Legal Framework of Regulation of Banks

Topic 1 — Statutory Framework and Definition of Banking

- **Governing laws** — Banking in India is mainly governed by the **Banking Regulation Act, 1949 (BR Act)** and the **Reserve Bank of India Act, 1934 (RBI Act)**.
- **Control** — Through these statutes the **RBI** and the **Government of India** control banks from **opening to winding up**.
- **Definition** — **Section 5(b)** of the BR Act defines **banking** as the **acceptance of deposits of money from the public** for **lending or investment**.
- **Repayment** — Such deposits are repayable **on demand or otherwise**.
- **Withdrawal** — They are withdrawable by **cheque, draft, order or otherwise**.
- **Two essential functions** — A bank performs **(a) acceptance of public deposits** and **(b) lending or investment** of such deposits.

Provision	Rule
Sec 7 — use of words	A banking company must use at least one of **'bank', 'banker' or 'banking'** in its name. Other companies generally cannot use these words; exceptions exist for statutory subsidiaries and bank-employee associations.
Sec 22 — licence	A **licence from RBI** is necessary to **commence or carry on** banking business in India.
Sec 49A — cheque-withdrawable deposits	Only **specified banks or notified persons** may accept public deposits withdrawable by cheque. **Government savings-bank schemes** are excepted.
RBI Act Chapter IIIB — NBFC deposits	Deposit acceptance by **NBFCs** is regulated under Chapter IIIB and RBI public-deposit directions. **Registration alone does not authorise** acceptance of public deposits.

Topic 2 — Banking Laws (Amendment) Act, 2025

The **Banking Laws (Amendment) Act, 2025** amended the **RBI Act, BR Act, SBI Act and the Banking Companies (Acquisition and Transfer of Undertakings) Acts**. Its provisions are now in force in phases.

Area	Current position
Substantial interest — Sec 5(ne) BR Act	Shareholding exceeding **₹2 crore** (earlier ₹5 lakh) or **10% of paid-up capital**, whichever is **less**. Relevant to Sec 10 and Sec 20 restrictions.
Director tenure — co-operative banks	Maximum tenure of a director (other than chairman and whole-time director) of a co-operative bank is **10 years**; for banking companies it remains **8 continuous years**.
Central co-operative bank directors	A director of a **central co-operative bank** may serve on the board of the **State co-operative bank** of which it is a member.
Nomination	Up to **4 nominees** for deposit accounts — **simultaneous** (shares totalling 100%) or **successive**; lockers and safe custody — **successive only**.
Unclaimed amounts of PSBs	Unclaimed **dividends, shares, interest and bond redemption amounts** of public sector banks unpaid for **7 years** are transferred to the **Investor Education and Protection Fund (IEPF)**.
Statutory auditors of PSBs	PSBs themselves **decide the remuneration** of their statutory auditors.
Reporting fortnight — RBI Act Sec 42	CRR is maintained and reported on **calendar fortnights: 1st–15th and 16th–last day** of the month (earlier alternate Fridays). Monthly and quarterly returns refer to the **last day** of the month/quarter.

Remember this

- Substantial interest: **₹2 crore or 10%, whichever is less**. Nominees: **up to 4**.

Topic 3 — Business Permitted to Banks — Section 6

Besides banking, **Section 6(1)** of the BR Act lists the forms of business a banking company may undertake, in clauses **(a) to (o)**.

Clause	Permitted business
(a)	(i) Borrowing, raising or taking up money. (ii) Lending or advancing money with or without security.
(a)	(iii) Drawing, accepting, discounting, buying, selling, collecting and dealing in **bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading**.
(a)	(iii) contd. — Also **railway receipts, warrants, debentures, certificates, scrips** and other instruments, negotiable or not.
(a)	(iv) Granting **letters of credit, travellers' cheques** and circular notes. (v) Dealing in **bullion** (high-purity gold and silver in bars, ingots or coins) and **specie** (money in coins).
(a)	(vi) Buying and selling **foreign exchange** including foreign bank notes. (vii) Acquiring, holding, **underwriting** and dealing in stock, shares, debentures, bonds and securities.
(a)	(viii) Buying and selling securities on behalf of constituents. (ix) Negotiating loans and advances. (x) Receiving valuables on deposit or for **safe custody**.
(a)	(xi) Providing **safe deposit vaults**. (xii) Collecting and transmitting money and securities.
(b)	Acting as **agent** of Government, local authority or any other person; agency business.
(c)	Contracting for public and private loans and negotiating and issuing them.
(d)	Insuring, guaranteeing, **underwriting** and managing issues of State, municipal or other loans, shares, stock or debentures, and lending for such issue.
(e)	Every kind of **guarantee and indemnity** business.
(f)	Managing, selling and realising property that comes into its possession in **satisfaction of its claims**.
(g)	Acquiring and dealing with property that forms **security** for any loan or advance.
(h), (i)	Undertaking and executing **trusts**; administering **estates** as executor, trustee or otherwise.
(j)	Supporting employee-benefit associations and funds; granting pensions, allowances and gratuities; contributing to charitable or benevolent purposes.
(k), (l)	Acquiring, constructing and maintaining **buildings for its own purpose**; selling, leasing, mortgaging or otherwise dealing with its own property.
(m)	Acquiring the whole or part of the business of any person or company whose business is of a nature described in Section 6.

LEARNING SESSIONS

Clause	Permitted business
(n)	Doing all things **incidental or conducive** to the promotion of its business.
(o)	Any other business **specified by the Central Government** — e.g. **leasing and factoring** have been so notified.

Topic 4 — Constitution of Banks

Every bank in India falls into one of three categories

- **(1) Statutory body** — A body corporate constituted under a **special Act of Parliament**.
- **(2) Company** — A **company** registered under the Companies Act, 1956/2013, or a **foreign company**.
- **(3) Co-operative society** — A **co-operative society** registered under a Central or State co-operative law.

Type	Constituted / governed by
Nationalised banks (corresponding new banks)	**Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980**; constituted under **Section 3** of these Acts as statutory bodies.
State Bank of India	**State Bank of India Act, 1955**. Its associate banks (State Bank (Subsidiary Banks) Act, 1959) have been **merged into SBI**.
Regional Rural Banks	**Regional Rural Banks Act, 1976**.
Banking companies (all private sector banks)	Constitution by **Companies Act**; banking business by **BR Act and RBI Act**. Foreign companies under **Sec 2(42) of Companies Act, 2013** may also carry on licensed banking.
Co-operative banks	Multi-State co-operative banks — **Central Act**; single-State co-operative banks — **State co-operative societies Act**; banking functions — BR Act (as applicable to co-operative societies).

Public sector banks — nationalised banks, SBI and RRBs — fall in the **first category**.

Co-operative banks

- The **Banking Laws (Application to Co-operative Societies) Act, 1965** extended specified provisions of the BR Act and RBI Act to co-operative banks.
- After the Supreme Court held (Apex Co-operative Bank case) that multi-State co-operative societies could not be licensed, the **Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004** enabled licensing of **multi-State co-operative banks**.
- Co-operative banks may issue **equity, preference or special shares** at face value or premium to **members** or to persons **residing within their area of operation**.
- They may also issue **unsecured debentures or bonds** with maturity of **10 years or more** to such persons, with **prior RBI approval**.
- No person can **demand payment on surrender** of shares issued by a co-operative bank.
- RBI may, by notification, **exempt** a co-operative bank or class of them from provisions on **employment, board qualifications and appointment of chairman**.
- RBI may **supersede the board** of a multi-State co-operative bank for up to **5 years**, in public interest or to protect depositors.

Remember this

- Co-operative bank bonds: **maturity ≥ 10 years**, prior RBI approval. Board supersession: up to **5 years**.

Topic 5 — Reserve Bank of India Act, 1934 — Key Sections

The RBI Act was enacted in **1934** and RBI began operations on **1 April 1935**. It provides the central-banking functions of RBI and the **NBFC regulatory framework**.

Section	Provision
2(e)	**Scheduled bank** — a bank included in the **Second Schedule**; it must have paid-up capital and reserves of at least ₹**5 lakh**. Others are **non-scheduled banks**.
17	Business RBI may transact — interest-free deposits of Central/State Governments, forex, securities, rediscounting bills and promissory notes, loans, etc.
21	RBI's right and obligation to transact **Government business** — remittance, exchange, interest-free deposits.
22	**Sole right to issue bank notes**.
23	**Issue Department** kept separate from the Banking Department.
24	Denominations — notes may not exceed ₹**10,000** (statutory authority; differs from notes actually in circulation).
28	Rules for refund of value of **mutilated, soiled or imperfect notes** — as a matter of **grace**.
29	Bank notes are **exempt from stamp duty**.
31	Only RBI (and Government) may issue **bearer-on-demand** instruments; bearer promissory notes are prohibited even if payable later. Cheques/drafts drawn on an account are excepted.
33	Assets of Issue Department — gold coin, gold bullion, foreign securities, etc. Gold + foreign securities ≥ ₹**200 crore**, of which gold ≥ ₹**115 crore** (a backing minimum, not an issue ceiling).
42(1)	**CRR** for scheduled banks — **no statutory floor or ceiling**; **no interest** paid on CRR balances. Current CRR **3% of NDTL**.
45A–45F	Collection and furnishing of **credit information**.
45H–45T (Chapter IIIB)	Regulation of **NBFCs** and their deposit acceptance.
45W	Power to regulate **interest rates and interest-rate products** in securities, money market, forex and derivatives.
49	Publication of **Bank Rate** — the standard rate at which RBI buys or rediscounts bills of exchange or other eligible commercial paper.
58B(2)	Failure to produce books or furnish information — fine up to ₹**1 lakh** per offence, plus up to ₹**5,000 per day** for continuing failure.

Remember this

- Sec 33: ₹**200 crore** (gold + forex) / ₹**115 crore** (gold). Sec 24: max note ₹**10,000**.

Topic 6 — Credit Information Reporting and Basic Statistical Returns

- **Enabling sections** — RBI Act Sections **45A–45F** enable collection of credit information.
- **CIC reporting** — Reporting to **Credit Information Companies (CICs)** is governed by the **Credit Information Companies (Regulation) Act**.
- **Other rules** — Its rules and regulations and current RBI directions also apply.
- **2025 amendment** — RBI's Credit Information Reporting Amendment Directions of **4 December 2025** move reporting to four dates a month from **1 July 2026**, after the exam cut-off.

LEARNING SESSIONS

Item	Up to 30 June 2026 (exam cut-off)	From 1 July 2026 (after the cut-off)
Reporting dates	**Fortnightly** — as on the **15th and last day** of each month (from 1 January 2025)	**9th, 16th, 23rd and last day** of each month (or shorter mutually agreed intervals)
Submission time	Within **7 calendar days** of each reporting fortnight	Incremental files (9th, 16th, 23rd) within **4 calendar days**; full month-end file by the **5th of the next month**
Link with CRR fortnights	Reporting dates coincide with CRR fortnight ends (15th and last day)	Reference dates **differ from CRR fortnights** (1–15, 16–month-end)

Banks must follow current record, correction and reporting requirements; old secured/unsecured credit-return thresholds no longer apply.

Basic Statistical Returns (BSR)

- **BSR-1** — It classifies **bank credit** by borrower and account characteristics.
- **BSR-2** — It classifies **deposits**.
- **Older BSR-1A/1B split** — Large accounts were reported individually; smaller accounts (up to **₹2 lakh**) were reported in grouped form.
- **Threshold only** — ₹2 lakh was a classification threshold, **not an exclusion** of small loans.

Topic 7 — Regulatory Responsibilities

RBI combines central-bank and bank-regulator functions

- **Monetary policy** — RBI formulates **monetary policy** and issues notes.
- **Banker** — It acts as **banker to Governments and banks**.
- **External sector** — It manages **foreign exchange and reserves**.
- **Payments** — It regulates **payment systems**.
- **Three separate authorisations** — A **banking licence**, **NBFC registration** and **permission to accept public deposits** are three different legal authorisations.

Authority / law	Role
BR Act	Licensing, permitted business, management, prudential restrictions, directions and inspection.
RBI Act	Central-bank functions and NBFC regulatory framework.
Constituting Acts	Statutory PSBs also follow their own Acts; incorporation under company law **alone does not permit** banking.
Central Government	Powers expressly given by banking laws — **appeals, notifications, exemptions**; as **owner of PSBs** it has shareholder responsibilities, which do not remove RBI regulation.
Co-operative banks	Banking operations under **RBI**; organisational matters under **co-operative law** (Registrar) — dual control.
SEBI	Securities markets and intermediaries; listed-entity obligations.
IRDAI	Insurance and registered **corporate agents** — a bank distributing insurance is **not an insurer**.
PFRDA	**National Pension System** and its intermediaries.

BRBL | Module A | CH-1 | MCQs

Q1. A company accepts deposits from the public repayable after 3 years, not withdrawable by cheque, and invests them in shares. Under Section 5(b) of the BR Act, this activity is: *[Ref: Topic 1, p. 3]*

(a) Not banking, because cheque withdrawal is essential
(b) Banking, as deposits may be repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise
(c) Banking only if deposits are repayable on demand
(d) Not banking, because investment is not lending

Q2. An NBFC has obtained a certificate of registration from RBI. Which statement is correct regarding its acceptance of public deposits? *[Ref: Topic 1, p. 3]*

(a) Registration automatically permits public deposits
(b) It can accept cheque-withdrawable deposits
(c) It needs separate eligibility under Chapter IIIB public-deposit directions
(d) It needs a licence under Section 22 of the BR Act

Q3. After the Banking Laws (Amendment) Act, 2025, a director holds shares of ₹1.5 crore in a company whose paid-up capital is ₹10 crore. Does he have 'substantial interest'? *[Ref: Topic 2, p. 3]*

(a) Yes, as holding exceeds ₹5 lakh
(b) No, as holding is below ₹2 crore
(c) Yes, as 10% of paid-up capital (₹1 crore) is lower and is exceeded
(d) No, as only listed companies are covered

Q4. The maximum tenure of a non-chairman, non-whole-time director of a co-operative bank, as currently provided, is: *[Ref: Topic 2, p. 3]*

(a) 8 years (b) 5 years (c) 12 years (d) 10 years

Q5. Which business has been specifically notified by the Central Government under Section 6(1)(o) of the BR Act as permissible for banks? *[Ref: Topic 3, p. 3]*

(a) Trading in commodities (b) Leasing and factoring
(c) Real estate development (d) Running a stock exchange

Q6. A bank acquires a flat mortgaged to it by a defaulting borrower and later sells it. This is permitted under Section 6(1): *[Ref: Topic 3, p. 3]*

(a) Clause (k) — buildings for own use
(b) Clause (o) — notified business
(c) Clause (f) — realising property acquired in satisfaction of claims
(d) Not permitted at all

Q7. A co-operative bank wants to raise funds through unsecured bonds from residents in its area of operation. Which condition applies? *[Ref: Topic 4, p. 4]*

(a) Maturity of at least 10 years and prior RBI approval
(b) Maturity of at least 5 years, no approval needed
(c) Only members can subscribe, any maturity
(d) Bonds must be secured

Q8. Under Section 33 of the RBI Act, the minimum aggregate value of gold coin, gold bullion and foreign securities in the Issue Department is: *[Ref: Topic 5, p. 4]*

(a) ₹115 crore (b) ₹200 crore (c) ₹500 crore (d) ₹100 crore

Q9. Which statement about CRR under Section 42(1) of the RBI Act is correct? *[Ref: Topic 5, p. 4]*

(a) There is no statutory floor or ceiling and no interest is paid on CRR balances
(b) Minimum CRR is 3% and maximum 20%
(c) RBI pays bank rate on eligible CRR balances
(d) CRR applies to non-scheduled banks under this section

Q10. A trust issues bearer promissory notes payable on demand to its donors. This contravenes: *[Ref: Topic 5, p. 4]*

(a) Section 22 of RBI Act (b) Section 31 of RBI Act
(c) Section 49 of RBI Act (d) Section 24 of RBI Act

LEARNING SESSIONS

Q11. A bank refunds the value of a badly mutilated note to a customer. The refund is made under rules framed under Section 28 of the RBI Act: ***[Ref: Topic 5, p. 4]***
(a) As a legal right of the holder
(b) Only through a court order
(c) As a matter of grace
(d) Only for notes of ₹500 and above

Q12. As at 30 June 2026, a bank reported credit information to CICs: ***[Ref: Topic 6, p. 4]***
(a) As on the 9th, 16th, 23rd and last day, within 4 calendar days
(b) Monthly, by the 15th of the next month
(c) Half-yearly, only for accounts of ₹10 lakh (secured) / ₹5 lakh (unsecured) and above
(d) Fortnightly, as on the 15th and last day, within 7 calendar days

Q13. A bank fails to furnish information to RBI under the RBI Act and continues the default for 10 days after the first day. The maximum further fine under Section 58B(2) for those days is: ***[Ref: Topic 5, p. 4]***
(a) ₹50,000 (b) ₹10 lakh (c) ₹1 lakh (d) ₹5,000

Q14. A bank distributes life insurance policies as a corporate agent. Which statement is correct? ***[Ref: Topic 7, p. 5]***
(a) The bank becomes an insurer regulated by RBI
(b) IRDAI regulates its corporate-agency activity and the bank does not become an insurer
(c) PFRDA regulates the activity
(d) No regulator has jurisdiction

Q15. In a co-operative bank, which matter is governed by co-operative law rather than RBI? ***[Ref: Topic 7, p. 5]***
(a) Organisational matters such as registration and bye-laws
(b) Licensing of banking business
(c) CRR and SLR
(d) Branch authorisation

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	d	7	a	10	b	13	a
2	c	5	b	8	b	11	c	14	b
3	c	6	c	9	a	12	d	15	a

CH-2 Control over Organisation of Banks

Topic 1 — Licensing of Banking Companies — Section 22

- **Licence needed** — A company needs a **licence from RBI under Section 22** of the BR Act to **commence or carry on** banking business in India.
- **Conditions** — RBI may grant it subject to **such conditions as it thinks fit**.
- **RBI's satisfaction** — RBI first satisfies itself, by **inspection of books** or otherwise, on the following matters.

No.	Matter on which RBI must be satisfied
(a)	Company is or will be able to **pay present and future depositors in full** as claims accrue.
(b)	Affairs are not conducted in a manner **detrimental to depositors**.
(c)	**General character of proposed management** is not prejudicial to public or depositors' interest.
(d)	Company has **adequate capital structure and earning prospects**.
(e)	**Public interest** will be served by the licence.
(f)	Considering banking facilities in the area and scope for expansion, the licence will not be prejudicial to **operation and consolidation of the banking system**, consistent with monetary stability and economic growth.
(g)	Any **other condition** RBI considers relevant in public or depositors' interest.

Although **Section 11** prescribes minimum capital, RBI can stipulate a **higher capital** for licensing under Section 22.

Cancellation of licence

Aspect	Rule
Grounds	Company **ceases to carry on banking** in India; or fails to comply with conditions imposed under **Sec 22(1)**; or at any time does not fulfil the conditions referred to.
Opportunity	Before cancelling for non-compliance, company must get an **opportunity to comply** — may be **dispensed with** if delay would prejudice depositors or the public.
Appeal	To the **Central Government within 30 days** of communication of cancellation.

Topic 2 — Universal Bank Licensing

The **2025 universal-bank guidelines** provide **on-tap** licensing. Eligibility does not guarantee a licence: RBI assessment and **in-principle approval** precede the final licence and commencement.

Parameter	Requirement
Eligible promoters	Resident individuals/professionals with **10 years** senior banking/finance experience. Resident-owned/controlled private entities with a successful **10-year** track record (if group assets are ₹**5,000 crore** or more, non-financial business must be below **40%** of assets and gross income). Existing resident-controlled **NBFCs** with a **10-year** track record. **Large industrial houses** may invest up to **10%** but cannot promote a bank.
Fit and proper	Integrity, reputation, financial soundness and track record.
Initial capital	Paid-up voting equity capital / net worth of at least ₹**1,000 crore**, maintained thereafter.
Capital adequacy	At least **13%** for the first **3 years** (or higher if prescribed).
Listing	Shares to be listed within **6 years** of commencement.
Promoter holding	At least **40%** initially, **locked in for 5 years**; diluted to **26% within 15 years**.
NOFHC	Need depends on the promoter group's financial-service activities; it **ring-fences** regulated financial entities from commercial interests.
Obligations	Sustainable operations and financial inclusion, including rural-outlet and priority-sector requirements.

Remember this

- Universal bank: ₹**1,000 crore**, CRAR **13%** (3 yrs), promoter **40%** → **26%** in 15 yrs, list in **6 yrs**.

Topic 3 — Small Finance Bank Licensing

- **Purpose** — A **Small Finance Bank (SFB)** furthers financial inclusion through savings facilities and credit.
- **Target groups** — It serves **small businesses, small and marginal farmers, micro and small industries** and other unserved groups.
- **Licence type** — Its licence is **differentiated**.
- **Becoming universal** — An SFB needs a separate eligible transition process to become a universal bank.

LEARNING SESSIONS

RURAL — Rural Banking

Complete Book | Table of Contents | 20 chapters + 4 sections

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LEARNING SESSIONS

CH-1 Demographic Features

Topic 1 — Population and Its Distribution

- **Most populous** — India has about **17.8%** of world population (UN estimate).
- **Land share** — This population lives on only **2.4%** of the world's land area.
- **Caution** — Comparisons need the same reference period and area; a UN estimate is not a census count.
- **Census 2011** — It is the latest completed census, with population of **121.09 crore**.
- **Rural / urban split** — **68.84% rural** and **31.16% urban**.
- **Census 2027** — India's first **digital census**, with **self-enumeration** allowed.
- **House-listing** — Conducted during April–September 2026.
- **Population enumeration** — Follows in **February 2027**; reference date is 1 March 2027.

State (Census 2011)	Population	Share of India
Uttar Pradesh (most populous)	≈ **20 crore** (199.8 million)	**16.5%**
Maharashtra	11.24 crore	**9.3%**
Bihar	10.41 crore	**8.6%**

Maharashtra and Bihar each crossed **10 crore (100 million)**. In 2011, **twenty States/UTs** had a population of over **1 crore (10 million)**.

Topic 2 — Literacy and Its Measurement

Literacy is the ability to read, write and comprehend for effective communication. It empowers individuals, fuels social and human development and is the foundation of basic education.

Measure	Age group
Census literacy (effective literacy)	**7 years and above**
Adult literacy	**15 years and above**
Youth literacy	**15–24 years**

$$\text{Literacy rate} = \frac{\text{Number of literates in age group}}{\text{Population of that age group}} \times 100$$

Indicator	Census 2011 (final)	PLFS 2025 (age 7+)
Overall literacy	**72.98%** (74.04% provisional); up from 64.80% in 2001	**81.1%**
Female literacy	**64.63%** (53.7% in 2001)	Rural female **70.3%**
Rural / Urban	—	**77.4% / 89.0%** (gap 11.6 points)
Highest / lowest State	**Kerala 94.00% / Bihar 61.80%**	—

A survey estimate (PLFS) and a census count are **not identical measures**. Several States/UTs (e.g., Mizoram, Goa, Tripura, Himachal Pradesh, Ladakh) have been declared **fully literate (95%+)**.

Topic 3 — Constitutional Provisions for Education

Article	Provision
21A	Fundamental right to **free and compulsory education** for children aged **6–14 years**, in the manner determined by law (inserted by the **86th Amendment**; operationalised by the RTE Act)
41 (DPSP)	Right to work, education and public assistance **within the State's economic capacity**
45 (DPSP)	**Early childhood care and education** for children **below 6 years**
46 (DPSP)	Promotion of educational and economic interests of **weaker sections, especially SCs and STs**
30	Right of **religious and linguistic minorities** to establish and administer educational institutions of their choice
15 and 17	Equality/non-discrimination (with permitted special measures) and abolition of untouchability — protect educational interests of disadvantaged sections

These provisions do **not** create an unrestricted free-education guarantee for every adult; equality provisions, special measures and institutional exceptions are read together.

Topic 4 — Sixth Economic Census — Establishments

- **Conducted by** — The **Central Statistics Office** (now part of the **National Statistics Office, MoSPI**), with State/UT governments.
- **Coverage** — All economic activities were covered, with a few exclusions.
- **Excluded** — **Crop production, plantation, public administration, defence and compulsory social security**.
- **Status** — The **Sixth Economic Census** is still the latest with published all-India results.

Item	Result
Total establishments	**58.50 million**
Rural / Urban	**59.48%** (34.80 million) / **40.52%** (23.70 million)
Top 5 States (≈ 50%)	Uttar Pradesh, Maharashtra, West Bengal, Tamil Nadu, Andhra Pradesh
Non-agricultural / Agricultural	**77.55%** (45.37 million) / **22.45%** (13.13 million; excludes crop production and plantation)
Ownership	**89%** proprietary; **15.4%** of these owned by women

Topic 5 — Employment in Establishments

Item	Result
Total employment	**131.29 million** persons
Rural / Urban	**51.71% / 48.29%**
Top 5 States (≈ 50%)	Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu, Gujarat
Non-agricultural / Agricultural	**82.57%** (108.41 million) / **17.42%** (22.88 million)
Female employment	**25.17%** of total; **61.90%** of it in rural areas

LEARNING SESSIONS

Segment	Establishments	Employment
Agricultural	**13.13 million** (22.45%); **92%** rural (12.09 million)	**22.88 million**; 92% rural; women **38.85%**
Handicraft / handloom	**18.73 lakh**; **59.6%** rural. Top: West Bengal 17.6%, Uttar Pradesh 16.5%, Odisha 7.8%, Andhra Pradesh 7.5%, Tamil Nadu 6.8%	About **42 lakh**; **52.67%** in rural establishments

Topic 6 — Women Entrepreneurs

Indicator	Value
Female-headed households (NSS 68th round)	Rural **11.5%**, Urban **12.4%**
Female work participation rate (Census 2011)	**25.51%**
Establishments run by women	**8.05 million** (**13.76%** of total); **65%** rural
Employment in women-owned establishments	**13.48 million** (**10.24%** of workers)
Leading States	Tamil Nadu, Kerala, Andhra Pradesh, West Bengal, Maharashtra

Topic 7 — Agriculture Census

- **Origin** — Recommended by the **National Commission on Agriculture**.
- **Frequency** — Conducted **quinquennially (every 5 years)**.
- **Data collected** — The **number and area of operational holdings**.
- **Method** — **Complete enumeration** in States with comprehensive land records.
- **Data used below** — Figures are from the **Agriculture Census 2015–16**.
- **Latest round** — The 11th Agriculture Census (2021–22) used digital data capture.

Size class	Land operated	Share of holdings	Share of area
Marginal	Below 1 ha	**68.5%**	24.0%
Small	1–2 ha	17.6%	22.9%
Semi-medium	2–4 ha	9.6%	23.8%
Medium	4–10 ha	3.8%	20.2%
Large	10 ha and above	**0.6%**	**9.1%**

Indicator	2015–16 position
Operational holdings	**146.45 million** (up **5.86%** from 138.35 million)
Operated area	**157.82 million ha** (down **1.11%** from 159.59 million ha)
Female operational holders	**13.96%** (from 12.79%); **72%** of them marginal
Wholly owned and self-operated	About **98%**
Wholly leased-in holdings	**5.31 lakh (0.36%)**; marginal category 4.54 lakh

Remember this

- Marginal farmers: about two-thirds of holdings but under one-fourth of area.

Topic 8 — Human Development Index

The **HDI** is a composite index of the **UNDP** (first in the Human Development Report **1990**) that compares development beyond income. It is the **geometric mean** of normalised indices of three dimensions.

Dimension	Indicator
Health	**Life expectancy at birth**
Education	**Mean years of schooling** (adults aged **25+**) and **Expected years of schooling** (child entering school)
Standard of living	**GNI per capita** (PPP)

HDR 2025 (2023 data): India's HDI **0.685**, rank **130 of 193** — **medium human development**. HDI does not capture every inequality; use complementary and local indicators.

Topic 9 — Gender Development Index

The **GDI** measures gender disparity in human development. It is the **ratio of female HDI to male HDI**, using the same three dimensions computed separately for each sex.

$$\text{GDI} = \frac{\text{HDI}_{\text{female}}}{\text{HDI}_{\text{male}}}$$

Dimension	Measured by (separately for females and males)
Health	Life expectancy at birth
Education	Mean and expected years of schooling
Standard of living	**Estimated earned income** — not a simple split of national income

Topic 10 — Health Status and Challenges

Indicator	Position
Life expectancy	Rose from 49.7 years (1970–75) to **68.7 years** (2012–16): females **70.2**, males **67.4**
Infant mortality rate	**24 per 1,000 live births** (SRS 2024)
Government health expenditure	**1.43% of GDP** (National Health Accounts 2022–23, old series; **1.48%** on new base) — government spending only, not total health expenditure

Challenge	Issue
Lack of primary healthcare	Gaps in public primary access, staff and facilities; comprehensive care must cover maternal-child care, preventive care and **non-communicable diseases**
Supply-side deficiencies	Poor health management skills, lack of training and supportive supervision lower service quality
Inadequate funding	Low public spending relative to GDP
Overlapping jurisdiction	Shared Centre-State responsibilities for public health standards and enforcement

LEARNING SESSIONS

Topic 11 — Government Health Initiatives

Programme	Key features
RMNCH+A	Tackles major causes of mortality in women and children; reduces delays in care; **Score Cards** to track performance; **National Iron+ Initiative** against anaemia; screening and early intervention for children and adolescents
Rashtriya Bal Swasthya Karyakram (RBSK)	Screens children from **birth to 18 years** for **4 Ds** — Defects at birth, Diseases, Deficiencies, Development delays — covering **32 conditions** (incl. TB and leprosy), with free treatment including tertiary surgery
Rashtriya Kishor Swasthya Karyakram	Adolescents (**10–19 years**); participation and leadership, equity and inclusion, gender equity, strategic partnerships; informed health decisions
Janani Shishu Suraksha Karyakram	Promotes **institutional deliveries**; free entitlements to every pregnant woman (and sick infants) at government facilities
Mission Indradhanush	Raises **full immunisation coverage to at least 90%** for unvaccinated and partially vaccinated children
National Mental Health Programme	Minimum mental healthcare for all; addresses shortage of professionals
Pulse Polio	Vaccinates all children **under 5 years** against polio
Rashtriya Arogya Nidhi	One-time financial assistance up to **₹15 lakh** to **BPL** patients with life-threatening diseases, for treatment at government super-speciality hospitals/institutes
National Tobacco Control Programme	Awareness of harms of tobacco; enforcement of tobacco-control laws
ICDS	Nutrition and health of children aged **0–6 years**; psychological, physical and social development; mothers' capacity for child care — now delivered under **Saksham Anganwadi and POSHAN 2.0**

Topic 12 — Nutrition

India is one of the world's largest producers of **milk and pulses**, and a major producer of rice, wheat and sugarcane (rankings vary by crop and period). Yet undernutrition persists.

Source	Position
SOFI 2025 (FAO and partners)	About **12%** of population undernourished — about **172 million** people
NFHS-6 (2023–24)	Under-five **stunting 29.3%**, **severe wasting 5.2%**, **underweight 31.8%**; institutional births **90.6%**; full immunisation (12–23 months) **87.1%**; women using own bank/savings account **89.0%**
NFHS-4 (2015–16)	Anaemic children **58.6%** (69.4% earlier); severe wasting 7.5% (6.4% earlier); stunting 38.4% (48% earlier)
Global Hunger Index 2025	India **102 of 123**; score **25.8** — **'serious'** category

Stunting (low height-for-age), wasting (low weight-for-height) and underweight are **distinct conditions**; survey rounds must not be mixed as if they measured the same population at the same time.

Topic 13 — Education System and Reservation

Structure of the education system

- **Levels** — **Primary, secondary, senior secondary and higher** education.
- **Premier institutions** — IITs, IIMs, IISc, National Law Schools and JNU.
- **Types of universities** — **Central, state, deemed, private** and institutes of national importance.
- **Regulator** — The **University Grants Commission** regulates and promotes higher education.
- **Legal basis** — UGC is a statutory body under the **UGC Act, 1956**.

Category	Reservation in central educational institutions
Scheduled Castes	**15%**
Scheduled Tribes	**7.5%**
OBC (non-creamy layer)	**27%**
EWS	**10%** (103rd Amendment)

- **Law** — Reservation came through the **Central Educational Institutions (Reservation in Admission) Act, 2006**.
- **State variation** — States adjust percentages to their local population mix.
- **Example** — **Tamil Nadu** reserves **18% for SCs and 1% for STs**.
- **Caution** — State-specific rules must not be generalised.

Topic 14 — Rural-Urban Migration and Urbanisation

Type	Feature
Traditional rural-urban	Villagers move to towns for better opportunities and lifestyle
Seasonal	Rural people move to urban areas for a season or part of the year
Other forms	Rural-to-rural, permanent, and displacement-led migration

- **Drivers** — **Industrialisation, services growth, reclassification of settlements, migration and natural increase**.
- **Urban share trend** — About **11%** in 1901, **27.81%** in 2001 and **31.16%** in 2011.
- **Current estimate** — UN estimates now place the urban share near **37%**.
- **Projection** — A 2007 UN forecast of **40.76% by 2030** is not an observed count.

Cause	Explanation
Marriage	Major social factor, especially for women moving to in-laws' place
Employment	Insufficient rural, especially agricultural, jobs
Education	Higher education in cities; many settle there for work
Lack of security	Political disturbance and ethnic conflict (e.g., Jammu and Kashmir, North-East)

- **Use of data** — Rural banks use population, literacy, livelihood and migration data.
- **Purpose** — To plan accessible services and suitable credit products.

LEARNING SESSIONS

- **Needs to meet** — **Mobility, seasonal earnings, language, digital access** and **women's independent use of accounts**.

RURAL | Module A | CH-1 | MCQs

Q1. A village has 4,800 persons, of whom 800 are below age 7. If 3,000 persons aged 7+ can read and write with understanding, the Census-method literacy rate is: *[Ref: Topic 2, p. 2]*
(a) 75.0% (b) 62.5% (c) 83.3% (d) 70.0%

Q2. A bank wants to compare youth literacy across districts. The age group it should use is: *[Ref: Topic 2, p. 2]*
(a) 7 years and above (b) 15–24 years
(c) 15 years and above (d) 6–14 years

Q3. A linguistic minority trust wants to set up and administer its own school. Its right flows from: *[Ref: Topic 3, p. 2]*
(a) Article 46 (b) Article 17 (c) Article 21A (d) Article 30

Q4. Which activity was NOT covered in the Sixth Economic Census? *[Ref: Topic 4, p. 2]*
(a) Handloom weaving
(b) Crop production and plantation
(c) Retail trade
(d) Dairy and livestock establishments

Q5. Women-run establishments in the Sixth Economic Census numbered about 8.05 million. Their share of total establishments was: *[Ref: Topic 6, p. 3]*
(a) 10.24% (b) 25.17% (c) 15.40% (d) 13.76%

Q6. A farmer operates 1.5 hectares. In Agriculture Census classification, the holding is: *[Ref: Topic 7, p. 3]*
(a) Small (b) Marginal (c) Semi-medium (d) Medium

Q7. Large holdings (10 ha and above) were 0.6% of holdings. Their share of operated area was: *[Ref: Topic 7, p. 3]*
(a) 0.6% (b) 20.2% (c) 9.1% (d) 24.0%

Q8. Which indicator is used for the 'standard of living' dimension of the HDI? *[Ref: Topic 8, p. 3]*
(a) GDP growth rate
(b) Per capita consumption expenditure
(c) Estimated earned income of males
(d) Gross National Income per capita (PPP)

Q9. The Gender Development Index is computed as: *[Ref: Topic 9, p. 3]*
(a) Female HDI minus male HDI
(b) Ratio of female HDI to male HDI
(c) Female share of national income
(d) Average of female and male literacy

Q10. Under RBSK, children are screened for the '4 Ds'. Which is NOT one of them? *[Ref: Topic 11, p. 4]*
(a) Defects at birth (b) Deficiencies
(c) Dehydration (d) Development delays

Q11. A BPL patient needs treatment for a life-threatening disease at a government super-speciality hospital. Under Rashtriya Arogya Nidhi, the maximum one-time assistance is: *[Ref: Topic 11, p. 4]*
(a) ₹5 lakh (b) ₹2 lakh (c) ₹10 lakh (d) ₹15 lakh

Q12. Per NFHS-6 (2023–24), the share of under-five children who are stunted is: *[Ref: Topic 12, p. 4]*
(a) 29.3% (b) 38.4% (c) 31.8% (d) 5.2%

Q13. In central educational institutions, reservation for Scheduled Tribes is: *[Ref: Topic 13, p. 4]*
(a) 15% (b) 7.5% (c) 27% (d) 10%

Q14. Per PLFS 2025, rural and urban literacy rates (age 7+) are: *[Ref: Topic 2, p. 2]*
(a) 72.98% and 84.1% (b) 70.3% and 89.0%
(c) 77.4% and 89.0% (d) 81.1% and 77.4%

Q15. A rural branch sees deposits dip for four months each year as workers move to cities for construction work. This reflects: *[Ref: Topic 14, p. 4]*
(a) Marriage migration
(b) Reclassification of settlements
(c) Permanent rural-rural migration
(d) Seasonal migration

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	b	7	c	10	c	13	b
2	b	5	d	8	d	11	d	14	c
3	d	6	a	9	b	12	a	15	d

CH-2 Characteristics of Rural Society

Topic 1 — Rural Society and the Banker

- **Banking network** — Rural areas are served by **commercial banks, Regional Rural Banks, co-operative banks and small finance banks**.
- **Need to understand** — Bankers, especially from urban backgrounds, must know the **structure and dynamics of rural society**.
- **Benefit** — This helps them serve clients well and support rural development.
- **Not self-contained** — Traditional Indian villages are linked with other villages.
- **Links** — **Markets, fairs, religious activities, travel and marriages** connect villages.
- **Building blocks** — Rural structure rests on **family, kinship, caste, stratification, power and religion**.

Feature	Position
Village as unit of development	Has its own identity, boundaries, resources and social structure, with formal and **statutory institutions**
Political presence	Political parties are active in many villages; larger villages may have party offices
Places of worship	Villages may have diverse places of worship; access practices differ but remain **subject to law and constitutional rights**

Topic 2 — Caste Structure and Traditional Panchayats

- **Jati segments** — Each village has several **Jati segments**, each with distinct roles.

HRM — Human Resource Management

Complete Book | Table of Contents | 24 chapters + 5 sections

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LEARNING SESSIONS

CH-1 Fundamentals of HRM

Topic 1 — Human Resources and HRM

Human resources are the collective **skills, knowledge, experience and capabilities** of all the people employed by an organisation.

- **Meaning** — **Human Resource Management (HRM)** is the **strategic and systematic approach** to managing an organisation's people.
- **Aim** — It seeks to maximise employees' performance and potential.
- **Coverage** — It covers **attracting, developing, motivating and retaining** employees to achieve organisational goals.

Core element	What it means
People	Employees are the core of HRM; HRM attracts, selects, develops and manages them so that they contribute to the organisation's success.
Management	Systematic, strategic application of management principles to **acquire, develop, maintain and compensate** employees.
Behavioural dynamics	Understanding and managing the behaviour and interactions of employees; people decisions must be **integrated and consistent** and should improve effectiveness and efficiency.
Uniformity of application	HRM principles apply to business and **non-business** organisations too — education, health, recreation and even voluntary organisations.

Topic 2 — Objectives of HRM

Objective	Focus
Societal	Uphold ethical standards and **social responsibility**; balance society's needs while minimising negative impact on the organisation.
Organisational	Achieve **organisational effectiveness** by strategically managing human resources towards the organisation's goals.
Functional	Develop and maintain HR services suited to the organisation's needs; ensure each **department's contribution** fits overall objectives.
Personal	Help employees achieve **personal goals** so that their contribution rises; policies on development, retention and motivation.

Professional objectives (roles) of HRM

Role	What HR does
Advisory role	Advises management on people, policies and processes — organisation structure, social responsibility, employment terms, compensation, career growth, training, employee relations and retirement.
Functional role	Interprets and communicates HR policies and guides **line managers** so that agreed policies are implemented in **letter and spirit**.
Service role	Furnishes **relevant and up-to-date information** on HRM matters to the organisation.

Topic 3 — Functions of HRM

Managerial functions

Function	Key content
Planning	Anticipate future personnel needs, set objectives and strategies; forecast workforce requirement based on **growth, turnover and technological change**.
Organising	Structure the HR department and its functions; design job roles, reporting structures and processes for recruitment, training, compensation and employee relations.
Staffing	Identify, attract and select the right people — **recruitment** (job postings, social media, referrals) and **selection** (qualifications, skills, cultural fit).
Directing	Leadership, guidance and motivation; keep employees informed, engaged and aligned with mission and values; facilitate communication and resolve conflicts.
Controlling	Monitor and evaluate employees, processes and HR initiatives — **performance appraisals**, training effectiveness, impact of HR policies.

Operational functions

Function	Covers
Procurement	HR planning, recruitment and selection, induction and placement
Development	Training, skill development, career planning and mentoring, counselling
Compensation	Wage and salary determination and administration
Integration	Integrating human resources and their values with the organisation
Maintenance	Sustaining and improving working conditions, motivation, employee communication

Developmental functions

Function	Purpose
Retention management	Keep **key talent** attached for a reasonable period and fill slots on time so that **business continuity plans** are not hampered.
Counselling / advisory management	Expert advice and **preventive counselling** for all levels to keep the work environment healthy.
Change management	Manage change from internal restructuring and from **mergers/acquisitions**.
Employee engagement	Keep employees fully engaged; raise **morale and loyalty**.
Attrition / turnover management	Find reasons for attrition and minimise the impact of separations — resignation, termination, layoff, death, medical reasons.
Talent management	Hire, develop and retain required talent through **progressive career plans** and employee-benefit schemes.

Remember this

- Operational functions — **PDCIM**: Procurement, Development, Compensation, Integration, Maintenance.

Topic 4 — Employee Policies

- **Meaning** — An **employee policy** is a set of rules or guidelines followed by the organisation and its employees.

LEARNING SESSIONS

- **Purpose** — It helps the organisation achieve a specific goal.
- **Content** — An effective policy states what employees **must and must not do**.
- **Guidance** — It also gives directions, limits, principles and guidance for decision making.

Topic 5 — Human Capital and Human Resource Accounting

- **Meaning** — **Human capital** is the knowledge and skills people acquire through life.
- **Use** — People use it to produce goods, services or ideas.
- **Components** — It includes skills, knowledge, attributes, motivation and effort.
- **Transfer** — It can be given or **rented on a temporary basis**, but its **ownership is not transferable**.
- **Definition** — **Human Resource Accounting (HRA)** is **'accounting for people as an organisational resource'**.
- **Value side** — It measures the **economic value** of employees' knowledge, skills, experience and abilities.
- **Cost side** — It also measures the **costs** incurred to recruit, select, hire, train and develop human assets.

Valuation of human capital

- **Skills shown** — Over time an employee displays specialised knowledge, technical skills, project management, leadership and communication.
- **Measurable** — Each of these skills and abilities can be measured and valued.
- **Data capture** — **MIS software** captures all elements of human contribution.
- **Closest value** — Converting them into quantifiable output gives the figure **closest to human asset valuation**.

Transforming employees into productive assets is the primary objective: develop skills, talents and abilities so that both the employee and the organisation benefit.

Topic 6 — HRM and Management of Transformation

Organisations are shaped by both **internal and external environments**; today the **external environment's impact is greater than ever**.

- **Monitoring** — For **survival, growth and competitiveness**, management must monitor fast-changing environmental factors.
- **Adjustment** — It must then adjust strategy and operations.
- **Assessment** — Accurate assessment of future **opportunities and threats** is crucial.

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Topic 7 — Illustrative HRM Practices in India

HRM practice	Observable features
Job description	Very high percentage of employees have **formally defined work roles**.
Recruitment	Strong dependence on **formal labour market**; campus recruitment common for management/engineering cadres; placement agencies, internet and print media most popular.
Compensation	Public sector stresses **security and lifetime employment** with healthcare, housing and schooling facilities.
Training and development	**Inadequately established**; value of training for skills and values is under-appreciated.
Performance appraisal	**Very low coverage** under formal appraisal linked to rewards or organisational goals.
Promotion and reward	Moderately variable; **seniority dominates** public sector; merit and performance mostly in globally oriented industries.
Career planning	Limited; seniority-based **escalator system** in public sector gives stability; wide acceptance of **VRS** by high-performing staff.
Reservation system	Central all-India open competitive direct recruitment: **SC 15%, ST 7.5%, OBC 27%, EWS 10%**. Other recruitment modes and State rules differ; these are not universal promotion quotas.

These patterns vary by employer and over time; they are not universal statistics.

Remember this

- Direct recruitment reservation: **SC 15 · ST 7.5 · OBC 27 · EWS 10** (%)

Topic 8 — Contemporary Issues in Indian HRM

Issue	Key point
Globalisation	Unfamiliar laws, competition, changing management styles from strategic alliances and new structures.
Workforce changes	Dual-career couples, younger and **less loyal** workforce, working mothers, specialisation (IT, biotech); expectations shift from job security to **empowerment, freedom and high pay**.
Changing union landscape	Unions see strikes as less effective; HR needs **proactive industrial relations** and negotiation skills.
Role realignment	HR must justify its people focus by building both organisational and people capabilities.
Women's role	Rising contribution to productivity; initiatives for **gender equity**.
New employee loyalty	Depends on **compensation and job satisfaction**; challenge valued over job security.
Moonlighting	Taking additional jobs alongside a full-time role (notably IT); concerns are **data breach, productivity loss, reduced engagement**.

Topic 9 — HRM, Personnel Management and HRD

Aspect	Personnel Management (PM)	Human Resource Management (HRM)	Human Resource Development (HRD)
Nature	Traditional, administrative	Strategic management of people	Developmental process
Covers	Employment administration, **employee welfare**, personnel policies, records, staffing, pay, service conditions, labour relations	Recruitment, selection, training, compensation, performance management, employee relations — with **strategic integration**	Training, learning and development, **career planning**, continuous learning
Aim	Smooth employment relations	Align workforce with organisational objectives	Develop skills, knowledge and capabilities to raise potential

Performance management (within HRM) evaluates and improves performance; HRD develops capabilities; PM handles administration and labour relations.

Topic 10 — Building an Employment Brand

An **employment brand** is a distinctive and attractive image of the organisation **as an employer**. Just as products are branded for customers, the employer is branded for potential employees.

Benefits of a strong employment brand	Steps in building the brand
Talent acquisition — attracts quality candidates, streamlines recruitment	**HR leadership** — HR spearheads brand building
Positive image — reputation as a desirable employer	**Long-term strategy** — gradual; needs complete organisational re-evaluation
Employee retention — higher job satisfaction, lower turnover	**Start with top management** — secure support for HR best practices
	Define brand objective — the desired employer image
	Internal strategies aligned to the brand objective
	External promotion of the brand



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Topic 11 — Building a Great Workplace

Feature	How it helps
Freedom of work	Empowers decisions and ideas — ownership and autonomy
Good work culture	Respect, collaboration, open communication, diversity
Leadership opportunity	Leadership roles and **promotion from within**
Recognition for good work	Rewards achievement; boosts morale
Learning and career growth	Continuous training and development paths
Flexibility of timings	Flexible hours or remote options
Challenges and responsibilities	Meaningful tasks that build skills
Job security	Stability and confidence
Work-life and social-life balance	Overall well-being and happiness

Topic 12 — Role of HR in Indian Banks

Roles of the HR Head

Role	Content
Talent acquisition	Recruitment strategy to attract top talent; position bank as **employer of choice**; futuristic recruitment processes.
Organisational development	Leads developmental HR — performance management, **competency mapping**, engagement, process improvement, job evaluation.
Effective leadership	Oversees interventions, acts as **internal consultant**, works with external experts.

New roles of HR managers in banks

Role	Content
Counsellor	Advises on personal, health, mental, physical and career problems; friend and career adviser during promotions, transfers, lateral moves.
Mediator	Peacemaker in disputes between individuals, groups and management; proficient in **union handling**.
Problem solver	Solves problems of engagement of human resources and long-term organisational planning.
Change agent	Introduces institutional change; installs **organisational development** programmes.
Manager of manpower	People management at individual, group and organisational levels.

Future role of HR managers in banks

- **Resource protection and enhancement** — safeguard and develop human and non-human resources.
- **Efficiency optimisation** — maximise productivity of human assets.
- **Technology integration** — streamline operations and new ways to share knowledge.
- **Behavioural science integration** — work with behavioural scientists to improve work practices.
- **Diverse workforce management** — integrate non-regular and **outsourced staff**.

- **Attrition management** — retain creative talent, address unproductive elements.
- **Fostering positive perception** — address frustration and perception issues.

Topic 13 — Qualities of a Successful HR Professional

Quality	Why it matters
Leadership abilities	Guide and inspire teams towards goals
Impartiality and integrity	Unbiased, fair, honest; sense of balance and justice
Understanding of human psychology	Engagement and conflict resolution; humane, skilled in human relations
Growth facilitation	Empower employees for higher responsibility; motivate development
Effective communication	Counselling and problem-solving; healthy relationships

Topic 14 — Ethics in HRM

- **Meaning** — **Ethics in HRM** is the application of moral principles to managing people.
- **Fairness** — HR practices are conducted in a **fair, just and transparent** manner.
- **Respect** — Employees' rights and well-being are respected.
- **Integrity** — Employees, stakeholders and society are treated with integrity.

Key ethical principle	Meaning
Fair treatment	Equal opportunity, unbiased decisions regardless of background, gender, race etc.
Transparency	Open communication, policies, procedures and decisions — builds trust.
Confidentiality	Safeguard sensitive employee information and privacy.
Respect	Dignity, valuing opinions, safe and inclusive workplace.

Ethical issues in the HRM function

Area	Ethical concern
Compensation	Pay disparity for similar roles, unequal rewards, pay not aligned with contribution.
Incentive plans	May push **short-term gains** over long-term success — cheating or manipulation of performance metrics.
Perquisites	Perks to select employees — **favouritism**, low morale, perceived unfairness.
Performance appraisals	Ratings influenced by personal bias, discrimination or favouritism.
Recruitment and promotion	Decisions based on **personal relationships** rather than merit — less qualified workforce, sense of injustice.
Confidentiality / privacy	Mishandling or sharing employee data without consent — breach of trust and legal issues (personal data is now protected under the **Digital Personal Data Protection Act, 2023**).

HRM | Module A | CH-1 | MCQs

Q1. A bank's HR department prepares the policy on organisation structure, retirement benefits and career growth and places it before the Board. Which professional role of HRM is this? *[Ref: Topic 2, p. 2]*

(a) Service role (b) Advisory role
(c) Functional role (d) Controlling role

Q2. An HR officer explains a new transfer policy to branch heads and checks that it is applied in letter and spirit. This reflects HRM's: *[Ref: Topic 2, p. 2]*

(a) Advisory role (b) Service role
(c) Societal objective (d) Functional role

Q3. Wage and salary determination and administration falls under which operational function of HRM? *[Ref: Topic 3, p. 2]*

(a) Procurement (b) Integration (c) Maintenance (d) Compensation

Q4. A bank wants key talent to stay for a reasonable period and vacancies to be filled on time so that its business continuity plan is not affected. Which developmental function is involved? *[Ref: Topic 3, p. 2]*

(a) Talent management (b) Change management
(c) Employee engagement (d) Retention management

Q5. Measuring the costs incurred to recruit, select, train and develop employees as well as their economic value is called: *[Ref: Topic 5, p. 3]*

(a) Talent auditing (b) Human resource planning
(c) Human resource accounting (d) Competency mapping

Q6. Forecasting workforce requirement on the basis of growth, turnover and technological change is part of which managerial function of HRM? *[Ref: Topic 3, p. 2]*

(a) Organising (b) Directing (c) Controlling (d) Planning

Q7. Combined reservation for SC and ST in central all-India open competitive direct recruitment is: *[Ref: Topic 7, p. 3]*

(a) 22.5% (b) 27% (c) 25% (d) 15%

Q8. An IT employee works for a second firm on weekends without informing his employer. The main concern for HR is: *[Ref: Topic 8, p. 3]*

(a) Lower statutory bonus
(b) Data breach, productivity loss and reduced engagement
(c) Higher gratuity liability
(d) Breach of reservation rules

Q9. Which of the following is the focus of HRD rather than personnel management? *[Ref: Topic 9, p. 4]*

(a) Maintaining service records
(b) Career planning and continuous learning
(c) Labour relations and welfare administration
(d) Pay and service conditions

Q10. The first step HR should take while building the employer brand, after taking a long-term view, is to: *[Ref: Topic 10, p. 4]*

(a) Secure top management support for HR best practices
(b) Launch an external advertisement campaign
(c) Cut recruitment cost
(d) Increase salaries of new joiners

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Q11. An HR manager in a bank resolves a dispute between the union and management. The HR manager is acting as a: ***[Ref: Topic 12, p. 4]***

(a) Mediator (b) Counsellor
(c) Problem solver (d) Change agent

Q12. Engaging and integrating outsourced and non-regular staff into a cohesive work environment is a future role of HR called: ***[Ref: Topic 12, p. 4]***

(a) Resource protection (b) Diverse workforce management
(c) Efficiency optimisation (d) Technology integration

Q13. An incentive scheme rewards only quarterly sales numbers and staff start mis-selling. This ethical problem arises from: ***[Ref: Topic 14, p. 5]***

(a) Breach of confidentiality
(b) Performance appraisal bias
(c) Incentive plans that favour short-term gains
(d) Perquisite inequality

Q14. Which HR head role covers competency mapping, job evaluation and performance management? ***[Ref: Topic 12, p. 4]***

(a) Organisational development (b) Effective leadership
(c) Talent acquisition (d) Mediator

Q15. The principle that HRM applies equally to hospitals, schools and voluntary bodies is called: ***[Ref: Topic 1, p. 2]***

(a) Behavioural dynamics (b) Integration
(c) Uniformity of application (d) Universality of objectives

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	d	7	a	10	a	13	c
2	d	5	c	8	b	11	a	14	a
3	d	6	d	9	b	12	b	15	c

CH-2 Organisational Behaviour

Topic 1 — Organisation and Organisational Behaviour

An **organisation** is a structured and coordinated group of people working together to achieve **common goals** — businesses, non-profits, government agencies, educational institutions and others.

- **Meaning** — **Organisational Behaviour (OB)** studies how **individuals, groups and structures** within an organisation interact and behave.
- **Scope** — It covers their behaviour, attitudes and actions at work.
- **Impact** — It also studies the impact of this behaviour on the organisation as a whole.
- **Aim** — It shows how organisations can be managed and structured to raise **productivity, employee satisfaction and effectiveness**.

Topic 2 — Organisation Charts

- **Meaning** — An **organisation chart** is a visual representation of the **hierarchical structure**.
- **Content** — It shows formal relationships, roles and reporting lines among positions, departments and individuals.
- **Purpose** — It shows the **chain of command** and the overall layout.

Type	Shows
Master chart	Comprehensive overview of the **entire** formal organisational structure
Supplementary chart	Detailed view of a **specific department** or major component

Topic 3 — Formal and Informal Organisation

Formal organisation	Informal organisation
Structured, planned arrangement of roles, positions and relationships	System of **social relationships** formed when people meet, interact and associate
Officially recognised and documented — hierarchy, reporting lines, responsibility, authority	Arises **within** the formal organisation spontaneously

Topic 4 — Organisational Structures

Structure	Basis	Key features
Functional	Similar functions or tasks	Departments such as finance, marketing, operations, HR
Divisional	Self-contained **strategic business units**, each producing a single product	Each division has its own functions, resources and sometimes culture; controlling authority focuses on **results**, coordinates and provides support services
Matrix	Combination of functional and project structures	**Dual reporting** — employee reports to more than one manager; staff return to original jobs when the project ends

Matrix structure — advantages and disadvantages

Advantages	Disadvantages
Enhanced expertise — specialists from different functions give innovative solutions	**Conflicting priorities** between functional and project managers
Flexible resource allocation to changing project needs	**Role ambiguity** — confusion about whom to report to
Cross-functional collaboration and knowledge sharing	**Complexity** and bureaucracy from multiple channels
Skill development — employees become versatile	**Communication challenges**
	Decision delays — consensus needed among many stakeholders

Topic 5 — Person–Job Fit

- **Goal** — The ultimate goal of HR managers is the right **job–person fit**.
- **Meaning** — Employees should be well suited to their roles.

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ITDB — Information Technology & Digital Banking

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CH-1 Information Technology and its Implications

Topic 1 — Information Technology

- **Meaning** — **Information Technology (IT)** is the use of computers, storage, networking and other physical devices.
- **Scope** — It also covers the infrastructure and processes used to **create, process, store, secure and exchange** all forms of electronic data.

Topic 2 — Impact of Information Technology

Area	Impact
General	People use computers to take more decisions; a system answers on **preselected criteria**. Entertainment and information resources of the world are accessible at home. People increasingly work from home and while travelling.
General (home and travel)	Homes become more comfortable, economical and secure (hidden video cameras, automatic garden sprinklers). Self-driven cars use **infrared cameras** and **microprocessor-based sensors** that alert the driver.
Business and economy	Cyber technologies **automate production** (robotic mining and farming machines feed automated factories). IT can raise productivity and living standards. Gains are **not guaranteed or evenly shared**; they depend on skills, access, institutions.
Business and economy (markets)	IT creates both rich and poor; some people lose jobs. Businesses reach new markets, marketing costs fall and consumer satisfaction rises. **E-commerce** removes geographical barriers: buy anytime, from anywhere.
Money	Bills are paid and stocks bought from home. **Smart cards** and apps pay for small purchases; smart cards also hold medical data and shopping accounts. E-banking supports **cross-border** services, but **FEMA, KYC, tax** and foreign laws still apply.
Government	Laws, regulations, policies and party positions become routinely available on networks. Electronic systems allow more **citizen input**; citizens can be quickly polled and their views added to those of experts.

Topic 3 — Strategic Issues and IT

Strategic issue	What it means for banks
Increased competition	Fierce competition from **non-traditional competitors** entering the market and alternatives to traditional financial products.
Changing consumer behaviour	Growing demand for **convenience and round-the-clock availability** from home, office or shops via telephone, PCs and mobile phones.
Improved financial performance	Investors are better informed about opportunities, risks and alternatives, and expect better performance from financial institutions.

Topic 4 — Internet Banking

- **Meaning** — **Internet (online) banking** delivers banking services through an **open-access computer network**.
- **Availability** — Customers can use it **at any time and from any place**.
- **Devices** — It works on a PC, a mobile phone with a browser, or desktop software.

Benefits for customers	Benefits for banks
Less waiting time – removes time and place limits.	**Increased profitability** – services delivered at far lower cost than branch banking.
Ease and convenience – transact from the comfort of home.	**Cost-effective** – lower administrative cost and paperwork.
Self-service channel – no dependence on bank staff.	**Reach where there is no branch** – service areas without branches.
Saves time and money – saves fuel, avoids traffic, reduces vehicle use (environment).	**Better customer relationship** – high-quality service builds lasting relationships.

Topic 5 — Mobile Banking

- **Meaning** — **Mobile banking** lets customers conduct financial transactions remotely using a **mobile phone or tablet**.
- **Bank apps** — Mobile banking apps are provided by banks.
- **Other UPI apps** — UPI apps also include **BHIM** and third-party providers such as PhonePe and Google Pay.
- **Not bank apps** — These third-party UPI apps are **not bank apps**.

Mobile banking is **not restricted to smartphones**. NPCI offers mobile banking on the **National Unified USSD Platform (NUUP)** through the short code ***99#**, usable on basic feature phones without internet.

Remember this

- USSD mobile banking short code: ***99#** (NUUP, run by NPCI).

Topic 6 — Government Initiatives for E-Banking

- **Information Technology Act, 2000** gives legal recognition to electronic transactions and e-commerce. It remains the governing cyber law; the proposed Digital India Act has not replaced it.
- **Digital Personal Data Protection Act, 2023** and the **DPDP Rules, 2025** govern processing of customers' digital personal data, with phased implementation.
- **RBI** monitors and reviews the legal requirements of e-banking continuously. The **IT Vision Document 2011-17** was an earlier framework; today's controls follow RBI's directions on **IT governance, risk, controls and assurance practices** and on **cyber security**.
- **NPCI** keeps adding mobile banking services and widening **IMPS** channels.

Topic 7 — NPCI and Unified Payments Interface

- **Nature** — **National Payments Corporation of India (NPCI)** is a **not-for-profit** company.

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- **Legal form** — It is a **Section 8 company under the Companies Act, 2013** (originally Section 25 of the 1956 Act).
- **Promoters** — It is promoted by **RBI and the Indian Banks' Association (IBA)**.

Unified Payments Interface (UPI) is an **instant, real-time** payment system developed by NPCI and **regulated by RBI**.

UPI indicator (NPCI data)	Latest position
Monthly volume – September 2026	**24.07 billion** transactions (about **802 million** per day)
Monthly value – September 2026	about ₹**29.37 lakh crore**
Previous month – August 2026	24,508.96 million transactions; ₹29,82,355.95 crore
Banks live on UPI (August 2026)	**752**

Transaction volumes are **counts of transactions, not users**.

Merchant Discount Rate (MDR) on UPI from 15 October 2026

- **Charged** — Person-to-merchant (P2M) payments **above ₹2,000** attract MDR of **0.40%**.
- **Cap** — The MDR is capped at ₹**300** per transaction.
- **Borne by** — The **merchant** pays the MDR, not the customer.
- **Zero MDR** — P2M payments up to ₹2,000, **P2P transfers** and eligible **small merchants** remain at zero MDR.

Example: A customer pays ₹10,000 by UPI to a large merchant: MDR = 0.40% × 10,000 = ₹**40**, charged to the merchant. On ₹1,00,000 the 0.40% works out to ₹400, so the ₹**300 cap** applies.

Remember this

- UPI MDR: **0.40%**, only P2M **above ₹2,000**, cap ₹**300**; P2P free.
- **See** — Ch 10 (p. 29) for NPCI's role under the Payment and Settlement Systems Act, its products (IMPS, RuPay, AePS, NFS, BBPS, NETC, Bharat QR, BHIM, NACH) and UPI transaction limits.

Topic 8 — Web Consumers

A **web consumer** is any **natural person** who places an order for goods and/or services on a supplier's website.

- Saves time and effort; shopping from home.
- Wide variety of products; good discounts and lower prices.
- Detailed product information; easy comparison of models and brands.

Topic 9 — Technology-Based Workforce and Work from Home

As e-commerce replaces conventional sales and services, more jobs require **IT skills** and **higher-level cognitive reasoning**.

Aspect	Effect
Composition of workforce	Jobs shift from distributing products to **transferring information**.
Workforce flexibility	Employees can be productive **no matter when or where** they work.
Globalization	The Internet has no national borders; physical proximity is no longer key, and tasks can be done by workers anywhere in the world.
Work from Home (WFH)	Work done remotely instead of at an office. The greatest challenge is **securing the connection** between the employee and the organisation's internal network over the Internet.

Topic 10 — Information Technology Act, 2000

- Facilitates **e-governance and e-commerce** by giving equal legal treatment to users.
- Gives **electronic records** legal recognition, subject to statutory conditions and exclusions.
- **See** — Ch 13 (p. 38) for the sections, offences, penalties and amendments of the IT Act, 2000.

ITDB | Module A | CH-1 | MCQs

Q1. A bank's customer in a village with no branch uses a basic feature phone without internet. Which channel lets him check his balance and transfer funds? *[Ref: Topic 5, p. 2]*

(a) Internet banking through a browser
(b) *99# USSD service on NUUP
(c) UPI app on a smartphone
(d) Desktop banking software

Q2. Which statement on the National Payments Corporation of India is correct? *[Ref: Topic 7, p. 2]*

(a) It is a for-profit listed company owned by the Government
(b) It is a statutory body created by an Act of Parliament
(c) It is a not-for-profit Section 8 company promoted by RBI and IBA
(d) It is a department of the Ministry of Finance

Q3. A large merchant receives a UPI payment of ₹50,000 from a customer after 15 October 2026. What MDR applies? *[Ref: Topic 7, p. 2]*

(a) Nil, UPI is always free
(b) ₹200, paid by the customer
(c) ₹300, paid by the merchant
(d) ₹200, paid by the merchant

Q4. A customer transfers ₹25,000 by UPI to a friend's bank account. The MDR applicable is: *[Ref: Topic 7, p. 2]*

(a) Nil, as it is a P2P transfer
(b) 0.40% of ₹25,000
(c) ₹300 flat
(d) 0.40% capped at ₹300, paid by the sender

Q5. A bank is losing young customers to fintech firms and payment companies offering similar products. This strategic issue is best described as: *[Ref: Topic 3, p. 2]*

(a) Improved financial performance
(b) Increased competition from non-traditional players
(c) Changing government policy
(d) Globalisation of the workforce

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Q6. Which benefit of internet banking accrues mainly to the bank rather than to the customer? *[Ref: Topic 4, p. 2]*
(a) Less waiting time
(b) Self-service convenience
(c) Lower administrative cost and paperwork
(d) Saving fuel and travel time

Q7. An Indian resident uses internet banking to make a payment to a foreign supplier. Which statement is correct? *[Ref: Topic 2, p. 2]*
(a) Global access removes the need for FEMA compliance
(b) KYC is not required for online payments
(c) Only the foreign country's law applies
(d) FEMA, KYC, tax and the other country's laws still apply

Q8. Which law gives legal recognition to electronic records and electronic business transactions in India? *[Ref: Topic 10, p. 3]*
(a) Information Technology Act, 2000
(b) Payment and Settlement Systems Act, 2007
(c) Banking Regulation Act, 1949
(d) Indian Contract Act, 1872

Q9. As per the chapter, a 'web consumer' is: *[Ref: Topic 8, p. 3]*
(a) Any company buying goods in bulk online
(b) A natural person who places an order for goods or services on a supplier's website
(c) A bank customer using internet banking
(d) A merchant selling on an e-commerce portal

Q10. A bank allows its officers to work from home. What is the greatest challenge it faces? *[Ref: Topic 9, p. 3]*
(a) Higher fuel cost for employees
(b) Lack of office furniture
(c) Securing the connection between the employee and the bank's internal network
(d) Inability to measure attendance

Q11. UPI recorded about 24 billion transactions in a month. What does this figure represent? *[Ref: Topic 7, p. 2]*
(a) Number of unique users
(b) Number of bank accounts linked
(c) Number of merchants live
(d) Number of transactions processed

Q12. Which statement on the impact of IT on business and economy is correct? *[Ref: Topic 2, p. 2]*
(a) IT gains depend on skills, access and institutional conditions
(b) IT always distributes gains equally to all
(c) IT cannot cause any job loss
(d) E-commerce increases geographical barriers

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	a	7	d	10	c
2	c	5	b	8	a	11	d
3	d	6	c	9	b	12	a

CH-2 Introduction to Computing

Topic 1 — Computer and its Functioning

A **computer** is an electronic machine that converts **raw facts into required information** according to a set of instructions fed into it. It works by combining **input, storage, processing and output**.

Function	Role
Input	Information the user provides to the computer.
Storage	Computer **memory**, where input is kept.
Processing	Done by the **Central Processing Unit (CPU)**.
Output	Any information processed by and sent out from the computer or device.

Topic 2 — Central Processing Unit

The **CPU** performs all data processing operations and **controls the operation of all parts** of the computer. It uses **registers and cache** internally, while **main memory** stores programs and data.

Component of CPU	Function
Registers and cache	Very fast storage inside the CPU for data and instructions in use.
Control Unit (CU)	Directs and co-ordinates the sequence of operations.
Arithmetic Logic Unit (ALU)	Performs arithmetic and logical operations.

Topic 3 — Organisation of a Computer

Charles Babbage conceived the **Analytical Engine** as a general-purpose programmable machine. It was never completed in his lifetime, but its parts mirror a modern computer.

Engine component	Function	Modern equivalent
Store	Held numbers and intermediate results	Memory
Arithmetic unit (mill)	Performed arithmetic on stored numbers	ALU
Control unit	Checked correct sequence of operations, e.g. transfer between mill and store	Control unit
Input device	Entered numbers and instructions (punched cards)	Input device
Output device	Displayed results	Output device

Topic 4 — Generations of Computers

Generations refer mainly to changes in **hardware technology**.

Generation	Technology	Key features
First (1940-50)	**Vacuum tubes**	Limited memory; speeds varied widely. The **stored-program architecture** was described in the EDVAC report.

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CH-1 Why Banks are Special

Topic 1 — Why Banks are Special

Banks play a **critical role in the economy**: they **operate the payment system**, are the **major source of credit** for a large section of the economy, and are trusted by people to keep their **surplus funds**.

- Banks provide **non-fund facilities** such as **bank guarantees** and **letters of credit**, which create **contingent obligations**.
- The **global financial turmoil** changed the banking structure, bank strategies and performance, and the way banks are **regulated and supervised**.

Topic 2 — Functions Banks Perform

Financial institutions **channelise funds** from people who have **surplus funds** to people who **need funds**.

Unit	Position	Role in fund flow
Savings surplus units	Households, businesses and governments that **spend less than their income**	**Sources of funds** (lender-savers)
Savings deficit units	Households, businesses, governments and foreign entities whose **current need exceeds current income**	**Users of funds** (borrower-spenders)

- **Value added** — A borrower who invests in a business or in machines and equipment **adds value**.
- **More output** — The investment produces more goods and services.
- **Growth** — The economy grows, and a growing economy **creates jobs** and adds to income.

Topic 3 — Economy Without Efficient Financial Institutions

Without efficient financial institutions, the **fund flow** between surplus and deficit units is likely to be **very low**, for three reasons.

Reason	Why it blocks direct lending
High monitoring cost	Households must check that the business keeps earning enough to repay. They must watch for a fall in the borrower's **creditworthiness**. This takes considerable time and cost. It **discourages direct investment** in corporate instruments.
Liquidity and maturity mismatch	Long-term debt may mature later than savers want; **shares have no fixed maturity**. Selling early may involve **illiquidity, transaction costs or price loss**.
Price risk	Even if a financial market exists where instruments can be traded, savers remain exposed to **price risk**.



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Topic 4 — Bank's Role in the Economy

Role	Key points
Financial intermediation	Banks channel savings from depositors to borrowers. **Deposits are bank liabilities**. Savings and eligible term deposits earn interest; **current accounts generally do not**. The **spread** (interest earned minus paid) is the main profit.
Depositors at risk and safety net	Depositors do not evaluate the bank's credit quality. They assume full repayment on demand, which puts them at risk. The safety net differs by country. It is **generally not unlimited**, so some deposits stay exposed to bank default.
Asset transformation	Transforming bank **liabilities (deposits)** into bank **assets (loans)** with divergent characteristics — translating the product specifications wanted by savers into those wanted by borrowers.
Diversification benefits	Banks give savers **highly liquid, low-risk** products and invest in **illiquid, high-risk** assets. Diversifying away **firm-specific risk** makes this possible. Depositors claim on the bank, not on loans. **Common shocks and bank-failure risk remain**.
Maturity transformation	Savers have **short horizons** and want liquid reserves for shocks (unemployment, medical emergencies). Businesses need **long-term** project finance or short-term working capital. Banks bear this maturity mismatch.
Better liquidity products	SB and current accounts allow **demand withdrawals**, subject to funds, terms and law. SB balances earn interest. Early term-deposit withdrawal depends on the product. **Non-callable deposits** may not allow it; **callable** ones may carry a penalty.

- **Insurer** — **DICGC** is a wholly owned subsidiary of RBI.
- **Limit** — It insures eligible deposits up to **₹5 lakh per depositor per bank**.
- **What is covered** — The limit covers **principal and interest together**, in the **same right and capacity**.
- **Aggregation** — Deposits in all branches of the bank in the same capacity are **aggregated**.
- **Basis** — Cover is **per bank, not per account**.

Example: One million deposits of ₹1,000 each total ₹100 crore (₹1 billion), equal to 10,000 loans of ₹1 lakh each before reserves and liquidity needs. Each depositor has a claim on the bank, not a direct share in those loans.

Hedging and securitisation can transfer selected risks within regulatory rules. **Credit default swaps** introduce **counterparty and basis risk**; neither tool eliminates all funding or credit risk.

Remember this

- DICGC cover: **₹5 lakh** per depositor per bank, principal + interest, same right and capacity.

Topic 5 — Uniqueness of Banks

Besides the benefits of intermediation, banks carry out certain **unique services** which make them special.

Special function	Key points
Transmission of monetary policy	The **monetary transmission mechanism** links monetary policy to **aggregate demand**, asset prices, interest rates, money and credit. Policy-rate changes shift borrowing and lending conditions. Transmission is **neither immediate nor uniform**.

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Special function	Key points
Credit allocation	Banks are often the major — sometimes only — source of finance for the **priority sector**. Bank loans need **frequent renewal**. So banks keep re-checking firms' **creditworthiness**. Growth follows credit flow; monetary policy gives direction.
Creation of money	A bank loan creates a **matching deposit**; **loan repayment reduces deposit money**. Paying another bank needs settlement. Lending depends on **capital, liquidity, profitability, credit demand and monetary policy**. The **money multiplier** is not fixed.
Payment services	**Clearing** and **transfer of funds** keep money moving. A breakdown would cause **gridlock** in the payment system and harm the economy.
Financial inclusion	Ensures **ease of access, availability and usage** of the formal financial system for all. It broadens the resource base by building a **savings culture** in rural areas and reduces exploitation by **usurious moneylenders**.
Digital and inclusive banking	Services reach remote areas **without physical branches**. Digital technology saves time and **reduces operating cost**. It improves monitoring, risk management and control. Customers transact quickly and securely without visiting branches.

RM | Module A | CH-1 | MCQs

Q1. A bank lends ₹50 lakh to a manufacturer by crediting the borrower's current account. What is the immediate effect on broad money? *[Ref: Topic 5, p. 3]*
(a) Money falls by ₹50 lakh
(b) A matching deposit of ₹50 lakh is created
(c) No effect until RBI injects reserves
(d) Money rises by ₹50 lakh × money multiplier

Q2. Mr. X holds an SB account of ₹3 lakh and an FD of ₹4 lakh (both in his single name) in two branches of the same bank, which fails. What is the maximum DICGC claim? *[Ref: Topic 4, p. 3]*
(a) ₹7 lakh (b) ₹4 lakh (c) ₹5 lakh (d) ₹10 lakh

Q3. Mrs. Y has ₹4 lakh each in Bank A and Bank B in her individual capacity. Both banks fail. Total DICGC protection available to her is: *[Ref: Topic 4, p. 3]*
(a) ₹5 lakh (b) ₹4 lakh (c) ₹10 lakh (d) ₹8 lakh

Q4. Households hesitate to lend directly to a company mainly because tracking the company's ability to repay requires considerable time and cost. This barrier is called: *[Ref: Topic 3, p. 3]*
(a) High monitoring cost (b) Price risk
(c) Settlement risk (d) Transmission lag

Q5. A bank collects ₹1,000 savings deposits from many households and grants a ₹5 crore 10-year project loan. Changing the size and characteristics of funds in this way is: *[Ref: Topic 4, p. 3]*
(a) Credit allocation (b) Payment service
(c) Asset transformation (d) Monetary transmission

Q6. Banks can offer liquid, low-risk deposits while holding illiquid, risky loans chiefly because they can: *[Ref: Topic 4, p. 3]*
(a) Guarantee every loan with collateral
(b) Diversify away firm-specific risk across many borrowers
(c) Borrow unlimited funds from RBI
(d) Avoid all common economic shocks

Q7. Funding 20-year home loans with 1-year term deposits is an example of: *[Ref: Topic 4, p. 3]*
(a) Maturity transformation (b) Diversification
(c) Financial inclusion (d) Securitisation

Q8. A bank buys protection through a credit default swap on a large corporate exposure. Which risk does it now take on? *[Ref: Topic 4, p. 3]*
(a) No risk at all remains (b) Only interest rate risk
(c) Only liquidity risk (d) Counterparty and basis risk

Q9. RBI cuts the policy repo rate, but lending rates of banks fall only gradually and unevenly. This reflects that monetary transmission is: *[Ref: Topic 5, p. 3]*
(a) Immediate and uniform (b) Neither immediate nor uniform
(c) Independent of banks (d) Determined only by CRR

Q10. Which statement on bank money creation is correct? *[Ref: Topic 5, p. 3]*
(a) Lending is fixed by reserves × multiplier
(b) Loan repayment increases deposit money
(c) Lending also depends on capital, profitability and credit demand
(d) Banks cannot create money; only RBI can

Q11. A customer wants to close a non-callable term deposit before maturity. The correct position is: *[Ref: Topic 4, p. 3]*
(a) Bank must always allow it without penalty
(b) It may not be permitted under the product terms
(c) DICGC will pay the amount
(d) Interest is doubled

Q12. Which of the following is a non-fund facility creating a contingent obligation for the bank? *[Ref: Topic 1, p. 3]*
(a) Cash credit (b) Term loan
(c) Overdraft (d) Bank guarantee

Q13. A saver buys a long-term corporate bond and has to sell it suddenly after rates rise. The loss on sale reflects: *[Ref: Topic 3, p. 3]*
(a) Credit risk (b) Settlement risk
(c) Model risk (d) Price (market) risk

Q14. Delivering banking services in remote villages through mobile apps and business correspondents without a branch is an example of: *[Ref: Topic 5, p. 3]*
(a) Asset transformation (b) Digital and inclusive banking
(c) Credit rationing (d) Maturity mismatch

Q15. Which statement on depositors is correct? *[Ref: Topic 4, p. 3]*
(a) Depositors normally evaluate the bank's credit quality before depositing
(b) DICGC cover is unlimited for all deposits
(c) Depositors usually assume their deposit is safe and repayable on demand
(d) Depositors own a share of each loan

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	a	7	a	10	c	13	d
2	c	5	c	8	d	11	b	14	b
3	d	6	b	9	b	12	d	15	c

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CH-2 Risks and Risk Management in Banks

Topic 1 — Risk in Banking

- **Risk machines** — Banks are commercial entities that **generate risks like 'risk machines'**.
- **Inherent** — Risk is **inherent** in a bank's nature and structure because of the functions it performs.
- **New risks** — External connectivity and product diversity have created many **known and unknown risks**.
- **Significance** — Risk management has therefore assumed great significance.
- **Meaning** — **Risk** is anything that can have an **adverse impact on the fulfilment of corporate objectives**.
- **Link to objectives** — Risk is a function of attaining business objectives.
- **Deviation** — Risk arises when the **actual result deviates from the expected result**.
- **No objective** — **Without an objective** or intended income, there is **only uncertainty**.

Topic 2 — Elements of Risk

Risk depends on both the **likelihood** and the **severity** of adverse outcomes; greater variability may indicate greater risk.

Element	Key points
Risk is measurable	Many risks can be quantified; others need **qualitative assessment and judgement**. Quantifying risk helps informed decisions. Risk that cannot be quantified is **hard to manage**.
Risk differs from uncertainty	**Risk**: outcomes unknown but **probabilities known** or inferable with reasonable accuracy. **Uncertainty**: probabilities **not known** or cannot be discerned — a far greater state of ignorance.
Likelihood and impact	Probability ranges from **0 (impossible) to 1 (certain)**. Banking risk has two dimensions: **likelihood** of the adverse event and **severity** of its loss. A certain loss still needs funding and controls.
Risk-reward trade-off	Higher reward generally needs **higher risk**, but high risk does **not guarantee** high return. GOI securities carry very low sovereign credit risk but still carry **interest-rate, liquidity and inflation risk**. A startup stock may lose everything.

Expected loss (simplified likelihood × impact measure) — p is the event probability, L the fixed loss amount:

$$\text{Expected Loss} = p \times L,$$

$$0 \le p \le 1$$

Example: Probability of a fraud event = 0.02; loss if it occurs = ₹50 lakh. Expected loss = 0.02 × 50 = ₹1 lakh. This measures the average loss, not the full risk (the actual loss could be ₹50 lakh).

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Topic 3 — Known–Unknown Matrix

Category	Meaning	Example
Known knowns	Risks we are aware of and **can measure**	Effect of interest-rate change on bond price
Known unknowns	Risks we are aware of but **cannot measure** properly	**Model risk** — risk manager omits an important factor from the model
Unknown knowns	Unrecognised knowledge — information exists but is not recognised	Warning signs available in data but not used
Unknown unknowns	Things we are **neither aware of nor can measure**; events outside scenarios considered	A completely **unanticipated shock**

Knightian uncertainty refers to situations where probabilities **cannot be reliably assigned**. Regulatory risk is usually identifiable, so it is not an unknown unknown.

Topic 4 — Business Risk vs Control Risk

Banks face two broad categories of risk.

Basis	Business risk	Control risk
Source	Arises from the **banking business** itself	**Inadequacy or failure of controls** meant to contain business risk
Trigger	Expected or unexpected events in financial markets hitting profitability, asset value and **intrinsic worth**	Poor sanction, weak collateral, poor monitoring, missing covenant tests, flawed limit records
Types	Credit, market, operational, liquidity, reputation risk etc.	Weak internal control, documentation and monitoring

Example: A bank projects net NPA of 3%. Reckless sanction, weak collateral and poor monitoring push net NPA to 8%. The deterioration beyond plan is due to **control risk**; better controls reduce avoidable loss but cannot eliminate a downturn.

Topic 5 — Credit Risk

Credit risk is the potential loss if a **borrower or counterparty fails to meet obligations** as per agreed terms — uncertainty in repayment **in full and in time**.

Element	Key points
Default risk	Failure to repay fully and on time; the potential loss from such default. Default may be **wilful** — borrower has income but is unwilling to pay.
Migration risk	Risk of **rating downgrade** showing deterioration in credit quality. A downgrade widens the **credit spread** and required yield, reducing present value (risk-free rates need not rise). Any migration triggers a value change.
Recovery risk	Uncertainty about the **amount and timing of recovery** after default; can be triggered by recession. Causes: inability to seize/realise **collateral** in time, **guarantor** refusal or delay, **defective documentation**.
Settlement risk	Arises when payments are **not exchanged simultaneously**; most pronounced in **forex** markets across time zones — called **Herstatt risk**.
Country risk	Adverse **political, economic and transfer** conditions hit foreign exposures; **sovereign default** is one part. Devaluation hurts a borrower with foreign-currency debt and local-currency revenue. Signs: non-payment, **restructuring or rollover**.

LEARNING SESSIONS

CB — Central Banking

Complete Book | Table of Contents | 18 chapters + 8 sections

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LEARNING SESSIONS

CH-1 Theory and Practice of Central Banking- Evolution

Topic 1 — Central Bank and Its Features

A **central bank** is the **apex bank** of a country, responsible for managing the **money supply**, controlling **interest rates** and ensuring the **stability and soundness** of the financial system.

Feature	What it involves
Monetary authority	Manages money supply and interest rates; influences growth and inflation through policy tools
Currency issuance	Issues currency under powers given by **national law**; coins and foreign reserves follow national arrangements
Banker to the Government	Keeps government accounts and facilitates its borrowing needs
Banker to banks	Holds bank reserves, provides **emergency funding**, maintains stability
Financial stability	Ensures smooth functioning of the financial system
Regulatory authority	Enforces regulations and oversees banking operations
Economic analysis	Research, forecasts and advice to government and institutions

Topic 2 — Global Evolution of Central Banks

- **Oldest** — The **Riksbank of Sweden (1668)** is the **oldest central bank**.
- **Origin** — It was set up under Sweden's **Parliament** to provide banking services.
- **Change** — It later gave up commercial lending.
- **Note issue** — It received the **monopoly of note issue in 1904**; the decision was taken in **1897**.
- **Spread** — France, Finland, Netherlands, Austria, Norway, Denmark, Portugal, Belgium, Spain, Germany, Italy and Japan set up central banks in the **1800s and early 1900s**.

Stage	Development
Financial infrastructure	Central banks developed the financial system to suit national needs; as they **finalise transactions**, they came to manage **payment and settlement systems**
Regulation and supervision	As institutions multiplied, central banks took stronger regulatory and supervisory roles and introduced **risk management systems**
Developmental mandate	In developing countries, roles widened to **economic recovery and growth**; amid global growth and crises, emphasis on **price stability, financial stability and risk management**
Informal norms to formal laws	Self-imposed codes became **formal laws**, amended periodically; central banks are urged to adopt **international best practices** for autonomy, crisis prevention and transparency

Topic 3 — Early Central Banks of Europe

Central bank	Origin	Key features
Bank of England	**1694**, Royal Charter; nationalised **1946**	**Second oldest** after Riksbank. It accepted deposits and issued notes. It became government's **banker and debt manager** and controlled UK gold reserves.
Bank of England (contd.)		It sets official interest rates, with operational independence from **1997**. The **Bank Charter Act 1844** restricted new note issuers; **full monopoly came in 1921**.
Bank of England (contd.)		It managed government borrowing in World War I. It is adviser and agent of the Treasury.
Bank of France	**1800**; nationalised **1945**	Founded with **private capital** but closely linked to the State. Government appointed the **Governor and two Deputy Governors**.
Bank of France (contd.)		Shareholders were represented by **15 regents** elected by the **200 largest shareholders**. Note-issue privilege in Paris ran for **15 years**.
Bank of France (contd.)		It was extended to **all France in 1848**, when **nine provincial banks** became its branches. This resolved the 1848 crisis.
Bank of France (contd.)		It gained **autonomy under the 1993 law** for price stability while remaining state-owned.
Banco de Portugal	**1846**	Founded as a **private institution**; a note-issuing **commercial bank** whose main job was profit for shareholders
Bundesbank (Germany)	**1957**, Bundesbank Law	Rationale: a **uniform system** of coinage, weights and measures. Created a transparent monetary regime and integrated separate financial entities; now part of the **European System of Central Banks (ESCB)**
Bank of Italy	**1893**	Created after the near-collapse of Italian banking in the early 1890s; cleaned up its balance sheet, rebuilt capital and reorganised the monetary and credit system to stabilise the currency; now part of the **ESCB**

Remember this

- Oldest: **Riksbank 1668**; second oldest: **Bank of England 1694**.

Topic 4 — Federal Reserve System (USA)

- **Meaning** — The **Federal Reserve** is the central banking system of the USA.
- **Set up** — It was set up in **1913** under the **Federal Reserve Act**.
- **Reason** — A series of financial panics, particularly the **panic of 1907**, showed the need for central control of the monetary system.

LEARNING SESSIONS

Aspect	Position
Objectives	**Maximum employment**, **stable prices** and moderate **long-term interest rates**; the first two form the **dual mandate**
Expanded functions	Supervision, financial system stability and financial services
Components	Board of Governors, **FOMC**, **12 regional Federal Reserve Banks**, privately owned member banks and advisory councils
Board of Governors	**7 members**, nominated by the **President**, confirmed by the **Senate**, for **14-year terms**, one term beginning **every two years**
FOMC	**12 voting members**: 7 Governors + **New York Fed president** + **4 other Reserve Bank presidents** on rotating **one-year** terms. All 12 presidents take part in deliberations, but participation does not give a vote
Nature	Both **public and private** elements, serving the public interest under federal law
Dividends	Smaller member banks get a **6% statutory dividend** on paid-in Reserve Bank stock; above an inflation-adjusted asset threshold, the **lower of 6% and the 10-year Treasury auction yield**
Remittances	After expenses, dividends and required surplus, residual earnings go to the **US Treasury**. Losses suspend remittances and create a **deferred asset**, which future earnings must first cover

Topic 5 — Evolution and Diversification of Functions

- **New challenges** — As financial systems developed, central banks reoriented policies to meet new challenges.
- **Crisis mandates** — During crises such as the **Great Depression (1930s)**, mandates covered **monetary stability, full employment and maximisation of growth**.
- Functions fall into four groups: **monetary policy**, **banker to banks**, **banker to the government** and **developmental functions**.
- The **lender-of-last-resort** role grew with financial sector development, prompting stronger **supervisory and regulatory** roles.
- Recognising the link between financial and economic development, central banks facilitated finance to **productive sectors**.

Topic 6 — Reasons for Proliferation of Central Banks

Proliferation means the widespread establishment and growth in the number of central banks across the world.

Reason	Explanation
Economic complexity	Larger, complex financial sectors needed a **centralised authority** for monetary policy and oversight
Bank failures	Failures raised depositor concern, increasing the need for regulation and stability
Rise of nation-states	New nations in the **twentieth century** set up their own central banks
Specific roles	Currency issue, lender of last resort, government finances, regulation
Global banking	Globalisation needed a central authority to deal with the global financial network and international relations

Topic 7 — Conflicting Roles and Responsibilities

Area	Nature of conflict
Banker to government vs price stability	As **debt manager**, financing deficits through central bank credit causes **excess money creation** and **inflation**, weakening price stability
Independence and inflation targeting	Independence gained ground after the **Vietnam War**, world liquidity expansion, persistent inflation and fiscal–monetary expansions in **Latin America**. **Inflation targeting** became a principal objective, pursued independently
Regulation and supervision	Combining both in one authority raises **conflict of interest**; on the lines of **Montesquieu's separation of powers**, supervision may be separated from the central bank

- **PRA** — The **Prudential Regulation Authority (PRA)**, within the Bank of England, handles prudential supervision.
- **FCA** — The **Financial Conduct Authority (FCA)** handles conduct and relevant prudential regulation.
- **See** — Ch 13 (p. 48) for the UK's move from the FSA to the PRA and FCA (2013) and how supervisory arrangements vary across countries.

Topic 8 — Central Banks in Developed and Developing Countries

Aspect	Developed countries	Developing countries
Emergence	**Earlier**, evolving with modern economies	**Later**, after colonisation or political upheaval
Initial focus	**Currency issue**, later monetary policy, stability and regulation	**Stabilising local currency**, basic financial infrastructure, economic development
Independence	Push for independence for stable monetary policy	Initially **close ties to government**; political interference and limited resources
Innovation	At the forefront of **financial innovation**	Reforms to align with **global standards**
Later trend	Modern tools and strategies	Greater **autonomy** and international best practice to manage inflation, growth and stability

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CB | Module A | CH-1 | MCQs

Q1. A country's apex institution manages money supply, holds banks' reserves and keeps government accounts. Which feature is NOT typically a central bank feature? *[Ref: Topic 1, p. 2]*
(a) Accepting retail deposits for profit as its primary goal
(b) Acting as banker to the government
(c) Acting as banker to banks
(d) Ensuring financial stability

Q2. The Riksbank's transformation into a modern central bank involved *[Ref: Topic 2, p. 2]*
(a) merging with a commercial bank
(b) becoming part of the ESCB
(c) giving up commercial lending and getting a monopoly of note issue
(d) privatisation of its capital

Q3. Under the UK Bank Charter Act 1844, the position on note issue was that *[Ref: Topic 3, p. 2]*
(a) the Bank of England immediately got full monopoly
(b) all commercial banks could freely issue notes
(c) the Treasury took over note issue
(d) new issuers of banknotes were restricted, with full monopoly to the Bank of England coming later

Q4. The Bank of France's note-issue privilege was extended to the whole country because *[Ref: Topic 3, p. 2]*
(a) the 1993 law granted autonomy
(b) nine provincial note-issuing banks became its branches
(c) it was nationalised
(d) it joined the ESCB

Q5. A student argues that a state-owned central bank cannot be independent. Which example best rebuts this? *[Ref: Topic 3, p. 2]*
(a) Banco de Portugal was a private profit-making bank
(b) Bank of Italy was set up to clean up balance sheets
(c) France granted monetary-policy independence while retaining state ownership
(d) Bundesbank was set up for uniform coinage

Q6. The Federal Reserve's 'dual mandate' refers to *[Ref: Topic 4, p. 2]*
(a) stable prices and moderate long-term interest rates
(b) maximum employment and stable prices
(c) financial stability and supervision
(d) exchange rate stability and growth

Q7. At a given FOMC meeting, how many Reserve Bank presidents vote? *[Ref: Topic 4, p. 2]*
(a) All twelve
(b) Seven
(c) Only the New York Fed president
(d) Five, including the New York Fed president

Q8. A large Fed member bank above the asset threshold receives a dividend on paid-in stock equal to *[Ref: Topic 4, p. 2]*
(a) the lower of 6% and the ten-year Treasury auction yield
(b) a fixed 6%
(c) the higher of 6% and the Treasury yield
(d) nothing; all earnings go to the Treasury

Q9. If a Federal Reserve Bank incurs losses, then *[Ref: Topic 4, p. 2]*
(a) the Treasury injects capital immediately
(b) remittances to the Treasury are suspended and a deferred asset is created
(c) member bank dividends become zero by law
(d) the FOMC loses its voting rights

Q10. Extending central bank credit to finance government deficits mainly conflicts with *[Ref: Topic 7, p. 3]*
(a) the payment system objective
(b) the developmental function
(c) the price stability objective
(d) the currency design function

Q11. Applying Montesquieu's separation of powers to central banking suggests *[Ref: Topic 7, p. 3]*
(a) merging fiscal and monetary policy
(b) abolishing the lender-of-last-resort role
(c) giving note issue to commercial banks
(d) separating supervision from the central bank

Q12. In the UK, prudential supervision of banks is now done by *[Ref: Topic 7, p. 3]*
(a) the Prudential Regulation Authority
(b) the Financial Services Authority
(c) the Financial Conduct Authority alone
(d) HM Treasury

Q13. Which is a reason for the proliferation of central banks in the twentieth century? *[Ref: Topic 6, p. 3]*
(a) Decline of financial complexity
(b) Emergence of new nation-states
(c) Fall in bank failures
(d) Abolition of paper currency

Q14. Compared with developed countries, central banks in developing countries initially *[Ref: Topic 8, p. 3]*
(a) led financial innovation
(b) had full statutory independence
(c) had closer ties to government and focused on stabilising local currency
(d) focused only on inflation targeting

Q15. Recognising the link between financial and economic development, central banks *[Ref: Topic 5, p. 3]*
(a) stopped acting as lender of last resort
(b) withdrew from payment systems
(c) stopped issuing currency
(d) facilitated finance to productive sectors

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	b	7	d	10	c	13	b
2	c	5	c	8	a	11	d	14	c
3	d	6	b	9	b	12	a	15	d

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CH-2 Functions of Central Banks

Topic 1 — Banker to the Government

- **Role** — Central banks keep the government's accounts and support its finances.
- **Placing bills** — Historically, governments met direct financing needs by **placing bills** with the central bank.
- **Extent** — The extent of support depended on economic conditions and the central bank–government relationship.

Role	Explanation
Monetisation of government debt	The central bank issues notes against government bills and credits their value to the government's account. This **central bank credit to government** creates money.
Monetisation of government debt (contd.)	The greater the **direct monetary financing**, the larger the rise in **reserve money** and the **inflationary pressure**. Market borrowing is different.
Management of public debt	Acts as **debt agent** to bridge revenue–expenditure mismatches. Debt issuance under market borrowing alone creates **no base money**; monetary–fiscal coordination protects price stability
Open market operations	Buying/selling government securities in the secondary market to manage liquidity — separate from deficit financing
Custodian of accounts	Holds and manages government accounts, like a bank for individuals
Advisory role	Advises on economic policy, monetary management and financial health

- **Ad hoc bills ended** — In India, automatic monetisation through **ad hoc Treasury Bills** ended on **1 April 1997**.
- **See** — Ch 3 (p. 9) for Ways and Means Advances and the FRBM bar on RBI subscribing to primary issues (from April 2006, with exceptions); Ch 9 (p. 34) for current WMA limits.

Topic 2 — Banker to Banks and Lender of Last Resort

Function	Explanation
Custodian of reserves	Banks keep **statutory (required) reserves** such as **CRR** with the central bank, a cushion to meet liabilities
Liquidity provision	Short-term loans/funds to banks facing liquidity shortages or stress
Interest rate management	Sets **benchmark rates** that influence banks' cost of borrowing and lending, credit availability, inflation and growth
Clearing and settlement	Acts as clearing house for interbank payments; ensures smooth, secure fund transfers

- **LOLR** — As **lender of last resort (LOLR)**, the central bank lends **emergency liquidity** to banks unable to meet short-term obligations.
- **Safeguards** — Such lending is subject to legal safeguards.
- **Scope** — It supports **viable** banks facing **liquidity** problems.
- **Limit** — It cannot guarantee **solvency**; LOLR differs from **resolving an insolvent bank**.

Topic 3 — Monetary Policy Functions and Instruments

- **Instruments** — OMO, CRR, SLR, the policy repo rate, SDF, MSF and Bank Rate are the main monetary policy instruments.
- **See** — Ch 7 (p. 26) for how each instrument works and its current rate.

Reserve requirements affect available bank liquidity; they are distinct from **capital requirements**. A change in Bank Rate works through rates and behaviour, not an automatic change in money supply.

Remember this

- Corridor at the cut-off: **SDF 5.00% – Repo 5.25% – MSF 5.50%**; from 7 Oct 2026 (after the cut-off): 5.25% – 5.50% – 5.75%. CRR **3%**, SLR **18%**.

Topic 4 — Currency Issue and Management

Central banks hold the **monopoly of note issue** under national law, to ensure **uniformity, credibility and authenticity** of currency. Not every note issuer is a central bank.

Aspect	Position
Before central banks	Commercial banks issued many currencies, causing confusion, varying acceptance and credibility problems
Metal-backed notes	Banks issued promissory notes backed by **gold and silver** for credibility
Fiduciary note issue	Currency only **partly backed by metal**; distinct from fractional-reserve banking in bank deposits
Fiat currency	Modern currency is **not redeemable in gold**; note backing and bank reserves are distinct
Composition and design	Central bank decides denominations and design; oversees printing, storage, distribution and disposal of soiled notes
Developing countries	Currency still plays a large role due to socio-economic conditions and saving–investment gaps; deficits affect note issue
Technology	From handwritten to advanced printing; helps tackle soiled notes

- **RBI** — In **India**, RBI issues banknotes.
- **Government** — The **Government of India issues one-rupee notes and mints coins**; RBI distributes them.
- **Digital rupee** — RBI also issues the **digital rupee (e₹)** as a central bank liability.
- **Distinction** — The e₹ is distinct from bank deposits and private crypto-assets.

Topic 5 — Payment and Settlement Systems

A **payment and settlement system** is the network of institutions, technologies and rules that enables the **transfer, clearing and settlement** of financial transactions accurately and securely.

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