IEIFS — Indian Economy & Indian Financial System

Complete Book | Table of Contents | 45 chapters + 4 sections

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LEARNING SESSIONS

CH-1 An overview of Indian Economy

Topic 1 — Economy

An **economy** is a system that provides people the **means to work and earn**. It is the area of **production, distribution and trade**, as well as **consumption** of goods and services.

Topic 2 — Indian Economy

The Indian economy has **diversified towards industry and services**. **Agriculture** remains important for **livelihoods**, while **services** contribute the **largest share of economic output**.

- **Population** — India has the **largest population** on earth, about **1.46 billion** residents.
- **Development status** — India is a **developing country**.
- **Comparison** — Its economic development matches that of other developing nations.

Indicator (FY 2025-26, Provisional Estimates)	Value
Sectoral real GVA growth	Primary **3.2%**; Secondary **8.8%**; Tertiary **9.3%**
Share of PFCE / GFCF in GDP	**55.7%** / **32.3%**

- **See** — Ch 18 (p. 43) for the new GDP series (base year **2022-23**, replacing 2011-12) and the headline FY 2025-26 estimates: real GDP growth **7.7%**, nominal GDP **₹346.36 lakh crore** (growth 8.9%), real GVA growth 7.9% and per capita NNI.

Remember this

- New GDP base year = **2022-23**; FY26 real GDP growth (PE) = **7.7%**; services are the largest and fastest-growing sector.

Topic 3 — World Bank Income Classification

- **Categories** — The **World Bank** classifies economies into **4 categories**.
- **Basis** — The basis is **Gross National Income (GNI) per capita** in US dollars.
- **Atlas method** — GNI is converted using a **3-year moving average** of exchange rates.
- **Annual revision** — Thresholds are **revised every year on 1 July** for inflation.
- **Exam tip** — Always quote the classification year with a threshold.

Category	GNI per capita (FY 2027 classification, effective 1 July 2026)
Low income	**USD 1,175 or less**
Lower-middle income	**USD 1,176 – 4,635**
Upper-middle income	**USD 4,636 – 14,375**
High income	**More than USD 14,375**

India remains a **lower-middle-income economy**, with GNI per capita (Atlas) of about **USD 2,760** (2025).

Remember this

- India = **Lower-middle income** (band USD 1,176–4,635 for FY27).

Topic 4 — Basic Characteristics of Indian Economy

- **Lower per-capita income** than advanced economies.
- **Large and diverse population**.
- **Structural transformation** from agriculture towards industry and services.
- **Employment quality, productivity and regional inequality** remain key challenges.

Topic 5 — Pre-British Economy

Before British rule, **agriculture** supported most livelihoods. India also produced **cotton and silk textiles, metalwork and precious-stone goods** for domestic and international markets.

Colonial policies later made India a **supplier of raw material** and a **market for British manufactures**.

Topic 6 — Current Growth Context

- **IMF projection** — The **IMF (World Economic Outlook Update, July 2026)** projects India's real GDP growth at **6.4% for 2026** (FY 2026-27).
- **Next year** — India's growth is projected at **6.7% for 2027**.
- **World growth** — World growth is projected at **3.0%** for 2026 and **3.4%** for 2027.
- **Position** — India remains among the **fastest-growing major economies**.

India's growth remains **services-led**, while **manufacturing, infrastructure and formal employment** are major policy priorities.

Type of figure	What it means
Advance / Provisional estimate	Official estimate from MoSPI, revised as fuller data arrive
Projection / Forecast	Expected future value (e.g. IMF, RBI); can be revised
Final / Actual	Settled figure after all revisions

In exam answers, always identify whether a number is an **estimate, a provisional figure or a forecast**.

Topic 7 — Structural Change

Structural changes are the **fundamental changes** that have occurred in the critical components of the Indian economy over time.

The long-run shift in output is from the **primary sector towards industry and services**. Agriculture still supports a **much larger share of workers than its share in GVA**, indicating a **productivity gap**.

Topic 8 — Evolution Before and After 2008

Phase	Key features
After Independence	**Planned development**; a **public-sector** role combined with private enterprise
1991 reforms	**Liberalised** industry, finance and foreign trade
2008 global crisis	Slowed **exports and growth**; India responded with **fiscal support and monetary easing**
After 2008	Expansion of **services, infrastructure, digitalisation and financial inclusion**, alongside employment and productivity challenges

Topic 9 — Sectoral Impact of COVID-19

Sector	Impact
Services	**Contact-intensive services** were almost halted. Profitability fell in **retail trading, hotels and restaurants, air transport, transport logistics and education**.
Labour market	Severe decline in the **first wave**; **unemployment hit an all-time high** and **labour force participation plummeted**.
Agriculture	**Remained robust** in production, because agriculture and allied activities were **spared from lockdown restrictions**.

LEARNING SESSIONS

Remember this

- COVID-19: services hit hardest; agriculture was the **only resilient** sector.

IEIFS | Module A | CH-1 | MCQs

Q1. A student describes the economy as 'a system that provides people the means to work and earn'. Which set of activities does an economy cover? *[Ref: Topic 1, p. 3]*
(a) Only production and trade of goods
(b) Production, distribution, trade and consumption of goods and services
(c) Only government spending and taxation
(d) Only consumption of services

Q2. Agriculture's share in employment is much higher than its share in GVA. What does this indicate? *[Ref: Topic 7, p. 3]*
(a) A productivity gap in agriculture
(b) Over-capitalisation of farms
(c) Higher wages in agriculture
(d) Agriculture is the most productive sector

Q3. A country's GNI per capita (Atlas method) is USD 2,760 under the World Bank FY 2027 classification. In which group does it fall? *[Ref: Topic 3, p. 3]*
(a) Low income (b) Upper-middle income
(c) Lower-middle income (d) High income

Q4. Under the FY 2027 World Bank classification, an economy with GNI per capita of USD 5,000 is classified as: *[Ref: Topic 3, p. 3]*
(a) Lower-middle income (b) Upper-middle income
(c) High income (d) Low income

Q5. Why should a World Bank income threshold not be memorised as permanent? *[Ref: Topic 3, p. 3]*
(a) The thresholds are revised every year (on 1 July) for inflation
(b) The World Bank uses GDP instead of GNI
(c) India sets its own thresholds
(d) Thresholds change only once a decade

Q6. The World Bank converts GNI into US dollars for income classification using the: *[Ref: Topic 3, p. 3]*
(a) Purchasing power parity method
(b) Market exchange rate of 31 March
(c) Atlas method
(d) Fixed 2011-12 exchange rate

Q7. An analyst quotes '6.4% growth for India in 2026' from the IMF. How should this figure be described? *[Ref: Topic 6, p. 3]*
(a) Final actual growth
(b) Provisional estimate of MoSPI
(c) Advance estimate of RBI
(d) A projection that can be revised

Q8. What is the base year of India's new GDP series? *[Ref: Topic 2, p. 3]*
(a) 2011-12 (b) 2022-23 (c) 2017-18 (d) 2004-05

Q9. As per the Provisional Estimates for FY 2025-26, India's real GDP growth was: *[Ref: Topic 2, p. 3]*
(a) 6.4% (b) 7.1% (c) 7.7% (d) 8.9%

Q10. Which statement correctly describes the pre-British Indian economy? *[Ref: Topic 5, p. 3]*
(a) Industry was the main source of livelihood
(b) India produced cotton and silk textiles, metalwork and precious-stone goods for domestic and international markets
(c) India imported most of its textiles
(d) Agriculture played a minor role

Q11. Which change is associated with the 1991 reforms? *[Ref: Topic 8, p. 3]*
(a) Nationalisation of 14 banks
(b) Introduction of five-year plans
(c) Liberalisation of industry, finance and foreign trade
(d) Imposition of import tariffs to protect industry

Q12. How did India respond to the 2008 global financial crisis? *[Ref: Topic 8, p. 3]*
(a) By raising taxes and interest rates
(b) By closing the capital account
(c) By stopping public investment
(d) With fiscal support and monetary easing

Q13. During the COVID-19 pandemic, which sector remained robust in production? *[Ref: Topic 9, p. 3]*
(a) Agriculture and allied activities
(b) Hotels and restaurants
(c) Air transportation
(d) Education services

Q14. Which group of businesses faced the sharpest fall in profitability during the pandemic? *[Ref: Topic 9, p. 3]*
(a) Agriculture and allied activities
(b) Contact-intensive services such as retail, hotels, restaurants and air transport
(c) Pharmaceutical manufacturing
(d) Telecom services

Q15. Which of the following is NOT a basic characteristic of the Indian economy? *[Ref: Topic 4, p. 3]*
(a) Large and diverse population
(b) Lower per-capita income than advanced economies
(c) Structural shift from agriculture to industry and services
(d) Uniform productivity across regions

Answer key

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

CH-2 Economic Planning in India

Topic 1 — Economic Planning

- **Author** — The classic definition of economic planning is given by **H.D. Dickinson**.
- **Meaning** — Planning is **the making of major economic decisions**.
- **Decisions covered** — What and how much is to be produced, and to whom it is to be allocated.
- **Who decides** — Decisions are taken by the **conscious decision of a determinate authority**.
- **Basis** — They rest on a **comprehensive survey of the economic system as a whole**.

Topic 2 — Types of Planning

Type	Features
Centralised planning	A **central agency or government** creates **holistic plans** for the development of the nation.
Decentralised planning	**Sub-national agencies** such as state and local governments participate in creating plans; ensures **people's participation in local development**.
Regional planning	Defined by **geographic area**, usually a land area covering **multiple cities**. The **United States** was the first country to begin regional planning (**1916**).
National planning	Started with the **Soviet Union**, whose first five-year plan ran **1928–1933**. India adopted national planning to take an active role in **resource allocation and mobilisation** for equitable growth and development.

LEARNING SESSIONS

PPB — Principles & Practices of Banking

Complete Book | Table of Contents | 56 chapters + 4 sections

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LEARNING SESSIONS

CH-1 Banker-Customer Relationship

Topic 1 — Banker and Banking

- **Definition** — **Section 5(b)** of the Banking Regulation Act, 1949 defines **banking**.
- **Deposits** — Banking means accepting deposits of money from the **public**.
- **Purpose** — The deposits are accepted for **lending or investment**.
- **Repayment** — Deposits are **repayable on demand or otherwise**.
- **Withdrawal** — They are **withdrawable by cheque, draft, order or otherwise**.
- **Banker** — A banker is the institution that carries on this business.

Aspect	Coverage
Ancillary functions	Remittances, lockers, safe custody of articles, forex, discounting of bills, non-fund based credit facilities (guarantees, LCs)
Obligations and duties	**Duty to honour cheques** (when funds are sufficient and the cheque is in order); **duty to maintain secrecy** of customer accounts

Topic 2 — Bank Licensing and Place of Business

A banking company can carry on banking business in India only with a **licence from RBI under Section 22** of the BR Act. Mere incorporation as a company does **not** authorise it to accept banking deposits.

Provision	Requirement
Section 22 – Licence	RBI examines ability to pay depositors, conduct of management, **adequate capital** and earning prospects, public interest and interest of the banking system
Section 23 – Place of business	Prior RBI permission (subject to applicable authorisations) is needed to open a new place of business; licence and branch permission are **distinct**

Banking Laws (Amendment) Act, 2025

- **Purpose** — The **Banking Laws (Amendment) Act, 2025** modernised the BR Act.
- **Substantial interest** — Threshold raised from ₹5 lakh to ₹**2 crore**, or 10% of paid-up capital, whichever is lower.
- **Nominees** — Up to **four nominees** allowed for deposits, lockers and safe custody, from **1 November 2025**.
- **Reporting dates** — Regulatory reporting dates moved to the **15th and last day** of the month.
- **Co-operative bank directors** — Maximum tenure raised to **10 years**, other than chairperson and whole-time director.

Topic 3 — Customer

- **No statutory definition** — The BR Act does not define a customer.
- **KYC definition** — Under the **RBI (Commercial Banks – KYC) Directions, 2025**, a customer is a person **engaged in a financial transaction or activity with a Regulated Entity**.
- **Includes** — It also covers a person **on whose behalf** such person is acting.
- A customer relationship arises through an account or an accepted banking service; duration of dealing is not essential.
- An **introducer is not a legal condition** for becoming a customer. Identification, verification and **risk-based customer due diligence** under KYC rules apply instead.
- The bank's role changes with the service: **debtor** for deposits, **creditor** for loans, **bailee** for goods kept in safe custody.

Topic 4 — Termination of Banker-Customer Relationship

By act of parties	By operation of law
Customer closes the account	**Death** of the customer
Bank closes the account (after due notice)	**Insanity** or **insolvency** of the customer

- **See** — Ch 18 (p. 62) for the bank's action on each event that ends the relationship.

Topic 5 — Types of Banker-Customer Relationship

Debtor–creditor is the basic relationship. When a customer deposits money, the bank becomes the **debtor** and the customer the **creditor**; when the bank lends, the roles reverse.

- **Trustee–beneficiary** — The bank is a **trustee** when a customer deposits money or securities with **specific instructions to use them for a specific purpose**.
- **Trust arrangement** — The bank is also a trustee when it acts under a trust arrangement.
- **Bailment** — Goods delivered for safekeeping create **bailment**. A bailee is not the same as a trustee.

Bailor–bailee: a bailee temporarily holds possession of another's property (the bailor's) for a **specific purpose and period** and must take **reasonable care** of it.

Agent–principal: for ancillary services such as remittances, collection of cheques and bills, and **standing instructions**, the bank is the **agent** and the customer the **principal**.

- **Lessor–lessee** — The lessor owns the asset and gives it to the lessee for use against periodic lease rentals.
- **Operating leases** — These are short-term.
- **Financial leases** — These are long-term, with ownership-transfer options.

Indemnifier–indemnified: the indemnifier (customer) agrees to compensate the indemnified (bank) for loss arising from specific acts, e.g. an **indemnity bond** for issue of a **duplicate demand draft**.

Relationship	Bank	Customer	Situation
Debtor–Creditor	Debtor	Creditor	Customer deposits money in savings or fixed deposit
Creditor–Debtor	Creditor	Debtor	Bank grants loan or overdraft
Trustee–Beneficiary	Trustee	Beneficiary	Bank acts as trustee for customer's will or trust fund
Agent–Principal	Agent	Principal	Bank collects a cheque or bill for the customer
Bailee–Bailor	Bailee	Bailor	Customer delivers valuables for safe custody
Bailor–Bailee	Bailor	Bailee	Bank releases pledged gold or documents to the customer for temporary use
Lessor–Lessee	Lessor	Lessee	Bank leases equipment or property to the customer
Lessee–Lessor	Lessee	Lessor	Customer leases premises to the bank for a branch
Indemnified–Indemnifier	Indemnity holder	Indemnifier	Customer indemnifies bank for duplicate DD

LEARNING SESSIONS

Relationship	Bank	Customer	Situation
Beneficiary–Guarantor	Beneficiary	Guarantor	Customer guarantees a third party's loan
Custodian–Customer	Custodian	Customer	Bank holds securities in demat account
Advisor–Client	Advisor	Client	Bank advises on investment or wealth management

Topic 6 — Demand, Time and Hybrid Deposits

Aspect	Demand deposits	Time deposits
Nature	Withdrawable **any time without notice**	Placed for a **fixed period**; withdrawal before maturity as per disclosed terms (penalty)
Liquidity	Highly liquid	Less liquid
Interest	Low (savings) or **nil** (current)	Higher
Purpose	Day-to-day transactions and business needs	Long-term savings and investment
Examples	Savings, current accounts	Fixed deposits, recurring deposits

Hybrid or flexi deposits combine demand and fixed deposits (e.g. auto-sweep), giving liquidity with higher interest.

Topic 7 — Deposit Products for Non-Resident Indians

Feature	NRO	NRE	FCNR(B)
Forms	Savings, current, RD, FD	Savings, current, RD, FD	**Term deposits only**, **1 to 5 years**
Purpose / credits	Legitimate **Indian income** – rent, dividend, pension, interest	Foreign remittances and eligible repatriable funds	Foreign remittances, incl. sale proceeds of FDI
Joint holding	With residents permitted	With **resident close relative** on **former or survivor** basis; NRI must open personally, **not through power of attorney**	With other NRIs; also with a **resident close relative** on **former or survivor** basis

- There is no wealth tax at present.
- **See** — Ch 9 (p. 35) for NRO, NRE and FCNR(B) currency, repatriation, interest, tax and loan rules; Ch 10 (p. 40) for transfer of FCNR(B) balances to an RFC account on becoming resident.

Topic 8 — Merchant Banking

- **Meaning** — Merchant banking is a specialised segment providing **advisory, capital-raising and financial management** services.
- **Clients** — It serves corporates, HNWIs and institutions.
- **Difference** — Unlike traditional banking, it does **not** involve general deposit-taking or retail lending.

Service	Scope
Corporate advisory	Mergers, acquisitions, joint ventures; structuring and negotiating deals
Underwriting of securities	Raising equity or debt; underwriting shares in **IPOs** and rights issues
Project financing	Advice on large projects; arranging **syndicated loans**
Portfolio management	Managing portfolios of HNWIs and institutions with tailored strategies
Foreign exchange management	Managing forex transactions and **forex risk**
Private placement	Raising funds from private investors, avoiding public markets
Debt restructuring	Renegotiating or restructuring corporate debt

Leading global merchant banks include Goldman Sachs, J.P. Morgan and Morgan Stanley.

Topic 9 — Lease Financing

- **Meaning** — The owner of an asset (**lessor**) lets another party (**lessee**) use it for a specified period.
- **Payment** — The lessee pays **periodic payments** for the use.
- **Ownership** — **Ownership remains with the lessor**. The lessee gets only the right to use.
- **Banks as lessors** — Banks often lease machinery, equipment and vehicles.

	Lessee (customer)	Lessor (bank)
Advantages	No large upfront cost; preserves working capital; flexibility of term; lease rentals tax-deductible as expense; easy upgrade to new technology	Steady income stream; retains ownership (lower default risk); market expansion to customers not eligible for loans; tax benefit of depreciation
Disadvantages	Higher long-term cost; no ownership; usage and maintenance restrictions; early termination penalties	Asset depreciation risk; default risk; administrative (maintenance, monitoring, legal) costs; lower profitability than loans if terms uncompetitive

Example: A bank leases machinery to a customer for 5 years against monthly rentals. At the end the customer may return, renew or purchase the machinery.

Topic 10 — Plastic Money

Plastic money means payment cards that enable **non-cash** transactions – purchases, cash withdrawal and access to financial services.

Card	Source of funds	Repayment	Key feature	Costs / limitation
Charge card	Issuer credit	**Full payment** at end of billing cycle	No interest; promotes discipline	Membership fee; heavy penalty for delay; no partial payment
Credit card	Credit within limit	Full or partial (**minimum due**)	Interest-free period (typically **20–50 days**); rewards	High interest on unpaid balance; annual fee
Debit card	Linked bank account	Immediate debit	No borrowing; online, POS, ATM use	Limited to account balance
ATM card	Linked bank account	Immediate debit	Cash withdrawal, balance enquiry at ATMs	Limited functionality

LEARNING SESSIONS

Card	Source of funds	Repayment	Key feature	Costs / limitation
Prepaid card	Preloaded value	No repayment	Not linked to account; reloadable or not; gift, travel, wallets	Limited to loaded balance; reload or inactivity fee
Co-branded card	Credit or balance	As per card type	Issued with a partner (airline, retailer, fuel)	Limited utility outside partner

Topic 11 — Other Banking Services

Service	Description
Demat account	Holds securities (shares, bonds, mutual fund units) in **electronic form**
Trading account	Used to **buy and sell** securities on stock exchanges
Three-in-one account	Savings + demat + trading account combined
Mutual funds	Pooled investments managed by professionals; investors buy **units**
Escrow account	Funds or assets held by a **neutral third party** until pre-defined conditions are met
Escrow of documents	Bank holds important documents until contractual conditions are met
Trusteeship	Fiduciary management of assets for the benefit of a third party
Executorship	Executing the **will** of a deceased person – asset distribution and debt settlement

PPB | Module A | CH-1 | MCQs

Q1. A newly incorporated company proposes to accept deposits from the public for lending. Under the BR Act, it can commence this business only after: *[Ref: Topic 2, p. 3]*
(a) Obtaining a licence from RBI under Section 22
(b) Registration with the Registrar of Companies
(c) Obtaining permission under Section 23
(d) Approval of the Ministry of Finance

Q2. Which element is NOT part of the definition of banking under Section 5(b) of the BR Act? *[Ref: Topic 1, p. 3]*
(a) Acceptance of deposits from the public
(b) Deposits for the purpose of lending or investment
(c) Granting of insurance cover to depositors
(d) Deposits withdrawable by cheque, draft or order

Q3. Ravi wishes to open an account but knows no existing customer to introduce him. The bank should: *[Ref: Topic 3, p. 3]*
(a) Refuse the account for lack of introduction
(b) Open the account after completing KYC and customer due diligence
(c) Open it only as a small account
(d) Ask him to obtain a police verification

Q4. Which event automatically terminates the banker-customer relationship? *[Ref: Topic 4, p. 3]*
(a) Death of the customer
(b) Customer shifting residence
(c) Customer's account becoming inoperative
(d) Issue of a garnishee order nisi

Q5. When a customer places gold ornaments with a bank in safe custody, the relationship is: *[Ref: Topic 5, p. 3]*
(a) Debtor and creditor (b) Trustee and beneficiary
(c) Agent and principal (d) Bailee and bailor

Q6. A customer submits an indemnity bond to obtain a duplicate demand draft. Here the customer is the: *[Ref: Topic 5, p. 3]*
(a) Indemnity holder (b) Bailee
(c) Guarantor (d) Indemnifier

Q7. Which pair correctly shows the roles when a customer leases his building to a bank for a branch? *[Ref: Topic 5, p. 3]*
(a) Bank – lessor; customer – lessee
(b) Bank – lessee; customer – lessor
(c) Bank – bailee; customer – bailor
(d) Bank – trustee; customer – beneficiary

Q8. Which statement about demand deposits is correct? *[Ref: Topic 6, p. 4]*
(a) Withdrawal requires notice
(b) They are not liquid
(c) They earn higher interest than term deposits
(d) Current accounts usually earn no interest

Q9. An NRI wants to open a joint NRE account. Which is permitted? *[Ref: Topic 7, p. 4]*
(a) Joint with any resident on either or survivor basis
(b) Opening through a power of attorney holder in India
(c) Joint with a resident close relative on former or survivor basis
(d) Opening only in foreign currency

Q10. An NRI receives rent from his flat in Pune. The appropriate account to credit this income is: *[Ref: Topic 7, p. 4]*
(a) NRO account (b) FCNR(B) account
(c) NRE account (d) RFC account

Q11. A depositor wants a 7-year FCNR(B) deposit in US dollars. The bank should advise that: *[Ref: Topic 7, p. 4]*
(a) FCNR(B) can be held only in rupees
(b) FCNR(B) is available only as savings account
(c) FCNR(B) deposits can be only for 1 to 5 years
(d) There is no maximum tenor

Q12. A company needs advice on an acquisition and underwriting of its IPO. Which service suits it? *[Ref: Topic 8, p. 4]*
(a) Retail banking (b) Merchant banking
(c) Correspondent banking (d) Lease financing

Q13. Which is a disadvantage of leasing from the lessee's point of view? *[Ref: Topic 9, p. 4]*
(a) Lack of ownership even after paying rentals
(b) Need for large upfront payment
(c) Inability to use the asset
(d) Depreciation risk

Q14. A cardholder must clear the entire bill at the end of each billing cycle and cannot roll over dues. The card is a: *[Ref: Topic 10, p. 4]*
(a) Credit card (b) Debit card (c) Charge card (d) Prepaid card

Q15. Funds deposited by a buyer are held by a bank until the seller delivers goods as per contract. This is a/an: *[Ref: Topic 11, p. 5]*
(a) Demat account (b) Trading account
(c) Escrow account (d) Nostro account

Answer key

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

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CH-2 AML KYC Guidelines

Topic 1 — Stages of Money Laundering

Money laundering is the process of making illegally obtained money appear legitimate. It passes through three stages.

Stage	What happens	Techniques
Placement	Illicit cash first enters the financial system; aim is to avoid detection	Cash deposits; breaking large sums into small deposits (**structuring / smurfing**); buying assets such as real estate or luxury items
Layering	Origin is concealed through a complex series of transactions; aim is to obscure the trail	Transfers across many accounts and jurisdictions; **shell companies** and offshore accounts; investing in financial instruments or high-value goods
Integration	Laundered money re-enters the legitimate economy and appears legally earned	Investing in businesses or real estate; buying legitimate assets; declaring it as business income

Remember this

- Order of stages: **P-L-I** – Placement, Layering, Integration.

Topic 2 — Stages of Terrorist Financing

Stage	Description
Raising	Funds collected from legal (donations, charities) or illegal (smuggling, drug trafficking) sources
Moving	Transferred through hawala, banking channels or cash smuggling to avoid detection
Storing	Held in cash, bank accounts or assets until required
Using	Deployed for weapons, logistics, recruitment or propaganda

Aspect	Money laundering	Terror financing
Objective	Conceal origin of illicit funds	Support terrorist activities
Source of funds	Proceeds of crime only	Legal (donations) or illegal sources
Focus	Making dirty money look clean	Ensuring funds reach and are used for terror acts
Legal framework	AML laws	Counter-terrorism financing (CFT) laws

Topic 3 — Objectives of Prevention of Money Laundering

- Protect the **integrity of the financial system** from misuse.
- Combat financial crime by cutting off access to illicit proceeds.
- Prevent **terrorism financing**.
- Enforce domestic and international AML laws.
- Promote **economic stability** by preventing market distortion.
- Safeguard **national security** against financial empowerment of criminals and terrorists.
- Encourage ethical business practices and accountability.
- Facilitate **cross-border co-operation**.
- Promote **financial inclusion** by building trust in the system.
- Deter future crime by penalties and confiscation of illicit gains.

Topic 4 — Legal Framework – PMLA, 2002

- **Basis** — The **Prevention of Money Laundering Act, 2002 (PMLA)** is based on **FATF** recommendations.
- **Coverage** — It covers financial and non-financial businesses designated as **Reporting Entities (REs)**.
- **Rules** — RE obligations are detailed in the **Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PMLR)**.

Provision	Content
Section 3 – Offence	Covers anyone who **directly or indirectly** attempts, knowingly assists, is knowingly a party or is actually involved in any activity linked to **proceeds of crime**. Includes concealing, possessing, acquiring, using or claiming it as untainted.
Section 4 – Punishment	Rigorous imprisonment of **minimum 3 years**, **maximum 7 years**; up to **10 years** where proceeds relate to an offence under paragraph 2 of Part A of the Schedule (NDPS offences); plus **fine**
Section 45	Offences are **cognizable and non-bailable**
Section 12AA	Enhanced due diligence before specified transactions
Section 13	Penalty by Director, FIU-IND

Topic 5 — Money Laundering Risk Perception

Criminals exploit banking products to launder money and finance terrorism by masking identities and activities.

Example: A gambling operator routes betting receipts into his account posing as a freelancer to disguise their source.

Risk factor	Coverage
Customer profile	True identity, purpose and profile of the customer may be misrepresented
Other factors	Nature of products and services; country of incorporation of the bank; location of branch and connected transactions; nature and value of transactions

Topic 6 — Measures and Institutional Framework

- Under PMLA banks must **know their customers**, **detect and report suspicious activity to FIU-IND**, comply with laws, and **train staff** in KYC/AML.
- Risks are mitigated by monitoring activity and discouraging criminal misuse of services.

Institution	Role
FIU-IND	Receives and analyses transaction reports; supervises REs under PMLA; Director FIU-IND imposes penalties
Enforcement Directorate	Investigates and prosecutes money laundering; attaches assets linked to offences
Special Courts	Try money laundering cases; order freezing and confiscation
Regulators (RBI, SEBI, IRDAI etc.)	Issue operating guidelines for compliance with PMLA and PMLR

Topic 7 — Organisational Set-up for AML

PMLR requires banks to set up an organisational structure for AML/CFT obligations, with clearly assigned roles.

Role	Responsibilities and designation
Designated Director (DD) – duties	Ensures overall compliance with PMLA, PMLR and RBI directions. Supervises KYC/AML systems and keeps KYC Policy updated. Ensures skilled staff and adapts measures to changing ML/TF risk.

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LEARNING SESSIONS

CH-1 Definition, Scope and Accounting Standards including Ind AS

Topic 1 — Bookkeeping and Accounting

- **Language of business** — Accounting is called the language of business.
- **Bookkeeping** — It records business transactions in the **books of original entry** and in the **ledgers**.
- **Accountancy** — It is the wider concept that compiles accounts to show the **state of affairs** of the business.
- **Relationship** — Bookkeeping is the **basis** of accounting and is only a part of it.

Bookkeeping steps	Accountancy involves
1. Identifying financial transactions	1. **Classification** of transactions for recording
2. Measuring them in terms of money	2. **Recording** in books (this part is bookkeeping)
3. Recording in books of original entry	3. **Summarising** — trial balance from ledger, then P&L account and balance sheet
4. Classifying them in journals	4. **Interpreting** recorded data and financial statements

- **Systems** — Accounting also covers **designing bookkeeping systems**.
- **Controls** — It establishes **controls** to run those systems.
- **Analysis** — It **analyses** data and reviews financial reporting and performance.
- **Reporting** — It reports back to owners, shareholders, investors and others for decisions.
- Accounting work: recording expenses, preparing company-wide financial statements, analysing costs of operations, completing income-tax returns, and helping the owner understand the impact of financial decisions.

Features of accounting

- An **art** of recording, classifying and summarising transactions, presented as **Trial Balance**, **Profit and Loss Account** and **Balance Sheet**.
- Records transactions in terms of **money**.
- Records **only financial** transactions.
- **Interprets** the financial data.

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Topic 2 — Kinds of Accounting

Kind	Focus
Stewardship	Oldest form — stewards managing property of wealthy owners rendered periodic accounts of their stewardship.
Financial	Records and categorises transactions and prepares financial statements as per **GAAP**; used mainly by owners, creditors, regulators and tax authorities (external users).
Cost	Used mostly in **manufacturing**; internal; records and analyses manufacturing costs — **fixed** (e.g. rent) and **variable** (e.g. shipping) — and how to manage them.
Management	Prepares and presents accounting and control information to help management in **policy and decisions** (routine and non-routine); shifts focus to **future** decisions.
Social Responsibility	Considers the **social effects** of business decisions in addition to economic effects.
Human Resource (HRA)	Managerial tool on adequacy of human resources; treats the workforce as an **investment**.
Inflation	Adjusts the value of assets (current and fixed) and profits for **price-level changes**; overcomes limits of the historical-cost and stable-monetary-unit assumptions.

Topic 3 — Accounting Standards in India

- **Standard-setter** — Accounting Standards (AS) are formulated by the **Accounting Standards Board (ASB)**.
- **ASB set-up** — The **ICAI** constituted the ASB on **21 April 1977**.
- **Purpose** — The ASB formulates standards so that the ICAI Council may mandate them.
- **Companies** — For companies, standards apply when **notified by the Central Government** under the Companies Act, 2013.

Non-compliance disclosure — Section 129(5), Companies Act, 2013

- **Trigger** — Financial statements do not comply with accounting standards.
- **(a) Deviation** — The company must disclose the **deviation**.
- **(b) Reasons** — It must disclose the **reasons** for the deviation.
- **(c) Effect** — It must disclose the **financial effects**, if any.

Entity	Framework applied
Companies covered by Ind AS Rules	**Ind AS** (Companies (Indian Accounting Standards) Rules, 2015)
Other companies	Notified **AS** (Companies (Accounting Standards) Rules, 2021); Small and Medium-sized Companies (turnover up to ₹**250 crore** and borrowings up to ₹**50 crore**) get specified exemptions
Non-company entities	ICAI Accounting Standards, with ICAI classification criteria (Level I to IV) and permitted exemptions

Applicability is **not** a simple "turnover above ₹50 crore" rule. Size-based exemptions relax some requirements; they do not remove all standards.

AS	Subject	AS	Subject
1	Disclosure of Accounting Policies	17	Segment Reporting
2	Valuation of Inventories	18	Related Party Disclosures
3	Cash Flow Statements	19	Leases
4	Contingencies and Events after Balance Sheet Date	20	Earnings Per Share
5	Net Profit/Loss, Prior Period Items, Changes in Accounting Policies	21	Consolidated Financial Statements
7	Construction Contracts	22	Accounting for Taxes on Income
9	Revenue Recognition	23	Investments in Associates in CFS
10	Property, Plant and Equipment	24	Discontinuing Operations
11	Effects of Changes in Foreign Exchange Rates	25	Interim Financial Reporting
12	Government Grants	26	Intangible Assets
13	Accounting for Investments	27	Interests in Joint Ventures
14	Accounting for Amalgamations	28	Impairment of Assets
15	Employee Benefits	29	Provisions, Contingent Liabilities and Contingent Assets
16	Borrowing Costs		

Remember this

- **AS 6** (Depreciation) is withdrawn — depreciation is covered in **AS 10**. AS 8 (R&D) is also withdrawn and covered by AS 26.

Topic 4 — Generally Accepted Accounting Principles (GAAP)

- **Meaning** — **GAAP** are the basic accounting principles and guidelines of a jurisdiction.
- **Framework** — They form the framework for detailed rules, standards and industry practices.
- **India** — Statements follow ICAI standards and the applicable law.
- **Unwritten principles** — Basic principles may not be written into standards, but are **assumed to be universally followed**.
- GAAP encompasses: basic principles/guidelines; accounting standards issued by the premier accounting body; industry-specific practices for unusual scenarios.

Objectives of financial reporting

- Useful to present and potential investors, creditors and other users for rational **investment and credit decisions**.
- Helpful in assessing the **amounts, timing and uncertainty** of prospective cash receipts.
- Information on **economic resources**, claims to them, and changes in them.

Principle	Rule
Business Entity	Business is separate from its owner; vital for sole proprietors — business and personal transactions are kept apart.
Monetary Unit	Only transactions expressible in money (e.g. Rupees) are recorded.
Accounting Period	Accounts are completed for a fixed period — usually a **financial year** or calendar year; each transaction belongs to its period's statements.
Historical Cost	Assets are recorded at the cash or equivalent actually paid on the transaction date; market value ignored unless law or a standard requires.
Going Concern	Business will continue for an indefinite period; if liquidation is near, assets and liabilities are restated at realisable/payable amounts.
Full Disclosure	All relevant information is disclosed — through **narration** at transaction level and **notes to accounts** at statement level.
Consistency	A chosen procedure is followed in later periods so results are comparable.
Materiality	Another principle may be disregarded if the effect does not affect users' decisions; immaterial errors may be ignored.
Conservatism	Provide for all anticipated losses; do not record gains until earned — e.g. provision for bad debts, but no entry for rise in realisable value.

- **See** — Ch 2 (p. 6) for the matching concept and the accrual basis (cash vs accrual) of accounting.

Topic 5 — Setting GAAP in the United States

- **Scope** — US GAAP is the US framework; it is not the Indian Ind AS framework.
- **SEC** — The Securities and Exchange Commission was created after the Great Depression.
- **Role of SEC** — It does **not set GAAP itself**.
- **Private bodies** — It encouraged private standard-setters (AICPA, later FASB).

Body	Role
AICPA — American Institute of Certified Public Accountants	Appointed the **Committee on Accounting Procedure (CAP)** in 1939. Created the **Accounting Principles Board (APB)** in 1959. The APB issued **31 opinions** and was dissolved in 1973. Later set up the **Accounting Standards Executive Committee (AcSEC)**.
AcSEC publications	**Audit and Accounting Guides** (industry practices, e.g. casinos, colleges, airlines) and **Statements of Position** (guidance until FASB/GASB set standards).
FASB structure	Three bodies replaced the APB: **Financial Accounting Foundation (FAF)**, **Financial Accounting Standards Advisory Council (FASAC)** and **Financial Accounting Standards Board (FASB)**.
GASB — Governmental Accounting Standards Board	Created in 1984 for **state and local government** reporting; structure similar to FASB.

Topic 6 — Transfer Pricing and Arm's Length Price

LEARNING SESSIONS

- **Meaning** — **Transfer pricing** is the pricing of goods and services **between divisions or group entities**.
- **Context** — It arises in multi-divisional organisations, especially **cross-border**.
- **Profit centres** — Divisions responsible for their own profit and Return on Invested Capital use a transfer price with each other.
- **Effect** — The transfer price decides how total profit is split.

Example: Goods sold by a parent company to its foreign subsidiary, or by the production division to the marketing division.

- Factors influencing transfer prices: performance measurement, accounting system capability, import quotas, customs duties, VAT, taxes on profits, and simple lack of attention.
- **Arm's length price (ALP)** — The price at which two **unrelated and non-desperate** parties would agree to a transaction.
- **Methods** — ALP methods follow **OECD** Guidelines.
- **Indian law** — Indian tax law also permits any other method prescribed by the rules.

Method	Group	How price is found
Comparable Uncontrolled Price (CUP)	Traditional	Compares controlled price with price in a comparable uncontrolled transaction.
Cost Plus (CP)	Traditional	Seller's cost + appropriate mark-up (based on comparable companies); used for finished goods.
Resale Price (RP)	Traditional	Resale price − appropriate gross margin.
Profit Split (PS)	Non-traditional	Used when businesses are too **integrated**; combined profit split by contribution.
Transactional Net Margin (TNMM)	Non-traditional	Unified version of RP and CP; relatively accurate and easy; most widely used.

Topic 7 — International Financial Reporting Standards (IFRS)

- **Purpose** — **IFRS** are a common global accounting language.
- **Benefit** — Accounts become understandable and comparable across borders.
- **IAS** — Standards issued by the **IASC** (1973–2001) are called **IAS**.
- **IASB** — From **1 April 2001** the **IASB** took over and adopted existing IAS (still called IAS).
- **IFRS** — New standards issued by the IASB are called **IFRS**.

Objectives of the IFRS Foundation

- Develop a single set of high-quality, understandable, enforceable, globally accepted IFRSs.
- Promote use and rigorous application of those standards.
- Take account of the needs of **emerging economies** and **SMEs**.
- Promote and facilitate adoption of IFRSs.

Topic 8 — Ind AS — Meaning, Applicability and Convergence

- **Meaning** — **Ind AS** are Indian Accounting Standards **converged with IFRS**.
- **Development** — ICAI develops and recommends them.
- **Legal force** — They apply when **notified by the Central Government** (MCA) under the Companies Act.
- **Distinct sets** — Ind AS and AS are separate; their numbers are not interchangeable.

Entity	Ind AS applicability
Listed companies and unlisted with net worth ≥ ₹**250 crore**	Mandatory (with holding, subsidiary, JV and associate companies); companies with net worth ≥ ₹**500 crore** were in the first phase
NBFCs	Net worth ≥ ₹**250 crore** (larger ones ≥ ₹500 crore first); listed NBFCs too
Scheduled Commercial Banks	Ind AS **not yet implemented**; RBI's Ind AS 109-aligned **Expected Credit Loss** provisioning applies from **1 April 2027**
Insurers	Ind AS 117 (Insurance Contracts) notified; implementation subject to IRDAI direction
Others	Voluntary adoption allowed; once adopted, cannot revert

AS	Ind AS	Subject
AS 1	Ind AS 1	Disclosure of accounting policies (AS) vs **Presentation** of financial statements (Ind AS)
AS 10	Ind AS 16	Property, Plant and Equipment

- **Convergence** brings Indian standards close to IFRS while keeping some **carve-outs**; Ind AS compliance does not automatically mean unreserved IFRS compliance.
- **Recognition** asks whether an item enters the accounts; **measurement** asks at what amount. Ind AS uses historical cost and **fair value** as each standard specifies — not fair value for every asset.
- A **first-time adopter** (Ind AS 101) prepares an **opening Ind AS balance sheet** and explains transition adjustments to profit, equity and cash flows.
- Notes explain material accounting policies, estimates, judgements and risks.

Remember this

- Ind AS thresholds: ₹**500 crore** (first phase) and ₹**250 crore** net worth; listed companies covered regardless of size (SME-exchange listed excluded).

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Q1. A firm's accountant posts vouchers to journals and ledgers, while the CFO analyses the statements to judge the firm's position. The CFO's work is best described as: *[Ref: Topic 1, p. 2]*
(a) Accountancy, which is wider and includes interpretation
(b) Bookkeeping, since it uses ledgers
(c) Cost accounting, since it is internal
(d) Stewardship accounting

Q2. A manufacturer wants to separate its fixed costs such as rent from variable costs such as shipping to control production costs. Which kind of accounting serves this? *[Ref: Topic 2, p. 2]*
(a) Stewardship accounting
(b) Social responsibility accounting
(c) Cost accounting
(d) Inflation accounting

Q3. Adjusting asset values and profits for changes in the general price level addresses the limitation of which assumptions? *[Ref: Topic 2, p. 2]*
(a) Going concern and accrual
(b) Business entity and materiality
(c) Matching and consistency
(d) Historical cost and stable monetary unit

Q4. A company's financial statements do not comply with a notified accounting standard. Under Section 129(5) of the Companies Act, 2013, it must disclose all EXCEPT: *[Ref: Topic 3, p. 2]*
(a) The names of the directors who approved it
(b) The reasons for the deviation
(c) The financial effect of the deviation
(d) The deviation

Q5. An unlisted company has turnover of ₹200 crore and borrowings of ₹40 crore and is not covered by Ind AS. Under the Companies (Accounting Standards) Rules, 2021 it is: *[Ref: Topic 3, p. 2]*
(a) Required to follow Ind AS
(b) Exempt from all accounting standards
(c) A Small and Medium-sized Company eligible for specified exemptions
(d) Required to follow US GAAP

Q6. A trader records his household grocery bill in the shop's books. Which principle is violated? *[Ref: Topic 4, p. 3]*
(a) Going concern (b) Monetary unit
(c) Materiality (d) Business entity

Q7. A bank creates a provision for doubtful debts but does not record an expected rise in the market value of its land. This reflects: *[Ref: Topic 4, p. 3]*
(a) Conservatism (b) Consistency
(c) Matching (d) Accounting period

Q8. A firm due for closure next month restates its assets at realisable values. This is because which assumption no longer holds? *[Ref: Topic 4, p. 3]*
(a) Going concern (b) Accrual
(c) Consistency (d) Conservatism

Q9. Which body in the US was dissolved after issuing 31 opinions and was replaced by the FASB structure? *[Ref: Topic 5, p. 3]*
(a) Committee on Accounting Procedure
(b) Accounting Principles Board
(c) GASB
(d) Accounting Standards Executive Committee

Q10. Two group companies are so integrated in a joint R&D project that their contributions cannot be valued separately. The most suitable transfer pricing method is: *[Ref: Topic 6, p. 3]*
(a) Comparable Uncontrolled Price (b) Resale Price
(c) Cost Plus (d) Profit Split

Q11. A distributor buys from its parent and resells to outsiders without adding value. The arm's length price is best found by: *[Ref: Topic 6, p. 3]*
(a) Resale Price method — resale price less an appropriate gross margin
(b) Cost Plus method
(c) Profit Split method
(d) Comparable Uncontrolled Price on unrelated services

Q12. Standards adopted by the IASB from its predecessor IASC are referred to as: *[Ref: Topic 7, p. 4]*
(a) IFRS (b) Ind AS (c) IAS (d) GAAS

Q13. An unlisted company has net worth of ₹300 crore. Under the Ind AS roadmap it: *[Ref: Topic 8, p. 4]*
(a) Must apply Ind AS as net worth is ₹250 crore or more
(b) Is outside Ind AS as only listed firms are covered
(c) Applies Ind AS only if turnover exceeds ₹50 crore
(d) May choose AS or Ind AS each year

Q14. Regarding Indian scheduled commercial banks and Ind AS, which is correct? *[Ref: Topic 8, p. 4]*
(a) Banks fully moved to Ind AS from 1 April 2018
(b) Ind AS is not yet implemented, but ECL provisioning aligned to Ind AS 109 applies from 1 April 2027
(c) Banks follow US GAAP
(d) Banks follow IFRS directly

Q15. A first-time adopter of Ind AS must prepare: *[Ref: Topic 8, p. 4]*
(a) Only a cash flow statement
(b) Accounts under IFRS without carve-outs
(c) Restated accounts for the last ten years
(d) An opening Ind AS balance sheet and explain transition adjustments

Answer key

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

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CH-2 Basic Accountancy Procedures

Topic 1 — Accounting Concepts — Recording and Reporting Stage

Basic accounting rules are based on **experience, reason, usage and necessity**. They fall under two broad heads.

At the Recording stage	At the Reporting stage
Cost concept	Going concern concept
Money measurement concept	Matching concept
Business entity concept	Accounting period concept
Realisation concept	Conservatism
Dual aspect concept	Full disclosure
Historical records concept	Materiality
	Consistency

Topic 2 — Concepts at the Recording Stage

Concept	Rule
Cost	Transactions are recorded at **cost price**. Machinery = price paid to supplier **+ expenses of bringing and installing** it to put it in working order.
Money measurement	Only transactions measurable in **money** are recorded; production, sales, wages etc. are all converted into money.
Business entity	Proprietor is separate from the business. Capital contributed by the owner is a **liability** of the business, as the business is an artificial person.
Realisation	Only realised transactions are recorded. Revenue is realised when **property in goods passes** to the buyer and he becomes **legally liable to pay**.
Dual aspect	Every transaction has two effects — a **debit** and a **credit**. Assets = Liabilities + Capital.
Historical records	Past events are recorded date-wise as they occur, creating historical records of all transactions.

Example: X starts business with ₹50,000 cash: the business has an asset (cash) of ₹50,000 and a liability (capital) of ₹50,000 to X — dual aspect.

Topic 3 — Concepts at the Reporting Stage

Concept	Rule
Going concern	Business will continue indefinitely. An expense whose utility is consumed within the year is an **expense**; otherwise it is recorded as an **asset**.
Matching	Income of a period is matched with the expenses of that period only.
Accounting period	As the business runs long, results are reported period-wise, since users cannot wait till the end. A **year** is the most common interval (practice, tradition and government requirements).

Topic 4 — Main Conventions of Accounting

Convention	Rule
Full disclosure	Entries disclose honestly all information on business activities; nothing concealed from outsiders; **no secret reserves**. E.g. market value of investments shown as a footnote.
Materiality	All material information is recorded; materiality depends on the **value** of the item and the circumstances. Insignificant items are not recorded separately.
Conservatism (Prudence)	Provide for all possible losses; ignore anticipated profits. E.g. provision for doubtful debts.
Consistency	A method once selected is followed regularly. If a change is necessary, its **impact is disclosed separately**.

Remember this

- Conservatism = "anticipate no profit, provide for all possible losses".

Topic 5 — Accrual Basis and Cash Basis

- **Cash vs right** — The **accrual concept** separates the **receipt of cash** from the **right to receive** it.
- **Payment vs obligation** — It also separates the **payment of cash** from the **legal obligation to pay** it.
- **Timing gap** — In practice the obligation and the cash movement may not coincide.
- **Result** — Outstanding and prepaid expenses arise from the accrual basis.

Basis	Revenue	Expenses
Cash basis	Recognised when cash is **received**	Recorded when cash is **paid**
Accrual basis	Recognised when **earned**, even if cash not received	Recorded when **incurred**, even if cash not paid

- **Expenses due** — Under accrual, expenses due are always recorded.
- **Incomes due** — Incomes due but not received are included when **reasonably certain** to be received.
- **Companies** — Companies must keep books on the **accrual basis** and double-entry system.
- **Law** — This is required under **Section 128** of the Companies Act, 2013.

AFM | Module A | CH-2 | MCQs

Q1. A company shows the market value of its investments as a footnote to the balance sheet. This follows the convention of: ***[Ref: Topic 4, p. 6]***

(a) Conservatism (b) Full disclosure
(c) Materiality (d) Consistency

Q2. The matching concept requires that: ***[Ref: Topic 3, p. 6]***

(a) Expenses equal income
(b) Assets equal liabilities
(c) Business size matches resources
(d) Expenses are included in the period in which the related revenue is included

LEARNING SESSIONS

RBWM — Retail Banking & Wealth Management

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LEARNING SESSIONS

CH-1 Retail Banking an Introduction

Topic 1 — Retail Banking

- **Meaning** — Retail banking serves **individual customers** and **small businesses**.
- **Needs met** — It covers everyday needs: **savings accounts, personal loans, mortgages and credit cards**.
- **Delivery** — Services reach customers through **branches, online platforms and mobile apps**.

Feature	What it means
Target customer	Targeted at **individual customers**
Market	Focused on the **mass market** segment covering a large population of individuals
Delivery model	Both **physical and virtual** — branches plus technology-driven off-site channels like **ATMs, Internet Banking and Mobile Banking**
Extension	Services are also extended to **small and medium-sized businesses**

Topic 2 — Advantages and Constraints of Retail Banking

Advantages	Constraints
Large client base, so **risk is spread** across customers	Problems in **managing large numbers** of clients
Strong **customer loyalty**	Rapid evolution of products leads to **IT complications**
Attractive interest income as **spreads are wide**	High **cost of maintaining branch networks**
Credit risk well diversified	**Highly regulated** environment
Less volatility in demand and credit cycle than large corporates	Need to **invest in modern technology** infrastructure for efficient and secure services

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Topic 3 — Prerequisites for Success of Retail Banking

Prerequisite	Key points
Efficient delivery mechanism	Seamless and convenient access through a network of **branches, ATMs, online platforms and mobile apps**, so customers can interact, transact and access services in time
Direct banking	Services provided directly through **digital channels** without physical branches. It is the **fastest growing and dominant channel** in retail banking due to convenience, accessibility and cost-effectiveness
Product appropriateness	Suitability and relevance of products to the **needs and preferences of target customers**. Appropriate products raise satisfaction, adoption and profitability
Pricing	Competitive pricing that **balances customer value and profitability**, considering market conditions, cost structure, competitor pricing and customer perception of value
Scoring models for creditworthiness	Evaluate applicants on **credit history, credit score and income**. Decide **approval, interest rate and loan terms**. Keep credit risk and portfolio health under control
Consumer protection environment	Regulatory frameworks that ensure **fair practices, transparency and accountability**, give customers recourse in disputes, guard against fraud and build trust

Consumer protection mechanisms

- **Ombudsman** — If not resolved in **30 days**, the customer approaches the RBI Ombudsman: under **RB-IOS 2021** (at the exam cut-off) within **1 year** of the reply; under **RB-IOS 2026** (from 1 July 2026) within **90 days**.
- **Compensation** — RB-IOS 2021: up to **₹20 lakh** for consequential loss plus up to **₹1 lakh** for harassment and mental anguish. RB-IOS 2026 (from 1 July 2026): **₹30 lakh** + **₹3 lakh**.
- **Deposit insurance** — **DICGC** covers deposits up to **₹5 lakh** per depositor per bank.
- **See** — Ch 21 (p. 62) for the grievance mechanism and the full Ombudsman Scheme.

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Topic 4 — Reasons for the Growth of Retail Banking

Driver	How it helps
Rise of young Indian professionals	Higher **disposable incomes**, aspirational lifestyles and need for varied banking services
Growth as an economic superpower	More individuals seek banking to **manage finances, save, invest** and participate in the economy
Financial market reforms	Promoted **competition and innovation** in banking
Volume-driven business	High **volume of transactions** adds to growth and profitability
Automation of banking processes	Streamlined operations and improved **efficiency**
Easy and affordable access	Expansion of **branch and ATM networks** and online and mobile platforms
Changing consumer demographics	**Urbanisation**, a growing **middle class** and changing preferences

Topic 5 — Future of Retail Banking

Trend	Key points
Growth in digital banking	Increasing adoption of digital technologies so customers can **access and manage accounts and transactions remotely**
Blockchain	A distributed ledger kept on many computers (**nodes**), each block linked to the previous one. It cannot be changed **without network consensus**
AI and data science	Computer systems performing tasks that need human intelligence. In banking they **automate processes, improve decisions, enhance customer experience** and **detect patterns or anomalies** (e.g. fraud)
Cyber security as top priority	Protecting systems, networks, software and data from digital threats. Aims at the **confidentiality, integrity and availability** (CIA) of IT resources
Payment innovations	New technologies and methods (e.g. **UPI**, contactless cards, wallets) that improve **efficiency, convenience and security** of payments, streamline operations and match evolving preferences
Rise of Big Tech	Technology firms (e.g. Apple, Google, Samsung, PayPal, Stripe) offer payment services and are expanding into banking-type offerings, increasing competition for banks

- **See** — Ch 13 (p. 37) for blockchain and AI applications in banking.

Remember this

- Cyber security triad = **CIA**: Confidentiality, Integrity, Availability.

Topic 6 — Evolution of Retail Banking

- **Start** — Retail banking began with **branch-based deposits and payments**.
- **Wider relationship** — It grew into a full **household relationship**: savings, credit, remittances and investments.
- **Access** — **Social banking and branch expansion** brought more people into banking.
- **Choice** — **Competition and liberalisation** increased products and customer segmentation.
- **Core Banking Solution (CBS)** linked branches and enabled **anywhere banking**.
- **ATMs and cards** extended access beyond branch hours, followed by **internet, mobile and instant payment** platforms.
- **Digital is not enough** — Digital onboarding and analytics **cut cost** and improve access. They **do not replace** credit and affordability checks.
- **Controls** — Banks still need operational risk control and fair conduct in collections.
- **Diversification** — Retail loan growth needs **diversified exposure**.
- **Trust** — Trust comes from **clear pricing, reliable service, fraud prevention and quick grievance redress**.
- **Inclusion** — **Branches and business correspondents** continue, so customers who cannot use an app still get essential services.

RBWM | Module A | CH-1 | MCQs

Q1. A bank wants a business segment where credit risk is spread thinly over a very large customer base and demand is less cyclical. Which segment fits best? *[Ref: Topic 2, p. 2]*

(a) Corporate banking (b) Retail banking
(c) Investment banking (d) Treasury operations

Q2. Which of the following is a CONSTRAINT rather than an advantage of retail banking? *[Ref: Topic 2, p. 2]*

(a) Wide interest spreads
(b) Strong customer loyalty
(c) Cost of maintaining branch networks
(d) Diversified credit risk

Q3. A bank serves customers only through its app and website, with no physical branches. This prerequisite of retail banking success is called: *[Ref: Topic 3, p. 2]*

(a) Product appropriateness
(b) Consumer protection environment
(c) Pricing
(d) Direct banking

Q4. Which channel is described as the fastest growing and dominant channel in retail banking? *[Ref: Topic 3, p. 2]*

(a) Direct banking (b) Branch banking
(c) Agency banking (d) Correspondent banking

Q5. A bank launches a high-premium investment product for low-income rural savers and adoption is poor. Which prerequisite was ignored? *[Ref: Topic 3, p. 2]*

(a) Efficient delivery mechanism (b) Product appropriateness
(c) Scoring models (d) Volume-driven business

Q6. A loan officer uses a model based on credit score, income and past repayment to decide approval and interest rate. This is an example of: *[Ref: Topic 3, p. 2]*

(a) Pricing strategy
(b) Consumer protection
(c) Scoring model for creditworthiness
(d) Delivery mechanism

LEARNING SESSIONS

Q7. A customer's complaint is not resolved by the bank within 30 days. Under RB-IOS 2021, in force at the exam cut-off, the maximum compensation for consequential loss is: *[Ref: Topic 3, p. 2]*
(a) ₹10 lakh (b) ₹30 lakh (c) ₹25 lakh (d) ₹20 lakh

Q8. Under RB-IOS 2021, in force at the exam cut-off, the maximum compensation for harassment, mental anguish, time and expenses is: *[Ref: Topic 3, p. 2]*
(a) ₹1 lakh (b) ₹3 lakh (c) ₹5 lakh (d) ₹50,000

Q9. Which factor in the growth of retail banking relates to increasing urbanisation and a growing middle class? *[Ref: Topic 4, p. 3]*
(a) Financial market reforms (b) Volume-driven business
(c) Changing consumer demographics (d) Automation of processes

Q10. In a blockchain, a past transaction cannot be altered retroactively unless: *[Ref: Topic 5, p. 3]*
(a) The central administrator approves
(b) The network participants reach consensus
(c) The latest block is deleted
(d) The bank regulator signs it

Q11. Ensuring that only authorised persons can view customer data addresses which element of cyber security? *[Ref: Topic 5, p. 3]*
(a) Availability (b) Integrity
(c) Confidentiality (d) Scalability

Q12. A bank uses an AI tool to flag unusual card transactions in real time. The main AI capability used is: *[Ref: Topic 5, p. 3]*
(a) Detecting patterns or anomalies in data
(b) Distributed ledger recording
(c) Physical branch expansion
(d) Stand-alone pricing

Q13. Which development first enabled 'anywhere banking' across branches of the same bank? *[Ref: Topic 6, p. 3]*
(a) ATMs (b) Core Banking Solution
(c) Credit cards (d) Business correspondents

Q14. Why do banks continue to use branches and business correspondents alongside digital channels? *[Ref: Topic 6, p. 3]*
(a) Digital channels are costlier
(b) Regulators ban app-only banks
(c) Branches give higher spreads
(d) Customers unable to use apps can still get essential services

Q15. DICGC deposit insurance protects a depositor up to: *[Ref: Topic 3, p. 2]*
(a) ₹1 lakh per account
(b) ₹5 lakh per depositor per bank
(c) ₹10 lakh per depositor across banks
(d) ₹5 lakh per account

Answer key

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

CH-2 Role Within the Bank Operations

Topic 1 — Approaches to Organising Retail Banking

- **Approach** — The method a bank uses to **organise and manage** retail operations.
- **Three types** — **Strategic Business Unit (SBU)**, **Departmental** and **Integrated**.

Approach	How it works	Key feature
Strategic Business Unit (SBU)	Retail operations organised into **separate units or divisions**, each focused on a specific **customer segment or product line**	Each SBU operates **independently** and owns its **strategy, profitability and performance measurement**
Departmental	Operations organised by **functional departments** — customer service, lending, operations, marketing, risk management	Each department handles **one aspect** of banking operations
Integrated	Coordinated, **holistic** approach aligned with the bank's **overall business plan and strategy**	Functions and processes across the bank **work together towards common goals**

Remember this

- Three approaches: **SBU – Departmental – Integrated**.

Topic 2 — Business Models of Retail Banking

- **Business model** — The framework a bank uses to **earn revenue, deliver value** and **run operations**.
- **Components** — **Target market, value proposition, revenue streams, cost structure and distribution channels**.

Model	Key points
Traditional branch-based	Built on a network of **physical branches** where customers open accounts, make transactions and seek advice
Digital banking	Bank operates **primarily through digital channels** — online platforms, mobile apps and virtual customer support
Direct banking	Operates **without physical branches** and relies on remote channels, mainly **online and telephone banking**

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