Paper DSC 203: BANKING AND FINANCIAL SERVICES

Objective: *To familiarize with Fund-based and Non-fund-based Financial Services.*

UNIT-I:INTRODUCTION:
Functions of Commercial Banks - Emerging Trends in Commercial Banking in India:E-Banking – Mobile Banking - Core Banking – Bank Assurance –OMBUDSMAN.RBI Constitution - Organizational Structure – Management - Objectives – Functions – Monetary Policy - Brief description on various types of banks--District Co-Operative Central Banks – Contemporary Banks - Regional Rural Banks -National Bank for Agriculture and Rural Development (NABARD) – SIDBI – Development Banks.

UNIT-II: BANKER AND CUSTOMER RELATIONSHIP:
Definition of Banker and Customer - Relationship Between Banker and Customer - KYC norms-General and Special Features of Relationship - Opening of Accounts - Special Types of Customers Like Minor, Married Women, Partnership Firms, Companies, Clubs and other Non-Trading Institutions.

UNIT-III:NEGOTIABLE INSTRUMENTS:
Descriptions and their Special Features - Duties and Responsibilities of Paying and Collecting Banker - Circumstances under which a Banker can refuse Payment of Cheques - Consequences of Wrongful Dishonors - Precautions to be taken while Advancing Loans Against Securities – Goods - Documents of Title to Goods - Loans against Real Estate -Insurance Policies - Against Collateral Securities – Banking Receipts.

UNIT–IV: INTRODUCTION TO FINANCIAL SERVICES:
Financial Services: Meaning-Functions- Classification- Scope – Fund Based Activities - Non-fund Based Activities – Modern Activities - Causes for Financial Innovation – New Financial Products and Services – Innovative Financial Instruments – Challenges Facing the Financial Service Sector – Present Scenario.

UNIT–V: FINANCIAL SERVICES:
Definition –Services of Merchant Banks –Problems and Scope of Merchant Banking in India-Venture Capital: Meaning, Features, Scope, Importance - Leasing-Definition and Steps- Types of Lease – Financial Lease – Operating Lease – Leverage Lease – Sale and Lease Back – Discounting:Concept – Advantages of Bill Discounting –Factoring-Meaning and Nature– Parties in Factoring – Merits and Demerits of Factoring –Forfeiting-Parties to Forfeiting – Costs of Forfeiting – Benefits of Forfeiting for Exporters and Importers .

Unit-I

INTRODUCTION

Commercial banks in India perform various functions that are crucial for the economy. Here are some of the key functions:

1. **Accepting Deposits**: Commercial banks accept various types of deposits such as savings deposits, current deposits, fixed deposits, etc., from the public.
2. **Providing Loans and Advances**: They provide loans and advances to individuals, businesses, and industries for various purposes such as working capital, investment, housing loans, etc.
3. **Credit Creation**: Commercial banks have the ability to create credit through the process of issuing loans and advances, thereby stimulating economic activity.
4. **Agency Functions**: Banks act as agents for their customers by performing various financial transactions such as collection of cheques, payment of bills, collection of dividends, etc.
5. **Facilitating Payments**: They provide payment services through various instruments such as cheques, demand drafts, electronic fund transfers (NEFT, RTGS, IMPS), debit cards, credit cards, etc.
6. **Providing Investment Options**: Banks offer various investment options to their customers such as fixed deposits, recurring deposits, mutual funds, insurance products, etc.
7. **Foreign Exchange Services**: Commercial banks facilitate foreign exchange transactions such as remittances, currency exchange, issuing foreign currency denominated instruments, etc.
8. **Credit Monitoring and Risk Management**: They assess the creditworthiness of borrowers and manage the associated risks through credit appraisal, credit scoring, risk management techniques, etc.
9. **Interest Rate Determination**: Commercial banks play a role in determining interest rates in the economy through their lending and deposit operations.
10. **Promotion of Financial Inclusion**: Banks contribute to financial inclusion by providing banking services to unbanked and under-banked sections of the society through initiatives such as branch expansion, no-frills accounts, mobile banking, etc.
11. **Supporting Government Programs**: Banks support various government programs such as priority sector lending, rural development schemes, financial inclusion initiatives, etc., by providing financial assistance and services.

These functions collectively contribute to the efficient functioning of the financial system and the overall economic development of India.

E-banking, also known as electronic banking or online banking, refers to the provision of banking services and products through electronic channels such as the internet, mobile devices, ATMs, and electronic payment systems. In India, e-banking has gained significant popularity and has transformed the way banking services are accessed and delivered. Here are some key aspects and functions of e-banking in India:

1. **Internet Banking**: Most banks in India offer internet banking facilities that allow customers to perform various banking transactions online, such as account balance inquiries, fund transfers, bill payments, and online account management.
2. **Mobile Banking**: With the widespread adoption of smartphones, mobile banking has become increasingly popular in India. Customers can access banking services through mobile apps provided by banks, enabling them to perform transactions on the go.
3. **ATM Services**: Automated Teller Machines (ATMs) play a crucial role in e-banking by providing 24/7 access to basic banking services such as cash withdrawals, balance inquiries, fund transfers, and bill payments.
4. **Electronic Funds Transfer**: E-banking facilitates electronic funds transfer (EFT) services such as NEFT (National Electronic Funds Transfer), RTGS (Real-Time Gross Settlement), and IMPS (Immediate Payment Service), enabling customers to transfer funds securely and quickly between accounts held at different banks.
5. **Online Bill Payment**: E-banking platforms allow customers to pay their bills electronically, including utility bills, credit card bills, insurance premiums, and other payments, thereby eliminating the need for manual bill payments.
6. **Online Investment and Trading**: Many banks offer online investment and trading platforms where customers can buy and sell stocks, mutual funds, and other financial instruments, as well as manage their investment portfolios online.
7. **Digital Wallets and Payment Apps**: E-banking has facilitated the rise of digital wallets and payment apps in India, allowing users to make cashless transactions, recharge mobile phones, pay for goods and services, and transfer money to other individuals using their smartphones.

Core banking refers to the centralization of banking functions and customer data into a single, integrated system known as the core banking system. In India, as in many other countries, core banking has become a fundamental aspect of modern banking operations. Here are some key points about core banking:

1. **Integration of Operations**: Core banking systems integrate various banking operations, including deposit taking, lending, account management, and transaction processing, into a centralized platform. This integration allows for seamless communication and data sharing across different branches and channels.
2. **Customer-Centric Approach**: Core banking focuses on providing a unified and consistent banking experience to customers across all channels, such as branches, internet banking, mobile banking, and ATMs. Customers can access their accounts and perform transactions from any channel without experiencing discrepancies in their account information.
3. **Real-Time Processing**: Core banking systems enable real-time processing of transactions, which means that transactions are reflected immediately in customers' account balances. This real-time processing enhances transparency and reduces the risk of errors and fraud.

The banking ombudsman is an important component of the banking regulatory framework in India. Here are some key points about the banking ombudsman scheme:

> **Purpose**: The banking ombudsman scheme was introduced by the Reserve Bank of India (RBI) to provide an expeditious and cost-effective mechanism for resolving complaints and grievances related to banking services rendered by scheduled commercial banks, regional rural banks, and certain other financial institutions.

The Reserve Bank of India (RBI) serves as the central bank of India and plays a crucial role in formulating and implementing monetary policy, regulating and supervising the banking sector, and maintaining financial stability. Here's an overview of the organizational structure, management, objectives, and functions of the RBI:

Organizational Structure:

1. **Central Board of Directors**: The highest decision-making body of the RBI is the Central Board of Directors, composed of officials appointed by the Government of India, including the Governor, Deputy Governors, and other Directors.
2. **Governor**: The Governor is the chief executive officer of the RBI and is responsible for the overall management and administration of the central bank. The Governor is appointed by the Government of India and serves as the ex-officio Chairman of the Central Board of Directors.
3. **Deputy Governors**: The RBI has a few Deputy Governors who assist the Governor in carrying out various functions and responsibilities. They oversee specific departments and divisions within the RBI.

4. **Departments and Divisions**: The RBI has several departments and divisions responsible for different functions, including monetary policy, banking regulation and supervision, currency management, economic research, financial markets operations, and payment systems.

Management:

The management of the RBI is vested in the Governor and the Central Board of Directors. The Governor is supported by Deputy Governors and a team of senior officials who oversee the day-to-day operations of the central bank.

Objectives:

1. **Monetary Stability**: The primary objective of the RBI is to maintain price stability and control inflation within a targeted range through the formulation and implementation of monetary policy measures.
2. **Financial Stability**: The RBI aims to ensure the stability and resilience of the financial system by regulating and supervising banks and other financial institutions, managing systemic risks, and resolving financial crises.
3. **Economic Development**: The RBI plays a supportive role in fostering economic growth and development by promoting financial inclusion, facilitating credit flow to priority sectors, and enhancing the efficiency of the financial intermediation process.
4. **Currency Management**: Another objective of the RBI is to issue and manage the currency of India, ensuring an adequate supply of currency notes and coins to meet the requirements of the economy.

Functions:

1. **Monetary Policy Formulation and Implementation**: The RBI formulates and implements monetary policy measures to achieve the objectives of price stability, economic growth, and financial stability. It sets key policy rates such as the repo rate, reverse repo rate, and the cash reserve ratio (CRR) to influence money supply and credit conditions in the economy.

1. **Banking Regulation and Supervision:** The RBI regulates and supervises banks and other financial institutions to maintain the stability and soundness of the banking system. It issues banking licenses, prescribes prudential norms and regulations, conducts inspections and audits, and takes corrective actions to address weaknesses and deficiencies in the banking sector.

2. **Currency Management**: The RBI is responsible for the issuance, distribution, and withdrawal of currency notes and coins in India. It ensures the integrity and security of currency and takes measures to combat counterfeiting and money laundering activities.
3. **Payment and Settlement Systems**: The RBI oversees the functioning of payment and settlement systems in India to ensure the safety, efficiency, and reliability of payment transactions. It operates the Real-Time Gross Settlement (RTGS) system, National Electronic Funds Transfer (NEFT), and other payment systems to facilitate interbank and retail payments.
4. **Foreign Exchange Management**: The RBI manages the foreign exchange reserves of India and formulates policies to promote exchange rate stability and external sector resilience. It intervenes in the foreign exchange market to manage exchange rate fluctuations and maintain external balance.
5. **Developmental Functions**: The RBI performs various developmental functions to promote financial inclusion, rural credit, agricultural finance, small-scale industries, and priority sector lending. It implements special credit programs and refinance schemes to support the growth of priority sectors and weaker sections of society.
6. **Research and Data Analysis**: The RBI conducts economic research and analysis to support its policy formulation and decision-making process. It publishes regular reports, economic indicators, and statistical data on various aspects of the economy, financial markets, and banking sector.
7. **Consumer Protection**: The RBI has a mandate to protect the interests of bank customers and ensure fair and transparent banking practices. It operates a banking ombudsman scheme to address customer complaints and grievances related to banking services.

Overall, the RBI plays a pivotal role in maintaining monetary stability, financial stability, and economic development in India through its wide-ranging functions, policies, and initiatives.

Monetary policy in India is formulated and implemented by the Reserve Bank of India (RBI), which is the country's central banking institution. The primary objective of monetary policy in India, like in many other countries, is to maintain price stability while also supporting economic growth. Here's an overview of how monetary policy works in India:

1. **Inflation Targeting**: Since 2016, India has adopted a formal inflation targeting framework. The RBI aims to keep inflation within a specified target range, with the target being set by the government in consultation with the RBI. As of my last update, the target range is typically set at around 4% with a tolerance band of +/- 2 percentage points.

2. **Policy Rates**: The RBI uses various policy rates to influence economic activity and inflation. The main policy rate is the repo rate, which is the rate at which the RBI lends short-term funds to commercial banks. Changes in the repo rate affect borrowing and lending rates in the economy. Other important rates include the reverse repo rate (the rate at which the RBI borrows from commercial banks) and the marginal standing facility (MSF) rate.
3. **Open Market Operations (OMOs)**: The RBI conducts OMOs by buying and selling government securities in the open market. These operations are used to manage liquidity in the banking system and influence interest rates.
4. **Cash Reserve Ratio (CRR)**: Banks in India are required to maintain a certain percentage of their net demand and time liabilities as reserves with the RBI, known as the cash reserve ratio. By adjusting the CRR, the RBI can control the amount of liquidity available to banks.
5. **Statutory Liquidity Ratio (SLR)**: Banks are also required to maintain a certain proportion of their deposits in the form of liquid assets such as government securities. This ratio is known as the statutory liquidity ratio. Changes in the SLR can also impact liquidity conditions in the banking system.

In India, there are several types of banks, each serving specific functions and catering to different segments of the economy. Here are the main types:

1. **Commercial Banks**: These are the most common types of banks in India, offering a wide range of financial services to individuals, businesses, and government entities. Commercial banks accept deposits, provide loans, facilitate payments, and offer various other banking products and services. Examples include State Bank of India (SBI), HDFC Bank, ICICI Bank, and Punjab National Bank.
2. **Public Sector Banks (PSBs)**: These are banks where the majority of the stake is held by the government. Historically, PSBs have played a crucial role in promoting financial inclusion and supporting priority sectors of the economy. Examples include State Bank of India (SBI), Punjab National Bank (PNB), and Bank of Baroda (BOB).
3. **Private Sector Banks**: Private sector banks are owned and operated by private individuals or corporations. They are known for their efficiency, innovation, and customer-centric approach. Private banks often cater to high-net-worth individuals and provide personalized banking services. Examples include HDFC Bank, ICICI Bank, Axis Bank, and Kotak Mahindra Bank.
4. **Foreign Banks**: These are banks that are incorporated outside India but have a presence in the country through branches or subsidiaries. Foreign

banks bring in global banking expertise and often cater to corporate clients, multinational companies, and high-income individuals. Examples include Citibank, Standard Chartered Bank, and HSBC.

5. **Regional Rural Banks (RRBs)**: RRBs are financial institutions established to provide banking facilities in rural areas. They are jointly owned by the central government, the concerned state government, and a sponsor bank (usually a PSB). RRBs focus on promoting agricultural and rural development by offering credit and other financial services to farmers and rural households.
6. **Cooperative Banks**: Cooperative banks are owned and operated by their members, who are typically individuals belonging to a particular community, profession, or geographic area. These banks operate under the principles of cooperation and mutual assistance, aiming to serve the financial needs of their members. Cooperative banks are further categorized into urban cooperative banks (UCBs) and rural cooperative banks (RCBs).
7. **Development Banks**: Development banks are specialized financial institutions that provide long-term funding and support for industrial and infrastructure projects. They play a crucial role in promoting economic development and industrial growth. Examples include the Industrial Development Bank of India (IDBI) and the Export-Import Bank of India (EXIM Bank).
8. **Payment Banks**: Payment banks are a new category of banks introduced by the Reserve Bank of India (RBI) to promote financial inclusion and facilitate digital payments. Payment banks focus on providing basic banking services such as accepting deposits and facilitating remittances, but they are not allowed to lend money. Examples include Paytm Payments Bank, Airtel Payments Bank, and India Post Payments Bank.

NABARD (National Bank for Agriculture and Rural Development):

- NABARD was established in 1982 by an act of Parliament with the objective of promoting sustainable and equitable agriculture and rural development in India.
- Its primary focus is on providing credit and other financial support to agriculture and rural sectors.
- NABARD refinances financial institutions that lend to agriculture, rural infrastructure, and rural non-farm sectors.
- It also supports various developmental initiatives such as watershed development, rural infrastructure projects, and agricultural research.
- NABARD plays a crucial role in implementing government schemes aimed at rural development and poverty alleviation.

SIDBI (Small Industries Development Bank of India):

- SIDBI was established in 1990 as a wholly-owned subsidiary of IDBI (Industrial Development Bank of India) with the aim of promoting, financing, and developing small-scale industries in the country.
- Its primary focus is on providing financial and developmental assistance to the MSME (Micro, Small, and Medium Enterprises) sector.
- SIDBI provides various financial products and services, including term loans, working capital assistance, and project finance, to MSMEs.
- It also supports MSMEs through initiatives such as capacity building, technology upgradation, and market development.
- SIDBI partners with various stakeholders, including commercial banks, state financial corporations, and NBFCs (Non-Banking Financial Companies), to extend credit and support to the MSME sector.

Both NABARD and SIDBI play crucial roles in fostering inclusive growth, promoting entrepreneurship, and addressing the financial needs of specific sectors crucial for India's economic development.

UNIT-II

BANKER AND CUSTOMER RELATIONSHIP

A banker is an individual or entity that provides financial services, such as deposit-taking, lending, and investment, to customers. Banks play a crucial role in the economy by facilitating the flow of funds between savers and borrowers, managing risk, and providing various financial products and services.

A customer, in the context of banking, refers to an individual, business, or organization that utilizes the services offered by a bank. Customers typically open accounts, such as savings, checking, or investment accounts, with a bank to store their money, access credit, make transactions, and avail themselves of other financial services provided by the bank.

The relationship between a banker and a customer is primarily one of trust and mutual benefit. Here are some key aspects of this relationship:

1. **Service Provision**: The banker provides various financial services to the customer, including deposit-taking, lending, investment opportunities, and financial advice.
2. **Fiduciary Responsibility**: Banks have a fiduciary duty to act in the best interests of their customers. This includes safeguarding customers' deposits, providing accurate information, and offering suitable financial products based on customers' needs and risk profiles.
3. **Confidentiality**: Banks are expected to maintain the confidentiality of their customers' financial information. This includes personal details, account balances, transaction history, and other sensitive data.
4. **Trust**: The relationship between a banker and a customer is built on trust. Customers trust banks to securely hold their money, provide reliable financial services, and offer fair terms and conditions.
5. **Communication**: Effective communication is essential in the banker-customer relationship. Banks should communicate clearly and transparently with customers regarding fees, interest rates, account terms, and any changes to policies or services.
6. **Responsiveness**: Banks should be responsive to their customers' needs and inquiries. This includes providing timely assistance, addressing concerns or complaints, and offering support when customers encounter financial difficulties.
7. **Compliance and Regulation**: Banks must comply with various regulations and laws governing the banking industry to ensure the fair treatment of customers, prevent financial crimes, and maintain the stability of the financial system.

Overall, the relationship between a banker and a customer is based on professionalism, integrity, and the shared goal of achieving financial objectives and security.

KYC (Know Your Customer) norms in India are regulatory measures introduced by the Reserve Bank of India (RBI) and other financial regulators to prevent financial fraud, money laundering, and terrorist financing. These norms require financial institutions to verify and authenticate the identity of their customers before providing services.

Here are some key aspects of KYC norms in India:

1. **Documentation**: Customers are required to provide certain documents to establish their identity and address. Common documents include Aadhaar card, passport, voter ID, driver's license, and utility bills.
2. **In-Person Verification (IPV)**: In some cases, customers may need to undergo in-person verification to confirm their identity. This can involve visiting a bank branch or a designated location with their original documents.
3. **Customer Due Diligence (CDD)**: Financial institutions are required to conduct customer due diligence to assess the risk associated with a particular customer. This involves understanding the customer's profile, business activities, and the source of funds.
4. **Risk Categorization**: Customers are categorized based on their risk profile, with higher scrutiny applied to those deemed to be of higher risk, such as politically exposed persons (PEPs) or those involved in high-value transactions.
5. **Ongoing Monitoring**: KYC norms require financial institutions to continuously monitor their customers' transactions and update their KYC records periodically. This helps in identifying any suspicious activities or changes in the customer's profile.
6. **Penalties for Non-Compliance**: Non-compliance with KYC norms can lead to penalties for financial institutions, including fines and regulatory sanctions. Therefore, it is in the interest of banks and other financial entities to adhere strictly to these regulations.
7. **Electronic KYC (e-KYC)**: To streamline the process and make it more convenient for customers, the RBI has introduced e-KYC, which allows for electronic verification of identity and address using Aadhaar authentication or other electronic methods.

In India, opening a bank account involves several steps and requirements. Here's a general overview of the process:

1. **Choose a Bank**: Decide which bank you want to open an account with based on factors such as the bank's reputation, branch network, services offered, fees, and convenience.
2. **Select the Type of Account**: Different types of bank accounts are available to cater to various needs, such as savings accounts, current accounts, salary accounts, and specialized accounts like senior citizen accounts or accounts for minors.
3. **Gather Required Documents**: Typically, you'll need to provide certain documents to open a bank account. Commonly required documents include:
   - Proof of identity: Aadhaar card, passport, voter ID card, PAN card, or any other government-issued ID.
   - Proof of address: Aadhaar card, passport, utility bill (electricity, water, gas, etc.), rent agreement, or any other document issued by a government authority.
   - Passport-sized photographs.
   - For specific types of accounts or certain banks, additional documents may be required.
4. **Visit the Bank Branch**: Go to the nearest branch of the chosen bank with all the required documents.
5. **Fill out the Account Opening Form**: Request an account opening form from the bank, and fill it out with accurate information. Be sure to double-check all details before submitting the form.
6. **Submit Documents**: Provide the required documents along with the filled-out account opening form to the bank representative.
7. **Photograph and Biometric Verification**: Some banks may require photograph and biometric verification as part of the account opening process, especially if you are using Aadhaar as proof of identity and address.
8. **Initial Deposit**: Depending on the type of account, you may need to make an initial deposit to activate the account. The amount varies depending on the bank and the type of account chosen.
9. **Receive Account Kit**: Once all required formalities are completed and documents verified, the bank will issue an account kit containing your account number, passbook, ATM/Debit card (if applicable), and other relevant details.

10. **Activate the Account**: If an ATM/Debit card is provided, you'll need to activate it as per the bank's instructions. Similarly, you may need to set up online banking and mobile banking services if available.

Here's how some of these special types of customers are typically handled:

1. **Minors**: Minors are individuals under the age of 18 who may not have full legal capacity to enter into contracts. When a minor opens a bank account, the KYC process typically involves providing identity and address proof for both the minor and their guardian or parent. The guardian or parent usually acts as the joint holder or trustee for the account until the minor reaches the legal age.
2. **Married Women**: In the case of married women, especially in India, there may be additional documentation required to establish identity and marital status. This may include providing a marriage certificate or any other relevant documents.
3. **Partnership Firms**: KYC for partnership firms involves verifying the identity of all partners and obtaining partnership deeds or agreements. Additionally, banks may require documents such as the certificate of registration, PAN card of the firm, and address proof.
4. **Companies**: For companies, KYC involves verifying the identity of directors, shareholders, and beneficial owners. Documents such as the Certificate of Incorporation, Memorandum and Articles of Association, board resolution authorizing account opening, and KYC documents of directors and shareholders are typically required.
5. **Clubs and other Non-Trading Institutions**: KYC for clubs and non-trading institutions may involve verifying the identity of office bearers or authorized signatories. Documentation may include registration certificates, bylaws or rules, and KYC documents of authorized signatories.

UNIT-III

NEGOTIABLE INSTRUMENTS

Negotiable instruments in India, governed primarily by the Negotiable Instruments Act, 1881, possess several special features that enhance their usability and facilitate commercial transactions. Here are **some key features:**

1. **Transferability**: One of the fundamental characteristics of negotiable instruments is their transferability. They can be transferred from one party to another by way of endorsement and delivery (in the case of order instruments) or by mere delivery (in the case of bearer instruments). This transferability ensures ease of circulation and facilitates trade and commerce.
2. **Bearer or Order Instruments**: Negotiable instruments in India can be classified as either bearer instruments or order instruments. Bearer instruments are payable to the bearer of the instrument, while order instruments are payable to a specific person or their order.
3. **Presumptions of Consideration and Good Faith**: The law presumes that every negotiable instrument was made or drawn for consideration and that it was made, accepted, or endorsed with good faith. These presumptions protect the interests of parties dealing with negotiable instruments.
4. **Holder in Due Course**: A holder in due course is a person who acquires a negotiable instrument for value, before it is overdue, in good faith, and without notice of any defects in the instrument. A holder in due course enjoys certain privileges, including the right to enforce the instrument free from most defenses and claims.
5. **No Privity of Contract Required**: In a negotiable instrument, the liability of the parties is independent of the underlying contract that gave rise to the instrument. This means that a person who takes a negotiable instrument in good faith and for value can enforce it against the parties to the instrument without regard to the original transaction.
6. **Statutory Protection**: The Negotiable Instruments Act provides statutory protection to certain parties, such as holders in due course, by defining their rights, liabilities, and defenses.
7. **Prescribed Formalities**: Negotiable instruments are subject to certain formalities prescribed by law, such as the requirement of a certain format, specific language, and signatures of parties involved. Compliance with these formalities is essential for the instrument to be legally enforceable.
8. **Promise or Order to Pay**: Negotiable instruments contain an unconditional promise or order to pay a certain sum of money. This promise or order must be in writing and signed by the maker or drawer.

The duties and responsibilities of paying and collecting bankers primarily revolve around facilitating transactions and ensuring the smooth flow of funds between parties. Here's a breakdown of their key duties:

1. **Paying Banker Responsibilities**:
   - **Honoring Payment Instructions**: The paying banker is responsible for honoring payment instructions received from its customers, typically in the form of checks or electronic fund transfers.
   - **Verification of Instruments**: Before making payments, the paying banker must verify the authenticity of payment instruments such as checks to ensure they are not counterfeit or altered.
   - **Maintaining Sufficient Funds**: The paying banker must ensure that there are sufficient funds available in the customer's account to cover the requested payments. If funds are insufficient, the payment may be dishonored.
   - **Timely Processing**: Payments should be processed promptly and efficiently to meet customer requirements and regulatory timelines.
   - **Notification of Dishonor**: If a payment cannot be honored due to insufficient funds or other reasons, the paying banker must notify the customer promptly to avoid any inconvenience.
2. **Collecting Banker Responsibilities**:
   - **Receipt of Instruments**: The collecting banker receives payment instruments such as checks and drafts on behalf of its customers for collection.
   - **Presentation for Payment**: The collecting banker presents these instruments to the drawee bank or payer for payment.
   - **Follow-Up on Unpaid Instruments**: If an instrument is not paid, the collecting banker may follow up with the drawee bank or payer to ascertain the reason for non-payment and take necessary action.
   - **Crediting Customer Accounts**: Once payment is received, the collecting banker credits the proceeds to the customer's account after deducting any applicable fees or charges.
   - **Notification of Receipt**: The collecting banker notifies the customer upon receipt of payment or any other relevant communication regarding the collection process.

Banks have the authority to refuse payment of checks under certain circumstances to protect both themselves and their customers. Here are some common **circumstances under which a banker can refuse payment of cheques:**

1. **Insufficient Funds**: If the drawer's account does not have enough funds to cover the amount specified on the cheque, the bank can refuse payment. This is typically referred to as a "bounced" or "dishonored" cheque.
2. **Frozen Account**: If the drawer's account is frozen due to legal proceedings, court orders, or other regulatory reasons, the bank may refuse payment until the account is unfrozen.
3. **Signature Mismatch**: If the signature on the cheque does not match the specimen signature provided by the account holder, the bank may refuse payment to prevent fraud or unauthorized transactions.
4. **Stale or Expired Cheque**: Banks may refuse payment of cheques that are presented after a certain period, known as the cheque's expiry date. This period varies by jurisdiction but is typically around six months to a year.
5. **Post-Dated Cheques**: If a cheque is presented for payment before the date written on it (post-dated), the bank may refuse payment until the specified date.
6. **Irregularities or Alterations**: Any irregularities or alterations on the cheque, such as changes to the payee's name or amount, may lead the bank to refuse payment until the matter is clarified.
7. **Stop Payment Instructions**: If the drawer instructs the bank to stop payment on a cheque before it is presented, the bank must comply with this instruction and refuse payment.
8. **Legal Restrictions**: Banks may refuse payment of cheques if there are legal restrictions or regulatory requirements preventing the transaction, such as court orders, bankruptcy proceedings, or sanctions.
9. **Account Closure**: If the drawer's account has been closed or if the account holder is deceased, the bank may refuse payment of any cheques drawn on that account.

In India, **wrongful dishonor** of a negotiable instrument can have several consequences, both for the party dishonoring the instrument (typically the drawee bank) and for the party to whom the instrument was issued. Here are some of the key consequences:

1. **Civil Liability**: The drawer or issuer of the dishonored instrument may face civil liability for damages incurred by the payee or holder due to the wrongful dishonor. The aggrieved party can file a civil lawsuit against the drawer to recover the amount specified in the instrument, along with any additional damages caused by the dishonor, such as financial losses or reputational harm.
2. **Compensation**: The drawer may be required to compensate the payee or holder for any financial losses suffered as a result of the wrongful

dishonor. This compensation may include the amount specified in the instrument, plus interest, bank charges, legal fees, and other related expenses.

3. **Criminal Liability**: In certain cases of wrongful dishonor, particularly if done with fraudulent intent or in violation of banking regulations, criminal liability may arise. The aggrieved party or relevant authorities can file a criminal complaint against the responsible individuals or entities, leading to criminal prosecution and potential penalties, including fines or imprisonment.
4. **Loss of Reputation**: Wrongful dishonor can damage the reputation of the drawer or issuer, particularly if it is perceived as a sign of financial instability, dishonesty, or incompetence. This loss of reputation can have long-term consequences, affecting the individual's ability to conduct business, obtain credit, or maintain trust with customers and business partners.
5. **Legal Proceedings**: The aggrieved party may initiate legal proceedings against the drawee bank for wrongful dishonor. This can involve filing a complaint with banking ombudsmen, seeking redress through consumer forums, or pursuing civil litigation in courts to enforce their rights and seek compensation for damages.
6. **Additional Costs**: In addition to the financial losses incurred due to the dishonor, the aggrieved party may also incur additional costs in pursuing legal remedies, such as legal fees, court expenses, and other related costs. These costs can further burden the aggrieved party and escalate the overall impact of the wrongful dishonor.

Advancing loans against securities involves risks for the lender, and therefore, it's crucial to take appropriate precautions to mitigate these risks. Here are some precautions that lenders should consider:

1. **Thorough Due Diligence**: Conduct comprehensive due diligence on the borrower and the securities offered as collateral. This includes assessing the borrower's creditworthiness, financial stability, repayment capacity, and the quality and marketability of the securities.
2. **Appropriate Valuation**: Ensure proper valuation of the securities offered as collateral to determine their current market value. Overvaluing securities can expose the lender to higher risks in case of default.
3. **Diversification of Collateral**: Avoid over-concentration of loans against a single type of security or a small pool of securities. Diversifying the collateral portfolio helps spread risk and reduces the lender's exposure to fluctuations in the value of specific securities.
4. **Loan-to-Value Ratio**: Establish a conservative loan-to-value (LTV) ratio, which determines the maximum amount of loan relative to the value

of the securities pledged. Setting a prudent LTV ratio helps protect the lender against potential declines in the value of the collateral.

5. **Clear Documentation**: Clearly document the terms and conditions of the loan agreement, including the rights and obligations of both parties, the interest rate, repayment schedule, default clauses, and the process for enforcing collateral in case of default.
6. **Legal Compliance**: Ensure compliance with all regulatory requirements, including those related to lending practices, securities regulations, documentation, and disclosures. Non-compliance can lead to legal liabilities and regulatory sanctions.
7. **Monitoring and Surveillance**: Regularly monitor the financial health of the borrower, as well as the value and market conditions of the securities pledged as collateral. Promptly address any signs of deterioration in credit quality or collateral value.
8. **Review and Renewal**: Periodically review the loan portfolio and reassess the quality of collateral. Consider renewal or modification of loan terms based on changes in the borrower's circumstances or the value of the collateral.
9. **Security Perfection**: Ensure proper perfection of security interests in the pledged securities through appropriate registration, documentation, and filing procedures. This helps protect the lender's priority rights in case of competing claims or insolvency proceedings.
10. **Risk Management Policies**: Develop and implement robust risk management policies and procedures for lending against securities, including guidelines for credit assessment, collateral valuation, exposure limits, and risk mitigation strategies.

"Documents of title to goods" refer to legal documents that represent ownership or entitlement to goods. These documents are important in commercial transactions, particularly in the sale and transport of goods. They serve as evidence of ownership, facilitate the transfer of goods between parties, and may be used to obtain payment or financing. Common examples of documents of title to goods include:

1. **Bill of Lading (B/L)**: A bill of lading is a document issued by a carrier (such as a shipping company or freight forwarder) to acknowledge receipt of goods for shipment. It serves as a contract of carriage, a receipt for the goods, and a document of title. It can be negotiable, meaning it can be transferred to another party, allowing the holder to claim the goods upon arrival at the destination.
2. **Warehouse Receipt**: A warehouse receipt is issued by a warehouse operator to acknowledge receipt of goods for storage. It represents ownership or control of the goods stored in the warehouse. Like a bill of

lading, a warehouse receipt may be negotiable, allowing the holder to transfer ownership of the goods without physically moving them.

3. **Delivery Order**: A delivery order is issued by a carrier or warehouse operator authorizing the release of goods to a specified party. It may accompany other documents, such as a bill of lading or warehouse receipt, to facilitate the transfer of goods.
4. **Dock Warrant**: A dock warrant is similar to a warehouse receipt but is issued specifically for goods stored in a dock or port area. It serves as evidence of ownership or control of the goods and may be transferred to another party.
5. **Airway Bill (AWB)**: An airway bill is a document issued by an airline or air freight carrier for the transportation of goods by air. It serves as a receipt for the goods and a contract of carriage. While not typically a document of title in the same way as a bill of lading, an airway bill may be used in certain transactions to establish ownership or control of the goods.

When a borrower takes out a loan and provides collateral, they are essentially pledging an asset as security for the loan. This arrangement is known as a "**loan against collateral**" or "secured loan." Here's how it works and the types of securities typically accepted:

1. **Definition**: A loan against collateral is a type of loan where the borrower pledges an asset (the collateral) to the lender as security for the loan. If the borrower defaults on the loan, the lender has the right to seize the collateral and sell it to recover the outstanding debt.
2. **Types of Collateral**:
    - **Real Estate**: Property such as land, buildings, or homes can be used as collateral for a loan. Mortgages are a common example of loans secured by real estate.
    - **Vehicles**: Cars, trucks, boats, or other vehicles can serve as collateral for loans. Lenders may hold the vehicle's title until the loan is repaid.
    - **Financial Assets**: Securities such as stocks, bonds, or mutual funds can be pledged as collateral for a loan. In this case, the lender may place a lien on the securities until the loan is satisfied.
    - **Savings or Deposits**: Savings accounts, certificates of deposit (CDs), or other deposit accounts can sometimes be used as collateral for loans. The lender may freeze or pledge the funds in the account until the loan is repaid.
    - **Inventory or Equipment**: Businesses may use inventory or equipment as collateral for loans, particularly in asset-based lending arrangements.

    - **Jewelry or Valuables**: High-value items such as jewelry, art, or collectibles can sometimes be pledged as collateral for a loan.
3. **Benefits for Borrowers**:
    - Lower Interest Rates: Secured loans typically come with lower interest rates compared to unsecured loans because the collateral reduces the lender's risk.
    - Higher Loan Amounts: Lenders may be willing to offer higher loan amounts when collateral is provided, as they have recourse if the borrower defaults.
    - Improved Approval Odds: Borrowers with less-than-perfect credit may have an easier time getting approved for a secured loan since the collateral mitigates the lender's risk.
4. **Risks for Borrowers**:
    - Asset Seizure: If the borrower defaults on the loan, the lender has the right to seize and sell the collateral to recover the outstanding debt.
    - Loss of Asset: If the collateral is seized and sold, the borrower may lose ownership of the asset pledged as collateral.
    - Credit Impact: Defaulting on a secured loan can damage the borrower's credit score and make it harder to borrow in the future.

UNIT–IV

INTRODUCTION TO FINANCIAL SERVICES

Meaning of Financial Services:

Financial services refer to the economic services provided by the finance industry, encompassing a broad spectrum of businesses that manage money, including banks, credit unions, insurance companies, investment firms, and other financial institutions. These services include everything from banking and lending to investing, insurance, wealth management, and financial planning.

Functions of Financial Services:

1. **Banking Services**: This includes basic banking functions such as deposit-taking, lending, and payment services. Banks provide checking and savings accounts, issue loans and mortgages, and facilitate electronic fund transfers.
2. **Investment Services**: Financial institutions offer various investment products and services to help individuals and businesses grow their wealth. This includes brokerage services for buying and selling stocks,

bonds, mutual funds, and other securities, as well as investment advisory services and wealth management.

3. **Insurance Services**: Insurance companies provide coverage against financial losses due to unforeseen events such as accidents, illnesses, natural disasters, or death. Insurance services include life insurance, health insurance, property and casualty insurance, and liability insurance.
4. **Financial Planning and Advisory**: Financial advisors and planners help individuals and businesses assess their financial situation, set financial goals, and develop strategies to achieve those goals. They provide advice on budgeting, saving, investing, retirement planning, estate planning, and risk management.
5. **Credit and Lending**: Financial institutions extend credit and provide loans to individuals, businesses, and governments to finance various activities and purchases. This includes consumer loans, business loans, mortgages, credit cards, and lines of credit.
6. **Payment and Settlement Services**: Financial services facilitate the movement of money and the settlement of financial transactions. This includes payment processing, clearing and settlement services for securities transactions, and electronic payment systems such as credit cards, debit cards, and online payment platforms.
7. **Risk Management**: Financial institutions offer various risk management products and services to help individuals and businesses protect against financial risks. This includes hedging instruments, derivatives, and insurance products designed to mitigate risks such as interest rate risk, currency risk, market risk, and credit risk.
8. **Wealth Management**: Wealth management services cater to high-net-worth individuals and families, offering personalized investment advice, portfolio management, estate planning, tax planning, and other specialized financial services to help preserve and grow wealth over the long term.

Financial services encompass a broad range of activities provided by financial institutions and professionals to individuals, businesses, and governments. These services can be classified into several categories based on their nature, purpose, and target clientele. **Here's a classification and overview of the scope of financial services:**

1. **Banking Services**:
   - Deposit Services: Accepting deposits from customers, such as savings accounts, current accounts, and fixed deposits.
   - Lending Services: Providing loans, mortgages, and credit facilities to individuals and businesses.

- Payment Services: Facilitating payment transactions, including electronic transfers, cheques, credit cards, and mobile payments.
- Foreign Exchange Services: Buying, selling, and exchanging foreign currencies for customers engaged in international trade or travel.

2. **Investment Services**:
   - Wealth Management: Offering investment advice, portfolio management, and financial planning services to high-net-worth individuals.
   - Asset Management: Managing investment portfolios on behalf of institutional investors, mutual funds, and pension funds.
   - Brokerage Services: Facilitating the buying and selling of securities, such as stocks, bonds, derivatives, and commodities, on behalf of clients.
   - Investment Banking: Assisting companies in raising capital through underwriting securities offerings, mergers and acquisitions (M&A), and advisory services.
3. **Insurance Services**:
   - Life Insurance: Providing coverage for life risks, such as death, disability, and illness, with benefits payable to beneficiaries or policyholders.
   - Property and Casualty Insurance: Offering protection against property damage, liability, and other unforeseen risks, including home insurance, auto insurance, and liability insurance.
   - Health Insurance: Covering medical expenses, hospitalization costs, and other healthcare-related risks for individuals and families.
4. **Financial Advisory Services**:
   - Financial Planning: Assessing clients' financial goals, risk tolerance, and investment objectives to develop customized financial plans.
   - Retirement Planning: Helping individuals and retirees plan for their long-term financial security, including pension planning, annuities, and retirement income strategies.
   - Tax Planning: Advising clients on tax-efficient investment strategies, deductions, and tax-saving opportunities.
5. **Fintech Services**:
   - Digital Banking: Providing online and mobile banking services, including account management, bill payments, and money transfers.
   - Peer-to-Peer (P2P) Lending: Facilitating lending and borrowing transactions between individuals or businesses through online platforms.

    - Robo-Advisory: Offering automated investment advice and portfolio management services using algorithms and technology.
6. **Other Financial Services**:
    - Trust and Estate Planning: Creating trusts, wills, and estate plans to manage assets and transfer wealth to beneficiaries.
    - Corporate Finance: Advising companies on capital structure, mergers and acquisitions, restructuring, and fundraising strategies.
    - Risk Management: Identifying, assessing, and mitigating financial risks, such as market risk, credit risk, operational risk, and regulatory compliance risk.

1. Fund-Based Activities:

Fund-based activities involve the deployment of funds or financial resources by financial institutions or entities to generate returns or fulfill financial needs. These activities typically involve the actual transfer of money or capital. Some common examples of fund-based activities include:

- **Lending and Credit Facilities**: Providing loans, advances, or credit facilities to individuals, businesses, or governments. This includes various types of loans such as personal loans, business loans, mortgages, and project financing.
- **Investments**: Investing in financial assets such as stocks, bonds, mutual funds, commodities, real estate, and other securities to earn returns. This includes activities carried out by banks, investment firms, hedge funds, and individual investors.
- **Trading**: Buying and selling financial assets or securities in the secondary market to earn profits from price fluctuations. This includes activities such as equity trading, bond trading, foreign exchange trading, and commodity trading.
- **Leasing and Hire Purchase**: Providing leasing or hire-purchase arrangements for assets such as equipment, machinery, vehicles, or real estate. This allows businesses or individuals to use the asset for a specified period in exchange for regular payments.
- **Factoring and Invoice Discounting**: Providing financing by purchasing accounts receivable or invoices from businesses at a discount. This helps businesses improve cash flow by receiving immediate payment for their outstanding invoices.

2. Non-Fund-Based Activities:

Non-fund-based activities involve providing financial services or facilities without the actual transfer of funds. Instead, these activities involve the issuance of guarantees, letters of credit, or other financial instruments to facilitate transactions or provide financial security. Some common examples of non-fund-based activities include:

- **Guarantees**: Issuing guarantees or sureties on behalf of customers to assure payment or performance obligations. This includes performance guarantees, payment guarantees, bid bonds, and advance payment guarantees.
- **Letters of Credit (LC)**: Issuing letters of credit to facilitate trade transactions between buyers and sellers. Letters of credit serve as a payment guarantee from the issuing bank to the beneficiary (seller) upon fulfillment of specified conditions.
- **Bank Guarantees**: Providing bank guarantees to secure financial transactions or contractual obligations. Bank guarantees can be used in various situations such as securing loans, participating in tenders, or fulfilling contractual obligations.
- **Derivative Products**: Offering derivative products such as options, futures, swaps, and forwards to hedge risks or speculate on price movements. Derivatives are financial contracts whose value is derived from the value of an underlying asset or reference rate.

3. Modern Activities:

Modern activities in the financial sector refer to innovative or contemporary financial services, products, or technologies that have emerged in response to changing market dynamics, technological advancements, or regulatory developments. These activities often leverage digital platforms, data analytics, and automation to enhance efficiency, accessibility, and customer experience. Some examples of modern activities in finance include:

- **Digital Banking and Payments**: Providing banking services and facilitating financial transactions through digital channels such as online banking, mobile banking, and digital payment platforms. This includes services such as mobile wallets, peer-to-peer payments, and contactless payments.
- **Fintech Services**: Offering financial technology (fintech) solutions and services that leverage technology to enhance financial processes, improve access to financial services, and innovate traditional banking practices. This includes fintech startups, online lending platforms, robot-advisors, and blockchain-based solutions.
- **Crowdfunding and Peer-to-Peer Lending**: Facilitating fundraising or lending activities through online platforms that connect investors or lenders with borrowers or project sponsors. This includes equity crowdfunding, peer-to-peer lending, and reward-based crowdfunding.

- **Algorithmic Trading and Quantitative Finance**: Utilizing algorithms, data analytics, and mathematical models to automate trading strategies, portfolio management, risk assessment, and investment decisions. This includes high-frequency trading, quantitative hedge funds, and algorithmic trading platforms.
- **Cryptocurrency and Blockchain**: Introducing digital currencies and blockchain technology as alternative forms of payment, investment, and financial infrastructure. This includes cryptocurrencies such as Bitcoin and Ethereum, blockchain-based smart contracts, and decentralized finance (DeFi) platforms.

Financial innovation is driven by various factors, including changes in technology, market dynamics, regulatory environment, and consumer preferences. Here are **some common causes for financial innovation:**

1. **Technological Advancements**: Advances in information technology, data analytics, and digital infrastructure have facilitated the development of new financial products, services, and platforms. Innovations such as mobile banking, online trading, and blockchain technology have transformed the way financial services are delivered and accessed.
2. **Market Demand**: Changing consumer preferences, needs, and behaviors drive demand for innovative financial products and services. Consumers seek convenience, speed, transparency, and personalized experiences in their financial interactions, prompting financial institutions to innovate to meet these demands.
3. **Competition and Globalization**: Increased competition within the financial industry, as well as globalization of financial markets, incentivize financial institutions to innovate to differentiate themselves, gain market share, and expand their reach. Fintech startups, non-bank financial institutions, and global players disrupt traditional banking models and stimulate innovation.
4. **Regulatory Changes**: Evolving regulatory frameworks and policies influence the development of financial innovation. Regulatory changes aimed at promoting competition, consumer protection, financial inclusion, and stability can spur innovation by creating opportunities or removing barriers for new entrants and innovative solutions.
5. **Risk Management and Financial Engineering**: Financial innovation often arises in response to the need for better risk management tools, hedging mechanisms, and financial engineering solutions. Innovations such as derivatives, securitization, and risk models enable institutions to manage risk more effectively, optimize capital allocation, and enhance financial performance.

6. **Efficiency and Cost Reduction**: Financial institutions seek to improve efficiency, reduce costs, and streamline operations through innovation. Automation, digitization, and process optimization help institutions enhance operational efficiency, reduce manual errors, and lower transaction costs, benefiting both providers and consumers of financial services.
7. **Demographic and Socioeconomic Trends**: Changing demographic trends, such as aging populations, urbanization, and increasing income inequality, create new opportunities and challenges for financial innovation. Innovations in retirement planning, wealth management, and social impact investing address evolving demographic and socioeconomic needs.
8. **Environmental and Sustainability Goals**: Growing awareness of environmental, social, and governance (ESG) factors and sustainable development goals (SDGs) drive demand for innovative financial products and services that promote sustainability, responsible investing, and impact investing. Green bonds, sustainable investment funds, and carbon-neutral financing are examples of such innovations.
9. **Disruptions and Crises**: Economic disruptions, financial crises, and market shocks often catalyze financial innovation by exposing weaknesses in existing systems, stimulating regulatory reforms, and prompting market participants to develop new solutions to address emerging risks and challenges.

New financial products and services continually emerge to meet evolving consumer needs, technological advancements, and changes in regulatory environments. Here are some examples of **recent trends and innovations in the financial services industry**:

1. **Digital Banking Platforms**: With the rise of fintech companies and digital banking, new platforms offer seamless online and mobile banking experiences, including account opening, money transfers, bill payments, and financial management tools.
2. **Cryptocurrency and Blockchain Solutions**: The development of cryptocurrencies like Bitcoin and Ethereum has spurred the creation of innovative blockchain-based financial products and services, including digital wallets, decentralized finance (DeFi) platforms, and blockchain-based payment solutions.
3. **Robo-Advisors and AI-Powered Investing**: Robo-advisors use algorithms and artificial intelligence (AI) to automate investment advice and portfolio management, providing low-cost investment solutions and personalized financial planning services to retail investors.

4. **Peer-to-Peer (P2P) Lending Platforms**: P2P lending platforms connect borrowers directly with investors, bypassing traditional banks and financial institutions. These platforms offer alternative lending solutions and potentially higher returns for investors, while providing borrowers with access to financing outside the traditional banking system.
5. **Open Banking and API Integration**: Open banking initiatives enable the sharing of financial data between banks, fintech companies, and third-party service providers through application programming interfaces (APIs). This facilitates the development of innovative financial products and services, such as account aggregation, payment initiation, and personalized financial advice.

6. **Sustainable and ESG Investing**: There's a growing interest in sustainable and environmentally conscious investing, leading to the development of environmental, social, and governance (ESG) investment products, green bonds, and impact investing funds that aim to generate positive social and environmental outcomes alongside financial returns.
7. **Instant Payments and Real-Time Settlement**: Real-time payment systems and instant payment solutions allow for immediate fund transfers and settlement of transactions, enhancing speed, convenience, and efficiency in payment processing and money transfers.
8. **Fractional Ownership and Tokenization**: Tokenization involves representing real-world assets, such as real estate, art, or securities, as digital tokens on blockchain platforms. This enables fractional ownership, increased liquidity, and accessibility to previously illiquid or high-value assets.
9. **Embedded Finance and Banking as a Service (BaaS)**: Embedded finance integrates financial services into non-financial products and platforms, allowing companies to offer banking, payments, lending, and insurance services seamlessly within their ecosystems. Banking as a Service (BaaS) enables third-party providers to access banking infrastructure and offer financial products and services under their own brands.
10. **Regtech and Compliance Solutions**: Regulatory technology (regtech) solutions use AI, machine learning, and data analytics to streamline regulatory compliance processes, enhance risk management, and ensure adherence to financial regulations and reporting requirements.

The financial services sector faces several challenges in the present scenario, influenced by various factors such as technological advancements, regulatory changes, economic uncertainties, and evolving consumer preferences. **Here are some of the key challenges:**

1. **Cybersecurity Threats**: With the increasing reliance on digital technologies and online platforms, the financial services sector is vulnerable to cyberattacks, data breaches, and ransomware threats. Protecting sensitive customer data, securing online transactions, and maintaining robust cybersecurity measures are critical challenges for financial institutions.
2. **Digital Transformation**: While digital transformation offers opportunities for innovation and efficiency, it also presents challenges in terms of legacy system integration, talent acquisition, cultural change, and cybersecurity risks. Financial institutions need to navigate the complexities of digitalization while ensuring resilience, scalability, and compliance with regulatory requirements.
3. **Regulatory Compliance**: Regulatory requirements continue to evolve, driven by changes in legislation, international standards, and regulatory expectations. Compliance with complex and stringent regulations, such as anti-money laundering (AML), Know Your Customer (KYC), data protection, and consumer protection laws, poses significant challenges for financial institutions, requiring substantial investments in compliance infrastructure and resources.
4. **Fintech Disruption**: Fintech startups and tech giants are disrupting traditional financial services with innovative business models, digital platforms, and agile technologies. Financial institutions must adapt to the competitive landscape, collaborate with fintech partners, and leverage emerging technologies to enhance customer experience, improve operational efficiency, and stay relevant in the market.
5. **Data Privacy and Ethics**: Concerns about data privacy, consumer rights, and ethical use of data are escalating, fueled by high-profile data breaches, regulatory scrutiny, and public awareness. Financial institutions must prioritize data protection, transparency, and ethical data practices to build trust with customers and comply with regulatory requirements, such as the General Data Protection Regulation (GDPR) and data localization laws.
6. **Financial Inclusion and Accessibility**: Despite advancements in digital banking and fintech solutions, millions of people worldwide still lack access to basic financial services, including banking, credit, insurance, and investment opportunities. Achieving financial inclusion requires addressing barriers such as limited infrastructure, low literacy levels, regulatory constraints, and affordability issues, particularly in underserved and remote areas.

7. **Economic Uncertainties**: Economic volatility, geopolitical tensions, trade conflicts, and the impact of global events such as the COVID-19 pandemic pose challenges for the financial services sector. Financial institutions must navigate market fluctuations, manage risks, and support customers and businesses through periods of economic uncertainty, while maintaining financial stability and resilience.
8. **Demographic Changes**: Changing demographics, including aging populations, shifting consumer preferences, and the rise of millennials and Generation Z, present challenges and opportunities for financial institutions. Adapting products, services, and distribution channels to meet the needs and preferences of diverse customer segments requires innovation, flexibility, and a deep understanding of evolving market trends.

UNIT–V

FINANCIAL SERVICES:

Definition: Financial services refer to a broad range of economic activities provided by financial institutions and intermediaries to individuals, businesses, and governments. These services encompass activities related to managing money, investments, and financial risks. Financial services play a crucial role in facilitating economic transactions, allocating capital efficiently, and enabling the flow of funds within the economy. Some common examples of financial services include banking, lending, insurance, investment management, payment processing, and financial advisory.

Merchant banks, also known as investment banks or corporate banks, offer a range of specialized financial services primarily to corporations, governments, and high-net-worth individuals. Their services are tailored to meet the unique needs of clients involved in capital markets, mergers and acquisitions, and corporate finance. Here are some of the **key services provided by merchant banks:**

1. **Corporate Finance Advisory**:
    - Merchant banks assist companies in raising capital through various means such as equity offerings (initial public offerings or IPOs, follow-on offerings), debt issuances (bonds, loans), and hybrid instruments (convertible bonds, preference shares).
    - They provide strategic advice on capital structure optimization, financing alternatives, and corporate restructuring to enhance shareholder value and achieve long-term financial goals.

    - Merchant banks also offer advice on mergers, acquisitions, divestitures, joint ventures, and other corporate transactions. They help clients assess potential targets, negotiate deal terms, conduct due diligence, and structure transactions to maximize value.
2. **Underwriting and Syndication**:
    - Merchant banks act as underwriters for securities offerings, assuming the risk of purchasing securities from issuers and reselling them to investors at a profit. They help companies price securities, market offerings to investors, and ensure regulatory compliance.
    - They may also form syndicates with other financial institutions to distribute risk and facilitate larger capital raisings. Syndication involves pooling resources from multiple investors or lenders to finance a transaction or project.
3. **Private Equity and Venture Capital**:
    - Merchant banks provide financing and investment services to private companies, startups, and emerging growth companies. They may invest directly in equity or provide mezzanine financing, convertible debt, or structured equity.
    - Merchant banks also offer expertise in identifying investment opportunities, conducting due diligence, structuring deals, and providing strategic guidance to portfolio companies to help them grow and achieve their objectives.
4. **Asset Management**:
    - Some merchant banks offer asset management services to institutional and high-net-worth clients, managing investment portfolios across various asset classes such as equities, fixed income, real estate, and alternative investments.
    - They provide investment advisory, portfolio management, and wealth planning services tailored to clients' financial objectives, risk tolerance, and investment preferences.
5. **Advisory Services**:
    - Merchant banks offer advisory services on a range of financial matters, including risk management, treasury management, capital budgeting, and financial restructuring.
    - They provide customized solutions to help clients optimize their financial operations, manage liquidity, mitigate risks, and enhance financial performance.
6. **International Banking and Trade Finance**:
    - Merchant banks assist clients in international trade and finance activities, including trade finance, foreign exchange transactions, cross-border payments, and global treasury management.

- They offer expertise in navigating complex regulatory environments, managing currency risks, and facilitating international transactions to support clients' global business operations.

Venture Capital:

Venture capital refers to a form of private equity financing provided by investors to startups, early-stage companies, or small businesses that have high growth potential but may not have access to traditional sources of funding, such as bank loans or public markets. Venture capital investors, often referred to as venture capitalists (VCs), typically take equity stakes in the companies they invest in, expecting significant returns on their investments in exchange for the higher risks involved.

Features of Venture Capital:

1. **Equity Investment**: Venture capitalists typically invest in the form of equity or ownership stakes in the companies they fund. In exchange for capital, VCs receive shares in the company, allowing them to share in the company's success through capital appreciation and potential dividends.
2. **High Risk, High Reward**: Venture capital investments are inherently risky, as they involve funding early-stage or unproven businesses that may fail. However, venture capitalists seek out opportunities with the potential for high returns, often targeting companies with disruptive technologies, innovative business models, or scalable growth opportunities.
3. **Active Involvement**: Venture capitalists often provide more than just capital to the companies they invest in. They typically take an active role in supporting the growth and development of their portfolio companies, offering strategic guidance, industry expertise, and valuable networks to help entrepreneurs succeed.
4. **Long-Term Horizon**: Venture capital investments are typically long-term in nature, with investors expecting to realize returns over several years. It may take several years for portfolio companies to achieve significant growth, become profitable, or pursue exit opportunities such as initial public offerings (IPOs) or acquisitions.

Scope of Venture Capital:

1. **Startup Funding**: Venture capital plays a crucial role in financing startups and early-stage companies with innovative ideas or technologies. These companies often lack a proven track record or collateral to secure

traditional financing, making venture capital an attractive source of funding.

2. **Technology and Innovation**: Venture capital is particularly prevalent in sectors with high levels of innovation and technological advancement, such as biotechnology, information technology, fintech, clean energy, and artificial intelligence. VCs provide funding to support research and development, product commercialization, and market expansion in these industries.
3. **Entrepreneurship and Innovation Ecosystem**: Venture capital fosters entrepreneurship and innovation by providing capital, mentorship, and resources to aspiring entrepreneurs and startups. VCs help fuel the growth of new businesses, create jobs, and drive economic growth by supporting the development of new products, services, and industries.

Importance of Venture Capital:

1. **Funding Innovation**: Venture capital provides crucial funding to support the development and commercialization of innovative technologies, products, and business models. VCs play a vital role in funding high-risk, high-reward ventures that have the potential to disrupt industries and drive economic growth.
2. **Job Creation**: Venture-backed startups and growth-stage companies are significant contributors to job creation and economic prosperity. By providing capital and resources to early-stage businesses, venture capital fuels job growth, stimulates entrepreneurship, and fosters innovation-driven economies.
3. **Wealth Creation**: Venture capital investments offer the potential for significant returns to investors, entrepreneurs, and employees through capital appreciation, successful exits, and wealth creation. Successful venture-backed companies can generate substantial value for stakeholders, including founders, investors, employees, and local communities.
4. **Ecosystem Development**: Venture capital fosters the development of vibrant startup ecosystems by providing funding, mentorship, and networking opportunities to entrepreneurs, investors, and other stakeholders. VCs contribute to the growth and maturity of entrepreneurial ecosystems, supporting the formation of startup hubs, accelerators, and innovation clusters.

Leasing is a financial arrangement in which one party, the lessor, allows another party, the lessee, to use an asset in exchange for periodic payments over a specified period. The lessor retains ownership of the asset throughout the lease term. Leasing is commonly used for acquiring equipment, machinery, vehicles, real estate, and other capital assets without the need for an upfront purchase.

Here are the steps involved in leasing:

1. **Identifying the Asset**: The lessee identifies the asset they wish to lease, considering their operational requirements, budget constraints, and leasing terms.
2. **Negotiating Lease Terms**: The lessee negotiates lease terms with the lessor, including the lease duration, payment structure, interest rate, security deposit, and any additional fees or charges.
3. **Credit Evaluation**: The lessor evaluates the lessee's creditworthiness and financial stability to assess the risk of default and determine the terms and conditions of the lease agreement.
4. **Documentation**: Both parties sign a lease agreement, outlining the rights, obligations, and responsibilities of the lessor and lessee. The lease agreement specifies details such as the lease term, lease payments, maintenance responsibilities, insurance requirements, and termination provisions.
5. **Delivery and Acceptance**: The lessor delivers the leased asset to the lessee, who accepts the asset and acknowledges its condition and conformity with the lease agreement.
6. **Commencement of Lease Payments**: The lessee begins making periodic lease payments to the lessor as per the agreed-upon payment schedule, typically monthly, quarterly, or annually.
7. **Asset Use and Maintenance**: The lessee uses the leased asset for its intended purpose during the lease term and is responsible for maintaining the asset in good working condition, complying with any maintenance and repair obligations specified in the lease agreement.
8. **End-of-Term Options**: At the end of the lease term, the lessee may have various options:
    - Renewal: The lessee may choose to renew the lease for an additional term, negotiate new lease terms, or upgrade to a newer asset.
    - Purchase Option: The lease agreement may include a purchase option, allowing the lessee to buy the asset at a predetermined price at the end of the lease term.
    - Return: The lessee may return the leased asset to the lessor and terminate the lease agreement without further obligations.

Types of leases:

1. **Operating Lease**: An operating lease is a short-term lease arrangement where the lessor retains ownership of the leased asset and assumes the risks and rewards of ownership. Operating leases are commonly used for equipment and vehicles and offer flexibility, with the option to return the asset at the end of the lease term.
2. **Finance Lease**: A finance lease, also known as a capital lease, is a long-term lease arrangement where the lessee effectively assumes the risks and rewards of ownership and is responsible for maintenance, insurance, and taxes associated with the leased asset. Finance leases are often used for high-value assets and typically involve a purchase option at the end of the lease term.
3. **Sale and Leaseback**: In a sale and leaseback arrangement, the owner of an asset sells the asset to a lessor and simultaneously leases it back for continued use. Sale and leaseback transactions allow companies to unlock capital tied up in assets and improve liquidity while retaining the use of the asset.
4. **Direct Lease**: A direct lease is a lease agreement between the lessor and the lessee without the involvement of third-party intermediaries. Direct leases offer flexibility, customization, and direct communication between the lessor and lessee.
5. **Sublease**: A sublease occurs when a lessee leases the leased asset to a third party, known as a sublessee, for a portion of the lease term. Subleasing allows lessees to recoup some of their lease costs and optimize the use of the leased asset.

Discounting is a financial process where a financial institution purchases a bill of exchange or promissory note from a seller (the holder of the bill) before its maturity date. The financial institution pays the seller the face value of the bill less a discount, which represents the interest or fee charged for advancing the payment. The financial institution then collects the full face value of the bill when it matures.

Advantages of bill discounting include:

1. **Immediate Cash Flow**: Bill discounting provides the seller with immediate access to cash, which can help improve liquidity and fund operational expenses, investments, or growth opportunities without waiting for the bill to mature.
2. **Working Capital Management**: Bill discounting enables businesses to manage their working capital effectively by converting accounts receivable (bills receivable) into cash. This can help optimize cash flow, reduce the need for short-term borrowing, and minimize financial constraints.

3. **Risk Mitigation**: Bill discounting transfers the credit risk associated with the bill to the financial institution. By selling the bill at a discount, the seller eliminates the risk of non-payment or delayed payment by the debtor, reducing the seller's exposure to credit risk.
4. **Interest Cost Savings**: The discount charged by the financial institution for advancing payment on the bill is typically lower than the interest cost of short-term borrowing or overdraft facilities. Bill discounting can thus be a cost-effective financing option compared to other forms of borrowing.
5. **Improved Cash Conversion Cycle**: Bill discounting accelerates the cash conversion cycle by converting receivables into cash more quickly. This can help businesses shorten their operating cycle, improve efficiency, and enhance overall financial performance.
6. **Flexibility**: Bill discounting offers flexibility in terms of financing options and allows businesses to access funding based on their specific cash flow needs. It can be used as a short-term financing solution or as part of a broader working capital management strategy.
7. **Maintains Customer Relationships**: Unlike factoring, where the financial institution directly collects payment from the debtor, bill discounting allows the seller to maintain control over customer relationships and collection processes. The debtor remains unaware of the discounting arrangement, preserving the seller's reputation and business relationships.
8. **Enhances Borrowing Capacity**: Since bill discounting is a self-liquidating form of financing secured by receivables, it does not impact the borrower's balance sheet or debt-equity ratio. This can enhance the borrower's borrowing capacity and creditworthiness with lenders.

Factoring is a financial transaction where a business sells its accounts receivable (invoices) to a third party, known as a factor, at a discount. The factor then assumes responsibility for collecting payments from the business's customers. Factoring provides immediate cash flow to the business, allowing it to access funds tied up in unpaid invoices and improve liquidity. Here's a breakdown of the meaning, nature, and parties involved in factoring:

Meaning of Factoring:

Factoring is a financing arrangement where a business (the seller or client) sells its accounts receivable to a financial institution or specialized firm (the factor) at a discount. The factor provides immediate cash to the seller, typically advancing a percentage (e.g., 70-90%) of the face value of the invoices. The factor then assumes responsibility for collecting payments from the seller's customers, managing credit risk, and handling accounts receivable administration. Once the invoices are paid, the factor deducts its fees and advances the remaining balance to the seller.

Nature of Factoring:

1. **Short-Term Financing**: Factoring provides short-term financing to businesses by converting accounts receivable into immediate cash. It helps businesses address cash flow shortages, meet working capital needs, and finance day-to-day operations.
2. **Asset-Based Financing**: Factoring is an asset-based financing solution that uses accounts receivable as collateral. It allows businesses to leverage their receivables to access funding without taking on additional debt or diluting equity.
3. **Off-Balance Sheet Financing**: Factoring allows businesses to transfer accounts receivable off their balance sheet, improving financial ratios and enhancing creditworthiness. Since factoring does not involve borrowing, it does not impact the seller's debt-to-equity ratio or require collateral.
4. **Risk Management**: Factoring helps businesses mitigate credit risk and collection risk associated with accounts receivable. By selling invoices to a factor, businesses transfer the credit risk of non-payment to the factor, who assumes responsibility for credit assessment and collections.

Parties in Factoring:

1. **Seller (Client)**: The seller is the business or company that sells its accounts receivable to the factor in exchange for immediate cash. Sellers are typically small and medium-sized enterprises (SMEs) or businesses with cash flow constraints that need financing.
2. **Factor (Financial Institution)**: The factor is the financial institution or specialized firm that purchases accounts receivable from the seller at a discount. Factors provide financing to sellers and assume responsibility for managing credit risk, collections, and accounts receivable administration.
3. **Customer (Debtor)**: The customer is the buyer or debtor who owes payment to the seller for goods or services provided. After purchasing the accounts receivable, the factor collects payments directly from the customer according to the terms of the invoices.

Forfeiting offers several benefits for both exporters and importers involved in international trade transactions:

Benefits for Exporters:

1. **Improved Cash Flow**: Forfeiting enables exporters to convert future receivables into immediate cash, providing liquidity to fund working capital needs, fulfill operational expenses, and invest in growth opportunities.
2. **Risk Mitigation**: By selling their receivables to a forfeiting company, exporters transfer the credit risk associated with non-payment or delayed payment by the importer, reducing their exposure to payment default and country risk.
3. **Enhanced Financing Terms**: Forfeiting allows exporters to offer more favorable payment terms to buyers, such as extended credit periods or deferred payments, without impacting their own cash flow or creditworthiness.
4. **Access to Medium to Long-Term Financing**: Forfeiting provides medium to long-term financing for large export transactions with extended payment terms, enabling exporters to undertake larger contracts and expand their international sales.
5. **Fixed Interest Rates**: Forfeiting transactions typically involve fixed interest rates, providing certainty and predictability of financing costs for the duration of the forfeiting agreement, allowing exporters to manage financial risks effectively.
6. **No Recourse Financing**: Forfeiting is generally non-recourse financing, meaning the forfeiting company bears the risk of non-payment by the importer, providing additional security and peace of mind to exporters.
7. **Off-Balance Sheet Financing**: Forfeiting transactions may not impact the exporter's balance sheet, as they involve the sale of future receivables rather than borrowing against existing assets or equity, preserving the exporter's financial ratios and creditworthiness.

Benefits for Importers:

1. **Access to Competitive Financing**: Forfeiting enables importers to obtain financing for large purchases with extended payment terms, providing access to competitive financing rates and terms without burdening their own working capital or credit lines.
2. **Deferred Payment Options**: Importers can negotiate longer payment periods with exporters, as forfeiting allows them to defer payment obligations while still providing exporters with immediate cash payment for goods or services delivered.
3. **Risk Transfer**: Forfeiting transfers the credit risk associated with payment default or non-performance by the importer to the forfeiting company, relieving the importer of financial liabilities and obligations in case of unforeseen circumstances or economic uncertainties.

4. **Currency Flexibility**: Forfeiting transactions can be structured in various currencies, providing importers with flexibility to match financing terms with their currency preferences, hedging strategies, and international trade requirements.
5. **Enhanced Supplier Relationships**: By offering more favorable payment terms and providing immediate cash payment for goods or services, importers can build stronger and more collaborative relationships with exporters, fostering trust and long-term partnerships.
6. **No Impact on Credit Lines**: Forfeiting financing does not impact the importer's existing credit lines or borrowing capacity, allowing them to preserve their financial flexibility and access additional financing for other business needs or investment opportunities.

Unit-I

Theory Questions: (Short) 1. E- Banking. 2. Credit Creation. 3. Bank Assurance. 4. OMBUDSMAN. 5. SMS Banking. 6. Lead Bank Scheme. 7. Schedule Banks. 8. Core Banking.,9. Contemporary Banks. 10. RRBs. 11. SFCs. 12. EXIM, IFCI, IDBI, ICICI, UTI Banks. 13. Cooperative Banks. 14. Offshore Banking.

Theory Questions: (Long) 1. Discuss about the functions of NABARD and its achievements. 2. Write about SIDBI. 3. Briefly about Cooperative Banks 4. Explain about the functions of commercial banks. 5. Discuss advantages and disadvantages of Branch Banking. 6. Discuss advantages and disadvantages of Unit Banking. 7. Write about Nationalizations of Banks.

UNIT-I (contd) Theory Questions: (Short) 1. Objectives of RBI. 2. Organizational structure of RBI. 3. Repos. 4. CRR.

Theory Questions: (Long) 1. Write about Functions of RBI. 2. Discuss about monetary policy of RBI.

Unit-II:

Theory Questions: (Short) 1. Define Banker and Customer. 2. Cheque Book. 3. Pass Book. 4. KYC. 5. Joint accounts in Special customers. 6. Executors and Administrators in Special customers.

Theory Questions: (Long) 1. Write general relationship between Banker and Customer. 2. Write special relationship between Banker and Customer. 3. Explain the procedure of opening an account with bank. 4. Briefly about KYC Norms. 5. Explain the Special Customer of the banks.

UNIT-III

Theory Questions: (Short) 1. Essential of Negotiable Instruments. 2. Consequences of wrongful dishonour. 3. Cheques. 4. Banking Receipts. 5. Rule in Clayton 's Case. 6. Garnishee Order. 7. Latest trends in Deposits mobilizations. 8. Documents of title to goods.

Theory Questions: (Long) 1. Describe duties and responsibilities of paying banker. 2. Describe duties and responsibilities of Collecting banker. 3. Explain the Negotiable Instruments. 4. Describe the Mortgages. 5. Explain the principles of sound lending. 6. Write about precautions to be taken while advancing loans against securities. 7. Write about precautions to be taken while advancing loans against Insurance. 8. Write about Loans and Advances.

Unit-IV

Financial Services: Meaning-Functions- Classification- Scope

Fund Based Activities, Non-fund Based Activities, Modern Activities, Causes for Financial Innovation Innovative Financial Instruments, Challenges Facing the Financial Service Sector

Unit-V

Type of lease, merchant banks, bill discounting, forfeiting