

# **CAIIB MADE SIMPLE**

## **(Optional Paper)**

# **RETAIL BANKING**

## **(CAIIB PAPER - 3)**

**Version 1.0**

**(A Very useful book for Day to Day Banking and all Knowledge Based Examinations)**

### **COMPILED BY**

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# Preface

**Dear Friends,**

Banking/Financial sector in our country is witnessing a sea change & banker's business has become more complex & difficult in this driven era of knowledge & technology. There are mass retirements happening due to super annuation & many new recruits are joining the Bank. More than 40% staff strength is newly recruited in last three to four years. An official working in the Banking sector has to keep pace with Updated knowledge, skills & attitude, as the same is required everywhere. There is need to issue a comprehensive book covering all the aspects so that new recruits get updated very fast without referring many voluminous books.

This book titled "CAIIB MADE SIMPLE" has many unique features to its credit & consists of all topics/syllabus required for CAIIB examination with clear concept & simple language with latest changes during 2015-16 (upto June/July 2015 as per IIBF/CAIIB exams.requirement) also included. This Book is divided into four Modules namely A, B, C & D with Practice Test Papers / Test Yourself based on latest IIBF syllabus for CAIIB examination.

The Book also covers the full syllabus (latest) of CAIIB examination and also recalled questions & MCQ based on IIBF examination Pattern will be helpful to all aspirants who are taking up CAIIB examination

During preparation of this book, I have received tremendous support from Team RSTC, Mumbai, many friends & colleagues especially Sri V Manoj from RSTC, Guwahati, my wife Mrs Renu, who is also a banker, my son Master Ritwiz Aryan, our clerk Mr Sanjeev V Karamchandani & Special thanks to Sri B P Desai Sir (Our Ex. AGM & now Faculty on Contract at RSTC, Mumbai) for vetting & compilation of this book.

As any work will have always scope for further improvement, I shall be grateful if any feedback is provided for improvement in contents of the book.

I wish you all the best for the written test & hope the study material will help in achieving the goal.

Place : Mumbai  
Date : 15.12.2015

**SANJAY KUMAR TRIVEDY**  
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# **ABOUT CAIIB EXAMINATION**

## **CAIIB EXAMINATION – Dec 2015**

### **OBJECTIVE**

**CAIIB** aims at providing advanced knowledge necessary for better decision making covering risk, financial and general bank management.

**MEDIUM OF EXAMINATION :** Either in Hindi or English

**ELIGIBILITY :** Candidates must have completed JAIIB or PART-1 of the Associate Examination, and their membership subscription should not be in arrears.

### **SUBJECT OF EXAMINATION**

#### **I. Compulsory Paper**

1. Advanced Bank Management
2. Bank Financial Management

#### **II. Elective Papers (Candidates to choose any one of their Choice)**

- |                          |     |                            |
|--------------------------|-----|----------------------------|
| 1. Corporate Banking     | 7.  | Human Resources Management |
| 2. Rural Banking         | 8.  | Information Technology     |
| 3. International Banking | 9.  | Risk Management            |
| 4. Retail Banking        | 10. | Central Banking            |
| 5. Co-operative Banking  | 11. | Treasury Management        |
| 6. Financial advising    |     |                            |

**There is no exemption in any of the above subject/s for prior qualification/s.**

The Institute has introduced electives to give opportunities for candidates to specialize in the vertical of their choice. Candidates may choose the elective in the area they are currently working or in the area they would like to work in future. It is suggested that the candidates may choose the elective in the area they are currently working and later move to other elective as this will enable appropriate skills / build up for handling different banking verticals.

### **Cut-off Date of Guidelines / Important Developments for Examinations**

In respect of the exams to be conducted by the Institute during May / June of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December of the previous year will only be considered for the purpose of inclusion in the question papers. In respect of the exams to be conducted by the Institute during November / December of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30 June of that year will only be considered for the purpose of inclusion in the question papers. **( This has been taken from IIBF – Vision Monthly Magazine , June 2015, Page no. 7 )**

**Further, questions based on current developments in banking and finance may be asked.** Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by the Institute.

### **MODE OF EXAMINATION**

Examination will be conducted in Online Mode at majority of centres and under offline mode (paper and

pencil) at selected centres as per the notification given on the web site in this regard. Examination will be held on three consecutive Sundays (one paper on each Sunday).

#### **PROCEDURE FOR APPLYING FOR EXAMINATION**

Application for examination should be made online from the Institute's website [www.iibf.org.in](http://www.iibf.org.in). No physical form will be accepted by the Institute with effect from 1 January, 2013.

**PATTERN OF EXAMINATION :** Each Question Paper will contain approximately 100 objective type multiple choice questions, carrying 100 marks including questions based on case study / case lets. The Institute may, however, vary the number of questions to be asked for a subject. There will NOT be **negative marking** for wrong answers.

**Further, questions based on current developments in banking and finance may be asked.** Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by the Institute.

#### **Questions for the CAIIB Examination will be asked for :**

(a) Knowledge testing, (b) Conceptual grasp, (c) Analytical / logical exposition, (d) Problem solving, (e) Case analysis

#### **TYPES OF QUESTIONS**

100 Objective Type Multiple Choice Questions - carrying 100 marks – 120 minutes and question will be based on Knowledge Testing, Conceptual Grasp, Analytical / Logical Exposition, Problem Solving & Case Analysis

- A. MULTIPLE CHOICE- ( Each Questions 01 Marks )– QUESTIONS & ANSWERS ( 40-50 QUES )
- B. MULTIPLE CHOICE – ( Each Questions 01 Marks )– PROBLEMS & SOLUTIONS (15-20 QUES)
- C. MULTIPLE CHOICE–(Each Questions 01 Marks)–APPLIED THEORY–QUES. & ANS. (15-20 QUES)
- D. MULTIPLE CHOICE – ( Each Questions 02 Marks )– CASE STUDIES & CASE LETS ( 10-15 QUES )

#### **QUESTIONS MODELS : TYPES OF QUESTIONS**

##### **Type - A : MULTIPLE CHOICE - QUESTIONS & ANSWERS**

The Best Method for assessing working capital limit used by the bank for seasonal Industries is :

1. Operating Cycle Method, 2. Projected Networking Method, 3. Projected Turn over Method & 4. Cash Budget Method

##### **Type - B : MULTIPLE CHOICE - PROBLEMS & SOLUTIONS**

Mr. Ram Kumar is having overdraft account with Canara bank upto Rs.100,000. The present Debit Balance in the account was Rs. 80550.00. The bank has received attachment order from Income tax deptt. For Rs. 16,200.00. What can the bank do in this situation ?

- Unless the bank is a debtor, there can be no attachment and an unutilized overdraft account does not render the bank a debtor ( but creditor ) & hence can not attach.

##### **Type - C : MULTIPLE CHOICE - APPLIED THEORY - QUES. & ANS**

Financial Institution wish to have the money lent by them repaid in time. Secured advances sanctioned by banks possess what kind of security ?

- Secured Advances have impersonal security i.e. Tangible Security

##### **Type -D : MULTIPLE CHOICE - CASE STUDIES & CASE LETS (PROBLEMS & SOLUTIONS )**

Economic development of a country to a large extent depends upon Agril. & Industrial sectors. Development of agril. Depends upon irrigation facilities while industrial development on availability of power, good transport and fast communication facilities. All these are called infrastructure. Read the case let & explain which industries constitute infrastructure ?

- a. Energy, Transport & Communication
- b. Irrigation, construction of bridges & dams over Rivers & stable govt. at Centre.
- c. Availability of Funds for PMEGP , SJSRY & Indira Awas Yojana

**DURATION OF EXAMINATION:** The duration of the examination will be of 2 hours.

### **PERIODICITY AND EXAMINATION CENTRES**

The examination will be conducted normally twice a year in May / June and November / December on Sundays.

**Pass:** Minimum marks for pass in every subject - 50 out of 100 marks.

**Candidate securing at least 45 marks in each subject with an aggregate of 50% marks in all subjects of CAIIB examination in a single attempt will also be declared as having passed JAIB Examination.**

Candidates will be allowed to retain credits for the subject/s they have passed in one attempt till the expiry of the time limit for passing the examination as mentioned bellow,

### **TIME LIMIT FOR PASSING THE EXAMINATION**

Candidates will be required to pass CAIIB examination within a time limit of 2 years (i.e. 4 consecutive attempts). Initially a candidate will have to pay examination fee for a block of one year i.e. for two attempts. In case a candidate is not able to pass CAIIB examination within 1st block of 2 attempts, he / she can appear for a further period of 1 year (2nd block) i.e. 2 attempts on payment of requisite fee. Candidates who have exhausted the first block of 2 attempts, should necessarily submit the examination application form for the next attempt, without any gap. If they do not submit the examination form immediately after exhausting the first block, the examination conducted will be counted as attempts of the second block for the purpose of time limit for passing.

Candidates not able to pass CAIIB examination within the stipulated time period of two years are required to re-enroll themselves afresh by submitting fresh Examination Application Form. Such candidates will not be granted credit/s for subject/s passed, if any, earlier.

Attempts will be counted from the date of application irrespective of whether a candidate appears at any examination or otherwise.

### **“CLASS OF PASS” CRITERIA**

The Institute will consider the FIRST PHYSICAL ATTEMPT of the candidate at the examination as first attempt for awarding class. In other words, the candidate should not have attempted any of the subject/s pertaining to the concerned examination any time in the past and has to pass all the subjects as per the passing criteria and secure prescribed marks for awarding class. Candidate re-enrolling for the examination after exhausting all permissible attempts as per the time limit rule will not be considered for awarding class.

First Class: 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT. First Class with Distinction: 70% or more marks in aggregate and 60 or more marks in each subject in the FIRST PHYSICAL ATTEMPT.

**CAIIB EXAMINATION –Dec 2015**  
**(Last date for applying for examination : 10/09/2015)**

ONLINE MODE		
Examination DATE	TIME	SUBJECTS
06/12/2015 Sunday	ONLINE - Will be given in the admit Letter	Advanced Bank Management
13/12/2015 Sunday	ONLINE - Will be given in the admit Letter	Bank Financial Management
20/12/2015 Sunday	ONLINE - Will be given in the admit Letter	Corporate Banking Rural Banking International Banking Retail Banking Co-operative Banking Financial Advising Human Resources Management Information Technology Risk Management Central Banking Treasury Management
Last Date for receipt of Change of Centre Requests at the respective Zonal Offices for the CAIIB/Electives Examinations scheduled for Dec 2015 : 30th October 2015		

Revised Examination Fees inclusive SERVICE TAX @14% with effect from 1st June, 2015

(Examination Eligible for Members Only)			
Sr. No.	Name of the Exam	Attempts	For Members(Rs)
1	CAIIB	First Block of 2 attempts	3078
		Second Block of 2 attempts	3078

# **Module: A**

## **Introduction**

History and definition, role within the bank operations, Applicability of retailing concepts distinction between Retail and Corporate / Wholesale Banking



## 1. RETAIL BANKING : An Introduction

**What is Retail Banking:** "Retail Banking is a banking service that is geared primarily toward individual consumers. Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services, as well as debit and credit cards. Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking."

"Retail Banking deals with lending money to consumers. This includes a wide variety of loans, including credit cards, mortgage loans and auto loans, and can also be used to refer to loans taken out at either the prime rate or the subprime rate."

"Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other entities".

Retail Banking refers to "the part of a bank's operations providing services at its branches for small (in bank terms) account holders."

"Banking services offered to individual customers such as savings accounts, personal loans, remittance services etc.,"

"Pure retail banking is generally conceived to be the provision of mass market banking services to private individuals. It has been expanded over the years to include in many cases services provided to small- and medium sized businesses. Some banks may also include their "private banking" business (i.e. services to high net worth individuals) in their definition of retail banking".

### **Features of Retail Banking:**

1. Retail Banking is a banking service that is geared primarily toward individual consumers.
2. Retail banking is usually made available by commercial banks, as well as smaller community banks.
3. Retail banking focuses strictly on consumer markets.
4. Retail banking is, generally mass-market driven but many retail banking products may also extend to small and medium sized businesses.
5. It is focused towards mass market segment covering a large population of individuals.
6. It offers different liability, asset and a plethora of service products to the individual customers.
7. The delivery model of retail banking is both physical and virtual i.e. services are extended through branches and also through technology driven electronic off site delivery channels like ATMs, Internet Banking and Mobile Banking.
8. It may be extended to small and medium size businesses.

### **Advantages of Retail Banking**

1. Client base will be large and therefore risk is spread over large customer base.
2. Customer Loyalty is strong and customers generally do not change from one bank to another.
3. There are attractive interest spreads, since customers are too fragmented to bargain effectively;

4. Credit risk tends to be well diversified, as loan amounts are relatively small.
5. There is less volatility in demand compared to large corporates.
6. Large numbers of clients can facilitate marketing, mass selling and the ability to categorise/select clients using scoring systems/data

### **Constraints in Retail Banking**

1. There are problems in managing large numbers of clients, particularly if IT systems are not sufficiently robust.
2. Rapid evolution of products and change in product lines can lead to IT complications.
3. **The** costs of maintaining branch networks and handling large numbers of low-value transactions tend to be relatively high. However, this can be reduced through cheaper distribution channels, such as ATMs, the telephone or mobile or internet. Branches should be used for higher ended value transactions.
4. Higher level of defaults especially in unsecured retail loans and credit card receivables.

### **Retail Banking as a Business Model**

Capgemini, ING and the European Financial Management Marketing Association (EFMA) have studied the global Retail banking market with the aim of providing insights to financial services community through the World Retail Banking Report (WRBR). The study conducted in 2006 covered 142 banks in 20 countries covering the geographies of Europe-eurozone (Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain), Europe-non eurozone (Czech Republic, Norway, Poland, Slovakia, Sweden, Switzerland, UK), North America and Asia Pacific (Australia, Canada, China, **US**). Its findings are related to (i) Pricing of Banking Services and (ii) Delivery Channels

#### Findings on Pricing of Banking Services

- The average price of banking services increased by over 3%. However this trend had marked differences between zones, especially between North America, where prices went down and the euro zone where they rose.
- Price were converging slowly in the euro zone even as price differences between countries — including neighbours — remained high. This trend will continue as a result of central initiatives such as the Single **Euro Payments Area (SEPA)**. **The SEPA initiative aims to create a domestic payments market across the euro zone by 2010 and will result in competition, price transparency and homogeneity and will affect the revenue structure of the banks.**
- **The pricing indices were developed based on three usage patterns viz., less active, active and very active users. Usage pattern for particular products vary significantly between countries, leading to major differences between global and local prices.**
- The average price of basic banking services based on the local active customer profile was 76 Euros in 2005.
- In a given region, prices varied according to usage pattern, with a ratio of up to one to 4.6 between prices paid by very active and less active users.
- Although similar prices observed within a given region, they were the result of very different pricing models.
- Fierce competition (US) and evolving retail banking markets (Eastern Europe, China) have prompted changing price structures.
- Banks are reducing remote channel prices in order to drive greater customer use.
- Price of seldom-used products have steadily increased over the past two years.
- Banking services follow the standard industrial development pattern in which prices decline with maturity.

### **Delivery Channel Strategies**

1. The emergence of the new remote channels has changed the distribution paradigm of banks and strategies are to be in place to take on the multi channel challenges.
2. Traditional retail banks are including direct sales and service into their channel strategies and continue to invest in alternative channels to keep up with market developments and customer demand.
3. There are two aspects in multi channel management. First to develop remote channels and reposition branches to create more value for customer segment. Second to increase customer satisfaction and differentiate themselves from the competition while also improving the productivity of the multi channel model.

Important findings of the study by Capgemini are summarised below:

1. The distribution of sales among channels is an important factor in the channel strategies. Selling through the branch channel is the main format but over the years the volumes have dropped. (94% of sales in 2000 to 67% in 2010). On the other hand, sales through the Web has increased (2% in 2000 to 17% in 2010). Sales through phone has moved from 4% in 2000 to 13% in 2010.
2. There is a rapid migration of sales from the direct channels to remote channels over the past five years and the likely more aggressive movement in the coming years.
3. The distribution of services among channels is another important factor in channel strategies. Percentage of transactions through branch dropped from 70% in 2000, to 42% in 2005 and likely to drop to 30% in 2010. The transactions through Web increased from 4% in 2000 to 18% in 2005 and likely to reach 28% in 2010. Phone Banking transaction usage also moved up from 5% in 2000 to 9% in 2005 and to reach 12% in 2010.
4. Therefore, remote channels have recorded higher growth over direct channels and further increase in the coming years.
5. The banks expect their remote channels to deliver 33% of their sales in 2010 up from 6% in 2000. This trend holds good for all kind of products from simple current accounts to more complex mortgages and insurance products.
- 6\_ Among the remote channels, though ATMs were the early leader, the Internet is emerging stronger.
- 7\_ The rise in usage of remote channels will result in advisory role for branches in selling and staff will be trained as Advisors to handle the customers across multiple channels and their business enquiries.

## **Retail Banking in US**

Traditional Image: (i) office on Main Street (ii) the branch manager understands the local market (iii) the manager has strong customer relationships.

Impact of technology and regulatory changes in the 1990s:

1. challenged the bricks-and-mortar business model (branch).
2. Automated teller machines (ATMs) proliferated after the national ATM networks dropped a ban on surcharges in 1996; by 2002, there were 352,000 machines in the United States.
3. The Internet gave customers electronic access to their accounts and even gave rise to "virtual" banking organizations; in 2000, forty Internet banks were in operation.
4. Banks also developed centralized call centers to handle customer service issues and to initiate transactions, including deposits and loans.
5. Many banks shifted some activities like small-business loan approval from branch to regional or Head Offices.
6. The role of the traditional bank branch reduced in the delivery of retail banking services.

## **Impact of Deregulation and the Riegle-Neal Act of 1994 & Gramm-Leach-Bliley Act 1999**

1. It allowed banks to branch and merge across state lines
2. It contributed to bank consolidation that focused on reducing costs to boost profits.
3. The number of US banks and Thrifts fell from about 12,500 in 1994 to a little more than 9,000 at the end of 2003 but the number of bank and thrift branches actually rose. From 1993 to 2002, the number of bank branches climbed 8.6 percent.
4. The Gramm-Leach-Bliley Act of 1999 allowed branches to distribute the insurance and securities products.
5. The declining number of banks and rising number of branches have resulted in greater consolidation of branches and deposits in the nation's larger banks.
6. The institutions with the widest geographic reach have branches in about half the states.
7. The consolidation of branches into large branch networks affected bank customers and the banks themselves.
8. Larger banking organizations tend to charge higher fees than smaller \_institutions. Branch-dependent

customers could face additional costs as branches are increasingly consolidated into the larger branch networks.

9. Large branch networks offer the convenience of many points of contact with the institution.
10. The research indicates that depositors value geographic reach (branches in many states and municipalities) and local branch density (many branches of an institution in a given area) when selecting an institution.
11. Market surveys also suggest that customers place a premium on convenience i.e. location when choosing a bank.
12. For the banks, the consolidation of branches within large branch networks has implications in terms of cost, business focus, and profitability.

### **Retail Banking in Europe**

1. Europe's largest economy, Germany was considered as Europe's economic powerhouse.
2. The German banking industry is dominated by universal banks that combine the functions of commercial and investment banks, including the securities business and these banks contribute to over 75% of the industry's total business volume.
3. In Germany, there is high number of banks and the dense branch network-. There are over 2,300 banks in Germany with over 46,000 branches. Around 1,500 of the banks are very small in size with a business volume of less than €1 billion.
4. Germany's five large private banks, account for a significantly smaller share of the sector. As per Bundesbank, Central Bank of Germany, the top five banks together hold 12% of the consumer lending market.
5. In face of the current financial crises, Germans are preferring savings banks to keep their savings safe.
6. The lack of competitiveness of co-operative banks has been a cause of concern both for the German authorities and business.
7. Germany still hosts the most number of banks in Europe and exhibits the most fragmented market in the region. Savings and co-operative banks account for more than 50% of the country's deposit base and close to 70% of the savings deposits.
8. Competition is intense in the German retail banking sector. Foreign banks such as Citi and Santander are established banks in the highly competitive consumer finance segment. Direct players such as 1NG DiBa, an online subsidiary of ING Bank of Netherlands, have a strong presence in deposits and mortgage lending. ING DiBa has very successfully increased its customer base from 1 million in 2002 to over 6 million in 2010.
9. Another key player in the retail banking segment is Deutsche Bank which purchased Norisbank, a consumer bank and Berliner Bank, an up-market retail bank in 2006.
10. The direct banking model has proved highly successful in Germany. ING DiBa offers solely via phone, Internet, and a large network of ATMs and has the third largest number of customers in the country. The financial services subsidiaries of German car makers such as Volkswagen also operate as direct banks.
11. In Germany another banking business model is the cooperation of retailers and banks. Big German fashion retailer C&A founded its own bank in the beginning of 2007 and started offering consumer credits online as well as in its stores.
12. Investment in technology among banks is very high, not only among the top tier players but smaller banks as well. Adoption of technology by customers is high too, as is evident from "the popularity of direct banks. At Postbank, over 65% of its customer base uses online banking. In 2007, with iBanking, Postbank was the first bank in Germany to make it possible to use the iPhone for banking.
13. Analyst firm, Forrester estimates that 39% of Germans now bank online **and** this percentage will go up to 47% by 2012. The main drivers of this trend will be users' confidence in the channel, banks' robust security measures, and strong competition for retail banking customers. Broadband connectivity too plays a key role in encouraging online banking usage.

### **Retail Banking in Russia (Based on a study in 2007)**

- 1\_ The top ten banks accounted for 63% of retail loans.
2. Overdue retail loans were at 75.5bn roubles.
3. Overdue auto loans were growing faster than the market.

4. Profitability of retail portfolios was between 23-50%.
5. The share of retail loans in the loan portfolios increased at a stable rate and was over 24% in the first quarter of 2007.
6. Interest margins on rouble retail loans had come down from the beginning of 2006 but remained higher than for other loans. This decline was due to the higher cost of resources and a general fall in interest rates.
7. The retail loan market grew by 75% from the beginning of 2006. Auto loans, credit cards and mortgages were the fastest growing segments.
8. Among the banks with the largest loan portfolios are those that entered the retail loan market in 2006, which showed the market had a large capacity and was not saturated.
9. Sberbank was the number one in retail banking with a market share of 37% followed by Russian Standard Bank with a market share of 8%. Other banks had market share of below 5%.

#### **Retail Banking in Asia and South Pacific:**

1. In Korea, household credit accounts for about half of the total outstanding bank loans.
2. In China, mortgage and consumer credit grew by 70 percent in 2001 and reached 10 percent of the total bank loan outstanding.
3. Korea, Thailand, Malaysia, Taiwan and Philippines experienced growth in credit cards in the range of 20 percent in 2002 and China's credit card market is expected to grow by 75 percent to 100 percent in the next three years.

#### **Retail Banking in India**

1. The evolution of retail banking in India can be traced back to the entry of foreign banks.
2. In Public Sector Banks (PSBs) there was no specific demarcation as retail and non retail activities. Customer and Industry segmentation was adopted within the overall business plan of banks.
3. Foreign banks operating in India came out with their consumer banking models with hybrid liability and asset products specifically targeted at the personal segment in the late 1970 and early 1980s.
4. Standard Chartered Bank and Grindlays Bank were the pioneers in introducing retail banking products.
5. State Bank of India and some public sector banks like Indian Overseas Bank, Bank of India, Bank of Baroda and Andhra Bank developed and marketed asset products and card products to cater to retail segment.
6. Bank of Baroda and Andhra Bank were two early players in the credit card business among public sector banks.
7. The entry of new generation private sector banks in early 1990s created a new approach to retail banking by banks. With the advantage of technology right from start, these banks had a clear positioning for retail banking and aggressively strategised for creating new markets for the retail segment.
8. PSBs also redefined business model for retail had aggressively entered the retail market space thereafter.
9. Presently, the retail segment has become an important component in the business design of the banks in India and almost all players in the foreign, public and private (old and new) space are in this.

#### **Reasons for emergence of retail banking business in India:**

1. Strong economic fundamentals,
2. growing urban population,
3. higher disposable incomes,
4. rise in young population,
5. emergence of new customer segments
6. rise in the mass affluent space,
7. explosion of service economy in addition to manufacturing space
8. opportunities across geographies and customer segments
9. huge untapped potential for retail banking in India whereas till recently retail banking was confined only to the top and higher middle end of the customer segment.
10. Non Banking Finance Companies (NBFCs) have also aggressively entered in this 'Bottom of the Pyramid' segment and posing a big threat to the conventional banking players.

#### **Statistics relating to Retail Banking in India:**

1. Total asset size of the retail banking industry grew at a rate of 120% to reach a value of \$66 billion in 2005.
2. Retail Banking was expected to grow at above 30% and retail assets were expected to reach \$300 billion by 2010.

3. The contribution of retail assets to Gross Domestic Product (GDP) B India is 6% and is comparatively lesser than that of other Asian counterparts like China (15%), Malaysia (33%), Thailand (24%) and Taiwan (52%). This indicates the lower level of penetration of retail banking in India.

**Findings from report by McKinsey & Company on 'Emerging Challenges to the Indian Financial System' (April 2007)**

1 There is huge potential available for personal financial services

2. Three forces are shaping the personal financial services (PFS) in Asia - the continuing surge of new customers entering the banking system, the explosive growth of consumer credit at 30 per cent per annum and the emerging need for wealth management due to increasing affluence. These forces can shift the current focus of banking needs from traditional banking products and services(e.g., deposits, mortgages) to advanced investment, credit and advisory products and services(mutual funds, unsecured personal loans).

3. With rising income levels, India is becoming an increasingly attractive market for retail financial products.

4. In addition to consumer credit, payment products such as credit and debit cards will drive growth,depending on issuers' ability to penetrate second tier towns and segments such as self employed.

5. By 2010, the number of high net worth individuals (annual income greater than US \$1 million) will grow to 400,000.

6. In wealth management, local banks have primary relationships and branch networks, but these may not be key buying factors for more sophisticated consumers.

7. Success in private banking will require an extensive product range consisting of debt, equities, investment funds, alternative assets and a range of ancillary services, with an expert advisory process.

8. To maintain leadership in the emerging sectors, Indian banks will have to develop talent, product and advisory skills within a short time.

9. Despite credit and deposits growth in India, banking access remains limited to a few sections of the population and there is great disparity in the penetration of banking products among the different classes.

**Findings from McKinsey study of 2004: Penetration of Credit cards & Auto Loans**

Type of Household	Credit card penetration	Auto loan penetration
Urban Mass household (income between 25,000 to Rs 2 lac p.a.)	4%	negligible
mass affluent households (Income between Rs.2 lac to Rs 5 lac p.a.)	22%	5%
affluent households (Income between Rs.5 lac to Rs 10 lac)	34%	14%

**Performance of Different Segments of Retail Banking from 2004 to 2009**

1. Retail Banking was under strain during 2009 due to financial turmoil across the globe.

2. The retail asset growth slid down to 4% in 2009. The segments which suffered most were Consumer Durable Loans and Auto Loans.

3. The percentage of retail assets to total assets which was at 25.5% in 2006 had came down to 21.3% in 2009.

4. The number of ATMs as on March 2009 was at 43651 as against the total number of bank branches at 64608.The number of ATMs as a percentage of bank branches was at 67% as on March 2009 indicating the approach of the banks in customer migration from branches to electronic mode.

5. The percentage of branches covered under CBS was 69% offering across geography banking solutions to customers and not restricting to the branch where the account is held. This gives tremendous opportunities for banks to devise an integrated approach to retail banking. In most of the commercial banks, there is almost 100% branches under CBS at present. •

6. The concept of electronic remittance mechanism is picking up fast and this trend offers potential to package a remittance product as a add on in bank's retail banking package to the customers.

7. The most affected segment in the retail liabilities space was in the CASA which refers to Current Accounts and Savings Accounts. Growth in CASA deposits declined to 13.4% in 2009 from 20.2% in 2008.

8. The share of interest income had almost remained steady at about 84% and the share of non interest income also is almost stable at around 16°A.This indicates that there were no serious efforts by banks to increase the non interest income through fee based product and third party distribution models.

**Status of Retail Banking - Findings by Boston Consulting Group**

1. Retail segment brings in nearly 60% of the total banking revenues worldwide. It is expected that retail banking will remain the dominant source of revenue for banks worldwide.
2. Retail banks are facing tougher competition and continuously declining margins and, banks have to develop winning business models and requisite skills.
3. Retail Banking segment had picked up momentum during the early 2000s and peaked during 2006 and 2007 but was affected due to the financial turmoil across the globe from 2008. Though India was insulated from the financial turmoil to a great extent due to regulatory discipline, the retail banking space suffered some setback taking a hit in credit card, housing and consumer loans.

### **Global Trends in Retail Banking**

The retail banking objectives of any bank would mainly focus on the following: I. Generating superior returns on assets.

2. Acquiring sufficient funding
3. Enhancing risk management
4. Understanding customers and regaining their trust.
5. Coping with increased demands regarding product transparency and overall service levels.
6. Achieving multi channel excellence with fully integrated banking channels.
7. Moving toward higher levels of industrialization (which is mandatory for rapid innovation and deployment).

## **TEST YOURSELF**

### **Q.1. What is retail Banking?**

- (a) Banking targetted at corporates
- (b) Banking focused towards weaker class segment
- (c) Banking deals with individuals and lends them money
- (d) Banking deals with wholesalers for deposits source
- (e) Both (a) and (c)

### **Q.2. Characteristics of retail banking?**

- (a) Targeted at individual customers, and mass market segment
- (b) Offer various liability, assets and service products to individuals
- (c) Both (a) and c)
- (d) Delivery model of ATMs/internet and mobile banking
- (e) All above

### **Q.3. What are the advantages of retail Banking?**

- (a) Spread of risk across customers /customers loyalty and attractive interest spreads.
- (b) Spread of credit risk to diversified customers and lesser volatility in demand and credit cycle
- (c) Large number of customers with selection possibility by scroing system.
- (d) Both and (a) and (c)
- (e) Both (d) and (b)

### **Q.4. Mark the problems in retail banking?**

- (a) Managing large number of customers and /or rapid evolution of services.
- (b) Costs of maintaining low value transactions, (c) Higher delinquencies is unsecured retail loans and credit card receivables. All of above
- (d) delinquencies is unsecured retail loans and credit card receivables. All of above
- (e) Both (a) and (c)

### **Q.5. Reasons for retail banking in India are :-**

- (a) Growing urban population/higher disposable income/increase in mass affluents space and explosion of service economy. (b) Foreign banks and private sector banks seriously looking at the bottom of customers alongwith credit and debit cards receivables. (c) Despite credit and deposits growth, banking access remains limited to few sections of the population, (d) Both (b) and (c), (e) Both (a) + (b)

### **Q.6. Which is relevant to bank's balance sheet?**

- (a) ABSA (b) NASA (c) CASA (d) NBFC

### **Q.7. Define the retail assets under Retail Banking?**

- (a) Housing loans/consumer durables /credit card receivable
- (b) Auto loans/personal loans/loan against shares and debenture
- (c) ECS Loans/EFT Loans/CASA Loans
- (d) Both (a) and (c)

(e) Both (a) and (b) only

**Q.8. Which is highest in number of commercial banks in India?**

- (a) Branches
- (b) ATMs
- (c) Extension Counters
- (d) Mobile Banking
- (e) Internet Banking

**Q.9. What is the contribution of bank's retail assets to Gross Domestic Product (GDP) in India?**

(a) 6% (b) 15% (c) 33% (d) 24% (e) 3%

**Q.10. What is not a constraint in Retail Banking?**

- (a) Managing large number of clients in absence of ROBUST IT system
- (b) Rapid evolution of services
- (c) Maintaining ATMs centres with low costs
- (d) Unsecured retail loans and credit and receivables amount
- (e) Maintaining net interest margin of 2% in housing loans beyond 75 lakhs and above.

**Q.11. What is business model for retail banking in India?**

- (a) Strategic business unit approach
- (b) Departmental Approach
- (c) Integrated approach
- (d) Any one of above
- (e) Both (a) and (b) only

**Q.12. Give the names of foreign banks which entered the retail banking activities but when not able to achieve the business objectives moved out of business?**

- (a) BNP Paribas
- (b) American Express
- (c) ABN Amro (Now RSB) bank
- (d) Citi Bank
- (e) All (a) to (c)

**Q.13. In retail banking which business model is adopted generally by Public Sector Banks?**

- (a) Strategic Business Unit
- (b) Departmental Approach
- (c) Integrated Approach
- (d) Management by Objective Approach

**Q.14. Which business model in retail banking is do adopt by new generation private sector banks**

- (a) Strategic business unit approach
- (b) Departmental Approach
- (e) Integrated approach (part of overall business plan)
- (d) Management by Objective Approach

**Q.15. During 1990s, certain foreign banks went for business model in retail banking, but after certain years?**

- (a) Continued with their business inspite of being unprofitable
- (b) Changed their focus with some strategic changes
- (c) Moved out of the business
- (d) None of above

**Q.16. Discuss the liability products offered to retail banking customers?**

- (a) Savings Accounts
- (b) Current Accounts/Term deposit accounts
- (c) Housing Loans/consumer durables/auto loans/credit-cards easy payments
- (d) Both (a) + (b)
- (e) All (a) to (c)

**Q.17. In Liability products of retail banking what are different value propositions?**

- (a) ATMs/Debit cards/Credit Cards/Multicity cheques, built in with savings A/c
- (b) Internet banking/phone banking/mobile banking tagging group insurance products to life and non-life/money sweep facilities from savings to fixed deposits.
- (c) Both (a) and (b)
- (d) Auto overdraft facility only

**Q.18. Retail asset financing is a major component of retail banking. Discuss what are those assets?**



- (a) Housing Loans/Loan against rental receivables
- (b) Consumer durable loans /credit cards/salary overdraft
- (c) Auto loans/personal loans/loans against securities
- (d) All above
- (e) Only (a) and (c)

**Q.19. Discuss the other services which are tagged under retail banking?**

- (a) Housing loan/consumer durables loan/auto loans/personal loan/ credit card receivables
- (b) Saving/term/current deposits
- (c) Debit Cards/ATM cards/telephone banking/mobile banking
- (d) Internet banking/demat services/brooking services/insurance policies/mutual funds/sale of gold coins/wealth management services
- (e) Both (a) and (c)

**Q.20. Processing of services in retail banking is basically approached, from which dimension?**

- (a) In-house resource
- (b) Some products processed in house and some are outsourced
- (c) Outsourcing of entire process
- (d) AU above

**Q.21. The entire process for products and services in retail banking is done though in house resource by which category of banks?**

- (a) Public Sector Bank (PSB)
- (b) Old Private Sector and PSBs
- (c) New Private Sector Banks
- (d) Foreign Banks

**Q.22. Banks adopt different process models for retail asset products and services, to build absolute process efficiencies?**

- (a) Centralised retail asset processing centres
- (b) Centralised processing for some assets only
- (c) Regional processing hubs
- (d) Stand alone processing at branches (e) Any of above

**Q.23. What are the process models which commonly banks adopt for retail liability?**

- (a) Centralised processing for opening of account/issue of PB/ Cheque book/ATM card
- (b) Regional processing Hubs, all above activities
- (c) Opening of SB A/cs at branches add issue of PB and cheque book/ ATM Cards/PIN Mailers also at the stand alone, (d) Any of above

**Q.24. In pricing of products and services is based on certain fundamental parameters. Which are those parameters?**

- (a) Market dynamics/risk perception/return expectations/customer profile
- (b) Tenor/duration/resources position/asset-liability management position
- (c) Any of above
- (d) Both (a) and (b)

**.25. Pricing of products and services in banks is mainly driven on the basis of bases?**

- (a) Asset Liability Management
- (b) Regulatory advices from RBI
- (c) Structured step up pricing practice
- (d) Both (a) and (b)

**Q.26. Price structuring for products and services is attempted by banks in the following ways -**

- (a) Stand alone pricing for different services
- (b) Special concessional quotes for high net worth depositors and retail depositors
- (c) Bundled pricing/Holistic pricing based on total relationship (d) All above (e) Any of above

**Q.27. Why structuring is adopted by banks in retail banking?**

- (a) Offer holistic pricing across of specific bundling of services so the total price proposition becomes attractive customer
- (b) Offer holistic pricing across of specific bundling of services so the total price proposition becomes profitable to bank
- (c) Offer holistic pricing across of specific bundling of services so the total price proposition becomes attractive to

high net worth clients only d) All above

**Q.28. Which category of banks adopt price bundling of product and services?**

- (a) Public sector banks (b) Private sector banks
- (c) Foreign banks
- (d) Both (b) and (c)

**Q.29. Public sector banks (nationalised + IDBI bank + SBI and 5 associates and Bhartiya Mahila Bank Ltd.) have price concerns as well as rebates in pricing structure. What is the basis of its application?**

- (a) Volumes of transaction
- (b) Quantum
- (c) Relationship with bank d) All above

**30. Banks do have structure for pricing additional models. Under it what are benefits made available to customers other than rebates of discounts as alternative pricing propositions?**

- (a) Free remittance facilities
- (b) Issue of demand drafts free of charges
- (c) Waiver of service or processing charges (d) All above
- (e) Any of above

**Q.31. Technology and retail banking are inseparable. Technology is the enabler for building and translating a customer data base into retail banking business. Such data are usable to**

- (a) Increase the scope for cross selling
- (b) Increase the scope for up-selling
- (c) Get due about the level to which data base is organised
- (d) II above
- (e) Any one of above

**Q.32. Distinguish retail banking with corporate banking and state which is retail banking?**

- (a) Individuals segment/mass market/business to customer approach
  - (b) Wholesale clients/smaller segment/business to business approach
  - (e) High ticket size/high risk/low returns/monitoring less laborious
- high deposit cost

(d) Both (b) and (c)

**Q.33. What special features are there in retail banking compared to wholesale banking?**

- (a) Low NPA impact
- (b) Cost of deposits lesser
- (c) Monitoring of advances less laborious
- (d) Both (a) and (b)

**Q.34. To which type of banking we get higher returns/lesser risk/cheaper cost of deposits/impact of NPA lesser/Low ticket size of loan etc.?**

- (a) Retail Banking
- (b) Wholesale Banking
- (c) B2B Banking
- (d) Corporate Banking

**Q.35. What is the latest level of technology in Public Sector Banks?**

- (a) ALPM
- (b) Single Server environment
- (c) Core banking solution, single platform environment (d) Truncation

**Q.36. Which implementation model banks adopt in retail banking processes?**

- (a) Horizontally organised model
- (b) Vertically organised model
- (c) Predominantly vertically organised model
- (d) Predominantly Horizontally organised model
- (e) Anyone of above

**Q.37. When is the horizontal model adopted in retail banking?**

- (a) Level of customer information available in a single platform
- (b) Offering multiple products/services
- (c) Offering services across assets, liabilities and other services
- (d) All of above

Q.38. **When the vertically organised model provides functionality under retail banking?**

- (a) Centralised Customer data base
- (b) Common information availability to other models
- (c) Scope for enlarging the scope for cross-selling and up selling
- (d) All above

Q.39. **Which concept of retail banking is adopted under standard norm by PSBs in India?**

- (a) Horizontally organised model
- (b) Vertically organised model
- (c) Predominantly vertically organised model
- (d) Predominantly horizontally organised model

Q.40. **What are the basic structure of retail banking?**

- (a) Retail Assets
- (b) Retail Liability
- (c) Third Party Products
- (d) All above

### ANSWER

1	C	2	E	3	E	4	D	5	D	6	A	7	E	8	B	9	A	10	C
11	D	12	E	13	B	14	A	15	C	16	D	17	C	18	E	19	E	20	D
21	B	22	E	23	C	24	D	25	D	26	D	27	A	28	D	29	D	30	D
31	D	32	A	33	D	34	A	35	C	36	E	37	D	38	D	39	A	40	D

## 2. ROLE WITHIN THE BANK OPERATIONS

### Business Models:

1. The business models for retail banking adopted by banks vary among the public sector, private sector and foreign banks. The main approaches are as follows: (a) Strategic Business Unit (SBU) Approach, (b) Departmental Approach, (c) Integrated Approach (part of the overall business plan).
2. Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model. The model is uniformly adopted by all the banks immaterial of their balance sheet size or geography. It indicates that retail banking is not a focused business model.
3. In a research study it was found that the SBU approach is adopted by one of the top five public sector banks and their business model is in alignment with private sector banks and foreign banks.
4. In old generation private sector banks the approach is more conservative. The business model for retail banking is built as a part of the overall business plan and not done as a separate departmental activity,
5. In new generation private sector banks, they had set up Strategic Business Units (SBU) to have clear focus and business objectives.
6. In foreign banks also, SBU is the business model followed with defined business focus.
7. The demarcation as a SBU is more a Management By Objectives (MBO) process wherein the business model is dealt as a strategy for achieving targeted profits.
8. Banks generally structure their retail banking models mainly on a positioning platform and to be the best/top three among the peer group players or across players. Strategies are based on the positioning objectives and vary from bank to bank depending on the importance attached to the business model.
9. Among the public sector banks, some banks aim for a place among the top three retail players across banks including peer group banks while some other public sector aim for a space in the top three among the peer group.
10. The strategy adopted by public sector banks was a part of the overall strategy based on the business mix, projections and corporate objectives of the bank.
11. In case of old generation private banks, the positioning platform is based on the overall business plan and in line with their size and scale.
12. The new generation private banks want to be in the top slot across all class of banks. These banks have advantage of technology, strategy, customer and business initiatives and aggressive positioning.
13. Foreign banks generally do not go by positioning objectives but purely on business objectives. They go by customer, business and profit targets. They take a call on the business model itself or one segment of the overall model, if the same is not profitable and either exit the retail banking segment itself or exit a particular business line within the model.
14. BNP Paribas and American Express exited retail and credit card business when it was found that these were not viable. ABN Amro Bank had a positioning focus for building up the retail banking franchise but sold their retail

business to RBS.

## TEST YOURSELF

Q.41. Which segment of customers have the highest share in retail banking?

- (a) Mass Market
- (b) Max affluent and super affluent
- (c) High Net Worth
- (d) All except (c)

Q.42. Why bank customers buy the products and services, to satisfy which of their needs?

- (a) Physiological needs/esteem needs
- (b) Safety needs/social needs/self actualization needs
- (c) Both (a) and (b)
- (d) Any of (a) or (b)

Q.43. For physiological needs, the retail banking covers which kinds of services?

- (a) Core savings accounts/personal accident cover/housing loans
- (b) Recurring + fixed deposits/life insurance policies/tax planning
- (c) Consumer/Personal/Home/Auto Loans
- (d) Insurance Cover/retail gold coins/health policies/mutual fund schemes

Q.44. For esteem needs of individual, what service are covered?

- (a) Special term deposits/second housing loans/home decor loans
- (b) Term insurance products/house improvement
- (c) Both (a) and (b)
- (d) Any of (a) and (b)

Q.45. For self actualization needs, what products and services are covered under retail banking?

- (a) Pensioners loans/retirement situations/pension plans in insurance
- (b) Senior Citizen term deposits/reverse mortgage
- (c) Any of above
- (d) Both (a) and (b)

Q.46. Discuss the expectations by the customers from the service quality of banks?

- (a) Tangibles-Reliability-Responsiveness
- (b) Assurance-Empathy
- (c) Courtesy-Creatibility-Security
- (d) Both (a) and (b)

Q.47. Discuss the measures needed to enhance service quality in bank services with regard to savings deposits?

- (a) Need to improve dress code of the staff at branch
- (b) Need to improve transactions time at every branch and enhance, adequate number of channels in addressing customers needs
- (c) Need to improve the faces of the computer operator who should be young below 30 and not above 30 years of age
- (d) Both (a) and (b)

Q.48. Housing loan should be sanctioned and disbursed to applicant from the present ceiling of 14 days, for ideal customer requirements?

- (a) 10 working days
- (b) 7 working days
- (c) 5 days
- (d) Should not do hurriedly

Q.49. PSBs have to enhance the service quality and for that what measure could be taken?

- (a) Strengthen performance and recruit employees through trainings
- (b) Enhance range of products features and customer friendly modules
- (c) Customers' expectations never ends even under best performance hence no additional measures
- (d) Both (a) and (b)

Q.50. What are the requirements of customers from banks?

- (a) Right product mix for different segments
- (b) Right channel mixing of both direct and e-channel
- (c) Delivery of promises with regard to services on time
- (d) All above
- (e) Only (a) and (c)

## ANSWER

41	A	42	C	43	A	44	C	45	D	46	D	47	B	48	B	49	D	50	D
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### **3. APPLICABILITY OF RETAIL BANKING CONCEPTS**

#### **DISTINCTION BETWEEN RETAIL AND CORPORATE/WHOLESALE BANKING**

##### **Implementation Models**

1. Banks adopt different models for implementing their retail banking initiatives. The most common strategies are end to end outsourcing, predominant outsourcing, partial outsourcing and in house sourcing.
2. The implementation model depends on the product range, process requirements, technology preparedness, delivery capabilities including human resources and regulatory prescriptions.
3. Most of the PSBs use only in house resources for retail banking. Only for some activities like ATM, Credit Cards/Debit Cards, the issue part is outsourced due to lack of in - house facilities. Regulatory prescriptions are one of the major determinants of outsourcing or lack of it in these banks.
4. In case of old private sector banks also, the activities are carried out through in house resources only.
5. In case of new generation private sector banks, the model is a balanced mix of outsourcing and in house, though a little tilted towards outsourcing. In some banks, asset side is outsourced whereas liability side is not outsourced.
6. In foreign banks, the implementation model is mostly outsourced based on the business model. In some foreign banks, both front and back end operations are outsourced and in some banks, the back end operations are outsourced while the front end operations like sourcing of High Net worth Individual clients are done through captive resources.

##### **Business Process Structure in Retail Banking**

1. There are four broadly defined process models implemented across banks. These models are defined based on the technology and customer interface capabilities of the banks. The four broad classifications are:
  - (i) Horizontally Organised Model
  - (ii) Vertically Organised Model
  - (iii) Predominantly Vertically Organised Model
  - (iv) Predominantly Horizontally Organised Model
2. The horizontal or vertical model depends on the level of customer information available in a single platform in the data base side for offering multiple products/services <sup>across</sup> assets, liabilities and other services.
3. Horizontally organised model is a modular structure using different process models for different products offering end to end solutions product wise.
4. Vertically organised model provides functionality across products with customer data base orientation and centralised customer data base is used across products.
5. Predominantly horizontally organised model is mostly product oriented with common customer information for some products.
6. In predominantly vertically organised model, common information is available for most of the products.
7. In most of the PSBs, horizontally organised model is adopted. In some banks, predominantly horizontally organised model do exist and reflect the level of common customer information available for some products.
8. New private sector banks generally follow a vertically organised model.
9. In foreign banks, it is mostly predominantly vertically organised model which implies that retail banking initiatives are attempted with common customer information across products.

##### **Product Models In Retail Banking**

1. Product portfolio structuring play an important role in the retail banking strategies of banks
2. Though retail assets and liability products constitute the basic structure of retail banking, marketing of third party products has emerged as one of the important constituents of retail banking initiatives of banks.

##### **Liability Products**

1. Liability products are offered to retail banking customers basically under three spaces - Savings Accounts, Current Accounts and Term Deposit Accounts.
2. Product differentiation among these accounts is achieved by expanding the scope of generic products from a plain vanilla account to a value enriched account.

3. Built in ATM/Debit Cards/Credit Cards/Multi City Cheques have become generic features. Internet Banking, Telephone Banking, Mobile Banking have become essential value additions.
4. The value is enriched by tagging group insurance products in the life and non life segment at a very corn petitive premium and/or providing sweep facilities from savings or current accounts to fixed deposit accounts above a certain specified level resulting in increase in the earning potential of the deposit balances. Some banks offer an auto overdraft facility.
5. In PSBs, Savings Bank or current account with ATM/Debit Cards are offered as a standard entry level product. Sweep facilities and add on life/health cover are offered only in some banks. Current account with fixed overdraft facility is/also offered by most of the banks.
6. In new generation private sector banks and foreign banks, all the above products are offered.
7. The product differentiation among banks is wafer thin and only value differentiation is the key factor across banks. The technology, process and delivery efficiencies make the difference.
8. All banks offer term deposit products with provision for monthly, quarterly or cumulative interest payment options. Facility of partial withdrawal without disturbing the entire amount is inbuilt. Banks also offer fixed deposits with built in overdraft facilities. The product reengineering offer convenience as a value proposition. Almost all banks across sectors offer the above facilities. Some banks offer accidental life cover for term deposits but the group life cover and health cover are not normally offered to term deposits.

**Retail Asset Products:**

1. In any customer expansion strategy, retail loan is packed as the main attraction uniformly by all banks.
2. For retail assets, product, price, process and delivery innovations are major issues.
3. Cross selling and product bundling opportunities are structured around retail asset products.
4. The main advantage of retail assets is (i) the stability of the asset base because of the large customer base. Other important reasons are (i) the better spreads in income, (ii) risk diversification (iii) scope for capturing additional revenue streams from other avenues.
5. The standard retail asset products offered by banks are Housing Loans, Consumer Durable Loans, Car Loans, Credit Cards and Personal Loans. Other retail loans include loan against rental receivables, salary overdrafts, loan against securities, loans for traders in the personal segment. Retail Loans are also structured by some banks to target specific professional segments like doctors, architects and advocates etc, to finance their professional requirement.
6. Almost all banks extend the standard retail asset products to the customers and prospects. But only a few banks extend loans against rental receivables and salary overdraft. Some banks have special schemes for small traders in the personal segment and also schemes for extending loan/overdraft facility against cars for enhancing their equity.
7. Retail loans are the bread and butter of retail banking space for banks and banks compete with one another in designing, marketing and expanding the retail asset space.

**Other Products/ Services:**

1. Other products and services are meant for providing process and delivery efficiencies by additional service tools to the basic products.
2. These products include Credit Cards, Debit Cards, ATM Cards, Telephone Banking, Mobile Banking, Internet Banking, Depository Service and Broking Services.
3. These also include distribution of third party products like life and non life policies, mutual funds, retail sale of gold coins, bill payment services, multi city cheques, payment gateway for rail, air ticket bookings, wealth management services, portfolio management services and private banking.
4. These services are offered with objectives of satisfying customer's multiple needs and also to augment fee based income.
5. Many PSBs are not in the credit card business since it is a big volume game and needs process efficiencies. However, Debit Cards, ATMs are offered by almost all PSBs.
6. Most of the banks are paying attention to Internet Banking and Mobile Banking, to realize the huge potential available in this space.
7. Depository Services are offered by some banks but Broking Services are offered only by very few banks.
8. Corporate Agency for Life and Non Life and distribution of mutual funds are done by almost all PSBs while sale of gold coins are done now by a good number of banks.
9. Bill Payment services are offered by a few banks and multi city cheque facility is offered by most of the banks. Payment Gateway facility is yet to make a big impact and offered only by few banks.

10. Wealth Management, Portfolio Management Services are generally not offered by PSBs.
11. New generation private banks and foreign banks offer the complete bouquet of all the above products/services.

#### **Product Development in Retail Banking:**

1. Product Development is done by banks in different ways. One way is the in house product development independently based on research and on the market dynamics. In this process, the best features in the products available in the market are incorporated along with additional value engineering.
2. Follow the leader approach: In this method, product development is based purely on market conditions and customer segments without any background research and by developing the product on the same lines as the leader.
3. Top Management Instructions: In this method, instructions of the Top Management are followed without any background research or analysis.
4. The basis for these product developments, is either on the segmentation approach or geography based approach or classification based approach or approach based on specific customer segments like **NRI**, **HNI**, **Mass Affluent**, **Salaried**, **Professionals**, **Women** etc.
5. In most of the PSBs, product development is done in house incorporating the market dynamics. The market conditions and customer segments of the bank are factored in the development. The views and instructions of the Top Management are the prime drivers of product development in PSBs. In the development process, geography is not given importance but type of branch and centre and business potential are given due importance.
6. In private sector banks, both old and new, product development is done in house independently, incorporating the market dynamics, segmentation, classification, customer segments, market dynamics and the product positioning adopted by other players.
7. The fundamental approach to product development starts from conducting a market survey about the need levels and gap among the target group, identifying the needs, developing the product, pilot testing to a sample universe, getting feed back, fine tuning the product based on feedback and then the final roll out of the product across targeted segments.
8. In PSBs, market survey is done only through in house resources and not outsourced\_ In some banks, no market survey is done and products developed are launched based on industry practices and need are expressed by customers and without any pilot run and feedback.

#### **Process Models for Products and Services:**

1. There are three approaches to processing of products and services in retail banking - (i) the entire processing is done through in house resources, (ii) some products processed in house and for some products outsourcing is done for process; (iii) outsourcing of-entire process subject to prescribing process stands.
2. In PSBs and old private banks generally the entire process for products and services are done through in house resources but in some banks, process part of some products are outsourced.
3. In new generation private sector banks, outsourcing is attempted partially for some process areas.
4. In foreign banks, the entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of retail banking services.

#### **Retail Assets**

5. Banks adopt different process models for retail asset products\_ Since retail assets is the core of retail banking activities, banks compete with one another to achieve the best process efficiencies for capturing the customers and enhance their retail asset book.
6. For retail assets, the common form of process models are Centralised Retail Assets Processing Centres where all the retail loans sourced at the branches and marketing team are processed at a single point and assets are financed through that centre or processing alone done at the centre and financing done at the branches.
- 7\_ In yet another model, there is centralized processing for some asset products like Housing Loans and regional processing centres or stand alone processing at branches for other products.
8. In the third model, there is no centralized processing but only regional processing hubs to cater to specific cluster or geography of branches. It will exist along with the stand alone processing at the branch level.
9. Some banks follow the stand alone branch level processing and delivery of retail assets without resorting to any centralized model or regional hubs.
10. The ultimate aim is to build absolute process efficiencies.

11. In public sector banks, the level of implementation of centralized retail loan processing centres is low. The process happens only through either regional hubs or branches or a blend of both.

12. In private sector banks, in case of old banks the model is mainly stand alone and in new banks, a blended model comprising of centralized processing for some products and regional hubs for some other products are followed for effectively controlling the lead time for processing.

13. In foreign banks, centralised processing is the norm for retail asset processing.

#### Retail Liability

14. The model for processing liability products differs across banks. Some banks follow the centralized model for processing liability products. For example, for opening of a Savings Account the stages involved are filling the Account opening form, opening of account, issue of Pass Book, Cheque Book, ATM Card/Debit Card, PIN Mailers for the Cards. In centralised processing all the above activities are carried out in a single point. In regional processing hubs, the same activities are carried out geography wise. In some banks, some activities like issue of cheque books, cards, PIN mailers are centralised or done at regional hubs while opening of accounts **will** be on a stand alone basis. Some banks follow the conventional model of stand alone processing at the branch level.

15. In almost all PSBs, stand alone processing model is generally adopted for processing liability products. Opening of accounts, related KYC compliance are done at the branch level itself. In some banks, issue of cheque books is centralized or done at regional level. However, in most of the banks, issue of ATM/Debit Cards is done centrally.

16. In new private sector banks, a judicious mix of centralised, regional and stand alone models are implemented for liability products depending upon the type of products/services.

17. In foreign banks, generally centralised processing is adopted and mostly done through outsourcing or dedicated back office.

18. Process models differ for products which require single stage process and multi stage process. For example, opening a fixed deposit and issuing receipt involves only a single stage process. Like wise; giving car loan is a single stage process. But in case of housing loans or Savings/Current Accounts, multi stage processing is involved. Banks have to choose stand alone or centralised processing model depending on the product for better process/delivery efficiencies.

19. Process time is a major differentiator in the efficacy of retail banking operations. Process Time is business sensitive and customer sensitive. It reflects the confidence and process efficiencies of the bank. The quicker the process time, more the delivery efficiencies and customer recognition. Banks are implementing process time prescriptions for different retail asset products. In most of the PSBs, the process time is prescribed and varies from 7 days to 15 days depending upon whether it is processed at the branch or regional hub or centralised processing. In old private banks, process time is relatively less for retail asset products revealing their extra commitment in retail asset expansion. In new private sector and foreign banks, the process time for various asset products is structured based on the type of asset as centralised processing is the standard model adopted by these banks.

#### **Pricing of Products and Services:**

1. Various factors considered by banks for designing a Pricing model of products and services include (i) market dynamics, risk perception, return expectations, tenor/duration, resources position, asset liability management positions and customer profile (ii) regulatory advices i.e. RBI guideline (both overt and covert) (iii) asset liability management practices.

2. In PSBs, though pricing is market driven and competitive, in almost all the banks, pricing is mainly driven on the basis of the asset liability management practices of the banks and regulatory advices. Some banks like State Bank of India have started implementing aggressive pricing strategies in Housing Loan segment. They follow a Structured step up pricing model with an initial **low** and attractive price and switch over to market related pricing after 3 years.

3. In new private banks and foreign banks, though the pricing fundamentals almost remain the same, the pricing of products are always aggressive and ahead of the market to set a price race in the market for demand driven products like term deposits, credit cards, car loans, housing loans etc.

4. Price structuring for products and services is done by banks in many ways. Stand alone pricing for different products and services is the basic structure. It is fine tuned as per quantum and volumes. Price Preferences/Price rebates based on the above also form part of the structuring. Special quotes for high value deposits and concessional rates of interest are examples of this structuring.

5. Structuring also involves price bundling. If a customer avails number of products, then the total price proposition is made attractive than the stand alone pricing for the individual products of the **bundle**. This structuring is a cross selling strategy to entice the customer to avail more products so that profitability per customer is enhanced.

6. Pricing by PSBs: In addition to stand alone pricing structure, most of the PSBs have price concessions as



well as rebates as a part of the pricing structure. But the same is applied depending on the volumes, quantum and relationship. Offering rebates on completing the repayment schedule is also attempted by some banks. Price bundling is not adopted in a big way by PSBs.

7. In new private banks and foreign banks, effective price structuring happens by actively adopting both concessional pricing and also aggressive bundled pricing structure to effectively cross sell.

8. Further, in addition to or in lieu of price rebates/discounts, other services and products are provided free or at concessional price as part of pricing structure. For example, free remittance facilities, issue of drafts, waiver of service charges, processing charges are offered as concealed price structures and are offered based on quantum and volume business.

### **Technology Models in Retail Banking:**

1. Technology is the backbone of the process and delivery efficiencies of banks. Technology and Retail Banking are inseparable. Technology is the foundation on which the retail banking edifice is built across the globe. Technology is the enabler for building and translating a customer data base into retail banking business.

2. The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models.

3. Most of the PSBs have primarily in house models with partial outsourcing also. Total in house development and implementation by the in house team is practiced by some banks whereas in some other banks, the development is done by some vendor and implementation is taken care of by the bank. In case of total, in house development, the cost factor will be favourable.

4. Almost all old private banks follow outsourced model for technology basically because of the scale to migrate to Core Banking Model.

5. In case of new private banks, the model is predominantly outsourced with partial in house model. In foreign banks, outsourced model is mostly adopted.

6. The levels of technology implementation in PSBs started from stand alone Automated Ledger Posting Machines (ALPMs) and then moved to total branch automation and regional net worked hubs.

7. New private banks started with technology advantage of a single server environment which gave them the edge over other banks.

### **Core Banking Solutions**

8. In PSB banks, core banking solutions networking the customers and accounts in a single platform is almost complete. The level of implementation of core banking will directly increase the chances of availability of customer data base across products and will increase the scope for cross selling and up selling. Core banking gives clues about the level to which the data base is horizontally or vertically organized. Horizontal or vertical organized refers to whether data is available product wise on a stand alone basis or data is available customer wise on an integrated basis. PSBs are more horizontally organized in the process model with various levels of vertical position across banks. Customer data base and products integration has not materialised fully which will be a hindrance to effective retail business.

9. In new private banks and foreign banks, core banking is the technology and process model with which the entire business model is built. It is a vertically organized model with total customer product integration and used effectively to market a bouquet of retail products to a targeted customer base.

### **DISTINCTION BETWEEN RETAIL AND CORPORATE/WHOLESALE BANKING**

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

2. Retail Banking is a mass market banking model whereas wholesale/corporate banking caters to a relatively smaller segment of business/corporate client base.

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

4. The ticket size of loans in retail banking is low whereas the ticket size is high in corporate loans. Ticket size means the amount of loan per customer.

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

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

7. Monitoring and recovery in retail assets are more laborious because of the larger customer base as compared to corporate banking.
8. In the liability side also, the cost of deposits is relatively less in retail banking and mostly go along with the card rates as the ticket size in retail deposits is **small**. In corporate banking, as the ticket sizes of deposits will be large, the cost of deposits will be high due to pressure from the corporates for higher rates and competitive forces to garner the deposits.
9. The impact of NPA will be more pronounced in corporate banking than retail banking as the ticket sizes in corporate loans are higher than retail loans.

## TEST YOURSELF

Q.51. **Discuss the bank's product/service life cycle?**

- (a) Introduction-growth and decline
- (b) Introduction-growth and maturity
- (c) Introduction-maturity and decline
- (d) Introduction-growth-maturity and decline

Q52. **At which life cycle any bank should aim for keeping the product/service for larger period?**

- (a) Maturity stage
- (b) Growth stage
- (c) Introduction stage
- (d) All above

Q.53. **At which stage of life cycle of a product the sales volume are low and revenues are insufficient?**

- (a) Introduction
- (b) Growth
- (c) Maturity
- (d) Decline

Q54. **At which stage of life cycle of a product, there is likelihood of break even point and generation of profit to start?**

- (a) Maturity
- (b) Introduction
- (c) Maturity
- (d) Decline

Q.55. **When the sales or incomes volume are at peak in the life cycle of a product or service?**

- (a) Introduction
- (b) Growth
- (c) Maturity
- (d) Decline

Q36. **A product become less attractive for the customers due to various reasons. At which stage of life cycle of a product or service this happens?**

- (a) Introduction
- (b) Decline
- (c) Maturity
- (d) Competitions

Q.57. **Some products will have an instant death immediately, at which stage?**

- (a) Introduction phase
- (b) Decline phase
- (c) Consumer perception phase
- (d) Maturity phase

Q38. **Product/service life cycle depends on?**

- (a) Core service
- (b) Augmented product
- (c) Subsidiary Service
- (d) Both (a) and (b)

Q.59. **in banks what are core products or services?**

- (a) Internet banking and mobile banking
- (b) Life Insurance products selling

- (c) Savings /current/term deposits and group health products
- (d) Demand and time deposits and group health products

**Q.60. Which kind of bank products and services need arises for marketing orientation?**

- (a) Core products
- (b) Augmented products
- (c) Remittances
- (d) RTGS

**Q.61. What are the various types of products, which a bank is required to market?**

- (a) Liability Product/Asset Products/Remittance Services/fee based services

- (b) Deposits-Products/Retail Credit Products/Deposit Services
- (c) Liability Product/Retail Credit Products/banassurance
- (d) Both (a) and (c)

**Q.62, Why KYC norms have been made compulsory in banks while opening accounts?**

- (a) Name, address of the customer and source of funds
- (b) Identity and genuineness address verification and risk perception
- (c) Both (a) and (b)
- (d) To know the biographical/professional personal and debt profile of the customer

**Q.63 Advise an asset product which is required to be adjusted in a very short time?**

- (a) Demand Loan
- (b) Bill Finance
- (c) Guarantees
- (d) Overdraft

**Q.64. Tick an asset product which is self liquidating?**

- (a) Overdraft
- (b) 610 Finance
- (c) Credit Card receivables
- (d) Personal Loan

**Q.65. Services which a bank provides under remittances?**

- (a) Draft-bankers' cheques
- (b) NEFT and RTGS
- (c) Drafts/bankers cheques/telegraphic transfer
- (d) Both (c) and (b)

**Q.66. What are Non-Fund Based services by the banks?**

- (a) Letter of Guarantee and Letter of Credit
- (b) Sanction letters
- (c) Loans and advances
- (d) Drafts and Telegraphic Transfer

**Q.67. Mark the features of a Letter of Credit?**

- (a) No fund outlay+Liability depends upon the happening of an event
- (b) Accepts the liability of the customer
- (c) On future date the liability may not crystallise
- (d) Fund facility and can augment bank's income

**Q.68. What are the stages in new product architecture?**

- (a) Idea generation/idea screening/concepts testing
- (b) Concept testing/business analysis and market analyze /test of marketing
- (c) Idea screening/idea generation/test marketing and commercialisation
- (d) Both (b) and (c)

**Q.69. There is actual products development example in PS8s in recent years called deposit cum credit linked product for women, what its features are?**

- (a) Opening of a recurring deposit account and availing loan in fixed multiples of R.D A/c instalment
- (b) Opening of a fixed deposit account for 3 years and availing loan in fixed multiples of FDR
- (c) Opening of a savings bank a/c with balance of Rs. 1000 and availing loan of Rs. 5000 repayable in 30 monthly instalment
- (d) Open any deposit account and after 3 months avail loan as per women's husband's monthly income.

**Q.70. New Product/Service development is very easy, but subject to certain constraints. What are those constraints?**

- (a) Heterogeneity of customers and product obsolescence due to technological revolution
- (b) Bigger product range/difficult to convert easy ideas into product development/resistance from bank employees due to increase in their work load
- (c) Homogenous customers in Metros and wider competition from other banks
- (d) Both (a) and (b) only

**Q.71. What are the generic unbranded products in banks?**

- (a) Savings account/term deposits/current a/c
- (b) Demand Loans/term loans/guarantees
- (c) Letter of Credit/recurring deposit/issue of demand drafts
- (d) All above

**Q.72. in product management, the expected product/service has the incorporation features like -**

- (a) Customer expectations
- (b) Banker expectations
- (c) Customer banker expectations
- (d) Competitor's product and bankers' strategies

**Q.73 When any voluntary improvements are made by banks in their products in order to market them what is this called?**

- ( a ) Potential Product
- ( b ) Augmented Product
- ( c ) Expected Product
- ( d ) Generic Product

**Q.74. Everything that might be done to attract and hold customers under product development, is called?**

- (a) Augmented Product
- (b) Generic Product
- (c) Expected Product
- (d) Potential Product

**Q.75. One of the main tasks in product management is called?**

- (a) Product Management
- (b) Product Development
- (c) Product Policy
- (d) Product Evolution

**Q.76. What are the concepts in Product Policy?**

- (a) Appraisal or review of product and individual products
- (b) Decisions on product differentiation and positioning
- (c) Packaging and brand decisions and new product development
- (d) Both (a) and (c)
- (e) Both (a) to (c)

**Q.77. Appraisal of product line and individual products is essential, where there is change in customer's?**

- (a) Environment/preferences
- (b) Change in bank's policy due to change in top management
- (c) Priorities
- (d) All above

**Q.78. Decisions on product differentiation means?**

- (a) Differentiating features of product/alongwith the unique selling proposition
- (b) Differentiating benefits and satisfaction to customers (c) Both (a) + (b) (d) None of above

**Q.79. Unique Selling Proposition (USP) is nothing but a?**

- (a) Value addition to the product
- (b) Differentiation strategy of the product
- (c) Higher income to the bank/vendor
- (d) Edge over the customers

**Q.80. What is product positioning?**

- (a) Positioning is what you do to the product
- (b) Positioning as the art of selecting out of a number of unique selling proposition

- (c) Positioning is non-understanding of prospective or existing customers mind
- (d) Both (a) and (b)

**Q.81. In product policy marketing what is the most important?**

- (a) Branding
- (b) Positioning
- (c) Differentiation
- (d) Reviews of product

**Q.82. Branding is very powerful tool in marketing. Why is this important for banks?**

- (a) Relationship Building
- (b) Competitive Positioning
- (c) Creates prospective-customer's awareness
- (d) Both (a) + (b) only
- (e) All (a) to (c)

**Q.83. In marketing, when catchy and attractive names for the products are accorded by the bank, then what is this called?**

- (a) Art of selection
- (b) Branding for relationship building
- (c) Edge over competitors
- (d) Customer preferences

**Q.84. What is true in product development?**

- (a) Customers are different and their needs are different
- (b) Customers are different and each customer in will have different sets of need for financial services
- (c) Needs of customers are uniform though customer themselves are different
- (d) Both (a) + (b)

51	D	52	A	53	A	54	C	55	C	56	B	57	C	58	D	59	C	60	A
61	A	62	C	63	D	64	B	65	D	66	A	67	A	68	B	69	A	70	D
71	D	72	A	73	B	74	B	75	C	76	E	77	A	78	C	79	A	80	B
81	A	82	E	83	B	84	B												

# Module: B

## Retail Products

Retail Products Overview - Customer requirements, Products development process, Liabilities and Assets Products / Description of Liability products, Description of Asset Products, Approval process for retail loans, Credit scoring.

Important Asset Products

Home Loans - Eligibility, Purpose, Amounts, Margin, Security, Disbursement, Moratorium, Prepayment issues, Repayments / Collection.

Auto / Vehicle Loans - Eligibility, Purpose, Amounts, Margin, Security, Disbursement, Moratorium, Prepayment issues, Repayments / Collection.

Personal Loans Eligibility, Purpose, Amounts, Security, Disbursement, Moratorium, Prepayment issues, Repayments / Collection.  
 Educational Loans Eligibility, Purpose, Amounts, Security, Disbursement, Moratorium, Prepayment issues, Repayments.  
 Credit / Debit Cards - Credit Vs Debit Cards, Eligibility, Purpose, Amounts, Margin, Security, Process of using the cards, Billing Cycle, Credit Points.  
 Other Products / Remittances / Funds Transfer

#### 4. CUSTOMER REQUIREMENTS

##### Customer Segments:

1. Broadly customers are segmented based on their income levels as their need pyramid will vary with the rise in their income levels.
2. Banks develop and market their products based on this segmentation and target the relevant segment for maximum conversion of business.
3. The basic segmentation of customers based on their income levels is given below

<b>Income Levels (Rs. Lakhs)</b>	<b>Customer Segment</b>
<b>2-10</b>	Mass Market
<b>10-15</b>	Mass Affluent
<b>50-400</b>	Super Affluent
<b>400-4,000</b>	HNW High Net Worth
<b>4000-120,000</b>	Super HNW Super High Net Worth
<b>Above 120,000</b>	Ultra HNW Ultra High Net Worth

4. First three segments namely Mass Market, Mass Affluent and Super Affluent are the most important segments for banks with regard to their retail banking initiatives. The products and services will be structured mostly to meet the requirements of the above segments.
5. Assumptions about customers: For designing retail banking products and services following assumptions are considered which help banks to develop suitable products and services to cater to the need of the customers:
  - a. Customers are different.
  - b. Needs of the customers are different
  - c. Each customer will have different sets of need for financial services.
  - d. The need requirements of customers for financial services will be unique.
  - e. Customers can be broadly grouped together based on their need pyramids.
  - f. Customers can be grouped together based on their income, age, geography, profession, employment, vocation gender and family size.
  - g. Product and services can be developed for a single or a combination of the above elements to satisfy most of

the needs.

### Maslow's need hierarchy and customer requirements

1. 'Maslow's Need Hierarchy Theory of Motivation' indicates how a person is motivated based upon his needs at a particular point of time. The same concept can be applied for understanding customer requirements and to understand how banks structure products to match the different stages of the need pyramid of the customers.
2. Customers buy the products and services of the bank primarily to satisfy their needs and if their needs and banks' products match and if the benefits promised by the bank to the customer are delivered then there will be absolute satisfaction from the customer end.
3. The requirements of the customers in general can be related with the need hierarchy theory by Abraham Maslow who has defined five needs of individuals in their various stages of life.
4. The needs start from the basic requirements and move up the value chain during the life stage progression.
5. If banks structure products and services to match the different stages in the need spectrum, banks will achieve both objectives of customer satisfaction and business conversion.
6. The Need level and matching products are given below:

S.No.	Need Level	Matching Banking, Investment and Insurance Products
1	Physiological Needs	Core Saving Accounts; Personal Accident Cover; Housing Loans
2	Security/Safety Needs	Recurring, Fixed Deposit Products. Life Insurance Products- Endowment Products with low premium, long tenor and high maturity amounts. Tax Planning Banking, Insurance and Mutual Fund Products.
3	Social Needs	Consumer Loans; Personal Loans; Home Loans; Car Loans Loans for Professional Development for Doctors, Engineers, Lawyers, Chartered Accountants, Management Consultants, Architects etc., Insurance Cover tagged to above loans. Retail Gold Coins. Health Policies for self and family. Investment Product like Mutual Funds; Systemic Investment Plan of Mutual Funds Unit Linked Insurance Products.
4	Esteem Needs	Special Term Deposit -Products; Term Insurance Products; Second Housing Loans/Home; Improvement/Home Decor Loans

- 5 Self Actualization Needs Pensioners Loans; Retirement Solutions in Banking & Pension Plans in Insurance; Senior Citizens Term Deposit Products

The products may tend to overlap across the need spectrum. It is also possible that all the stages run concurrently for the customer base.

### Customer Requirements about Service Quality:

1. **Tangibles:** Appearance of physical facilities, equipment, personnel and communication materials; attractiveness of bank's facilities; easy understandability of credit card statement.
2. **Reliability:** Ability to perform the promised service dependably and accurately;
3. **Responsiveness:** Willingness to help customers and provide prompt service. Resolving customer's problems quickly; Recredit of wrongly debited charges properly.
4. **Assurance:** (i) Competence - Possession of required skills and knowledge to perform services; (b) Courtesy - Politeness, respect, consideration and friendliness of the contact personnel; (c) Credibility - Trustworthiness about the service provider; (iv) Security - Freedom from risk and doubt.
5. **Empathy:** Access - Approachability and ease of contact; (ii) Communication - Keeping customers informed in a language that they understand (iii) Understanding the customer - Making an effort to know customers and their needs.

Customer Satisfaction levels are basically derived from the quality of service for different products like Savings Accounts, Home Loans, Personal Loans and varies across products and banks. While PSBs score over private banks in products like Home Loans, private banks do better in Personal Loans.

### Customers' Requirement from Banks

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

- (i) Right product mix to satisfy different customer segments.
- (ii) Right channel mix (both direct channels and e channels).
- (iii) Structured process time across products and adherence to the time prescriptions.
- (iv) Delivery of the promises with regard to products/services and channels.
- (v) Satisfactory service experience from the delivery channels and the service personnel.
- (vi) Effective Communication about the different products and services.
- (vii) Transparent service charges.
- (viii) Good ambience.
- (ix) Effective and time bound grievance redressal mechanism.

If the above expectations are met by the banks, customer loyalty will be at its peak and deficiency in the above will result in dissatisfaction and deterioration of loyalty and will trigger customer switching.

## TEST YOURSELF

1. The customer segment whose income level is between Rs. 10 lacs to Rs.50 lacs is referred to as
  - (i) Mass Affluent
  - (ii) Super Affluent
  - (iii) HNW **Ans: I**
2. According to Maslow's Need Hierarchy Theory, needs may be broadly classified as
  - (i) Physiological Needs
  - (ii) Safety Needs
  - (iii) Social Needs
  - (iv) Esteem Needs
  - (v) Self Actualisation Needs
  - (vi) All the above. **Ans: VI**
3. Customers' expectations of service quality mainly depend on the following :
  - (i) Tangibility in services.
  - (ii) Reliability.
  - (iii) Responsiveness.
  - (iv) Assurance
  - (v) Empathy.
  - (vi) All the above. **Ans: VI**

## 5. PRODUCT DEVELOPMENT PROCESS

### PRODUCT DEVELOPMENT PROCESS:

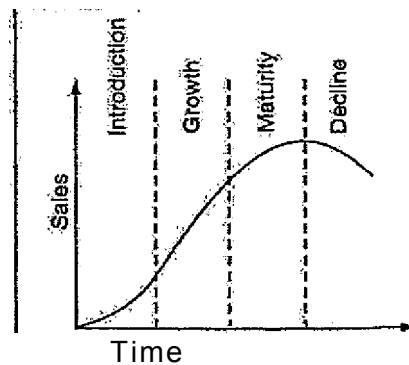
1. Product is the starting point of the marketing process. Everything is centered around the product. The add on and the other value propositions are tagged to the products to offer better value and acceptance to the product. Products are almost always combinations of the tangible and the intangible (ii) To the potential buyer, a product is a complex cluster of value satisfactions (iii) A customer attaches value to a product in proportion to its perceived ability to help solve his problems or meet his needs.
2. Definition of a Product: Anything that has the capacity to provide the satisfaction, use and return desired by the customer is called product. If the bank product is no longer capable of satisfying customer needs and wants, the product will fade out.

**PRODUCT LIFE CYCLE:** There are various stages in the life of the product. The product life cycle is illustrated in the following diagram.

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.Product Life Cycle Curve





1. First stage: Introduction stage:  
When a product is introduced the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it. In the introduction stage it happens because it takes time for the product to occupy the minds of the customers.

2. Second stage: 'growth' stage: In

this stage, the sales volume of the product picks up and the product is likely to break even and start generating profits for the organisation. During this period the consumer awareness of the product will be more and that will result in growth.

3. Third stage - 'maturity' stage: In this stage there is more growth and sales volume peaks. There is a wide customer base which will result in maximisation of sales with inflow of business and profits.
4. Fourth stage - 'saturation' stage: In this stage, staleness will be visible because of competition and better products available from the competitors, which will result in saturation of sales. The business and profits stagnate, customer develop a tendency of indifference to the product.
5. Final stage - 'decline stage': In this stage, the product becomes less attractive for the consumers due to various reasons and results in drop in sales volume and profits. This stage if not attended properly will lead to product death. This can be avoided by fine tuning and value adding to revitalise the product for continued acceptance.

#### **Life Cycle and Bank Products:**

1. Stages of product life cycle are very important for banks in product development. Banks should aim for keeping the product in the maturity stage as long as possible, so that business and profit maximisation happens continuously.
2. Product life cycle is different for different products.
3. It is not always necessary that a product should travel through the product life cycle process. Some products will have an instant death immediately after introduction phase. This may happen due to wrong approach towards marketing research and consumer perceptions. Similarly, in some cases, there may be immediate spurt to the growth and maturity phase in a very short period and will stay there in the maturity period for a very long time.
4. The success of the phases depends on approach towards packaging strategies and repositioning strategies, so that the products stay in the maturity phase for quite a long period to occupy a permanent place in the perceptual need map of the consumers.
5. Product obsolescence contributes to the premature death of products even after effective market research.
6. In the case of computer products, the product life cycle will be very short because of fast changing technologies. This results into a high degree of product obsolescence.
7. In the banking scenario the product life cycle depends on whether the product is a core product or augmented product.
8. Core products are those products in which the organization basically deals. In banks, Savings Bank, Current Account Term Deposit, Recurring Deposit, Cash Credit, Overdraft, Retail Loans, Term Loan, Drafts are core products. These core products are essential products and need not have a strong marketing content. These products will have a stable life in the growth stage of product life cycle, because they are indispensable for the different segments of customers.
9. Augmented products are those products which are developed from formal products by combining two core products and adding value to the product in terms of benefits and comforts to the customer. If it is availed by the customer it will result in some value addition to the customer.
10. The concept of augmented product keeps on changing over the years. A product may be augmented at one time and becomes core later on. For example, earlier offering an **ATM** Card was considered as a value addition to enable the Customer to withdraw money 24 hours. But now banks have made ATM and Debit Card as a part of the core product. Currently, a core Savings Bank will include an ATM/Debit Card and a Cheque Book and augmented product will include Internet Banking, Mobile Banking and a group health or life insurance product tagged to it.

#### **Product Lines of a Banker:**

1. A Bank has to understand different segments and develop appropriate products to meet these segments.
2. Though different products cater to different segments, there are certain products like core products which cater to **all** segments.
3. **Branding:** Different bankers market their different products in different names though they have common features. The idea of this is to make the customer identify the bank with the particular name of the product. This initiative of banks to create recall for the products is termed as "Branding".
4. Banks adopt two types of branding — (i) Product branding to create product recall; (ii) Corporate Branding to create recall about the banks itself.
5. **For** core products there need not be much marketing orientation but for augmented products there should be a concerted effort for the product to succeed.

**Deposit Products:** In the deposit products category, the deposit products can be classified into Saving Deposits, Current Deposits, Term Deposits and Combination Deposits.

#### **Savings Deposits**

1. Saving accounts will include core saving account with cheque book and debit card and Augmented saving account including value additions like Internet banking, mobile banking, tagged insurance cover, personal accident cover, sweep in sweep out facility, other concessions like free remittances
2. SB deposits are offered as a simple product for inculcating the habit of savings and routing the Savings transactions in that account.
3. There is free deposit and withdrawal of money by cash and by cheques.
4. It gives absolute flexibility for the customer to operate his account and price is kept at a low level.
5. Interest rate was deregulated till 24<sup>th</sup> Oct 2011 and was paid at 4% on daily product basis but deregulated since 25.10.11.
6. The complexion of Savings as a plain vanilla product has changed with the advent of technology. ATM Cards/Debit Cards are issued along with the Savings Accounts as essential tags for operation of the account.
7. For augmenting the product and as a value addition to the customers, some banks are offering group life cover and/or group health cover at a very attractive price as compared to a stand alone cover.

#### **Current Deposits:**

1. These are offered mainly for carrying out business and trade transactions.
2. There is absolute freedom for withdrawal and deposit of trade/business related transactions and service charges are charged for this depending on the volume of transactions.
3. No interest will be paid for the deposit amounts. This is a 'no cost deposit' for the banks. Some banks are offering a tagged Life cover or health cover or both.
4. Some banks are offering sweep in facility earning interest on balance.

#### **Term Deposits:**

1. Term deposits are held for a definite period.
2. Interest rate depends upon the period of deposit and these are offered with facility for getting monthly quarterly interest as well as deposits with cumulative interest at the end of the deposit period.
3. One variant of term deposits is the 'Recurring Deposit' where the depositor is required to deposit fixed sums of money every months for a specific period and at the end of the period, the principal along with the accrued interest are paid back to the depositor. The advantage of Recurring Deposit is term deposit interest rates for the specified period are offered for this deposit also. It helps the monthly income segment to save regularly a fixed amount and earn higher rates of interest applicable to term deposits. As an additional product extension of Recurring Deposits some banks also offer more than one option regarding the quantum of monthly deposit, the flexibility of paying the installments in bunch and also combination of both. This will attract business from the segments which do not have regular periodic cash inflows but want to save regularly and earn higher interest.

#### **Combination deposit:**

1. This is the result of effort of a bank to satisfy customer need and comfort maximization.
2. While issuing FD, banks may allow partial withdrawal facility without breaking the entire deposit. Thus it gives benefit of both term deposit as well as saving or current deposit. Some banks are offering these deposits to customers to keep their deposit in multiples of Re 1, so that in case of necessity, he can withdraw the exactly required amount.

#### **Credit Products:**

1. Credit products offered by the bank, can be classified into two broad categories, traditional credit schemes and market oriented new credit schemes.
2. Traditional credit products are cash credit accounts for business people to fix credit limits and allow them to operate freely within the limits subject to certain stipulations. Overdraft scheme is to allow credit for a short period to be adjusted in a very short time. Likewise Demand Loans, Term Loans and Bill Finance are credit schemes to meet specific credit requirement of the borrowers in their business for purchase of machinery, equipments and other requirements and against their receivables.
3. Bill Finance facility is self liquidating with the realisation of bills purchased/discounted for the borrower, Demand Loan and Term Loan have definite repayment period.
4. In the retail side, credit schemes are offered by the banks for specific segments based on the needs of these segments. Home Loans, Personal Loans, Auto Loans and Credit Card Receivables are some of the common retail credit schemes. In addition, loans tailored to meet the individual requirements like Loans for Professionals, Doctors, Lawyers are offered by banks.
5. The basic principles adopted for developing credit schemes are two fold — customer segment and business orientation of the bank. are two dimensional.
6. If the customer segment is in need of a product and the size of the segment is quite large, then customer need satisfaction will be the first objective of the banks. If the customer size is justifiable for the product to be developed and marketed and the developed product will generate sufficient volumes and ultimately reward the bank, then the bank will definitely develop and market the product with the proper pricing and features.

#### **Other Services**

1. All the services offered by the bank other than the Deposit schemes and Credit schemes can be grouped under other services.
2. Other services can be further classified into Remittances and other Fee Based Services.
3. In the remittances services, issue of Drafts, Bank Order/Bankers Cheques, National Electronic Funds Transfers (NEFT), Real Time Gross Settlements (RTGS) are the major services offered to the customer. The cost of availing these services will depend on the quantum of transactions and the customer's business relationship with the bank.
4. Other fee based services include Collection of Cheques, Safe Deposit Lockers, Standing Instructions for carrying out the instructions of the customer on a periodic basis, Merchant banking services in the area of capital market issue management in the capacity of Lead Manager, Co-Manager to the issues etc., undertaking Portfolio Management Services for their Non-Resident Indian clients to manage their investment portfolio, Consultancy Services for projects in Agriculture and Export Oriented Projects etc.
5. Non fund based business of the banks is a part of other services. This includes (i) Letter of Guarantee and (ii) Letter of Credit.
6. In the Letter of Credit and in the Letter of guarantee, though at the lime of offering these services, there is no fund outlay but at any future time, a liability may arise for the banker to part with the bank's funds. The liability is depending upon the happening or non happening of certain events as specified in the letter of guarantee.
7. Letter of Guarantee is a guarantee given by the bank on behalf of their customer to a beneficiary, guaranteeing the beneficiary to pay if the customer is not paying or performing. -
8. Letter of credit is an undertaking from the banker to pay the beneficiary the prescribed amount, subject to production of certain documents that are listed in the LIC itself. In the case of Letter of Credit also, through at the time of offering the service, there would be no funds outlay, at a future date a liability may crystallise on the bank.
9. LC and Bank Guarantee offer tremendous scope for income and profit because banks collect commission for offering these services without outlay of funds. But the risk involved is, if there is failure of the obligation by the party, then banks' outlay of funds is involved.

#### **Other fee based services — Third Party Distribution:**

1. Third party distribution of products of other financial organizations like insurance company or mutual fund is a source of fee based income.
2. Activities like insurance or mutual fund business are called as para banking activities and RBI has prescribed rules and regulations for carrying out these activities by banks.

#### **NEW PRODUCT DEVELOPMENT**

1. In marketing, the marketer should correctly identify the existing phase of the product life cycle and should develop new products to enable the new products to go through the introduction phase and jump to the growth phase when the old product starts its decline phase. This will enable the organisation to survive and achieve

the business objectives.

2. The bank marketer has to constantly watch the market, gauge the changing needs of the customer, compare it with the features of the existing product range, check up whether there is scope for developing new products and have to immediately start developing new product and market them to proactively seize the emerging, changing customer needs.

**Stages in New Product Development:** Stages involve the following — (i) Generating new product; (ii) Ideas screening (iii) Concept Testing (iv) Business analysis and Market analysis (v) Actual product development, test marketing and commercialisation :

**(i) Generating New Product Ideas:** New product ideas are generated from market research based on customer expectations from the existing and potential customers. It is also generated in house from the employees of the banks. In some banks, new product ideas are solicited from the staff members under staff suggestion scheme and members are requested to freely vent their ideas about new products based on their exposures and experiences and feedback they receive from the customers. The suggestion will be invited both on refining the existing products as well as ideas for new products.

**(ii) Idea Screening:** With the grouping together of all the ideas generated from various sources, internal and external, the ideas are analysed based on the following approach:

- (a) Whether there is any felt need for the new product?
- (b) Is it an improvement of the existing product?
- (c) Can the existing infrastructure handle the new product?
- (d) Is the new product in our existing line or a new line of business?

**(iii) Concept Testing:** The concepts of the new product are tested by taking the feedback from the customers about their understanding about the concepts of the product and whether the concepts are attractive enough for them to avail when it is launched to them. This helps the marketer to understand the market response to the 'product concept' idea and to know about the customer perception of the product concept.

**(iv) Business Analysis and Market Analysis;** It is done to decide whether the product is viable from the financial and marketing aspects. This will be based on a cost benefit analysis of the product from the banker's view point and the customer's viewpoint. It will also analyse the expected increase in business, and profits and also the effect on the expansion and retention of customer base. It will also analyse the expected effect on the market share and also the expected penetration of markets of the competitors.

**(v) Actual Product Development, Test Marketing and Commercialisation:** After passing through the above stages, the new product developed is first test marketed in a selected market segment and based on the feedback received from the market the product is launched on a full scale to the desired segments.

### **Constraints in New Product Development**

1. Heterogeneity of the customer base in different branches making it difficult to develop a new product to satisfy all the customer segments.
2. Due to technological revolution, product obsolescence is very fast and so customer preferences would also change drastically. This would have an effect on the product life cycle of the new product.
3. The existing product range of public sector banks is very wide. There is need to prune rather than new product development.
4. Sometimes the ideation stage in product development would be attractive. But it would be difficult to convert the idea as a product with business potential.
5. Resistance from the staff for new product development with a view that new products would increase their work load or result in staff pruning/relocation.

### **Product Management:**

According to Theodore Levitt, over a period, product evolved on the following lines: (i) The Generic Product; (ii) The Expected Product; (iii) The Augmented Product; (iv) The Potential Product.

- 1. The Generic Product:** is an unbranded and undifferentiated commodity like rice, wheat, bread, cloth. It is a core product. In the banking scenario, some examples of generic products are Savings Bank, Current Account, Term Deposits, Drafts, etc., These are core products in banking.
- 2. The Expected Product:** represents the customer's minimal purchase condition and what the customer expects from the product: For satisfying this, the banker when structuring the product will make these expectations as a part of product structuring and will try to differentiate the product to enjoy the distinction from other similar products.

**3. The Augmented Product:** is augmenting or enriching the product voluntarily to enhance the value of the product. These improvements are neither suggested by the customer nor even expected by them. The bank on its own, augments the product by adding an extra facility or an extra feature to the product. For example some banks, as a part of their Savings Bank Account, offers the facility of collecting the cheques of the customer at their doorsteps and offers free collection of cheques. Some other banks offer the facility of operating the customer's Savings Bank Account not only from the branch where the customer is maintaining the account but also from any of their branches in India.

**4. The Potential Product:** may be developed based on suggestions, new ideas, redesigning of existing products. Potential product is tomorrow's product with enormous scope for improvements in the changed competitive scenario. In the technology sensitive banking scenario, setting up computer terminals at the customer's site and offering him to bank from his place for retail customers may be a potential product of tomorrow, though it is available today for select corporate customers.

The entire product development is focussed on the satisfaction of the customer to the maximum possible extent and by continuously reviewing, redesigning the product from various dimensions to achieve business objective.

#### **Product Policy:**

1. Product policy would include the products to be offered to different segments, the product line based on the homogenous needs of the heterogeneous customer base, designing product tailored to specific customer base if the segment is an important segment.
- 2\_ The product policy involves the following concepts — (i) Appraisal of the product line and individual products; (ii) Decisions on product differentiation; (iii) Product positioning; (iv) Brand decisions; (v) Decisions on packaging; (vi) New Product Development.

**(i) Appraisal of Product Line and Individual Products:** The bank should constantly review the product line in the light of changes in the environment, changes in customer preferences, competition in the business. The marketer should take stock of the potential of the present product line.

**(ii) Decisions on Product Differentiation:** In the highly competitive field of banking, almost all banks offer products with similar features. To have an edge over other competitors, the marketer should differentiate his product from the competitor's product based on features, benefits and satisfaction level by doing some value addition to the product. For product differentiation, bank marketers can highlight the USP i.e. 'Unique Selling Proposition' of the product which is the specific feature available with the particular product. The USP may include 'cumulative interest on a quarterly compounded basis', 'withdrawing part of deposit without loss of interest', 'no minimum balance', 'receiving monthly or quarterly interest' on fixed deposit. But over a very short period the uniqueness of the USP will be lost as other banks will come out with the similar products.

#### **(iii) Product Positioning:**

1. Product positioning seems to be an extension of unique selling proposition (USP), it is different from USP.
2. According to Rooser Reeves, 'Positioning' is 'the art of selecting out of a number of unique selling propositions, the one which will get you maximum sales'. For 'positioning' the most important factor is the customer's mind.
3. Positioning starts with the understanding or 'mapping' of a prospective/existing customer's mental perception of products. The strategy of the bank marketer should be to create a perception of their product in the customer's mind so that it stands apart from competing bank's products and approximates much more closely, to what the consumers want.
4. According to Jack Trout, 'positioning' is 'not as what you do to the product, but what you do to the mind'. Citibank's Un fixed Deposit was a positioning strategy to offer the consumer both return and liquidity on the higher side by designing a new product which had features of a Fixed Deposit with high returns, with a facility to withdraw money when required through a cheque book, without any formalities.
5. In positioning, the early starter will derive the maximum mileage, because the subsequent followers will take time to position the product in that slot.
6. If the positioning is threatened, bank marketers will review the product features and USP's of the product and add value to the product and try to recapture or retain the position. This approach is called as a repositioning strategy.

#### **(iv) Product Branding:**

1. Branding can be a powerful tool for relationship building.
2. The branding efforts of products in 'banks' begin at the corporate level.

3. Branding exercise for bank products generally involves giving the different products catchy, attractive names for the products according to the features of the product.
4. Branding the products creates customer/prospective customer awareness when it comes to seeing or hearing advertising message and helps the customers in identifying the brand with the bank.
5. Branding also helps in competitive positioning of the products in the existing and new markets.

## TEST YOUR-SELF

State whether the following is true :

- (i) Customers are different.
  - (ii) Needs of the customers are different
  - (iii) Each customer will have different sets of need for financial services.
  - (iv) i and ii are true
  - (v.) i and iii are true
  - (vi) i, ii and iii are true **Ans: VI**
2. Statement 1 - In the 'introduction' stage of a product, the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it. Statement 2 - In the 'growth' stage, which is the second stage in the product life cycle, the sales volumes remains stagnant.
- (i) Statement 1 is true
  - (ii) Statement 2 is true
  - (iii) Statement 1 and 2 are true **Ans: I**
3. Product architecture consists of the following component/s
- (i) The Generic Product - the core product.
  - (ii) The Expected Product - adding additional features.
  - (iii) The Augmented Product- adding value in addition to features.
  - (iv) The Potential Product - futuristic features in anticipation.
  - (v) All the above **Ans: V**

## 6. CREDIT SCORING

### **Credit Scoring — Concepts:**

The interest rate charged to a customer depends on the risk perception of the customer by the bank. Banks include risk premium in interest rates. The risk perception is different for different borrowers and, ideally, should be determined from their credit history. The lending bank can judge how good a borrower can be by sourcing their credit score from different agencies.

**Credit Score:** Credit Score takes a look at the customer's credit report and through advanced analysis turns the information into a 3-digit number which represents the risk associated with that particular customer or transaction. The higher the score, the lesser is the risk of the consumer's account becoming overdue. In US Credit scoring is done since 1989, when the FICO scores were launched. The lines of credit assessed to arrive at this score would mainly be retail products like home loans, auto loans, personal loans, credit cards and overdrafts.

### **Evolution of Credit Scoring:**

1. In today's environment, when there is a pressure for growth of credit, banks are lending to lower income groups. This calls for sophistication to accurately assess borrowers' ability to repay and, also, to correctly price the loan. For this, banks require assistance of credit information companies who provide a comprehensive report on every retail credit customer containing their verified address, the extent of loans they have taken and whether or not they have ever defaulted or failed to repay any loans on time and in full.
2. Global experience shows that managing risk and knowing retail loan customers is important for business. For example in South Korea and Hong kong, there were very high defaults in retail loans and credit cards.
3. In the U.S.A, three credit bureaus viz. Trans Union, Equifax and Experian provided the credit score for retail customers.

4. A Credit bureau tracks the indebtedness and repayment history of individual borrowers on loans they have taken from banks, non-banking financial service companies and financial institutions. It also contains certain personal information of each borrower, like name, age and verified permanent address. The information is collected in a credit information report, which is made available to loan-issuing members.
5. The credit information bureaus broadly use the following weightages given below to arrive at the score: (1) Payment History - 35%; (ii) Amounts Owed - 30%; (iii) Length of Credit History — 15%; (iv) New Credit - 10%; (v) Types of Credit in Use —10%

#### **What is a Good Score:**

1. In the US, a FICO score of more than 700 is considered excellent.
2. Whether a score is good or not will depend on the bank's internal policy, its customer profile and its risk appetite. Still, any score over 800 will be considered excellent across the board.
3. The credit score is only an indicative tool for managing risk and its effectiveness depends on the banks' internal control mechanism. An objective thing like the credit score will not only help the banks to reduce defaults but also make loan disbursing faster, improve operational efficiency and bring costs down.

#### **Credit Scoring Model:**

1. The scoring model used by Cibil-Trans Union employs multiple attributes including (i) Credit Utilisation (ii) Payment History.
2. **Credit Utilisation** means how much credit is being used by the customer. If a customer could borrow Rs 1 lac but is actually borrowing Rs 50,000, then he is a very safe person from lender's point of view. It also means that he is not overleveraging.
3. **Payment history** includes whether there has been a default by customer. If there has been a default, then on how many accounts defaults occurred, by how many days and by how much. A good repayment history can offset the blemish of a default due to unforeseeable reasons.

#### **Managing the Credit Score:**

1. **Credit Utilisation:** If a person's safe limit is Rs 10000 and he is using only Rs 5000, then he is a very safe customer. If a person's limit is Rs 10000 and he is not fully using it, but also seeking further credit, he could be overleveraging himself and his score could fall. The high number of enquiries, application for additional credit lines, unnecessary and frequent shopping for credit or too many new accounts can be taken as an indicator of being over-hungry for loans and impact the score negatively.
2. **Payment Defaults:** Number of overdue accounts, number of days for which overdue and how much amount is overdue will affect credit rating.
3. **Trade Attributes:** Credit score is also affected by age of line of credit, type of line of credit, mix of various lines of credits. A history of consistent repayment of various types of credit will improve the score.

#### **Positive side of Credit Score:**

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

1. Evidence of financial discipline.
2. If the borrower has defaulted once or twice due to reasons beyond their control, those would show up as clear aberrations in an overall consistent payment history.
3. The longer the credit history, the better. The lender's assessment improves as the span of repayment is bigger.
4. The score normally ranges between 300 and 900. A score of 800+ is considered as a good score but this may vary from bank to bank.

#### **Warning Signs in Credit Score:**

1. Craving for credit.
2. Frequent and unnecessary shopping for credit.
3. Several new accounts or recent requests for loans can be taken as signs of an over-hungry borrower.
4. Trade attributes — if there is not a good mix of credit.

The above activities will bring down the credit score. Therefore, borrower should maintain financial discipline, repay dues on time and should not over leverage himself.

In India, earlier one could not know his credit score. Now RBI has advised that a copy of credit information report be made available to borrower also on payment of fees of Rs 50.

#### **Credit Scoring Bureau in India:**

The first credit bureau in the world, Dun & Bradstreet, (a shareholder in CIBIL) was set up back in 1841. In

India, Cibil, in a tie-up with TransUnion of the US, launched the first credit information company. Fair Issac Corporation has started in a tie-up with High Mark Credit Information Services, and Equifax in association with Crisil and Tata Capital. In addition, Experian credit information company has also started.

## **CIBIL**

1. Credit Information Bureau of India Limited (CIBIL) is a privately owned company, which collects credit information on over 140 million credit card holders and loan takers.
2. CIBIL is India's first credit information bureau. This credit information bureau was formed on the basis of recommendations of a working group constituted by RBI.
3. The company was originally promoted by the State Bank of India (SB1), Housing Development Finance Corporation Limited (HDFC), Dun & Bradstreet Information Services India Private Limited (**D&B**) and TransUnion International Inc (TransUnion).
4. Now number of banks hold equity in CIBIL. Tansunion has equity of 19.99%. All other members have equity up to or less than 10% each.
5. It helps banks, financial institutions and other financiers to share credit histories of retail and commercial customers.
6. The bureau provides both positive and negative information about bank's borrowers, which empowers lenders in assessing the credit worthiness of potential customers.
7. CIBIL shares a relationship with all banks based on the concept of sharing. They collate the credit information available from all financing institutions, which are its members, and provide an informed report, which takes into consideration all the financial activities of a consumer when asked for by the bank.
8. CIBIL works mainly on the concept of reciprocation. Therefore, only those banks, which share all their customers' credit information with them will be given access to the credit reports that CIBIL has.
9. CIBIL's primary job is to collate data on the credit worthiness of all borrowers from banks and prepare customer information reports (CIR) to help credit grantors make faster and more objective lending decisions.
10. CIBIL is a composite Credit Bureau and will cater to both commercial and consumer segments. The Consumer Credit Bureau covers credit taken by individuals while the Commercial Credit Bureau will cover credit taken by non-individuals like partnership firms, proprietary concerns, private and public limited companies, etc.
11. A Credit Information Report (CIR) is a factual record of a borrower's credit payment history compiled from information received from different credit grantors. Its main purpose is to help credit grantors make better lending decisions - quickly and objectively, in an informed environment.
12. The CIR prepared by CIBIL includes the following information:
13. Basic borrower information like name, address, identification numbers, Passport ID, Voters ID, Date of birth and in case of non-individuals : D-U-N-S<sup>®</sup> Number, Registration Number, Legal Constitution
14. Records of all the credit facilities availed by the borrower, past payment history, Amount overdue
15. Number of inquiries made on that borrower, by different Members, Suit-filed status.
16. The CIR does not contain details of Income / Revenue, Amount(s) deposited with the bank , details of borrowers' assets, value of asset(s) mortgaged, details of investment(s)
17. CIBIL does not classify any accounts as default accounts and merely reflects this information after the Member has classified it as such. The number of days past due and for Asset Classification as per RBI definition as submitted by Members is reflected in the CIR.
18. A borrower can not obtain his own CIR from CIBIL. However, if a Member has drawn a report on that borrower, a copy of the same can be obtained from the Member.
19. CIBIL will provide credit information reports only to it's Members in India.
20. The CIR only shows factual credit information available and does not give any opinion or indicate or comment if credit should or should not be granted. The credit grantors who have received an application for credit will make the credit decision. CIBIL does not grant or deny credit.

### **Issues in Credit Scoring:**

1. Credit scoring enables banks to assess the risk based on the score and accordingly decide the price for the risk.
2. Credit Scoring enables banks to speed up credit decisions and disbursement based on the score. Responsible customers can expect faster and more competitive services at better terms and rates



from banks and other credit companies.

3. Based on Customer Information Report (CIR), the credit bureau would assign a credit score to every potential borrower which would bring about the differentiation in rates.
4. A person can access his credit reports directly by putting in a request to CIBIL directly and if any errors are found, one can notify the bank and CIBIL regarding the same.
5. The customer may get score but its basis is not available.
6. The name of a willful defaulter will remain on the list for at least 7 years during which getting a credit card or loan is virtually impossible.

#### **Mistakes in Credit Scoring:**

- (a) **Confusion of Names:** There can be lakhs of names that are similar in the CIBIL database. Things can go haywire if a person with same name has defaulted and **all** his defaults get recorded in other's file.
- (b) **Human Input Error:** The information that goes from the banks to the CIBIL on a default may have been erroneous due to simple input error by one of the bank employees.

(c) **Identity Theft** : This is the most serious of all causes of errors and can have a disastrous impact on a person's credit profile. In recent times, identity thefts are on the rise. Right from a petty shopkeeper who swipes your card several times to sneak in an unofficial payment or track credit card details, which he can exploit, to a terrorist who wants to access a billionaire's account in a remote corner of the world, identity theft is becoming a serious crime that needs check.

**Troubleshooting Credit Score:** The following steps may be taken for seeking clarifications in credit report:

1. Contact the bank that declined a credit card or loan application on the basis of your poor credit score. The bank will provide you with the control number of the credit report and also share the information on the credit report that is responsible for your poor credit score.
2. The control number is a nine digit unique number that helps CIBIL track an individual's credit report from its database. The control number is generated when banks pull out your credit report on a requirement basis. The control number is a unique number, which is generated every time any bank or credit institution pulls out a credit report on you. CIBIL requires this number to enable them to view the exact details that the bank has seen when they drew a report on you.
3. Clarify your position to CIBIL informing CIBIL control number and the exact nature of the discrepancies in the report.

## **TEST YOURSELF**

### **85. What do you mean by Credit Score?**

- (a) Risk Perception
- (b) Assessing Credit Worthiness
- (c) Snap shot of consumer's credit report
- (d) All above

Q.86. **Credit score is a credit report and turns the information with 3-digit number representing the amount of risk to a particular transaction. What is that 3-digit score?**

- (a) 300
- (b) 600
- (c) 900
- (d) 990

Q.87. **What kinds of risk are common in retail banking?**

- (a) Credit risk, business risk, market-risk, operational risk
- (b) Solvency risk/Technical risk/Country risk/Contingency risk
- (c) Liquidity risk/interest rate risk/foreign exchange risk/commodity price and equity price risks
- (d) Environmental risk/contingency risk/concept risk

Q.88. **Credit Risk means?**

- (a) Loosing money due to wrong selection
- (b) Change in market price of products

- (c) Customer decline/fails to pay
- (d) Processing failures and frauds

**Q.89. Market risk means risk arising from the adverse changes in the market variables. What are those variables are?**

- (a) Interest rates/foreign exchange rates/equity price
- (b) Liquidity/commodity price
- (c) Funding risk/time risk/call risk
- (d) Both (a) + (b) only

**Q.90. Deregulation of interest rate has exposed the banks in the adverse impact of interest rate risk may take the firm of?**

- (a) Gap or mismatch in off balance sheet items/basis risk/embedded option risk
- (b) Operational risk/solvency risk/technical risk
- (c) Country risk/environmental risk/contingency risk
- (d) Both (b) and (c)

**Q 91 What strategies are adopted by banks for managing risk and profitability?**

- (a) Guidelines on delegation of power and accountability
- (b) Strengthening of credit appraisal mechanism/risk of wilful default be checked by presanction inspections and verification of antecedents.
- (c) Meaningful post-disbursal monitoring for early identification of signs of incipient sickness.
- (d) All above
- (e) Only (b) and (c)

**Q.92. In credit scoring. Credit information bureaus what highest weightage is given to which item?**

- (a) Payment history
- (b) Amount owed
- (c) Length of credit history
- (d) Types of credit in use

**Q.93. In credit scoring, model used by CIBIL-Trans Union what attributes are used?**

- (a) Credit utilisation by customer
- (b) Payment history, whether any defaults made
- (c) Both (a) and (b)
- (d) Craving for credit enhancement

**Q.94. For a good credit score which indicators should be seen?**

- (a) Proof of financial discipline/longer period credit history
- (b) Whether defaulted reasons beyond control
- (c) None of above
- (d) Both (a) + (b)

**Q.95. Discuss the warning signals in credit score?**

- (a) Craving for credit/frequent and unnecessary shopping for credit
- (b) Several requests for loan or additional limits/mix of credit facilities conversative
- (c) Both (a) + (b)
- (d) The above are not warning signals at all

**Q.96. Credit information bureau of India Ltd. is owned by?**

- (a) Dun and Brad street +5.B. India +HDFC bank +Trans union international Inc.
- (b) Bank of India +HSBC+ICICI Bank+Central Bank of India
- (c)Syndicate Bank + Bank of Baroda + Citi Bank + Allahabad Bank
- (d)Both (a) and (b) only

**Q.97. What is the purpose of credit scoring for banks?**

- (a) Price for the risk + speed up credit decisions and disbursement
- (b) Prepare customer information reports
- (c) To know the reason about differentiation in rates of interest
- (d) Any person can access his/her credit report directly

**Q.98. Set out the mistakes as occur in credit scoring?**

- (a) Confusion in names due to similarity in names
- (b) Human input error/identity theft which are exploited

- (c) Both (a) + (b)
- (d) No mistakes in credit scoring occur

**Q.99. When one feels chances of error in credit scoring, then what steps could be taken for clarification in the credit report?**

- (a) Ask the bank who declined credit, to provide the control number of 9 digit for the credit report
- (b) Call for help on CIBIL website [www.cibil.com](http://www.cibil.com) and inform the exact nature of discrepancies as pointed out by bank
- (c) If bank is in-cooperative then lodge a complaint in the bank's website and on failure to receive any answer within 15 days, lodge a complaint with Banking Ombudsman
- (d) All above
- (e) Only (a) + (b)

**Q.100. Define the eligibility norms for availing housing loans?**

- (a) Individual/group of individual/members of residential co-op. society
- (b) Should not be enjoying credit facility elsewhere and should not be defaulter in any other credit facility
- (c) Should have regular income from salary or business. Salaried class should have minimum 3 years confirmed service. Applicant's age should not be more than 55 to 60 years at the time of loan application
- (d) All above

**Q.101. For what purposes housing loan can be sanctioned by banks?**

- (a) Purchase of new house/old house or flat and for extension of owned house. Old house is age should not be more than 5 to 20 years Purchase of new flat/house/land and/or extension of house/ construction of new house/flat
- (c) Both (a) + (b)
- (d) None of above

**Q.102. How much loan amount and period can be sanctioned under housing loan to a middle class family's individuals who is aged 25 years?**

- (a) Loan upto 75 lakhs and upto 30 years
- (b) Loan upto 150 lakhs and period upto 20 years
- (c) Loan upto 500 lakhs and period upto 25 years
- (d) Both (b) + (c)

**Q.103. Considering floating interest rate @10.5% on housing loan, how the loan quantum is decided by banks?**

- (a) Age of applicant and repaying capacity based on total earnings minus 60% monthly.
- (b) Age of applicant and repaying capacity based on total earning minus under the ceiling of total deductions of 40% including housing loan proposed instalment
- (c) Age of applicant and repaying capacity based on total earning and total deductions
- (d) Age immaterial and loans upto any limit to High Net Worth individuals

**Q.104. What is the security taken by banks, under Housing loan proposals?**

- (a) First legal mortgage of the housing property financed
- (b) Equitable mortgage of the housing property financed, which should be in the name of applicant or jointly with co-obligant, with clear title
- (c) Power of attorney issued to the bank by the applicant under clear title of the property
- (d) All above

**Q.105. How the housing loan is disbursed when the already completed property is purchased?**

- (a) Loan amount is disbursed in one go based on the agreement to sale and its registration with registrar of assurance completion in the name of buyer of flat/house.
- (b) Total purchase price reduced by margin paid by the applicant, becomes loan amount which is disbursed in one go by bank based on the agreement to sale and after its registration with Registrar of assurances, completed in the name of the buyer of the flat/house
- (c) Balance amount after margin payment, loan amount which is disbursed by the bank in installments
- (d) Both (b) and (c)

**Q.106. Is there any moratorium period under housing loan?**

- (a) Holiday period upto 24 months for construction completion

- (b) Holiday period upto 3 months for purchase of completed flats/house
- (c) Both (a) and (b)
- (d) No Holiday period

Q.107. **What is the minimum margin under housing loan the applicant has to maintain?**

- (a) 25%
- (b) 20%
- (c) Both (a) + (b)
- (d) No margin

Q.108. **What are the purposes for which house improvement loans can be availed for?**

- (a) Major Repair/renovation/upgradation/painting and other repairs
- (b) Major Repair/upgradation/other repairs
- (c) Repairs/renovation/painting
- (d) Renovation/painting/other reports

Q.109. **The margins under house improvement loans are different than housing purchase loans, which is?**

- (a) Margin 25% to 50%
- (b) Margin 20% to 30%
- (c) Margin 50% to 60%
- (d) Full loan granted

Q.110. **What are the securities which can be given by any borrower house improvement loans, to banks and financial institutions?**

- (a) Equitable mortgage of house property under repair/renovation
- (b) Legal mortgage of house property under repairs/renovation
- (c) English mortgage of house property
- (d) Any other encumbered immovable property

Q111. Repayment of repair/renovation housing loans can be made in?

- a) 5 years maximum , b) 5 to 10 years c) 20 years , d) Within 2 years

Q.112. **Passenger Bus loans require the following eligibility norms to be complied by an applicant?**

- (a) Individual in conformed service in Govt./PSU/reputed private sector organisation
- (b) Individual unemployed and possessing heavy duty vehicle driving licence
- (c) Individual having licensed-driving of 3 years experience, who will drive the bus for the applicant
- (d) Any Individual who is an atleast graduate, unmarried and not employed anywhere.

Q.113. **Loan for 3 wheeler, autorickshaw require certain eligibility norms, such as?**

- (a) Individual who possess driving licence for driving public transport for at least 3 years and having batch number and minimum gross monthly income 6,000
- (b) Business people who run giving of autorickshaws on rent
- (c) Individual, who are minimum graduate and posses driving licence
- (d) Limited companies having shareholders who possess driving licence and minimum experience of driving 5 years

Q.114. **Car loans from banks can be availed by observing the eligibility norms as below?**

- (a) Individual in confirmed service of Govt./PSUs/reputed private organisations and minimum income 10,000 p.m.
- (b) Individual who are professionals and self employed/persons during their business
- (c) Individual employed in any service or during business but preserving driving licence for minimum period of one year
- (d) Individual possessing driving licence and aged upto 70 years
- (e) Both (a) (b)

Q.115. **For can loan, what security can be granted by applicant to the bank?**

- (a) Hypothecation of the vehicle (car) to be purchased out of loan
- (b) Hypothecation of any vehicle, whether old or new
- (c) Pledge of car to be purchased out of loan
- (d) Mortgage of new car to be purchased out of loan

**Q.116. While availing any vehicle loan (autorickshaw/ passenger/Jeep/Car/Taxi) how much period of moratorium is granted by bank?**

- (a) 6 months
- (b) No moratorium, repayment starts one month after vehicle's possession
- (c) 3 months
- (d) Moratorium at the discretion of the ( b ) bank

**Q.117. Discuss the maximum repayment period given for two wheelers, four wheelers and passenger bus which are allowed by banks in providing loans?**

- (a) Two Wheelers - 60 months Four Wheelers - 84 months Old Cars/Jeep - 60 months ( c )
- (b) Two Wheelers - 36 months Four Wheelers - 60 months Old Cars - 48 months
- (c) Two Wheelers - 48 months Four Wheelers - 84 months Old Cars/bus - 60 months
- (d) Discretion of the bank and reputation of the borrower

**Q.118. While granting vehicle loans by the ( d ) bank, to the applicant, what is the security eventually required other than the vehicle?**

- (a) Personal security of the spouse
- (b) Personal security of third party with good net worth
- (c) Security of the life insurance policy of the applicant (d) Both (a) + (b)

**Q.119. For retail loans do the banks charge any processing fee from the applicant? What are its minimum and maximum ceiling? a ) Home loans - 0.50% maximum ceiling 12500 and minimum 500**

- Vehicle loans - 0.50% maximum ceiling 12500 and minimum 500
- b) Home loans - 1.00% maximum ceiling z 12500 and minimum 1,000
- Vehicle loans - 1.00% maximum ceiling 12500 and minimum 1,000
- c) Home loans - 2.00% maximum ceiling 12500 and minimum 2,000
- Vehicle loans - 2.00% maximum ceiling z 12500 and minimum 2,000
- d) Fixed amount of 5000 for Housing loan
- Fixed amount of 3000 for Vehicle loan
- Fixed amount of 1000 for Wheeler loan

**Q.120. Can you tell us the margin range under vehicle loans for two wheelers and four-wheelers?**

- (a) Minimum 10% cost price for two wheelers and 15% on four wheelers 25% for old cars
- (b) Nil margin for two wheelers an 30% margin for 4 wheelers 50% for old cars
- (c) Margins vary as per loan quantum. Bigger the loan, bigger the margin, lower the loan lower the margins
- (d) For two-wheelers and 4 wheelers margin @20% of cost of vehicle

**Q.121. How to define personal loans granted by bank?**

- (a) Loans granted on the personal security (goodwill) of the borrower.
- (b) Loans granted are backed by personal guarantees of the lender
- (c) Loans granted by borrower to lender on the image of the borrower
- (d) Both (a) (b)

**Q.122. Personal Loans are kinds of-**

- (a) Big Ticket and small ticket
- (b) Medium Ticket and Big Ticket
- (c) Large and small loans
- (d) Micro and Macro loans

**Q.123. Discuss the grounds of eligibility for availing personal loans by any applicant, from the bank, are**

- (a) Any confirmed employee of public or private sector
- (b) For any social/financial commitment/with personal guarantee of the applicant and repayment in 36 to 60 months
- (c) For any social/financial purposes under personal guarantee of the applicant with repayment ranging beyond 60 EMIs
- (d) Both (a) and (b)

**Q.124. Define big ticket personal loans?**

- (a) An unsecured loan given for any social/financial purpose in the average range of \_\_\_\_\_ one lakh and above.
- (b) A secured personal loan given for social/financial commitment of the borrower in the average range of 2 lakhs and above.
- (c) An unsecured loan given to any borrower as personal loan in the range of \_\_\_\_\_ 0.75 lakhs to \_\_\_\_\_ 5 lakhs and below
- (d) Loans given to High Net Worth Customers only

**Q.125. What types of students are eligible under Education Loans?**

- (a) Students intending for purpose higher studies specialisation in India and abroad, like IIM/IIT
- (b) Students above the age of 18 and intend to pursue higher studies, post graduation in Arts/Science/Commerce
- (c) Students below 18 years of age with parents as co-obligent can avail loans for studies like MBA/CA/Medical/B.A (Music) in India
- (d) Students of foreign origin, desiring to study in India in specialisation courses

**Q.126. What are the ceiling for loan amount in education for studies in India and abroad?**

- (a) 10.00 lakhs (India) \_\_\_\_\_ 20 lakhs (for abroad) with parents as guardian
- (b) 10.00 lakhs (India) 20 lakhs (for abroad) with students guarantee alone
- (c) 7.50 lakhs (India) with one personal guarantor, collateral 15 lakhs (abroad) with are personal guarantor, collateral
- (d) 7.50 lakhs (India) for SC/ST students only 15 lakhs (abroad) for SC/ST students only

**127. What is the limit of amount of education loan upto which no collateral security is required except the parents as co-obligent?**

- (a) 7.50 lakhs
- (b) \_\_\_\_\_ lakhs
- (c) \_\_\_\_\_ lakhs
- (d) Collateral is a must for all 4 lakhs

**Q.128. Is there any retail loan in banks where simple interest rate charged by banks?**

- (a) Housing Loan
- (b) Car Loan
- (c) Education Loan
- (d) Personal Loan

**Q.129. If the housing loan is granted above Rs. 7.50 lakhs but upto Rs. 10 lakh in India. How it is going to be secured?**

- (a) Tangible asset to cover 100% Security like NSC/KVP/Bonds
- (b) Two personal guarantors with double the amount of loan
- (c) Only are guarantor with worth over \_\_\_\_\_ 10 lakhs
- (d) No guarantor required

**Q.130. What kinds of loans under retail banking are disbursed in stages?**

- (a) House under construction/education loan
- (b) Vehicle loan and personal loan
- (c) Personal loan and education loan
- (d) House under construction loan and personnel loan

**Q.131. Retail loan Processing Centres of banks are designed to?**

- (a) Source retail asset business
- (b) Process retail loans
- (c) Valuation work/Legal opinion work
- (d) Release the loan either at centre's end or advise sanction to branches

**Q.132. Processing of retail loans the models available are**

- (a) Stand alone and centralised
- (b) Loan factory and loan hub
- (c) Asset Processing model
- (d) Branches. model

**Q.133. Stand alone model for retail loan processing means?**

- (a) Processing independently at branch level

- (b) Sanction at branch level as per eligibility/obtaining of necessary documents/valuation and legal opinion  
 (c) Both (a) + (b)  
 (d) Processing and sanction done at central level

Q.134. **Centralised model for retail loans processing refers to at -**

- (a) Centralised place  
 (b) Loan hub  
 (c) Loan Factory  
 (d) Head Office

Q.135. **Write the full form of RLPC?**

- (a) Reliance Licence Production Centre  
 (b) Regional Level Primary Centre  
 (c) Retail Loan Processing Centre  
 (d) Retail Liquid Product Corporation

## ANSWER

85	D	86	C	87	A	88	C	89	D	90	A	91	B	92	A	93	C	94	D
95	C	96	D	97	A	98	C	99	D	100	D	101	A	102	A	103	B	104	B
105	B	10	C	107	C	108	A	109	A	110	A	111	B	112	B	113	A	114	E
115	A	11	B	117	A	118	D	119	A	120	A	121	A	122	A	123	D	124	A
125	A	12	C	127	A	128	C	129	A	130	A	131	D	132	A	133	C	134	A
135	C																		

## 7. IMPORTANT RETAIL ASSETS PRODUCTS

1. Banks provide retail loan for various purpose. The type of loan and its terms and conditions vary from bank to bank. Major Retail Lending products are given below:
2. Home Loans: For purchase or construction of new or old house or flat or extension of already built house
3. Home Improvement Loans: For repair, renovation, upgradation, painting and other repairs.
4. Home Decor Loans: For furnishing of the house or flat or interior decoration or air conditioner etc.
5. Auto Loans: To buy new car, old car, two wheeler etc. Generally private and foreign banks are aggressive in financing auto loans by having a tie up with manufacturer, dealer factoring the manufacturer's pricing, dealer margin, volume of sales etc which results in finer pricing. However, two wheeler financing is not the focus area for the banks.
6. Personal Loans: Personal loans are unsecured backed by personal guarantee. Public sector banks are cautious in these loans due to high rate of defaults. Even private banks have become cautious after global slowdown. Personal loans are classified in two segments namely Big ticket personal loan i.e. loans more than Rs 50,000 (average size Rs 125,000) and Small ticket personal loans i.e. loans less than Rs 50,000 (average size Rs 23,000). Banks mainly focus on big ticket loans. Personal loans are sanctioned by banks based on salary in case of employees, annual income in case of business, number of years of service or being in business.
7. Educational Loans: Educational Loans are granted on similar conditions as per scheme devised by IBA. Salient features of the scheme are given below:
  - a. Prepared by IBA on the recommendations of a group headed by Shri R.J.Kamath.
  - b. The scheme could be adopted by all scheduled commercial banks.
  - c. Eligible Courses would include School education including plus 2 stage; Graduation & Post Graduation courses, professional courses, computer certificate courses etc.
  - d. Student Eligibility: Should be an Indian national and should have secured admission to professional / technical courses through entrance test/selection process or secured admission to foreign university / institutions.
  - e. Expenses for Loan: Fee payable to college / school / hostel; Examination / library / laboratory fee; Purchase of books / equipments / instruments / uniforms; Caution deposit / building fund / refundable deposit supported by Institution bills / receipts; Travel expenses / passage money for studies abroad; Purchase of

computers essential for completion of the course; Other expense to complete the course like study tours, project work.

- f. Maximum loan: Rs.10 lakh for studies in India and Rs 20 lakh for studies abroad
- g. Margin: Upto Rs.4 lakh: No margin; More than 4 lakh: Studies in India: 5%; Studies abroad: 15%
- h. Security: Upto Rs.4 lakh: Co obligation of parent; No security or Third party Guarantee. Loan more than Rs 4 lakh but up to Rs 7.5 lakh: Co obligation of parent and third party guarantee. Loan above Rs.7.5 lakh: Co obligation of parent and collateral security of suitable value and/or third party along with the assignment of future income of the student for payment of instalments.
- i. Rate of Interest: Linked to base rate. Simple interest during moratorium period. Interest concession of 12 per cent may be provided for loanees if the interest is serviced during the study period when repayment holiday is specified for interest I repayment.
- j. Repayments: Moratorium: Course period + 1 year from completion of studies or 6 months after getting job, whichever is earlier. The loan to be repaid in 5-7 years after commencement of repayment. The accrued interest during the repayment holiday period should be added to the principal and repayment in EMI fixed.

Parents should be co borrowers irrespective of amount of loan.

**PROCESSING OF RETAIL LOANS:** Banks generally adopt two types of models for processing of retail loans. These models are - (i) Stand Alone Model and (ii) Centralised Model.

**Stand alone Model for Retail Loan Processing:** It refers to processing of retail loans independently at the branch level. Based on the discretionary powers, Branch will market the retail loans and process and sanction the loans based on the eligibility of the applicants. Obtention of the necessary documents, appraisal of the proposal and sanction of the loans will be done independently at the branch level. The valuation, legal opinion etc, are obtained at the branch level through the approved panel valuer/lawyers. if the proposal exceeds the discretionary limits of the Branch/Branch Head (as the case may be ),the proposals are referred to the Regional/Circle/Zonal Office of the Bank for approval and sanction. On approval, the loan is released at the Branch after completing the documentation/mortgage formalities at the branch level.

**Centralised Model for Retail loans Processing:** Centralised Model for retail loans processing refers to processing of loans at a centralised place depending upon the geography of branches. Banks adopt different centralised models for processing of retail loans and name differently like (i) Retail Loan Factory; (ii) Retail Loan Hub; (iii) Retail Loan Processing Centres; (iv) Retail Asset Processing Centres; (v) Retail Loan Branches. Banks adopt following approaches in this regard:

1. Exclusive retail branches through which all retail loans in that location are sanctioned.
2. Retail loan factories in specified locations and doing the end to end processing at that branch.
3. Setting up retail loan processing centres at metros, state capitals and centres where there is good potential for retail lending. These branches/ processing centres will be fully supported with marketing personnel, panel lawyers, approved valuers etc. for speeding up the process, sanction and disbursal.

**Process at Retail Loan Processing Centres:**

1. Branches attached to the Retail Loan Processing Centres (RLPCs and marketing personnel in these centres market various retail asset products to the target segments.
2. The application and the required documents are forwarded to the retail loan processing centres.
3. On receipt of application and details from the branches, RLPCs undertakes the following steps:
  - (i) Process the application.
  - (ii) Do the verification checks.
  - (iii) Arrive at the Credit Score.
  - (iv) Do the valuation (wherever applicable) through the panel valuer\_
  - (v) Obtain the Encumbrance Certificate (wherever applicable) through the panel lawyers.
  - (vi) Obtain the legal opinion (wherever applicable) from the panel lawyer.
  - (vii) Arrive at the quantum of finance based on the margin requirements for different loans.
  - (viii) Pricing of the loan based on the Type of Loan/Credit Score/ individual Borrower/Group Borrowers.
  - (ix) Advising the sanction of the loan to the Borrower/Branch with the terms and conditions.
  - (x) Receiving acceptance for the terms and conditions from the applicant.
  - (xi) Execution of documents for the loan and also completing the mortgage formalities wherever applicable (any mortgage backed retail loans like Housing Loans etc.,)
  - (xii) Release of the loan to the borrower.



(xiii) Verification of end use by the borrower.

The procedures for sanction and disbursement of loans through RLPCs vary among banks. In some banks, appraisal and upto sanction are taken care of by RI\_PC and post sanction formalities like release of loan, documentation, creation of mortgage, follow up and monitoring are taken care of by the respective branches. In some other banks, RLPCs function as separate branches. They offer end to end solutions right from processing to release and also monitoring and follow up. Branches have to just source the business and forward the details to RLPCs. In both the above methods, the objective is to speed up the process of sanctioning retail loans.

#### Stand Alone Vs Centralised Model for Retail Loans Processing

S.No	Stand Alone Model (Branch Level Processing)	Centralised Model (Retail Loan Processing Hubs/Centres)
1	Better Understanding of the customer requirements	Based on documents only.
2	No standardised	Standardised approach.
3	Retail Loans are only one part of the multiple activities	Exclusive activity and hence will be more faster and professional in approach.
4.	Difference in quality of appraisal based on the branch and its	Quality will be uniform as the activity is
5.	Processing time may differ based on the of the branches and importance of the	Processing time will be uniform and based on Turn Around Time (TAT) for different retail loans.
6	Compliance of appraisal norms may be biased based on the customer	Uniform and impersonal appraisal standards.
7	Documentation standards may not be	Professional documentation standards.

RLPCs have an edge with regard to processing of retail loans as compared to processing at branches. However, branches will understand the customers' requirements on a personal basis as against the mechanical approach of RLPCs. But the introduction of RLPCs by banks has definitely helped banks to improve the quality appraisal and reduce the documentation gaps as compared to branch level appraisal.

### Test Yourself

- Home Loans are sanctioned by Banks for the following purposes:
  - Purchase/Construction of House.
  - Purchase/Construction of Flat
  - Purchase of land and construction
  - Additions to the existing house
  - All the above. **Ans: v**
- Auto Loans are given by banks for the following purposes:
  - Purchase of New Car
  - Purchase of Used Car
  - Purchase of Two Wheelers
  - All the above. **Ans: iv**
- Personal Loans are sanctioned by banks based on
  - Salary in case of employees
  - Monthly/Annual Income in case of business
  - Number of years of service/in business
  - All the above. **Ans: iv**
- Retail Loan Processing Centres of banks are designed to
  - Source retail asset business
  - Process retail loans
  - Do the valuation/legal opinion wherever necessary
  - Release the loan either at their end or advise sanction to branches. **Ans: iv**

## 8 . CREDIT & DEBIT CARDS

### CREDIT CARD

1. A credit card is a thin plastic card, that contains identification information such as a signature, and authorizes the person named on it to charge purchases or services to his account - charges for which he will be billed periodically.
2. The information on the card can be read by ATMs, Point Of Sales (POS) Terminals at different establishments like Textile Stores, Super Markets, Jewellery Showrooms, Book Shops, Restaurants etc.
3. The concept behind Credit Card is "Buy Now, Pay Later".
4. Credit Cards are plastic cards that can be used in lieu of money for payment of goods/services and also enable withdrawal of cash if needed.
5. The payments made through the card or cash withdrawn have to be paid after a certain agreed period of time and also with a payment option spread over a period. The process starts with the usage of the card and ends with the payment of card dues.

### Evolution of Credit Cards - Global Scenario:

1. Credit Cards had their origin right from 1800s.
2. The first universal credit card that could be used at a variety of stores and businesses \_ was introduced by Diner's Club Inc., in 1950. With this system, the credit-card company charged cardholders an annual fee and billed them on a monthly or yearly basis.
3. Another major universal card—"Don't leave home without it!" — was established in 1958 by the American Express Company.
4. The first national bank plan was BankAmericard, which was started on a statewide basis in 1959 by the Bank of America in California. This system was licensed in other states starting in 1966, and was renamed Visa in 1976.
5. Other major bank cards followed, including MasterCard formerly Master Charge.

### Indian Scenario

1. Citibank and HSBC were the pioneers in the Indian credit card market in the 1980s.
2. The number of players increased to more than ten in 2000.
3. The credit card market registered a healthy annual growth rate of over 25% during 1987-2001.
4. Among the public sector banks, Andhra Bank, Bank of Baroda were the early starters followed by Bank of India.
5. Among the foreign banks, Standard Chartered Bank entered the credit card space and built volumes steadily.
6. Foreign banks continued to dominate the credit card market in India till the entry of two big local players viz., ICICI Bank and subsequently State Bank of India. HDFC Bank is another major player along with the above two.
7. Citibank, Standard Chartered Bank, State Bank of India, ICICI Bank and **HDFC** Bank dominate the credit card market with more than 90% market share.

### Type of Credit Cards:

1. Mainly credit cards are issued by banks in two formats viz., the proprietary format **and the** co- branded format. In the proprietary format, banks issue the card in different brand names like Classic, Silver, Gold, Platinum, Titanium etc., Credit limits, cash withdrawal limits and other facilities will depend on the type of card.
2. **In** the co branded format, banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc. and offer the cards as a co branded product with the brand name of the tied up company also embossed in the card. This enables brand recall and results in better utilization of the products offered by the tied **up** product. Special incentives/reward points are offered for using the co branded card.

### Salient features of Credit Cards:

1. Credit Cards are accepted globally through their affiliation with Visa and Master Card.
2. Credit Cards are issued with limits of usage called "Card Limit" which fix the upper limit upto which the cards can be used. Within the overall limit, limits **on** cash withdrawal through ATMs are fixed which will be equal to or less than the total card limit. While the overall limit can be used at any point of time without any charges, for withdrawal of cash finance charges are recovered depending upon the frequency of

withdrawal

3. Credit cards have a regular billing cycle and billing date and due date of payment is decided from the billing date. The period after which payment is to be made after the billing date is called as the free credit period and will be usually between 20 days and 50 days and differ across banks.
4. To induce usage of cards, reward points are awarded based on the amount and type of usage. Reward points vary for different classes like Silver, Gold, Platinum, Titanium etc., The reward points will be awarded based on the usage and will be a fixed points per Rs.100 and the total reward points for the usage will be based on the usage and calculated per Rs.100. The reward points can be redeemed by the card holders as prescribed by the card issuing bank.
5. The concept of "Cash Back Offer" is introduced in credit cards to promote more usage. The incentive is offered from 2% to 10% and adjusted in the payment. Cash Back Offer always comes with a cap on the total amount.
6. The payment for the usage of the card after the credit period and on the due date can be paid in different ways. The payment can be made in full on or before the due date. Alternatively, a minimum of 10% of the outstanding amount can be paid every month on due date. The third option for payment is to convert the outstanding amount into a loan and repay the same in equated monthly installments (EMIs).
7. Charges for late payment beyond the due date is collected as late fees and generally varies from Rs.200 to Rs.500.
8. Cards are issued with photos also as add on feature.
9. Liability for the card holder in case of loss of cards is limited to a small amount in case of most of the credit card issuers. Usually the liability is restricted to Rs.1000/- (Rupees One Thousand Only) and the balance liability if any is borne by the card issuer through an insurance protection. Liability for lost card can be controlled from the time the loss is reported to the card centers which operate on a 24 hour basis.
10. For online purchases using credit cards, additional password protection just like PIN for ATM transactions can be secured with special security features.
11. Some banks offer free personal accident insurance cover for the card holders ranging from Rs. 1 Lac to Rs. 10 Lacs depending on the type of card.

**Credit Card Issuing Process:** Issue of credit card involves the following processes.

1. Obtaining an application from the prospect.
2. Processing the application.
3. Analysing and arriving at the Credit Score.
4. Decision on the type of card to be issued.
5. Issue of Card & PIN Mailer
6. Dispatch of Card & Acknowledgement of Receipt.
7. Card Operations.

**Credit Card Application:** will include various information like personal data of the applicant, official and personal status, income, savings and liabilities, immovable properties owned, details of bank account, details of other cards, payment instructions, request for add on cards, photos of the card applicant and add on members.

**Credit Scoring for credit cards:**

It consists of two parts — (i) criterion for decision to issue a card; (ii) scoring for various parameters. Eligibility criteria may include minimum age, minimum stay at present address, whether existing customer of the bank, minimum income criteria, whether salaried, self employed. Scoring model may include criterion like age, education, nature of organization, self employed, length of service or years in profession, dependents, house ownership, vehicle ownership, annual income, spouse income, time for which account has been with the bank, deposits with the bank, existing credit card, branch experience. The score is based on the strength of the parameter. For example, a person with higher income level, working in public sector, owning a house, employed spouse will carry a better score. An existing customer of the bank with good account relationship will earn a better score. A person who already holds a credit card will get a better score as he had already been rated by another card issuer. More the number of dependants less will be the score as the expenses will be more in a bigger family. Higher the type of vehicle, more will be the score as it reflects the social status and income levels. The sum total of the score calculated for each parameter will indicate the risk perception for issuing the card. More the score less will be the risk of default in payment for usage of credit card. Credit Scoring is an effective risk

mitigation tool used at the time of issuing the credit card. If the credit score is at an agreeable level, then card limit will be finalized and approved by the competent authority.

## Important Terms in Credit Card Operations

**Joining Fees & Annual Fees:** Joining and Annual Fees are charged at the time of issue and at the end of every year respectively and varies with the type of card.

Charges:

**(i) Finance Charges** is applicable if the card member deposits part of the Total Payment or the Minimum Amount Due. The balance outstanding amount payable shall be carried forward to subsequent statements. The amount attracts finance charges on entire outstanding including fresh purchases and other bank charges till the date of full and final payment. Finance Charges on cash advances are applicable from the date the card holder incurred the transactions until they are fully paid. Finance charges are calculated on a daily basis at the end of every day based on the current outstanding balance of the customer.

**(ii) Minimum Amount Due** - Minimum Amount Due (MAD) is calculated by adding New Debits for the month, previously unpaid payments and other charges. Minimum amount also includes the amount by which the card holder exceeded the card limit. Minimum Amount Due every month shall be higher of the following: (a) 5% of the statement outstanding or (b) Sum total of all installments billed, interest, fees, other charges, amount that is over limit and 1 % of the principal or (c) Rs.250/-. In case of default or if the statement balance is less than Rs.250/-, the entire outstanding amount has to be paid. Minimum Amount Due is intended to generate more revenues for the card issuer as it will prolong the repayment and interest will be charged at exorbitant rate for the balance amount.

**(iii) Maximum Interest Free Period:** Maximum Interest Free Period is the period for which no interest is charged for the card balances subject to the condition that there are no outstanding previous card dues. The period depends on the type of card and may vary from 20 days to 50 days depending on the card issuer. This is applicable only on retail purchases and if previous month's balance is paid in full. Interest Free Period does not apply for Cash Advances and Revolving Balances.

**(iv) Annualised Percentage Rate (APR):** interest will be charged for the unpaid balances as on the due date and also subsequent purchases. The interest rate was expressed as a monthly percentage rate previously to reduce the impact of high rates when calculated on an annualized basis. But RBI has advised banks to clearly mention the interest rate on an annualised percentage rate. The monthly interest is annualized **Debit Cards explain the concept of "Buy Now and Pay Now"**.

1. In case of Debit Card, the payment is made directly from their account balances, at the point of purchase itself,
2. The details of the account are embedded in the debit card and can be used at both merchant locations through a POS Machine for purchases made and also in ATMs for withdrawal of cash.
3. The technology aspects of credit and debit cards are same with regard to usage, size, numbering etc., but there are differences with regard to features and charges.
4. When debit cards were introduced initially, they were marketed with sub brand names Electron (Visa), Cirrus (Master).
5. Debit Cards are issued when account is opened with the bank and had become an essential value addition for Savings Banks and a part of the core product.
6. Debit Cards are issued by banks in two ways. At the time of issue, a generic debit card without embossing the name is issued for immediate operations. The second way is, after opening account, the account details are incorporated and embossed/loaded in the debit card and issued within two/three weeks from the opening of the account.
7. Like Credit Cards, Debit Card operations are centralized in banks. The card can be used for any operations like payment of purchases, cash withdrawal (subject to per day limit) through ATMs, Utility Payments etc.

## Other type of cards

### Prepaid Cards or Pre Loaded Cards:

1. These cards are pre loaded with specific amount and offered as bearer cards with a PIN Number.
2. The card can be used by the bearer of the card only for purchases upto the amount loaded in the card. No cash withdrawal is permitted in the card.
3. It is mainly intended as a Gift Card to be gifted to anybody with a choice to use it for any purpose except

withdrawing of cash for the amount loaded.

4. The advantage of the card is that it is a bearer card and anyone can gift it to anybody and the card can be used within the validity period for any purpose.
5. Prepaid debit cards are issued by corporates to provide their staff with lunch expense reimbursement upto a designated amount and which can be topped up on a monthly basis.
6. Forex Cards have been introduced by banks to substitute Foreign Currency Notes/ Travellers Cheques for those travelling abroad. In these cards, a fixed amount of foreign exchange (Dollars) will be loaded and issued for travel abroad. Forex Cards facilitate monitoring of overseas spends, regulatory compliance and have international acceptance.

## TEST YOURSELF

**Q.136. What is a credit card? A plastic card which**

- (a) Contains identification information
- (b) Authorises named person to charge purchases/services
- (c) Charges for which person will be billed periodically
- (d) All above

**Q.137. Identification informations on credit card can be read by?**

- (a) ATMs
- (b) Point of Sales Terminals
- (c) Both (a) + (b)
- (d) Branch Manager

**Q.138. The concept behind a credit card is -**

- (a) Use now, debit later
- (b) Buy now, pay later Pay now, get credit later

**(d) Lend now and do not reimburse**

**Q.139. Which are the main issuers of credit cards in the world and in India?**

- (a) Visa and Master Card
- (b) Amex and Intenational (c) RTGS and NSS
- (d) Visa, Master and Amex cards

**Q.140. Features of credit card is/are**

- (a) Key to opening of bank accounts for daily payments (b) Substitute of cash
- (c) Issuing bank/financial institution knows the creditworth new of customer
- (d) All above

**Q.141. Credit card has the benefit to bank, its advantages are**

- (a) Increase the credit and its reputation with public
- (b) Growth of interest income
- (c) Earns commission from business establishment
- (d) All above

**Q.142. What are the advantage of card holder?**

- (a) Sanction of credit limit by bank
- (b) Outstanding overdraft of period between 25 to 27 days
- (c) Does not require cash carrying and its risk of loss
- (d) Both (a) + (b)

**Q.143. Discuss the types of credit cards in India**

- (a) Charge Card/Smart Card/Restructued card/ATM card/Kissan credit card
- (b) Debit card/chip card/Member card/whitelabel card (c) Both (a) and (b)
- (d) None of above

**Q.144. The difference between credit and debit cards is**

- (a) Account gets debited on use of credit card immediately
- (b) Account gets debited on use, of debit card immediately
- (c) Account does not gets debited immediately on use of debit card
- (d) None of above

**Q.145. From credit card, credit risk to the bank is high from**

- (a) Credit card holder
- (b) Debit card holder
- (c) Both (a) and (b)
- (d) None of above

Q.146. **The bank which pays the merchant for the transactions is called**

- (a) Issuer bank
- (b) Clearing bank
- (c) Acquirer bank
- (d) None of above

Q.147. **Name the credit card wherein transactions by the cardholders are accumulated over a month, is called**

- (a) Smart Card
- (b) Charge Card
- (c) Member Card
- (d) Chip Card

Q.148. **What is the difference between a credit and charge card? In charge card requirements are -**

- (a) Amount becomes payable on debit to account
- (b) Charge Card holder would warrant, a account in concerned bank
- (c) Both (a) + (b)
- (d) Any of (a) and (b)

Q.149. **What is Debit card?**

- (a) It is a mobile purse
- (b) Automatically debits card holder's account
- (c) Allows withdrawal upto credit balance in the account
- (d) All above

Q.150. **Difference between Debit and cards are there. Credit cards are superior to debit cards in -**

- (a) Higher borrowing power on the bank upto your credit worthiness
- (b) Bigger social status since one avails credit
- (c) Both (a) + (b)
- (d) Only (a)

Q.151. **Are three advantage of credit card to the member establishment?**

- (a) Increase in sales due to increased purchasing power of card holders
- (b) No direct credit to customers/systematic accounting
- (c) No advertising and promotional activities required/assured and immediate settlement payments
- (d) All above
- (e) Only (a) + (b)

Q.152. **Which plastic cards has got the advantages of giving cash back on purchases and discounts at retail outlets?**

- (a) Debit card
- (b) Credit card
- (c) Both (a) + (b)
- (d) ATM card

Q.153. **Payments of credit cards is done by banks under**

- (a) RTGS
- (b) ECS
- (c) CBS
- (d) None

Q.154. **Out of Debit and Credit Cards which are is more attractive to a customer for availing facilities of-No charges/No service tax/replaces ATM card**

- (a) Debit card
- (b) Credit card

- (c) ATM card
- (d) Smart card

Q.155. **What are the requirement for Debit Cards by RBI?**

- (a) Barred from tying up with no bank entities to withdraw cash/make deposits
- (b) Monitoring of SLR/CRR on creation of deposits through cards
- (c) Both (a) + (b)
- (d) None of above

Q.156. **Salient features of credit cards are -**

- (a) Accepted globally through affiliation with visa/master/amex cards/ issued with credit/up to upper limit/regular billing cycle and billing date/personal accident insurance cover available to customer
- (b) Rewards points are awarded for card holder having classes of silver/gold/platinum/titanium/reward points are redeemable/ cash book offer between 2% to 10% but under a ceiling/add on facility available/liability for card holder in case of loss of cards limited to 1000andthebalance by misusancecompany online purchases possible through every time new password
- (c) Both (a) + (b)
- (d) Some features..of (a) and some of (b) only

Q.157. **In the account opening form for issue of credit card, when the customer is already credit cardholder with other institution, what details and outstanding balance declaration are required?**

- (a) Optional-details of other credit cards and outstanding balances therein
- (b) Compulsory-details of other credit cards and outstanding balances there is -
- (c) Company details of the credit cards but outstanding balance, optimal
- (d) Optimal-details of other credit cards

Q.158. **Nomination details, after the death of cardholder are required to be given, while submitting credit card application form. This is essential for purpose of?**

- (a) To pay credit card dues by nominee
- (b) To get insurance cover as nominee
- (c) To reimburse loss by insurance company after the loss of card, as nominee
- (d) Not required

Q.159. **Various parameters are judged by the card issuer for higher credit card scoring. Name such parameters**

- a) Age between 31-45 years/professional or postgraduate/serving in government organisation or PSU/self employed or owner/ length of service 5 yrs. and above in profession or business
- b) Lesser number of dependents/self owned house/selfed owned car/income upto 2 Iakhs yearly/spouse income below 5 lakhs/no card holder earlier
- c) Integrity/character/conduct satisfactory bank experience deposit upto 1 Iakh with bank/banking with bank upto 6 months/owning two wheelers/residing in rented house
- d) Application between 45-49 years/ever under graduate/serving with public Ltd./Length of service between lyr. to 2 years/happy family of 5 persons

Q.160. **Ordinarily there are only two kinds of cards (plastic money) viz. Credit cards and debit cards. It there is any other card to be given as gift and issued by corporates?**

- (a) Smart Card
- (b) Pre Loaded Cards
- (c) Prepaid Cards
- (d) Both (b) (c)

Q.161. **Credit cards issued by banks, to award cash back points is/are called**

- (a) Titanium/Platinum/Gold/Silver Card
- (b) Platinum/Gold/Silver Card'
- (c) Platinum/Gold Card
- (d) Gold and Silver Card

Q.162. **Payments default risk is embedded in which type of cards?**

- (a) Debit card
- (b) Credit card
- (c) Both (a) + (b)
- (d) None

Q.163. **Banks charges levied for which kind of services on the card holders are -**

- (a) Finance charges, where part amount paid of the total payment
- (b) Minimum amount due means one debits/previous unpaid payments and other charges
- (c) Annualised percentage rate-monthly interest when annualised
- (d) Only (b) + (c)

(e) All (a) to (c)

Q.164. What is meant by other charges levied by banks to card holders?

- (a) Cash advance transaction fees/card replacement (lost, reissue) charges
- (b) Overdue penalty-late payment fee-over limit penalty/cheque dishonour fees
- (e) Both (a) + (b)
- (d) Card replacement/overdue penalty/over limit penalty only

Q.165. Forex cards are issued by banks to substitute-

- (a) Foreign currency notes
- (b) Travellers cheques
- (c) Indian currency Notes
- (d) Both (a) + (b)

Q.166. Demerits of Credit Cards are -

- (a) High membership fees and annual fees
- (b) High rate of interest for delayed payments and extension of time
- (C) Tempt the cardholders for add-on members
- (d) Both (a) + (b)

Q.167. Demerits to issuers of credit cards

- (a) High cost of local made plastic card
- (b) High cost of imported plastic card/marketing cost
- (c) High cost of credit checks on applicants
- (d) Both (a) + (c)
- (e) Both (b) + (c)

Q.168. Default rate in credit cards has gone up high in recent due to-

- (a) Use of debit card (b) Use of Amex card
- (c) Non utilisation or under utilisation of credit card
- (d) Both (b) + (c)
- (e) Use of multiple credit cards

## ANSWER

136	D	137	C	138	B	139	D	140	D	141	D	142	D	143	A	144	D	145	A
146	C	147	B	148	C	149	D	150	C	151	D	152	A	153	B	154	A	155	A
156	C	157	A	158	B	159	A	160	D	161	A	162	B	163	E	164	C	165	D
166	D	167	E	168	E														

## 9. REMITTANCE PRODUCTS

### National Electronic Funds Transfer (NEFT) System

**1. Introduction:** RBI introduced an electronic funds transfer system called "National Electronic Funds Transfer" System (NEFT)

**2. Objective:**

1. To establish an electronic funds transfer system to facilitate an efficient, secure, economical, reliable and expeditious system of funds transfer and clearing in the banking sector throughout India,
2. To relieve the stress on the existing paper based funds transfer and clearing system.

**Process Flow**

The parties to a funds transfer under this NEFT System are (i) the sending bank, (ii) the sending Service Centre, (iii) the NEFT Clearing Centre, (iv) the receiving Service Centre and (v) the beneficiary branch.

**Request for NEFT by a Bank Customer / Any Person**

1. A bank customer (i.e. sender or originator) desirous of remitting funds under the system shall submit an "NEFT



Application Form" (to be designed by the participating bank) authorising the sending bank to debit the sender's account and transfer funds to the beneficiary as specified in the Model NEFT Application Form.

2. The application could be submitted either in physical form or electronically.
3. A transaction within the NEFT system will be said to have been initiated when the sending bank accepts a payment instruction issued by the sender.
4. If in a single payment instruction, the sender directs payments to several beneficiaries, each payment direction shall be treated as a separate payment instruction.
5. A bank branch may reject a customer's request for funds transfer when, in the opinion of the sending branch — (i) the customer has not placed funds at the disposal of the sending bank; or funds placed is not adequate to cover the sum to be remitted and the service charge; or (ii) the beneficiary details given in the NEFT Application Form are not adequate to identify beneficiary by the beneficiary bank. The essential elements of beneficiary's identification are: (i) Beneficiary's Name; (ii) Branch Name; (iii) Bank Name; (iv) Account Type; (v) Beneficiary's Account No; (vi) Beneficiary's Branch IFSC
6. The sending bank shall prominently display at its premises / on its website for the benefit of customers providing information, inter-alia, the cut-off timings up to which it shall receive the NEFT application forms from its customers for different settlements and the likely timings of the settlements by the NEFT Clearing Centre. Any payment instruction received after the cut-off time shall be included for the next available settlement either on the same NEFT day or the next-NEFT day.

**Data Entry at the Sending Bank Branch:** The sending bank branch shall prepare the SFMS message as and when the applications for funds transfer is received and arrange to send the message to NEFT Service Centre till the cut off time for the batch.

**Processing / Data Upload at Sending NEFT Service Centre:** The sending NEFT Service Centre shall accept the messages received from branches / customers through net banking platform if these are complete / in order and received within cut-off time or reject the same if the messages are incomplete / not confirming to the parameters specified.

**Transmission / Submission of NEFT Message to the NEFT Clearing Centre:** The sending Service Centre shall transmit the NEFT SFMS message to the NEFT Clearing Centre by using the communication network designated by Reserve Bank of India.

**Processing and Transmission of NEFT Message to the Beneficiary Banks:** After consolidating all NEFT messages received from originating banks, the NEFT Clearing Centre shall process the data, arrive at fund settlement, send the fund file to Deposit Accounts Department (DAD), RBI for settlement and after settlement is over, send beneficiaries' details / data to each beneficiary bank for affording credit to the beneficiaries' accounts. Banks which have no transactions will get a batch wise 'nil' transactions report and a summary report at the end of the day indicating all inward transactions received by them during the day. NEFT messages generated for destination banks will be transmitted to the NEFT Service Centre of each beneficiary bank using SFMS.

**Data Validation at the Receiving NEFT Service Centre:** On receipt of the NEFT message, the receiving NEFT Service Centre shall process these files and forward them to the beneficiary branches using SFMS. Alternatively, the receiving NEFT Service Centre may use the Straight Through Processing (STP) interface available in SFMS and upload these NEFT messages to their internal banking solution directly, to afford the credits to the beneficiary accounts centrally.

**Payment to Beneficiary:** The beneficiary branches would make payment to the beneficiaries within two hours of batch settlement time by crediting the specified account of the beneficiary or otherwise placing funds at the disposal of the beneficiary.

**Revocation of Payment Instruction:** A payment instruction issued for execution shall become irrevocable when it is executed by the sending bank. Any revocation, after the payment instruction is executed by the sending bank shall not be binding on any other party in the NEFT system.

**Acknowledgement / Positive Confirmation by the Beneficiary Bank and Return in Case of Non-Credit:** NEFT presently functions with a Batch+2 (B+2) return cycle. The B+2 return discipline would require banks to afford credit to the beneficiaries' account immediately upon completion of a batch else return the transactions within two hours of completion of the batch settlement, if it is not possible to afford credits to the beneficiaries, for any reason. Therefore, an inward credit message which is not returned within two hours from the time at which the payment instructions are processed at NEFT Centre (131-2) is treated to have been completed and credit afforded to the beneficiary's account by the beneficiary branch. It is, therefore, vital that uneffected credits are re-transmitted back as return NEFT transactions in the immediate next batch itself. In addition to this, in order to facilitate the originator of NEFT to receive

a confirmation of credit being afforded to Beneficiary's account, the originator may indicate his / her mobile number or email-id in his / her NEFT application while initiating the transaction. After successfully crediting the Beneficiary's account, the beneficiary bank will send a Credit Acknowledgement message indicating "credited to customers' account" to the originating bank through NEFT Service Centre. The originating banks after receiving the positive confirmation message from the beneficiary bank, shall initiate a mobile SMS or generate an e-mail to the originator to convey the fate of the transaction.

**Sender to be Advised in Case of Returns:** If the beneficiary specified in the sender's payment instruction fails to get payment through the NEFT system for some valid reasons, the sender shall be informed immediately after the sending bank gets the returned NEFT. The sending bank shall also arrange to make payment to the sender by crediting the account of the sender or otherwise placing funds at the disposal of the sender. The originating bank shall provide the description "NEFT-Return" in the pass book / account statement of the originator whose NEFT transaction is returned. In case of returns pertaining to the outward transactions initiated by a non-customer, the initiator to be advised immediately by referring to the contact details provided, earlier, and funds to be kept at his / her disposal.

**Beneficiary to be Advised of the Receipt of Funds:** After crediting the account of the beneficiary, the beneficiary bank shall advise the beneficiary of the funds received. The Account Statement / Pass Book entry or any online messaging system shall indicate briefly the source of funds as **well**. For this purpose, the mandatory field 6091 which contains the remitter's name shall be picked up for the source of credit and information contained shall be printed in the Account Statement / Pass Book. Banks originating transactions shall ensure proper and meaningful details are provided in this field.

**Holidays:** NEFT will function on all the RIGS working days and the banks participating in NEFT are required to participate on all such working days.

#### **NEFT: RIGHTS & OBLIGATIONS**

1. Every participating bank or institution shall maintain the security, integrity and efficiency of the System.
2. Funds transfer instruction shall be issued by the sender / originator in a manner prescribed by the participant bank.
3. The format shall be complete and contain all requisite particulars.
4. The sender or the originator shall be responsible for the accuracy of the particulars given in the payment instructions and special care should be taken for account number of the beneficiary, etc.
5. The sender / originator shall be bound by any payment instruction executed by the bank if the bank had executed the payment instruction in good faith and in compliance with the security procedure, provided that the sender / originator shall not be bound by any payment instruction executed by the bank, if he proves that the same was not issued by him and that it was caused either by negligence or a fraudulent act of any employee of the bank.
6. **The** sender / originator shall ensure availability of funds in his / her account or remit cash while issuing the payment instruction to his / her bank.
7. The payment instruction shall become irrevocable once it is executed by the bank. The bank is not bound by any notice of revocation unless it is not in compliance with the security procedure.
8. In the event of any delay or loss on account of error, negligence or fraud on the part of an employee of the beneficiary bank in the completion of funds transfer pursuant to receipt of payment instruction by the beneficiary bank leading to delayed payment to the beneficiary, the beneficiary bank **shall** pay compensation (at current Repo Rate plus two percent) for the period of delay. In the event of delay in return of funds transfer instruction for any reason whatsoever, the beneficiary bank shall refund the amount together with interest (at current Repo Rate plus two percent) till the date of refund.
9. During the NEFT operating hours, originating banks shall endeavour to put through the request for NEFT transactions received by them, either online or across the counters, preferably in the next available batch, but, in any case, not exceeding two hours from the time of receipt of requests. In the likelihood of any delay / possible delay in adhering to this requirement, the sender / originator shall be informed of the delay / possible delay and the reasons for the same.
10. Customers can complain to the Banking Ombudsman if the complaint is not resolved to his / her satisfaction within thirty days.
11. The sending bank shall, upon completion of funds transfer of a payment instruction, furnish to the originator on request by him, a duly authenticated record of the transaction.
12. The beneficiary branches would make payment to the beneficiaries within two hours of batch settlement time by crediting the specified account of the beneficiary or otherwise placing funds at the disposal of the beneficiary. For any delay, beneficiary bank is liable to pay penalty (at the rate RBI LAF Repo rate plus two percent). Payment of

penal interest shall be made to customer even if no claim is lodged by the customer to that effect.

### **Other features**

1. The system is neither centre specific nor has any geographical restriction inside the country. The system uses the concept of centralised accounting system and the bank's account, that are sending or receiving the funds transfer instructions, gets operated at one centre, viz, Mumbai only. The individual branches participating in NEFT could be located anywhere across the country.
2. Batches: The settlement of transactions is in batches. There are 11 hourly batches on weekdays and 5 hourly batches on Saturdays.
3. Settlement Timings: There are eleven settlements at 0900, 1000, 1100, 1200, 1300, 1400, 1500, 1600, 1700, 1800, 1900 hours on all days including Saturday except 02<sup>nd</sup> & 04<sup>th</sup> Saturday holidays –no transaction.
4. The beneficiary should get credit within 2 hours from the time of completion of batch i.e. on B+2 basis on the same day.
5. Amount: There is no value limit for individual transactions. Thus there is no minimum or Maximum amount to be remitted.
6. Processing Charges/Service Charges: Upto Rs 1 lac: Maximum Rs 5; More than 1 lac up to Rs 2 lac: Max Rs 15; More than Rs 2 lac: Max Rs 25.
7. For originating NEFT transaction, it is necessary to have a bank account and beneficiary also should have an account at the destination bank-branch because NEFT is an account to account funds transfer system.
8. NEFT system can be used only for remitting Indian Rupee among the participating banks within the country. Foreign remittances can neither be received nor sent abroad using the NEFT.
9. Difference between NEFT, RTGS, EFT: NEFT is an electronic payment system to transfer funds from any part of country to any other part of the country and works on Net settlement, unlike RTGS that works on gross settlement and EFT which is restricted to the fifteen centers only where RBI offices are located.
10. Levy of Processing Charges: RBI has prescribed following charges: (i) Clearing Houses / processing centers to levy charges on the originating banks as under :1(a) 25 paise (exclusive of service tax) for every outward transaction (b) 25 paise (exclusive of service tax) for every return transaction. (ii) Destination banks may be paid by the originating banks as under: (a) 25 paise (exclusive of service tax) for every credit transaction (b) 50 paise (exclusive of service tax) for every debit transaction. (iii) The charges may be collected on a monthly basis. (iv) The participant banks are not permitted to pass on these charges to customers. (v) These charges will be applicable from July 01, 2011.

## **RTGS SYSTEM**

### What is RTGS:

1. "RTGS" stands for Real Time Gross Settlement. RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.
2. This is the fastest possible money transfer system through the banking channel.
3. Settlement in "real time" means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed.
4. "Gross settlement" means the transaction is settled on one to one basis without bunching with any other transaction. Considering that money transfer takes place in the books of the Reserve Bank of India, the payment is taken as final and irrevocable.
5. RTGS helps in preventing Systemic and Settlement Risks.
6. RTGS has replaced high value clearing across all the centres in India saving **lot** of expenses in the manual running of such activities.

### Features of RTGS :

1. Remittances and Funds Transfer through RTGS are transmitted through a series of process inputs and travel from the customer end to the beneficiary end.
2. The remittances are communicated through a structured messaging process
3. Settlement for the message is made on a gross basis from the liquidity maintained by the sender bank with the settlement bank.
4. The remittances are credited on a dynamic basis and settlement also done on a dynamic basis.
5. Message communication, remittance, credit and settlement for the credit are done immediately.
6. Difference between RTGS and National Electronics Funds Transfer System (NEFT): NEFT is also an electronic fund transfer system that operate on a deferred net settlement (DNS) basis which settles transactions in batches.

In DNS, the settlement takes place at a particular point of time. All transactions are held up till that time. For example, NEFT settlement takes place 11 times a day during the week days and 5 times during Saturdays. Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time. In RTGS, transactions are processed continuously throughout the RTGS business hours.

7. Minimum / maximum amount for RTGS transactions: The minimum amount to be remitted through RTGS is Rs.2 lakh. There is no upper ceiling for RTGS transactions. No minimum or maximum stipulation has been fixed for EFT and NEFT transactions.

8. Time taken for effecting funds transfer from one account to another: Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within two hours of receiving the funds transfer message. If the money cannot be credited for any reason, the receiving bank would have to return the money to the remitting bank within 2 hours. Once the money is received back by the remitting bank, the original debit entry in the customer's account is reversed.

9. Would the remitting customer receive an acknowledgement of money credited to the beneficiary's account?: The remitting bank receives a message from the Reserve Bank that money has been credited to the receiving bank. Based on this the remitting bank can advise the remitting customer that money has been delivered to the receiving bank.

10. Timing for RTGS:

- Customer's transactions from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 13.30 noon on Saturdays. However, the timings between these hours would vary depending on the customer timings the branches have.
- For inter-bank transactions, the service window is available from 9.00 hours to 18.00 hours on week days and from 9.00 hours to 15.00 hours on Saturdays.

11. Charges:

- a) Inward RTGS— free;
- b) Outward transactions (i) Rs. 2 to 5 lakh — not exceeding Rs. 25 per transaction;
- Outward transactions Rs. 5 lakh and above — not exceeding Rs. 50 per transaction.

12. RTGS service charges for members (September 05, 2011): RBI will levy service charges for all outward transactions of RTGS members. Inward transactions of the members will not attract any service charges and will continue to be free as hitherto. The RTGS service charges would have three components (i) membership fee, (ii) transaction fee and (iii) time-varying tariff. Monthly membership fees for banks will be Rs 4000. Transaction fee will depend on monthly volume and per transaction fees will be — Rs 0.50 for monthly volume up to Rs 25000; Rs 0.40 for 25001 to 50,000; Rs 0.30 for 50,001 to 100,000; Rs 0.10 for 100001 and above

13. Information to be submitted by the remitting customer: (i) Amount to be remitted (ii) His account number which is to be debited (iii) Name of the beneficiary bank (iv) Name of the beneficiary customer (v) Account number of the beneficiary customer (vi) Sender to receiver information, if any (vii) The IFSC code of the receiving branch. The IFSC code is also available in the cheque leaf. This code number and bank branch details can be communicated by the beneficiary to the remitting customer.

14. For a funds transfer to go through RTGS, both the sending bank branch and the receiving bank branch would have to be RTGS enabled. All the bank branches in India are not RTGS enabled.

15. Banks should ensure that: a) A bank customer receiving RTGS credit shall be provided with the name of the remitter in his account statements / pass book. b) A bank customer sending a RTGS remittance is provided with the name of the beneficiary in his account statements / pass book. The banks are free to provide any additional information as they deem necessary / useful.

16. With effect from 1.8.08, all payment transactions above Rs. 10 lac by RBI regulated entities in the RBI regulated markets would have to be mandatorily routed through electronic payment systems like the Real time Gross Settlement (RTGS) System, National Electronic Fund Transfer (NEFT) System and Electronic Clearing Service (ECS).

## Transaction Types

1. The transactions carried out through RTGS are (i) Inter-Bank transactions (ii) Customer transactions (iii) Delivery versus Payment transactions (iv) Own account transfer transactions

2. Inter Bank transactions are used to settle the participant bank's financial obligations on their own account.

3. In customer transactions, customer information along with payment message can be transmitted in a structured format.
4. Delivery versus Payment transactions arise out of RBI's Securities Settlement System and is settled in the RTGS as a separate transaction.
5. Inter Bank Payments Transactions arise mainly out of treasury operations such as money and debt market deals and forex transactions.
6. In customer to customer transactions, remittances from the customer to the beneficiary in the other bank are handled. The transactions are routed from one RTGS enabled branch to another RTGS enabled branch of the same bank/other bank through the centralized RTGS operations of the bank and routed through a centralized gateway to another bank.
7. Own account transactions relate to the transfer of funds from the bank's one RBI account to another done by the treasury department of banks to maintain liquidity limits prescribed by RBI.

#### **RTGS Process Flow:**

1. Customer requests his bank to debit his account and pay the money to the beneficiary providing details of bank account of the beneficiary.
2. The originating bank would debit the account and create a structured message under RTGS.
3. The message after due authentication will be communicated to the payment system gateway of the bank. The same would be transmitted to the RTGS system.
4. The message would be routed through a central hub which will receive the messages in a queue and forward the message to the gateway of the other bank.
5. After authentication, the message will be processed and debited from the sender bank and credited to the beneficiary bank. After the debit, credit is made with the customer details and beneficiary details.
6. The beneficiary bank will then transmit message to the beneficiary branch for credit of the beneficiaries account with the branch.
7. For effecting RTGS debits and credits, banks would be maintaining settlement accounts separately with RBI and sufficient liquidity has to be maintained in these accounts.
8. RBI will provide temporary liquidity if there are shortfalls in the liquidity of banks.

#### **Electronic Clearing Service (ECS)**

1. Electronic Clearing Service is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House.
2. This is normally for **bulk** transfers from one account to many accounts or vice-versa. This can be used both for making payments **like** distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax, etc or for loan installments of financial institutions/banks or regular investments of persons.
3. There are two types of ECS called ECS (Credit) and ECS (Debit).
4. ECS (Credit) is used for affording credit to a large number of beneficiaries by raising a single debit to an account, such as dividend, interest or salary payment.
5. ECS (Debit) is used for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.

#### **ECS debit system: Salient features are given below**

1. The account holder issues a mandate favouring the beneficiary to debit a specified sum of money on a agreed periodical basis to electronically debit his account providing the details of the account and MICR code of the branch of the bank in which account is maintained.
2. The mandate is registered with the clearing house by the beneficiary through their bank.
3. On the said dates, the amount is debited to the account of the individual who has given the mandate.
4. The proceeds **will** be credited to the account of the beneficiary.
5. Under ECS (Debit) scheme, an account holder with a bank can authorise an ECS user to recover an amount at a prescribed frequency by raising a debit in his account. The ECS user has to collect an authorisation which is called **ECS** mandate **for** raising such debits. These mandates have to be endorsed by the bank branch maintaining the account. Any "ECS user desirous of participating in the scheme has to register with an **approved** clearing house. He should also collect the mandate forms from the participating destination account holders, with bank's

acknowledgement. A copy of the mandate should be available with the drawee bank. The ECS user has to submit the data in specified form through the sponsor bank to the clearing house. The clearing house would pass on the debit to the destination account holder through the clearing system and credit the sponsor bank's account for onward crediting the ECS user. All the unprocessed debits have to be returned to the sponsor bank within the time frame specified. Banks will treat the electronic instructions received through the clearing system on par with the physical cheques.

### **Advantages of ECS (debit)**

1. No need for issuing cheque to beneficiary for each payment and debit is made automatically.
2. Payment defaults will not happen if there is sufficient balance in the account.
3. No follow up is needed by the beneficiary as payment will be received automatically based on the mandate.
4. Hassle free for the mandate issuer, as it saves the time for him for issuing cheques for each payment.
5. The process is flexible as the mandate can be changed also in case of debit to another account or debit of higher amount etc.
6. Beneficiary need not go to the collection centres/banks and no need to stand in long 'Q's for payment.
7. The ECS user saves on administrative machinery for collecting the cheques, monitoring their realisation and reconciliation; Better cash management; Avoids chances of frauds due to fraudulent access to the paper instruments and encashment.
8. Realise the payments on a single date instead of fractured receipt of payments.
9. The mandate given is on par with a cheque issued by a customer. The mandate given once be withdrawn or stopped. The only stipulation under the scheme is that the customer has to give prior notice to the ECS user, to ensure that they do not include the debits.
10. The customer can stipulate any maximum debit, purpose or validity period for the mandate.
11. The scheme is in operation at 15 RBI centres (ie centres where RBI manages the Clearing House operations) and at other centres where Public Sector Banks manage the clearing operations.
12. The institutions eligible to participate in the ECS Debit scheme include utility service providers such as telephone companies, electricity supplying companies, electricity boards, credit card collections, collection of loan installments by banks and financial institutions, and investment schemes of Mutual funds, etc.

## **TEST YOURSELF**

**Q.169. Remittance Products in the retail banking are -**

- (a) Demand draft/Pay orders/telegraphic transfer
- (b) Real time gross settlement/National Electronic Fund Transfer/  
EFT
- (c) Both (a) + (b)
- (d) Only (a)

**Q.170. The objective of NEFT are-**

- (a) Efficient/secure/economical, funds transfer
- (b) Reliable/expeditions/economical/secure/efficient funds transfer
- (c) Relieve stress of paper based transfer and clearing system
- (d) Both (b) + (c)

**Q.171. NEFT, the parties to the system are**

- (a) Sending bank/sending service centre/NEFT clearing centre/ receiving service centre/beneficiary branch
- (b) Sending bank/sending service centre/receiving service centre/ beneficiary branch
- (c) Sending bank/receiving bank
- (d) Both (a) + (b)

**Q.172. The essential elements of beneficiary identification under NEFT are -**

- (a) Beneficiary name/branch name/bank name/account type/ account number
- (b) Beneficiary name/branch name/bank name/account type/ account number/branch IFSC
- (c) Both (a) + (b)
- (d) Only Beneficiary name - account number-bank branch name

**Q.173. Payment to the beneficiary under NEFT is done**

- (a) Instantly same day
- (b) Latest on next working day by credit to account (c) Credit effected on value dated basis wherever possible (d) All above

Q.174. **What are the rights of a customer under NEFF where there is delay in completion of funds transfer**

- (a) Payment of delayed interest at current FDR rate (b) Payment of delayed interest @ Bank rate  
(c) @ Base rate  
(d) No interest payable

Q.175. **Whether under NEFT any compensation and/or penalty is payable to the sender in delay in completion of funds transfer which may be decided by-**

- (a) RBI  
(b) Ombudsman, on complaint lodged  
(c) Both (a) + (b)  
(d) Sender bank's board of Directors

Q.176. **In international remittance from NRIs what are fastest modes of remittance?**

- (a) Demand Draft (b) SWIFT  
(c) Link, Western Union  
(d) Both (b) + (c)

Q177. **RTGS has replaced**

- (a) High Value Clearing  
(b) Telegraphic Transfer  
(c) Mail Transfer  
(d) Both (b) -F

Q.178. **The procedure for remittance through RTGS is are -**

- (a) Request from customer for debit of account  
(b) Creation of structured manage  
(c) Communication of message after authentication/routed through central hub/credited to beneficiary account  
(d) All above

Q.179. **The transactions carried out by RIGS is are -**

- (a) Inter bank transactions/customer payment transactions/ delivery vs. payment transactions  
(b) Inter bank transactions/securities settlement transactions/ customer payment transactions  
(c) Customer payment transactions/delivery vs payment transactions  
(d) Customer payment transactions

Q.180. **Inter bank payments and transactions mainly arise out of-**

- (a) Treasury operations  
(b) RBI's securities settlement (c) Foreign currency transactions (d) e-banking

Q.181. **What is Electronic Clearing Service?**

- (a) Mechanism to effect payments  
(b) Mandate favouring the beneficiary  
(c) Mandate favouring the account holder (d) Both (a) + (b)

Q.182. **Advantages of ECS**

- (a) No need for issuing cheque for each payment  
(b) No payment defaults of sufficient balance available  
(c) No follow-up needed by the beneficiary since payment received automatically  
(d) All above

Q.183. **Define the process flow of ECS**

- (a) Issuing of mandate by account holder favouring beneficiary  
(b) It is registered with clearing house by the beneficiary

(c) Proceeds are credited to the a/c of beneficiary

(d) It is registered with clearing house by the account holder (e) All a+b+c

Q.184. **RIGS transactions are processed**

- (a) Instantaneously  
(b) Every 2 hours (c) Before the business hour (d) Next working day

Q.185. **What are the obligations of banks under NEFF?**

- (a) Maintain security/integrity and efficiency of system  
(b) After execution of payment instruction those are irrevocable  
(c) Payment of interest at bank rate, if delayed payment (d) All above

Q.186. **The characterisation of RIGS are -**

- (a) Remittance and funds transfer are transmitted through a series of process inputs
- (b) Remittance are communicated through structured messaging process, and are credited on a dynamic basis alongwith its settlement
- (c) Settlement for the message made on a gross basis from the liquidity maintained by the sender bank
- d) All above

Q.187. **RIGS applicability in retail banking is -**

- (a) Limited
- (b) Unlimited
- (c) Partially limited
- d) No applicability

Q.188. **RIGS has made a jump in value and numbers of transactions**

- (a) Volume
- (b) Value
- (c) Both volumes and value
- d) Length and breadth

### ANSWER

169	C	170	D	171	A	172	B	173	D	174	B	175	C	176	D	177	A	178	D
179	A	180	A	181	A	182	D	183	E	184	A	185	D	186	D	187	A	188	C



# Module: C

## Marketing / Selling of retail products, MIS and Accounting

Retail Strategies; Tie-up with Institutions for Personal loans / Credit cards / Educational loans, with OEMs / Authorised Dealers for Auto / Vehicle loans, and with Builders / Developers for Home loans

Delivery Channels - Branch, Extension counters, ATMs, POS, Internet Banking, M-Banking. Selling Process in retail products-Direct Selling Agents.

Customer Relationship Management - Role and impact of customer relationship management, Stages in customer relationship management process.

Regulations and compliance

Technology for Retail Banking - Static information, Account opening, basic loan origination data etc. Updated information like income details at different frequencies. Transaction information from disbursement till final settlement of the loan amount. Analytics / Alerts.

Accounting entries - Loan process and the relevant accounting including EMI Computation

### MARKETING IN RETAIL BANKING

#### Marketing and Delivery Channels in Retail Banking:

Retail Banking is primarily driven by number of customers each bank possesses. To build up the customer base, marketing promises and delivery of products and services are the top priorities of banks in the retail banking.

#### **Definition of Marketing:**

1. Sir Frederick Seebohm: Bank Marketing is 'the creation and delivery of customer - satisfying services at a profit to the bank'.
2. Kenneth Andrew: Bank Marketing is 'the matching of bank's resources with the customer's needs in the most profitable manner'.
3. Dervk Vander Weyer: Bank Marketing is a proactive business strategy aimed at organisational excellence. in the context of Retail Banking marketing means - (i) Identifying the most profitable markets now and in the future. (ii) Assessing the present and future needs of customers. (iii) Setting business development goals and making plans to meet them. (iv) Adapting to a changing environment in the market place.

#### **Marketing in Retail Banking:**

Customer is the centre of attraction in retail banking and marketing and **all** the activities have to be focussed towards (a) Identifying the customers' needs, (b) Developing appropriate products to satisfy their needs, (c) Providing them with efficient delivery channels for availing the products. (d) Making them avail the products continuously. The ultimate objectives of these initiatives are to achieve the business objectives of growth and profit.

#### **Marketing Mix in Retail Banking:**

Marketing mix in retail banking refers to the different ingredients to make customer happy and satisfied. The fundamental ingredients of an effective marketing mix in retail banking are as follows: (i) Product (ii) Price (iii) Promotion (iv) Place (v) People (vi) Process (vii) Physical evidence. The above seven Ps play a vital role for the banks in their retail banking strategies.

1. **Product:** A bank product can be defined as "Anything that has the capacity to provide the satisfaction, use, and return desired by the customer". The different retail banking products like Deposit, Asset and Other Service products.
2. **Price:** 'Price' in the marketing mix refers to transaction cost to be borne by the banker or the customer depending upon the product offered or availed. In the case of deposit products, 'Price' refers to the interest rate offered by the banker to the customer. In asset products, 'price' refers to the interest the bank is quoting to the borrower customer for offering the loan product to the customer. In case of other services, price refers to the fee/charges the bank is charging for offering the different services.
3. **Promotion:** 'Promotion' refers to the efforts of the banks to reach the customers. This includes personal promotional measures and other promotional measures. The ultimate objective of these promotional measures is only to win the customer and make him to avail the bank's products & services. The various ways in which the marketer develops promotion strategies are through Personal Selling, Advertisement, Sales Promotions, Publicity etc.
4. **Place:** 'Place' in retail banking generally refers to the place where the Bank is offering its product. Earlier 'Place' was limited to the location of Branch but technology has shifted the place from the brick and mortar format to e format and has reached the customer in his place through internet banking and mobile banking.
5. **People:** Since Retail Banking is basically services marketing addressed to a large customer base, people play a very essential role in the success of the retail banking strategy. 'People' concept in marketing refers to the people who are doing the marketing strategies and also 'people' who are the beneficiaries of the marketing strategies. Moreover, banking products and people are inseparable. Therefore, the effectiveness of the product depends on the effectiveness of the people delivering the product.
6. **Process:** 'Process' is an all pervasive concept in the product development, product structuring and delivery stage. Process will be successful when the output derived from the process is delivered in the expected way. The process relates to all organisational activities which go into the marketing of the final product to the customer including delivery channels.
7. **Physical Evidence:** Physical evidence means adding tangible aspects to even otherwise intangible nature of banking services. Debit Card, ATM Card, Personalised Cheque Book are some of the attempts by banks for creating physical evidence.

#### **Relationship between 7 Ps**

1. The seven Ps are both independent as well as interdependent in the marketing effectiveness. The 7 Ps individually contribute their part in the effectiveness. But these P's are interlinked in such a way that one P will be a deciding P

for the effectiveness of the other R For example, though product is an important element of the marketing mix, the effectiveness of the product and the strategy depends on the price. Similarly, price is an important element in the marketing mix, but the product and price will not matter much if the promotion or the place aspects are not given due consideration. If the 'process' element is not taken care of, the other Ps will not be effective.

2. The effectiveness can be measured by the response of the customer to the marketing strategies. If the customer is responsive, availed the products/services from the marketer and satisfied about it, then that would result in repeated purchases/availment of the products/services. If the customer is not satisfied, there is no reason for him to come again because his needs were not satisfied with our products/ services. The success of the seven Ps and the marketing strategies are measured only by the responses from the customers from the\_\_point of view of need satisfaction.

## TEST YOURSELF

Q,189. **Marketing in retail banking means**

- (a) Identifying needs of customers and developing appropriate product or service
- (b) Providing efficient delivery channels to make them avail the products continuously
- (c) Both (a) + (b)
- (d) Creations and delivery of customer satisfying services

Q.190. **What are the 7Ps, ingredients for effective marketing?**

- (a) Product/Price/Promotion/Place/People/Process/Physical evidence
- (b) Patronage/Perception/Profitability/Perfection/Preface/ Performance/Periodically
- (c) Permanently/Persist/Personalize/Permissiveness/Pertinent/ Phenomena I/Physiological
- (d) Some of (b) and some of (c)

Q.191. **Product or service can be defined**

- (a) Capacity to provide satisfaction
- (b) Capacity to provide use and return
- (c) Both (a) + (b)
- (d) None

Q.192. **Price in marketing refers to the rate of interest for-**

- (a) Resultant transaction cost
- (b) Born by the customer
- (c) An availing product or service
- (d) Both (a) + (b)

Q.193. **Promotion of the product refers to the efforts of the banks to reach the customers through -**

- (a) Personnel Selling and Publicity
- (b) Advertisement and Sales Promotion
- (c) Both (a) + (b)
- (d) Other promotional measures

Q.194. **Place in marketing of retail banking refers to -**

- (a) Branch
- (b) Online ATMs/Internet banking/mobile banking
- (c) Both (a) + (b)
- (d) Road show

Q.195. **People in marketing refers to -**

- (a) Banker
- (b) Customer
- (c) Banker and Customer
- (d) Public in general

Q.196. **Process in retail banking marketing is -**

- (a) Organisational activities
- (b) For marketing of final product to customers
- (c) Through delivery channels
- (d) **All** above

Q.197. **Physical evidence is one of the fundamental ingredients in effective retail banking in banks, Define**

- (a) Developing tangibility in intangibility concept
- (b) Developing efficient support services like ATM card, Debit card/personalised cheque book
- (c) Presence of employees in the branch
- (d) Both (a) + (b)

Q.198, **How the effectiveness can be measured in retail banking?**

- (a) Response from customers and satisfied customer
- (b) Repeated purchases or availment of services
- (c) Both (a) + (b)
- (d) Think about the competitors

Q.199. **Bank marketing of retail banking services refer to -**

- (a) Identifying the most profitable markets/assessing needs of customers/adapting to changing environment
- (b) Adapting to changing environment/setting development goals and plan to achieve them
- (c) None of above
- (d) Both (a) + (b)

Q.200. **Marketing mix means**

- (a) Product-Price-People-Place
- (b) Patronage-Perception-profitability-performance
- (c) Personalise-Pertinent-Preference-Perfection
- (d) Physiological-Permanently-Periodically-physical evidence

Q.201. **Seven Ps in Marketing-mix contribute substantially to the effectiveness of -**

- (a) Delivery Channels
- (b) Marketing mix
- (c) Employees to work hard
- (d) Profitability of the bank

Q.202. **Corporate banking is not driven by-**

- (a) Number of customers
- (b) More customers more profitability
- (c) Smaller client base
- (d) None of above

189	C	190	A	191	C	192	D	193	C	194	C	195	C	196	D	197	D	198	C
199	A	200	A	201	B	202	D												

## 11. DELIVERY CHANNELS

1. Customer satisfaction has to happen through different channels and choices are to be offered to customers to experience the optimum channel mix for maximum satisfaction.
2. Multi channel distribution is the practice adopted by almost all banks for total customer experience.
3. Each channel either direct or remote has its plusses and minuses and also depends on the customer segments using the different channels.
4. Direct channels may be the best fit for a conservative customer whereas young and tech savvy customers may opt for remote channels.

### Physical and Direct Channels:

**Branch:** Branch is the primary direct channel that drives retail banking. With all the remote channels available to enhance the customer experience of retail banking services, the preference for the brick and mortar format has been maximum. The main reasons for the same are:

1. Branch converts the intangible nature of banking services to tangible. The transactions carried out in the branch premises infuse a sense of confidence in the minds of the customers that they are not only physically involved in the transactions but also feel the service experience at the branch.
2. Personnel at the branch relate with the customer for their transactions.

3. Communication happens directly between the bank staff and customer and better understanding of the service expectations are achieved from both the customer and the bank end.
4. Physically seeing the bank staff and effecting the transactions brings in a sense of bonding with the bank staff and which in turn enhances the loyalty factor.
5. Products and services when explained to the customer directly in the branch by the Staff create a better understanding than through other channels.
6. A good branch layout and ambience enhances the feel good factor among the customers and strengthens the relationship with the bank.

Though customers have accepted the electronic channels of delivery in retail banking with both hands, they still want to transact personally at the branch for their banking requirements. They want a human intervention for their services than simply go through on-line or-mechanical interventions like ATMs, Internet or Mobile Banking.

**Branch Lay Out and Ambience:** Layout refers to the arrangement of all physical components within the available floor [space](#).to provide maximum effectiveness and coordination of these components into an efficient and attractive unit. Branch layout may be broadly defined as the system of locating the various service facilities within the Branch in order to deliver the most convenient service to the customers. The ambience of the branch should be such that it increases the ' comfort factor' in the minds of the customers.

**Advantages of A Good Branch Lay Out:**

1. Promotes efficiency as it will ensure smooth flow of services which results in time benefits.
2. Internal communication effectiveness increases thereby facilitating better coordination among the staff resulting in better customer service.
3. Provides a comfortable and congenial work environment to the staff which results in high employee motivation and acts as a morale booster.
4. Serves as an image building tool for the bank because the layout creates as good impression and generates goodwill in the minds of the customer.
5. Helps in reducing cost as facilities are planned for maximising efficiencies which results in cost optimisation.

**Branch Lay Out And Service Delivery:**

1. The advent of technology in banking has changed the concept of counters.
2. Total automation of branches across banks and the implementation of core banking solutions have changed the concept of service delivery.
3. Single Window Concept has brought the customer close to the service personnel of the bank. The Counters are individually designed as desks to create a one to one relationship with the customers and the customer can avail any of his service requirements from any of the desks.
4. The traditional branch layout continues in most of the rural and semi urban branches of public sector banks.

**Personal Banking Branches:**

1. Over the years, branch design has moved to specialised branches like Corporate Branch, SSI Branch, Agri Finance Branch, Personal Banking/Retail Banking Branch etc.
2. Specialised "Personal Banking Branches" have been opened by almost all the Banks exclusively for retail customers to meet **all** their retail banking requirements.
3. Specialised Retail Asset Processing Centres have been opened for professional and speedy processing and disbursement of retail loans. The objective of opening these branches is to use the specialised branch as a tool to enhance the delivery effectiveness of services by prescribing TAT (Turn Around Time) for different retail loans and to meet the competition in retail banking effectively.
4. For opening of different liability accounts, branches perform only the role of the marketing function and front office operations. In almost **all** the private sector banks as **well as in** some public sector banks, only the formalities for opening the accounts are completed at the branch level and opening of accounts, issue of Pass Book/Cheque Book, Debit Card, **PIN** etc. are carried out through a centralised back -office mechanism. This is aimed to achieve standardisation as well as speedier compliance of bank's requirements and customer expectations.

**Extension Counters:**

1. Extension Counters are extensions of Branches opened in specified locations for offering banking services to the specified group within their command area.
2. Extension Counters are basically attached to a Branch and controlled by the Branch for accounting

purposes.

3. They are permitted to offer products mainly in the liability side.
4. The areas of operations of Extension Counters were restricted to a closed group like Courts, Educational institutions like Schools and College' or a specific company in their premises.
5. Extension Counters play a very vital role in the retail resources mobilisation for banks especially low cost and no cost resources like Savings and Current Accounts. They bring in core term deposits as well as CASA resources which are held as operative resources of these institutions.
6. Though the concept of Extension Counters is getting diluted in the recent past, as a delivery channel these serve in a focused way to a targeted entity/group mainly with liability products.

## **ELECTRONIC/REMOTE DELIVERY CHANNELS**

### **Automated Teller Machines (ATMs):**

1. ATMs are the starting point of remote channels that moved the customers away from the branch.
2. The main objectives of banks to set up ATMs are (a) To offer convenience to customers an additional choice to withdraw money during any time of the day according to their will and pleasure. (b) To move the customers away from the counters as service cost is comparatively less through ATMs than across the counter at the branch.
3. There are basically two types of ATMs to deliver services to retail customers — (i) On Site ATMs and (ii) Off Site ATMs.
4. On Site ATMs are intended to offer the facility of Cash Withdrawals, Cash Remittances, Balance Enquiry etc., at the branch premises itself.
5. Off Site ATMs are designed to be situated away from the branches at convenient and busy locations to enable the customers to access it for their different needs but not necessarily from the branch.
6. The transaction in ATMs mainly happen through either Debit Cards or Credit Cards.
7. Earlier there were restrictions on usage of ATMs by customers and they could use ATMs of only those bank where they maintained account. Now customers can withdraw from other banks' ATMs also. For that purpose, a common networking arrangement "National Financial Switch" was initiated for ATM operations. Two of the important networking arrangements called "Cash Tree" and "INFINET -National Financial Switch offered networking facility across banks.
8. Earlier, charges were levied for operations in ATMs of other banks. Subsequently, RBI issued guidelines in 2009, allowing operations free of any charge to saving bank customers using other banks' ATMs subject to the following conditions:
  - With regard to Savings Bank Customers, five withdrawals through other Bank ATMs per month are allowed free of charges and thereafter a charge of RS.20/- per transaction will be levied.
  - With regard to our non-Savings Bank customers, there will not be any free withdrawals through other bank ATMs and all withdrawal transactions in other bank ATMs are chargeable at the rate of RS.20/- per transaction.
  - Maximum cash withdrawal would be Rs.10,000/- (Rupees Ten thousand only) per transaction for the customers of other Banks w.e.f October 15, 2009.

### **ATM Operations:**

1. All banks have several ATMs and they are located across geography based on their priorities of business and connected via a wide area network to a central server.
2. Each and every ATM has the following important components viz. Card Reader, Cash Dispenser, Key Board/Display Unit/Touch Screen and a Receipt Printer and the entire package is bundled in the ATM machine. Customers normally have the following options for operations — (a) Withdraw cash from their accounts and (b) Balance Enquiry.
3. When a customer inserts an ATM card into the card reader, the transaction starts.
4. On the back of the ATM card, the card number, the start date, and the expiry date are encoded on the black magnetic strip.
5. In the next stage, card is recognized by ATM. If the-card is recognized, the system will ask for the Personal Identification Number called the PIN Number and the customer has to enter the PIN number. The PIN number will be a unique number and consists of four digits.
6. ATM validates the PIN number and checks up that the expiry date has not passed, that the user entered

PIN matches the PIN maintained by the system, and that the card is not lost or stolen.

7. The customer is allowed three attempts to enter the correct PIN and if the same is not entered correctly in all the three attempts, the card is confiscated if the third attempt fails.
8. Cards that have been reported lost or stolen are also confiscated.
9. After verifying with the correctness of the PIN number, the customer is prompted for a withdrawal, query, or transfer transaction.
10. Before approval of a withdrawal transaction, the system will verify for the sufficiency of funds in the account. If the amount is available in the account, again verifies whether the requested amount is within the maximum daily limit and whether the requested cash is available in the cash dispenser of the ATM.
11. After verification of the above, transaction is approved and the requested amount of cash is dispensed, a receipt is printed containing information about the transaction, and the card is ejected.
12. Cash dispensed is collected by the customer.
13. On a regular basis, cash is replenished by the bank either directly by them or through an outsourcing agency.

**ATMs — Issues and Risks:** Though, ATMs are one of the most successful remote channels for service delivery, there are risks associated with the functioning efficiency of ATMs. ATMs are always complaint prone because of the break downs and cash out situations. These two faults would result in reputation risk for the bank and may result in customer switching also.

**Point Of Sale Terminal (POS):** Point of Sale terminals enable payment of credit and debit cards in merchant establishments. The POS process is as under:

1. POS is simply an electronic transaction terminal used in an electronic Point of Sale system.
2. The terminal interacts with a computer file to approve transactions and transmits sales information for posting against customer accounts.
3. There are two basic types of POS terminals: electronic cash registers that are used by high volume merchants, such as department stores, and dial-up terminals that automatically dial a special telephone number, often a toll-free number, to obtain authorization.
4. Net Settlement when the transfer of funds actually takes place, may occur at the same time or soon afterward, or it may occur later in the day in POS systems that operate Off-Line in a Store and Forward mode. This type of system operates off-line, that is, the merchant terminal is not connected directly to a central computer for authorization or processing of sales receipts.
5. A POS terminal is predominantly used for payment for sale and purchase transaction, while an ATM can be used for several other services like balance enquiry.
6. The bank pays charges which are split among the card-issuing bank, the bank that owns the POS terminal, the payment company, Mastercard or Visa, and the place where the POS terminal is located.
7. In July 2008, the Reserve Bank of India (RBI) allowed cash to be withdrawn from any merchant establishment with a POS terminal with a ceiling of Rs 1,000 a day on withdrawal of cash at merchant outlets using debit cards. The charges to be levied are decided by banks themselves which is generally nominal and anywhere between free and Rs 20.
8. The rationale behind RBI allowing cash withdrawal was to enhance financial inclusion. There are about 450,000 POS terminals in the country, against 40,000 plus ATMs.

#### **Mobile Banking:**

1. Mobile banking is the latest and the most convenient delivery channel.
2. Mobile banking is convenient, simple and readily accessible.
3. Globally, mobile banking initiatives were started by Wachovia in 2005 and the full fledged mobile browser in 2007. Most US banks viz. Bank of America, Citibank, Wells Fargo launched their mobile banking services in 2007.
4. Because of the operational conveniences, the reach and time flexibility afforded by Mobile Banking, banks are aggressively planning and executing their marketing strategies for mobile banking.
5. The mobile banking initiatives in India were started by foreign and private banks followed by public sector banks.
6. **Benefits Mobile Banking to customers:** (a) Facility for using banking facility from anywhere\_ (b) Easy operations - instructions carried out by self; (c) Option to pay utility bills; (d) Transfer of funds between

accounts - same bank and other banks; (e) Facilities for setting up alerts for different transactions like account debits for various reasons; (f) Balance Enquiries; (g) Facility for shopping and paying through mobile.

**7. Benefits for banks:** (a) Easy and most acceptable delivery channel. (b) Cost effective solution as compared to ATMs. (c) Lesser transaction costs as compared to other channels. (d) Tool to attract next generation clients.

8\_ Banks have to obtain prior permission from Reserve Bank of India for offering mobile banking business service.

### **Internet Banking and Electronic Channels In USA**

Internet banking is an important tool for retail banking services. According to Ernest. T. Parkins:

1. internet banking, would have great implications on (I) Internet commerce, (2) new types of electronic retail payments, (3) electronic retail banking, and (4) the movement of retail financial services to electronic delivery, including insurance, discount brokerages, and mutual funds.
2. Electronic commerce over the Internet, involving both financial and non financial products, would see rapid growth and would create demand for new payment instruments.
3. ATMs (Automated Teller Machines) would become more sophisticated and offer more services.
4. With access to electronic channels, retail banking would become largely an electronic, remote delivery, self-service business.
5. Movement of banking services to electronic delivery would bring about the following changes viz., (I) reduction of geographic barriers, (2) commoditization of banking products and (3) new competitive strategies deployed by banks.
6. Banks would find ways to cut costs, and gain access to the consumer, at the same time avoiding direct competition in those dimensions where non bank competitors already have a big advantage.
7. The emphasis is on (I) migration from traditional channels to electronic channels in delivery of retail banking services. (ii) potential available and the ability of these channels to change the competition dynamics in retail banking. (iii) impact of these channels and changes in customer experiences of retail banking products and (iv) expected risks from these channels and managing the same.

### **Internet Banking:**

1. Internet Banking as a service channel was initiated by foreign banks and new generation private sector banks. With the advantage of technology right from their inception, new generation private banks aggressively implemented their Internet banking channels and increased their customer base and particularly of younger generation. The usage of electronic channels was more in private banks due to these younger generations of customers.
2. The level of acceptance of Internet Banking, generally, from the public sector bank customers was initially lukewarm. This is basically due to the older age profile of the customers as well as staff as compared to private sector banks. Over a period of time, public sector banks also have marketed their Internet banking initiatives in a phased manner. But the level of penetration of internet banking in public sector banks is low as compared to private sector banks.
3. Internet banking service enable customers to transact online with the bank and from any where at any time of the day.
4. Services offered by banks over the internet include - (i) View of balance in account. (ii) View of last few transactions. (iii) Generate statement of Account (iv) Transfer of funds from Savings, Current, Cash Credit accounts to another Savings, Current, Cash Credit, Loan or Recurring Deposit accounts within the bank. (v) Transfer of funds to accounts with other banks through NEFT mechanism. (vi) Viewing of Recurring Deposit/Loan Accounts. (vii) Pay indirect taxes (Excise and Service taxes). (viii) Pay direct tax (IDS and Income Tax dues, etc.) (ix) Utility Payment facility like payment of insurance premium, telephone bills, energy bills. (x) Book air tickets, hotel rooms through popular travel sites. (xi) Purchase of units in select mutual funds, (xii) Payments to several other merchant establishments, etc.
5. Eligible Customers: The eligibility of the customer depends on the type of branch at which the customer is having the account and also the type of customers. The following types of customers can open Internet banking accounts - (i) Individuals and Corporate customers of networked branches. (ii) Proprietary concerns. (iii) Corporate customers which include Limited Companies, Partnership firms, Trust, Society, Association etc where the operation of the account is entrusted to a specific—person/persons by the Corporate/partnership firm/Trust/society/ Association. These customers should register only through 'Corporate Banking' module. (iv) The Customer should comply with KYC and AML norms. (v) In the case of individuals (or proprietary concerns)



the mode of operation of the account should be 'Single' or 'E or S' or 'Any One or Survivor'. (vi) If the account is operated 'Jointly' or if the account holder is a minor, they are not eligible. (vii) if an account holder has more than one account, he/she can register all the accounts under the same login-id. However an account holder cannot add accounts that are not in his name.

**Procedure for Availing the Internet Service:**

- (i) The customer has to register online for the services through the web site of the bank.
- (ii) The customer can register only the accounts he is authorized to operate in his individual capacity.
- (iii) To operate the account through Internet Banking, each individual will have a unique login id selected by him during the registration process.
- (iv) The user is expected to have a customer-id in the branch system.
- (v) Individuals have to submit to the branch the registration form duly signed.
- (vi) After completion of registration, a four digit pin number will be generated by the system.
- (vii) The customer should-memorize it and use it at the time of availing the funds transfer facility.
- (viii) The customer can change his PIN number by selecting Change Pin option under Account Services menu after logging into Internet Banking using the login id/password provided.
- (ix) Where the customer has account in more then one branch, they can register all the accounts. The registration forms have to be submitted to the respective branches.
- (x) After submission of registration forms by customers, the bank will verify the particulars, do all the necessary compliance formalities for internet banking and activate the Internet banking facility to the customer if the requirements for opening the account are met by the customers.

**Internet Banking vis a vis Mobile Banking**

- 1. The penetration of internet banking has improved over the years but in public sector banks its penetration is not that much due to the good number of rural branches in PSBs. The rural customers may not be inclined towards internet banking. The scope for internet banking is also less in rural branches as compared to urban and metro branches since internet banking is not a 'bottom of the pyramid' product.
- 2. As regards comparison of internet banking and mobile banking, mobile banking will score over internet banking as a complete remote channel because of the strong penetration of mobile services across geography including rural areas. While Internet banking is an attractive channel for the upper middle end customers who are tech savvy, mobile banking is a universal remote channel attracting bottom of pyramid customers as well as high end customers.

**TEST YOURSELF**

Q.203. **ATM are various types -**

- (a) On site ATMs
- (b) Off site ATMs
- (c) Infi net ATM
- (d) Both (a) (b)

Q.204. **Delivery channels in retail banking preferred by young and savy customer are -**

- (a) Nearest branch-extension counters-big size branch
- (b) ATMs-Internet mobile banking
- (c) Both (a) + (b)
- (d) Do not incline to avail banking services

**205. Which Delivery channels in retail banking is preferred by a conservation/pensioner/home sick customers?**

- (a) ATMs/Internet banking
- (b) Mobile and internet banking
- (c) Nearest branch and extension counters
- (d) Distant big branches

Q.206. **Reasons for direct channels preference by customers are-**

Branch tangibilises intangible service/direct contact with employees/better understanding due to communication with staff

- (b) Physically seeing the brick and mortar branch/better explanation to customers by bank staff/layout and ambience of the branch enhance feel good factor

- (c) Both (a) + (b)
- (d) Human factor is absent

Q.207. **Branch layout refers to -**

- (a) Arrangement of all physical components
- (b) Provide maximum effectiveness and co-ordination
- (c) Efficient and attractive ambience unit
- (d) All above

Q.208. **The ambience of the branch increases**

- (a) Comfort factor
- (b) Status factor
- (c) Rescue from hot air outside
- (d) VIP treatment

Q209. **Advantages of good branch layout are -**

- (a) Efficiency intime benefit to internal communication effectiveness increases /provides comfortable and original work environment for morale booster
- (b) Image building minimising efficiencies for cost increase subdued
- (c) Both (a) + (b)
- (d) None

Q.210. **The concept of counters with corporate colour scheme has replaced the traditionally counters, how?**

- (a) Total automation of branches and implementation of core banking solutions
- (b) Single window concept

- (c) Both (a) + (b)
- (d) Modern delivery system has reached to rural and semi-urban branches

Q.211. **Specialised branches are those branches which are called**

- (a) Corporate/SSI/Agri. Finance/Personal Banking
- (b) One stop shop for all
- (c) Professional and business communities
- (d) Both (b) + (c)

Q.212. **Personal banking branches are opened for**

- (a) Wholesale customers
- (b) Retail banking customers
- (c) Professional and speedy turn around time
- (d) Provides services at home of customers

Q.213. **Extension counters mean**

- (a) Counters which are extended or increased in branches to give better service
- (b) Extension of branch to specified location for serving ,specified group
- (c) Counters which are allowed to provide services mainly in asset side
- (d) Counters which are allowed deal exclusively for the serving of corporate-employees only

Q.214. **Remote delivery channel means**

- (a) Electronic method channel
- (b) Remote area service providing
- (c) Banking to customers who are faroff 30 km.
- (d) Services provided to Adivasi Customers .

Q.215. **On site automated teller machines mean -**

- (a) Services at the branch premises
- (b) Services situated away from the branch premises
- (c) Cash dealing services provided at the site of the builders
- (d) Cash withdrawals done at distant places by putting cheque with ATM

Q.216. **Off-Site ATMs mean -**

- (a) ATMs designed to be situated away from the branches
- (b) ATMs situated within the premises of the branch

- (c) ATMs where it is compulsion for customers to visit the branch
- (d) ATM installed at places in the branch area to reduce the service cost.

**Q.217. Off-Site-ATM customers have restrictions like**

- (a) Use of ATMs by customers who are maintaining their accounts with that bank
- (b) No use of ATMs of other banks
- (c) Both (a) (b)
- (d) None

**Q.218. Freedom in withdrawal of cash on use of any other bank's ATM are -**

- (a) Withdrawal 5 times in a months without charges and cash withdrawal 10,000 maximum per transaction
- (b) Withdrawal 4 times free of charge and 20,000 maximum per transaction, in a calendar month
- (c) No restrictions about number of transactions per month but amount can be 50,000 maximum per day
- (d) None of above

**Q.219. The important components of an ATM are -**

- (a) Card Reader/Cash dispenser/Key board
- (b) Touch screen/Receipt printer/display unit
- (c) \Cash withdrawal mode/balance enquiry mode
- (d) Both (a) + (b)

**Q.220. While withdrawing cash from ATM card recognition is done by -**

- (a) Card Reader
- (b) Personal identification number
- (c) Card recognition
- (d) Card holder

**Q.221. ATM are operative through PIN if the serve are not entered correctly, then after when the card be confiscated?**

- (a) First attempt
- (b) Two attempt
- (c) Three attempt
- (d) Not confiscated at all

**Q.222. ATMs cards are confiscated otherwise then putting incorrect PIN**

- (a) Reported Lost
- (b) Stolen
- (c) Both (a) + (b)
- (d) Other a or b only

**Q.223. Uses of Mobile banking to customers are -**

- (a) Facility for use from anywhere/Instructions carried out by self option to pay utility- bills
- (b) Transfer funds in any bank/facility for sending alerts for debits balance enquiries/shopping and paying
- (c) Both (a) + (b)
- (d) Some of (a) and some of (b)

**Q.224. The benefits of mobile banking to banks -**

- (a) Most acceptable channel/cost effective composed to ATM/lesser transaction costs/tool to attract young and new generation
- (b) Tool to attract young and next generation/lesser transaction costs compared to other channels/easy and cost acceptable situation compared to ATMs
- (c) Cost effective as compared to Internet banking/anywhere and anytime banking/large number of active users of mobile numbering 54.86 crores
- (d) No benefit to banks on the contrary workload increase

**Q.225. What major 5 services are provided under mobile banking to customer?**

- (a) Fundstransfer in the same bank branches/bills payment/ corporate

fund transfer/stop payment of cheques/request for loans

- (b) Statement of last 9 transactions/balance enquiry/fee payments/  
request for cheque book/request for new account or fixed deposits
- (c) Airline-mobile ticketing/mobile recharge/temple donations/  
cheque status/hotlist debit cards
- (d) Some from (b) and some from (c)

**Q.226. Procedure for registration for mobile banking services is done -**

- (a) Customer to insert credit card and enter the PIN number/select others menu option and select "mobile payment" on screen select "unmobile" and then select registration/give mobile number and confirm for registration
- (b) Customer to insert debit-card and enter the debit card PIN number rest as in (a) above
- (c) Customer to insert ATM card, and enter the PIN number rest as in (a) above
- (d) Customer to insert Smart card and enter the PIN number. Rest as in (a) above

**Q.227. Full form of GPRS**

- (a) Great Packet Rational System
- (b) General Packet Radio Service
- (c) General Prior Release Service
- (d) Great Packet Radio Service

**(2.228. The levels of banking services offered through Internet are -**

- (a) Basic Level Service
- (b) Simple Transactional Websites
- (c) Fully Transactional Websites
- (d) All above

**Q.229. Basic Level service is the bank's websites which**

- (a) Disseminate information on product and service
- (b) Submission of customer instructions and applications for different services
- (c) Operate on their accounts for transfer/payment to/subscribing to products
- (d) Banks which may not have any physical presence

**Q.230. Fully transactional Websites mean**

- (a) Customers may be allowed to operate on their accounts
- (b) Banks are allowed to operate on account transfer/payment of bills
- (c) Disseminate information on different services
- (d) Allow customers to submit their instructions, queries on their account balances

**Q.231. Distinct features of internet banking is/are**

- (a) Could reach out to customers of different countries/new dimension to different kinds of risks/public domain not subject to control by any single authority
- (b) Strategic risk of loss of business to those who do not respond in time/emerging of new form of competition with existing players/internet in a private domain and is subject to control by group of users
- (c) Internet may impact monetary policy when substitution of money done by e-cheque/digital signatures/digital coins. Cost of delivery of banking service is several times costlier to other modes
- (d) Some of (a) and some of (b) features

**Q.232. The retail banking services the services of (i) viewing recurring deposit and loan accounts (ii) payment of indirect and direct taxes and (iii) purchase of units of mutual funds is possible under -**

- (a) Mobile banking
- (b) Phone banking
- (c) Internet banking
- (d) Core banking

**Q.233. Who can not operate in internet banking accounts?**

- (a) Individual and corporate customers
- (b) Proprietary concerns
- (c) Individuals account with joint operation
- (d) Partnership firm/society/association

**Q.234. State the procedure for registering the internet banking-**

- (a) Registration through website of bank/each individual possesses login ID/submission of form to branch for registration/generation of 4-digit PIN number
- (b) Online registration/individuals possesses login ID/generation of 4-digit PIN number/customer should memorise the number
- (c) Customer having account in more than one branch they can register all the accounts by submitting forms to respective branches
- (d) Both (a) + (c)

**Q.235. Virtual banking means**

- (a) Need for bank and mortar branch
- (b) No need for brick and mortar branch
- (c) Creates 3-dimensional environment on a computer
- (d) Both (a) + (c)

**Q.236. Advantages of e-banking**

- (a) Any where and any time banking through wide area network (WAN)
- (b) Creates financial discipline by recording all transactions at lower the risk but higher security to customers
- (c) Enhance the cost to banking to the customers/online purchase of goods and services
- (d) Both (a) + (b)

**Q. 237. Advantages to a banker are -**

- a) Competitive advantage/better customer relationship and retaining customers
- b) Competitive advantage/better customer relationship and attracts new customers/unlimited network/risk of overdrawal by customers is eliminated
- c) Does not reduce customers visit to branches/load on the branches reduced/bank's potentiality increases
- d) Both (a) + (b)

**Q. 238. Disadvantages of e-banking are**

- a) Low customer's acceptance due to psychological factors Higher cost of technology to bank, beyond the paying
- b) capacity of middle class customers/security threat from unauthorised accesses
- c) Both (a) + (b)
- d) Lack of preparedness on the part of banks and unawareness of changes

**Q.239. Under ATM card, before the approval of a withdrawal transactions, what is last and final stage under system to be verified -**

- (a) Details of amounts to be withdrawn
- (b) Cash withdrawal mode
- (c) Sufficiency of funds in account
- (d) Personal Identification Number

**Q.240. In an ATM transaction, how the cardholder comes to know that how much amount has been debited to his/her account**

- (a) Transaction receipt obtained
- (b) Display on Screen
- (c) Amount received in cash
- (d) Through the Passbook/Statement of account

**Q.241. Can we get the cash from ATM, currency in the same denomination as requested?**

- (a) Yes
- (b) No-since predetermined by the system
- (c) No-since highest denomination notes are inserted by banks only
- (d) Yes-in any denomination as requested

**Q.242. Whether under ATM, the customer may know any other information, other than cash withdrawal?**

- (a) None
- (b) Yes-order for new cheque book
- (c) Yes-for balance enquiry
- (d) All other services as given in the branch

**Q.243. Point of sale terminals (POS) facilitate -**

- (a) Payment through debit/credit cards at member establishments
- (b) Payment through debit cards only at on site ATMs
- (c) Payment through credit cards only at off site ATMs
- (d) A link between branches of the bank

Q.244. **Which are the parties those involved in POS?**

- (a) Payment company/master or visa card
- (b) Bank that owns POS/payment company/Master or visa card/Place where POS located
- (c) Member establishment/Master or visa card/Owner of POS, bank
- (d) None of above

Q.245. **For restricting the computer misuse, crimes, computer related offences, unlawful use of computers, which is the law available in India?**

- (a) Anti-money laundering Act, 2002
- (b) Cyber Law Information Technology Act, 2002
- (c) Negotiable Instrument Act, 1881
- (d) Banker's Book evidence act

Q.246. **Mobile banking works on -**

- (a) SMS
- (b) GPRS
- (c) J2ME
- (d) All above

Q.247. **Issues and problems of ATMs faced by banks -**

- (a) Complaint prone due to breakdowns and cashout/reputation risk of banks
- (b) Negative publicity, due to breakdown irritations/inefficiency of banks in predicting withdrawal pattern
- (c) Both (a) (b)
- (d) Some of (a) and some of (b)

### ANSWER

203	D	204	B	205	C	206	C	207	D	208	A	209	A	210	C	211	A	212	B
213	B	214	A	215	A	216	A	217	D	218	A	219	D	220	B	221	C	222	D
223	C	224	A	225	A	226	A	227	B	228	D	229	A	230	A	231	A	232	C
233	C	234	D	235	D	236	D	237	D	238	C	239	C	240	A	241	B	242	C
243	A	244	B	245	B	246	B	247	C										

## 12. DELIVERY MODELS

1. The three important human' interventions in physical channels are (i) Internal Customer - Staff of the Branch (ii) Specialised Marketing Personnel (iii) Direct Selling Associates (DSAs).
2. In many of the public sector banks, retail banking is carried on only as a separate departmental activity and not as a Strategic Business Unit (SBU) whereas in foreign banks and new generation private banks, retail
3. Internal customer, is more focused in service delivery in new private sector banks.
4. In public sector banks, even without a strategic focus to retail banking, the service delivery is generally more personalised and caring because of the loyalty factor of public sector bank customers and better personal understanding of the customers' profile by the staff in PSBs. This is more pronounced in semi urban and rural branches where retail customers are more loyal and value their relationships with the banks.

**Efficient service delivery:** The following needs to be given emphasis for efficient delivery:

1. Understanding the customer, his income level, his financial profile, his needs, his requirements of financial products and his life stage.
2. Cross selling the right products to match their requirements.
3. Post sales service follow up for customer satisfaction.

4. Customer Empathy - Putting yourself in the shoes of the customer and looking the service level from customer perspective.
5. Understanding the product features and service prescriptions and conviction about the bank's products services for right selling and better product and service delivery.
6. Attitude for customer service and the concept of team in customer delivery.

#### **DEDICATED MARKETING MANAGERS**

1. In foreign and private banks, since there was mismatch with their retail banking objectives and the human resources available to achieve the objectives, private banks engaged external agencies to carry out marketing and customer acquisitions.
2. Public sector banks have appointed specialist officers for marketing and retail banking initiatives. Separate Marketing Managers were appointed in addition to existing internal human resources. These specialist Marketing Managers (MBAs in Marketing) were young and energetic and recruited from the campuses of management schools. The expectations from these officers are — (i) Market Intelligence. (ii) Potential Sourcing. (iii) Product and Service Delivery Presentations to the identified customer segments. (iv) Right selling to the targeted customer group. (v) Sales Conversions (vi) Closing the leads with sales. (vii) Compliance of promises made and conforming to the service delivery standards. (viii) Following up with the operations department for effective process and delivery of products sold. (ix) Customer Relationship Management on a continuous basis for improving the loyalty factor as well as additional sales.

The effectiveness of delivery to retail customers has improved very well in this dedicated model.

#### **DIRECT SELLING AGENTS (DSAS):**

- 1 The concept of Direct Selling Agents (DSAs) was pioneered foreign banks.
2. DSAs are agencies appointed by banks to source business for them on a fee basis.
3. Banks which do not have a branch penetration and geography, to service a large section of customers, seek the help of DSAs for sourcing business on behalf of the bank and also complete the preliminary formalities for acquiring customers.
4. DSAs are primarily engaged in sourcing Credit Cards and Retail Loans. The appointed DSA appoints field personnel and supplemented by tele callers, start the marketing process, and follow up to meet the customers and convert them into sales.
5. But the scrutiny and KYC formalities for the above are basically done by the banks.
6. Misselling by DSAs have been rampant especially in the credit card space which make the customers fall into a debt trap by misusing the cards. Similarly, the pricing for the loans are not explained clearly. Ultimately this will result in dissatisfaction for the customers and reputation risk for the bank.
7. With limited branch networks, private sector banks are increasingly depending on outside agencies to sell their retail products. Despite the lack of loyalty and accountability associated with direct selling agencies, new generation private sector banks see this as the only way in which they can grow their scale of operations in the country.
8. By appointing DSAs, the cost of delivery of service would be considerably reduced as DSAs are not in their pay rolls. The compensation for the DSAs will basically depend on the volumes of business sourced.
9. However, there is Reputation Risk in the DSA model as the field personnel deployed by the DSAs for sourcing business try to make some false promises in the Turn Around Time (TAT) in retail asset processing and issue of credit cards.
10. DSAs focus on pure selling by pushing the products than effective marketing after verifying the needs of the customers and their actual requirements.

#### **SALES THROUGH TIE UPS:**

Bulk sale through tie up is another option to expand retail assets. Banks enter into tie ups with the following agencies for extending different types of loans.

1. Tie up with Builders as a preferred financier for extending Home Loans to prospective buyers. Special concessions like waiver of processing charges, documentation charges, mortgage charges etc., will be offered as additional attractions for these borrowers. In this type of tie ups, bank will approve the specific projects of builders and express their interest to finance the individual or group buyers of the project. Builders in turn will refer their buyer customers to the Bank for considering home loans. In another type of tie up, banks will finance the builders for their housing projects and enter into arrangement with the builders for repaying the loan from the proceeds of sale of flats to different buyers.
2. Tie ups with auto dealers is another method adopted by banks for expanding retail credit. This model is more

prevalent among private sector and foreign banks. Banks tie up with auto dealers as a preferred financier and set up a counter/desk in the showroom of the auto dealer for soliciting/ capturing customers for extending loans. When a person visits a tied up car dealer's showroom, on completion of his choice, the customer is referred to the bank's staff at the showroom and the bank staff immediately get the details and requirements and start processing the loan based on merits. There is another type of tie up where the manufacturer, dealer and banker coming together for offering loans with- maximum concession through sharing of the concessions by all the three. But this model is under strain as manufacturers through their financing arms (NBFCs) extend the credit facility to the ultimate buyers thus making additional profits from the sale of cars.

3. Sanctioning of Personal Loans under tie up with different institutions: Banks tie up with institutions for extending Personal Loan to group of employees of the institutions and the repayment of loan will be undertaken by the company. The institutions will recover from the salary of the employees on a monthly basis and remit to the bank directly. Thus repayment is assured for the bank.
4. Educational loans are disbursed on a tie up basis. Banks set up special counters during the admission season in reputed educational institutions and offer education loans based on merit.

### **TEST YOURSELF**

**2.48. Human Interventions in physical channels is essential. Such channels are -**

- (a) Bank-staff/specialised marketing personnel/direct selling agents
- (b) Dedicated marketing personnel/Internal customer
- (c) Direct selling agents/educational institutions
- (d) Both (b) and (1)

**Q.249. Bank staff play a crucial role in delivery system. They are responsible for -**

- (a). End to End service delivery
- (b) Deficiency in delivery
- (c) Effective delivery of service
- (d) All above

**Q.250. When a customer of the bank gets dissatisfaction?**

- (a) Deficiency in delivery
- (b) Cross selling the product matched to requirements
- (c) Post sales service follow-up •
- (d) Customer empathy

**Q.251. The expectations from the specialised marketing personnel are -**

- (a) Potential sourcing/product and service delivery presentation
- (b) Sales conversions/compliance of promises made/market intelligence
- (c) Both (a) + (b)
- (d) Some of (a) and some of (b)

**Q.252. Which banks, first introduced Direct-selling agents in banks?**

- (a) Public Sector Banks
- (b) Foreign Banks
- (c) Private Sector Banks
- (d) Co-operative banks

**Q.253. • DSAs are primarily engaged in retail banking in sourcing-(a) Credit cards and retail loans**

- (b) Credit cards and corporate loans
- (c) For business of opening new deposit accounts (d) For opening new demat accounts

**Q.254. The deficiencies of DSAs facility are -**

- (a) Physically appearance not upto mark
- (b) They chase for new customers but make them angry
- (c) Missell credit card products and customers fall into a debt trap by misusing the credit cards
- (d) Pricing for loans are unknown to them



Q.255. **DSAs achieve business volumes for private sector banks but is there any risk factor to them?**

- (a) Make false promises in turn around time
- (b) Reputation risk due to pure selling rather than effective marketing
- (c) Both (a) + (b)
- (d) No risk factor any where

Q.256. **Tie-ups are entered by banks for bulk sale of assets of**

- (a) Loans to builders
- (b) Auto loans to customers
- (c) Loans to educational institutions
- (d) All above

Q.257. **While tieing-up with auto dealers, under retail banking-what is the important feature for such tie-up?**

- (a) Preferred financier
- (b) Auto buyer referred to bank staff in the branch by dealer (c) Customer referred to the bank staff who had set up desk in the dealers showroom
- (d) Auto dealer refers to NBFC for financing

Q.258. **Under tie-up arrangement personal loans are given by banks under conditions of -**

- (a) Group of employees and repayment undertaken by employer
- (b) Loans to individuals but without undertaking any repayment by employer
- (c) Loans to minimum 5 individuals and repayment under post dated cheques
- (d) Both (b) + (c)

Q.259. **Service levels through delivery channels are gauged by-**

- (a) Behaviour of customers
- (b) Loyalty factor of customers
- (c) Expectation of customers
- (d) Both (a) + (b)

Q.260. **Compensation for DSAs depend on -**

- (a) Number of cases referred to
- (b) Volumes of business sourced
- (c) Loyalty and accountability by DSA
- (d) Service delivery presentations by DSA

Q.261. **The types of customers under delivery models are**

- (a) Internal customer
- (b) External customer
- (c) Both of above
- (d) No such categories

Q.262. **Customers are users of products/services in banking, The users of such services can be -**

- (a) Account holders
- (b) Employees
- (c) Both (a) (b)
- (d) Only individuals who come to bank and have dealings

### ANSWER

248	A	249	D	250	A	251	C	252	B	253	A	254	C	255	C	256	B	257	C
258	A	259	C	260	B	261	C	262	C										

## 13. CUSTOMER RELATIONSHIP MANAGEMENT IN RETAIL BANKING

### What is CRM?

1. In the context of banks, CRM means managing the customers and their relationships.
2. Bank has to manage the customer by offering the right products matching the needs of the customer.
3. Relationship with the customer means that (i) the service quality of the bank should match the customer expectations in total and result in total satisfaction of the customer (ii) the total need spectrum of the customers should be addressed (iii) service delivery should result in absolute satisfaction for the customer.
4. Customer Relationship Management (CRM) is having a 360 degree view of the customers and their profile, dynamically tracking their requirements, offering matching products and services, cross selling relevant products to

his changing needs and keeping him happy for ever.

#### **Dynamics of CRM:**

1. The objectives of a good CRM are aimed at (i) to build long term profitable relationships with specific customers through a better understanding of the customers (ii) develop close relationships (iii) to offer optimal products and services on a dynamic basis and achieve life time value from customers.
2. CRM can be achieved by systematic and technology oriented processes and models.
3. The purpose of CRM is to increase the share of wallet of the customer with the banks' services and increase the per customer profitability of banks.
4. The stages involved in a CRM initiative are:
  - a. Capturing the customers' profile through a technology enabled model.
  - b. Dissecting the profiles into common information buckets. .
  - c. Designing suitable products and services to cater to the different information buckets.
  - d. Offering the products and services to the targeted and segmented customers from the information buckets with the right pricing.
  - e. Providing the right sales and service processes to achieve total customer satisfaction.
  - f. Tracking the customer information on a dynamic basis to design new products and services to meet the changing dynamics of the customers.
5. Customer optimisation is the essence of CRM and can be addressed through three dimensions viz.
  - a. Acquisition of New Customers who are immediately profitable to the bank.
  - b. Retention of Existing Customers who are most profitable and valuable to the Bank for the longest duration.
  - c. Expansion of the customer relationship with the bank encouraging more purchases and shifting the less profitable customers to lower - cost delivery channels.

**Need for CRM:** CRM is required for the following

1. Need to increase operational efficiencies.
2. Need to derive more value from employees.
3. Increasing Competition in retail banking.
4. Rising NPAs.
5. Increasing Importance of Fee Based Income.
6. Delivery Channel Efficacy
7. Application of Technology
8. CRM is not just an option for the banks but a compulsion to achieve business synergies and optimization of resources.
9. CRM can be effectively utilized to explore new frontiers in product development and management
10. CRM can be used to improve the per customer profitability
11. CRM can be used to building and sustaining customer loyalty and brand equity.

**(i) Need to increase operational efficiencies:** Operational efficiencies means managing operational costs for the bank in general and delivery cost in particular. For example shifting the customers to electronic and remote channels like ATM. The cost of direct delivery in the branch across the counter is much higher than delivery through ATM. CRM enables to identify the customers segments which can be migrated to ATM.

**(ii) Need to derive more value from employees:** Employee productivity can be increased by redefining their roles to deliver service to customers who are more profitable. There are two value dimensions - employee value and customer value. Employee value is increased by deploying them in marketing and for cross selling/ upselling opportunities, better business values and volumes. Customer value means per customer profitability by making the customers availing the maximum number of products/services. Effective CRM solutions would improve the quality of output by employees and would improve the overall employee productivity.

**(iii) Increasing Competition in retail banking:** As retail banking is a profitable business model, banks compete with each other to grab their market share. For achieving this, banks implement a whole range of activities in product development, process efficiencies, delivery channels, pricing and value additions to acquire, retain and improve their customer base. CRM helps banks to achieve the above objectives.

**(iv) Rising NPAs:** While Retail Banking is profitable, there is a fear of high level of NPAs particularly in

credit cards and personal loans. This requires an effective customer tracking mechanism for monitoring and recovery of retail loans. CRM helps to rank customers and follow up for recovery.

**(v) Increasing Importance of Fee Based Income:** Profits can be increased from fee Based income through Third Party Distribution. Marketing of insurance products (both in the life insurance and non life insurance), mutual funds, retail sale of Gold coins offer very good scope to earn fee based income by selling these products to targeted customer segments. CRM solutions **help** the bank to identify potential customers for selling these products.

**(vi) Delivery Channel Efficacy:** CRM solutions help banks to offer the right channel mix from direct channels like branches and remote channels like ATMs, Mobile Banking, Internet Banking to their different customer segments to enhance customer loyalty and retention.

**(vii) Application of Technology:** Core Banking Solutions, Mobile Banking and Internet Banking are different manifestations of technology. To optimise profits, banks have to use technology to maximize business through customer mining and cross selling. CRM solutions enable this through application of technology.

1. The backbone of CRM lies in the robustness of the customer data.
2. Data Warehouse and Data Mining are two important tools which are critical for any meaningful CRM.
3. The sourcing of data for the Data Warehouse has to seamlessly flow from the Core Banking Solutions (CBS) platform without any manual intervention to ensure the accuracy of the data.

#### **Implementation Process of CRM in banks:**

**(i) Business Processes:** The evaluation of the current business processes is essential to determine the nature of products the bank wants to offer and the way it wants to develop its customer portfolio.

**(ii) Information Processes:** This involves the analysis of the existing information processes used currently by the bank. The integration of these processes in the CRM system and suitable restructuring is essential for implementation of the CRM systems in the bank.

**(iii) Information Systems:** The existing information infrastructure of the bank needs to be analysed and the implementation of the CRM infrastructure should be customized. The focus has to be reinforcement rather than replacement.

**(iv) Internal Organisational Culture:** For effective CRM, the bank's systems should be in line with the organizational change. The success of the **CRM** implementation depends on responsiveness of the organization to it.

#### **IMPLEMENTATION STAGES IN CRM:** There are four stages through which CRM is implemented.

**(i) Identification of Customers:** The bank need to identify the customers based on their products availed and focus of the bank so that bank can focus the segment it wants to target. For achieving this, Banks need to build a repository of data base about customers who buy different types of products and services..

**(ii) Classification of Customers:** From the data compiled, classification of customers with different perspectives, focus and attention has to be done. Banks have to use the large repository of data collected in the previous stage, clean this data and apply data mining and clustering techniques to classify customers on various parameters like profitability, product sage rate and cost to serve the customers. This will help the banks to develop different kinds of strategies to target the segments and design effective campaigns for generating higher returns from existing customers.

**(iii) Interaction With the most Valued Customers:** CRM solutions define customer segments and helps in devising a particular type of strategy for them.

**(iv) Customisation of Bank's Products and Services for Different Customer Segments:** The mass customized products can be developed for each of the target segments based on selection of media mix, customer interaction points, customers past usage data and intention forecasts. This will complete the CRM implementation process. New customer data will be available from feed back from the customers which will help in refining the strategy further to target the segment with profitable product propositions.

#### **BENEFITS OF CRM:**

- (i) Improves the customer satisfaction and cross selling potential for the banks.
- (ii) Helps the banks to derive increased share of wallet from the customer.
- (iii) Enhances the operational efficiencies of the banks.
- (iv) Helps to take on competition as CRM results in more customer focus and retention.
- (v) Helps to understand Customer Lifetime Value through the structured data base on a dynamic basis.
- (vi) Improves customer service through effective integration of all remote delivery channels.
- (vii) Helps to manage multi delivery channels in a better way to adopt and maintain uniform service

standards across channels.

(viii) Enables to achieve seamless information flow across functions in delivery.

(ix) Results in better relationship marketing as customer segments are better target based on the data available in CRM.

## TEST YOURSELF

Q.263. **The benefit, that came out of implementing CRM are-**

- (a) Greater empowerment of users. Lower cost of service delivery by shifting centre interactions to self-service and chat
- (b) Better visibility across service, delivery channels. Gains in customer communication, accountability and improved organisational efficiency
- (c) Any of above
- (d) Both (a) + (c)

Q.264. **The objective of good customer relationship management are aimed at**

- (a) Build long term profitable relationship
- (b) Better understanding in order to develop close relationship
- (c) Achieve lifetime value from customers
- (d) All above

Q.265. **What are the various stages involved in a CRM?**

- (a) Capturing customer's profile/dissecting profiles into common information buckets
- (b) Designing suitable products and services/offering/services to targeted segment of customer/tracking th customer information are dynamic basis to design new products
- (c) Both (a) + (b)
- (d) Customer optimisation the essence

Q.266. **CRM provides a mechanism for banks for being -**

- (a) Proactive in addressing customer needs/predict customer profitability
- (b) Analysing information and data sources for banks profitability
- (c) Both (a) + (b)
- (d) Some of (a) and some of (b)

Q.267. **Customer optimisation is the essence of CRM and can be addressed through -**

- (a) Acquisition of new customers/retention of existing ones/ expansion of customer relationship and shifting less profitable to lower cost channels
- (b) Retention of existing customer/expansion of customer relationship with the bank encouraging more purchases
- (c) Expansion of customer relationship with the bank encouraging more purchases and shifting less profitable customers to lower cost delivery channels
- (d) All above

Q.268. **What the banks needs for implementation of CRM programme?**

- (a) Increase operational efficiencies/drive more value from employees increase competition/increase fee based income
- (b) Delivery channel efficiency/technology application + all as in (a)
- (c) Explore new frontiers in product development
- (d) Increase customer loyalty and brand equity

Q.269. **Need to increase operational efficiencies in CRM for implementation programme for this, the bank is required to do -**

- (a) Direct delivery in branch to delivery through ATMs
- (b) Shifting from manual to electronic and remote channels
- (c) Both (b) + (c)
- (d) All above

Q.270. **How to derive move value from employee under CRM?**

- (a) Improve employees productivity
- (b) Aggressiveness in technology implementation with reduced

- manpower
- k,c) Deploying employees in marketing and cross-selling
- (d) All above

**Q.271. For increasing competition in retail banking, what the banks are supposed to do, when customer orientation is their top priority?**

- (a) Product development/process efficiencies/delivery channels
- b) Pricing and value additions/good CRM programme
- (c) Both (a) + (b)

**Q.272. Solution for rising non-performing assets in retail banking is -**

- (a) Effective monitoring
- (b) Stern action under loan
- (c) CRM to rack customers and follow up for recovery
- (d) Both (a) + (b)

**Q.273. Fee based income importance has increased in retail banking in view of pressure on net interest margins such action are -**

- (a) Marketing of insurance products/mutual funds/gold coins
- (b) Some of above
- (c) None of above
- (d) More issue of letter of guarantee/letter of credit

**Q.274. Which delivery channel can be better solution for enhancing customer satisfaction?**

- (a) Direct Channels
- (b) Remote channels
- (c) Blend of channels
- (d) None of these

**Q.275. Banks have to leverage technology for**

- (a) Optimise profits
- (b) Maximise business
- (e) Both (a) + (b)
- (d) Technology separatable from retail banking

**Q.276. Backbone of CRM ties in the robustness of customer's**

- (a) Data warehouse and data mining
- (b) Seamless flow from core banking solutions
- (c) Accuracy of data
- (d) All above

**Q.277. What are the implementation process of CRM in banks?**

- (a) To determine the nature of products
- (b) To analyse the existing informations
- (c) Re enforcement rather than replacement of information and its integration of the systems
- (d) None of above
- (e) All above

**Q.278. Key issues in implementation of CRM by banks**

- (a) Business processes
- (b) Information processes
- (c) Information systems and integration of systems
- (d) All combined

**Q.279. Inform the stages through which CRM can be implemented in banks**

- (a) Identification of customers for data base
- (b) Classification of customers under different perspective/focus and attention-interaction with most valued customers-customisation of products and services
- (c) Both (a) + (b)
- (d) None

Q.280. **Discuss the benefits of CRM-**

- (a) Improves customer satisfaction/increased share of wallet from customer/enhance operational efficiency of banks
- (b) Take on competition for more customers and retention/ understanding life time value of customer/improves customer service through integration of remote delivery channels
- (c) None of above
- (d) Both (a) (b)

**CRM is useful tool for customer's**

- (a) Segmentation and re-design
- (b) Offer relevant products and services for targeted segments
- (c) Dwindles the customer value
- (d) None

Q.282. **Better relationship in marketing is possible under**

- (a) Core banking solution
- (b) Customer Relationship Management
- (c) Satisfied Employees
- (d) All above

Q.283. **What is first required for CRM?**

- (a) Needs for banks
- (b) Implementation by banks
- (c) Expectations of customers
- (d) Expectations by banks

### ANSWER

263	D	264	D	265	C	266	D	267	A	268	B	269	A	270	D	271	C	272	C
273	A	274	C	275	C	276	D	277	E	278	D	279	C	280	D	281	B	282	B
283	A																		

## 14. SERVICE STANDARDS FOR RETAIL BANKING

### CODE FOR BANKING SERVICES

**Banking Codes and Standards Board of India:** Banking Codes and Standards Board of India has prescribed various compliance requirements for the promises made by banks for offering services to retail banking customers and these promises have been codified into a document. Most of these commitments are applicable to individual customers availing retail banking services.

#### Introduction

1. This is a voluntary Code
2. It sets minimum standards of banking practices for banks to follow when they are dealing with individual customers.
3. It provides protection to customers and explains how banks are expected to deal with customers for day-to-day operations.
4. The Code does not replace or supersede regulatory or supervisory instructions of the Reserve Bank of India.
5. Provisions of the Code may set higher standards than what is indicated in the regulatory instructions and such higher standards will prevail as the Code represents best practices voluntarily agreed to by banks.
6. In the Code, 'you' denotes the customer and 'we', the bank the customer deals with.

#### Objectives of the Code: •

1. promote good and fair banking practices by setting minimum standards in dealing with you

2. increase transparency so that you can have a better understanding of what you can reasonably expect of the services
3. encourage market forces, through competition, to achieve higher operating standards
4. promote a fair and cordial relationship between you and your bank
5. foster confidence in the banking system.

**Application of the Code:**

This Code applies to all the products and services listed below, whether they are provided by branches or subsidiaries, agents acting on our behalf, across the counter, over the phone, by post, through interactive electronic devices, on the internet or by any other method.

1. Current accounts, savings accounts, term deposits, recurring deposits, PPF accounts and all other deposit accounts
2. Payment services such as pension, payment orders, remittances-by way of Demand Drafts, wire transfers and **all** electronic transactions e.g. RIGS, EFT, NEFT
3. Banking services related to Government transactions
4. Demat accounts, equity, Government bonds
5. Indian currency notes exchange facility
6. Collection of cheques, safe custody services, safe deposit locker facility
7. Loans, overdrafts and guarantees
8. Foreign exchange services including money changing
9. Third party insurance and investment products sold through our branches
10. Card products including credit cards, debits cards, ATM cards, smart cards and services (including credit cards offered by our subsidiaries/companies promoted by us).

**Key Commitments by banks**

1. **'Do Not Call' Service** : Bank will automatically register customer's name under 'Do Not Call' Service. Bank will not inform/extend to customer through telephone calls/SMS/e-mails any new product /service unless customer consents in writing to avail of this information/ service from bank.
2. **Interest Rates**: Bank shall inform to customer (1) interest rates on deposit and loan accounts (ii) in case of loans at fixed rate of interest, details of interest reset clause, if any, in the loan agreement and the effective date thereof ; (iii) in case of loans at floating rate of interest, the reference rate to which floating rate will be linked and the premium or discount applied to the reference rate. (iv) whether the loan agreement will contain a minimum rate of interest clause.
3. **Changes in interest rates**: changes in interest rates and changes in the reference rate to which the floating rate of interest is linked to be informed through any one or more of the following means (i) Notice at the branches (ii) Annexure to the statement of account (iii) Letters (iv) e-mail (v) SMS (vi) Website (vii) Newspaper
4. **Changes in Fees & Charges**: If bank increases any of charges or introduce a new charge, it will be notified one month prior to the revised charges being levied / becoming effective.
5. **Changes to Terms and Conditions**: (i) Normally, changes will be made with prospective effect giving notice of one month. (ii) If any change is made without notice, bank will notify the change within 30 days. If such change is to customer's disadvantage, customer may within 60 days and without notice, close accounts switch it without having to pay any extra charges or interest. Bank will immediately update on its website, any changes in the terms and conditions.
6. **Privacy and Confidentiality**: (i) If bank is asked to give a banker's reference about customer, bank will need customer's written permission before giving it. Bank will not use customer's personal information for marketing purposes by anyone including by bank unless customer specifically authorizes to do so.
7. **Credit Reference Agencies**: (i) Information about credit availed from the bank is reported by bank to the CRA on a monthly basis. (ii) If customer's loan account has been in default, and thereafter regularised, bank will take steps to update this information with the CRA in the next monthly report. (iii) When customer apply for credit facility from the bank, bank will on request, and on payment of prescribed fee, furnish customer a copy of the credit information obtained by the bank from the CRA.
8. **Collection of Dues**: (i) Bank will post details of the recovery agency firms I companies engaged by Bank on their website and will also make available on request details of the recovery agency firms/companies at their

branches. (ii) The Bank's staff or any person authorized to represent bank in collection of dues or/and security repossession will identify himself/herself and display the authority letter issued by the Bank. (iii) Customer would be contacted ordinarily at the place of customer's choice and in the absence of any specified place at the place of customer's residence and if unavailable at customer's residence, at the place of business/occupation. (iv) Normally Bank's representatives will contact customer between 0700 hrs and 1900 hrs, unless the special circumstances of customer's business or occupation require otherwise.

9. Complaints, Grievances and Feedback:(i) Acknowledgement of a customer's complaint within a week. (ii) Final response or reason why Bank needs \_more time to respond within 30 days of receipt of customer's complaint.
10. Products and Services: Bank will acknowledge the receipt of customer's nomination details and record the fact of nomination on the passbook/Account Statement/FDRs. At customer's request, Bank will also indicate the name of the nominee thereon.
11. Changing customer's account: (a) If customer is not happy about choice of current I savings account, within 14 days of making first payment into the account, the Bank will help the customer switch to another account or Bank will give customer's money back with any interest it may have earned. Bank will ignore any notice period and any extra charges. (b) If customer decides to close his current/savings account, Bank will close account within three working days of receiving customer's instructions. (c) If customer wants to transfer his account to another branch of the bank, his account at the new branch will be operationalised within two weeks of receiving customer's request, subject to customer complying with the required KYC formalities at the new branch.
12. Savings/Current Accounts: (i) The minimum balance to be maintained in the Savings Bank account will be displayed in the branches. (ii) Bank will inform of any change in minimum balance to be maintained 30 days in advance.
13. Dormant/ Inoperative Accounts: Customer will also be informed three months before customer's account is classified as dormant /inoperative (b) Bank will not charge customer for activation of the inoperative account.
14. Closing Customer's Account: Under normal circumstances, Bank will not close customer's account without giving customer at least 30 days' notice.
15. Cash Transactions: Bank will exchange soiled/mutilated notes and/ or small coins at its branches as per RBI Directives.
16. ATM: Bank will reimburse amounts wrongly debited in failed ATM transactions within a maximum period of 7 working days from the date of receipt of customer's complaint.
17. Branch Closure/ Shifting: If Bank plan to close branch or if Bank moves its branch, Bank will give (i) notice of three months if there is no other branch of any bank functioning at customer's centre (ii) notice of two months, if there is a branch of any other bank functioning at customer's centre.
18. Settlement Of Claims in respect of Deceased Account Holders: Bank will settle the claims in respect of deceased depositors and release payments to survivor(s) I nominee(s) within a period not exceeding 15 days from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s).
19. Loan Products: Bank will invariably provide customer with an acknowledgement of customer's loan application. Bank shall make every endeavour to indicate on customer's application the period within which customer can expect to receive a decision on customer's request for loan. (ii) Bank will give customer the Most Important Terms and Conditions (MITC) governing the loan / credit facility customer have availed. (iii) Bank will provide customer the sanction letter detailing particulars of amount sanctioned, terms and conditions, customer's responsibilities as well as the bank's, etc. (v) Bank will compensate customer for any delay in return of securities / documents I title deeds to mortgaged property beyond 15 days of the repayment of all dues agreed to or contracted. (vi) Bank will supply authenticated copies of all the loan documents executed by customer at Bank's cost along with a copy each of all enclosures quoted in the loan document. (vii) Bank will give written receipt for all documents to title taken as security/ collateral for any loan as well as for dated/undated cheques received from customer. (viii) Bank will return to customer all the securities / documents/title deeds to mortgaged property within 15 days of the repayment of all dues agreed to or contracted. If any right to set off is to be exercised for any other claim, Bank will give due notice with full particulars about the other claims and retain the securities/documents/title to mortgaged property till the relevant claim is settled/paid. (ix) Bank will compensate customer for any delay in return of securities / documents / title deeds to mortgaged property beyond 15 days of the repayment of all dues agreed to or contracted. (x) Bank will process request for transfer of borrowal account, either from the borrower or from a bank/financial institution, in the normal course and convey its concurrence or otherwise within 21 days of receipt of request. (xi) Bank will not



offer any unsolicited pre-approved credit facility in any form, including enhancement of credit card limit and top up of personal loan limits. (xii) In case, Bank offers/approves a credit facility over the telephone, Bank will credit customer's account with the amount sanctioned only after receiving customer's acceptance in writing. (xiii) In case of securities lodged with the Bank for loans availed by customer, Bank will not insist on customer's obtaining insurance cover from any particular provider.

20. **Credit Card:** (i) Bank will provide 'Online Alerts' to customer for all 'card not present' transactions of the value of Rs.5000/- and above. (ii) If customer do not recognize a transaction, which appears on customer's card statement, Bank will give customer more details if customer ask for the same. In cases, where Bank do not accept customer's contention, Bank will give evidence that customer had authorized the transaction, in question. (iii) In case Bank activates the card without customer's consent I bill customer for the card for which customer has not given consent, Bank will not only reverse the charges forthwith but will also pay a penalty amounting to twice the value of the charges reversed. (iv) Bank will extend a loan/credit facility/enhance credit limit on customer's card only with customer's consent in writing.

Service	Time taken
Change in fees or charges	1 month prior notice -
Change in terms & conditions	1 month prior notice; otherwise within 30 days
Acknowledge of customers complaint	Within one week
Final response to customer's complaint	Within 30 days
Transfer of account to other branch	Operationalise a/c within 2 weeks
Change in min balance charges	30 days prior notice
Wrong debit to a/c due to failed ATM transaction	Within 12 days
Closure/shifting of branch	3 or 2 months notice
Settlement of claim & payment to nominee	Within 15 days
Return of securities on repayment of loan	Within 15 days of repayment
Transfer of borrowal account	Decision within 21 days

## TEST YOURSELF

- Q.284. **Banking codes and standards Board of India (BCSBI) is an independent semi-regulatory organisation. It is implemented from 1st July 2007. It is a -**
- Voluntary code of conduct of banks for individuals
  - For compliance of promises made by banks under retail banking to customers
  - Statutory authority for punishing banks
  - Both (a) + (b)
- Q.285. **BCSBI is a voluntary code such as -**
- Minimum standards of banking practices for banks to follow
  - Maximum standards of banking practices their meaning universally
  - Statutory authority for punishing banks
  - Both (a) + (b)
- Q.286. **BCSBI is bound to comply the code for -**
- Corporate customers
  - Individual customers
  - Individual and Corporate customers
  - Not bound
- Q.287. **BCSBI has been constituted to -**
- Promote good and fair banking practices under minimum standards
  - Increase transparency for reasonable expectancy under service

- (c) Promote a fair and cordial relationship between Individual customers and bank
- (d) All above

**Q.288. The code covers the commitment of the bank and applies to all who provide services/products to customers**

- (a) Branches/Subsidiaries/Agents
- (b) Branches/across the counter/Over phone/By post/e-devices/ internet
- (c) Both (a) + (b)
- (d) All above

**Q.289. There are 43 various commitments which are made by banks and coded under BCSBI. Some of the major services over which code applicable are -**

- (a) Current/Savings/Term/cumulative deposits
- (b) Credit card/Debit card/ATM card and loans and overdrafts
- (c) Third Party insurance and investment products
- (d) Both (a) + (b)
- (e) All above

**Q.290. Bank's main commitment towards customers-**

- (a) Making all transactions transparent and justifiable (b) Making available to customers and all about their products and services
- (c) Complaints, grievances and feed back (d) Both (a) + (c)

**Q.291. Deposit accounts centre opened in the style of -**

- (a) Single/Joint with maximum 3 persons and joint with either or, survivor/former of survivor
- (b) Individual/Institutional authority under single operation of joint

operation

- (c) Minors/Minors with guardian as Operator minors above 13 years of age independently and minors below 13 years with guardian
- (d) All above

**Q.292 Before opening any deposit account -**

- (a) Observances of Know your customer guidelines
- (b) Observances of Know about your customer guidelines
- (c) Observances of Know about your new customer guidelines
- (d) Observances of Know your corporation guidelines

**Q.293. Customer wants to close the operative savings/current account instructions are given by customer in writing to bank, account can be closed maximum upto**

- (a) Immediate
- (b) Next working day
- (c) Within 3 working days
- (d) Within 3 days

**Q.294. Sidhant want to transfer his account to another branch at Kolkata, When the account would be operative in Kolkata br.?**

- (a) Within 2 weeks of request
- (b) Within 1 weeks of request
- (c) At the least in 3 weeks
- (d) Depends on the work load at new branch at Kolkata

**Q.295. The saving bank a/c of Shreya Govil at Bank of India Goregaon Mumbai was requested for transfer to hew new place of posting at Karol Bagh, New Delhi on 7.5.2011. The account at new branch could only be opened, due to lethargic attitude of new branch on 29.06.2011. She compliined to bank for this delay and demanded compensation from bank. What the bank cad do?**

- (a) Say sorry for delay
- (b) Refund any charges received from account holder on account of transfer

- (c) Pay compensation of t 500 for under delay, minimum
- (d) No refund of any charges already debited to account holder

**Q.296. How much minimum balance is to be maintained in any deposit account, when to be informed or made known to the customer?**

- (a) Inform orally to all depositors
- (b) Inform in writing to depositors
- (c) Displayed in the branch
- (d) Inform in local newspaper

**Q.297. Bank wants to amend the minimum balance required in deposit accounts when can bank change this by notice period of -**

- (a) 30 days in advance
- (b) Immediate effect
- (c) 7 days notice
- (d) Can implement without any notice period

**Q.298. HDFC Bank Ltd., had given concession on lifetime credit card issued. After 2 years of issue and its validity they want to withdraw this concession. Can the bank do it?**

- (a) Yes-Can do so
- (b) Concession can not be withdrawn
- (c) Yes-Can do it one any changes are made in Service charges schedule
- (d) No-cannot do it in the interest of customer

**Q.299. Shrikant Govil has a term deposit with ICICI Bank Ltd, Provisions of Income Tax Act 1961 as applicable to interest income accruing he wants to Know. Whose responsibility is it?**

- (a) Bank will advise to provisions for exemption from TDS
- (b) Bank not bound to do, it is customer's own responsibility
- (c) Bank legally bound as per BCSBI
- (d) Bank are bound to point such rules on the receipt of term of deposits.

**Q.300. What do you mean by "No Frill Account" or "Basic Banking Account"? Define its features?**

- (a) Very low or nil minimum balance/maximum balance is stated
- (b) Only for illiterate and poor customers
- (c) Cannot comply with KYC Norms fully but introduced by bank's customer
- (d) Both (a) + (c)

**Q.301. Dormant or in operative accounts mean -**

(a) 2 years or more period during which no continuous operation expect credit of half yearly interest on savings account

(b) 3 years or more period and thereof as in (a)

(c) 2 years or more period during which credit of term deposits quarterly interest in operative savings/current account is made

(d) 10 years or more period, and the rest as in (a)

**Q.302. What is the regulation in BCSBI, as to the information to customers about the notice period, before classification of accounts as dormant or inoperative a/c.**

- (a) 30 days
- (b) 90 days
- (c) 3 months
- (d) No notice period

**Q.303. Is any bank authorised under BCSBI to close any customer's account of its own?**

- (a) Not authorised
- (b) Improper conduct of account but with 30 days notice
- (c) Improper conduct of account but without any notice
- (d) Customer's account can only be closed by customer only

**Q.304. If any amount under ATM Card transaction is wrongly debited to customer account without any delivery of cash, then upto what maximum period bank is bound (of which the ATM card belongs) to reimburse the amount?**

- (a) 3 working days
- (b) 7 working days
- (c) 12 working days
- (d) Immediate on receipt of complaint

**Q.305. If there is any delay or failure in executing the direct debits ECS/standing instructions resulting in financial loss on additional cost then -**

- (a) Bank will compensate
- (b) Will not compensate if small loss suffered
- (c) Will not compensate even through customer has suffered any loss
- (d) Both (b) (c)

**Q.306. What is default in retail loans?**

- (a) Occurrence of an event which happens due to non payment of agreed installments
- (b) Non adherence to repayment schedule as per commitments of agreed installments
- (c) Both (a) + (b)
- (d) Customers not willing to pay the loan

**Q.307. Rescheduling of the loan happens -**

- (a) Increase in EMI
- (b) Earlier fixed EMI under extended period
- (c) It happens in long term loans only
- (d) All above

**Q.308. A default is called genuine default when -**

- (a) Customer fails to repay the EMI due to personal set backs/job losses/unforeseen medical expenses
- (b) Customer deliberately fails to pay the EMIs
- (c) Both (a) + (b)
- (d) Intentions of borrowers are malafide

**Q.309. A wilful default is called, when customer -**

- (a) Deliberately fails to pay
- (b) Fails to pay due to job losses and unforeseen expenses
- (c) Attitude of the borrower negative
- (d) Both (a) + (c)

**Q310. Recovery policy of the bank's is based on-**

- (a) Dignity and respect to customers/fair-persuasion and courtesy to customer/fostering customer confidence and long term relationship
- (b) Expectation of bank customer to adhere to repayment schedule
- (c) Recognition of fairness and transparency in repossession /valuation and realization of security
- (d) All above

**Q.311. Bank's recovery staff and debt recovery agents have to follow certain guidelines in recovery -**

- (a) Borrower to be contacted by telephone at place of residence or place of business during 7am to 9 am only excluding hours which are requested by borrowers not to make calls
- (b) Privacy of borrower to be respected/when personally visiting at residence or office discussion or demand of recovery should not be in the presence of other persons
- (c) Identification and authority to collect EMIs should be with the DRA

All above

**Q.312. A movable property say, two wheelers, has been repossessed by the DRA. As per bank's policy document what are the chances of the borrower to get back the security after that?**

- (a) Where all overdues are paid by the borrower
- (b) Depriving the borrower of the two wheeler is not the intention of the creditor/even before concluding the sale of two

- wheeler to third part by the bank if all the dues are paid by borrower
- (c) Both (a) + (b)  
(d) No chance for getting back the two wheeler
- Q.313. What consideration the banks are required to take into account before engaging recovery agents?**  
(a) Due diligence process/due notice and appropriate authorisation  
(b) Up-to-date details of recovery agency/disposal of complaints against recovery agents, bank should disposed of themselves  
(c) Some of (a) and some of (b)  
(d) Both (a) + (b)
- Q.314. Other ways of recovery of loans to banks are -**  
(a) Lok adalats  
(b) Debt Recovery Tribunals  
(c) Recovery under SARFAESI Act, 2002  
(d) Any of above
- Q.315. When the method of recovery of Lok Ada lat be adopted by banks?**  
(a) Due upto 7 5 lakhs  
(b) Due less than 10 lakhs  
(c) Due upto 1 lakhs  
(d) Due upto any amount of personal loans or housing loans/credit card loans
- Q.316. Debt Recovery Tribunals is a useful method of recovery for bank-**  
(a) Loans extended by financial institutions  
(b) Recovery of bad debts quickly and efficiently under the provision of Recovery of Debts due to Banks and Financial Institutions Act, 1993  
(c) Care hear cross suits/counter claims and other set offs (d) All above
- Q.317. DRT cases pass comprehensive orders like in- (a) Civil court**  
(b) Criminal court  
(c) Magistrate First Class  
(d) All above
- Q.318. DRT can do bank cases-**  
(a) Appoint Receivers/commissioners  
(b) Pass exparte orders/interim orders  
(c) Reviews own decisions/ hear appeals against orders of recovery officers  
(d) All above
- Q.319. Recovery officers of DRT has powers of -**  
(a) Judicial  
(b) Non-Judicial  
(c) Criminal  
(d) Civil
- Q.320. What kind of evidence examination is allowed to a DRT?**  
(a) Examination  
(b) Cross examination  
(c) Frivolous cross examination  
(d) Any of (a) and (b)
- Q.321. The purpose of SARFAESI Act is -**  
(a) Take possession of securities  
(b) Take possession of securities and sell them  
(c) Bank executive of Asstt. General Manager to work as a judicial magistrate (d) None of above

## ANSWER

284	D	285	A	286	B	287	D	288	D	289	D	290	D	291	D	292	A	293	C
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294	A	295	D	296	C	297	A	298	B	299	A	300	D	301	A	302	C	303	B
304	C	305	A	306	A	307	D	308	A	309	D	310	D	311	D	312	C	313	D
314	D	315	B	316	D	317	A	318	D	319	A	320	D	321	B				

## 15. TECHNOLOGY IN RETAIL BANKING

### Introduction:

1. Technology is the foundation on which the retail banking is based. It enables to build and translate a customer data base into retail banking business\_
2. The levels of technology implementation in PSBs started from stand alone Automated Ledger Posting Machines (ALPMs) in 1980s.
3. New generation private sector banks started with technology advantage of a single server environment.
4. PSB banks also have reengineered their technology initiatives and started implementing core banking solutions networking the customers and accounts on a single platform.
5. The implementation of core banking will directly increase the chances of availability of customer data base across products and will increase the scope for cross selling and up selling.
6. Core banking gives clues about the level to which the data base is horizontally or vertically organized. Horizontal or vertical organized refers to whether data is available product wise on a stand alone basis or data is available customer wise on an integrated basis.

### Technology Processes in Retail Banking:

Observations of Boston Consulting Group Study "Opportunities for Action in Financial Services - Transforming Retail Banking Processes": In terms of processes for integration of technology in retail banking retail banks are using different approaches to standardise their processes. There are four distinct process models as given below:

1. Horizontally Organised Model: Individual process platform supports one product only. The sub data in the model are not shared with other products and product platform.
2. Vertically Organised Model: Functionality is provided across all products. In this model, customer information is centralised. Centralised customer information builds common origination and servicing processes across all its retail banking products.
3. Predominantly Horizontally Organised Model: Some modularization within a product oriented feed back. Customer data integration is available to a certain extent for other products.
4. Predominantly Vertically Organised Model: is a hybrid model that offers common information for most of the related services. The basic information is available across products for common services to the various products.

### Issues in Technology processes

1. **All** the four models achieve a certain degree of standardization and each model has to be suitably adapted to individual bank's requirements.
2. If a bank effectively transforms its process, it can reduce its unit costs between 20% and 40%, completely changing its competitive position.
3. Large Banks in the United States spend approximately 20% of non interest expense on information technology.
4. The Technological innovation in the retail banking industry has increased for devising new distribution channel systems to provide the customers more ways to access their accounts so that the customer share can be increased.
5. Technology helps in enabling the employees to have a single view of the customers. The single view lets the employees understand how important is a customer based on the portfolio of products, rather than on their current account balance.
6. Research has shown that where employee perceptions are favourable customers enjoy superior

performance.

7. PSBs are generally more horizontally organized in the process model with various levels of vertical position across banks. Technology integration with the business model will enable the banks to design their marketing strategies which can be sold to the targeted customer base through an integrated CRM solution.

### **Technology Process Models adopted by banks**

1. Foreign banks either implemented their own software developed for global operations or sourced it end to end from external vendors for their requirements.
2. New generation private sectors banks sourced the same from external vendors.
3. In public sector banks it differed among banks and was not related necessarily to the size of the bank. Some banks developed their proprietary model and in house software for implementation in branches in a phased manner. However, to keep pace with the technology developments in retail banking, they had to use the services of an external vendor for certain applications and integrated it with their legacy systems.
4. The late entrants in technology implementation among PSBs, took the external vendor route for better channel delivery and efficiency.
5. Old generation private banks, because of their small size, took to outsourcing route.
6. Different banks use different technology platforms for their retail banking models but the core format remains the same. In the retail liabilities and asset side, the software is developed mainly to capture the following types of information — (i) Static Information - Account Opening, Basic Loan Origination Data etc (ii) Updated Information - Income Details at different frequencies etc. (iii) Transaction Information - Information from disbursement to final settlement in loan accounts and operation details in liability accounts. (iv) Analytics and Alerts - **Both** operational and strategic alerts to take action or to develop strategies for further action.
7. Technology in retail banking will also include other supporting software applications like AML software, Loan Origination System, Credit Card Processing System, Data Warehouse, Switch for alternate banking channels etc. and these systems should be seamlessly integrated with the Core Banking Solutions.

### **Some Important User Friendly features**

#### **Advisor:**

1. This product empowers banks to deliver products and services through a fully assisted self service channel. The product provides banking customers real-time access to their relationships with the bank, such as account inquiries, fund transfers, remittances, credit card and mutual fund payments. It enables them to make payments through channels like the Internet, kiosk etc.
2. Key Modules are (i) Customer Interface (ii) Advisor Interface (iii) AudioNideo Support (iv) Co-browsing (v) Advisor Performance Management.
3. Business Benefits: The solution's self-service capabilities empower customers to access comprehensive banking services in a completely secure environment and enables banking staff to understand customer needs better.
4. Robust Inclusivity Framework: The solution extends the reach of the bank's services to various customer segments, including specific under-banked and unbanked communities.
5. Cost Savings: Since banks use their existing Internet banking solution, cost is reduced.

#### **Alerts**

1. The alerts solution empowers banks to alert end users about events recorded by the bank's diverse business systems.
2. In addition to alerting corporate and retail customers of the bank, the solution provides alerts for the bank's internal users as well.
3. Banks can define alert categories to control access to various alerts.
4. It also supports addition of branding messages as part of notifications.

**Customer Analytics:** This solution alongwith universal banking solution, provides complete customer analytics for banks through business reports and statistical models. It results in business benefits, enhanced customer value, improved decision making support, reduced time to market and low total cost of ownership.

#### **Wealth Management**

1. Wealth management solutions are integrated core banking and investment management system designed for the specific needs of retail and private banks.

2. Integrated with core banking and CRM solutions, the wealth management solutions ensure unique customer definition, a single, unified view of the customer's portfolio across asset classes and seamless flow of transactions. This helps banks capitalize on their customer base to create additional revenue streams, by offering High Net worth individuals and the mass affluent extended products and services.
3. Key Modules are Structured Products, Mutual Funds, Equities, Insurance.
4. Business Benefits: It enables banks have insights about the High Net worth individual client's investment portfolio which can be used to explore prospects for cross-selling and fee-based personalized advice.
5. Ease of Enhancing Product Portfolio: The user-friendly solutions provide flexibility to tailor solutions and create new product for emerging customer segments.
6. Higher Operational Efficiency: The solutions enable Straight Through Processing (STP) to interface with the bank's core banking solution and external data sources. This helps in minimizing operational delays.
7. Lower Total Cost of Ownership (TCO): Wealth management solutions can be integrated with other enterprise applications.

## TEST YOURSELF

**Q.435. It is possible to do, anywhere anytime banking in India without personal computer?**

- (a) Internet
- (b) Mobile
- (c) Telenet
- (d) Intranet

**Q.436. How many bowling business models are available in mobile banking?**

- (a) Bank focussed
- (b) Bank Led
- (c) Non-bank Led
- (d) Multi Model
- (e) Above (a+b+c)

**Q.437. Which banking business is useful for existing traditional customers?**

- (a) Bank focussed
- (b) Bank Led
- (c) Multi Model
- (d) Non-bank Led

**Q.438. What is distrinctive feature of bank led Model under mobile banking?**

- (a) Customer conducts financial transactions at a whole range of retail agentgs instead of bank branches
- (b) Use of non-traditional low-cost delivery channel
- (c) Bank does not come into picture
- (d) Above (a) + (c)

**Q.439. How does internet banking and mobile banking differ?**

- (a) Mobile banking uses cellular technology and GSM net works
- (b) Internet is based on sharing of standardization and automation
- (c) Mobile transaction assists of your/mobile device and mobile transaction providers
- (d) Both (a) + (c) only

**Q440. In mobile transaction, what processes are needed for performance?**

- (a) Identification/authentication/secure performance
- (b) GSM/GPRS/EDGE
- (c) LAN/WAN/MAN
- (d) WWW/e-mail/Telnet

**Q.441. Mobile banking password is used for**

- (a) Locking the mobile
- (b) Opening the mobile
- (c) Both (a) + (b)
- (d) No password is needed

**Q.442. Discuss the advantages of Mobile Banking**

- (a) Cuts down the costs
- (b) Ability to cross sell other banking products and service + (a)
- (c) Avoids credit card frauds due to receipt of SMS by the account holders + (b)



(d) Flashes balance of account every hour

**Q.443. What are the various services which are provided by mobile banking to the customers?**

- (a) Stop cheque payment/issue of new cheque book/presentation of bills and its date of presentation.
- (b) Remind the due dates of loans of vehicle/housing/consumer loan accounts
- (c) Every debit or credit transactions SMS on the same day above 10,000 when made through account.
- (d) All above (a) to (c)

**Q.444. What information can be obtained by mobile-banking?**

- (a) Mini-statement and checking of account of history/alerts on account activity/monitoring of term deposits
- (b) Access to loan statement/card statements/mutual funds, equity statements/insurance policies management/pensions, plan management.
- (c) Weather up-to-dates/new loyalty related offers/location based, services + (a) + (b)
- (d) Status of requests for credit including remortgage information/ insurance coverage + (c) above.

**ANSWER**

435	B	436	E	437	A	438	A	439	D	440	A	441	C	442	C	443	D	444	D
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# Module: D

## Other issues related to Retail Banking

Securitisation, mortgage based securities.

Trends in retailing - New products like Insurance, Demat services, online /

Phone Banking, Property services, Investment advisory / Wealth management, Reverse Mortgage - Growth of e-banking, Cross selling opportunities.

Recovery of Retail Loans - Defaults, Rescheduling, recovery process. SARAFESI Act, DRT Act, use of Lok Adalat forum. Recovery Agents - RBI guidelines.

## 16. RECOVERY OF RETAIL LOANS

### Introduction:

1. Banks aggressively build up their retail asset portfolios to expand business as retail assets are one of the best revenue drivers in banking.
2. Risk in retail banking is well diversified because the customer base is large and heterogeneous in nature.
3. Retail asset portfolio of foreign banks, and new generation private sector banks as percentage of total portfolio is much higher compared to public sector banks.
4. The retail portfolio of public sector banks used to be in the range of 30%.
5. While profits generated from retail portfolio are attractive, there is also risk of default.
6. The unsecured nature of retail assets like Personal Loans and Credit Card Receivables make the portfolio more vulnerable for default.
7. The aggressive approach of banks towards retail loans has toned down due to the global financial crisis and its impact across the globe though the same was relatively lesser in India.

### Default:

1. Default is the occurrence of an event which happens due to non payment of agreed installments.
2. One of the major reasons for default has been change in interest rates.
3. Both in fixed pricing loans and variable pricing or floating rate loans, repricing takes place as per the reset clause. The monthly installments also called as EMIs are fixed based on the rate prevailing at the time of availing the loan and the agreed repayment period based on the servicing capacity of the borrower. An increase in interest rate will increase the EMI which the customer may not be able to service resulting in default and subsequently **NPA**.
4. Rescheduling: If a customer wants to continue with his existing EMI instead of increased EMI, the repayment period is extended beyond the earlier committed repayment period. This phenomenon is called as rescheduling of retail loans. In retail loans, rescheduling mainly happens in Housing Loans as

they are of long tenor and mortgage backed.

5. Reasons for default in Credit Cards and Personal Loans: (i) Genuine defaults which are due to reasons beyond the borrower's control like personal set backs, job losses, unforeseen medical expenses etc. In this case, intention to pay is intact but the ability to pay is affected and results in defaults. In this case, bank adopts a customer oriented approach because the chances of recovery are bright. (b) Willful defaults where the borrowers deliberately default with malafide intention. In willful defaults the approach of the banks will be on a recovery basis.

## **RECOVERY PROCESS**

1. Recovery process is a scientific tool for maintaining the quality of retail assets.
2. It is designed in such a way that it addresses both genuine defaulters as well as willful defaulters.
3. For genuine defaulters, the recovery process has to be gentle and professional. In case of willful defaulters, the recovery process should be strict and very professional.
4. 'Public Sector Banks' approach to recovery of loans is different from the strategies adopted by private sector banks and foreign banks. While PSBs administer recovery management through their own staff in case of retail loans, private and foreign banks outsource their recovery process and entrust the same to Recovery Agents for end to end recovery management when the accounts become default.

## **RECOVERY AGENTS**

RBI has framed guidelines prescribing the procedures for code of conduct for Recovery Agents because the agents used coercive methods including threats, intimidation and forced recovery of assets financed. The guidelines were issued in April 2008. Salient features are given below:

### Engagement of Recovery Agents:

1. 'Agent' would include agencies engaged by the bank and the agents/ employees of the concerned agencies.
2. Banks should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process.
3. Banks should ensure that the agents engaged by them in the recovery process carry out verification of the antecedents of their employees, which may include pre-employment police verification. Banks may decide the periodicity at which re-verification of antecedents should be done.
4. Banks should inform the borrower the details of recovery agency firms / companies while forwarding default cases to the recovery agency. Further, agent should also carry a copy of the notice and the authorization letter from the bank along with the identity card issued to him by the bank or the agency firm / company. Where the recovery agency is changed by the bank during the recovery process, the bank should notify the borrower of the change and the new agent should carry the notice and the authorization letter along with his identity card.
5. The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. Banks should ensure that there is a tape recording of the content / text of the calls made by recovery agents to the customers, and vice-versa. Banks may take reasonable precaution such as intimating the customer that the conversation is being recorded, etc.
6. The up to date details of the recovery agency firms / companies engaged by banks may also be posted on the bank's website.
7. Where a grievance/ complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed of any grievance / complaint lodged by the concerned borrower. However, where the bank is convinced, with appropriate proof, that the borrower is continuously making frivolous / vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance / complaint is pending with them. In cases where the subject matter of the borrower's dues is sub judice, banks should exercise caution, in referring the matter to the recovery agencies.
8. Bank should have a mechanism to address borrowers' grievances with regard to the recovery process. The details of the mechanism should be furnished to the borrower while advising the details of the recovery agency.

Incentives to Recovery Agents: Banks should ensure that the contracts with the recovery agents do not induce adoption of uncivilized, unlawful and questionable behaviour or recovery process.

### Training for Recovery Agents

1. Banks should ensure that, the recovery agents are properly trained to handle with care and sensitivity, their responsibilities, in particular aspects like hours of calling, privacy of customer information etc.
2. Indian Banks Association in consultation with Indian Institute of Banking and Finance (IIBF), has formulated a certificate course for Direct Recovery Agents with minimum 100 hours of training.
3. Banks should ensure that over a period of one year all their Recovery Agents undergo the above training and obtain the certificate from the above institute.
4. The service providers engaged by banks should also employ only such personnel who have undergone the above training and obtained the certificate from the IIBF.

#### Taking possession of property mortgaged / hypothecated to banks

1. As per Supreme Court, the recovery of loans or seizure of vehicles could be done only through legal means. Banks should rely only on legal remedies available under the relevant statutes while enforcing security interest without intervention of the Courts.
2. Where banks have incorporated a re-possession clause in the contract with the borrower and rely on such re-possession clause for enforcing their rights, they should ensure that the re-possession clause is legally valid, complies with the provisions of the Indian Contract Act in letter and spirit, and ensure that such repossession clause is clearly brought to the notice of the borrower at the time of execution of the contract.
3. The terms and conditions of the contract should be strictly in terms of the Recovery Policy and should contain provisions regarding (a) notice period before taking possession (b) circumstances under which the notice period can be waived (c) the procedure for taking possession of the security (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property (e) the procedure for giving repossession to the borrower and (f) the procedure for sale / auction of the property.

#### Use of forum of Lok Adalats:

The Supreme Court has observed that loans, personal loans, credit card loans and housing loans with less than Rs.10 lakh can be referred to Lok Adalats organized by Civil Courts for recovery of loans.

Utilisation of credit counselors: Banks should utilise the services of the credit counsellors for providing counselling to the borrowers when the case of a particular borrower deserves sympathetic consideration.

#### Complaints against the bank / its recovery agents

1. Banks, as principals, are responsible for the actions of their agents. Banks should ensure that their agents engaged for recovery of their dues strictly adhere to RBI guidelines and including the BCSBI Code.
2. If complaints are received by RBI regarding violation of the guidelines, RBI may consider imposing a ban on a bank from engaging recovery agents in a particular area, either jurisdictional or functional, for a limited period. In case of persistent breach of above guidelines, Reserve Bank may consider extending the period of ban or the area of ban.
3. Banks should, ensure that their employees also adhere to the above guidelines.

Periodical Review: Banks engaging recovery agents are advised to undertake a periodical review of the mechanism to effect improvements.

### **SARFAESI ACT**

#### Objective:

1. To provide a structured platform to the Banking sector for managing its mounting NPA and keep pace with international financial institutions
2. To enable banks and FIs to realise long-term assets, manage problems of liquidity, asset-liability mismatches and improve recovery by taking possession of securities, sell them and reduce non performing assets (NPAs) by adopting measures for recovery or reconstruction."

#### Provisions of the Act

1. The remedy was suggested by Committees like the Narasimham Committee II and Andhyarujina Committee, which considered the need for changes in the legal system to address the issue of NPAs.
2. The SARFAESI Act was passed in 2002 to legalise securitisation and reconstruction of financial assets and enforcement of security interest. The act envisaged the formation of asset reconstruction companies (ARCs) /Securitisation Companies (SCs).
3. The Act has made provisions for registration and regulation of securitisation companies or reconstruction

companies by the RBI, facilitate securitisation of financial assets of banks, empower SCs/ARCs to raise funds by issuing security receipts to qualified institutional buyers (QIBs), empowering banks and Fis to take possession of securities given for financial assistance and sell or lease the same or to take over management in the event of default.

4. The Act provides alternative methods for recovery of NPAs, namely securitization and asset reconstruction.

### **Securitisation**

1. Securitisation means issue of security by raising of receipts or funds by SCs/ARCs.
2. A securitisation company or reconstruction company may raise funds from the QIBs by forming schemes for acquiring financial assets.
3. The SCI/ ARC shall keep and maintain separate and distinct accounts in respect of each such scheme for every financial asset acquired, out of investments made by a QIB and ensure that realisations of such financial asset are held and applied towards redemption of investments and payment of returns assured on such investments under the relevant scheme.

### **Asset Reconstruction**

The SCs/ ARCs for the purpose of asset reconstruction should provide for anyone or more of the following measures:

1. the proper management of the business of the borrower, by change in, or take over of, the management of the business of the borrower.
2. the sale or lease of a part or whole of the business of the borrower.
3. rescheduling of payment of debts payable by the borrower enforcement of security interest in accordance with the provisions of this Act.
4. settlement of dues payable by the borrower
5. taking possession of secured assets in accordance with the provisions of this Act.

### **Securitisation, and Reconstruction of Financial Assets and Enforcement of Security Interest Act**

1. The Act was passed in 2002 with the objective of helping banks / Hs in recovery of their dues without intervention of the court. The Act is applicable throughout India including Jammu & Kashmir.
2. The Act empowers the secured creditor to (i) take possession of the security (ii) sale or lease or assign the right over the same (iii) Manage the same and/or appoint any person to manage the same (iv) Recover money receivable from 3<sup>rd</sup> parties. The competent authority to enforce rights under SARFAESI is Chief Manager and above. However, Board of the bank can also delegate authority to an officer below the rank of Chief Manager.
3. A bank can exercise rights under the Act provided following conditions are satisfied. (a) The asset to be acquired should be charged to the bank.
  - (a) The recoverable dues should be more than Rs 1,00,000.
  - (b) The Act is not applicable if 80% of the due amount has been paid.
  - (c) A notice of 60 days is required to be given to the borrower and guarantor under section 13(2) of the Act calling upon them to discharge the liabilities failing which bank can acquire the assets
  - (d) If loan has been raised from more than one bank/FI, consent of 75% of lenders by value is required before initiating action under the Act
  - (e) The Act does not cover agricultural land mortgaged to the credit institution. (However, other assets charged to bank can be acquired).
  - (f) The account should be NPA
  - (g) The documents are within the limitation period
  - (h) The security is not charged by pledge or lien
4. The Act was challenged before Supreme Court in the case of Mardia Chemicals Limited versus Union of India and others (ICICI). While upholding the constitutional validity of the Act, the Court struck down a clause that required borrower to deposit 75% of the claim amount before making an appeal before DRT against action of the bank. Accordingly, the Act was revised in 2004 and the revised provisions are given in the subsequent paragraphs.
5. If borrower has objection against the action of the bank, he can object to the bank and bank has to reply within one week. If borrower is still not satisfied he can file application with the DRT within 45 days of the taking over of possession by the bank and is not required to deposit any amount with DRT at this stage. If bank or borrower is not satisfied with the decision of DRT, either party can make appeal to DRAT within 30 days of

- receiving the copy of judgement. However, if the borrower prefers an appeal with DRAT, he is required to deposit 50% of the bank's claim which can be reduced to 25% by the Chairperson. •
6. If the bank wants to sell the acquired assets, 30 days notice is to be given to the borrower/guarantor. The sale can be made by obtaining quotations or inviting tenders from public or by holding public auction. In case of auctions or tenders, 30 days notice will be published in the newspaper, reserve price will be fixed by the bank and sale at below reserve price will require consent of the borrower. Sale will be confirmed by \_bank on receipt of 25% of the amount immediately and balance in 15 days.
  7. In the case of Transcore versus Union of India & Others, Supreme Court has decided that bank take action simultaneously under SARFAESI and RDB Act (DRT Act)

### **CENTRAL ELECTRONIC REGISTRY UNDER THE SARFAESI ACT 2002**

Government of India, Ministry of Finance has notified the establishment of the Central Registry. The objective of setting up of Central Registry is to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 25 of the Companies Act 1956 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the SARFAESI Act. Initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property.

### **DEBT RECOVERY TRIBUNALS**

1. DRTs are governed by provisions of the Recovery of Debt Due to Banks and Financial Institutions Act, 1993, also popularly called as the RDB Act.
2. DRTs are located across the country. Some cities have more than one Debt Recovery Tribunal located therein. New Delhi and Mumbai have three benches in Debt Recovery Tribunal. Chennai and Kolkata have two benches Debt Recovery Tribunal each. One Debt Recovery Tribunal each has been constituted at Ahmedabad, Allahabad, Aurangabad, Bangalore, Chandigarh, Coimbatore, Cuttack, Ernakulam, Guwahati, Hyderabad, Jabalpur, Jaipur, Lucknow, Nagpur, Patna, Pune, Ranchi and Vishakapatnam.
3. Each Debt Recovery Tribunal is presided over by a Presiding Officer. The Presiding Officer is generally a judge of the rank of Dist. & Sessions Judge.
4. A Presiding Officer of a Debt Recovery Tribunal is assisted by a number of officers of other ranks, but none of them need necessarily have a judicial back ground. Therefore, the Presiding Officer of a Debt Recovery Tribunal is the sole judicial authority to hear and pass any judicial order.
5. Each Debt Recovery Tribunal has two Recovery Officers. The work amongst the Recovery Officers is allocated by the Presiding Officer. Though a Recovery Officer need not be a judicial Officer, but the orders passed by a Recovery Officer are judicial in nature, and are appealable before the Presiding Officer of the Tribunal.
6. DRTs are fully empowered to pass comprehensive orders like in Civil Courts. The Tribunal can hear cross suits, counter claims and allow set offs. However, they cannot hear claims of damages or deficiency of services or breach of contract or criminal negligence on the part of the lenders.
7. DRTs can appoint Receivers, Commissioners, pass ex-parte orders, ad-interim orders, interim orders apart from powers to Review its own decision and hear appeals against orders passed by the Recovery Officers of the Tribunal.
8. Recording of evidence by Debt Recovery Tribunal is some what unique. All evidences are taken by way of an affidavit. Cross examination is allowed only on request by the defense and that too if the Tribunal feels that such a cross examination is in the interest of justice. Frivolous cross examination may be denied.

#### **Debt Recovery Tribunals**

1. DRTs are special types of courts for effecting recovery of dues of banks and financial institutions.
2. DRTs are established under the Recovery of Debts due to banks and financial institutions Act 1993
3. The Act is not applicable to J&K.
4. DRT is headed by a Presiding Officer. He is assisted by a Recovery Officer and one Registrar.
5. Type of Cases: Cases involving recoverable dues of banks and FIs of Rs 10 lacs and above only are

- filed with DRTs. Such cases can not be filed in the normal civil courts.
6. Once the case is decided in favour of the bank or FI, the DRT issues a Recovery Certificate. Recovery Officer who has powers such as attachment etc. helps in recovery of dues through execution of the decree passed by DRT.
  7. Appeal against the order of the Recovery Officer can be made to DRT within 30 days of passing the order.
  8. Any appeal against the judgement of DRT can be preferred with Debt Recovery Appellate Tribunal. The head of DRAT is called Chairperson. The appeal is made within 45 days of the date of receipt of the order.
    - If borrower wants to appeal, 75% of the judgment amount is required to be deposited which can be waived or reduced by the Chairperson of the DRAT even to nil.
  9. Fee: for filing case with DRT- up to Rs 10 lac : Rs 12,000; For each additional Rs 1 lac or part thereof it is Rs 1000. Maximum amount of fees is Rs 1,50,000.  
 For filing appeal with DRAT- Where the amount of debt is less than Rs 10 lakh- Rs 12,000;  
 For debts due between Rs 10 lakh to less than Rs 30 lakh- Rs 20,000;  
 For debts of Rs 30 lakh and more — Rs 30,000
  10. For being appointed as DRT, a person should qualify to be District Judge and for being appointed as DRAT, the person should qualify to be a Judge of the High Court.

### TEST YOURSELF

**Q.370. From which stage of loan, the appraisal process begin?**

- (a) From application form
- (b) Receipt of application form duly filled in
- (c) From the time application is processed
- (d) When applicant is interviewed

**Q.371, What documents are to be submitted to bank for availing home loan?**

- (a) Proof of Identity/proof of residence/proof of business address
- (b) Agreement of sale copy/statement of bank a/c or Passbook
- (c) Copy of approved plan/commencement of construction permission from local body/valuation of property in case of purchase under resale/search report/non-encumbrance certificate from bank's advocate for the last 30 years
- (d) All above

**Q.372. Appraisal of Loan comprises -**

- (a) Validation of information submitted by applicant
- (b) Processing of loan application
- (c) Checking of information against risk management practices
- (d) Both (b) and (c)

**Q.373. There are different types of documentation, such are-**

- (a) Security documents
- (b) Property documents
- (c) Second Mortgage document
- (d) Any of above

**Q.374. Banks obtain documents prior to disbursement of loan-**

- (a) DP Note and term loan agreement/guarantee agreement from guarantors
- (b) Stamped Memorandum of equitable mortgage for deposit of title deeds in favour of bank or registered mortgage or power of attorney in favour of bank.
- (c) Valuation report from registered valuer when property is a second sale or old property authorising the bank to get opinion on the borrower's credits from CIBIL/Experian/Equifax,
- (d) All above

**Q.375. List of documents to be obtained in case of second mortgage-**

- (a) Letter from the borrower to prospective mortgagee bank for extending the earlier mortgage to secure the loan/letter from prior mortgagee to the subsequent mortgagee, stating that existing mortgage charge will submit and will rank prior to proposed charge.
- (b) Exchange of Pari Passu letter/inter se pari passu agreement/ letter from second charge holder bank to first charge holder on the fixed assets
- (c) Some of (a) and some of (b)

(d) All a+b

**Q.376. Monitoring of advances relate to -**

- (a) Post sanction activities/ensure proper end use of funds
- (b) Periodical inspection /follow up for recovery/restructuring of loan
- (c) Both (a) + (b)
- (d) None

**Q.377. Home loans have to be restructured when -**

- (a) Delay turn into defaults
- (b) Willingness to repay the loan is established in the borrower
- (c) Cash flows are inadequate to pay as per set EMI but enough to pay the loan over a longer period of time
- (d) All above

**Q.378. Other circumstances when restructure of loan may be considered when -**

- (a) Unforeseen/major illness/social functions requiring significant outlay of funds in the family of the borrowers/death or disability of borrower
- (b) Increase of salaried class borrowers are on LOSS OF PAY due to lock out/strike/disciplinary action/delayed payment of salary by employers/delayed completion of housing project
- (c) Both (a) + (b) (d) Some of (a) and some of (b)

**Q.379. Parameters for credit Rating require annual review of loan-**

- (a) Repayment record of past 12 months/documentation as outstanding loan sanctioned terms/percentage of security coverage of outstanding loan
- (b) Land value as percentage of total properly value/improvement in income level as per income tax assessment/plus including rental income at post sanction stage/liquidity of borrower in terms of deposits, to cover certain minimum number of EMIs
- (c) Repayment record in past 12 months/improvement in income level/liquidity of borrower
- (d) Both (a) + (b)

**Q.380. Closure of any loan account can be -**

- (a) Repayment of schedule EMIs
- (b) Repayment of outstanding loan balance alongwith due interest/servicing charges etc.
- (c) Both (a) + (b)
- (d) Any of a or b

**Q.381. After the closure of loan account, the bank has to -**

- (a) Cancel the charge on moveable or immovables properties
- (b) Return the documents of the property and or execution of deed of conveyance for registered mortgage, already done
- (c) Any of above
- (d) Both (a) + (b)

**Q.382. Power of Attorney means and includes -**

- (a) Formal instrument by which authority is conferred on an agent
- (b) Any instrument empowering a specified person to act for and in the name of person executing it.
- (c) Any of above
- (d) Both (a) + (b)

**Q.383. Power of Attorney can be either -**

- (a) Revocable/General
- (b) Special/Irrevocable /even after death of executant
- (e) Both (a) + (b)
- (d) Any of (a) or (b)

**Q.384. Documents for Power of attorney are required to be registered under Registration Act and the executant has to be present for registration. Are there any exceptions to it?**

- (a) Bodily infirmity of serious inconvenience to appear
- (b) In jail/exempt by law from personal appearance
- (c) Sale of immovable property by court or by revenue officer arise out of operation of law
- (d) Any of above

**Q.385. Visit to borrowers charges received by banks, under housing loan should be credited to -**



- (a) Commission a/c
- (b) Interest a/c
- (c) Current a/c
- (d) Sundry recoveries a/c

**Q.386. To consider the loan under Housing loan, which or the following statements would be proper?**

- (a) Property singly held but spouse becomes co-borrower
- (b) Property purchased in joint name with spouse but the regular income from all sources insufficient
- (c) Flat owned by parents and son/daughter having steady income joins as guarantor
- (d) Flat to be purchased is for rental income. Rental income, after taxes would meet out only 50% of EMI

**Q.387. Harish Goyal approached a bank in Mathura (UP) for in principle sanction, for purchase of a 3 storied house for 15 lakhs. This sanction would be valid for -**

- (a) One Month
- (b) 3 month
- (c) 2 months
- (d) One year

**Q.388. Who can be a co-applicant in any Housing Loan?**

- (a) Property owned by such applicant alongwith others
- (b) Property owned by one person but bank wants additional person for regular repayment
- (c) Property stands in the name of a trust and trustee becomes guarantor to it
- (d) Both (a) + (b)

**Q.389. A repayment holiday may be allowed for a home loan when house/flat is under construction the payment to builder is done in installment. Such holiday is called-**

- (a) Check off
- (b) EMI Reset
- (c) Moratorium
- (d) Parri Passu

**Q.390. What is mortgage?**

- (a) Transfer of interest in specific immovable property for security
- (b) For the payment of money advanced an existing or future debt
- (c) Both (a) + (b)
- (d) None

**Q.391. Kinds of mortgages are -**

- (a) Simple or registered
- (b) Equitable mortgage/English
- (c) Conditional sale/usfructury mortgage
- (d) All above

**Q.392. Which kind of mortgages are generally used, in housing loan?**

- (a) Simple
- (b) Registered
- (c) Deposit of Title Deeds
- (d) Any of above

**Q.393. Registration of mortgage must be done, from the date of execution within -**

- (a) 1 month
- (b) 2 months
- (c) 3 months
- (d) 4 months

**Q.394. In a registered mortgage whether there is any requirement for witnesses and if so what is the minimum number of such witnesses?**

- (a) Yes - essential -2 witnesses
- (b) Yes-essential 3 - witnesses
- (c) Not required
- (d) Not required since it is t.o be registered

**Q.395. The essential requirements of mortgage under deposit of the deeds are -**

- (b) (a) Existing debt or future Title deeds of immovable property
- (c) Deposit be in notified town/district
- (d) All above

**Q.396. The expression title-deeds mean**

- (a) Registered saledeed in original
- (b) Probated will
- (c) Certificate of sale, issued by court
- (d) Any of above

**Q.397. A receipt for payment of revenue may be proof of ownership?**

- (a) May not be conclusive proof of ownership
- (b) May be proof of ownership
- (c) Falls within certificate of sale issued by court hence proof of ownership
- (d) After payment of necessary stamp duty to court

**Q.398. Right of foreclosure is available to -**

- (a) Mortgagor in mortgage by conditional sale
- (b) Mortgagee in case of equitable mortgage
- (c) Mortgagee when mortgagor fails to pay on due date
- (d) None

**Q.399. Mortgagor has right to redemption or mortgage to-**

- (a) Subsequent mortgagee
- (b) Bank which is not going to mortgage
- (c) Sub-mortgagee
- (d) Any of a + b

**Q.400. Margin in any loan means -**

- (a) Share of borrower in total amount of loan
- (b) Share of lender in total amount of loan
- (c) Share of guarantor in total amount of loan
- (d) Share of profit

**Q.401. Tenure of Land means**

- (a) Freehold
- (b) Leasehold
- (c) State owned
- (d) Any of above

**Q.402. Documents of title does not include -**

- (a) Original title deeds
- (b) Certified copies of title deeds issued by Registrar of assurances
- (c) Xerox copies of title deeds
- (d) Certificate of sale issued by court

**Q.403. Valuation of any property can be done by -**

- (a) Price paid at prevailing rate for similar property
- (b) Present market trend
- (c) Registered Valuer's valuation of property
- (d) Certificate issued by CIBIL/Experian

**Q.404. A building, when it ceases to yield desired income the property has to be replaced or built, for further period. Life of a building varies**

**between 40 to 100 years. The amount set aside for the purpose of recovering the original funds is called -**

- (a) Maintenance Fund
- (b) Sinking Fund
- (c) Reserve Fund
- (d) Depreciation Fund

**Q.405. What is a retail banking?**

- (a) Banking targeted at corporates
- (b) Banking focused towards class market
- (c) Banking deal with individuals and lends them money
- (d) Banking deals with wholesalers for deposits source
- (e) Both (a) and (c)

**Q.406. Discuss characteristics of retail banking?**

- (a) Targeted at individual customers, and mass market segment
- (b) Offer various liability, asset and service products to individuals
- (c) Both (a) and (b)
- (d) Delivery model of ATMs/internet and mobile banking
- (e) Both (a) (b) and (d)

**Q.407. What are the advantages of retail banking?**

- (a) Spread of risk across customers/ customers loyalty and attractive interest spreads
- (b) Spread of credit risk to diversified customers and lesser volatility in demand and credit cycle
- (c) Large number of customers with selection possibility by scoring system
- (d) Both (a) and (c)
- (e) Both (d) and (b)

**Q.408. Mark the problems in retail banking?**

- (a) Managing large number of customers and /or rapid evolution of service
- (b) Costs of maintaining low value transactions, high
- (c) Higher delinquencies is unsecured retail loans and credit card receivables
- (d) All of above
- (e) Both (a) and (c)

**Q.409. Reasons for retail banking in India are :-**

- (a) Growing urban population/higher disposable income/increase in mass affluent space and explosion of service economy
- (b) Foreign banks and private sector banks seriously looking at the bottom of customers alongwith credit and debit card receivables
- (c) Despite credit and deposits growth, banking access remains limited to few sections of the population
- (d) All above

**Q.410. For what purposes, housing loan can be sanctioned by banks?**

- (a) Purchase of new house/old house or flat and for extension of owned house. Old house is age should not be more than 5 to 20 years
- (b) Purchase of new flat/house/land and/or extension of house/ construction of new house/flat
- (c) Both (a) (b)
- (d) None of above

**Q.411. How much loan amount and period can be sanctioned under housing loan to a middle class family's individuals who is aged 25 years?**

- (a) Loan upto 75 lakhs and upto .30 years
- (b) Loan upto 50 lakhs and period upto 20 years
- (c) Loan upto 100 lakhs and period upto 25 years
- (d) Both (b) and (c)

**Q.412. Considering floating interest rate @10.15% on housing loan, how the loan quantum is decided by banks?**

- (a) Age of applicant and repaying capacity based on total earnings minus 60% for monthly expenses
- (b) Age of applicant and repaying capacity based on total earnings minus under the ceiling of total deductions of 40% including housing loan proposed instalment

- (c) Age of applicant and repaying capacity based on total earnings and total deduction.
- (d) Age immaterial and loans upto 5 crores to High Net Worth individuals

**Q.413. What is the security taken by banks, under Housing loan proposals?**

- (a) First legal mortgage of the housing property financed
- (b) Equitable mortgage of the housing property financed, which should be in the name of the applicant of jointly with co-obligant, with clear title
- (c) Power of attorney issued to the bank by the applicant under clear title of the property
- (d) All above

**Q.414. Define the process flow of ECS?**

- (a) Issuing of mandate by account holder favouring beneficiary
- (b) It is registered with clearing house by the beneficiary
- (c) Proceeds are credited to the a/c of beneficiary
- (d) It is registered with clearing house by the account holder
- (e) All a+b+c

**Q.415. RTGS above 2.5 lakhs transactions are processed**

- (a) Instantaneously
- (b) Every 2 hours
- (c) Before the business hour
- (d) Next working day

**Q.416. What are the obligations of banks under HEFT?**

- (a) Maintain security/integrity and efficiency of system
- (b) After execution of payment instruction those are irrevocable
- (c) Payment of interest at bank rate, if delayed payment
- (d) All above

**Q.417. The characterisation of RTGS are -**

- (a) Remittance and funds transfer are transmitted through a series of process inputs
- (b) Remittance are communicated through structured messaging process, and are credited on a dynamic basis along with its settlement.
- (c) Settlement for the message made on a gross basis from the liquidity maintained by the sender bank.

(d) All above

**Q.418. RTGS applicability in retail banking is**

- (a) Limited
- (b) Unlimited
- (c) Partially limited
- (d) No applicability

**Q.419. RTGS has made a jump in transactions?**

- (a) Volume
- (b) Value
- (c) Both volumes and value
- (d) Length and Breadth

**Q.420. For esteem needs of individual, what service are covered?**

- (a) Special term deposits /second housing loans/home decor loans

- (b) Term insurance products/house improvement
- (c) Both (a) and (b)
- (d) Any of (a) and (b)

**Q.421. For self actualization needs, what products and services are covered under retail banking?**

- (a) Pensioners loans/retirement situations/pension plans in insurance
- (b) Senior citizen saving scheme /reverse mortgage
- (c) Any of above
- (d) Both (a) and (b)

**Q.422. Discuss the expectations by the customers from the service quality of banks?**

- (a) Tangibles-Reliability-Responsiveness
- (b) Assurance-Empathy ..
- (c) Courtesy-Credibility-Security
- (d) Both (a) and (b)

**Q.423. Discuss the measures needed to enhance service quality in bank services, with regard to savings deposits?**

- (a) Need to improve dress code of the staff at branch
- (b) Need to improve transactions time at every branch and enhance, adequate number of channels in addressing customers needs

(c) Need to improve the faces of the computer operator who should be young below 30 and not above 30 years of age. (d) Both (a) and (b)

**Q.424. Housing loan should be sanctioned and disbursed to applicant from the present ceiling of 14 days, for ideal customer requirements?**

- (a) 10 working days
- (b) 7 working days
- (c) 5 days
- (d) Should not do hurriedly

**Q.425. PSBs have to enhance the service quality and for that what measures could be taken?**

- (a) Strengthen performance and recruit employees through training
- (b) Enhance range of products features and Customer friendly modules
- (c) Customer's expectations never ends even under best performance hence no additional measures
- (d) Both (a) and (b)

**Q.426. The development of RTGS system is for-**

- (a) Need for sound risk management
- (b) sound risk management in large value funds
- (c) sound risk management in small and large value funds
- (d) Faster funds transfer of small value funds

**Q.427. Inter bank funds transfer systematic can be classified as :-**

- (a) Net settlement system
- (b) Gross settlement system
- (c) Both (a) + (b)
- (d) SWIFT Settlement

**Q.428. How the net position in RTGS is calculated?**

- (a) Bilateral or multilateral basis
- (b) Sum of value of all transfer received minus the sum of value of all transfer sent
- (c) Position at settlement time
- (d) All of above

**Q.429. Define Internet Banking**

- (a) Network adopting a common proprietary standard
- (b) Worldwide website for larger heterogeneous computers
- (c) Worldwide network of networks with various operating systems able to communicate with each other

(d) A quite and easy exchange of information

Q.430. **Internet is accessible through-**

- (a) Modem over telephone lines
- (b) Terminals over personal computer
- (c) Improvement over a lovely accessible private networks
- (d) Both (b) and (c)

Q.431. **Advantages of interest are-**

- (a) Convenience to significant bank account holders other than at bank branches
- (b) Every transaction one can change password for subsequent transactions
- (c) Most users surf internet on smartphones rather than on fixed broadband
- (d) Above (a) + (b)

Q.432. **What is eventuality in Internet banking, for multiple purposes?**

- (a) Net neutrality
- (b) Safety against hackers
- (c) Change of password after every transaction
- (d) Use of fixed broadband

Q.433. **Name the institution which does the work of money transfer business through 31000 transactions centres in 26 states**

- (a) NEFT
- (b) RIGS
- (c) FINO
- (d) TCP

Q.434. **Disadvantages of Internet in India are-**

- (a) Surfing on smart phones
- (b) Misutilisation of passwords, when given to other person
- (c) Safety broken by hackers and absence of net neutrality
- (d) All above

## ANSWER

370	A	371	D	372	A	373	D	374	D	375	D	376	A	377	D	378	C	379	D
380	C	381	C	382	C	383	D	384	D	385	D	386	C	387	D	388	A	389	C
390	C	391	D	392	D	393	D	394	A	395	D	396	D	397	A	398	A	399	D
400	A	401	B	402	C	403	D	404	B	405	C	406	C	407	B	408	D	409	A
410	C	411	B	412	A	413	B	414	B	415	B	416	A	417	A	418	D	419	B
420	A	421	A	422	A	423	B	424	B	425	B	426	B	427	C	428	D	429	C
430	A	431	D	432	A	433	C	434	D										

## 17. SECURITISATION

### Securitisation - Concept

1. Securitization is a method through which illiquid assets are transformed into more liquid form, which are

distributed to a broad range of investors through the medium of capital market.

2. It is the process of converting illiquid financial assets into liquid marketable securities through an intermediary called special purpose vehicle.
3. Through the securitisation process, the assets are removed from the balance sheet and the funds generated through securitisation can be ploughed back for further asset expansion.
4. The Special Purpose Vehicle converts assets into securities called as 'Pass Through Certificates' and sell them to the buyers who may require that particular asset class as a requirement or investment.
5. Since these certificates are backed by assets, they are also called asset backed securities (ABS).
6. If assets which have underlying mortgages are securitised, they are called as "Mortgage Based Securitisation".
7. Securitisation is the process of pooling of individual long term loans which are packaged and sold to various investors in the form of Pass Through Certificates (marketable securities) through a Special Purpose Vehicle with the provision that the inflow of cash in the form of recoveries will be distributed pro rata to the buyers.
8. The advantage of securitisation is that the receivables are removed from the books as they have been sold but the transaction does not create a liability in the balance-sheet. Thus, securitisation helps in asset-liability management and also in capital adequacy.
9. Securitisation is a structured process and effected only for standard assets and rated by the rating agencies.

### **Securitisation Process**

- (a) The lender first selects the assets they want to securitise.
- (b) The issuer (Special Purpose Vehicle) makes payment to the lender for the loans securitised.
- (c) The assets are converted into a pool of securities by the issuer for the purpose of issuing Pass Through Certificate (PTC).
- (d) The PTCs are sold to other investors who are willing to invest.
- (e) The lender continues to receive the recoveries from the original borrowers and the same are passed on to the SPV
- (f) The SPV in turn passes the recoveries to the investors.

### **Securitisation in Retail Banking:**

In Retail banking, there is a concept called Collateral Debt Obligation (CDO). In CDO, asset classes/receivables like Car Loans, Credit Card Receivables and Mortgage Loans like Home Loans, are grouped together and securitised. Multiple layers of PTCs with varying rates and coupons are issued based on the quality of assets and risk perceptions underlying in the asset.

### **EMI FOR REPAYMENT IN RETAIL LOANS**

1. In EMI model of repayment, the loan is repaid in full in uniform monthly installments spread over the repayment period.
2. The EMI will consist of two components namely the principal and interest.
3. In **EMI**, the principal component will be less during the initial months and the interest component will be more. As the repayment progresses, the principal component will increase and the interest component will reduce. This is because, as the repayment progresses, the principal component will get reduced and hence interest charges also will decrease. Hence the subsequent installment will service more of the principal.
4. The formula for calculation of EMI :  $P \times r \times (1+r)^n / [(1+r)^n - 1]$  ; where p = principal (amount of loan), r = rate of interest per month

## **TEST YOURSELF**

Q.322. **What is securitisation?**

- (a) Process of converting and breaking definable asset classes into tradeable units
- (b) Process of pooling of individual long term loans which are packed and sold to various investors
- (c) Both (a) + (b)
- (d) It is a structured process and effected only for standard assets and rated to enable the buyers to take a call on investing on the PTCs.

Q.323. **Asset backed securitisation is -**

- (a) Backed by retail loans
- (b) Backed by retail loans other than housing loans

- (c) Both (a) + (b)
- (d) None

**Q.324. What is the formula for calculation of EMI?**

- (a)  $\text{Principal} \times \text{Rate of interest} \times \text{time}$   
 $100 \times 12$
- (b)  $p \times r \times (1+r) / [(1+r)^n - 1]$
- (c) Both (a) + (b)
- (d) None

**Q.325. Securitisation process involves -**

- (a) Lender selects the assets for securitisation
- (b) Issuer (SPV) make payment of lender
- (c) Assets are converted into a pool of securities by issuer for issuing pass through certificates which are sold to other investors
- d) All above**

**Q.326. Who can securitise?**

- (a) Banks and financial institutions only by unlocking the blocked loan funds
- (b) Securitisation can be only one type of assets of similar maturity which are transferred to SPV to act as intermediary
- (c) Securitisation issued by special purpose vehicle are known as pass through certificate, it is an alternative to corporate debt or equity for meeting originator's fund requirements.
- (d) all above

**Q.327. Who can be investors to pass through certificates?**

- (a) Banks, mutual funds, other financial institutions i.e customer
- (b) Government and semi-government bodies
- (c) Qualified institutional buyers only/provident funds
- (d) Both (a) + (c)

**Q.328. Special types of securitisation includes -**

- (a) Master trust to handle revolving credit card balances/issuance Trust credit card backed securities/grantor trust-for automobile backed securities/owner trust-both interest and principal due to subordinate securities used for payment to senior securities
- (b) Mater Trust and Insurance Trust
- (c) Owner Trust and Insurance Trust
- (d) Both (a) + (b)

**Q.329. Advantages of securitisation to issuer are**

- (a) Reduce, funding costs/asset liability mismatch/lower capital needs/locking in profits
- (b) Transfer of risks/off-balance sheet derivatives/boost earnings/ admissibility of future surpluses/availability of immediate liquidity
- (c) Both (a) + (b)
- (d) Large size structuring and (a) all above

**Q.330. Advantages to investors of securitisation are -**

- (a) Potentially earning a higher rate of return/portfolio diversification/Isolation of credit risk from parent entity (originating)
- (b) Portfolio diversification/liquidity availability/early amortisation
- (c) Isolation of credit risk from parent entity/fluctuations in interest rates does not effect fixed rate
- (d) Both (b) + (c)

**Q.331. There are various risks to investors under securitisation as**

- (a) Reduces portfolio quality/expensive/large size structuring/risks of impairment
- (b) Liquidity risk/early amortisation/currency interest rate fluctuation temptation to markup prices/servicer becoming insolvent
- (c) Reduces portfolio quality/liquidity risk/expensive/early amortisation
- (d) Both (a) + (c)

**Q.332. Public offer and listing of Securities Debt Instruments (SDI) Regulations have been passed for regulations in 2008 who has passed it**



- (a) RBI
- (b) SEBI
- (c) Special purpose vehicle (SPV)
- (d) Parliament

**Q.333. Who are the main players under new regulatory environment of listing of securitised/debt instruments?**

- (a) Originator/obligor/sponsor
- (b) Originator/special purpose distinct entity (SPDE) trustee/service provider
- (c) Isolation of credit risk from parent entity/fluctuations in interest rates does not effect fixed rate
- (d) Both (b) + (c)

**Q.334. Under SDI the procedure of cash flow streams originates-**

- (a) Originator is the original owner of cashflow from mortgage/ NPA/ inventory receivables-Originator transfer it to SPDE, a registered Trust-Trustees are registered with SEBI as recognised intermediaries
- (b) The contract assigning cash flows between originator and trustees/trustees sign contracts for services in behalf of investor/for ensuring that cash flows are properly received and distributed
- (c) This includes liquidity provider for correcting shortfall in cashflows/credit enhancer improves credit of asset pool
- (d) All above

**Q.335. What is the nature of business of the public listed securities debt instrument (SDI)? It enables -**

- (a) Transfer cash flows and replaced them by cash by selling the assets pool to-investors
- (b) Banks to concentrate on core business/large investors have chance to invest with reasonable returns
- (c) Both (a) + (b)
- (d) Some of (a) and some of (b)

**Q.336. Need for securitisation is -**

- (a) Funds for new housing loans to next 5 years plan
- (b) Long term lending for housing for 15 years
- (c) Liquidity of Pass through certificates
- (d) All above

**Q.337. Mortgage backed securitisation (MBS) features are -**

- (a) Pool of receivables sold to SPV supported by mortgaged home loans
- (b) Passing of cash flows from payments to investors
- (c) Third party guarantees investment
- (d) All above

**Q.338. Basic Methods of securitisation are -**

- (a) Originator does not actually sell the assets to SPV/There is agreement to assign with trustee hence only beneficial interest in the receivable held
- (b) The originator sells the assets to SPV. SPV becomes legal owner of the assets and it issue certificates in the form of promissory notes
- (c) Both (a) + (b)
- (d) Originator issues receipt which are negotiable

**Q.339. The conditions for development of secondary market mortgage backed securitisation are -**

- (a) Risk identification/rating of mortgage pool/off balance sheet item/Tax treatment and tax incidence amongst the originatorSPV and investors
- (b) Effective foreclosure systems/reduction in stamp duty on transfer/standardisation in under writing practices/declaration of investment as approved under insurance-banking and provident fund Acts.
- (c) Some of (a) and (b)
- (d) Both (a) + (b)

**Q.340. Name asset reconstruction and securitisation companies which are registered with RBI since, 2003**

- (a) ASCIL/ASREC (India) Ltd./Assets Care Enterprises Ltd. (ACE)/ Pegasus Reconstruction Co. Ltd./International ARC Pvt. Ltd.
- (b) Alchemist ARC Ltd./Pridhvi ARC Co. Ltd./JM financial ARC Pvt. Ltd./Invent ARC Pvt. Ltd./Phonix ARC Pvt. Ltd.
- (c) Reliance ARC Ltd./India SME ARC Ltd./Edelweiss ARC
- (d) All above

**Q.341. Which asset reconstruction Co. is the biggest in India and in its market share?**

- (a) ARCIL-50%
- (b) ASREC (India) Ltd. -5%
- (c) Asset Care Enterprises Ltd. (ACE)-4%

- (d) Pegasus Reconstruction Co. Ltd. - 80%
- Q.342. Key strengths of Asset Reconstruction Co. of India Ltd. (ARCIL) are -
- (a) First to operate in area of acquisition and resolution of stressed financial assets  
 (b) Largest ARC in terms of assets under management (AUMs) capital and profitability  
 (c) Managed 11.879 crore of AUMs with total dues of 47375 crores/Arcil generated net IRR of 81% on existed cares. Overall IRR net of 14%  
 (d) All above
- Q.343. ARCH. is sponsored by
- (a) SBI, ICICI bank, IDBI Bank and Punjab National Bank  
 (b) SBI, Bank of India, Indian Bank, HSBC  
 (c) HSBC Bank, ICICI Bank, Bank of Baroda, Central Bank of India  
 (d) Indian Overseas Bank/Allahabad Bank/HDFC/ICICI Bank
- Q.344. In asset backed securitisation the assets included are-
- (a) Commercial vehicles/cars/construction equipments  
 (b) Small and medium Enterprises loans/tractor loan/two-three vehicle loans/gold loans  
 (c) Some of (a) and some of (b)  
 (d) All above
- Q.345. In equated monthly installments at the initial period the features would be -
- (a) Principal component is less and interest more  
 (b) Principal component is more and interest less  
 (c) Principal component and interest reduces  
 (d) Both (b) (c)

### ANSWER

322	B	323	A	324	B	325	D	326	D	327	D	328	A	329	C	330	A	331 -B
332	B	333	C	334	D	335	C	336	D	337	D	338	C	339	D	340	D	341 -A
342	D	343	A	344	D	345	A											

## 18. OTHER ISSUES IN RETAIL BANKING

### THIRD PARTY DISTRIBUTION IN RETAIL BANKING:

- As part of Retail banking, banks can provide only banking and remittance products to their customers. To ensure that bank meets other needs of the customers like insurance, mutual funds, dematerialization etc, banks are entering into agency arrangements with relevant service providers.
- Offering these services not only covers the entire need spectrum of the customers but also improves the fee based income of the banks as banks receive commission for acting as corporate agent for these service providers.
- This concept of selling products other than banking products is called "Para Banking".

### MUTUAL FUNDS: RBI GUIDELINES

- Prior approval of the RBI should be obtained by banks before undertaking mutual fund business.
- Bank-sponsored mutual funds should comply with guidelines issued by SEBI from time to time.
- The bank-sponsored mutual funds should not use the name of the sponsoring bank as part of their name.
- Where a bank's name has been -associated with a mutual fund, a suitable disclaimer clause should be inserted while publicising new schemes that the bank is not liable or responsible for any loss or shortfall resulting from the operations of the scheme.
- Banks may enter into agreements with mutual funds for marketing the mutual fund units subject to the following terms and conditions:
  - Banks should only act as an agent of the customers, forwarding the investors' applications for purchase I sale of MF units to the Mutual Funds/ the Registrars / the transfer agents. The purchase of units should be at the customers' risk and without the bank guaranteeing any assured return.
  - Banks should not acquire units of Mutual Funds from the secondary market.

- c. Banks should not buy back units of Mutual Funds from their customers.
- d. If a bank proposes to extend any credit facility to individuals against the security of units of Mutual Funds, it should be as per guidelines of RBI on advances against shares / debentures and units of mutual funds.
- e. Banks holding custody of MF units on behalf of their customers, should ensure that their own investments and investments made by / belonging to their customers are kept distinct from each other.
- f. Banks should put in place adequate and effective control mechanisms in this regard. Besides, with a view to ensuring better control, retailing of units of mutual funds may be confined to certain select branches of a bank.

### **INSURANCE BUSINESS BY BANKS**

The Government of India issued a Notification on August 3, 2000, specifying 'Insurance' as a permissible form of business that could be undertaken by banks under Section 6(1)(o) of the Banking Regulation Act, 1949. Banks intending to undertake insurance business should obtain prior approval of Reserve Bank of India before engaging in such business. However, insurance business will not be permitted to be undertaken departmentally by the banks. Banks can undertake insurance business in two ways i.e. as agents of Insurance companies and on Risk Participation basis.

#### Insurance agency business/referral arrangement:

Scheduled commercial banks are permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. They can also engage in referral arrangement without any risk participation. The subsidiaries of banks will also be allowed to undertake distribution of insurance product on agency basis. The banks need not obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation, subject to the following conditions:

1. The bank should comply with the IRDA regulations for acting as 'composite corporate agent' or referral arrangement with insurance companies.
2. The bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank. The customers should be allowed to exercise their own choice.
3. The bank desirous of entering into referral arrangement, besides complying with IRDA regulations, should also enter into an agreement with the insurance company concerned for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding three years at the first instance and the bank should have the discretion to renegotiate the terms depending on its satisfaction with the service or replace it by another agreement after the initial period. Thereafter, the bank will be free to sign a longer term contract with the approval of its Board in the case of a private sector bank and with the approval of Government of India in respect of a public sector bank.
4. As the participation by a bank's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the bank in a prominent way. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products.
5. The risks, if any, involved in insurance agency/referral arrangement should not get transferred to the business of the bank.
6. As a step towards enhancing transparency, banks should disclose in the 'Notes to Accounts', from the year ending March 31, 2010, the details of fees / remuneration received in respect of the bancassurance business undertaken by them.

#### Insurance Business with Risk Participation:

1. All banks entering into insurance business will be required to obtain prior approval of the Reserve Bank. Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation. The maximum equity such a bank can hold in the joint venture company will normally be 50 per cent of the paid-up capital of the insurance company. RBI may perry it a higher equity contribution by a promoter bank initially, pending divestment of equity within the prescribed period. The eligibility criteria for joint venture participant are as under:

1. The net worth of the bank should not be less than Rs.500 crore;

2. The CRAR of the bank should not be less than 10 per cent;
3. The level of non-performing assets should be reasonable;
4. The bank should have net profit for the last three consecutive years;
5. The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory. Latest audited balance sheet will be considered for reckoning the eligibility criteria.

2. In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those banks which satisfy the criteria given above would be permitted.

3. A subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis. Subsidiaries would include bank subsidiaries undertaking merchant banking, securities, mutual fund, leasing finance, housing finance business, etc.

4. Banks which are not eligible as joint venture participant as above, can make investments up to 10% of their networth or Rs.50 crore, whichever is lower, in the insurance company for providing infrastructure and services support. Such participation shall be treated as an investment and should be without any contingent liability for the bank. The eligibility criteria for these banks will be as under :

1. The CRAR of the bank should not be less than 10%;
2. The level of NPAs should be reasonable;
3. The bank should have net profit for the last three consecutive years.

5. It should be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. There should be 'arms length' relationship between the bank and the insurance outfit.

6. Holding of equity by a promoter bank in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

7. Banks which make investments and later qualify for risk participation in insurance business will be eligible to apply to the Reserve Bank for permission to undertake insurance business on risk participation basis

#### **THIRD PARTY PRODUCTS DISTRIBUTED BY BANKS:**

Banks mainly focus on the following products and market the same to their captive customers through their network of branches:

- Marketing of life insurance products of life insurance companies.
- Marketing of non life Insurance products of general insurance companies.
- Distribution of mutual fund schemes of various mutual fund houses.
- Offering of Demat Services.
- Offering of Broking Services.

Banks typically enter into agency tie ups for distribution by entering into distribution agreements covering **all** the aspects of distribution including market support, training to bank personnel, collection arrangements and commission/marketing expenses paid out for the agency services rendered by the Bank.

#### **Marketing and Distribution of Life Policies:**

1. The concept of distribution of insurance policies through the branches of banks is termed as "Bancassurance".
2. Bankassurance is useful for both insurance companies and banks. By using the network of bank branches to reach their customers for selling different insurance policies, the insurance companies can reach to large number of customers. Banks will be able to derive more fee-based income without risk participation.
3. The 'bancassurance' model is gaining strength in India also. Banks have entered into Corporate Agency arrangements with insurance companies for distribution of life products.

4. Banks generally market the following products through their branch network - single premium products and regular periodical premium payment products, group insurance products based on definite group of customers like deposit holders and different loan customers. In group products, the group should be clearly defined and Bank will be the purchaser of the policy on behalf of the defined group. As per IRDA guidelines, there should not be any deviation in the defined group for which group policy is purchased by the Bank from the insurers.

**Corporate Agency model of distribution:**

- (a) Banks can take the Corporate Agency of one life insurer and one non life insurer only.
- (b) Banks as a Corporate Agent can distribute the regular premium policies of life insurers across its branches.
- (c) The type of policies issued by the insurers are Endowment Policies with profit, Term Plans (Plain Vanilla Life Cover), Equity Linked Savings Scheme, Unit Linked Insurance and other schematic policies which are hybrid combinations of the above policies.
- (d) In policies which are equity oriented, the return expectations in addition to life cover are uncertain since they are linked to capital market volatilities.
- (e) In pure **Term** Plan, the policy benefits cover only the death of the policyholder and the premiums are very low.
- (f) The premium payment models of policies are basically of two types: single premium and regular premium (monthly, quarterly, half yearly and annual payments).**
- (g) The commission banks receive for mobilization of single premium policies is very low as for them the service cost is less. (normally 2%).
- (h) In case of regular premium policies, the commission income of banks normally varies between 15% to 25% approximately.
- (i) Insurance companies especially the big players push single premiums more as it results in more premium mobilization for the insurers and less commission payout for the Corporate Agents.
- (j) Banks should focus more on regular premium policies, of course based on the needs of the customers, but should not mis-sell policies for the sake of commission.
- (k) The marketing paradigm for distribution of life policies varies across banks. Some banks market only through specific identified branches but most of the banks distribute it through all branches.
- (l) The insurers extend hand holding support for marketing by deploying their sales personnel across the banks' branches with the banks' personnel for better conversion. The leads for sales are generated by the bank through data base marketing and customer contacts and then pass on the leads to the insurers for following up. The marketing process is done jointly. Special promotional campaigns are conducted to give focused thrust to marketing and better conversion.

**Group Insurance Products**

- 1. Group insurance products are offered by life insurers for specific and identified groups for providing life cover at a competitive premium as compared to regular policies.
- 2. As per the guidelines of IRDA, when group products are offered by the insurers, the group should be homogenous and clearly defined and each member of the group should conform to the group definition.
- 3. Banks offer different group insurance covers to their customers as a value addition to their product offerings.
- 4. In case of life insurance, group covers are offered to cover the life of the group members (customers) who have availed specific products from the bank.
- 5. Banks are offering group insurance cover to their customers who are having different types of accounts viz. Savings, Current Account Holders, Loan\_Borrowers, Term Deposit, Recurring Deposit Holders etc.,
- 6. The group covers offered are basically of two types. The first type of cover is the simple fixed cover on the happening of natural death or accidental death and the amount of cover is fixed. (say for example Rs.1 lac for natural death and Rs.2 lacs for accidental death). In these type of covers, the premium will be charged on an annual basis.
- 7. The second type of cover is the dynamic cover provided to borrowal accounts on a reducing basis in line with the repayment of the loan. The cover is made available for retail loans and housing loans. The premium payment for the cover is on a single premium mode covering the repayment period of the loan and the cover is available in case of death of the borrower during the repayment period and restricted to the regular outstanding in the loan account i.e. the cover will not take care of overdue amounts in the loan.

8. Banks are offering the cover as a tagged facility for value enhancement of the product and also to increase the customer satisfaction in addition to being a risk mitigation tool for the customer and protection for the family of the account holder.
9. The income potential in group cover is attractive as banks are reimbursed with marketing expenses of about 10% to 15% of the premium mobilised.

#### **Distribution of Non Life insurance Products:**

1. In the non life side, banks offer both stand alone regular products and group products.
2. Non life cover is basically about covering different types of assets like building, machinery, stocks, fleet etc. and banks' lending extends to **all** these areas. Hence there is a captive market for banks to generate insurance premium from these accounts through proper soliciting of business from their borrower customers as insurance is a subject matter of solicitation.
3. Non life cover will generate fee based income by way of commission ranging from 10% to 15% as fixed by IRDA for different types of asset insurance.
4. In the group insurance side, group health policies are offered by banks as a value addition to their account holders. The policies are offered to the customers on a floater basis covering the account holders and their families (self+ spouse+2 children and also parents on additional payment of premium).
5. The advantage of the group policies over the regular policies is that the premium rates are very less (about 50%) as compared to stand alone policies. The commission on this type of product is about 15% on premium mobilised.

#### **Insurance Business by Banks:**

1. Insurance sector was deregulated in 1999 and foreign insurers were allowed to enter with a cap on equity being 26%.
2. The major focus of foreign insurers was on the life insurance side as it was highly under penetrated and there was huge scope for new business.
3. Public Sector Banks also started venturing into insurance business with the objective of tapping the untapped potential as well to use their network and existing infrastructure to garner business. The market is now dominated by insurance companies which have large banks as partners.
4. PSBs are also acting as Corporate Agents for **their** joint venture insurance companies.

#### **Mutual Funds Distribution by Banks:**

1. MF distribution offers good scope for augmenting fee-based income of banks.
2. Upfront Commission, Trail (loyalty) Commission, Mobilisation Incentives, Special Incentives, Collection Charges are various sources of income for New Fund Offers.
3. The existing customer base serves as a captive prospective investor base.
4. There is no other distribution channel for MFs that can offer such a lucrative retail base as can be offered by a bank. Moreover, frontline staff of the bank is trained for marketing.
5. The database of a bank can be used effectively for "Experience Marketing" of future products and "Product Co Creation" based on segments.
6. Banks selling mutual fund schemes should understand the implications mentioned in the model called as PROPAGATE Model for distribution.
7. PROPAGATE model refers to Product, Risk, Opportunities (Returns), People, Appetite, Geography (Place), Attributes, Training & Education.
8. **Product:** Banks with multiple tie-ups should decide on products of different MFs based on their customer segment and time preferences.
9. **Risk:** MF schemes carry capital risk and return risk. MFs do not normally guarantee returns for their investments and investments are subject to market vagaries. Banks should have in-house research to identify schemes based on the risk profile of their customers.
10. **Opportunities:** Investments in MFs are opportunities for customers to create wealth. In case of growth schemes, buoyant capital market creates better opportunities for capital appreciation and returns, and the expertise of professional fund managers enhance the opportunities and deliver better returns.
11. **People:** People relate to both the internal and external customers. Internal customers comprise line staff who actually market the schemes and external customers are target customers to whom the schemes are marketed

by the internal customer. Selecting a marketing staff with the right aptitude and attitude will make sure that schemes reach the external customer and trigger the purchase intentions that are translated into sales.

- 12. Appetite:** Product offering across segments should match the risk appetite of the respective customer segments.
13. **Geography:** Banks should first decide on branches through which they are going to distribute MF products. The awareness level about MF in general and schemes, in particular, varies across geographies (rural, semi-urban, urban and metro) and also customer segments.
- 14. Attributes:** Attributes of products are borne out of product structuring and investment objectives. Growth Schemes, Income Schemes, Balanced Schemes, Index Schemes etc., are some of the product attributes and Monthly Income Plan (MIP) and Systematic Investment Plan (SIP) have return and investment attributes.
15. **Training:** Training and Certification Programme by the Association of Mutual Funds in India (AMFI) for distributing mutual fund products is essential for successful implementation of the distribution strategy.
16. **Education:** The customer should be educated and guided for investing based on their risk return appetite, life cycle and wealth cycle.
17. MF industry has been affected by the abolition of collection of entry loads for equity based schemes. As a result, mutual funds reduced their upfront commission to banks which in turn reduced the mobilizations and commissions. Secondly, restrictions have been introduced on banks placing monies in debt funds which has adversely affected mutual funds.

### **Cross Selling**

1. Cross selling is selling one or more additional products to the existing customer base so as to generate more business and profit per customer. It involves generating new/additional retail asset(s) from a liability. It means that if the bank is able to sell an asset product (housing/car/educational loan) to a savings/current deposit account holder successfully, then it is cross selling.
2. In the retail banking almost all banks, are following standard strategies with various asset products like housing, auto, education and consumer loans to add volume to their retail asset book.
3. There is competition among all types of banks because strategies in terms of pricing, technology are more or less similar and there is insignificant product/value differentiation.
4. In this situation "Search thyself is a strategy which needs to be looked into.
5. Earlier cross selling was happening mostly on the liability side by marketing a high-cost term deposit product to a savings/current account holder resulting in additional cost.
6. In the present day retail banking scenario, systematic cross selling of assets is required.
7. Cross selling ratio is different in different countries. The ratio is 2 for the US and slightly above 2 for the UK and Germany, above 2.5 for France and a high 3 for Scandinavia. In addition, the traditional banks (all customers) with a cross sell ratio of 2.5 out performed the internet banks with a ratio of only 2.
8. A research study has indicated that selling three products to a customer who already holds one increases profitability by up to 500 per cent.

### **Why Cross Selling?**

1. The prime reason for cross selling is the cost factor. According to various studies it costs a bank four to five times less to cross sell an existing client than to acquire a new one.
2. Cross selling an asset/additional asset product to an existing customer improves the profits, in general, and profits per customer, in particular.
3. Cross selling fosters brand loyalty. A customer who has availed himself of more than one product from the bank is drawn closer to the bank than a customer who has taken only one product. The percentage of loyalty increases with the number of products the customer takes. The reasons may be for convenience, service, price and value offerings by the bank for the total product solutions to the customer.
4. Cross selling helps banks to plan, implement and maintain better customer relationship management programmes (CRM) as it gives clarity to developing plans based on the customers' relationship profile.

**Potential for Cross Selling:** Studies have shown that the percentage of Savings, Current and Term Deposit customers who have additionally taken a credit product from the bank is very low indicating the enormous scope for cross selling.

### **Strategies for Effective Cross Selling**

1. A robust customer database which is the core on which the entire cross selling strategy is built.
2. Based on the customer relationship history and the cross selling model, a broad mapping of the customer profile and retail products to be cross sold has to be done.
3. The mapped data has to be further studied to develop specific asset related cross selling information.
4. The cross selling information has to be placed before staff (internal customers) to view and communicate to the target customer group.
5. The internal customers should be trained to effectively cross sell and convert the initiatives into business.
6. Cross selling is a team effort and success depends on the attitude and involvement of all the staff.
7. The success of cross selling depends on offering at the right time, the relevant product to the customer.
8. The strategy has to percolate from the corporate to the branch level based on customer database across geographies.
9. Dynamic feedback from the line level should be taken cognizance of for fine-tuning/re-tuning the strategies. **10. Selecting** the target customer group is essential for cross selling success.
11. Cross selling is more relationship- than transaction-based. At any point of time, the cross selling initiative by the line staff should not be an irritant for the customer.

The above concepts are applicable to fee based products also for increasing the fee based income. But the values in the fee based products like insurance, mutual funds should be properly presented to the customers so that he realises the value of the offerings and avail the services.

#### **DEMAT ACCOUNTS:**

1. Dematerialisation is the process of converting physical shares (share certificates) into an electronic form. Shares once converted into dematerialised form are held in a Demat account.
2. Demat account provides the customer additional convenience for dealing with his securities in a hassle free manner.
3. Almost all the banks offer Demat Account facility to their customers.
4. Some banks offer the provision of trading facility also under tie up with brokers so that the requirement of trading, demat and account requirements are met in a single platform.

#### **Dematerialisation Process:**

1. For dematerialization, the investor has to fill a Demat Request Form (DRF) which is available with every DP and submit the same along with the physical certificates.
2. Every security has an ISIN (International Securities Identification Number).
3. If there is more than one security then the equal number of DRFs has to be filled in.

#### **WEALTH MANAGEMENT SOLUTIONS**

1. Wealth management is an investment advisory service that incorporates financial planning, investment portfolio management and a number of aggregated financial services.
2. Wealth management solutions are mainly required by High net worth individuals, small business owners.
3. It involves coordination of retail banking, estate planning, legal resources, tax professionals and investment management.
4. Wealth management services comprises of following key function areas - ( a) Financial Planning; (b) Portfolio Strategy Definition/ Asset Allocation/Strategy implementation; (c) Portfolio Management Administration, Performance Evaluation and Analytics (d) Strategy Review and Modification.
5. Following are some of the banks that focus on the wealth management space in India: (a) Citi Bank, BNP Paribas, Societe Generale, Standard Chartered Bank, Deutsche Bank; (b) ICICI Bank, Axis Bank, HDFC Bank, Kotak Mahindra Bank; (c) State Bank of India; (d) NBFCs like Religare, Reliance Money.

#### **Services offered by Wealth Management Professionals:**

1. Advisory - providing guidance on investment/financial planning and tax advisory, based on client profile. Investment decisions are solely taken by the client, as per his/her own judgment.
2. Investment processing (transaction oriented): Client may engage wealth manager to execute specific transaction or set of transactions.
3. Custody, Safekeeping and Asset Servicing: Client is responsible for investment planning, decision and execution. Wealth manager is entrusted with management, administration and oversight of investment



process.

4. End-to-end Investment Lifecycle Management: In some cases, Wealth manager owns the whole gamut of investment planning, decision, execution and management, on behalf of the client. He is mandated to make financial planning, implement investment decisions and manage the investment throughout its life.

### **Advantages of wealth management for Customers**

- (a) Helpful in Tax Planning: The wealth management professional provide the service of tax planning and how to minimize the tax and save more money.
- (b) Helpful in Selection of Investment Strategy: With professional help, the customer can easily know the investment strategy and analyze risk and return.
- (c) Helpful In Estate Management: Estate management is a task to provide objective administration of funds tailored to aim in responsible distribution and protection of overall estate.
- (d) Helpful in forward planning: Helps in forward planning in a professional way.

### **Key Challenges in wealth management**

1. Highly Personalized and Customized Services
2. Personal relationship driving the business
3. Evolving Client Profile
4. Client Involvement Level
5. Passion Investment (Philanthropy and Social Responsibility)
6. Limited Leveraging Capabilities of Technology (as an enabler)
7. Technical Architecture and Technology Investment
8. Intricate Knowledge of Cross-functional Domain.

### **PRIVATE BANKING**

1. Private Banking is referred to providing banking, investment and other financial services to private individuals investing sizable assets.
2. The term "private" refers to the customer service being rendered on a more personal basis than in mass-market retail banking, through dedicated personal bank advisers.
3. Private Banking will offer various services such as wealth management, savings, inheritance and tax planning for their clients.
4. A high-level form of private banking (for the especially affluent) is often referred to as wealth management.
5. Globally, Switzerland and Luxembourg are major locations for private banking.
6. In India a number of foreign banks like Citibank, Deutsche Bank, HSBC Bank, Societe Generale, BNP Paribas are active players in the private banking. ICICI Bank, Axis Bank and HDFC Bank are some of the private banks that are active on the private banking business.
7. Private Banking and Wealth Management are complimentary in nature though called by different names and both the models offer almost similar services.

## **TEST YOURSELF**

Q.346. **Entire financial needs of a customer extends to -**

- (a) Insurance
- (b) Mutual Funds
- (c) Demat accounts/broking services and wealth management solutions
- (d) All above

Q.347. **Banks are prohibited to offer other products as banks own products then how the banks are offering insurance/mutual funds and wealth management services?**

- (a) Through agency arrangements
- (b) As NBFC
- (c) As subsidiary

(d) Both (a) + (d)

**Q.348. How the banks may enter mutual fund business? What are its terms and conditions stipulated by RBI?**

- (a) Act as agent of customers and at customer's risk
- (b) Not acquiring of units of mutual funds from secondary market/ no buy back to units
- (c) Loan/credit facility against unit of mutual funds as per RBI guidelines/retailing of units of mutual funds be confined to certain select branches
- (d) All above

**Q.349. For undertaking insurance business, banks are permitted to set up joint venture company. The eligibility criteria for AI participation are -**

- (a) Bank's networth not less than 500 crores/CRAR Not less than 10 percent/maximum equity participation in JV be 50% of paidup-capital
- (b) Reasonable level of NPAs/Net profit is the last 3 consecutive years/track record of performance of subsidiary if any should be satisfactory
- (c) Bank can make investment upto 10% of networth of the bank or 50 crores
- (d) Indian Overseas Bank/Allahabad Bank/HDFC/ICICI Bank

**Q.350. Third party products distributed by banks are**

- (a) Life insurance policies/Not life insurance policies
- (b) Mutual funds/demat and broking services
- (c) Hotel and travel booking
- (d) All above

**Q.351. Distribution of insurance policies through bank-branches is termed as -**

- (a) Securitisation
- (b) Bancassurance
- (c) Third Party product
- (d) Innovative banking

**Q.352. Bancassurance means-**

- (a) Package of financial services of both banking and insurance
- (b) Bonanza in terms of reduced price a single point
- (c) Increased return on assets
- (d) All above

**Q.353. Advantages of Bancassurance are -**

- (a) Cost effective channels for distribution
- (b) Widening of area for insurance companies, under rural areas
- (c) Optimum utilisation for existing customer relationship
- (d) All above

**Q.354. Features of corporate agency model for distribution of products are -**

- (a) Distributes the regular premium life policies
- (b) Distribute Hybrid combination of life policies
- (c) Banks receive commission for single premium policies @ 2% while for regular premium policies varies between 15 to 25%
- (d) All above

**Q.355. Important features of group insurance products offered by banks are -**

- (a) Value addition to bank products/group insurance is offered to cover the life of bank customers who have availed bank products
- (b) Such covers are fixed covers on death or accidental death and amount is fixed/other is dynamic cover to borrowal accounts on reducing basis with the repayment of loan
- (c) Bank offer such insurance as tagged facility/banks are reimbursed with marketing expenses of about 10% to 15% of the premium mobilised.
- (d) All above

**Q.356. Non-IA insurance cover includes the features of -**

- (a) Cover to building/machinery/stocks which are either mortgaged or hypothecated to banks
- (b) Generate fee based income ranging from 10 to 15%
- (c) Health policies are offered by banks on floaters basis covering the account holder and the family member (self+spouse+2 children) and also parents on additional payment of premium)

(d) All above

Q.357. **For mutual fund's wait sales PROPAGATE model is considered best for banks. What does this stands for?**

- (a) PRO-Professional, PA-People appetite GATE-place or Door
- (b) Product-Risk-opportunities-people Appetite-GeographyAttributes-Training Education (All first word combined)
- (c) Potential-Reliance-Opportunities-Product Assurance-GenerosityAttention-Truth Endurance
- (d) None of above

Q358. **In propagate model of mutual fund units distribution, let us see the relevance of each element-**

- (a) Product-of** different mutual funds on customer segments and time preference /Risk-mutual funds do not guarantee minimum returns/opportunities - Mutual funds create wealth. Products which offer better returns over period, will increase returns
- (b) People** - People relate other employees of bank and external customers. Selection of marketing staff with right aptitude is needed/Appitite - the penchant of risk taking varies with customers **across/Geography** of the bank is the foremost advantage for the banks.
- (c) Attribute** - Attributes and their impact should be effectively communicated to the investing public.  
**Training** - It is the axle on which the entire mutual fund distribution revolves.  
**Education** - It is the duty of the staff of the bank to educate and guide the investing public. d) all above

Q.359. **Demat account in banks and insurance companies, one of the very important components offered. It is a process of-**

- (a) Converting physical shares and life policies into electronic form
- (b) Dematerialised form
- (c) Paperless form
- (d) All above

Q.360. **How to open a demat account?**

- (a) Choose depositor participant /fill account opening form with DP/ sign agreement/submit-any document either (photograph-proof of residence-passport copy -telephone bill) Proof of identitypassport-photo driving licence /voter ID card /PAN card
- (b) DP provides unique account number/demat account cannot be payable to either or survivor/transfer of demat account from one DP to another possible/demat account can be frozen for desired period.
- (c) Dematerialised securities are fungible assets - hence interchangeable /rematerialisation possible
- (d) All above

Q.361. **Key function areas in wealth management are -**

- (a) Financial planning/Portfolio strategy definition/asset allocation strategy a implementation
- (b) Portfolio management administration- performance evaluation and analytics/strategy review and modification
- (c) 'Both (a) + (b)
- (d) Some of (a) and some of (b)

Q.362. **Advantages of wealth management to customers are -**

- (a) Proper-tax planning for high network income population/proper selection of investment strategy/Proper estate management and proper forward planning
- (b) Only tax planning/investment strategy/estate management (c) Only tax planning and estate management
- (d) Investment strategy and forward planning

Q.363. **Key challenges to wealth management companies are-**

- (a) Highly personalised and customised services/evolving client profile/limited leveraging capabilities of technology
- (b) Intricate knowledge of cross functional domain
- (c) Both (a) + (b)
- (d) Some of (a) and some of (b)

Q.364. **In wealth Management, wealth manager offers services like**

- (a) Advisory role/investment processing /custody-safekeeping and asset servicing/end to end investment life cycle management
- (b) Investment decisions/investment planning and decision / execution/mandated to make financial planning throughout life
- (c) Both (a) + (b)
- (d) Wealth manager taps the mass affluent and super affluent

Q.365. **Para-banking refers to -**

- (a) Distribution of life/non life insurance/mutual fund schemes
- (b) Corporate agents for life insurance/Non-life-insurance and mutual funds
- (c) Responsibility of banks under risk factor for life/Nonlife insurance and mutual fund units
- (d) Both (b) + (c)

Q.366. **As a corporate agent banks distribute following types of products - insurance -**

- (a) Life insurer and non - life insurer one each
- (b) Life insurer one and non - life insurer two
- (c) Any number of life insurer and non-life insurer
- (d) None of above

Q.367. **The number of mutual funds that a bank can distribute as a corporate agent-**

- (a) One
- (b) Two
- (c) Five
- (d) No limit

Q.368. **Cross selling refers to .**

- (a) Selling additional products/services to existing customer
- (b) Selling additional products/services to new customer
- (c) Both (a) + (b)
- (d) Selling bank products in exchange of other products

Q.369. **Demat refers to-**

- (a) Converting physical shares in to electric form
- (b) Physical shares after concession become fungible assets after demat have interchangeable identical
- (c) Rematerialisation converts shares into demat
- (d) Both (a) + (b)

## ANSWER

346	D	347	A	348	D	349	D	350	D	351	B	352	A	353	D	354	D	355	D
356	D	357	B	358	D	359	D	360	D	361	C	362	A	367	D	368	A	369	B

## 19. LENDERS APPRAISAL PROCEDURE

### Introduction

1. Loan origination refers to the process from loan application to the disbursement of loan.
2. There are three major phases of loan origination namely (a) information acquisition (b) credit appraisal and sanction (c) disbursement.
3. In any loan origination, two key aspects are involved — (a) critically appraising the credit worthiness of a customer and (b) analyzing the risk in lending.
4. For these aspects the requirements are — (a) capturing all the information i.e. demographic, employment, financial details; (b) to check that the customer is not a fraud or black listed within the bank or with other institutions; (c) to verify that the information provided by the customer is correct and authentic.
5. For verifying various information, banks take the help of external agencies or by collecting and verifying documentary proofs of income, residence, age and other information.
6. For mitigating credit risk, depending on loan amount and the financial product, a bank may require co-borrowers or guarantors to support the loan.
7. Banks collect fees for processing, documentation, and administration, from customer as part of application processing. This supplements a banks' income.
8. The second phase of loan origination is credit appraisal and sanction.
9. Credit officers scrutinize the information made available to them and arrive at the loan eligibility and fix the terms and conditions to be offered to the customer. For scrutiny, steps involve confirming that the customer satisfies

the basic norms and policies and risk based credit scoring.

10. The third phase is disbursement. Either a cheque for the sanctioned amount is issued to the customer, or the amount is transferred to the customer account. A repayment schedule stating the amortization is prepared for the customer.

**Application Form:** The appraisal process begins with an application form. An application form is designed to collect all relevant information that a lender needs, to decide whether prima facie the loan exposure would be an acceptable risk and falls within the policy parameters of the bank.

#### **Documents to be submitted for availing a Home Loan:**

Along with the application form, the lending institution should also call for a few other documents, which supplement/establish the particulars provided in the application form. Generally following documents are called for:

- Duly completed application form
- Passport size photograph.
- Proof of identity such as Voters ID Card/Passport/Driving license/PAN card.
- Proof of residence - Recent Telephone Bills, Electricity Bill, Property tax receipt/Passport/Notary ID Card.
- Proof of business address for non-salaried individuals.
- Sale Deed/Agreement of Sale.
- Statement of Bank Account/Pass Book for last six months.
- Letter of allotment from Housing Board/Society, etc. (wherever applicable).
- Copy of approved plan, wherever applicable.
- Permission for construction, wherever applicable.
- Estimate/Valuation Report from approved valuers in respect of the property to be financed, wherever applicable.
- In case of conversion of agricultural land - copy of the relative order.
- Search Report/Non-encumbrance certificate for 13 years from Bank's Advocate.
- NOC under the provision of Urban Land Ceiling Regulation Act, 1976 in original.

#### **Appraisal**

1. The appraisal involves validation of information submitted by the applicant, collected by various credit verification agencies, property valuers, bank's advocates etc.
2. The information is checked against the bank's policy, budgetary guidelines, risk management practices, and negative lists if any.

#### **Appraisal form for a Home Loan**

1. For appraising a Home Loan proposal, the appraisal will include the following:
2. Whether borrower is eligible as per bank scheme considering his age, income level, length of service in case of salaried persons, areas or locality where house will be constructed, negative list. For this purpose, banks develop Risk Asset Acceptance Criteria.
3. Amount of loan that can be granted based on period of repayment, income level, amount of instalment, value of property, loan to value ratio.
4. Legal aspects like legal opinion for creating mortgage and search report for last 13 years to ensure that property is free from prior encumbrance.
5. Valuation of property based on type of construction, location
6. Pre sanction inspection of site
7. Margin to be contributed by borrower vis a vis total cost, interest rate, repayment schedule, security offered.
8. Interest: Both, fixed rate loans and floating rate loans may be offered.
9. Insurance: Cost of insuring the house/flat against the risk of fire/ riots/ earthquakes/lightning/ floods etc.
10. Moratorium : is allowed when the construction is undertaken by a reputed builder, a Government agency etc. and the borrower makes payments in stages over the construction period. The moratorium will be upto 18 months after the first disbursement of the loan or two months after completion of construction.
11. Equated Monthly Installment (EMI): The monthly repayment by the applicant should be related to his cash flow.
12. Pre EMI interest: EMI payment usually commences one month after full disbursement. Until final

disbursement and repayment commences, the borrower pays interest on the portion of the loan disbursed. This interest is called pre-EMI interest.

13. EMI Reset: In a floating rate interest home loan, the total dues to the lender will change when the rate of interest is changed. The lender does not usually change the EMI amount. The number of installments is increased or reduced depending upon the change in the total dues.
14. Check-off facility: In the case of salaried persons, a check-off arrangement should be pursued. An irrevocable authority for making salary deductions and remittance to the lender should be taken from the borrower. The employer should be asked to record this authority and convey his acceptance to act on this instruction.
15. Post-dated Cheques (PDCs): Where check-off facility is not available to the bankers, post-dated cheques should be obtained to ensure prompt repayment of home loans. As a measure of practicality, lenders have the due date for installments falling close to salary dates when the borrower's deposit account will contain funds. If a cheque is dishonoured due to insufficient funds, the borrower should be immediately contacted. If the borrower fails to deposit the amount of the cheque, the action should be taken as per section 138 of the Negotiable Instruments Act, 1881.

### **Mortgage as Security**

1. Section 58(a) of the Transfer of Property Act, 1882 defines mortgage as "a transfer of an interest in specific immovable property for the purpose of security, for the payment of money advanced or to be advanced by way of a loan, an existing or future debt or the performance of an engagement which may give rise to a pecuniary liability".
2. Types of Mortgage: In India, Immovable property is accepted by the Banks as security usually by way of: (a) Registered or Simple Mortgage, (b) Mortgage by Deposit of Title Deeds.

### **Simple registered mortgage:**

1. In this type of mortgage, the mortgagor binds himself personally to pay the mortgage money.
2. Possession of mortgaged property is not delivered.
3. The borrower agrees that in the event of his failing to pay according to the contract, the mortgagee shall have a right to cause the mortgaged property to be sold and the proceeds of the sale to be applied, in payment of mortgage money.
4. Under simple registered mortgage, the Deed of Mortgage is required to be registered with the concerned sub-Registrar/Registrar of assurances by paying applicable stamp-duty and registration charges within whose jurisdiction the whole or some portion of the property to which the document relates is situated.
5. The registration should be done within four months from its date of execution.
6. Property can be sold only with the intervention of the court.
7. It involves preparation of mortgage deed duly witnessed by two witnesses, payment of ad valorem stamp duty and registration of deed.

### **Mortgage by deposit of title deeds or equitable mortgage**

1. Where a person delivers to a creditor or his agent documents of title to immovable property, with intent to create a security thereon, in Kolkata, Chennai and Mumbai or in any other town notified by the State Government concerned, the transaction is called a mortgage by Deposit of Title Deeds".
2. The essential requisites of a "Mortgage by Deposit of Title Deeds" are: (a) There must be a debt, existing or future. (b) There must be a deposit of documents of title to immovable property. (c) The deposit must be made in one of the notified towns. (d) The deposit must be made by the mortgagor or his agent with the mortgagee or his agent. (e) The deposit must be made with an intent to create a security for the debt. (f) Letter of intent should be obtained. Necessary entry should be made in the document register.
3. A mortgagee has the same rights under equitable and registered mortgages. An equitable mortgage will have priority over subsequent registered mortgages.
4. An equitable mortgage remains valid as long "as the mortgagee retains the title deeds. If the mortgagee parts with possession of the title deeds, the mortgage will stand extinguished. If, however, the mortgagee parts with the possession of title deeds for a specific purpose, like examination by the solicitors or advocates of the intending purchaser of the mortgaged property, or for the creation of subsequent mortgage in favour of a second mortgagee on a specific understanding with the latter that the earlier mortgage is to subsist, the mortgagor will not be deemed to have parted with possession although he has parted with the custody of the title deeds.

5. The remedy of the mortgagee under an equitable mortgage is only sale of the mortgaged property through the court (i.e., suit for sale).
6. In both types of mortgage i.e. simple and equitable mortgage, possession of property remains with mortgagor, mortgagors undertake personal liability. While simple mortgage is required to be registered with Registrar of Assurances, registration is not required in the case of equitable mortgage. In both types of mortgage, sale of mortgaged property can be done through court and income from property is enjoyed by the mortgagor and mortgagee can not sue for foreclosure.

### **Right of Foreclosure**

In case of mortgage by conditional sale, on default by a mortgagor, the mortgagee has the right to sue for a decree from the court to the effect that the former be debarred forever to get back the mortgaged property. Such a right is called Right of Foreclosure, which is provided for under section 67 of Transfer of Property Act. A suit for foreclosure must be filed within 30 years from the day the mortgage money becomes due.

### **Priority of Charge**

1. Where a mortgagor creates more than one equitable mortgage over the same property in favour of two financing institutions, the institution in whose favour the mortgage is created first, has priority of charge.
2. Where a mortgagor has created separate registered mortgages over the same property in favour of two or more financing institutions, the priority of charge will be determined with reference to the date of the execution of the deeds which has been duly registered within four months of execution (not the date of registration).
3. Where a mortgagor gives the same property in equitable mortgage to one financing institution and in registered mortgage to another financing institution, the priority of charge will be determined with reference to the date of deposit of title deeds in equitable mortgage and the date of execution of registered mortgage deed. An equitable mortgage in no way gives inferior rights compared to a registered mortgage.

### **Precautions for obtaining equitable mortgage of immovable property:**

1. The title to the property should be examined by advocate by referring to all the documents. The title to a property may be by conveyance deed, partition deed, settlement deed, gift deed, decree of a court etc. Reference should be made to all documents to establish title and the chain of ownership. All of these documents must be deposited with the bank to create a valid mortgage on the property.
2. Where mortgage cannot be readily created, an agreement to mortgage can be taken at the absolute discretion of the lender. Borrower will give an undertaking that by a certain future date, the underlying mortgage will be created.
3. Where immovable property (of which land is the main constituent) is taken as security (primary or collateral) either by way of registered mortgage or equitable mortgage, the following aspects should be looked into : (a) tenure (b) valuation (c) title of land.
4. Tenure of Land: It should be ascertained whether property is freehold, leasehold or state-owned. In leasehold tenure, the land is held for the period and on the terms and conditions contained in an instrument called 'Deed of Lease'. In the case of State-owned lands, the ownership vests with the State or Central Government as the case may be and the holder of such land will be entitled to occupancy rights only.
5. Valuation of Land: The value of land should be examined to determine whether the price paid for the land is in line with the prevailing prices for similar land in the area. For this purpose, valuation from qualified valuers should be taken. The valuation given in their report should be cross-checked by independent (inquiries).
6. Title to property: It should be ensured that title to property is clear. Copies of title deeds are not documents of title. However, in exceptional cases, where the original has been destroyed or irretrievably lost and is not in existence, certified copies of the title deeds issued by the Registrar of Assurances may be accepted as a special case. It should also be ensured that all land revenue and municipal taxes due on the immovable property have been paid upto date; all land revenue and municipal taxes accruing or falling due, subsequent to the creation of the mortgage are paid promptly in future; no income tax dues are outstanding, to avoid any claim of priority under section 295 of the Income Tax Act.
7. Legal Opinion : The legal opinion should be obtained on the following points: (a) Whether the documents of title are complete in all respects and sufficient to convey a clear, absolute and marketable title to the property; (b) Whether the property offered as security to the bank is unencumbered/unattached; (c) Whether the documents

examined and based on which the opinion is furnished, form a complete set of documents of the subject property and deposit of these create a charge on the property; (d) Whether the persons seeking to secure the property to the bank have a clear and marketable title thereto and are legally capable of creating the charge thereon in favour of the bank; and (e) Whether the property is subject to any tenancy law, which will affect the bank's rights eventually to take possession thereof or cause it to be sold or otherwise exercise its rights as mortgagee.

8. Search Report: Search should be carried out in records with the Sub-Registrar of Assurances, Collector and/or other revenue authorities for ascertaining whether there is any outstanding mortgage or charge on the property to be mortgaged to the Bank.

#### **Detection of Forged and Fabricated Title Deeds:**

To ensure, at the Title Deeds are not forged or fabricated, the following should be examined:

1. Schedule of property and Registration of the document with the Sub-Registrar Office concerned.
2. Stamp Duty affixed on the document and the consideration shown in the document;
3. Source of purchase of stamps and its cancellation and also the execution of the document. The execution of the document should be subsequent to the cancellation of stamps/date of purchase.
4. Security marks on the stamp paper, which are visible only on a close examination.

#### **Monitoring:**

1. Monitoring relates to post-sanction activities, dealing with proper documentation, disbursement, to ensure the proper end use of funds, periodical inspection, follow-up of recovery, restructuring of loan if needed, etc.
2. Monitoring is a function of the credit administration department. Other routine checks that the credit administration will perform include:
3. Checking that the sanction letter contains complete particulars, records all covenants fully and is signed by authorized bank officials and it has been signed off by the borrower/guarantor acknowledging/agreeing to the terms and conditions.
4. Checking that all the documents are complete in all particulars, and that these have been signed by the bank representative and borrower/guarantors.
5. Checking that required registration of documents has been done and that insurance policy is in place.
6. Inspection: Inspection should be conducted as stipulated in the sanction. A record of the inspection must be kept in the files. The inspection report must carry notings on the condition of the property, verification of payment of tax dues, and details of any other encumbrance noted. Annually/Periodically, a fresh encumbrance certificate must be obtained.
7. Recovery: Checking that EMI payments are coming in on due dates or that the post-dated cheques are being honoured on presentation.

#### **Restructuring**

1. A home loan may have to be restructured when delays turn into defaults. A restructuring is considered where the borrower's integrity is not doubted and his willingness to repay the loan is clearly established and 'only his ability to do so is impaired.
2. If the cash flows are found inadequate to pay in accordance with the **EMI** set, but enough to pay the loan over a longer period of time, then the **EMI** could be reset.
3. The lender may also allow the borrower to repay the loan without changing the **EMI**, but allowing him to repay **all** the overdue and other interest charges in an extended period. Other circumstances when a restructure may be considered are — (a) Unforeseen event/major illness/social functions requiring significant outlay of funds in the family of the borrower or any other circumstance that affect the repayment capacity; (b) In case of salaried class, borrowers who are on "loss of pay" due to lock out/strike/delayed payment of salary by employer (c) Delayed completion of housing project. (d) Death/Disability of the borrower.

**Annual Review of Credit Rating:** The credit rating should be reviewed annually. Annual credit rating could include parameters like (a) Record of repayment during the past 12 months; (b) Documentation as per sanctioned terms; (c) Percentage of security coverage of the outstanding loan; (d) Land value as percentage of total property value (guidance value); (e) Improvement in income level (as confirmed by Income-tax returns) plus including rental income at the post-sanction stage; (f) Liquidity of the borrower in terms of deposits with the financing institution, to cover certain minimum number of EMIs.



## TEST YOURSELF

- (i) Prepayments charges collected by branches should be credited to which account?
- (a) Interest A/c
  - (b) Commission A/c
  - (c) Exchange A/c
  - (d) Current A/c **Ans: Interest A/c**
- (ii) To consider the loan amount under housing loan scheme which of the following statements are true?
- (i) the property is jointly held with the spouse and the spouse is co-borrower  
the property is held in single name and the spouse stands as a guarantor the borrower's son or daughter who has a steady income, the salary is routed through Bank account and joins as a co-borrower  
expected rental less taxes, cess, etc., in case the house/flat being purchased is proposed to be rented  
Regular income from all sources can be considered to arrive at total eligible loan amount.
  - (a) All the above
  - (b) a,b,d & e
  - (c) a, d & e
  - (d) a, b, c & e
  - (e) a, c, d & e **ans: All the above**
- (iii) Mr. Satish Kumar working as a Senior Gazetted Officer in a Government Department having 20 years left over service was recently transferred to Hyderabad. He approached a branch and requested that he is in pursuit of a good house or apartment in Hyderabad for immediate purchase and he requires in principle sanction. Whether the Bank accede to his request? If so, it is valid for how many months?
- (i) No. We cannot accede to such request
  - (ii) Yes, it is valid for one month
  - (iii) Yes, it is valid for three months
  - (iv) Yes, it is valid for six months , **Ans: Yes, it is valid for three months**
- (iv) State whether the following statement is true or false:  
If the house property is bought purely from investment angle, expecting appreciation of value over a period, the loan should be considered as risky and dealt with differently by tightening norms relating to margin, security and guarantee. **Ans: true**

## 20. SECURITISATION

### Introduction:

1. 'Securitisation' means the conversion of existing or future cash inflows to any person into tradable security which then may be sold in the market.
2. The process of converting mortgage loans (any loan for that matter) together with future receivables into negotiable securities or assignable debt, is called securitisation.
3. Securitisation is a process by which a selected pool of homogenous and quality credit assets (loans) of a lending institution is sold to investors through a trust/intermediary by packaging them in the form of securities, which are transferred by way of Pass Through or Pay Through Certificates (PTC).
4. All homogenous assets having similar characteristics for maturities, interest rates, realisation, return etc. are pooled together by the lending institution and a Total Asset Base (TAB) is created. The investment 'quality' of this asset is established through credit rating.
5. It involves packaging designated pool of mortgages and receivables and selling these packages to the various investors in the form of securities which are collateralised by the underlying assets and their associated income streams.

6. Securitisation involves conversion of mortgages into securities, which are tradable debt instruments. The securities, which are backed by the mortgages, are then freely traded in the market, giving rise to a secondary market.
7. Securitisation helps in converting illiquid assets or future receivables into current cash inflows.
8. Securitisation helps the lender to re-assign his capital to different asset building efforts. This also facilitates inter-regional and inter-sectoral flow of funds. Process of Securitisation:
  1. The lending institution assigns/sells its receivables to Bank 'A' who acts as the special purpose vehicle and functional trustee.
  2. Bank A pays the discounted value of the receivables to LA, who issues a pass/pay through certificate in the form of a receipt to the former for having received the money.
  3. LA may continue to act as the receiving and paying agent. In that case, even after selling the debt, it collects the receivables due (principal and interest due on the underlying loans) and passes out the collections to the trust for distribution among the investors towards part or full liquidation of securities.
  4. The trust notionally splits the pool of assets into small units/shares and sells the Pay Through or Pass Through Certificate in the form of negotiable promissory notes/bond to interested investors.
5. Asset-backed securities (ABS) can be structured in two different ways. The first is the 'Pass Through Structure'. This is generally used for loans with a tenure of more than one year, such as, car or housing loans. In a Pass Through Structure, a bunch of loans are converted into ABS. The maturity of the ABS is usually comparable to the tenure of the loans. The returns on ABS are paid directly from installments of the loans. The second structure, called the 'Pay-Through Structure,' is generally used for loans of short maturity such as credit card receivables. The ABS in this case are issued for longer periods than that of the loans securitised. This calls for active cash management by the issuer since he will have to reinvest the money he has received from installments. The ABS holders are paid from the returns on this reinvestment.

#### **Need for Securitisation:**

Banks generally lend for a short-term. But home loans have a life of 5 to 20 years, with an average life of 15 years. These funds are not available for fresh lending for a long period of time. Securitisation helps in unlocking the illiquid assets. However, for marketing of home loan assets these should be appropriately structured to meet some or all of the following needs of various market players:

1. Risk Appetite: Market contains participants with varying risk appetite. Some would prefer a low risk asset with an acceptable return, while another class of investors may accept a higher risk profile for a higher return.
2. Maturity: Home loans have an average maturity of 15 years. The investors however may look for investments with a lower maturity. The average bond market investor may accept a maturity of 7 years.
3. Return Expectations: The return expectations **will** be different. While every investor would expect a return higher than what a sovereign risk would pay, each class of investor would accept a different level of bond interest payment, depending upon its structure.
4. Periodicity: Periodicity in which each investor would expect interest payments and the structure of interest payments, linked to fixed rate instruments or floating rate instruments.
5. Liquidity of Promissory Note: If there is a well-developed secondary market, investments will come in easily. If not, the investor will expect a higher risk premium

#### Features available in a home loan portfolio of a bank:

1. Home loans are supported by mortgages. So, there is a pool of mortgage assets available for packaging as collateral for a bond/promissory note issue.
2. Home loans are generally repayable on monthly basis. As such, there is a pool of receivables.
3. It would be possible to select home loans (mortgages), representing a mix of assets with average residual life of, say, 5 years, 7 years or 10 years etc.

#### Steps in securitization:

1. The Lending Institution (Known as LI) who desires to raise funds by selling the home loans approach another banker, (say "Bank A") to buy the identified class of home loans off the lender's books and accept the

mortgages of the pool of home loans as security for the issue of promissory notes/bonds, which the "Bank A" would market.

2. Bank A would decide the size of the issue that can be marketed.
3. Bank A would determine the features of security, like (tenure), coupon rate, security needs etc. that would be well received in the market and recommend it to the lender.
4. "Bank A" would set up a trust that would deal with the management of promissory note issue.
5. In case LI does not have AAA risk rating or its home loan book may not get a good credit rating, Bank A would issue a letter of credit or a guarantee to enhance the credit of the proposed promissory notes/ bonds.
6. Discuss and finalise the trustee's management fee, note issue charges, mortgage creation charges, and decide the coupon rate or interest the note/bond will carry.
7. Discuss and decide how the receivables will be dealt with in future, whether they'll be received by the present LI and then passed on to Bank A or will be directly received by the bank.
8. Discuss and decide how shortfalls in monthly/periodic collections will be met.
9. Bank A acts as a matchmaker between the LI who wants to off-load some assets from its books and the retail investor who is looking for return on his funds.

Resolving issues in structuring a mortgage backed securitization: The steps for resolving these issues would depend upon

- The quality of the home loans (mortgages), the security value, the receivable quality.
- The history of collections, delinquencies.
- The home loan lender's credit rating.
- The probable rating for the proposed security, by a rating agency.
- Issue costs, including credit enhancement costs, trust management costs etc.

### **Mortgage Backed Securitisation ( MBS)**

1. When the home-loan assets are bundled into securities and sold to investors it is called mortgage-Backed Securities (MBS) because the pool of receivables sold to the SPV is supported by the mortgaged home-loans.
2. MBS is structured in such a way that the HFCs simply pass on the cash flows from payments to the investors. Typically, a third party guarantees investments in MBS.
3. MBS offers a good yield to compensate for the re-investment risk. The guarantee and the yield make MBS an attractive investment.
4. To structure an MBS, the HFCs, typically bundle loans of like maturities but as those that have differing credit risk for securitisation.
5. Such loans are actually transferred to a Special Purpose Vehicle (SPV) created for this purpose.
6. It is the SPV that issues the securities to the investors.
7. In order to pay for this portfolio, the Special Purpose Vehicle (SPV) in turn issues securities to the investors at a discounted present value.
8. There are two basic methods of securitisation. First, the originator does not actually sell the assets to the SPV. It merely enters into an 'agreement to assign' with the trustee. Accordingly the legal title of the pool of assets remains with the originator and only the beneficial interest in the portfolio of receivables held, is transferred to the SPV. This procedure is followed to avoid the high stamp duty ranging from 3-15% payable on the transfer of assets, but a nominal stamp duty still has to be paid, when the SPV issues certificates or securities in the form of receipts to the investors. However, these receipts are not negotiable instruments and, hence, not very liquid.
9. Alternatively, the originator sells the assets i.e. transfers all the interest to the SPV. This transfer attracts stamp duty ad valorem and registration charges. In this transaction, SPV becomes the legal owner of the assets and it can issue certificates in the form of promissory notes, which are more liquid and marketable.
10. The MBS have not been popular in India on account of two reasons. Firstly, lack of stringent foreclosure laws. Secondly, conversion of assets into securities attracts high stamp duty, taking away any margin available for offering attractive yields.

### **Conditions for a vibrant MBS market:**

One of the important reasons for the growth of housing finance in the developed markets is the systematic development of a secondary market. A secondary market provides liquidity to the lenders and moderates the cyclical flow of capital, in the real estate market. A vibrant secondary market will develop if a few of the following conditions

are met:

1. Risk identification, packaging and rating of the mortgage pool/MBS by rating agencies.
2. Standard accounting procedure for all HFCs, banks and other lenders of home loans, especially on the treatment of securitised pool of assets as an off-balance sheet item.
3. Tax treatment and tax incidence amongst the originator of the mortgage based security, the SPV and the ultimate investor.
4. Effective foreclosure systems.
5. Reduction in stamp duty on transfer of assets.
6. Availability of mortgage insurance, title insurance providing risk cover.
7. Innovative mortgage instruments with features that meet the different investment requirements of the market players.
8. Standardisation in respect of loan origination and underwriting practices across different HFIs/ HFCs.
9. In order to induce institutional investors to invest in MBS, investment in such products could be declared as approved investments under the Insurance Act, as also for, the provident funds.

## **21. HOUSING FINANCE AND TAX PLANNING**

### **Tax benefits in respect of Housing Finance**

#### **Interest Deduction on Self Occupied Property**

1. Under section 24(b) of the Income-tax Act, 1961, interest on housing loan can be claimed as a deduction from income from property, salary, business/ profession, capital gains, or any other source upto a maximum of Rs. 1,50,000 every year.
2. The deduction can be claimed subject to fulfilment of the following conditions: (a) Loan has been taken on or after 1st April 1999. (b) Loan is for purchase or construction of a residential property or as re-finance (takeover) of the principal amount outstanding under a loan taken earlier for purchase or construction of a residential property. However, in case of loan for construction, the construction should get completed within 3 Years of raising the Loan. Deduction can be claimed only from the financial year when the purchase/ construction is completed. (c) The lender issues a certificate at the end of the financial year mentioning therein the interest & principal paid during the year in respect of that loan.
3. If loan was taken before 1st April 1999 &/or loan is for repairs/renovation/reconstruction, deduction of only up to a maximum of Rs. 30,000 every year can be claimed.
4. In case the Loan is for repairs/renovation/reconstruction, deduction on account of interest on that loan can be claimed only if the property is self-occupied or if the owner is not able to occupy the property only because of his employment/business/profession at another place, where he/she resides in a building not owned by him/her or his/her spouse/close blood relatives.
5. The deductions are permissible only in respect of one property of the borrower, i.e., if he/she has raised loans for multiple properties, interest can be claimed as a deduction only in respect of one property, depending upon the borrower's choice.

#### **Deduction of Repayment of Principal under section 80(c)**

1. As regards principal repayment, it can be claimed as a deduction from the gross total Income only by an individual/HUF borrower under section 80C of the Income Tax Act, 1961. However, the maximum deduction which can be availed under Section 80C [deduction in respect of life insurance premia, deferred annuity, contribution to provident fund, repayment of housing loan, etc.], Section 80CCC [deduction in respect of pension fund], & Section 80CCD [deduction in respect of contribution to pension scheme of Central Government] cannot exceed Rs. 1,00,000.

#### **Interest Deduction on rented property**

1. If the property is rented out, interest paid on Loan can be fully deducted from the Income derived from the property without the limit of Rs. 1,50,000 or Rs. 30,000, as the case may be.

#### **Interest Deduction on commercial property**

1. Interest on loan taken for commercial property or on loan taken for business/personal needs against the mortgage of property by an individual/HUF/partnership firm/company/any other person can be fully claimed as deduction from income from rent/business/profession/other sources, as the case may be. However, the benefit on account

of principal repayment shall not be available in such cases. Interest on unpaid interest, i.e., penal interest, is not deductible.

### **Others**

1. No tax Benefit is available in respect of Loan taken for purchase of plot of land. Hence, instead of taking a Loan for purchase of plot, one should take loan for purchase of plot as **well** as construction of house & complete construction of a self-sufficient House within 3 Years of raising the Loan.
2. If Loan is raised jointly by husband & wife or any other combination of persons acceptable to the lender, the interest & principal can be claimed by the co-borrowers in proportion to the amounts paid by them, subject to the combined maximum limit of Rs. 1,50,000 (or Rs. 30,000) & Rs. 1,00,000 towards interest & principal respectively.
3. If the housing loan is taken before 1st April, 1999, deduction on account of interest shall be limited to Rs. 30,000 every Year. However, if the loan is taken after 1st April, 1999, deduction of interest up to Rs. 1,50,000 can be claimed every Year.

## **22. MORTGAGE ADVICE**

### **Economic and Regulatory Context for Giving Mortgage advice**

1. In India, mortgage advice profession is carried out without any regulations. There is no entry barrier and no code of conduct or ethics are stipulated by any regulation.
2. In US, UK and other countries there are regulations regulating the mortgage advice services.
3. in US, in addition to direct support of housing and home finance, State and Federal Government agencies regulate the participants in the mortgage lending industry through chartering, licensing, auditing, and examinations.

### **"Home Information Pack"**

1. This concept was introduced in UK from 1st August 2007.
2. The Home Information Pack contains important information that buyers and sellers need to know.
3. For sellers, it would reduce the likelihood of events in the selling process that could delay the sale, as buyers will be able to make more informed decisions about purchasing their home.
4. For buyers, the Pack provides essential information free of charge about properties they are considering buying.
5. The content, of the pack is list of documents to be provided. The list consists of compulsory documents as well as optional documents to be provided for the use of buyers for taking right decision.
6. The important compulsory documents are :
  - a. Sale statement providing basic information about the site including the address of the property being sold, whether the property is freehold, leasehold, whether or not the property is being sold with vacant possession.
  - b. Evidence of title to prove that the seller owns the property and therefore has the right to sell it.
  - c. Energy Performance Certificate indicating how energy efficient a home is on a scale of A-G The most efficient homes - which should have the lowest fuel bills are in band A.
7. The optional documents are :
  - a. Home Condition Report containing information about the physical condition of a property, which sellers, buyers and lenders will be able to rely on legally as an accurate report.
  - b. Legal summary giving summary of the legal aspects helpful to buyers. However, buyer can take his own legal advice as well.
  - c. Home use/contents forms providing information on a range of matters relating to the property. These include information on boundaries, notices, services, sharing with neighbors, and other matters of interest to potential buyers. It is usual for sellers to declare which fixtures and fittings and other contents of the property are included in the sale, are excluded from the sale, or are subject to negotiation.

### **TIME VALUE OF MONEY-INTEREST AND ANNUITIES**

1. For realistic appraisal, the value of a cash payment or receipt must be related to the time when the payment takes place.
2. A Re. 1 received today is worth more than Re. 1 receivable at some future date, because Re. 1 received today could be earning interest in the intervening period. This is the concept of the time value of money.

3. The process of converting future sums into their present equivalents is known as discounting, which is
  - simply the opposite of compounding.
4. Compounding is used to determine the future value of present cash flows, whereas discounting is used to determine the present value of future cash flows.

### The Rule of 72

This rule is used to determine the number of years it takes to double the money at a particular interest rate. This is arrived at by dividing the number 72 by percentage rate of interest rate being paid or earned.

### Future Value of Money

For finding out future value (FV), the compounding formula is as given below

$$FV = PV(1 + r)^n$$

Where PV means present value, r means rate of interest and n means period or term.

If Rs. 100000 is invested for a period of 5 years at interest at 10% p.a. find the maturity sum i.e. future value.

The formula for finding FV is....  $FV = PV(1 + r)^n$

$= 100000 (1 + 0.10)^5 = 100000 (1.10)^5 = 100000 (1.61) = 1610000$  So the maturity sum will be Rs. 1,61,000.

Future value can be calculated from future value table also. It can be calculated with following formula Future Value = PV x Future value factor.

### Future value of annuities

Annuities are essentially series of fixed payments made or received at a specified frequency over a fixed period of time.

**Ordinary Annuity:** Payments are made/received at the end of each period. **Annuity**

**Due :** Payments are made/received at the beginning of each period. —

### Calculating the Future Value of an Ordinary Annuity

By using the future value of an ordinary annuity formula, one can find out how much one would have in the future by investing regularly for a period at given interest rate. If payments on a loan are made, the future value is useful for determining the total cost of the loan. In order to calculate the future value of *the* annuity, the formula is as under:

$$F = A \frac{(1 + r)^n - 1}{r}$$

Where F = future value of an annuity; A=annuity ; i = interest rate; n = term i.e. period of payment. Future value of an ordinary annuity of Rs 1000 for a period of 5 years at interest rate of 5% would be  $1000 \times [(1+0.05)^5 - 1] \div 0.05$  i.e.  $1000 \times (1.27628 - 1) \div 0.05$  i.e. 5525.6

### Calculating the Future Value of an Annuity Due

In this type of annuity, each payment in the series is made one period sooner. When payments are made at the beginning of the period, each amount is held for longer time at the end of the period. For example, if the Rs. 1000 was invested on January 1st rather than December 31st of each year, the last payment before we value our investment at the end of five years (on December 31st) would have been made a year prior (January 1st) rather than the same day on which it is valued. The future value of annuity formula is:

$$F = A \frac{(1 + r)^n - 1}{r} \times (1 + r)$$

Future value of an Annuity due of Rs 1000 for a period of 5 years at interest rate of 5% would be

$1000 \times [(1+0.05)^5 - 1] \times (1.05) \div 0.05$  i.e.  $1000 \times (1.27628 - 1) \times (1.05) \div 0.05$  i.e. 5801.9

**Present Value:** It is the reverse of future value. For finding out present value (PV), discounting formula as

given below is used

$$PV = FV \cdot 4(1 + r)^n$$

Where PV means present value, r means rate of interest and n means period or term and FV means future value.

If Rs 133100 is the maturity value (future value) of investment, invested for 3 years at interest rate of 10%, the present value will be:

133100 divided by  $(1.1)^3$  will be Rs 100000.

## CAPITAL GAINS

1. Any profit or gain from sale or transfer of a capital asset is chargeable to tax under the head "capital gains"
2. Capital asset means any property whether movable or immovable, tangible or intangible.
3. Transfer, in relation to capital asset, includes sale, exchange of the asset.
4. The following assets are, however, excluded from the definition of capital assets: (a) Stock-in-trade, stores, raw material (b) Personal effects (excluding Jewellery) (c) Agricultural land outside the limit of municipality or notified area.
5. The transfer of assets on account gift, will etc. as well as distribution of assets by HUF to its members on partition are not transfers for the purpose of capital gains.

**Short Term Capital Assets:** Short term capital asset means a capital asset held for less than 36 months immediately prior to the date of transfer.

**Long Term Capital Asset:** Long term capital asset means a capital asset held for more than 36 months immediately prior to the date of transfer.

However in following cases, asset held for less than 12 months is treated as short term capital asset and asset held for more than 12 months is treated as long term capital asset:

- Equity or pref. shares (quoted as well as unquoted)
- Debentures/Govt. securities listed in a recognized stock exchange.
  - Units of UTI/Mutual fund specified under section 10(230)
  - Zero coupon bonds (whether quoted or not)

**Computation of short term capital gain:** From the full value of consideration, deduct the following - (a) expenditure of transfer (b) cost of acquisition (c) cost of improvement. From the sum so arrived at deduct the exemptions provided by sections 54B, 54D of the Income Tax Act. Balance amount is short term capital gain.

**Computation of long term capital gain:** From the full value of consideration, deduct the following: (a) expenditure of transfer (b) indexed cost of acquisition (c) indexed cost of improvement. From the sum so arrived at deduct the exemptions provided by sections 54, 54B, 54D, 54EC, 54F of Income Tax Act.

## Capital Gains - When and to What Extent Exempt from Tax

1. Capital gains arising from the sale of residential house property (Section 54) is exempted provided the property is held for more than 36 months before sale and transferor has purchased another residential house by utilizing the capital gain amount within one year before sale of old house or within 2 years from the date of sale of old house or construct a new house within a period of three years from the date of sale. If the amount of capital gain is not fully utilized, then only proportionate amount that is utilized will be exempt.
2. Capital gains from transfer of land used for agricultural purpose (Section 54 B) is exempt if utilized for purchase of another land.
3. Capital gains on compulsory acquisitions of land and building of an industrial undertaking - (Section 54 D) is exempt if utilized for purchase of another land and building
4. If Capital gain is invested in bonds issued by National Highway Authority of India or RECL (Section 54 EC)
5. Capital gains on transfer of long term capital assets other than a house property - (Section 54 F) is exempt provided the transferor has purchased residential house by utilizing the capital gain amount within one year before the date of transfer or within 2 years from the date of transfer or construct a new house within a period of three years from the date of transfer. If the amount of capital gain is not fully utilized for above then only proportionate amount that is utilized will only be exempt.

6. Deductions under sections 80C to 80u are not available in respect of long term capital gains.

### **Registration of Documents**

1. In each State, the relevant Stamp Acts and registration formalities are required to be followed.
2. The stamp duty is payable on instrument and not on the transactions. Instrument means any document by which any right or liability is or recorded.
3. The instruments which are not properly stamped are not admitted in evidence.
4. The documents are registered for the purpose of conservation of evidence, assurance of title and prevention of fraud.
5. Registration helps an intending purchaser to know if the title deeds of a particular property are free from encumbrance.
6. The documents relating to the following transactions of immovable properties are required to be compulsorily registered: (a) Gift (b) Lease of immovable property from year-to-year or for any term exceeding one year (c) Instruments which create any right in an immovable property of a value of more than one hundred rupees.
7. The term "Immovable property" includes: Land, buildings, rights to ways, any benefit arising out of land, and things attached to the earth but not standing like timber, growing crops or grass.
8. All documents of which registration is compulsory if it relates to an immovable property should be presented for registration in the office of Sub-Registrar within whose sub-district the portion of the property to which the document relates is situated.
9. For registration of any instrument, the original document typed/printed on one side only along with two photocopies of the original have to be submitted to the Registering Officer. The registration procedure also requires the presence of two witnesses and the payment of the appropriate registration fees. On completion of the procedure, a receipt bearing a distinct serial number is issued.

### **Time frame for Registration of a Document**

1. Any document other than a will has to be presented for registration within four months from the date of its execution. The term 'execution' means signing of the agreement.
2. If a document is not presented for registration within the prescribed time period of four months, and if in such a case the delay in presentation of the document does not exceed a subsequent period of four months, then the parties to the agreement can apply to the Registrar. The Registrar may on payment of a fine not exceeding ten times of proper registration fees admit the document for registration.
3. If the delay goes even beyond these additional four months then parties to the document should execute a Deed of Confirmation confirming that the main deed is valid and binding upon them.

### **Verification of the Title**

1. To find out if the title of the seller is clear and marketable, one has to take search of the property.
2. The search of the property has to be taken at the offices of the relevant Sub-Registrars.
3. Normally 30 years search has to be taken.

## **23. VALUATION OF REAL PROPERTY**

### **Introduction:**

1. Valuation means assessment of the worth of an asset or property. The worth is calculated on the basis of income and other advantages that will accrue from the property in future.
2. Worth differs from the cost which is actual amount spent in producing an asset.
3. Price is the cost of production and profit of the producer. It depends on demand and supply of a commodity.
4. Cost is related to past whereas the value refers to the future.
5. Therefore, cost, value and price can be different and are generally different.
6. A real property derives value if it has utility, scarcity, demand and transferability.
7. Value undergoes change with passage of time because of change in demand and supply conditions, lifestyle changes, and physical deterioration due to wear and tear i.e. depreciation.

### **Valuation:**

1. Valuation is a specialized area practiced by qualified engineers and architects who possess knowledge of building costs, awareness of market conditions and economic trends, developmental plans, legal statutes and



- provisions governing real property, rental income and outgoings etc.
2. The Valuer also relies on his own experience and judgment in arriving at the fair market value.
  3. There could be difference of opinion between two Valuers in respect of the value of same property.
  4. The Income-tax Department grants registration to Valuers u/s 34AB of the Wealth Tax Act, 1957, on the basis of their technical background and experience. For the purpose, the Deptt. has classified Valuers under separate categories for (a) immovable property, (b) agricultural land, (c) plant & machinery (d) jewellery etc.
  5. The Institution of Valuers, Delhi is a professional body that grants membership to practicing Valuers. There are several Banks/Financial Institutions, which require besides registration under Wealth Tax Act, membership/fellowship of the Institution.

### **Types of Real Property**

#### **Agricultural land:**

1. Agricultural land means land capable of being used for farming or for raising plants or trees that carry value. The factors that influence the return from agricultural land are- (a) Location (b) Soil quality (c) Availability of water & electricity (d) Size of holding (e) Clear Title of land (f) Access by road and approaches (g) Cottage or Farm house, fencing and gates (h) Types of crops that can be cultivated.
2. Valuation of agricultural land is done by two methods — Income capitalization method and Sales statistics method.
3. Income Capitalisation Method: The income is determined by assuming that the land is rented on crop sharing basis. The net annual income is arrived at after deducting the expenses incurred such as local taxes; cost of maintenance, cost of inputs, insurance etc. and the amount is then capitalized at an appropriate rate of interest to get the value of land.
4. Capitalised value means the amount of money required today to get a certain fixed income in the form of annual installments over a very long time (perpetuity).
5. The present value of future annual income is obtained by multiplying it by a factor called 'Years Purchase' (YP). The factor or multiplier is so called because it represents the purchase price for the yearly income. It is obtained from Present Value tables and for annual income in perpetuity (asset that does not depreciate), it is equal to  $1/i$  where 'i' is the rate of interest.
6. Sales Statistics Method: In this method, the valuation is based on the comparable sale value of similar agricultural land located in the vicinity of the land to be valued. The factors generally considered for comparison are (a) Size of holding (b) Physical features, roads, fencing, cottages, soil quality etc. (c) Title of land and conditions of letting out for cultivation.

#### **Urban land**

Urban open lands could be put to residential or industrial use and their value depends on their potential for development through construction of appropriate structures. The following factors are considered for valuation of vacant land:

1. Location - nearness to schools, shops, entertainment, transport, medical, recreation facilities, police station.
2. Size, shape and level- there is larger demand for plots of certain sizes in particular locality. Similarly, plots of irregular shape or at lower than road level carry lower value.
3. Soil quality, water availability - low bearing capacity of soil increases the cost of foundation.
4. Frontage & depth - Street frontage adds to value while disproportionate depth reduces value of plot.
5. Restrictions on development - Land with higher FSI commands higher price. **FSI** or Floor Space Index (also called Floor Space Area - FAR) refers to the ratio of total built-up area inclusive of all floors to the area of land on which the building is constructed. It is determined by local authority and varies for different areas or different buildings in the city. Available FSI refers to the difference between the permissible FSI and the FSI utilized.
6. Encumbrances - such as easement rights, unauthorized hutment dwellers etc. - The value of land with encumbrances is much less compared to land with no encumbrance.

Valuation of open land is done by following methods-

1. Comparative Method: The value is determined on the basis of a fair rate for land situated in the vicinity as reflected from various recent sale-purchase transactions. The Valuer has to draw on his experience while using this method, as the land rates as per sale deeds do not often reflect the actual rate. Land value in urban areas is a function of the collective demand for real property, both present and future.
2. Rent Capitalisation Method: In this method, a comparable property in nearby area on rent is used as benchmark

and the capitalised value is calculated by multiplying the net income by Years Purchase. Then, replacement cost of the building is worked taking into account the quality of construction etc. and its present value is worked out by charging suitable depreciation. The value of land is obtained by subtracting the replacement cost of building from the capitalised value. The net rental income, on an average, varies from 4% to 6.5% depending on the location for residential property and from 6% to 9% for commercial property.

3. **Belting Method:** It is adopted for big size plots with lesser frontage and more depth. The land is divided into several belts running parallel to the frontage and progressively lower rates are taken for belts farther from the frontage.

**Land and Building:** The methods used for valuation of land with building are:

**Comparative Method:** The Town Planning Deptt. generally adopts the Comparative Method for estimating the value of land with building because the property is generally sold as a single piece i.e. land with building. The term composite rate is used to indicate the rate of land together with the structure erected on it. The rate is determined by collecting information on sale rates of nearby similar properties in recent past. The method is used for valuation of residential flats and office units in multi-storied buildings in urban areas.

**Rent Capitalisation Method:** The rental income is the rent actually paid when the property has been let out in the recent past vis-a-vis the date of valuation. However, the actual rent may not always represent the fair rental income in cases where the tenant has paid some lump-sum amount upfront or the property is newly constructed etc. When the property is self-occupied or vacant, the rental value is estimated by comparison to the rent received from similar properties in the locality. For making comparison, the terms of letting, the floor area, date of letting etc. should also be considered. As per this method of valuation, the outgoings are deducted from gross income to get the net income. The net income is multiplied with Years of Purchase for the useful life of the structure or in perpetuity which gives the capitalized value.

**Valuation based on profits:** In cases of property which is used for conducting trade or business, like hotels, cinema houses, restaurants etc., the valuation is done on the basis of capitalized value of the net profit as reflected in the books of account of the business entity. The net profit is capitalized by multiplying it by the YP for certain number of years or in perpetuity, for a rate of return pertinent to the specific business.

**Valuation based on cost:** The present cost of building is estimated with prevalent rates taking into account the type of construction, age and condition of the building and appropriate depreciation is charged to get the depreciated value. The value of land is worked out on the basis of current rates after making due allowance for the encumbrance factor. The total value of property is worked out by adding the two. Encumbrance factor refers to the value imposed on the land due to the type of structure erected on it because it is the earning capacity of the building that determines the value of the land. The type of building puts a constraint on deriving the full economic value of land and thus encumbers the land. This method is generally adopted in cases where sale instances are not available for comparison. The method is suitable for such type of properties as hospitals, police stations, libraries, town halls, temples, mosques etc. The valuation may be required for purposes of fire insurance etc.

**Development Method:** This method is based on the potential value of the property if it is developed in the best possible manner by making necessary modifications. The property may be open land or land with building. The cost of additions and alterations is estimated and the difference between the estimated increase in capital value and the estimated cost of additions etc. represents the potential value. This method is useful for properties, which possess hidden value on account of development or re-development possibilities.

**Valuation of specialized buildings:** Buildings erected to serve specific purpose such as bars, breweries, hotels, motels, cinema houses are valued by specialists having experience of market practices and rules that apply to the particular trade. The business can be pursued only after a license is obtained from the authorities. When the business is sold as a going concern, one has to take into account the value of intangible assets such as monopoly, goodwill, competence of management etc. apart from the value of the premises. Valuation is based on capitalization of average net profit over past couple of years at appropriate rate of interest. This method is also known as the balance-sheet method. The rate of interest for capitalization should represent not only the normal rate of return for the type of business but also the risks and uncertainties involved in it. The valuation exercise in respect of cinema houses or hotels, requires a proper assessment of gross income from the business and also the shops & service establishments which have been leased out space in the premises.

Likewise, an estimate of direct and overhead expenses including taxes has to be made to arrive at net income. The Valuer needs to have knowledge of occupancy rates, management quality, standard of accommodation and other facilities available like parking lot, lifts, garden etc. for making a reasonable assessment of value.

### **Life of Structures:**

1. A Valuer is required to make an estimate of the future life of the building during which it can yield an assured income, while carrying out the valuation of land with building constructed on it.
2. A building loses capital value with passage of time due to wear & tear, advent of new construction technology and provision of improved amenities in new buildings etc.
3. The durability of the structure is estimated on the basis of materials used in construction, maintenance, climatic conditions etc.
4. Normally, the life of buildings varies from 40 years to 80 years. The useful life of a building can be extended by proper upkeep and maintenance of the property, making suitable additions and alterations to structure to improve its strength and durability etc.

### **Sinking Fund**

1. At the end of life of the structure i.e. when it ceases to yield desired income, a property has to be replaced so that the income may continue for further period. The fund set aside for the purpose of recovering the original capital is called sinking fund.
2. The amount to be regularly set aside out of annual income to create the sinking fund depends on the compound interest it is supposed to earn over the life of the structure.
3. The sinking fund factor is the amount that accumulates to Re.1 if invested at specified rate of interest for certain number of years. The factor for redemption of Re.1 at the end of 25 years @ 5% compound interest is 0.021. Thus the sinking fund for redeeming original capital of Rs.15 lacs will be  $15,00,000 \times 0.021 = 315000$ .

### **Depreciation:**

1. Depreciation means loss in value. A building loses value due to deterioration in its physical condition as a result of usage (wear & tear), effect of climatic conditions, poor structural design or workmanship.
2. An estimate of the useful life of the building is made after which it will become unserviceable and depreciation is charged accordingly so that accumulated depreciation becomes equal to the original investment at the end of its life.
3. A building also loses value due to obsolescence. There is continual improvement in construction technology and architecture and new buildings provide more comfortable living conditions by providing better amenities such as modular kitchen, wash basins, hot and cold water, geyser, lift, better ventilation.
4. Straight Line Method: In this method, the depreciation is allocated uniformly over the life of the property and is generally adopted for tax purposes and preparing financial statements. The annual depreciation is given by the formula — Depreciation is equal to  $(C-S)/n$ . D is annual depreciation, C is original cost, S is salvage value (value that property may fetch at the end of useful life), n is life of building in years.
5. Written Down Value (WDV) Method: In this method, it is assumed that the property will lose value by a constant percentage of its value at the beginning of the year. Thus, the amount of depreciation goes on reducing every year because while depreciation is charged at fixed percentage, the capital value of asset decreases by depreciation charged every year. The object is to charge higher depreciation in initial years when the asset yields higher income due to low cost of repairs & maintenance and lower depreciation in later years when cost of repairs goes up. This method is also called the Declining Balance Method and is generally adopted by industrial units because of advantage of lower income-tax. The WDV of an asset can be found out by the formula -  $WDV = C(1-p)^n$  where C is the original cost, n being life in years, and p being the percentage at which depreciation is charged. Here, salvage value is assumed as zero.

### **REVERSE MORTGAGE**

1. The idea of Reverse Mortgage Loan took shape in the United Kingdom in 1929.
2. Reverse Mortgage Loan, seeks to generate income from the property owned and resided in by the senior citizens.
3. This is to supplement their existing sources of income, while at the same time remaining the owners of their property and continuing to occupy it.
4. Under the scheme, a senior citizen- aged above 60 - (borrower), mortgages the self occupied residential property belonging to him/her to a banker (lender), who on assessment of the market value of the property will make a periodic payment to the borrower during his/her lifetime.
5. The borrower does not have to repay the loan or interest to the lender and can continue to occupy the property.
6. The loan (including accumulated interest) is repaid from the proceeds of the sale of the property, on the death of

the borrower. However, if the loan and interest is repaid by the heirs/borrower, property is not sold by bank but released to them.

7. For taxation purposes, Reverse Mortgage, the income received by the borrower would not be treated as 'income'.
8. A borrower, shall, however, be liable to income tax" in the nature of tax on capital gains only at the point.of sale of the mortgaged property by the lender for the purposes of recovering the loan.

#### **Difference between Mortgage and Reverse Mortgage:**

In a normal housing loan, where the property being purchased is mortgaged to the lender, the borrower avails a loan to begin with and at that point of time, his stake in the property purchased is low. As the regular EMI is paid on due dates, the loan amount reduces and his stake in the property increases. However, in Reverse Mortgage, the position is exactly the reverse. Under RML, the borrower initially retains a high stake in his property and receives a regular cash flow. Over time, when the loan amount increases, his stake in the property reduces.

#### **Reverse Mortgage Loan - Salient features:**

1. The scheme was introduced in India in 2007 and made applicable with effect from April 01, 2008.
2. The basic guidelines regarding the scheme have been framed by National Housing Bank, a subsidiary of Reserve Bank of India.
3. A senior citizen who is above 60 years is eligible for a reverse mortgage loan against his own and self occupied residential property. He/she can continue to occupy the house.
4. The borrower will not be called upon to service the loan during his/her lifetime.
5. The loan amount may be used by the borrower for various purposes including up-gradation, renovation of residential property, medical exigencies, etc. However, use of RML for speculative, trading and business purposes is not permissible.
6. Married couples will be eligible as joint borrowers subject to the condition that one of them is above 60 years and the other not below 55 years.
7. The property should have a clear title and should be free from encumbrances. The residual life of the property should be at least 20 years.
8. RML is not available against the security of commercial property.
9. The owner of the residential property and his/her spouse are generally joint borrowers and the surviving borrower is allowed to retain the property till his/her death.
10. The loan amount will be based upon the market value of the property and could range from 60% to 90% of the value of the property depending on the age of the borrower (s);
11. The interest rate on loan will be market driven.
12. The loan instalments could be paid through monthly/quarterly/half-yearly/annual disbursements or a lump-sum or as a committed line of credit or as a combination of the three.
13. The maximum monthly payment can be Rs. 50,000 p.m. with the maximum lump sum payment being restricted to 50% of the eligible loan amount subject to a limit of Rs. 15 IA to be used for medical treatment. The balance loan amount would be paid periodically.
14. The maximum period of the loan is 15 years. If the borrower outlives the maximum loan period, he/she can continue to retain the property and need not repay the loan or service the interest. However, the periodic payments under Reverse Mortgage will cease and interest will continue to accrue till the death of the borrower or till he or she moves out of the property.
15. On death of both borrower and spouse, the loan will be liquidated from the sale proceeds of the property. **16. The appraisal fee, documentation charges, etc. have to be borne by the borrowers. The borrower is required to insure the property at his own cost and is also liable to pay the taxes and statutory charges to the authorities concerned regularly.**
17. The banker (lender) is free to decide the periodicity of valuing the property with such valuation being at least once every five years. The quantum of loan may undergo revisions based on such revaluation of property at the discretion of the lender.
18. All reverse mortgage loan products are expected to carry a 'no negative equity' or 'non-recourse' guarantee. This means that the borrower(s) will never owe more than the net realizable value of their property.
19. The borrower(s) /legal heir(s) can also repay the loan alongwith accumulated interest and have the mortgage released without resorting to sale of the property. No charges will be levied if the loan is prepaid.

**Formula to Calculate the Periodic Payments under RML**

The formula to calculate the periodic payments, is as under:

Installment Amount =  $(PV * LTVR * I) / ((1 - EI)^n - 1)$  Where, PV = Property Value;

LTVR = **LTV** Ratio; n = No. of Installment Payments; I = Interest Rate and the value of I will depend on Disbursement Frequency selected.

# TEST YOUR SELF

## PRACTICE TEST PAPERS

**(BASED ON IIBF TEST PATTERN)**

# RETAIL BANKING

# (Optional Paper)

## (CAIIB PAPER - 3)

### PRACTICE TEST PAPER NO. 1 ( TEST YOUR SELF )

01. Which of the following is not a characteristic of stand alone model for processing of retail loans?
- a) Better Understanding of the customer requirements.
  - b) No standardised approach.
  - c) Quality will be uniform as the activity is exclusive.
  - d) Compliance of appraisal norms may be biased based on the customer profile.
  - e) None of these
02. Which of the following is not a characteristic of Centralised model for processing of retail loans?
- a) Exclusive activity and hence will be more faster and professional in approach.
  - b) Quality will be uniform as the activity is exclusive.
  - c) Uniform and impersonal appraisal standards.
  - d) Standardised approach.
  - e) None of these
03. For retail banking business which of the following segments are important?
- a) Mass Market
  - b) Mass Affluent
  - c) Super Affluent
  - d) Both (a) and (b) only
  - e) All of these
04. For designing retail banking products and services which of the following assumptions is not correct?
- a) Customers are similar but needs of the customers are different.
  - b) Customers can be broadly grouped together based on their need pyramids.
  - c) Customers can be grouped together based on their income, age, geography, profession, employment, vocation gender and family size
  - d) The need requirements of customers for financial services will be unique.
05. How many needs have been identified as per Maslow's Need Hierarchy Theory of Motivation?
- a) 2
  - b) 3
  - c) 4
  - d) 5
06. Which of the following products match the physiological needs of a customer?
- a) Core Saving Accounts; Personal Accident Cover; Housing Loans.
  - b) Recurring, Fixed Deposit Products
  - c) Life Insurance Products- Endowment Products with low premium, long tenor and high maturity amounts.
  - d) Insurance and Mutual Fund Products
07. Which of the following products match the security needs of a customer?
- a) Core Saving Accounts; Personal Accident Cover; Housing Loans
  - b) Recurring, Fixed Deposit Products
  - c) Consumer Loans; Personal Loans; Car loans
  - d) None of these
08. Which of the following products match the social needs of a customer?
- a) Core Saving Accounts; Personal Accident Cover; Housing Loans
  - b) Recurring, Fixed Deposit Products
  - c) Consumer Loans; Personal Loans; Car loans

**d)** Special Term Deposit Products; Term Insurance Products; Second Housing Loans/Home; Improvement/Home Decor Loans

**09** Which of the following products match the esteem needs of a customer?

**a)** Special Term Deposit Products; Term Insurance Products; Second Housing Loans/Home; Improvement/Home Decor Loans.

**b)** Loans for Professional Development for Doctors, Engineers, Lawyers, Chartered Accountants, Management Consultants, Architects.

**c)** Insurance and Mutual Fund Products. **d)** None of these

**10** Which of the following represents customers requirements about service quality from banks?

**a)** Reliability **b)** Responsiveness **c)** Assurance **d)** Empathy **e)** All of these

**11** In the context of service quality responsiveness means which of the following?

**a)** Easy understandability of credit card statement

**b)** Possession of required skills and knowledge to perform services

**c)** Willingness to help customers and provide prompt service.

**d)** Approachability and ease of contact.

**12** In the context of service quality, empathy means which of the following?

**a)** Making an effort to know customers and their needs.

**b)** Resolving customer's problems quickly.

**c)** Ability to perform the promised service dependably and accurately.

**d)** Recredit of wrongly debited charges properly.

**13** Customers does not require which of the following from their bank/s for maintaining their accounts/relationship?

**a)** Right product mix, Right channel mix and adherence to the time prescriptions.

**b)** No Communication about the different products and services so that they are not bothered.

**c)** Transparent service charges.

**d)** Satisfactory service experience from the delivery channels.

**14** Which of the following is correct sequence regarding product life cycle?

**a)** Introduction, Growth, Maturity, Decline **b)** Introduction, Maturity, Growth, Decline

**c)** Growth, maturity, introduction, decline **d)** None of these

**15** Which of the following is correct about characteristics of a product?

**a)** Product refer only to tangible thing. **b)** Product refer only to intangible thing.

**c)** Products are almost always combinations of the tangible and the intangible. **d)** None of these

**96** A customer attaches value to a product in proportion to which of the following?

**a)** price paid by the customer. **b)** respect received by the customer. **c)** its perceived ability to help solve his problems or meet his needs. **d)** its reliability.

**17** Which of the following statements is not correct regarding product life cycle of a bank product?

**a)** Banks should aim for keeping the product in the maturity stage as long as possible, so that business and profit maximisation happens continuously.

**b)** Product life cycle is different for different products

**c)** A product always travel through the product life cycle process. **d)** None of these

**18** Though there is a product life cycle concept, yet it is not always necessary that a product should travel through the product life cycle process. Some products will have an instant death immediately after introduction phase. This may happen due to which of the following?

**a)** Product has a very short life cycle **b)** Nature of the product **c)** Wrong approach towards marketing research and consumer perceptions **d)** None of these

**19** Which of the following is the feature of Introduction stage in product life cycle?

**a)** The sales volume of the product-picks up. There is more growth and sales volume peaks.

**b)** There will be staleness because of competition

**c)** The product becomes less attractive for the consumers

**d)** The sales volume will be low.

20 In which of the following stage in product life cycle, the product becomes less attractive for the consumers resulting in drop in sales volume and profits?

**a)** Introduction stage **b)** Growth Stage **c)** Maturity Stage **d)** Saturation stage **e)** Decline stage

21 In which of the following stages in product life cycle, the product is likely to break even and start generating profits for the organization?

**a)** Introduction stage **b)** Growth Stage **c)** Maturity Stage **d)** Saturation stage **e)** Decline stage

22 In which of the following stages in product life cycle, sales volume peaks, there is a wide customer base which will result in maximisation of sales with inflow of business and profits?

**a)** Introduction stage **b)** Growth Stage **c)** Maturity Stage **d)** Saturation stage **e)** Decline stage

23 In which of the following stages in product life cycle, the business and profits stagnate, and customer develop a tendency of indifference to the product.

**a)** Introduction stage **b)** Growth Stage **c)** Maturity Stage **d)** Saturation stage **e)** Decline stage

24 The success of the phases depends on which of the following?

**a)** Attractive interest rates **b)** Better customer service **c)** Better delivery efficiency **d)** Approach towards packaging strategies and repositioning strategies.

25 Product obsolescence contributes to the of products.

**a)** Natural death **b)** Premature death **c)** Growth **d)** None of theSe

26 In the case of computer products, the product life cycle will be very short because of

**a)** Customers tastes and preferences **b)** Limited use of computers. **c)** Fast changing technologies. **d)** Specific set of users for computers.

27 In case of banks, Core products means those products

**a)** which are part of Tier I capital **b)** in which the organization basically deals. **c)** which are subject to change from time to time **d)** which are required by low income customers only.

28 In case of banks, Augmented products means those products

**a)** Which are provided for financial inclusion. **b)** Which are provided only to High Net worth individuals. **c)** Which are developed from formal products by combining two core products and adding value to the product in terms of benefits and comforts to the customer. **d)** which are provided through select branches.

29 Which of the following is not a core product?

**a)** Saving Bank Account **b)** Current account **c)** Term Deposit account **d)** None of these

30 Which of the following is not a feature of the Core Product?

**a)** These products are essential products. **b)** These products need not have a strong marketing content. **c)** These products will have a stable life in the growth stage of product life cycle.  
**b)** None of these

31 In the present context, which of the following can be considered as Augmentation of product?

**a)** Offering ATM /Debit card **b)** Issue of Cheque Book **c)** Tagging Group life or health insurance product **d)** None of these

32 In the present context, which of the following is not considered as Augmentation of product?

**a)** Offering ATM /Debit card **b)** Internet Banking **c)** Tagging Group life or health insurance product **d)** Mobile Banking

33 Different bankers market their different products in different names though they have common features. The idea of this is to make the customer identify the bank with the particular name of the product. This initiative of banks to create recall for the products is termed as

**a)** Augmenting the product. **b)** Branding the product. **c)** Packaging the product. **d)** None of these

34. Which type of branding is adopted by banks?

**a)** Product branding **b)** Corporate branding **c)** Service Branding **d)** Both (a) and (b) only **e)** All of these

35. Interest rate on saving deposits are paid on what basis?

**a)** Minimum balance between 10<sup>th</sup> and last day of month. **b)** Minimum balance between 5<sup>th</sup> and last day of month. **c)** Daily product basis **d)** None of these



36. Interest Rates on Domestic Saving Deposits with commercial banks is decided by:  
**a)** RBI **b)** IBA **c)** Ministry of Finance **d)** Banks themselves.
37. Interest rates on saving deposits were increased to 4% p.a. with effect from:  
**a)** 1.4.2010 **b)** 1.4.2011 **c)** 3.5.2011 **d)** None of these
38. Interest rates on saving bank deposits were deregulated by RBI with effect from:  
**a)** 1.4.2010 **b)** 1.4.2011 **c)** 3.5.2011 **d)** 25.10.2011
39. Interest rates on saving deposits in NRE and NRO deposits is paid at the rate of:  
**a)** As applicable to domestic deposits. **b)** 3.5% p.a. **c)** 4% p.a. **d)** None of these
40. Which of the following is not correct regarding Saving Bank Deposits with banks?  
**a)** Saving Bank account is opened as a plain vanilla product only.  
**b)** ATM Cards/Debit Cards are issued along with the Savings Accounts as essential tags for operation of the account.  
**c)** For augmenting saving bank product, some banks are offering group life cover and/or group health cover at a very attractive price.  
**d)** Saving Bank account gives absolute flexibility for the customer to operate his account and price is kept at a low level.
- 41 Which of the following is low cost deposit for the banks?  
**a)** Term Deposit account **b)** Saving Deposit account **c)** Current Deposit account **d)** None of these
- 42 Which of the following is no cost deposit for the banks?  
**a)** Term Deposit account **b)** Saving Deposit account **c)** Current Deposit account **d)** None of these
- 43 Banks offer sweep in sweep out facility in which type of deposit accounts?  
**a)** Term Deposit account **b)** Saving Deposit account **c)** Current Deposit account **d)** Both **(b)** and **(c)** **e)** All of these
- 44 Minimum period of term deposits is      days and maximum period is generally years.  
**a)** 15 days, 10 years **b)** 7 days, 15 years **c)** 7 days, 10 years **d)** None of these
- 45 Flexi Recurring deposits are preferred by which type of customers?  
**a)** Salaried class. **b)** Segments which have regular periodic cash inflows.  
**c)** Segments which do not have regular periodic cash inflows. **d)** None of these
- 46 Which of the following is not a Traditional credit products?  
**a)** cash credit **b)** overdraft **c)** Term Loan **d)** Demand Loan **e)** None of these
- 47 Which of the following credit products is self liquidating?  
**a)** cash credit **b)** overdraft **c)** Term Loan **d)** Bill Finance **e)** None of these
- 48 The basic principle adopted for developing credit schemes is/are  
**a)** Customer segment **b)** Business orientation of the bank **c)** Both **(a)** and **(b)** **d)** None of these
- 49 Which of the following is not a remittance facility provided to customers of bank?  
**a)** Real Time Gross Settlement **b)** National Electronic Fund Transfer  
**c)** Pay order **d)** None of these
- 50 Which of the following is not a fee based service?  
**a)** Collection of Cheques **b)** Safe Deposit Lockers **c)** Standing Instructions  
**d)** Merchant banking services **e)** None of these
- 51 Which of the following is a Non fund based business of the bank?  
**a)** Letter of Credit **b)** Bank Guarantee **c)** Demand Loan **d)** Both **(a)** and **(b)** only  
**e)** All of these
- 52 The difference between fund based business and non fund based business is on account of:  
**a)** Cost of funds **b)** Outlay of funds **c)** Interest on Funds **d)** None of these
- 53 What is the nature of liability when a bank issues Bank Guarantee or Letter of Credit?  
**a)** Maturing liability **b)** Premature liability **c)** Contingent liability **d)** Implied liability
- 54 Crystallisation of liability in case of Bank Guarantee or Letter of Credit means which of the following?

a) Extinguishing the liability. b) Discharging the liability c) Conversion of contingent liability into actual liability.  
d) None of these

55 Banks prefer Bank Guarantee and Letter of Credit business for which of the following reasons?

a) There is scope for earning commission. b) There is no outlay of funds.  
c) There will never be outlay of funds d) Both (a) and (c) only e) Both (a) and (b) only

56 Which of the following is called para banking activity?

a) Insurance business b) Bank Guarantee c) Letter of Credit d) None of these e) All of these

57 For banks conducting Insurance business and Mutual Fund business, which of the following has made rules?

a) IRDA for insurance business and SEBI for mutual fund business. b) RBI  
c) Ministry of Finance d) Both (a) and (b) only e) All the three

58 Which of the following is correct sequence in stages for product development?

a) Ideas screening; Concept Testing; Generating new product; Business analysis and Market analysis; Actual product development, test marketing and commercialization.

b) Generating new product; Concept Testing; Ideas screening; Business analysis and Market analysis; Actual product development, test marketing and commercialization.

c) Generating new product; Ideas screening; Concept Testing; Business analysis and Market analysis; Actual product development, test marketing and commercialization.

d) Generating new product; Ideas screening; Business analysis and Market analysis; Concept Testing; Actual product development, test marketing and commercialization.

59 Which of the following are sources for generating ideas for new products?

a) Market research based on customer expectations from the existing and potential customers.

b) In house from the employees of the banks. c) Feedback received from customers.

d) All of these e) None of these

60 While developing new product, which of the following is not considered as part of Idea screening?

a) felt need for the new product b) an improvement of the existing product

c) ability of existing infrastructure to handle the new product. d) Whether the new product is in existing line or a new line of business. e) Whether product will be liked by staff.

61 In the Stages in New Product Development, Concept Testing means - which of the following?

a) To test that product is profitable

b) Taking the feedback from the customers about the utility, understanding and attractiveness of product.

c) To test that product will be approved by regulator i.e. RBI

d) To test that there is no violation of laws of land.

62. Which of the following is not the purpose of Business Analysis and Market Analysis in New Product Development?

a) To decide whether the product is viable from the financial and marketing aspects.

b) Cost benefit analysis of the product from the banker's view point and the customer's viewpoint.

c) Expected increase in business, and profits.

d) Expected effect on the market share and also the expected penetration of markets of the competitors.

e) None of these

63. Which of the following is a constraint in new product development?

a) Homogeneity of customers. b) Heterogeneity of customers

c) Product life longevity d) Opposition from regulator

64. Which of the following is not a constraint in new product development?

a) Heterogeneity of customers

b) Fast Product obsolescence due to technological revolution.

c) Resistance from staff as it may increase workload.

d) Emphasis on Financial inclusion.

e) None of these

65. Which of the following is not a feature of the Generic product?

a) It is an unbranded and undifferentiated commodity like rice, wheat, bread, cloth. It is a core product b) In

the banking scenario, examples of generic products are Savings Bank, Current Account, Term Deposits, Drafts, etc. **c)** Enriching the product. **d)** None of these

66. Generic product means which of the following?

**a)** Core product **b)** Supplementary product **c)** Augmented product **d)** Attractive product

67. What is the meaning of Expected product?

**a)** It represents the customer's minimal purchase condition.  
**b)** It represents the banker's minimal sale condition. **c)** It represents what the customer expects from the product.  
**d)** Both **(a)** and **(b)** **e)** Both **(a)** and **(c)**

68 While structuring a new product which of the following is considered by a bank?

**a)** Customers' expectations are made a part of product structuring.  
**b)** An effort is made to differentiate the product to enjoy the distinction from other similar products.  
**c)** Both **(a)** and **(b)** **d)** None of these

69 Augmenting a product means which of the following?

**a)** Pushing a product for purchase. **b)** Selling a product at rebate or concession.  
**c)** Enriching a product. **d)** None of these

70 In case of augmenting of a product, the enrichment is done by bank due to which of the following?

**a)** The product is enriched voluntarily by bank to enhance the value of the product.  
**b)** Augmentation in the product are based on suggestions or expectations from the customers.  
**c)** The bank on its own, augments the product by adding an extra facility or an extra feature to the product. **d)** Both **(a)** and **(b)** **e)** Both **(a)** and **(c)**

71 Which of the following can not be called as an Augmentation of Product by a bank?

**a)** Facility of collecting the cheques of the customer at their doorsteps in case of saving account.  
**b)** Free collection of cheques to a section of saving bank account holders.  
**c)** Facility of operating the customer's Savings Bank Account not only from the branch where the customer is maintaining the account but also from any of their branches in India.  
**d)** None of these

72 Which 'of the following is correct about Potential Product?

**a)** It may be developed based on suggestions, new ideas, redesigning of existing products.  
**b)** It may be developed by bank voluntarily to increase value to existing product.  
**c)** It represents the customer's minimal purchase condition.  
**d)** None of these

73 Potential product represents which of the following?

**a)** It is an existing product with enrichments. **b)** It is a core product.  
**c)** It is tomorrow's product with enormous scope for improvements. **d)** None of these

74 Product policy for a bank does not include which of the following aspects?

**a)** The products to be offered to different segments.  
**b)** The product line based on the homogenous needs of the heterogeneous customer base.  
**c)** Designing product tailored to specific customer base if the segment is an important segment  
**d)** None of these

75 Which of the following is not included in the product policy?

**a)** Appraisal of the product line and individual products.  
**b)** Decisions on product differentiation and Product positioning.  
**c)** Brand decisions and Decisions on packaging. **d)** New Product Development. **e)** None of these

76 The branding efforts of products in 'banks' begin at which level?

**a)** Branch level **b)** Regional Office Level **c)** Corporate Level - **d)** Industry Level

77 For product positioning, which of the following is the most important factor?

**a)** Banker's view **b)** Staff suggestion **c)** Customer's mind **d)** Industry level view

78-Which of the following should be highlighted for product differentiation by a bank marketer?

**a)** Interest Rate on the product. **b)** Delivery efficiency **c)** Staff policy

**d)** USP i.e. 'Unique Selling Proposition' of the product.

79 The interest rate charged to a customer depends on which of the following?

- a)** The risk perception of the customer by the bank.
- b)** Interest rate charged by other banks.
- c)** Cost of funds to the bank.
- d)** None of these

80 Which of the following statements is true in the context of credit scoring?

- a)** The lower the score, the lesser is the risk of the consumer's account becoming overdue.
- b)** The higher the score, the more is the risk of the consumer's account becoming overdue
- c)** The higher the score, the lesser is the risk of the consumer's account becoming overdue
- d)** None of these

81 In US Credit scoring is done since, when the FICO scores were launched.

- a)** 1979
- b)** 1989
- c)** 1995
- d)** 1999

82 Which of the following is the objective of Credit Scoring?

- a)** To assess borrowers' ability to repay.
- b)** For pricing of loans.
- c)** To decide relationship value of borrower.
- d)** Both (a) and (b) only
- e)** All of these

83 Which of the following was the first Credit Information Bureau in India?

- a)** CIBIL
- b)** High Mark
- c)** Experian
- d)** Equifax

84 What is the full form of C in CIBIL?

- a)** Confidential
- b)** Character
- c)** Credit
- d)** Collateral

85 In the USA, which of the following does not provide, the credit score for retail customers?

- a)** Trans Union, and
- b)** Equifax
- c)** Experian
- d)** CIBIL

86 A Credit bureau tracks the indebtedness and repayment history of individual borrowers on loans they have taken from which of the following?

- a)** Banks
- b)** Non Banking Financial Companies
- c)** Financial Institutions.
- d)** All of these

87 The credit information bureaus use various weightages to arrive at the score. As per broad parameters adopted by them, which of the following score is not correct?

- a)** Payment History - 35%;
- b)** Amounts Owed - 30%;
- c)** Length of Credit History — 15%;
- d)** Types of Credit in Use —10%
- e)** None of these

88 In the US, a FICO score of more than is considered excellent.

- a)** 100
- b)** 200
- c)** 500
- d)** 700
- e)** None of these

89 Which of the following can impact the credit score of a person negatively?

- a)** If a customer could borrow Rs 1 lac but is actually borrowing Rs 50,000.
- b)** If a person's limit is Rs 10000 and he is not fully using it, but also seeking further credit.
- c)** A good repayment history.
- d)** None of these

90 Which of the following is not likely to impact the credit score of a person negatively?

- a)** The high number of enquiries for loans.
- b)** Application for additional credit lines.
- c)** Unnecessary and frequent shopping for credit.
- d)** Borrowing only Rs 50,000 against limit of Rs 100,000.
- e)** None of these

91 Which of the following will not affect credit rating of a person?

- a)** Number of overdue accounts.
- b)** Number of days for which overdue.
- c)** How much amount is overdue.
- d)** None of these

92 Which of the following is the first credit bureau in the world which was set up back in 1841.

- a)** High Mark
- b)** Experian
- c)** Equifax
- d)** Dun & Bradstreet.

93 Which of the following is not contained in credit report of a prospective borrower given by a credit information company like CIBIL?

- a)** Name, address, identification numbers, Passport ID, Voters ID, Date of birth.
- b)** Records of all the credit facilities availed by the borrower, past payment history, Amount overdue.
- c)** Number of inquiries made on that borrower, by different Members, Suit-filed status.
- d)** Details of income / Revenue, Amount(s) deposited with the bank, details of borrowers' assets, value of asset(s)

mortgaged, details of investment(s)

e) None of these

94 Which of the following is indicated by the Credit Information Report?

a) It shows factual credit information available.

b) It gives an opinion whether credit should or should not be granted.

c) Both (a) and (b) d) None of these

95 Which of the following is not correct about a credit score?

a) The score normally ranges between 300 and 900.

b) A score of 800+ is considered as a good score.

c) What is a good score is uniform in every bank and does not vary from bank to bank. e) None of these

96 How much maximum educational loan can be granted by a bank so that is classified as Priority sector?

a) Rs 10 lakh for education abroad and Rs 20 lakh for education in India.

b) Rs 7.5 lakh for education in India and Rs 15 lakh for education abroad.

c) Rs 10 lakh for education in India and Rs 20 lakh for education abroad.

d) None of these

97 In which of the following cases margin is not kept while granting educational loans?

a) Loans up to Rs 7.5 lakh in India as well as abroad.

b) Loans up to Rs 4 lakh in India as well as abroad

c) Loans up to Rs 7.5 lakh in India and up to Rs 4 lakh abroad.

d) Loans up to Rs 4 lakh in India and up to Rs 7.5 lakh abroad.

98 In case of educational loans banks do not obtain collateral security for loans up to if guarantee is there.

a) Rs 4 lakh b) Rs 7.5 lakh c) Rs 10 lakh d) None of these

99. Mass market refers to the market segment with the annual income of customers at which of the following?

a) Rs 50,000 to Rs 5 lac b) Rs 20,000 to Rs 2 lac c) Rs 2 lac to Rs 10 lac d) Rs 1 lac to Rs 5 lac

100 Which of the following is not correctly matched regarding income per annum of customers and market segment? a) Mass affluent : Rs 10 lakh to Rs 15 lakh b) Super affluent : Rs 50 lakh to Rs 400 lakh

c) High Net Worth: Rs 400 lakh to Rs 3000 lakh d) Super High Net Worth: Rs 4000 lakh to Rs 120000 lakh e)

Ultra High Net Worth: Above Rs 120,000 lakh

## ANSWER

1	C	2	E	3	E	4	A	5	D	6	A	7	B	8	C	9	A	10	E
11	C	12	A	13	B	14	A	15	C	16	C	17	C	18	C	19	E	20	E
21	B	22	C	23	D	24	D	25	B	26	C	27	B	28	C	29	D	30	D
31	C	32	A	33	B	34	D	35	C	36	D	37	C	38	D	39	C	40	A
41	B	42	C	43	D	44	C	45	C	46	E	47	D	48	C	49	D	50	E
51	D	52	B	53	C	54	C	55	E	56	A	57	D	58	C	59	D	60	E
61	B	62	E	63	B	64	D	65	D	66	A	67	E	68	B	69	C	70	E
71	D	72	A	73	C	74	D	75	E	76	C	77	C	78	D	79	A	80	C
81	B	82	D	83	A	84	C	85	D	86	D	87	E	88	D	89	B	90	D
91	D	92	D	93	D	94	A	95	C	96	C	97	B	98	B	99	C	100	C

## PRACTICE TEST PAPER NO. 2 ( TEST YOUR SELF )

01. Which of the following is not true about- Credit cards?

- a) Different Types of Credit Cards are offered by different banks.
- b) Card Limit varies with individuals.
- c) Free Credit Period is not allowed and payment is instantaneous.
- d) Allows purchases at one point and payment to be made subsequently.
- e) None of these

02. Which of the following is not true about Debit cards?

- a) All banks offer a standard type of Debit Card either with Visa or MasterCard.
- b) Purchase and payment are happening at the same time.
- c) No customerwise limit prescribed as drawing is from the existing balance in the account.
- d) Free Credit Period is allowed., e) None of these

03 The application for NEFT could be submitted in which of the following forms?

- a) Physical form
- b) Electronic form
- c) Either of (a) or (b) d) None of these

04 Which of the following are the essential elements of beneficiary's identification in NEFT

- a) Beneficiary's Name; BankName; Beneficiary's Account No; Beneficiary's Branch IFSC
- b) Beneficiary's Name; AccountType; Beneficiary's Account No; Beneficiary's Branch IFSC
- c) Beneficiary's Name; Branch Name; Account Type; Beneficiary's Account No; Beneficiary's Branch IFSC
- d) Beneficiary's Name; Branch Name; Bank Name; Account Type; Beneficiary's Account No; Beneficiary's Branch IFSC

05 As per NEFT, the beneficiary branches would make payment to the beneficiaries by crediting the specified account of the beneficiary or otherwise placing funds at the disposal of the beneficiary. The time within which payment should be made is:

- a) within 24 hours of the remittance. b) within 12 hours of the remittance
- c) 0 within two hours of batch settlement time d) None of the above

06 In NEFT, the settlement of transactions is done in batches. How many batches are held on weekdays and Saturdays?

- a) 6 batches on weekdays and 3 batches on Saturdays.
- b) 11 hourly batches on weekdays and 5 hourly batches on Saturdays.
- c) 5 batches on weekdays and 2 batches on Saturdays
- d) None of these

07 What are the timings of first and last settlement on weekdays and Saturdays?

- a) 9.00 AM & 19.00 PM; 9.00 AM & 13.00 PM
- b) 9.30 AM & 19.30 PM; 9.30 AM & 13.30 PM
- c) 10.00 AM & 17.00 PM; 10.00 AM & 12.00 PM
- d) 9.00 AM & 17.00 PM; 9.00 AM & 12.00 PM

08 What are the limits on minimum and maximum amount that can be remitted through NEFT?

- a) Minimum 10,000; Maximum Rs 100,000
- b) No minimum but maximum is Rs 100,000
- c) No minimum but maximum is Rs 200,000
- d) No minimum and no maximum

09 Which of the following processing charges for outward remittances under NEFT is not correct?

- a) Upto Rs 1 lac: Rs 5
- b) More than Rs 1 lac up to Rs 2 lac: Rs 15
- c) More than Rs 2 lac: Rs 25
- d) More than Rs 5 lac: Rs 50

10 How much charges are levied for inward remittances under NEFT?

- a) Upto Rs 1 lac: Rs 1

- b)** More than Rs 1 lac up to Rs 2 lac: Rs 5  
**c)** More than Rs 2 lac: Rs 10  
**d)** More than Rs 5 lac: Rs 25  
**e)** None of these as there no inward remittance charges.
- 11 Which of the following is not correct regarding NEFT?  
**a)** The system is neither centre specific nor has any geographical restriction inside the country.  
**b)** NEFT system can be used only for remitting Indian Rupee among the participating banks within the country.  
**c)** NEFT works on Net settlement basis.  
**d)** None of these
- 12 RTGS is a remittance system. The full form of G is:  
**a)** Good **b)** Gross **c)** Graded **d)** Granular
- 13 In RTGS system of remittance, transfer of money\_ takes place from one bank to another on which basis?  
**a)** Real Time basis **b)** Gross Basis **c)** Net Basis **d)** Both (a) and (b) **e)** Both (a) and (c)
- 14 Which of the following is the fastest possible money transfer system through the banking channel?  
**a)** NEFT **b)** RTGS **c)** Telegraphic Transfer **d)** SFMS
- 15 RTGS helps in preventing which type of risks?  
**a)** Systemic and Settlement Risks  
**b)** Liquidity and Settlement Risk  
**c)** Credit and Market Risk  
**d)** Reputation Risk
- 16 Which of the following has been replaced by introduction of RTGS?  
**a)** Electronic Fund Transfer  
**b)** Electronic clearing service  
**c)** High Value clearing  
**d)** None of these
- 17 What are the limits on minimum and maximum amount that can be remitted through RIGS?  
**a)** The minimum amount to be remitted through RTGS is Rs.2 lakh. There is no upper ceiling for RIGS transactions.  
**b)** The minimum amount to be remitted through RTGS is Rs.1 lakh . There is no upper ceiling for RIGS transactions  
**c)** The minimum amount to be remitted through RIGS is Rs.2 lakh and upper ceiling per transaction is Rs 10 crore.  
**d)** None of these
- 18 How much time is taken in RIGS for effecting funds transfer from one account to another?  
**a)** The beneficiary bank has to credit the beneficiary's account within two hours of receiving the funds transfer message.  
**b)** The beneficiary bank has to credit the beneficiary's account within one hour of receiving the funds transfer message.  
**c)** The beneficiary bank has to credit the beneficiary's account within two hours of the settlement time of the batch. **d)**None of these
- 19 What are the timings under RIGS for Customer's transactions on week days and on Saturdays?  
**a)**9.30 hours to 16.30 hours; 9.30 hours to 12.30 noon.  
**b)** 9.00 hours to 16.00 hours; 9.00 hours to 13.00 noon.  
**c)** 9.00 hours to 16.30 hours; 9.00 hours to 13.30 noon.**d)** None of these
- 20.What are the timings under RTGS for Inter Bank transactions on week days and on Saturdays?  
**a)** 9.30 hours to 18.30 hours; 9.30 hours to 13.30 noon.  
**b)**9.00 hours to 18.00 hours; 9.00 hours to 15.00 noon.  
**c)** 9.00 hours to 18.00 hours; 9.00 hours to 15.00 noon **d)** None of these
- 21.Which of the following processing charges for outward remittances under RIGS is not correct?  
**a)** Upto Rs 2 to 5 lac: Not exceeding Rs 25 **c)** More than Rs 5 lac up to Rs 10 lac: **d)** Rs 50 More than Rs 5 lac: **e)** Not exceeding Rs 50 None of these

22. Which of the following is not correct regarding transactions handled through RTGS?

- a) Inter Bank transactions are used to settle the participant bank's financial obligations on their own account.
- b) Delivery versus Payment transactions arise out of RBI's Securities Settlement System and is settled in the RTGS as a separate transaction.
- c) Inter Bank Payments Transactions arise mainly out of treasury operations such as money and debt market deals and forex transactions.
- d) Own account transactions relate to the transfer of funds from the bank's one RBI account to another done by the treasury department of banks to maintain liquidity limits prescribed by RBI.
- e) None of these

ECS (Credit) is used for which of the following?

- a) affording credit to a large number of beneficiaries by raising a single debit to an account.
- b) for payment of dividend, interest or salary payment.
- c) for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.
- d) Both (a) and (b)

24 ECS (Debit) is used for which of the following?

- a) affording credit to a large number of beneficiaries by raising a single debit to an account.
- b) for payment of dividend, interest or salary payment.
- c) for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.
- d) Both (a) and (b)

25 Which of the following is not an advantage of ECS (Debit)?

- a) The process is flexible as the mandate can be changed also in case of debit to another account or debit of higher amount etc.
- b) Beneficiary need not go to the collection centres/banks and no need to stand in long 'Q's for payment.
- c) The ECS user saves on administrative machinery for collecting the cheques, monitoring their realisation and reconciliation; Better cash management; Avoids chances of frauds due to fraudulent access to the paper instruments and encashment.
- d) Realise the payments on different dates instead of a single date.
- e) None of these

26 In the context of Retail Banking, which of the following is incorrect about marketing?

- a) Identifying the most profitable markets now and in the future.
- b) Assessing only the present needs of customers.
- c) Setting business development goals and making plans to meet them.
- d) Adapting to a changing environment in the market place.
- e) None of these

27 In marketing all the activities have to be focussed towards which of the following?

- a) Identifying the customers' needs.
- b) Developing appropriate products to satisfy their needs.
- c) Providing customers with efficient delivery channels for availing the products.
- d) Making customers avail the products continuously.
- e) All of these

28 Which of the following is not an ingredient of an effective marketing mix in retail banking?

- a) Product and Price
- b) Promotion and Place
- c) People and Process
- d) Physical evidence
- e) None of these

29. A bank product can be defined as anything that:

- a) is desired by the customer for his day to day activities of business.
- b) provides delight to customer both in terms of price and service.
- c) has the capacity to provide the satisfaction, use, and return desired by the customer
- d) All of these
- e) None of these

30. In the context of Marketing mix, price means which of the following?

- a) Charges charged by bank to the customer.
- b) Charges paid by bank to the customer.
- c) Transaction cost to be borne by the banker or the customer depending upon the product offered or availed.
- d) None of these.



31. In the case of deposit products, 'Price' refers to which of the following?

- a) The interest rate offered by the banker to the customer.
- b) The interest rate offered by the banker to the customer minus charges debited to customer for various services provided.
- c) The interest rate offered by the banker to the customer plus free services allowed to customer.
- d) None of these

32. Which of the following statements is/are correct regarding pricing of products?

- a) In asset products, 'price' refers to the interest the bank is quoting to the borrower customer for offering the loan product to the customer.
- b) In case of other services, price refers to the fee/charges the bank is charging for offering the different services.
- c) In asset products, 'price' refers to the interest the bank is paying to depositor customer.
- d) Both (a) and (b)
- e) Both (b) and (c)

33. Which of the following can not be called as Promotion activity as part of Marketing Mix?

- a) Personal Selling
- b) Advertisement
- c) Sales promotions
- d) Good ambience of the branch
- e) None of these

34. Which of the following is not correct regarding 'Place' as a part of Marketing Mix?

- a) 'Place' in retail banking generally refers to the place where the Bank is offering its product. B) 'Place' is limited to the location of Branch.
- c) Technology has shifted the place from the brick and mortar format to e format and has reached the customer in his place through Internet banking and mobile banking. d) None of these

35 'People' concept in Marketing refers to which of the following?

- a) The people who are doing the marketing strategies.
- b) The 'people' who are the beneficiaries of the marketing strategies.
- c) People delivering the product. d) Both (a) and (c) only e) All of these

36 In the context of marketing, Physical evidence means adding tangible aspects to even otherwise intangible nature of banking services. Which of the following can be considered as part of physical evidence?

- a) Debit Card and ATM Card
- b) Personalised Cheque Book
- c) Both (a) and (b) e) None of these

37 For delivering banking services, banks generally use how many channels?

- a) Only one b) Only two c) Multi channels d) None of these

38 Remote channels for delivery of banking services are preferred by which of the following?

- a) conservative customer so that he can maintain regular records.
- b) Young and tech savvy customers as they feel convenience in using this channel.
- c) Senior Citizens as they find it difficult to visit branches frequently\_
- d) Both (a) and (b) only e) All of these

39 Which of the following is not a remote channel for delivery of banking services?

- a) Mobile Banking
- b) Internet Banking c) ATM d) Branch , e) None of these

40 Despite flexibility with all the remote channels, the preference for the brick and mortar format has been maximum. Which of the following is a reason for the same?

- a) Branch converts the tangible nature of banking services to intangible.
- b) The service at branches is much better than through remote channels.
- c) The transactions carried out in the branch premises infuse a sense of confidence in the minds of the customers. d) None of these

41) Which of the following is not an advantage of good branch layout?

- a) It promotes efficiency as it will ensure smooth flow of services.

- b)** Internal communication effectiveness increases facilitating better customer service.  
**c)** It helps in reducing cost **d)** None of these
- 42) The main objectives of banks to set up ATMs are:  
**a)** To offer convenience to customers an additional choice to withdraw money during any time of the day according to their will and pleasure.  
**b)** To move the customers away from the counters as service cost is comparatively less through ATMs than across the counter at the branch.  
**c)** To solve the problems of small receipts at branches.  
**d)** Both **(a)** and **(b)** **e)** All of these
- 43) Customers can withdraw from other banks' ATMs also. For that purpose, a common networking arrangement has been initiated for ATM operations. This arrangement is called:  
**a)** Structured Financial Messaging System  
**b)** Very Small Aperture Terminal  
**c)** National Financial Switch  
**d)** National Payment System
- 44) The facility of cash withdrawal through other bank's ATM without paying any charge is available to which of the following?  
**a)** Saving Bank customers without any limit on number of withdrawals.  
**b)** Current account customers subject to maximum five withdrawals in a month up to Rs 10000 per transaction.  
**c)** Saving Bank Customers subject to maximum five withdrawals in a month up to Rs 10000 per transaction.  
**d)** None of these
- 45) Every ATM has certain components and the entire package is bundled in the ATM machine. Which of the following is not a part of these components?  
**a)** Card Reader  
**b)** Cash Dispenser  
**c)** Key Board/Display Unit/Touch Screen Receipt Printer  
**d)** Signature verifier.
- 46) How many attempts are allowed to customer to enter the correct PIN and if the same is not entered correctly in all these attempts, the card is confiscated.  
**a)** Two **b)** Three **c)** Four **d)** Five **e)** None of these
- 47) ATMs are always complaint prone because of the break downs and cash out situations. These two faults would result in which type of risk for the bank?  
**a)** Legal risk  
**b)** Liquidity Risk  
**c)** Settlement Risk.  
**d)** Reputation Risk
- 48) In case of failed ATM transaction, bank is required to credit the customer's account within how many days?  
**a)** Within 12 days from the date of receipt of complaint by the bank.  
**b)** Within 12 working days from the date of receipt of complaint by the bank.  
**c)** Within 7 days from the date of transaction.  
**d)** Within 7 working days from the date of receipt of complaint by the bank.
- 49) In case of failed ATM transaction, if bank does not credit the customer's account within 7 working days from the date of receipt of complaint by the bank, the bank is required to pay compensation at which rate?  
**a)** Rs 100 per day for the period of delay with a maximum equal to the amount of transaction.  
**b)** Rs 100 per day for the period of delay.  
**c)** Rs 100 per working day for the period of delay.  
**d)** Rs 100 per working day for the period of delay provided customer makes a claim for the same.
- 50) Reserve Bank of India (RBI) has allowed cash to be withdrawn from any merchant establishment with a POS terminal with a ceiling of a day on withdrawal of cash

at merchant outlets using debit cards. The charges to be levied are decided by banks themselves which is generally nominal and anywhere between free and Rs 20.

- a) Rs 1000
- b) Rs 2000
- c) Rs 5000
- d) None of these

51 The rationale behind RBI allowing cash withdrawal through Point of Sales terminal is:

- a) to reduce pressure on ATMs
- b) to reduce pressure on branches
- c) to enhance financial inclusion.
- d) All of these

52 Ernest. T. Parkins, has suggested that movement of banking services to electronic delivery would bring about certain changes. Which of the following changes have not been highlighted by him?

- a) reduction of geographic barriers
- b) commoditization of banking products
- c) new competitive strategies deployed by banks
- d) All of these , e)None of these

53. Which of the following are the important human interventions in physical channels for delivery of banking services?

- a) Internal Customer - Staff of the Branch Specialised Marketing Personnel
- b) Direct Selling Associates (DSAs)
- c) Both (b) and (c) only
- d) All of these

54. In public sector banks, even without a strategic focus to retail banking, the service delivery is generally more personalised and caring. Which of the following is/are reasons for the same?

- a) loyalty factor of public sector bank customers.
- b) better personal understanding of the customers' profile by the staff in PSBs.
- c) Both (a) and (b) , d) None of these

55. Which of the following is not a requirement for efficient delivery of banking services?

- A) Understanding the customer, his income level, his financial profile, his needs, his requirements of financial products and his life stage.
- b) Cross selling the right products to match their requirements.
- c) Post sales service follow up for customer satisfaction.
- d) Attitude for customer service and the concept of team in customer delivery., e) None of these

56. Customer Empathy means which of the following?

- a) Sympathising with customer for delay in service.
- b) Counselling the customer for repayment of loans in time.
- C) Making attempts for financial inclusion.
- d) Putting oneself in the shoes of the customer and looking the service level from customer' perspective.

57. Foreign and private banks, engaged external agencies to carry out marketing and customer acquisitions for which of the following reason(s)?

- a) External agencies are extremely professional compared to bank's own staff.
- b) External agencies have large database.
- c) There was mismatch with their retail banking objectives and the human resources available to achieve the objectives. d) None of these

58 The concept of Direct Selling Agents (DSAs) was pioneered by:

- a) new private sector banks., b) foreign banks., c) private sector banks, d) None of these

59 Which of the following is not correct regarding Direct Selling agents?

- a) DSAs are primarily engaged in sourcing Credit Cards and Retail Loans.
- b) The appointed DSA appoints field personnel and supplemented by tele callers, start the marketing process and follow up to meet the customers and convert them into sales.
- c) The scrutiny and KYC formalities are done by Direct Selling agents.

**d)** Both **(a)** and **(b)** , **e)** None of these

60 What have been disadvantages of appointing Direct Selling agents?

**a)** DSAs focus on pure selling by pushing the products than effective marketing after verifying the needs of the customers and their actual requirements.

**b)** Misselling by DSAs have been rampant especially in the credit card space which make the customers fall into a debt trap by misusing the cards.

**c)** By appointing DSAs, the cost of delivery of service would increase substantially.

**d)** Both **(a)** and **(b)** only , **e)** All of these

61 Which of the following risk is mainly faced by banks by appointing Direct Selling Agents?

**a)** Market Risk

**b)** Legal Risk

**c)** Reputational Risk

**d)** Both **(b)** and **(c)** only **e)** All of these

62 Bulk sale through tie up is an option to expand retail assets. Banks enter into tie ups with which , of the following for extending different types of loans?

**a)** Builders

**b)** Auto Dealers

**c)** Employers of large companies

**d)** Educational Institutions **e)** All of these

63 In the context of Customer Relationship Management, which of the following represent the meaning of Relationship?

**a)**The service quality of the bank should match the customer expectations in total and result in total satisfaction of the customer

**b)**The total need spectrum of the customers should be addressed

**c)**Service delivery should result in absolute satisfaction for the customer.

**d)**Both **(a)** and **(c)** only, **e)** All of these

64. Which of the following is not a feature of Customer Relationship Management (CRM)?

**a)** CRM means having 180 degree view of the customers and their profile.

**b)** dynamically tracking customers' requirements and offering matching products and services.

**c)** cross selling relevant products to customer's changing needs and keeping him happy for ever.

**d)** None of these

65. Which type of transactions are not carried out in RTGS?

**a)** Inter-Bank transactions

**b)** Customer transactions

**c)** Delivery versus Payment transactions

**d)** Own account transfer transactions , **e)** None of these

66. BCSBI stands for which of the following?

**a)** Board for Codes and Standards in Banks in India

**b)** Banking Commitments and Standards Board of India

**c)** Banking Codes and Standards Board of India , **d)** None of these

67. Code for Banking Services is a

**a)** Statutory Code , **b)** Voluntary Code , **c)** Regulatory Code , **d)** RBI Code

68. Banking Services Code sets standards of banking practices for banks to follow when they are dealing with individual customers. **A)** Minimum

**b)** Desirable , **c)** Maximum , **d)** Expected

69. Which of the following statements is/are true about Banking Services Code?

**a)** The Code does not replace or supersede regulatory or supervisory instructions of the Reserve Bank of India., **b)** Provisions of the Code may set higher standards than what is indicated in the regulatory instructions and such higher standards will prevail as the Code represents best practices voluntarily agreed to by banks.

**c)** Provisions of the Code can not set higher standards than what is indicated in the regulatory instructions.

d) Both (a) and (b) only e) Both (a) and (c) only

70 Which of the following is not the objective Banking Services Code?

- a) Promote good and fair banking practices by setting minimum standards in dealing with customers.
- b) Increase transparency so that customer can have a better understanding of what customer can reasonably expect of the services.
- c) Encourage market forces, through competition, to achieve higher operating standards.
- d) Provide a separate mechanism for settlement of disputes between banks
- e) None of these

71 Banking Services Code does not apply to which of the following services?

- a) Current accounts, savings accounts, term deposits, recurring deposits, PPE accounts and all other deposit accounts.
- b) Payment services such as pension, payment orders, remittances by way of Demand Drafts, wire transfers and all electronic transactions e.g. RIGS, EFT, NEFT
- c) Banking services related to Government transactions
- d) Third party insurance and investment products sold through bank's branches.
- e) None of these

72 Banking Services Code does not apply to which of the following services?

- a) Demat accounts, equity, Government bonds.
- b) Indian currency notes exchange facility
- c) Collection of cheques, safe custody services, safe deposit locker facility
- d) Loans, overdrafts and guarantees e) None of these

73 Banking Services Code does not apply the products and services provided by branches or subsidiaries, agents acting on behalf of the bank through which of the following means?

- a) across the counter, b) over the phone or by post c) through internet
- d) through interactive electronic devices e) None of these

74 As per Banking Services Code, changes in interest rates and changes in the reference rate to which the floating rate of interest is linked will be informed to the customer through which of the following?

- a) Notice at the branches b) Letters c) Website d) All the above e) Any one or more of the above

75. As per Banking Services Code, if bank increases any of charges or introduce a new charge, it will be notified prior to the revised charges being levied / becoming effective.

- a) 7 days b) 15 days c) 10 days d) one month e) None of these

76. As per Banking Services Code, if any change in terms and conditions is made without notice, bank will notify the change within days. If such change is to customer's disadvantage, customer may within days and without notice, close account or switch it without having to pay any extra charges or interest.

- a) 15 days, 30 days
- b) 15 days, 45 days
- c) 30 days, 60 days
- d) 30 days, 45 days

77. As per Banking Services Code, for the purpose of recovery, normally Bank's representatives will contact customer between and unless the special circumstances of customer's business or occupation require otherwise.

- a) 0800 hrs and 1800 hrs
- b) 0700 hrs and 1900 hrs
- c) 0900 hrs and 1900 hrs
- d) 0700 hrs and 2000 hrs

78. As per Banking Services Code, Bank will acknowledge the receipt of customer's nomination details and record the fact of nomination on the passbook/ Account Statement/ FDRs. Bank will also indicate the name of the nominee thereon in which of the following case?

- a) At the request of customer

- b)** Even without request of customer
- c)** Even if customer does not agree for the same
- d)** None of these

79. If customer is not happy about choice of current / savings account, within \_\_\_\_\_ of making first payment into the account, the Bank will help the customer switch to another account or Bank will give customer's money back with any interest it may have earned.

- a)** 7 days, **b)** 10 days, **c)** 14 days, **d)** None of these

80 The minimum balance to be maintained in the Savings Bank account is required to be displayed in the branches. Bank will inform of any change in minimum balance to be maintained \_\_\_\_\_ days in advance.

- a)** 10 days **b)** 15 days **c)** 30 days **d)** None of these

81 Under normal circumstances, Bank will not close customer's account without giving customer at least \_\_\_\_\_ days' notice

- a)** 30 days **b)** 15 days **c)** 10 days **d)** None of these

82 If Bank plan to close branch or if Bank moves its branch, Bank should give notice of \_\_\_\_\_ months if there is no other branch of any bank functioning at customer's centre and notice of \_\_\_\_\_ months, if there is a branch of any other bank functioning at customer's centre.

- a)** 3 months, 2 months **b)** 2 months, 1 months **c)** 6 months, 3 months **d)** None of these

83 Bank should settle the claims in respect of deceased depositors and release payments to survivor(s) I nominee(s) within a period not exceeding \_\_\_\_\_ days from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s).

- a)** 30 days **b)** 15 days **c)** 10 days **d)** None of these

84 Which of the following is not correct?

- a)** Bank will invariably provide customer with an acknowledgement of customer's loan application. Bank shall make every endeavour to indicate on customer's application the period within which customer can expect to receive a decision on customer's request for loan.
- b)** Bank will give customer the Most Important Terms and Conditions (MITC) governing the loan / credit facility customer have availed.
- c)** Bank will provide customer the sanction letter detailing particulars of amount sanctioned, terms and conditions, customer's responsibilities as well as the bank's, etc
- d)** None of these

85 Bank will return to customer all the securities I documents/title deeds to mortgaged property Within \_\_\_\_\_ days of the repayment of all dues agreed to or contracted

- a)** 7 days **b)** 10 days **c)** 15 days **d)** None of these

86 Which of the following is not correct regarding loan documents?

- a)** Bank is not bound to supply authenticated copies of the loan documents executed by customer at Bank's cost.
- b)** Bank will give written receipt for all documents to title taken as security/ collateral for any loan as well as for dated/undated cheques received from customer.
- c)** Both **(a)** and **(b)**, **d)** None of these

87 Bank will process request for transfer of borrowal account, either from the borrower or from a bank/financial institution, in the normal course and convey its concurrence or otherwise within \_\_\_\_\_ days of receipt of request.

- a)** 10 days, **b)** 15 days, **c)** 21 days, **d)** 30 days

88 Which of the following is correct regarding offering of credit facilities by a bank?

- a)** Bank will not offer any unsolicited pre-approved credit facility in any form, including enhancement of credit card limit and top up of personal loan limits.
- b)** In case, Bank offers/approves a credit facility over the telephone, Bank will credit customer's account with the amount sanctioned only after receiving customer's acceptance in writing.
- c)** Both **(a)** and **(b)**, **d)** None of these

89. Which of the following is not a characteristic of stand alone model for processing of retail loans?

- a)** Retail Loans are only one part of the multiple activities.

- b)** Difference in quality of appraisal based on the branch and its personnel.
- c)** Processing time may differ based on the priorities of the branches and importance of the customers/proposals.
- d)** Based on documents only.
- e)** None of these

**90** The concept behind Credit Card is:

- a)** Buy Now, Pay Later **b)** Buy Now, Pay Now. **c)** Buy Now, Pay tomorrow.
- d)** Pay Now, Buy Later **e)** None of these

**91** Which of the following banks were the pioneers in the Indian credit card market in the 1980s?

- a)** Standard Chartered Bank **b)** State Bank of India **c)** Citibank and HSBC **d)** None of these

**92.** For issue of credit card, which of the following banks were the early starters among the public sector banks in India?

- a)** Andhra Bank, Bank of Baroda. **b)** State Bank of India, PNB
- c)** Band of Baroda and Bank of India **d)** Andhra Bank and Vijaya Bank

**93.** What is the feature of credit cards issued in the proprietary format?

- a)** Banks issue the card in different brand names like Classic, Silver, Gold, Platinum, Titanium etc.
- b)** Credit limits, cash withdrawal limits and other facilities will depend on the type of card.
- c)** Banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc
- d)** Both **(a)** and **(b)** only
- e)** All of these

**94.** What is the feature of credit cards issued in the Co branded format?

- a)** Banks issue the card in different brand names like Classic, Silver, Gold, Platinum, Titanium etc.
- b)** Credit limits, cash withdrawal limits and other facilities will depend on the type of card.
- c)** Banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc
- d)** None of these

**95.** Which of the following is correct about credit cards issued in Co branded format?

- a)** Banks offer the cards as a co branded product with the brand name of the company with whom there is tie up also embossed in the card.
- b)** Co branded cards enable brand recall.
- c)** Co branded cards result in better utilization of the products offered by the tied up product.
- d)** **(a)** and **(b)** only. **e)** All of these

**96.** When finance charges are levied in the case of a credit card?

- a)** When the amount is overdue or delay in payment of charges under the card.
- b)** When withdrawals from the card are more than the limit sanctioned.
- c)** When card member deposits part of the Total Payment or the Minimum Amount Due.
- d)** None of these

**97.** The concept behind Debit Card is:

- a)** Buy Now, Pay Later **b)** Buy Now, Pay Now. **c)** Buy Now, Pay tomorrow.
- d)** Pay Now, Buy Later **e)** None of these

**98.** Debit card can be used for which of the following purposes? The card can be used for any operations like payment of purchases, cash withdrawal (subject to per day limit) through ATMs, Utility Payments etc

- a)** Payment of purchases **b)** Cash withdrawals through ATMs **c)** Utility Payments
- d)** **(a)** and **(b)** only **e)** All of these

**99** What is the objective of introducing NEFT by RBI?

- a)** To facilitate an efficient, secure, economical, reliable and expeditious system of funds transfer throughout India.
- b)** To relieve the stress on the existing paper based funds transfer and clearing system.
- c)** To facilitate clearing in the banking sector in India.
- d)** Both **(a)** and **(b)** only
- e)** All of these

**100** Which of the following are parties in an NEFT system?

- a) The sending bank, the sending Service Centre, the NEFT Clearing Centre, the receiving Service Centre and the beneficiary branch.  
 b) The sending bank, the sending Service Centre, the receiving Service Centre and the beneficiary branch.  
 c) The sending bank, the NEFT Clearing Centre, and the beneficiary branch.

The sending bank, the sending Service Centre, the WEFT Clearing Centre, and the beneficiary branch

## ANSWER

1	C	2	D	3	C	4	D	5	C	6	B	7	A	8	D	9	D	10	E
11	D	12	B	13	D	14	B	15	A	16	C	17	A	18	A	19	C	20	C
21	B	22	E	23	D	24	C	25	D	26	B	27	E	28	E	29	C	30	C
31	A	32	D	33	D	34	B	35	E	36	C	37	C	38	B	39	D	40	C
41	D	42	D	43	C	44	C	45	E	46	B	47	D	48	D	49	C	50	A
51	C	52	E	53	E	54	C	55	E	56	D	57	C	58	B	59	C	60	D
61	C	62	E	63	E	64	A	65	E	66	C	67	B	68	A	69	D	70	D
71	E	72	E	73	E	74	E	75	D	76	C	77	B	78	A	79	C	80	C
81	A	82	A	83	B	84	D	85	C	86	A	87	C	88	C	89	D	90	A
91	C	92	A	93	D	94	C	95	E	96	C	97	B	98	E	99	E	100	A

## PRACTICE TEST PAPER NO. 3 ( TEST YOUR SELF )

1 Mr. Satish Kumar working as a Senior Gazetted Officer in a Government Department having 20 years left over service was recently transferred to Hyderabad. He approached a branch and requested that he is in pursuit of a good house or apartment in Hyderabad for immediate purchase and he requires in principle sanction. Whether the Bank accede to his request? If so, it is valid for how many months?

- a) No. We cannot accede to such request  
 b) Yes, it is valid for one month  
 c) valid for three months  
 d) Yes, it is valid for six months

2 If the house property is bought purely from investment angle, expecting appreciation of value over a period, the loan should be considered as:

- a) risky and dealt with differently by tightening norms relating to margin, security and guarantee.  
 b) just like any other housing loan because security is similar.  
 c) risky or like any other housing loan depending on bank's relationship with customer.  
 d) None of these

03 The business model followed by Banks for retail banking are

- a) Strategic Business Unit (SBU) Approach    b) Departmental Approach  
 c) Integrated Approach    d) Anyone of the above

04 What was done by Foreign banks like BNP Paribas, which entered in retail banking activities very aggressively, but were not able to achieve the business, objectives?

- a) They continued with their business in spite of not being profitable to keep their presence in market.  
 b) They moved out of the business.    c) They changed their focus with some strategic changes.  
 d) None of the above

05 The implementation models followed by banks for retail banking are

- a) Horizontally Organised Model    b) Vertically Organised Model  
 c) Predominantly Vertically Organised Model    d) Predominantly Horizontally Organised Model  
 e) Anyone of the above.

06 Price structuring for products and services is attempted by banks in which of the following ways?



- a) Stand alone pricing for different products and services.
- b) Special quotes for high value deposits and retail assets.
- c) Bundled pricing/Holistic pricing based on total relationship.
- d) All the above.

07 The customer segment whose income level is between Rs.10 lacs to Rs.50 lacs is referred to as:

- a) Mass Market b) Super Affluent c) HNW d) Mass Affluent

08 According to Maslow's Need Hierarchy Theory, needs are classified in five categories. These include physiological need, Safety Needs, Social Needs. Which are two other needs as identified by Maslow?

- a) Esteem Needs and Self Actualisation Needs
- b) Esteem Needs and Power Needs
- c) Power Needs and Self Actualisation Needs
- d) Existence Needs and Self Actualisation Needs

09 Customers' expectations of service quality does not depend on which of the following:

- a) Tangibility in services and Reliability. b) Responsiveness. c) Assurance
- d) Empathy. e) None of these

10 Given below are certain statements about customers. Which of these statements are true (1) Customers are different. (2) Needs of the customers are different (3) Each customer will have different sets of need for financial services.

- a) 1 and 2 are true b) 1 and 3 are true c) 2 and 3 are true d) 1,2,3 are

11 Which of the following statements are true?

- a) In the 'Introduction' stage of a product, the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it.
- b) In the 'growth' stage, which is the second stage in the product life cycle, the sales volumes remains stagnant.
- c) Both (a) and (b) are true d) Neither (a) nor (b) is true.

12 Product architecture of various types of products is given below. Which of the following combinations is/are correct?

- a) The Generic Product - the core product.
- b) The Expected Product - adding additional features.
- c) The Augmented Product- adding value in addition to features.
- d) The Potential Product - futuristic features in anticipation. e) All the above.

13 Credit Scoring Models are based on which of the following details of applicants?

- a) Family Size b) Income Levels c) Occupation/Business d) Repayment History on earlier loans
- e) All the above.

14 The most common mistakes in credit score will be due to which of the following?

- a) Confusion of names b) Human Input Error c) Identity Theft d) All the above

15 Home Loans are sanctioned by Banks for which of the following purposes?

- a) Purchase/Construction of House. b) Purchase/Construction of Flat
- c) Purchase of land and construction d) Additions to the existing house
- e) All the above.

16 Auto Loans are given by banks for which of the following purposes:

- a) Purchase of New Car b) Purchase of Used Car
- c) Purchase of Two Wheelers d) All the above.

17 Personal Loans are sanctioned by banks based on which of the following features?

- a) Salary in case of employees b) Monthly/Annual Income in case of business
- c) Number of years of service/in business d) All the above.

18 Retail Loan Processing Centres of banks are designed for which of the following?

- a) Source retail asset business b) Process retail loan applications.
- c) Do the valuation/legal opinion wherever necessary. d) Release the loan either at their end or advise sanction to branches. e) Both (b) and (d)

19 Types of credit cards issued by banks in general does not include which of the following?

- a) Silver Card and Gold Card.
- b) Super Card
- c) Platinum Card
- d) Titanium Card
- e) None of these

20 Which of the following features are not available in all types of cards?

- a) Facility for payment of purchases.
- b) Facility to withdraw cash from ATMs upto a fixed limit.
- c) Reward Points for usage of cards.
- d) Cash Back offers upto a certain limit for purchases made.
- e) None of these

21 Which of the following characteristics are available in a Debit Card?

- a) Payments for purchases are directly debited into the account.
- b) Cash Withdrawals through ATMs are debited to the account immediately.
- c) Payments made for purchases/usage will be debited subsequently after a certain period.
- d) Both (a) and (b)

22 Payment Default Risk (chances of failure to pay the card dues) is embedded in which of the following?

- a) Debit Cards
- b) Credit Cards
- c) Both a and b.
- d) None of these

23 Which of the following are the objects of the NEFT System?

- a) to establish an Electronic Funds Transfer System\_ to facilitate an efficient, secure, economical, reliable and expeditious system of funds transfer and clearing in the banking sector throughout India.
- b) to relieve the stress on the existing paper based funds transfer and clearing system.
- c) Both (a) and (b)
- d) None of these

24 Which of the following is not the characteristics of RTGS?

- a) Remittances and Funds Transfers are transmitted through a series of process inputs and travel from the customer end to the beneficiary end.
- b) Remittances are communicated through a structured messaging process.
- c) Settlement for the message is made on a gross basis from the liquidity maintained by the sender bank with the settlement bank.
- d) Remittances are credited on a dynamic basis and settlement also made on a dynamic basis.
- e) None of these.

25 Which of the following are the advantages of ECS payments?

- a) No need for issuing any cheque to the beneficiary.
- b) Payment defaults will not happen if there is sufficient balance in the account.
- c) No follow up needed by the beneficiary as payment will be received automatically based on the mandate obtained.
- d) Hassle free for the mandate issuer, as it saves time for him for issuing cheques for each payment.
- e) All the above.

26 Which of the following does not reflect an aspect of Bank Marketing?

- a) only now but not in the future.
- b) Assessing the present and future needs of customers.
- c) Setting business development goals and making plans to meet them.
- d) Adapting to a changing environment in the market place.
- e) None of these

27 Marketing Mix refers to which of the following?

- a) Product & Price
- b) Promotion & Place
- c) People & Process & Physical evidence
- d) All the above

28 Which of the following can not be called as Human intervention in the delivery of services?

- a) internal Customer - Staff of the Branch
- b) Specialised Marketing Personnel
- c) Direct Selling Associates (DSAs)
- d) Internet Banking
- e) None of these

29 The requirements for delivering effective service to the customers include which of the following?

- a) Understanding the customer, his income level, his financial profile, his needs, his requirements of financial products and his life stage.
- b) Selling and Cross selling the right products to match their requirements
- c) Post sales service follow up for customer satisfaction.
- d) Customer Empathy
- e) All the above.

30 Tie ups are entered into by banks for bulk sale of retail assets. In which of the following assets these tie ups do not take place?

**a)** Home Loans **b)** Auto Loans **c)** Personal Loans **d)** Education Loans **e)** None of these.

31 Why Customer Relationship Management is given importance in banks?

- a)** Need to increase operational efficiencies and to derive more value from employees.
- b)** Increasing Competition in retail banking and Increasing Importance of Fee Based Income.
- c)** Delivery Channel Efficacy and application of technology.
- d)** Both **(a)** and **(b)** only **e)** All the above

32 Stages involved in a 'CRM initiative are: **a)** Capturing the customers' profile and dissecting the profiles into common information buckets.

- b)** Designing suitable products and services to cater to the different information buckets. **c)** Offering the products and services to the targeted and segmented customers from the information buckets with the right pricing and providing the right sales and service processes to achieve total customer satisfaction.
- d)** Tracking the customer information on a dynamic basis to design new products and services.
- e)** All the above.

33. Which of the following is not the benefit of Customer Relationship Management?

- a)** Improves the customer satisfaction and cross selling potential for the banks.
- b)** Helps the banks to derive increased share of wallet from the customer.
- c)** Helps to understand Customer Lifetime Value.
- d)** Helps to manage multi delivery channels in a better way.
- e)** None of these

34. Banking Codes and Standards of India is aimed at which of the following?

- a)** promote good and fair banking practices by setting minimum standards increase transparency in services.
- b)** encourage market forces, through competition, to achieve higher operating standards.
- c)** promote a fair and cordial relationship between the customer and their bank.
- d)** All the above.

35. Commitments to customers under BCSBI does not cover which of the following?

- a)** Savings Accounts **b)** Loan Accounts **c)** Remittances
- d)** Credit Cards & Mobile Banking **e)** None of these

36. Process models in retail banking are structured as

- a)** Horizontally Organised Model where individual process platform supports one product only.
- b)** Vertically Organised Model where functionality is provided across all products. Predominantly **c)** Horizontally Organised Model with some modularization within a product oriented feed back.
- d)** Predominantly Vertically Organised Model is a hybrid model that offers common information for most of the related services.
- e)** Any one of the above.

37 The technology models adopted by banks are

- a)** Fully outsourced model **b)** Partially outsourced model
- c)** In house model **d)** Anyone of the above

38 Default in repayment in Credit Cards and Personal Loan segments is mainly due to

- a)** Genuine Defaults due to reasons beyond the borrowers' control.
- b)** Willful defaults where the default is intentional.
- c)** Anyone of the above. **d)** Both the above.

39 As per Supreme Court and RBI, banks should use forum of Lok Adalats for recovery of loans upto:

- a)** Rs. 2 lacs **b)** Rs. 5 lacs **c)** Rs.10 lacs **d)** None of the above

40 The terms and conditions for repossession as per the recovery policy should contain certain provisions. Which of the following provisions is not required in this regard?

- a)** notice period before taking possession
- b)** circumstances under which the notice period can be waived.
- c)** the procedure for taking possession of the security.

- d)** a provision regarding final chance to be given to the borrower for repayment of loan before the sale/auction of the property  
**e)** None of these

41 Securitisation Process involves the following:

- a)** The lender first selects the assets they want to securitise.  
**b)** The issuer (Special Purpose Vehicle) makes payment to the lender for the loans securitised.  
**c)** The assets are converted into a pool of securities by the issuer for the purpose of issuing Pass Through Certificate (PTC).  
**d)** The PTCs are sold to other investors who are willing to invest.  
**e)** All the above.

42 The factors which are not to be taken into account for calculation of Equated Monthly Installment(EMI) is/are:

- a)** Principal **b)** No. of years of repayment **c)** Rate of Interest  
**d)** Type of security **e)** All the above.

43 Para banking refers to which of the following?

- a)** Distribution of life insurance policies **b)** Distribution of non life insurance policies  
**c)** Distribution of mutual fund schemes **d)** All the above.

44 Banks distribute the following types of products in life and non life insurance business

- a)** Regular Premium Individual Policies **b)** Single Premium Individual Policies  
**c)** Group Insurance Policies **d)** (a) and (b) only **e)** All the above.

45 As a Corporate Agent ,Banks can distribute the products of

- a)** One Life insurer **b)** One Non Life (general) insurer  
**c)** One Life Insurer and One Non Life insurer **d)** Anyone of the above.

46 The maximum number of Mutual Funds that can be distributed by Banks as a Corporate Agent is

- a)** One **b)** Two **c)** Five **d)** No Limit

47 Cross Selling refers to

- a)** Selling additional products/services to the existing customers.  
**b)** Selling products/services to new customers.  
**c)** Both (a) and (b) **d)** None of these

48 Which of the following is/are features of Dematerialisation?

- a)** process of converting physical shares (shares certificates) into an electronic form.  
**b)** Once converted, the shares are held in a Demat account.  
**c)** The shares will become fungible assets after demat.  
**d)** The shares are interchangeable and identical after demat. .  
**e)** All the above

49 Prepayments charges collected by branches should be credited to which account?

- a)** Interest A/c **b)** Commission A/c **c)** Exchange No **d)** Current No

50 To consider the loan amount under housing loan scheme which of the following statements are true?

- a)** the property is jointly held with the spouse and the spouse is co-borrower or the property is held in single name and the spouse stands as a guarantor.  
**b)** the borrower's son or daughter who has a steady income, the salary is routed through Bank account and joins as a co-borrower  
**c)** expected rental less taxes, cess, etc., in case the house/flat being purchased is proposed to be rented  
**d)** Regular income from all Sources can be considered to arrive at total eligible loan amount.  
**e)** All the above

51 In the securitization process, the assets are converted into a pool of securities by the issuer for the purpose of

- a)** creating a security. **b)** sale to investors **c)** issuing Pass Through Certificate (PTC) **d)** None of these

52 In the securitization process, the PTCs are sold to which of the following?

- a)** investors who are willing to invest **b)** banks only **c)** large corporates only **d)** none of these

53 In the securitization process, the recoveries from the original borrowers are collected by:  
**a)** Special Purpose Vehicle **b)** the original lender who passes the same to the SPV who in turn passes the recoveries to the investors. **c)** Investors in Pass Through Certificates directly from borrowers. **d)** None of these

54 In Equated Monthly instalment (EMI), which of the following is correct?

**a)** The principal component will be more during the initial months and the interest component will be less.  
**b)** The principal component and interest component can be more or less during the initial months. **c)** The principal component will be less during the initial months and the interest component will be more. **d)** None of these

55 In EMI model of repayment, the loan is repaid in full in monthly installments spread over the repayment period.

**a)** Uniform **b)** Variable **c)** Instalments containing equally distributed principal and interest on the outstanding.  
**d)** None of these

56 In EMI system, as the repayment progresses, the principal component of instalment will increase and the interest component will reduce. What is the reason for the same?

**a)** As the repayment progresses, the principal will get reduced and hence interest charges also will decrease.  
**b)** As the repayment progresses, the principal will get reduced and hence interest charges will increase.  
**c)** As the repayment progresses, the interest will decrease and principal will increase. **d)** None of these

57 If  $p$  = principal (amount of loan),  $r$  = rate of interest per month, and  $n$  the time, the formula for calculation of EMI is

**a)**  $P \times r \times (1+r)^n$  divided by  $[(1+r)^n - 1]$  **b)**  $P \times r \times (1+r)^n$  multiplied by  $[(1+r)^n - 1]$   
**c)**  $P \times r \times [(1+r)^n - 1]$  divided by  $(1+r)^n$  **d)**  $P \times r \times [(1+r)^n - 1]$  multiplied by  $(1+r)^n$

58 The concept of selling products other than banking products is called

**a)** Cross Selling **b)** Universal Banking **c)** Narrow banking **d)** Para Banking

59 Banks provide services like insurance, mutual funds, dematerialization etc, to its customers for which of the following reasons? **a)** To improve asset liability management **b)** To increase interest margin. **c)** To improve fee based income **d)** All of these **e)** None of these

60 Which of the following is not correct regarding Mutual Fund business by banks?

**a)** Bank-sponsored mutual funds should comply with guidelines issued by SEBI from time to time.  
**b)** Prior approval of the RBI should be obtained by banks before undertaking mutual fund business.  
**c)** Prior approval of the RBI need not be obtained by banks before undertaking mutual fund business. However, approval from SEBI is required. **d)** Both (a) and (b)

61 Which of the following is correct regarding use of bank's name with bank sponsored mutual funds?

**a)** The bank-sponsored mutual funds can use the name of the sponsoring bank as part of their name.  
**b)** The bank-sponsored mutual funds should not use the name of the sponsoring bank as part of their name.  
**c)** The bank-sponsored mutual funds can use the name of the sponsoring bank as part of their name with the permission of RBI. **d)** None of these

62 Where a bank's name has been associated with a mutual fund, then which of the following is correct?

**a)** A suitable disclaimer clause should be inserted while publicising new schemes that the bank is not liable or responsible for any loss or shortfall resulting from the operations of the scheme.  
**b)** Bank will be liable for any loss resulting from the operations of the scheme even if disclaimer clause has been inserted.  
**c)** Bank will be liable for vicarious liability of Mutual Fund sponsored by the bank. **d)** None of these

63 If a Bank enter into agreements with mutual funds for marketing the mutual fund units, then

**a)** Banks should only act as an agent of the customers, forwarding the investors' applications for purchase / sale of MF units to the Mutual Funds/ the Registrars / the transfer agents.  
**b)** The purchase of units should be at the customers' risk and without the bank guaranteeing any assured return.

c) The bank can guarantee assured return if counter assurance is given by mutual fund.

d) Both (a) and (b) e) Both (a) and (c)

64 Which of the following is correct about Mutual Fund business by banks?

a) Banks can acquire units of Mutual Funds from the secondary market.

b) Banks should not buy back units of Mutual Funds from their customers.

c) If a bank proposes to extend any credit facility to individuals against the security of units of Mutual Funds, it should be as per guidelines of RBI on advances against shares / debentures and units of mutual funds.

d) Banks holding custody of MF units on behalf of their customers, should ensure that their own investments and investments made by / belonging to their customers are kept distinct from each other. e) None of these

65 What are RBI guidelines relating to retailing of units of mutual funds by banks?

a) Retailing of units of mutual funds by banks can be only through administrative offices.

b) Retailing of units of mutual funds by banks may be confined to certain select branches of a bank.

c) Retailing of units of mutual funds by banks may be confined only to large corporate branches of the bank.

d) Retailing of units of mutual funds by banks should be allowed through all branches of the bank.

66 Insurance has been notified as a permissible form of business that could be undertaken by banks under which of the following Acts?

a) Banking Regulation Act, 1949 b) Reserve Bank of India Act c) Negotiable Instruments Act d) None of these

67 Banks can undertake insurance business in which of the following ways?

a) as agents of Insurance companies only. b) on Risk Participation basis c) Either of these d) None of these

68 Banks can undertake insurance business in which of the following forms of organization? will not be permitted to be undertaken departmentally by the banks

a) Departmentally b) By having separate subsidiary c) Either of these d) None of these

69 Which of the following is not correct regarding conduct of insurance business by banks on agency or referral basis?

a) Scheduled commercial banks are permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.

b) Scheduled commercial banks can engage in referral arrangement without any risk participation.

c) The subsidiaries of banks will also be allowed to undertake distribution of insurance product on agency basis

d) The banks should obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation. e) None of these

70 As a step towards enhancing transparency, RBI has advised banks to disclose in the 'Notes to Accounts', from the year ending March 31, 2010, which of the following in respect of the bancassurance business undertaken by them?

a) the details of fees / remuneration received. b) the name of insurance companies for whom bank is acting as agent.

c) Total business undertaken by the bank during the financial year. d) Both (a) and (b) only e) All of these

71 Which of the following is incorrect regarding insurance business undertaken by banks on agency/referral basis?

a) The participation by a bank's customer in insurance products is purely on a voluntary basis.

b) Bank should clearly state in all publicity material distributed by the bank in a prominent way that participation by customer is purely voluntary.

c) There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products. d) None of these

72 The bank desirous of entering into referral arrangement, besides complying with IRDA regulations, should also enter into an agreement with the insurance company concerned for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding \_\_\_\_\_ years at the first instance and the bank should have the discretion to renegotiate the

terms depending on its satisfaction with the service or \_replace it by another agreement after the initial period. Thereafter, the bank will be free to sign a longer term contract with the approval of its Board in the case of a private sector bank and with the approval of Government of India in respect of a public sector bank. **a)** 1 year **b)** 2 year **c)** 3 year **d)** 5 year **e)** None of these

73 Banks can undertake insurance business on commission basis very successfully and can earn good amount of fee based income because:

- a)** Bank can make it precondition for all its depositors to take life insurance policy of a particular company referred by the bank.
- b)** Bank can make it precondition for all its borrowers to take general insurance policy for insurance of goods or vehicle etc only from company for which bank is an agent.
- c)** Bank can leverage large customer base for marketing of insurance product though without adopting any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank. **d)** None of these

74 A bank entering into insurance business on risk participation basis should have minimum net worth of

- a)** Rs 100 crore **b)** As 200 crore **c)** As 300 crore **d)** Rs 500 crore **e)** Rs 1000 crore

75 All banks entering into insurance business on \_\_\_\_\_ basis will be required to obtain prior approval of the Reserve Bank.

- a)** Agency basis i.e. Distribution of products on commission basis. **b)** Referral basis.
- c)** Risk participation basis. **d)** All of these

76 Banks which satisfy the eligibility criteria for entering insurance business on risk participation basis will be permitted to set up a joint venture company for undertaking insurance business with risk participation. The maximum equity such a bank can hold in the joint venture company will normally be per cent of the paid-up capital of the insurance company.

- a)** 26% **b)** 49% **c)** 51% **d)** 50%

77. In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board in an insurance venture on risk participation basis, how many banks may be allowed to participate in the equity of the insurance joint venture.

- a)** only one bank **b)** maximum two banks **c)** more than one bank **d)** maximum three banks

78. For a bank which wants to enter into insurance business on risk participation basis, the level of non-performing assets should be \_\_\_\_.

- a)** Below 5% **b)** Below 7% **c)** Below 10% **d)** At reasonable level

79 If a bank undertakes insurance business on risk participation basis, then it should ensure that:

- a)** bank provides support for risk entertained by the insurance company.
- b)** risks involved in insurance business do not get transferred to the bank, that the banking business does not get contaminated by any risks which may arise from insurance business and there should be 'arms length' relationship between the bank and the insurance outfit.
- c)** There should be close relationship between the bank and the insurance outfit.
- d)** Both **(a)** and **(c)** **e)** None of these

80 A bank entering into insurance business on risk participation basis should have minimum capital adequacy ratio of \_\_\_\_

- a)** 8% **b)** 9% **c)** 10% **d)** 12%

81 For a bank entering into insurance business on risk participation basis, the track record of the performance of the subsidiaries, if any, of the concerned bank should be \_\_\_\_

- a)** satisfactory **b)** good **c)** very good **d)** excellent

82 Banks which are not eligible as joint venture participant in an insurance business, can make investments up to \_\_\_\_\_ in the insurance company for providing infrastructure and services support.

- a)** 20% of their net worth or Rs 100 crore whichever is lower.
- b)** 10% of their networth or Rs.50 crore, whichever is lower.

- c) 10% of their networth or Rs.50 crore, whichever is higher.
- d) 10% of their networth or Rs.100 crore, whichever is lower

83 A bank entering into insurance business on risk participation basis should have net profit for

- a) last three consecutive years. b) last three years. c) last five years. d) None of these

84 Banks which are not eligible as joint venture participant in an insurance business, can make investments in the insurance company for providing infrastructure and services support. Such banks are required to satisfy which of the following condition?

- a) Minimum net worth Rs 200 crore. b) Minimum capital adequacy ratio 10% c) Net profit for at least two consecutive years. d) Performance of subsidiaries should be good. e) Net NPA level of less than 10%

85 The concept of distribution of insurance policies through the branches of banks is termed as

- a) Bancassurance b) Referral arrangement c) Bancinsurance d) Bankunderwriting

86 Bankassurance is useful for both insurance companies and banks in which of the following ways?.

- a) By using the network of bank branches to reach their customers for selling different insurance policies, the insurance companies can reach to large number of customers.
- b) Banks will be able to derive more fee-based income with little risk participation.
- c) Banks will be able to derive more fee-based income without risk participation.
- d) Both (a) and (b) e) Both (a) and (c)

87 Which of the following is correct regarding adopting a model in technology?

- a) Horizontally organized model is best among all models.
- b) Predominantly horizontally organized model is best among all models.
- c) Predominantly vertically organized model is best among all models.
- d) All the four models achieve a certain degree of standardization and each model has to be suitably adapted to individual bank's requirements

88 Banks market group insurance products based on definite group of customers like deposit holders and different loan customers. What are the guidelines in this regard?

- a) In group products, the group should be clearly defined and Bank will be the purchaser of the policy on behalf of the defined group.
- b) There should not be any deviation in the defined group for which group policy is purchased by the Bank from the insurers.
- c) There can be deviation in the defined group for which group policy is purchased by the Bank from the insurers but its intimation should be given immediately to the insurer. d) Both (a) and (b)
- e) Both (a) and (c)

89 Banks can take the Corporate Agency of

- a) one life insurer or one non life insurer b) one life insurer and one non life insurer only
- c) More than one life insurer provided agency of non life insurer is not taken.
- d) More than one non life insurer provided agency of life insurer is not taken

90 In case of regular premium policies, the commission income of banks normally varies between \_\_\_\_\_ to \_\_\_\_\_ approximately.

- a) 15% to 25% b) 10% to 20% c) 5% to 10% d) None of these

91 What is the special feature of Pure term policies?

- a) In pure Term Plan, the policy benefits cover only the death of the policyholder and the premiums are very low.
- b) In pure Term Plan, the policy benefits cover death as well as serious illness of the policyholder and the premiums are slightly higher.
- c) In pure Term Plan, the policy benefits cover only accidental death and the premiums are very low.
- d) None of these

92 The commission banks receive for mobilization of single premium policies is:

- a) slightly less than regular premium policies as the amount of premium of single policy is high.
- b) very low as the amount of premium of single policy is high. c) very low as for them the service cost is



less. **d)** None of these

93 What strategy is adopted by banks and insurance companies for marketing of products through banks?

**a)** The leads for sales are generated by the bank through data base marketing and customer contacts and then pass on the leads to the insurers for following up.

**b)** The insurers extend hand holding support for marketing by deploying their sales personnel across the banks' branches with the banks' personnel for better conversion.

**c)** The marketing process is done jointly by banks and insurers. **d)** All of these

94. Insurance sector was deregulated in 1999 and foreign insurers were allowed to enter with a cap on equity being : a) 26% , b) 49%, c) 50%, d) 51%

95 In the PROPAGATE model in respect of mutual funds "O" and "G" stands for which of the following? refers to which of the following? Product, Risk, (Returns), People, Appetite, (Place), Attributes, Training& Education.

**a)** Occasions, Geography **b)** Opportunities; Gains **c)** Opportunities; Geography **d)** None of these

96 If the bank is able to sell an asset product (housing/car/educational loan) to a savings/current deposit account holder successfully, then it is called

**a)** universal banking **b)** cross selling. **c)** extension banking **d)** more selling

97 A research study has indicated that selling three products to a customer who already holds one increases profitability by up to\_\_

**a)** 100% **b)** 200% **c)** 300% **d)** 500%

98 Which of the following is/are the features of Cross Selling?.

**a)** Cross selling is selling one or more additional products to the existing customer base.

**b)** The purpose of cross selling is to generate more business and profit per customer.

**c)** Cross selling involves generating new/additional retail asset(s) from a liability.

**d)** Both **(a)** and **(b)** only **e)** All of these

99 Earlier cross selling was happening mostly on the liability side by marketing a high-cost term deposit product to a savings/current account holder. What was its impact?

**a)** It increased profit per customer. **b)** It increased number of customers. **c)** It resulted in additional cost.

**e)** None of these

100 Which of the following is not an advantage of Cross Selling?

**a)** Cross selling an asset/additional asset product to an existing customer improves the profits, in general, and profits per customer, in particular.

**b)** It results in reduction of cost per customer. **c)** Cross selling fosters brand loyalty. **d)** Cross selling does not help bank in customer relationship management programmes (CIRM) **e)** None of these

## ANSWER

1	C	2	A	3	D	4	B	5	E	6	D	7	D	8	A	9	E	10	D
11	A	12	E	13	E	14	D	15	E	16	D	17	D	18	E	19	B	20	E
21	D	22	D	23	C	24	E	25	E	26	A	27	D	28	D	29	E	30	E
31	E	32	E	33	E	34	D	35	E	36	E	37	D	38	C	39	C	40	E
41	E	42	D	43	D	44	E	45	C	46	D	47	A	48	E	49	A	50	E
51	C	52	A	53	B	54	C	55	A	56	A	57	A	58	D	59	C	60	C
61	B	62	A	63	D	64	A	65	B	66	A	67	C	68	C	69	D	70	A
71	D	72	C	73	C	74	D	75	C	76	D	77	C	78	D	79	B	80	C
81	A	82	B	83	A	84	B	85	A	86	E	87	D	88	D	89	B	90	A
91	A	92	C	93	D	94	A	95	C	96	B	97	D	98	E	99	C	100	D

## PRACTICE TEST PAPER NO. 4 ( TEST YOUR SELF )

01 Which of the following is not correct regarding implementation of technology in banks?

- a) New generation private sector banks started with technology advantage of a single server environment.
- b) Technology enables a bank to speed up the operations but does not build and translate a customer data base into retail banking business.
- c) The levels of technology implementation in PSBs started from stand alone Automated Ledger Posting Machines (ALPMs) in 1980s
- d) None of these

02 The implementation of core banking will help banks in which of the following ways?

- a) It will directly increase the chances of availability of customer data base across products.
- b) It will increase the scope for cross selling and up selling.
- c) Both (a) and (b)
- d) None of these

03 In terms of processes for integration of technology in retail banking retail banks are using different approaches to standardise their processes. Which of the following approaches is not being adopted by banks?

- a) Horizontally Organised Model
- b) Vertically Organised Model
- c) Predominantly Horizontally Organised Model
- d) Diagonally Organised Model
- e) None of these

04 Which of the following is not a feature of Horizontally Organised Model in technology?

- a) Individual process platform supports one product only.
- b) The sub data in the model are not shared with other products and product platform. '
- c) Functionality is provided across all products.
- d) None of these

05 Which of the following is a feature of Vertically Organised Model in technology?

- a) Functionality is provided across all products.
- b) Customer information is centralised.
- c) Centralised customer information builds common origination and servicing processes across all its retail banking products.
- d) All of these

06 Which of the following is not a feature of Predominantly Horizontally Organised Model?

- a) Some modularization within a product oriented feed back.
- b) Customer data integration is available to a certain extent for other products.
- c) It is a hybrid model that offers common information for most of the related services.
- d) None of these

07 Which of the following is not a feature of Predominantly Vertically Organised Model?

- a) Customer data integration is available to a certain extent for other products.
- b) It is a hybrid model that offers common information for most of the related services.
- c) The basic information is available across products for common services to the various products
- d) None of these

08 If a bank effectively transforms its process, it can reduce its unit costs between and completely changing its competitive position.

- a) between 20% and 40%
- b) between 10% and 20%
- c) between 15% and 30%,
- d) None of these

09 Technology helps a bank in which of the following aspects?

- a) In enabling the employees to have a single view of the customers.
- b) It helps in having complete view of the customer's accounts rather than of only current account balance.
- c) It helps employees understand how important is a customer based on the portfolio of products.
- d) Both (a) and (b) only
- e) All of these

10 Large Banks in the United States spend approximately how much per cent of non interest expense on information technology?

- a) 10%
- b) 20%
- c) 30%
- d) 25%
- e) None of these

11 The Technological innovation in the retail banking industry will help bank in which of the following ways?

- a) Developing new distribution channel systems
- b) To provide customers more ways to access their accounts so that the customer share can be increased.
- c) Both (a) and (b)
- d) None of these

12 In respect of technology processes what is the status of public sector banks?

- a) PSBs are generally more vertically organized in the process model with various levels of horizontal position across banks.
- b) PSBs are generally more horizontally organized in the process model with various levels of vertical position across

banks.

**c)** PSBs are horizontally organized in the process model. **d)** None of these

13 How Technology integration with the business model will help banks?

**a)** It will enable the banks to design their marketing strategies which can be sold to the targeted customer base through an integrated CRM solution.

**b)** It will enable banks to reduce pressure on the working of staff.

**c)** It will enable banks to meet regulatory requirements more effectively.

**d)** Both **(a)** and **(c)** only **e)** All of these

14 With regard to implementation of technological processes, what approach has been adopted by Foreign banks in India?

**a)** They have implemented their own software developed for global operations.

**b)** They have sourced it end to end from external vendors for their requirements

**c)** They have developed their own models as per local requirements.

**d)** Either **(a)** or **(b)** **e)** All of these

15 Technology Process Models adopted in Public sector banks

**a)** is same in all banks **b)** differed among banks. **c)** is related to the size of the bank

**d)** Both **(a)** and **(b)** only **e)** All of these

16 In public sector banks, while adopting Technology Process Model, which of the following approach was adopted?

**a)** Some banks developed their proprietary model and in house software for implementation in branches in a phased manner.

**b)** The banks which developed proprietary model had to use the services of an external vendor for certain applications and integrated it with their systems.

**c)** The banks which developed proprietary model had to completely outsource to keep pace with the technology developments in retail banking.

**d)** Both **(a)** and **(b)** only **e)** Both **(a)** and **(c)** only.

17 In technological processes, in the retail liabilities and asset side, the software is developed to capture which of the following information?

**a)** Only Static Information like Account Opening, Basic Loan Origination Data etc.

**b)** Static Information as well as Updated Information like Income Details at different frequencies.

**c)** Static Information, Updated Information as well as Transaction Information.

**d)** Static Information, Updated Information, Transaction Information as well as Analytics and Alerts.

18 In technological process, which of the following statements is not correct?

**a)** Static information means details regarding Account Opening, Basic Loan Origination Data etc.

**b)** Updated Information means Income Details etc at different frequencies.

**c)** Transaction Information means information from disbursement to final settlement in loan accounts and operation details in liability accounts. **d)** None of these

19 Advizor, does not help banks in which of the following ways?

**a)** It empowers banks to deliver products and services through a fully assisted self service channel.

**b)** The product provides banking customers real-time access to their relationships with the bank, such as account inquiries, fund transfers, remittances, credit card and mutual fund payments.

**c)** It enables them to make payments through channels like the Internet, kiosk\_

**d)** It empowers banks to alert end users about events recorded by the bank's diverse business systems.

**e)** None of these

20 Which of the following functions is performed by Alerts Software?

**a)** It empowers banks to deliver products and services through a fully assisted self service channel.

**b)** The product provides banking customers real-time access to their relationships with the bank, such as account inquiries, fund transfers, remittances, credit card and mutual fund payments.

**c)** It enables them to make payments through channels like the Internet, kiosk.

**d)** It empowers banks to alert end users about events recorded by the bank's diverse business systems.

**e)** None of these

21 Alerts Software does not help a bank in which of the following functions?

- a) In addition to alerting corporate and retail customers of the bank, the solution provides alerts for the bank's internal users as well.
- b) Banks can define alert categories to control access to various alerts
- c) It also supports addition of branding messages as part of notifications.      **d) None of these**
- 22 How Customer Analytics software solution provides help to banks?
- a) It provides complete customer analytics for banks through business reports and statistical models.
- b) It results in business benefits, enhanced customer value.
- c) It results in improved decision making support, reduced time to market and low total cost of ownership.
- d) All of these      **e) None of these**
- 23 Which of the following is not the features of Wealth Management Solutions?
- a) These are integrated core banking and investment management system designed for the specific needs of retail banks.
- b) When integrated with core banking and CRM solutions, the wealth management solutions ensure unique customer definition, a single, unified view of the customer's portfolio across asset classes.
- c) These help in offering High Net worth individuals and the mass affluent extended products and services.
- d) It enables banks have insights about the High Net worth individual client's investment portfolio which can be used to explore prospects for cross-selling and fee-based personalized advice.      **e) None of these**
- 24 One of the major reasons for default in retail loans has been
- a) Lack of follow up by banks.      **b) Poor appraisal system of banks.**
- c) Change in interest rates      **d) None of these**
- 25 The Supreme Court has observed that loans, personal loans, credit card loans and housing loans with can be referred to Lok Adalats organized by Civil Courts for recovery of loans
- a) more than Rs 10 lakh      **b) less than Rs.10 lakh**      **c) up to As 50 lakh**      **d) up to As 20 lakh**
- 26 Banks should utilise the services of the credit counsellors for providing counselling to the borrowers in which of the following cases?
- a) When there is a willful default.      **b) When there is siphoning of funds.**      **c) when the case of a particular borrower deserves sympathetic consideration**      **d) When there is diversion of funds.**
- 27 Why banks aggressively build up their retail asset portfolios to expand business?
- a) Because retail assets are one of the best revenue drivers in banking.
- b) As chances of default in retail banking are very less.      **c) Both (a) and (b)**      **d) None of these "**
- 28 Risk in retail banking is well diversified because
- a) the customer base is large      **b) the customer base is homogeneous in nature**
- c) the customer base is heterogeneous in nature**      **d) Both (a) and (b)**      **e) Both (a) and (c)**
- 29 The retail portfolio of public sector banks is around
- a) 20%      **b) 30%**      **c) 10%**      **d) None of these**
- 30 Which of the following is correct about retail assets?
- a) The profits generated from retail portfolio are attractive, and there is no risk of default.
- b) Retail assets like Personal Loans and Credit Card Receivables make the portfolio more vulnerable for default due to the unsecured nature of portfolio.
- c) Both (a) and (b)      **d) None of these**
- 31 Which of the following is correct regarding repricing of loans?
- a) Fixed pricing loans are not repriced throughout life of loan.
- b) In case of floating rate loans, repricing takes place as per the reset clause.
- c) In case of fixed pricing loans, repricing takes place as per the reset clause.
- d) Both (b) and (c)      **e) None of these**
- 32 In retail loans, rescheduling mainly happens in which type of loans?
- a) Housing Loans      **b) Consumer Loans**      **c) Conveyance loans**      **d) Credit Cards**      **e) All of these**
- 33 Which of the following strategies are adopted by banks towards defaulters?
- a) For genuine defaulters, the recovery process has to be gentle and professional.

- b)** In case of willful defaulters, the recovery process should be strict and very professional.
- c)** For all defaulters, the recovery process should be strict as rising NPAs are biggest problem for the banks.
- d)** Both **(a)** and **(b)** only    **e)** None of these as there can not be any uniform method for recovery.
- 34 The extension of repayment period beyond the earlier committed repayment period, is called as:
- a)** Rescheduling of loans    **b)** Restructuring of loans    **c)** Repayment of Loans    **d)** Reworking of Loans
- 35 In case of genuine defaults in Credit Cards and Personal Loans which are due to reasons beyond the borrower's control like personal set backs, job losses, unforeseen medical expenses etc which of the following feature will be there?
- a)** In this case, intention to pay is intact.    **b)** In this case the ability to pay is affected.    **c)** There is a malafide intention
- d)** Both **(a)** and **(b)** only    **e)** All of these
- 36 Which of the following strategies is adopted by banks in case of defaults in credit cards and personal loans?
- a)** In case of genuine defaults, bank adopts a customer oriented approach because the chances of recovery are poor.
- c)** In case of genuine defaults, bank adopts a customer oriented approach because the chances of recovery are bright. In case of Willful defaults where the borrowers deliberately default with malafide intention, the approach of the banks will be on a recovery basis.
- d)** Both **(a)** and **(c)**    **e)** Both **(b)** and **(c)**
- 37 Which of the following is correct about recovery process in banks?
- a)** Recovery process is a subjective tool for maintaining the quality of retail assets.
- b)** Recovery process is designed in such a way that it addresses both genuine defaulters as well as willful defaulters.
- c)** Approach and strategies of all categories of banks to recovery of loans is same.
- d)** None of these    **e)** All of these
- 38 Which of the following type of banks generally outsource their recovery process and entrust the same to Recovery Agents for end to end recovery management when the accounts become default?
- a)** Public Sector banks    **b)** Foreign Banks    **c)** New generation private sector banks
- d)** Both **(b)** and **(c)**    **e)** All of these
- 39 What is the reason for framing of guidelines by RBI prescribing the procedures for code of conduct for Recovery Agents?
- a)** Because NPAs are increasing enormously particularly in personal loans, credit cards and vehicle loans.
- b)** In the absence of these guidelines, the recovery process was ineffective.
- c)** The agents used coercive methods including threats, intimidation and forced recovery of assets financed.
- d)** Both **(b)** and **(c)**    **e)** All of these
- 40 Banks should inform the details of recovery agency firms / companies while forwarding default cases to the recovery agency.
- a)** the borrower    **b)** court    **c)** independent person appointed for this purpose
- d)** All of these    **e)** None of these
- 41 When a recovery agent goes to a borrower for recovery, he should carry with him which of the following?
- a)** copy of the notice    **b)** authorization letter from the bank    **c)** Proof of identity like Voter I Card, Driving Licence etc.
- d)** Both **(a)** and **(b)** only    **e)** All of these
- 42 Which of the following is correct regarding recovery agents?
- a)** A bank can not change the recovery agency during the recovery process.
- b)** A bank can change the recovery agency during the recovery process and there is no need of notifying the change to the borrower as it does not matter who the recovery agent is.
- c)** A bank can change the recovery agency but where the recovery agency is changed by the bank during the recovery process, the bank should notify the borrower of the change and the new agent should carry the notice and the authorization letter along with his identity card.    **d)** None of these

- 43 In case of recovery through recovery agency, banks are expected to ensure which of the following?
- a) The notice and the authorization letter should, among other details, also include the telephone numbers of the bank officials.
  - b) That there is a tape recording of the content / text of the calls made by recovery agents to the customers, and vice-versa.
  - c) Banks or agency should intimate the police that the conversation is being recorded.
  - d) None of these
- 44 The up to date details of the recovery agency firms / companies engaged by banks may be:
- a) posted on the bank's website.
  - b) sent to borrower.
  - c) published in newspapers.
  - d) None of these as it is not necessary.
  - e) All of these
- 45 Which of the following is correct regarding referring cases to recovery agents?
- a) Where a grievance/ complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed of any grievance / complaint lodged by the concerned borrower.
  - b) Where a grievance/ complaint has been lodged, and where the bank is convinced, with appropriate proof, that the borrower is continuously making frivolous / vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance / complaint is pending with them.
  - c) In cases' where the subject matter of the borrower's dues is sub judice, banks should exercise caution, in referring the matter to the recovery agencies.
  - d) All of these
  - e) Both (a) and (c) only.
- 46 Which of the following is incorrect about engagement of recovery agents?
- a) Banks should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process.
  - c) Banks should ensure that the agents engaged by them in the recovery process carry out verification of the antecedents of their employees, but there is no need of preemployment police verification. Banks may decide the periodicity at which re-verification of antecedents of the agents should be done.
  - d) None of these
- 47 Indian Banks Association in consultation with Indian Institute of Banking and Finance (IIBF), has formulated a certificate course for Direct Recovery Agents with minimum hours of training.
- a) 50
  - b) 60
  - c) 100
  - d) None of these
- 48 While employing persons for recovery, the service providers engaged by banks should ensure which of the following?
- a) They should employ only such personnel who undertake to undergo the training for 100 hours and obtain the certificate from the IIBF within one year from date of employment.
  - b) They should employ only such personnel who have undergone the training for 100 hours and obtained the certificate from the IIBF.
  - c) They should employ only such personnel who undertake to undergo the training for 100 hours and obtain the certificate from the IIBF.
  - d) None of these
- 49 As per RBI guidelines on Recovery Agents, the terms and conditions of the contract with borrower should be strictly in terms of the Recovery Policy containing various provisions. Which of the following provisions is not correctly stated in this regard?
- a) notice period before taking possession which can not be waived under any circumstance.
  - b) the procedure for taking possession of the security
  - c) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property
  - d) the procedure for giving repossession to the borrower and sale / auction of the property
  - e) None of these
- 50 When a recovery agent goes to a borrower for recovery, he should carry with him the identity card issued to him by:
- a) the bank
  - b) the agency firm / company.
  - c) either of them
  - d) Both of them
- 51 Banks should ensure that their agents engaged for recovery of their dues strictly adhere to RBI guidelines and including the BCSBI Code. In case they fail to adhere to these guidelines, who will be responsible?
- a) Only the agents appointed by them.
  - b) Banks
  - c) Only employees employed by agency.
  - d) Both (a) and (c) only
  - e) None of these
- 52 To enforce its rights under SARFAESI Act, 2002, a bank is required to give \_\_\_\_\_ days notice to borrower.

a) 30 b) 45 c) 90 d) 60 e) 120

53 To enforce its rights under SARFAESI Act, 2002, minimum outstanding in the account should be:

a) Rs 1 lac b) more than Rs 1 lac c) Rs 10 lakh d) More than Rs 10 lakh

54 Provisions of Sarfaesi Act are not applicable in the case of:

a) securities under lien or pledge b) agricultural land c) Both (a) & (b) d) None

55 Provisions of Sarfaesi Act are not applicable and securities can not be acquired if----- % of the principal amount has been paid.

a) 50% b) 60% c) 75% d) 80% e) None of these

56 In the case of consortium accounts, for enforcing rights under Sarfaesi Act, consent of lenders is required.

a) 75% lenders by value b) 60% lenders by number c) Both (a) and (b) d)

None

57 For enforcing rights under SARFAESI Act, the action can be initiated by:

a) Chief Manager & above b) AGM & above c) Senior Manager or above d) Chief Manager & above or any authority approved by Board of Directors of the Bank

!!!!!!Which of the following is correct regarding enforcing rights under Sarfaesi Act?

58 Which of the following is correct regarding Sarfaesi Act?

a) Minimum outstanding *in* the account should be As 1 lac or above  
b) Possession of security can not be taken over if loan is raised for any agricultural purpose.  
c) Action can be taken even if limitation has expired  
d) Objective of the Act is speedy recovery of NPAs e) Both (a) & (b) only

59 Bank has initiated action under Sarfaesi Act. The borrower objects to bank's action. With whom, he can file application against the action of the bank, if the outstanding in the account is Rs 2,00,000.

a) District Court b) High Court c) DRT d) DRAT e) None of these

60 For selling goods acquired by enforcing rights under Sarfaesi Act, days notice is to be given to the borrower/guarantor:

a) 30 b) 45 c) 90 d) 60 e) 120

61 If a borrower makes a representation to bank against action taken by bank under Sarfaesi Act, bank is required to reply with in days.

a) 30 b) 45 c) 7 d) 60 e) 120

62 A borrower who wants to file an application with DRT in respect of action initiated by the bank under SARFAESI Act, 2002 is required to deposit with DRT :

a) 50% of the amount due to the bank b) 75% of the suit amount due to the bank  
c) 50% of the amount due to the bank which can be reduced to 25% by the Presiding Officer  
d) 25% of the amount due to the bank e) No amount to be deposited.

63 The validity of the SARFAESI Act was challenged before Supreme Court in the case of :

a) Union of India versus Mardia Chemicals Ltd b) Mardia Chemicals Ltd versus Union of India & Others  
c) Mardia Chemicals Ltd versus ICICI Bank d) Mardia Cements Ltd versus ICICI e) None of these

64 For making appeal to DRAT, under SARFAESI Act, the borrower is required to deposit of the dues which can be reduced to by the DRAT.

a) 75%, 0% b) 50%, 0% c) 50%, 25% d) 75%, 25% e) None of these

65 As per decision of Supreme Court in the case of , bank can take action simultaneously under Sarfaesi and also file case with DRT or normal court for recovery.

a) Union of India versus Mardia Chemicals Ltd b) Mardia Chemicals Ltd versus Union of India & Others  
c) Transcore Ltd versus Union of India & others d) None of these

66 Which of the following is the objective of Sarfaesi Act?

a) To provide a structured platform to the Banking sector for managing its mounting NPA and keep pace with international financial institutions.

b) To enable banks and FIs to realise long-term assets, manage problems of liquidity, asset liability mismatches.

c) To enable banks and FIs in improving recovery by taking possession of securities, sell them and

reduce non performing assets (NPAs) by adopting measures for recovery or reconstruction.

**d)** Both **(a)** and **(c)** only. **e) e)** All of these

67. Which of the following is not contained in main provisions of the Sarfaesi Act?

**a)** Registration and regulation of securitisation companies or reconstruction companies by the RBI and facilitate securitisation of financial assets of banks

**b)** Empower SCs/ARCs to raise funds by issuing security receipts to qualified institutional buyers (QIBs)

**c)** empowering banks and FIs to take possession of securities given for financial assistance and sell or lease the same or to take over management in the event of default.

**d)** Both **(a)** and **(c)** only. **e) e)** None of these

68. For the purpose of asset reconstruction, SCs/ ARCs should provide for certain things. Which of the following measures can not be undertaken by the Securitisation or Asset Reconstruction companies?

**a)** taking possession of secured assets in accordance with the provisions of this Act rescheduling of payment of

**b)** debts payable by the borrower enforcement of security interest in accordance with the provisions of this Act. the **c)** proper management of the business of the borrower, by change in, or take over of, the management of the

**d)** business of the borrower the sale or lease of a part or whole of the business of the borrower **e) e)** None of these

69. The Sarfaesi Act, does not empower the secured creditor for which of the following? To take possession of the security

**a)** To sale or lease or assign the right over the same **b) b)** To manage the security and/or appoint any person to manage the same. **c) c)** To recover money receivable from 3<sup>rd</sup> parties. **d) d)** None of these

70. For taking action under Sarfaesi Act, which of the following is not a requirement?

**a)** The asset to be acquired should be charged to the bank. **b) b)** The account should be NPA.

**c)** The documents should be within the limitation period. **d) d)** None of these

71. Government of India, Ministry of Finance has notified the establishment of the Central Registry. What is the objective of setting up of Central Registry?

**a)** To take over possession of assets charged to bank. **b) b)** To register transactions where bank has taken action under Sarfaesi Act. **c) c)** To prevent frauds in loan cases involving multiple lending from different banks on the same immovable property. **d) d)** None of these

72 Which of the following companies has been established as a Government Company for the purpose of operating and maintaining the Central Registry under the provisions of the SARFAESI Act?

**a)** The Central Registry of Securitisation, Asset Reconstruction and Security Interest of India. **b) b)** The Central Registrar of Security Interest, Asset Reconstruction of India. **c) c)** The Securitisation, Asset Reconstruction and Security Interest Registry of India. **d) d)** None of these

73 Initially which of the following transactions is not required to be registered in the Central Registry?

**a)** Transactions relating to securitization and reconstruction of financial assets

**b)** Transactions relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions.

**c)** Transaction relating. to hypothecation of assets to secure any loan or advances granted by banks and financial institutions. **d) d)** None of these

74 The records maintained by the Central Registry established under Sarfaesi Act will be available for search by which of the following?

**a)** Banks only **b) b)** Any lender only **c) c)** Any person desirous of dealing with the property. **d) d)** All of these

75 Debt Recovery Tribunals are governed by which of the following Acts?

**a)** Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002

**b)** Recovery of Debt Due to Banks and Financial Institutions Act, 1993

**c)** Legal Services Authority Act 1987 **d) d)** None of these

76 Debt Recovery Tribunals are located at which of the following places?

**a)** At four metro areas i.e. Delhi, Mumbai, Kolkatta, Chennai only.

**b)** At four metro areas and all state capitals only.

**c)** At four metro areas and certain state capitals only.



- d) At four metro areas and select places which may or may not be state capital.
- 77 Debt Recovery Tribunal consists of one person called :
- a) Recovery Officer b) Presiding officer c) Chairman d) Registrar e) none of these
- 78 Cases with claims of are filed with DRT and not with normal courts.
- a) less than Rs 10 lakh b) Rs 10 lakh c) Rs 10 lakh and above d) Rs 20 lakh
- 79 An Appellate Tribunal under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 consists of one person only called :
- a) President b) Recovery Officer c) Registrar d) Chairperson e) none of these
- 80 Choose incorrect statement(s) regarding appeal to the Appellate Tribunal against the order of the Debt Recovery Tribunal :
- a) When a Debt Recovery Tribunal has passed an order with the consent of the parties, no appeal lies with the Appellate Tribunal.
- b) An appeal to the Appellate Tribunal is required to be preferred within 90 days from the date of receipt of order of the Debt Recovery Tribunal by the aggrieved party.
- c) When the aggrieved party is required to pay the amount to bank/financial institution, the Appellate Tribunal will entertain appeal only when 75% of the amount ordered to be paid by the Debt Recovery Tribunal is deposited by him which can be reduced to 0% by DRAT. d) all of these e) only (b) and (c)
- 81 Maximum amount of fees which is required to be deposited with DRT for filing a case is:
- a) Rs 12,000 b) Rs 50,000 c) Rs 100,000 d) Rs 1,50,000 e) None of these
- 82 Maximum amount of fees which is required to be deposited with DRAT for filing an appeal is:
- a) Rs 12,000 b) Rs 30,000 c) Rs 100,000 d) Rs 1,50,000 e) None of these
- 83 For being appointed as DRT, a person should qualify to be:
- a) District Judge b) 1st class Magistrate c) Judge of High Court d) a Judge in any court
- 84 For being appointed as DRAT, the person should qualify to be:
- a) District Judge b) Judge of the High Court c) Judge of Supreme Court d) None of these
- 85 Debt Recovery Tribunal is expected to decide a case within:
- a) 30 days b) 60 days c) 90 days d) 180 days e) No time limit
- 86 Appeal against the order of the Recovery Officer can be made to DRT within days of passing the order.
- a) 30 days b) 60 days c) 90 days d) 15 days e) No time limit
- 87 Appeal against the judgement of DRT can be made to DRAT within how many days?
- a) 30 days of judgement b) 45 days of judgement c) 45 days of receiving copy of judgement d) 30 days of receiving copy of judgement e) None of these
- 88 Which of the following powers can not be exercised by Debt Recovery Tribunal? and
- a) Appointing Receivers and Commissioners b) Passing ex-parte orders, ad-interim orders, interim orders.
- c) To Review its own decision d) Hear appeals against orders passed by the Recovery Officers of the Tribunal.
- e) None of these
- 89 Which of the following does not fall within purview of the powers of DRT?
- a) DRTs are fully empowered to pass comprehensive orders like in Civil Courts.
- b) The DRT can hear cross suits, counter claims and allow set offs.
- c) DIRT can hear claims of damages or deficiency of services or breach of contract or criminal negligence on the part of the lenders. e) None of these
- 90 Which of the following is incorrect about Recovery Officer in the office of DRT?
- a) Each Debt Recovery Tribunal has three Recovery Officers. b) Though a Recovery Officer need not be a judicial Officer, but the orders passed by a Recovery Officer are judicial in nature. c) The orders passed by Recovery Officer are appealable before the Presiding Officer of the Tribunal. d) None of these
- 91 Which of the following is incorrect regarding evidence before DRT?

a) All evidences are taken by way of an affidavit. b) Cross examination is allowed only on request by the defense and that too if the Tribunal feels that such a cross examination is in the interest of justice. d) Frivolous cross examination may be denied. e) None of these

92. Which of the following is not a feature of Securitisation?

- a) Securitization is a method through which illiquid assets are transformed into more liquid form. b) Securitization is a method through which liquid assets are transformed into more illiquid form. c) Securitised assets are distributed to a broad range of investors through the medium of capital market. d) Both (a) and (c)

93. Securitisation is the process of converting illiquid financial assets into liquid marketable securities through an intermediary called:

- a) Securitisation company b) Asset Reconstruction Company c) special purpose vehicle d) None of these

94. If assets which have underlying mortgages are securitised, they are called as

- a) Asset Based Securitisation b) Mortgage Based Securitisation c) Mortgaged Securitisation d) None of these

95. Which of the following is not a benefit of securitization?

- a) The receivables are removed from the books as they have been sold. b) The transaction does not create a liability in the balance-sheet. c) Securitisation helps in asset-liability management. d) Securitisation helps in capital adequacy. e) None of these

96. In the process of securitization, the Special Purpose Vehicle converts assets into securities called as \_\_\_\_\_ and sell them to the buyers who may require that particular asset class as a

- a) requirement or investment. b) Pass Through Certificates c) Prepaid Through Certificates d) Government securities e) certificates

97) Securitisation is a structured process and effected for

- a) Non Performing Assets only. b) Only Standard assets rated by the rating agencies. c) Doubtful and Loss assets only d) Both (a) and (b) e) None of these

98) Which of the following steps are involved in the process of securitization?

- a) Securitisation is the process of pooling of individual long term loans. b) The long term loans are packaged and sold to various investors in the form of Pass Through Certificates (marketable securities) through a Special Purpose Vehicle. c) There is a provision that the inflow of cash in the form of recoveries will be distributed pro rata to the buyers of securities d) Both (a) and (b) only e) All of these

99 Collateral Debt Obligation (CDO) involves which of the following? Multiple layers of PTCs with varying rates and coupons are issued based on the quality of assets and risk perceptions underlying in the asset.

- a) In CDO, loans are given only when these are supported by collateral security. b) In CDO, asset classes/receivables like Car Loans, Credit Card Receivables and Mortgage Loans like Home Loans, are grouped together and securitised. c) In CDO, there is an obligation to honour the commitment when due d) All of these e) None of these

100 In the securitization process, the issuer (Special Purpose Vehicle) makes payment to which of the following for the loans securitized?

- a) The lender b) The investors c) The intermediary d) None of these

## ANSWER

1	B	2	C	3	D	4	C	5	D	6	C	7	A	8	A	9	D	10	B
11	C	12	B	13	A	14	D	15	B	16	D	17	D	18	D	19	D	20	D
21	D	22	D	23	E	24	C	25	B	26	C	27	A	28	E	29	B	30	A

31	D	32	A	33	D	34	A	35	D	36	E	37	A	38	D	39	C	40	A
41	D	42	C	43	B	44	A	45	D	46	B	47	C	48	B	49	A	50	C
51	B	52	D	53	B	54	C	55	D	56	A	57	D	58	D	59	C	60	A
61	C	62	C	63	B	64	C	65	C	66	E	67	E	68	E	69	E	70	D
71	C	72	A	73	C	74	D	75	B	76	D	77	B	78	C	79	D	80	B
81	D	82	B	83	A	84	B	85	D	86	A	87	C	88	E	89	C	90	A
91	D	92	B	93	C	94	B	95	E	96	A	97	B	98	E	99	B	100	A

## PRACTICE TEST PAPER NO. 5 ( TEST YOUR SELF )

01 Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other entities

- a)** Consumers                      **b)** corporates                      **c)** Business entities                      **d)** None of these

02 Which of the following is incorrect?

- a)** Retail Banking is a banking service that is geared primarily toward individual consumers.  
**b)** Retail banking focuses strictly on consumer markets **c)** Retail banking is, generally mass-market driven  
**d)** None of these

03 The delivery model of retail banking is both physical and virtual

- a)** Only physical    **b)** Only virtual    **c)** Both physical and virtual    **d)** None of these

04 Which of the following is not the advantage of retail banking?

- a)** Client base will be large and therefore risk is spread over large customer base.  
**b)** Customer Loyalty is strong and customers generally do not change from one bank to another.  
**c)** There are attractive interest spreads, since customers are too fragmented to bargain effectively.  
**d)** None of these

05 Which of the following is the advantage of retail banking?

- a)** Credit risk tends to be well diversified, as loan amounts are relatively small  
**b)** There is less volatility in demand compared to large corporates  
**c)** Large numbers of clients can facilitate marketing, mass selling.  
**d)** All of these

06 The study conducted by Capgemini, ING and the European Financial Management Marketing Association related to which of the following?

- a)** Pricing of Banking services    **b)** Delivery Channels    **c)** Both (a) and (b)    **d)** None of these

07 Which of the following is not correct about findings of the study conducted by Capgemini, ING and the European Financial Management Marketing Association on pricing of banking services?

- a)** In a given region, prices varied according to usage pattern, with a ratio of up to one to 4.6 between prices paid by very active and less active users.  
**b)** Banks are increasing remote channel prices in order to drive greater customer use.  
**c)** Price of seldom-used products have steadily increased.  
**d)** For Banking services prices decline with maturity

08 Which of the following is not correct about findings of the study conducted by Capgemini, ING and the European Financial Management Marketing Association on Delivery Channel Strategies?

- a)** Sales through branch format have decreased.  
**b)** Sales through web and phone have increased.  
**c)** Earlier branch used to be the main point of sale but now sales are mainly through internet banking.  
**d)** Selling through the branch channel is still the main format.

09 In US, which of the following is not the characteristic of the traditional Image of the bank?

- a)** office on Main Street.                      **b)** the branch manager does not understand the local market.

**c)** the manager has strong customer relationships. **d)** None of these

10 What has been the impact of technology and regulatory changes in the 1990s in banking in US?

**a)** Automated teller machines (ATMs) proliferated after the national ATM networks dropped a ban on surcharges.

**b)** Banks also developed centralized call centers to handle customer service issues and to initiate transactions, including deposits and loans.

**c)** Many banks shifted some activities like small-business loan approval from branch to regional or Head Offices.

**d)** The role of the traditional bank branch reduced in the delivery of retail banking services.

**e)** All of these

11 What has been the impact of Deregulation and the Riegle-Neal Act of 1994 & GrammLeach-Bliley Act 1999 regarding banking in US?

**a)** It contributed to bank consolidation that focused on reducing costs to boost profits

**b)** It allowed banks to branch and merge across state lines.

**c)** The declining number of banks and rising number of branches have resulted in greater consolidation of branches and deposits in the nation's larger banks.

**d)** All of these

12 For the banks, the consolidation of branches within large branch networks has implications in terms of :

**a)** Cost **b)** business focus **c)** profitability **d)** All of these

13 Market surveys suggest that customers:

**a)** place a premium on convenience i.e. location when choosing a bank. **b)** are indifferent to location of branch

**c)** place premium on branches in commercial areas **d)** None of these

14 The evolution of retail banking in India can be traced back to the entry of:

**a)** New private sector banks. **b)** Foreign banks **c)** Non Banking Finance companies **d)** All of these

15 Which of the following were the pioneers in introducing retail banking products in India?

**a)** Axis Bank **b)** ICICI Bank **c)** HDFC Bank **d)** Standard Chartered Bank and Grindlays Bank

16 Which of the following were two early players in the credit card business among public sector banks?

**a)** State Bank of India and PNB **b)** Bank of Baroda and PNB

**c)** Bank of Baroda and Andhra Bank **d)** Andhra Bank and Corporation Bank

17 Which of the following created a new approach to retail banking by banks?

**a)** Foreign banks **b)** Non Banking Finance Company

**c)** Entry of new generation private sector banks **d)** Old private sector banks

18 New private sector banks had a clear positioning for retail banking due to which of the following reasons?

**a)** Professional and experienced top management. **b)** The advantage of technology right from start.

**b)** They were not equipped for large scale lending. **d)** None of these

19. In India, now which group of banks have emphasis on retail banking?

**a)** Foreign banks **b)** New private sector banks **c)** Public sector banks **d)** All of these

20. Which of the following is not the reason for emergence of retail banking in India?

**a)** Strong economic fundamentals. **b)** growing rural population

**c)** higher disposable incomes **d)** None of these

21. Which of the following is not the reason for emergence of retail banking in India ?

**a)** emergence of new customer segments **b)** rise in old population

**c)** huge untapped potential for retail banking in India **d)** explosion of service economy

22. The contribution of retail assets to Gross Domestic Product (GDP) of India is and is comparatively lesser than that of other Asian counterparts like China (15%), Malaysia (33%), Thailand (24%) and Taiwan (52%).

**a)** 3%, **b)** 6%, **c)** 10%, **d)** 12%

23. The retail asset growth slid down to 4% in 2009. The segments which suffered most were:

**a)** Consumer Durable Loans, **b)** Auto Loans, **c)** Housing Loans, **d)** Both (a) and (b) only, **e)** None of these

24. During • slowdown of 2008-09, the most affected segment in the retail liabilities space was

**a)** Term Deposits, **b)** Institutional Deposits **c)** Purchased Deposits **d)** CASA deposits.

25. In case of Indian Banks, the share of interest income has almost remained steady at about % and the share of non interest income also is almost stable at around %.

**a)** 84%; 16% **b)** 75%; 25% **c)** 65%; 35% **d)** 15%; 85%

26. As per a study by Boston Consulting Group, Retail segment brings in nearly % of the total banking revenues worldwide

**a)** 30%, **b)** 40%, **c)** 50%, **d)** 60%

27. Which of the following is not the finding from report by McKinsey & Company on 'Emerging Challenges to the Indian Financial System'?

**a)** With rising income levels, India will not remain attractive market for retail financial products.

**b)** With rising income levels, India will not remain attractive market for retail financial products

**c)** There is huge potential available for personal financial services.

**d)** In addition to consumer credit, payment products such as credit and debit cards will drive growth.

28. As per report by Mc Kinsey & Company on 'Emerging Challenges to the Indian Financial System', by 2010, the number of high net worth individuals (annual income greater than US \$1 million) in India will grow to \_\_\_\_\_

**a)** 100,000 **b)** 200,000 **c)** 300,000 **d)** 400,000 **e)** None of These

29. Which of the following statements is not correct in the context of Indian Banking?

**a)** There has been growth in deposits and credits almost consistently

**b)** Banking access remains limited to a few sections of the population.

**c)** There is no disparity in the penetration of banking products among the different classes

**d)** None of these

30 As per a study by Boston Consulting Group, which of the following is correct?

**a)** Retail banks are facing tougher competition and continuously declining margins.

**b)** Retail banks are facing tougher competition but continuously increasing margins

**c)** Retail banks are facing less competition but continuously declining margins

**d)** None of these

31 The retail banking objectives of any bank would mainly focus on which of the following?

**a)** Generating superior returns on assets

**b)** Acquiring sufficient funding

**c)** Enhancing risk management

**d)** Understanding customers and regaining their trust , **e)** All of these

32 The business models for retail banking adopted by banks among the public sector, private sector and foreign banks:

**a)** are same, **b)** vary, **c)** are almost same, **d)** are almost same but vary to very little extent.

33. Which of the following approaches are adopted by banks for Retail banking?

**a)** Strategic Business Unit (SBU) **b)** Approach Departmental Approach, **c)** Integrated Approach (part of the overall business plan), **d)** Any of these

34. Public Sector Banks in India generally have adopted the Approach as their retail banking business model.

**a)** Strategic Business Unit (SBU), **b)** Approach Departmental Approach, **c)** Integrated Approach (part of the overall business plan), **d)** None of these

35. Which approach is adopted by old generation private sector banks for retail banking?

**a)** Strategic Business Unit (SBU) Approach **b)** Departmental Approach, **c)** As a part of overall business plan **d)** None of these

36. Which of the following type of banks use Strategic Business Unit Model for Retail Banking with defined business focus?

**a)** New Private Banks, **b)** Foreign Banks, **c)** All big public sector banks, **d)** Both (a) and (b)

e) All of these

37. Banks generally structure their retail banking models mainly on a positioning platform and to be the best/ top among the peer group players or across players.

a) Two, b) three, c) five, d) ten

38. In retail banking, the new generation private banks want to be in the top slot across all class of banks. These banks have advantage of which of the following?

a) Technology, b) strategy, c) customer and business initiatives, d) aggressive positioning

e) All of these

39. Which of the following banks exited retail and credit card business when it was found that these were not viable?

a) BNP Paribas, b) American Express, c) Bank of Tokyo, d) Both (a) and (b), e) All of These

40 Banks adopt different models for implementing their retail banking initiatives. Which of the following are the most common strategies?

a) end to end outsourcing b) predominant outsourcing c) partial outsourcing

d) in house sourcing e) Any of these

41 Business model adopted by a particular bank for Retail Banking does not depend on which of the following?

a) product range b) process requirements c) technology preparedness d) delivery capabilities

e) None of these

42 Public sector banks use which of the following models for retail banking?

a) end to end outsourcing b) predominant outsourcing c) partial outsourcing d) in house sourcing

43 Most of the Public sector banks, use only in house resources for retail banking. However, some of the activities are outsourced. Which of the following type of activities is not outsourced?

a) ATM b) Credit Card c) KYC compliance d) None of these e) All of these

44 In case of new generation private sector banks, which implementation model for retail banking is adopted?

a) end to end outsourcing b) in house sourcing c) predominant in house sourcing

d) mix of outsourcing and in house, though a little tilted towards outsourcing

45 There are four broadly defined process models relating to Retail Banking which are implemented across banks. These models are defined based on which of the following?

a) Technology b) Customer interface capabilities of the banks c) Both (a) and (b) d) None of these

46 Which of the following models is not used by banks for retail banking? a) Horizontally Organised Model, b) Vertically Organised Model c) Diagonally Organised Model d) None of these

47. Which of the following is/are features of Horizontally organised model in retail banking?

a) It is a modular structure using different process models for different products.

b) It offers end to end solutions product wise.

c) It provides functionality across products with customer data base orientation.

d) Centralised customer data base is used across products.

e) Both (a) and (b)

48. Which of the following is/are features of Vertically organised model in retail banking?

a) It provides functionality across products with customer data base orientation.

b) Centralised customer data base is used across products.

c) It is a modular structure using different process models for different products.

d) It offers end to end solutions product wise.

e) Both (a) and (b)

49. Which of the following statements is correct regarding implementation models adopted by banks in retail banking?

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

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

c) Predominantly horizontally organised model is mostly product oriented with common customer information for some products.

- d)** In predominantly vertically organised model, common information is available for most of the products.  
**e)** None of these

50. Which of the following is incorrect regarding Predominantly horizontally organised model for retail banking?

- a)** is mostly product oriented with **b)** It is mostly product oriented.  
**c)** In this model common customer information is available for some products.  
**d)** In this model, common information is available for most of the products. **e)** None of these

51. Which of the following model is generally adopted by public sector banks for retail banking?

- a)** Vertically organised model, **b)** Predominantly horizontally organized model, **c)** Horizontally organized model, **d)** Predominantly vertically organized model.

52 Which of the following model is generally adopted by new private sector banks for retail banking?

- a)** Vertically organised model **b)** Predominantly horizontally organised model  
**c)** Horizontally organised model **d)** Predominantly vertically organised model

53 in foreign banks, mostly predominantly vertically organised model is adopted for retail banking which implies that retail banking initiatives are attempted with:

- a)** scattered data base **b)** using different process models for different products.  
**c)** customer information with different set of officials. **d)** common customer information across products.

54 Certain segments constitute the basic structure of retail banking. Which of the following, has emerged as one of the important constituents of retail banking initiatives of banks?

- a)** retail asset products **b)** retail liability products **c)** marketing of third party products. **d)** All of these

55 Liability products offered by banks to retail banking customers are which of the following?

- a)** Saving Accounts, Current Accounts and Term Deposit accounts. **b)** Saving Accounts, Current Accounts, Term **c)** Deposit accounts and Housing Loans. **d)** Housing Loans, Vehicle Loans and Personal Loans. **e)** Safe Deposit Vault, Safe custody

56 Product differentiation among liability products is achieved by banks by:

- a)** Attractive packaging **b)** Attractive branch layout **c)** Expanding the scope of generic products from a plain vanilla account to a value enriched account **d)** None of these

57 In today's context, which of the following can be called as value enrichment to an account?

- a)** ATM cards **b)** Debit Cards **c)** Multi City Cheques **d)** None of these as all of these have become generic features

58 Which of the following is considered as enriching the value to a liability product?

- a)** tagging group insurance products in the life and non life segment at a very competitive premium  
**b)** providing sweep facilities from savings or current accounts to fixed deposit accounts above a certain specified level resulting in increase in the earning potential of the deposit balances  
**c)** auto overdraft facility **d)** All of these **e)** None of these

59 In case of liability products, Internet Banking, Telephone Banking, and Mobile Banking are considered as:

- a)** enriching value to a liability product. **b)** essential value additions. **c)** generic feature.  
**d)** None of these

60 In case of liability products, the product differentiation among banks is wafer thin and only value differentiation is the key factor across banks. Which of the following make difference in this regard?

- a)** Technology **b)** Process **c)** Delivery efficiency **d)** All of these **e)** Only **(a)** and **(b)**

61 Which of the following value additions are generally not offered by almost all banks in case of fixed deposits with banks?

- a)** provision for monthly, quarterly or cumulative interest payment options.  
**b)** Facility of partial withdrawal without disturbing the entire amount is inbuilt  
**c)** fixed deposits with built in overdraft facilities. **d)** the group life cover and health cover.

62 For retail assets, which of the following is not a major issue?

- a)** Product **b)** price **c)** process **d)** delivery innovations **e)** None of these

63 Which of the following is not a major advantage of retail assets?

- a)** the stability of the asset base because of the large customer base. **b)** the better spreads in income.

**c)** risk diversification. **d)** scope for capturing additional revenue streams from other avenues. **e)** Cheap source of funds

**64** Which of the following is not standard retail asset products offered by banks?

**a)** Housing loans and consumer loans. **b)** Car Loans and Personal loans.

**c)** Credit cards **d)** Debit cards **e)** None of these

**65** Which of the following is not a retail asset product?

**a)** loan against rental receivables **b)** salary overdrafts **c)** loan against securities

**d)** loans for traders in the personal segment **e)** None of these

**66** Retail products other than liability products and asset products, which are meant for providing process and delivery efficiencies to clients include which of the following?

**a)** Credit Cards, Debit Cards, and ATM Cards.

**b)** Telephone Banking, Mobile Banking, Internet Banking. **c)** Depository Service and Broking Services. **d)** Both **(a)** and **(b)** only. **e)** All of these

**67** Which of the following products and services are offered with objectives of satisfying customer's multiple needs and also to augment fee based income?

**a)** life and non life policies, mutual funds, retail sale of gold coins, bill payment services.

**b)** payment gateway for rail, air ticket bookings. **c)** wealth management services, portfolio management services and private banking. **d)** Only **(a)** and **(b)** **e)** All of these

**68** Banks offer various services like distribution of third party products like life and non life policies, mutual funds, retail sale of gold coins etc. What is the objective of providing these services?

**a)** satisfying customer's multiple needs **b)** —to augment fee based income **c)** to augment interest income

**d)** Both **(a)** and **(b)** only **e)** All of these

**69** Which of the following products is offered by almost all public sector banks?

**a)** Debit Cards **b)** ATM cards **c)** Credit Cards **d)** Both **(a)** and **(b)** **e)** All of these

**70** Many Public Sector banks are not in the credit card business. What is the reason for this?

**a)** It is a big volume game. **b)** It needs process efficiencies. **c)** Lack of trained staff.

**d)** Both **(a)** and **(b)** **e)** All of these

**71** Which of the following services is generally offered by most of the public sector banks?

**a)** Corporate Agency for Life and Non Life Insurance. **b)** Distribution of mutual funds.

**c)** Sale of gold coins **d)** Both **(a)** and **(b)** **e)** All of these

**72** Which of the following types of service is generally not offered by public Sector Banks?

**a)** Wealth Management **b)** Portfolio Management Services **c)** Bill Payment services

**d)** Both **(a)** and **(b)** **e)** All of these

**73** Product Development is done by banks in different ways. In this regard which of the following is not correct regarding In house product development strategy?

**a)** The product is developed independently based on research and on the market dynamics.

**b)** The best features in the products available in the market are incorporated along with additional value engineering.

**c)** No background research is undertaken. **d)** None of these

**74** In case of product development, various strategies are adopted by banks. Which of the following strategies is generally not relevant?

**a)** In House product development strategy. **b)** Follow the leader **c)** Top Management instructions

**d)** RBI instructions **e)** None of these

**75** Which of the following is not the feature of 'Follow the leader approach' in product development?

**a)** In this method, product development is based purely on market conditions and customer segments.

**b)** No background research is conducted. **c)** Product is developed on the same lines as that of leader. **d)** None of these

**76** In banks, the basis for product development, is on which of the following?

**a)** The segmentation approach **b)** Geography based approach **c)** Classification based approach

**d)** Approach based on specific customer segments like NRI, HNI, Mass Affluent, Salaried, Professionals, Women etc.



**e)** Any of these

**77** Which of the following is not a feature of product development in most of the PSBs?

- a)** Product development is done in house incorporating the market dynamics.
- b)** The market conditions and customer segments of the bank are factored in the development.
- c)** The views and instructions of the Top Management are the prime drivers of product development in PSBs.
- d)** Both **(a)** and **(b)**
- e)** None of these

**78** In the case of public sector banks, which of the following is not given importance for product development?

- a)** Geographical area
- b)** Type of branch and centre
- c)** Business potential
- d)** Both **(a)** and **(b)**
- e)** None of these

**79** In private sector banks, which of the following factor are considered for product development?

- a)** Market dynamics.
- b)** Segmentation, classification, customer segments
- c)** The product positioning adopted by other players.
- d)** All of these

**80** Which of the following sequence is generally adopted in product development?

- a)** conducting a market survey, identifying the needs, pilot testing, getting feed back, fine tuning the product based on feedback, developing the product, final roll out of the product.
- b)** identifying the needs, conducting a market survey, pilot testing, getting feed back, fine tuning the product based on feedback, developing the product, final roll out of the product
- c)** conducting a market survey, developing the product, identifying the needs, pilot testing, getting feed back, fine tuning the product based on feedback, final roll out of the product.
- d)** conducting a market survey, identifying the needs, developing the product, pilot testing, getting feed back, fine tuning the product based on feedback, final roll out of the product.

**81** In Public sector banks, market survey is generally done through:

- a)** in house resources
- b)** outsourcing
- c)** through specialists in service industry
- d)** None of these

**82** There are various approaches to processing of products and services in retail banking. Which of the following is not correct in this regard? (i), (ii); (iii)

- a)** The entire processing is done through in house resources.
- b)** Some products processed in house and for some products outsourcing is done for process.
- c)** Outsourcing of entire process subject to prescribing process standards.
- d)** Outsourcing of entire process without any guideline as it is given to specialists.
- e)** None of these

**83** In Public sector banks and old private banks generally the process for products and services are done through:

- a)** Outsourcing
- b)** In house resources
- c)** Major portion is in house with some outsourcing.
- d)** Major portion is outsourced with some in house processing.

**84** What approach is generally adopted in foreign banks, for processing of products and services?

- a)** The entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of retail banking services
- b)** The entire process for products and services is done through in house resources but in some banks, process part of some products are outsourced.
- c)** Outsourcing is attempted partially for some process areas.
- d)** None of these.

**85** Banks adopt different process models for retail asset products and the focus is on which of the following?

- a)** Reducing the risk to maximum possible extent.
- b)** Earning maximum interest
- c)** To achieve the best process efficiencies for capturing the customers.
- d)** None of these

**86** For retail assets, the common form of process models are Centralised Retail Assets Processing Centres. What are the features of this model?

- a)** All the retail loans sourced at the branches and marketing team are processed at a single point.
- b)** Retail loans are financed through that centre only.
- c)** Processing alone is done at the centre and financing can be done through that centre or at the branches.
- d)** Both **(a)** and **(b)**
- e)** Both **(a)** and **(c)**

- 87** In public sector banks, which of the following models is generally adopted for processing of retail asset products?  
**a)** Centralised retail loan processing centre. **b)** Regional processing centres  
**c)** Standalone processing at branches **d)** Regional processing centres or branches or a blend of both.
- 88** In which of the following bank groups, centralised processing is the norm for retail asset processing?  
**a)** Public sector banks **b)** New Private sector banks **c)** Foreign banks **d)** Both **(b)** and **(c)**
- 89** In the centralized model for processing liability products, for opening a saving bank account, which of the following activities is/are not carried out at a single point?  
**a)** filling the Account opening form **b)** opening of account, **c)** Issue of Pass Book and Cheque Book  
**d)** Issuing ATM card/ Debit card,—Pin Mailers for the cards. **e)** None of these
- 90** In almost all Public sector banks, which of the following method is generally adopted for processing liability products?  
**a)** Centralized processing model **b)** Regional Processing Model. **c)** Stand alone processing model  
**d)** Any one of these
- 91** In most of the Public Sector banks, which of the following activity is generally done centrally?  
**a)** Opening of accounts. **b)** KYC compliance **c)** issue of cheque books  
**d)** issue of ATM/Debit Cards **e)** None of these
- 92** Process models differ for products which require single stage process and multi stage process. Which of the following involves a single stage process?  
**a)** Opening a fixed deposit and issuing receipt. **b)** Giving car loans **c)** Housing Loan  
**d)** Both **(a)** and **(b)** **e)** None of these
- 93.** Process models differ for products which require single stage process and multi stage process. Which of the following involves a multi stage process?  
**a)** Opening Saving accounts **b)** Opening Current accounts **c)** Housing Loans  
**d)** Both **(a)** and **(b)** only **e)** All of these
- 94.** Since process Time is business sensitive and customer sensitive, banks implement process time prescriptions for different retail asset products. In most of the PSBs, the process time is prescribed and varies from \_\_\_\_\_ days to \_\_\_\_\_ days depending upon whether it is processed at the branch or regional hub or centralised processing.  
**a)** 3 days to 7 days **b)** 5 days to 10 days **c)** 7 days to 15 days **d)** 15 days to 30 days
- 95.** Banks consider various factors for designing a Pricing model of products and services. Which of the following is not considered for pricing?  
**a)** Market dynamics, risk perception, return expectations. **b)** Tenor or duration  
**c)** RBI guidelines **d)** Asset Liability Management practices **e)** None of these
- 96.** In Public sector banks, though pricing is market driven and competitive, in almost all the banks, pricing is mainly driven on the basis of which of the following?  
**a)** The asset liability management practices of the banks. **b)** Regulatory advices  
**c)** Feedback from the field **d)** Both **(a)** and **(b)** **e)** All of these
- 97.** Which of the following public sector banks, started implementing aggressive pricing strategies in Housing Loan segment between 2008 and 2010.  
**a)** Punjab National Bank **b)** Bank of Baroda **c)** State Bank of India **d)** All of these **e)** None of these
- 98.** Which of the following approach is/are are adopted by banks for Price structuring for products and services?  
**a)** Stand alone pricing for different products and services is the basic structure.  
**b)** Basic structure is fine tuned as per quantum and volumes.  
**c)** Price preference/ price rebates may be given for high value deposits and advances.  
**d)** Both **(a)** and **(b)** only **e)** All of these
- 99** Which of the following is correct regarding price bundling?  
**a)** Price bundling is a part of price structuring.  
**b)** In price bundling, if a customer avails number of products, then the total price proposition is made attractive than the stand alone pricing for the individual products of the bundle.  
**c)** This structuring is a cross selling strategy to entice the customer to avail more products so that profitability per

customer is enhanced. **d)** All of these **e)** None of these

100 What is the objective of Price bundling?

- a)** It is a cross selling strategy. **b)** To entice customer to avail more products.  
**c)** To enhance profitability per customer. **d)** All of these

### ANSWER

1	A	2	D	3	C	4	D	5	D	6	C	7	B	8	C	9	B	10	E
11	D	12	D	13	A	14	A	15	D	16	C	17	C	18	B	19	D	20	B
21	B	22	B	23	D	24	D	25	A	26	D	27	B	28	D	29	C	30	A
31	E	32	B	33	D	34	B	35	B	36	D	37	B	38	E	39	D	40	E
41	E	42	D	43	C	44	D	45	C	46	D	47	E	48	E	49	E	50	C
51	C	52	A	53	D	54	C	55	A	56	C	57	D	58	D	59	B	60	D
61	D	62	E	63	E	64	D	65	E	66	E	67	E	68	D	69	D	70	D
71	D	72	E	73	C	74	D	75	D	76	E	77	E	78	A	79	D	80	D
81	A	82	D	83	C	84	A	85	C	86	E	87	D	88	C	89	E	90	C
91	D	92	D	93	E	94	C	95	E	96	D	97	C	98	E	99	D	100	D

## PRACTICE TEST PAPER NO. 6 ( TEST YOUR SELF )

01 Loan origination refers to which of the following?

- a)** The process from loan application to the disbursement of loan **b)** The process of seeking application from prospective borrowers. **c)** Marketing of loan products. **d)** None of these

02 What are different phases in Loan origination?

- a)** information acquisition **b)** credit appraisal and sanction **c)** disbursement **d)** All of these **e)** Only (a) and (b)

03 In any loan origination, two key aspects are involved - critically appraising the credit worthiness of a customer and analyzing the risk in funding\_ To analyse these aspects which of the following is not a requirement?

- a)** capturing all the information i.e. demographic, employment, financial details;  
**b)** to check that the customer is not a fraud or black listed within the bank or with other institutions;  
**c)** to verify that the information provided by the customer is correct and authentic  
**d)** Both (a) and (c) only **e)** None of these

04 The second phase of loan origination is:

- a)** information acquisition **b)** credit appraisal and sanction **c)** disbursement **d)** None of these

05 For mitigating credit risk, depending on loan amount and the financial product, a bank may require or

- a)** co-borrowers to support the loan **b)** guarantors to support the loan **c)** . Either (a) or (b) **d)** None of these

06 Banks collect fees for which of the following from customer as part of application processing?

- a)** processing, documentation, administration **b)** interest paid to depositors **c)** inspection **d)** All of these  
**e)** Both (a) and (c) only

07 Third phase in Credit Origination Process is

- a)** Credit Appraisal **b)** Disbursement **c)** Credit Monitoring **d)** Recovery

08 Along with the application form, the lending institution should also call for a few other documents, which supplement/establish the particulars provided in the application form. Which of the following forms is generally not taken with application form?

- a)** Passport size photograph; Proof of identity; Proof of residence; Statement of Bank Account/Pass

Book for last six months.

**b)** Sale Deed/Agreement of Sale; Letter of allotment from Housing Board/Society, etc. (wherever applicable); Copy of approved plan, wherever applicable;

**c)** Estimate/Valuation Report from approved valuers in respect of the property to be financed, wherever applicable;

**d)** Search Report/Non-encumbrance certificate for 50 years from Bank's Advocate. **e)** None of these

**09** For appraising a Home Loan proposal, the appraisal will generally consider whether borrower is eligible as per bank scheme considering his age, income level, length of service in case of salaried persons, areas or locality where house will be constructed, negative list. For this purpose, banks develop a Criteria which is called

**a)** Risk Liability Acceptance Criteria **b)** Risk Asset Acceptance Criteria

**c)** Risk Asset Mitigation Criteria **d)** None of these

**10** Amount of housing loan that can be granted is not based on which of the following? amount of instalment,

**a)** period of repayment, **b)** income level **c)** value of property **d)** loan to value ratio **e)** None of these

**11** Maximum Loan to value ratio in case of housing loan over Rs 20 lac can be:

**a)** 70% **b)** 80% **c)** 75% **d)** 90% **e)** None of these

**12** Maximum Loan to value ratio in case of housing loan up to Rs 20 lac can be:

**a)** 70% **b)** 80% **c)** 75% **d)** 90% **e)** None of these

**13** In a Housing Loan, moratorium is allowed when

**a)** the construction is undertaken by a reputed builder, by a Government agency etc. and the borrower makes payments in stages over the construction period.

**b)** the borrower is not able to pay immediately **c)** the borrower is a salaried person

**d)** Both (a) and (b) only **e)** All of these

**14** What the normal method of dealing with Pre EMI interest?

**a)** Pre EMI interest is paid after one month after full disbursement.

**b)** Until final disbursement and repayment commences, the borrower pays interest on the portion of the loan disbursed.

**c)** Pre EMI interest is paid at the end of repayment period. **d)** None of these

**15** What is EMI reset?

**a)** When with the change in rate of interest lender does not change EMI amount but increase or reduce instalments depending upon the change in the total dues. **b)** When with the change in rate of interest lender changes the EMI amount. **c)** When there is default in instalments due to genuine reasons, the instalments are postponed. **d)** None of these

**16** In the case of salaried persons, an irrevocable authority for making salary deductions and remittance to the lender is taken from the borrower and the employer is asked to record this authority and send remittance on monthly basis from salary. This system is called

**a)** Check Off **b)** Check in **c)** Check on **d)** Check out **e)** None of these

**17** A transfer of an interest in specific immovable property for the purpose of security, for the payment of money advanced or to be advanced by way of a loan, an existing or future debit or the performance of an engagement which may

give rise to a pecuniary liability is called \_

**a)** Pledge **b)** Hypothecation **c)** Mortgage **d)** None of these

**18** Charge on immovable property is created by

**a)** Pledge **b)** Hypothecation **c)** Mortgage **d)** None of these

**19** Mortgage is defined in which of the following acts?

**a)** Transfer of Property Act **b)** Indian Contract Act **c)** Sarfaesi Act **d)** None of these

**20** Which of the following is not a feature of simple mortgage?

**a)** In this type of mortgage, the mortgagor binds himself personally to pay the mortgage money.

**b)** Possession of mortgaged property is not delivered.

c) The borrower agrees that in the event of his failing to pay according to the contract, the mortgagee shall have a right to sell the mortgaged property and the proceeds of the sale to be applied, in payment of mortgage money.

d) None of these

21 Under simple registered mortgage, the Deed of Mortgage is required to be registered with the sub-Registrar/Registrar of assurances at which of the following places?

a) within whose jurisdiction loan sanctioning branch is located.

b) within whose jurisdiction the whole or some portion of the property to which the document relates is situated.

c) Either (a) or (b) d) None of these

22 Simple mortgage should registered with concerned sub registrar within \_\_\_\_\_ months of \_\_\_\_\_ from its date of execution

a) 1 month b) 2 months c) 3 months d) 4 months e) None of these

23 Which of the following is true about equitable mortgage?

a) It does not require any registration b) It does not attract any stamp duty

c) It does not require registration but level of stamp duty varies from state to state

d) Mortgage deed is prepared but its registration is not necessary e) none of these

24 Equitable Mortgage can be created :

a) only at the station where the concerned bank has a branch

b) at Mumbai, Kolkatta, Chennai and at notified towns in India.

c) in Delhi and all cities having population of 12 lacs or more as per 1991 census

d) any city in India e) all cities with population of 5 lacs or more as per 2001 census

25 The essence of equitable mortgage lies in :

a) existence of debt in the present or future b) deposit of title deeds c) intention that title deed will be security for the debt d) all above e) none of the above

26 For the purpose of Equitable Mortgage, the documents of title to immovable property, are to be deposited by the mortgagor or his authorised agent in Kolkata, Chennai and Mumbai or in \_\_\_\_\_ any other town notified by

a) the State Government concerned b) the Central Government c) Either of (a) and (b) d) None of these

27 Which of the following is not correct regarding the essential requisites of a "Mortgage by Deposit of Title Deeds"?

a) There must be a debt, existing or future.

b) There must be a deposit of documents of title to immovable property.

c) The deposit must be made in one of the notified towns.

d) The deposit must be made only by the mortgagor with the mortgagee or his agent.

The deposit must be made with an intent to create a security for the debt.

28 Which of the following type of mortgage will have priority if more than one mortgage is created on the same property?

a) It will depend upon the date of creation of mortgage. Earlier the date of creation, prior is the right.

b) Registered Mortgage always has priority over Equitable mortgage.

c) Equitable Mortgage always has priority over Registered Mortgage.

d) None of these

29 Which of the following is a correct statement with regard to mortgage?

a) A mortgagee has the same rights under equitable and registered mortgages.

b) An equitable mortgage will have priority over subsequent registered mortgages.

c) The remedy of the mortgagee under an equitable mortgage is only sale of the mortgaged property through the court (i.e., suit for sale). d) All of these e) None of these

30 Which of the following statements is not correct regarding equitable mortgage?

a) An equitable mortgage remains valid as long as the mortgagee retains the title deeds.

b) If the mortgagee parts with possession of the title deeds, the mortgage will stand extinguished.

c) If, the mortgagee parts with the possession of title deeds for a specific purpose, like examination by the

solicitors or advocates of the intending purchaser of the mortgaged property, or for the creation of subsequent mortgage in favour of a second mortgagee on a specific understanding with the latter that the earlier mortgage is to subsist, the mortgagor will not be deemed to have parted with possession although he has parted with the custody of the title deeds **d)** All of these **e)** None of these

31 Which of the following is not a common feature of registered mortgage and equitable mortgage?

- a)** Possession of property remains with mortgagor.
- b)** Mortgagors undertake personal liability
- c)** Sale of mortgaged property can be done through court
- d)** income from property is enjoyed by the mortgagor.
- e)** None of these

32 Right of Foreclosure means which of the following in the case of mortgage?

- a)** Right of mortgagee to enjoy income from property.
- b)** Right of mortgagee to sell the property in case of default by the mortgagor.
- c)** Right of mortgagee, to sue for a decree from the court to the effect that the former be debarred forever to get back the mortgaged property on default by a mortgagor.
- d)** None of these

33 Right of Foreclosure is available in which of the following types of mortgages?

- a)** Simple Mortgage
- b)** Mortgage by Deposit of Title Deeds
- c)** Mortgage by Conditional Sale
- d)** None of these

34 A suit for foreclosure must be filed within years from the day the mortgage money becomes due.

- a)** 3 years
- b)** 12 years
- c)** 30 years
- d)** None of these

35 Where a mortgagor has created separate registered mortgages over the same property in favour of two or more financing institutions, the priority of charge will be determined with reference to which of the following? (not the date of registration)

- a)** The date of the execution of the deeds which has been duly registered within four months of execution.
- b)** The date of the registration of the deeds which has been duly registered within four months of execution.
- c)** The date of the presentation of deeds for registration which has been duly registered within four months of execution.
- d)** None of these

36 Where a mortgagor gives the same property in equitable mortgage to one financing institution and in registered mortgage to another financing institution, the priority of charge will be determined with reference to which of the following? -

- a)** The date of deposit of title deeds in equitable mortgage
- b)** The date of execution of registered mortgage deed in registered mortgage.
- c)** An equitable mortgage gives inferior rights compared to a registered mortgage.
- d)** Both **(a)** and **(b)**
- e)** None of these

37 To ensure that the Title Deeds are not forged or fabricated, various things should be examined. Which of the following is not correct in this regard?

- a)** Schedule of property and Registration of the document with the Sub-Registrar Office concerned.
- b)** Stamp Duty affixed on the document and the consideration shown in the document.
- c)** Source of purchase of stamps and its cancellation and also the execution of the document. The execution of the document should be prior to the cancellation of stamps/date of purchase
- d)** Security marks on the stamp paper, which are visible only on a close examination.
- e)** None of these

38 Which of the following can not be called as the title to a property?

- a)** conveyance deed
- b)** partition deed
- c)** settlement deed
- d)** gift deed
- e)** None of these

39 Where immovable property (of which land is the main constituent) is taken as security (primary or collateral) either by way of registered mortgage or equitable mortgage, which of the following aspects is not looked into?

- a)** Tenure of land
- b)** Valuation of land
- c)** Title of land
- d)** None of these

40 While taking mortgage of immovable property as security, legal opinion should be taken. On which of the following the legal opinion is not required?;

- a)** That the documents of title are complete in all respects and sufficient to convey a clear, absolute and marketable title to the property.

- b)** That the property offered as security to the bank is unencumbered/unattached.
- c)** That the documents examined and based on which the opinion is furnished, form a complete set of documents of the subject property and deposit of these create a charge on the property.
- d)** That the market value of the property is commensurate with the amount of loan.
- e)** That the persons seeking to secure the property to the bank have a clear and marketable title thereto and are legally capable of creating the charge thereon in favour of the bank.

41 Monitoring of advances relates to which of the following activities?

- a)** Post-sanction activities including proper documentation and disbursement.
- b)** To ensure the proper end use of funds including periodical inspection.
- c)** Follow-up of recovery including restructuring of loan if needed.
- e)** None of these
- d)** All of these

42 Under which of the following circumstances restructuring of loan may not be considered?

- a)** Unforeseen event/major illness/social functions requiring significant outlay of funds in the family of the borrower or any other circumstance that affect the repayment capacity.
- b)** In case of salaried class, borrowers who are on "loss of pay" due to lock out/strike/delayed payment of salary by employer
- c)** Delayed completion of housing project.
- d)** Death/Disability of the borrower
- e)** None of these

43 Which of the following are advantages of retail banking?

- a)** Risk is less as client base is large
- b)** Income is relatively more as spreads are more
- c)** Stable model with less volatility
- d)** a and b)
- e)** all the above

44 Which of the following are the disadvantages of retail banking?

- a)** Huge clientele requires more efforts for monitoring and tracking.
- b)** Cost of servicing will be relatively high.
- c)** Delinquencies relatively higher in unsecured retail loans like Personal Loans and Credit Card Receivables
- d)** Both (b) & (c) only
- e)** All the above

45 In which of the following bank groups, price bundling is not adopted as price structuring strategy?

- a)** New private banks
- b)** Foreign banks
- c)** Public Sector banks
- d)** None of these

46 Which of the following pricing strategies are generally adopted by Public sector banks?

- a)** Besides stand alone pricing structure, price concessions and rebates are allowed.
- b)** Price concessions are allowed on the basis of volumes, quantum and relationship.
- c)** Price bundling is adopted to increase sale of various products to a single customer.
- d)** Both (a) and (b) only
- e)** All of these

47 Which of the following pricing strategies are generally adopted by new private banks and foreign banks?

- a)** Besides stand alone pricing structure, price concessions and rebates are allowed.
- b)** Price concessions are allowed on the basis of volumes, quantum and relationship.
- c)** Price bundling is adopted to increase sale of various products to a single customer.
- d)** Both (a) and (b) only
- e)** All of these

48 In case of price structuring, banks offer as concealed price structures some of the facilities based on quantum and volume of business. Which of the following is not a part of concealed price structure?

- a)** Free remittance facilities, issue of drafts.
- b)** Waiver of service charges
- c)** Waiver of Processing Fees
- d)** Rebate on repayment of loans in time.
- e)** None of these

49 Which of the following is not correct regarding use of technology in retail banking?

- a)** Technology helps speedy processing and increases delivery efficiencies of banks.
- b)** Technology and Retail Banking are two separate things.
- c)** Technology is the enabler for building and translating a customer data base into retail banking business
- d)** None of these

50 Which type of Technology model is generally adopted by Public sector banks?

- a)** In House Models
- b)** Outsourced Models
- c)** In House Models with partial Outsourcing
- d)** None of these

51. Which of the following generally adopt Outsourced Models only for using Technology?

**a)** New Private Sector banks **b)** Public Sector banks **c)** Foreign Banks **d)** Old private sector banks  
**e)** Both **(c)** and **(d)**

52. In case of new private banks, which type of technology model is generally adopted?

**a)** Predominantly outsourced with partial in house model. **b)** Predominantly in house model with partial outsourcing. **c)** Total outsourcing model **d)** Total in house model

53. The levels of technology implementation in Public sector banks started from which of the following?

**a)** Automated Ledger Posting Machines (ALPMs) **b)** Branch Automation  
**c)** Regional Net worked Hubs **d)** Core Banking solution.

54. Which of the following is correct sequence of adopting technology in public sector banks?

**a)** Automated Ledger Posting Machines (ALPMs), total branch automation, regional net worked hubs, core banking solution.

**b)** Core banking solution, Automated Ledger Posting Machines (ALPMs), total branch automation, regional net worked hubs.

**c)** Automated Ledger Posting Machines (ALPMs), regional net worked hubs, total branch automation, core banking solution. **d)** None of these

55. What is the status of Core Banking Solution in public sector banks?

**a)** It is almost complete. **b)** It is partially achieved. **c)** In many banks, it is not achieved as yet.

**d)** None of these

56. The level of implementation of core banking will help in which of the following?

**a)** It will increase the chances of availability of customer data base across products.

**b)** It will increase the scope for cross selling and up selling. **c)** It will reduce cost of operations substantially.

**d)** Both **(a)** and **(b)** **e)** All of these

57. Horizontal organized data refers to which of the following? or vertical organized refers to whether data is available or data is available customer wise on an integrated basis.

**a)** Data is available product wise on a stand alone basis. **b)** Data is available customer wise on an integrated basis. **c)** Data is available product wise on an integrated basis. **d)** Data is available customer wise on a stand alone basis.

58. Vertically organized data refers to which of the following?

**a)** Data is available product wise on a stand alone basis. **b)** Data is available customer wise on an integrated basis. **c)** Data is available product wise on an integrated basis. **d)** Data is available customer wise on a stand alone basis.

59. Which of the following help new private banks and foreign banks, to market a bouquet of retail products to a targeted customer base effectively?

**a)** Core banking process model. **b)** Vertically organized technology model with total customer product integration. **c)** Both **(a)** and **(b)** **d)** None of these

60. Retail Banking is targeted at which of the following?

**a)** Individual segment **b)** Corporate Banking **c)** Retail Businesses **d)** All of these

61. Which of the following approach is used in Retail Banking?

**a)** B2B approach (Business to Business) **b)** C2C approach (Customer to Customer)

**c)** B2C approach (Business to Customer) **d)** C2B approach (Customer to Business)

62. Which of the following approach is used in Wholesale Banking?

**a)** B2B approach (Business to Business) **b)** C2C approach (Customer to Customer)

**c)** B2C approach (Business to Customer) **d)** C2B approach (Customer to Business)

63. Which of the following is not correct regarding distinction in retail and wholesale banking?

**a)** Retail Banking is a mass market banking model whereas wholesale/corporate banking caters to a relatively smaller segment of business/corporate client base.

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

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

**d)** Returns are less in retail banking as the operational cost is very high but in corporate banking, the returns will be



high as banks have to deal with select clients.

**64.** Which of the following is not correct regarding advantages of retail banking over wholesale banking?

- a)** The cost of deposits is relatively less in retail banking.
- b)** The impact of NPA will be less pronounced in retail banking than corporate banking.
- c)** Monitoring and recovery in retail assets is less laborious because of the larger customer base as compared to corporate banking.
- d)** None of these

**65** The setting up of ATM was recommended by which of the following committee:

- a Narasimham Committee, b Saraf Committee, c Rangarajan Committee, d Shere Committee

**66** Which of the following explanation to ATM categories, does not match:

- a networked ATM — which is connected to some ATM network, b Offsite ATM — which is not connected to data base of the bank, c Onsite ATM — the ATM which is within /outside the branch premises
- d standalone ATM the ATM which is not connected to any ATM net work

**67** An ATM with a depository, which serves the customers for cash withdrawals only, is called

- a cash purse, b cash dispenser, c electronic purse, d standalone ATM

**68** There are a no. of slots in the ATM for various purposes. Which of the following is not one such slot?

- a deposit slot, b cash dispenser, c card reader, d P I N

**69** The special breed of ATMs capable of thinking for themselves, are called:-

- a EFTPOS, b EFTATM, c HWAK, d Charge ATM

**70** Which of the following is correct in the context of PIN :- a PIN stands for personal information number, b PIN is similar to a pass word, c PIN is not inserted on the ATM card, d all the above

**71** The smart card is similar to an ATM card or Credit card:-

- a with a loaded value, b with an integrated circuit (IC), c with a charging facility, d all the above

**72** The electronic signature are recognised equal to a handwritten signatures as per provisions of:

- a NI Act 1881, b Information Technology Act 2000, c Indian Evidence Act, d Banking Regulation Act

**73** The smart cards can be (a) intelligent memory chip cards (b) micro processor cards (c) simple card without any

integrated circuit:- a a to c are correct, b only a and c are correct, c only a and b are correct

d only b and c are correct

**74**The intelligent memory chip cards are used in the following cases:- a pay phones, b identification, access control, c voting applications, d all the above

**75** Which of the following is a feature of a processor smart card (a) these are ideally suited for banking applications as re-use of card is allowed (b) cards have a built in memory and processor along with an operating system (c) these can protect themselves against fraudulent operations. a a to c all are correct,

- b only b and c are correct, c only a and c are correct, d only a and b are correct

**76** is a smart card that contains electronic money. It is sometimes called the electronic wallet or the

stored value card (SVC):- a electronic purse, b electronic cash, c electronic card d all the above

**77**Purchase now and pay later, is the feature of :- a smart card, b magnetic card, c credit card, d debit card

**78** In which of the following type of card, the customer's account is debited before making the actual purchase: a smart card, b magnetic card, c credit card, d debit card

**79** Where funds are loaded in a card to use these as cash, in case of need, it is called

- a smart card, b electronic cheque, c electronic purse, d electronic cash

**80.** When the card holder authorises payMent by typing his PIN and his bank account is debited and account of merchant establishment (point of sale) is credited, it is called:- a electronic token,

- b electronic cheque, c electronic purse, d electronic cash

**81** in a smart card, when a prepaid area is set aside to store electronic units of time or electronic tickets for a specific service, it is called:- a electronic token, b electronic cheque, c electronic purse,

d electronic cash

**82.** permits payments to be made at the merchant establishment through electronic funds transfer (EFT) : a point of sale, b Bank ATM, c FEDWIRE, d BANKWIRE

**83.** ECS (Credit) payments can be initiated by any institution (called ECS user) :- a which has to make small payments b which has recover amount of bills repeatedly, c which has to make large size payments in small numbers d have to make bulk or repetitive payments to a number of beneficiaries.

**84.** The validity period of pre-paid payment instrument can be from date of activation/issuance to the holder :

- a 1 month, b 2 months, c 3 months, d 6 months

85. ECS (credit) user can initiate the transactions after registering themselves with an  
a IBA approved bank, b approved clearing house, c RBI approved entity, d any of the above
86. The ECS (Credit) user's bank is called as the bank under the scheme and the ECS beneficiary account holder is called the account holder. a sponsor bank, ultimate, b originating bank, final, c sponsor bank, destination, d any of the above
87. The debit payment system that works on the principle of multiple debits and a single credit:  
a debit clearing, b electronic debit clearing, c electronic clearing, d electronic clearing service
88. Which of the following is an advantage under the debit clearing system:  
a customer need not keep track of his bills and make payment on due date  
b service provider need not print out the paper bill and courier them to the customer  
c cost reduction at the level of banking system as handling of cheques is avoided  
d all the above
89. The electronic system through which a company or a mutual fund can make payment of dividend to a large number of shareholders or unit-holders:- a M I C R , b truncation, c debit clearing system, d credit clearing system
90. The maximum value of a pre-paid payment instrument can not exceed as per RBI directions:  
a Rs.25000, b Rs.100000, c Rs.50000, d Rs.2 lac
91. is a mechanism under which an account holder with a bank can authorise an ECS user to recover an amount at a prescribed frequency by raising a debit in his account. a N E F T , b R T G S , c ECS-Debit d ECS-Credit
92. Under ECS debit, all the unprocessed debits have to be returned to the sponsor bank within a 24 hours b one business day, c 3 working days, d the specified time frame
93. Which of the following match the description of white-label ATM? a ATM installed by RBI. and operated by banks b ATM jointly owned and operated by different banks, c ATM installed by a bank and operated by other banks d ATM owned and operated by non-bank entities
94. RuPay Card scheme is operated by:- a non-bank entities, b National Payment Corporation of India c public sector and private sector banks jointly, d Reserve Bank of India
95. Unique Transaction Reference (UTR) is a character number :- a 10, b 12, c 15 d 22
96. Which of the following is not matched in the context of UTR number "XXXXRCYYYYMMDDnnnnnnnn"  
a XXXX is first 4 characters of IFSC of receiving participant, b R is RTGS and C is channel of transaction, c YYYYMMDD is year, month and date of transaction, d nnnnnnnn is sequence number
97. The physical parts of a computer are known as: a) software, b) hardware, c) shareware, d) fixed-ware, e) digital-ware
98. Which of the following cannot be treated as part of the computer hardware:- a ) mother board, b) cards, c) memory, d) ports, e) power supply
99. The software that consists of all the programs, languages and documents supplied by the manufacturer of the computers is called a) application software, b) system software, c) utility software, d) a and c e b and c
100. The application software is the software that is: a supplied by the computer manufacture b used by the computer manufacture, c developed by the user for specific functions, d developed by the manufacturer for manufacturing purpose, e c and d

## ANSWER

1	A	2	D	3	E	4	B	5	C	6	A	7	B	8	D	9	B	10	E
11	B	12	D	13	A	14	B	15	A	16	A	17	C	18	C	19	A	20	C
21	B	22	D	23	C	24	B	25	D	26	A	27	D	28	A	29	D	30	E
31	E	32	C	33	C	34	C	35	A	36	D	37	C	38	E	39	D	40	D
41	E	42	E	43	D	44	E	45	C	46	D	47	E	48	D	49	B	50	C
51	E	52	A	53	A	54	A	55	A	56	D	57	A	58	B	59	C	60	A

61	C	62	A	63	D	64	C	65	C	66	B	67	B	68	D	69	C	70	B
71	B	72	B	73	C	74	D	75	A	76	A	77	C	78	D	79	D	80	B
81	A	82	A	83	D	84	D	85	B	86	C	87	B	88	D	89	D	90	B
91	C	92	D	93	D	94	B	95	D	96	A	97	A	98	C	99	B	100	C