DSC 353 - Indian Banking

Unit - I

2 MARKS QUESTIONS

Q1. What do you mean by Commercial Bank?

A commercial bank is a financial institution that accepts deposits from the public and provides loans and advances for profit. It performs functions like accepting deposits, granting credit, cheque facility, and facilitating payments in an economy.

Q2. What do you mean by Central Bank?

A central bank is the apex monetary authority of a country that regulates and controls the banking system. It issues currency, controls credit, acts as banker to the government, and maintains monetary stability in the economy.

Q3. Define bankers and customers.

A banker is a person or institution that carries on the business of banking by accepting deposits and lending money. A customer is a person or entity who has an account relationship with the bank and uses its services.

10 MARKS QUESTIONS

Q1. Explain the history of banking in India.

The history of banking in India can be broadly divided into three phases: ancient banking, pre-independence banking, and post-independence banking.

In ancient India, banking activities were carried out by indigenous bankers such as moneylenders, merchants, and traders.

Institutions like *shroffs*, *chettis*, and *seths* performed banking functions such as accepting deposits, lending money, and transferring funds through *hundis*. These informal systems supported trade and agriculture.

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The modern banking system began during the British period. The first bank in India was the Bank of Hindustan, established in 1770. Later, Presidency Banks-Bank of Bengal, Bank of Bombay, and Bank of Madras-were established to finance British trade. These banks were later merged to form the Imperial Bank of India in 1921.

The Reserve Bank of India (RBI) was established in 1935 to act as the central bank of the country. Before independence, banking was largely confined to urban areas and mainly served the interests of the British and large businesses. Many banks failed due to poor regulation.

After independence, banking reforms were introduced to serve national development goals. In 1955, the Imperial Bank was nationalised and became the State Bank of India. Major commercial banks were nationalised in 1969 and 1980 to expand banking services to rural and weaker sections.

Post-liberalisation in 1991, private and foreign banks were allowed to operate freely, increasing competition and efficiency. Technological advancements like core banking, internet banking, and digital payments transformed Indian banking.

Thus, Indian banking evolved from traditional moneylenders to a modern, regulated, and inclusive banking system supporting economic growth.

Q2. Explain the banking structure in India.

The banking structure in India is well-organised and regulated, consisting of various types of banks working under the supervision of the Reserve Bank of India. It can be broadly divided into scheduled and non-scheduled banks.

At the top of the structure is the Reserve Bank of India (RBI), which acts as the central bank. It controls credit, regulates banks, issues currency, and ensures monetary stability.

Commercial banks form the major part of the banking system.

These include public sector banks, private sector banks, and foreign banks. Public sector banks are government-owned and focus on social banking. Private sector banks operate on profit motives with better technology and services.

Regional Rural Banks (RRBs) were established to serve rural areas and promote agricultural and small-scale industries. They combine the features of cooperative and commercial banks.

Cooperative banks are organised on cooperative principles and mainly serve farmers, small traders, and weaker sections. They operate at three levels: primary credit societies, central cooperative banks, and state cooperative banks.

Development banks and specialised financial institutions provide long-term finance to industries, agriculture, exports, and infrastructure. Examples include NABARD and SIDBI.

Thus, the Indian banking structure is diversified and designed to meet the financial needs of different sectors while ensuring economic development and financial inclusion.

Below are the **expanded versions** of **Question 3 and Question 4,** with **10 points each,** where **each point is clearly explained.** These answers are **exam-ready, well-structured,** and suitable for **full 1a-mark questions.**

Q3. Explain the role and functions of commercial banks in economic development.

- *Mobilisation of Savings*

Commercial banks collect savings from individuals and institutions through various deposit schemes. These savings, which might otherwise remain idle, are pooled together and used for productive purposes, helping in capital formation.

- *Capital Formation*

By transforming savings into investments, commercial banks contribute significantly to capital formation. Funds collected through deposits are provided as loans to industries, agriculture,

and trade, promoting economic growth.

- *Credit Creation*

Commercial banks create credit by advancing loans more than their actual cash reserves. This increases the money supply in the economy and accelerates production, trade, and investment activities.

- *Industrial Development*

Banks provide short-term and medium-term loans to industries for expansion, modernization, and working capital needs. This encourages industrial growth and technological advancement.

- *Agricultural Development*

Commercial banks finance agriculture by providing crop loans, irrigation loans, and loans for farm machinery. This helps increase agricultural productivity and rural income.

- *Promotion of Trade and Commerce*

Banks facilitate internal and external trade by offering services like letters of credit, bank drafts, cheques, and bill discounting, ensuring smooth flow of goods and services.

- *Employment Generation*

By financing business ventures and industrial projects, commercial banks help create employment opportunities, reducing unemployment and improving living standards.

- *Balanced Regional Development*

Commercial banks open branches in rural and backward areas and provide credit to underdeveloped regions, reducing regional imbalances in economic development.

- *Support to Government Policies*

Banks assist the government in implementing economic and welfare schemes such as financial inclusion programs, subsidy transfers, and priority sector lending.

- *Financial Inclusion*

Commercial banks bring weaker sections into the formal banking

system by providing basic accounts, small loans, and digital banking services, ensuring inclusive economic development.

Q4. Explain the functions of Central Bank.

- *Issue of Currency*

The central bank has the exclusive authority to issue paper currency in the country. This ensures uniformity in the currency system and builds public confidence in money.

- *Banker to the Government*

The central bank acts as banker, agent, and advisor to the government. It manages government accounts, receives payments, and makes disbursements on its behalf.

- *Banker's Bank*

Commercial banks keep a portion of their reserves with the central bank. In times of need, they can borrow funds from the central bank, ensuring liquidity in the banking system.

- *Lender of Last Resort*

During financial crises, when commercial banks face liquidity shortages, the central bank provides emergency loans to prevent bank failures and maintain stability.

- *Controller of Credit*

The central bank controls credit creation through monetary policy tools such as bank rate, repo rate, cash reserve ratio, and open market operations to regulate inflation and economic growth.

* *Custodian of Foreign Exchange*

It manages the country's foreign exchange reserves and regulates foreign exchange transactions to maintain balance of payments stability.

* *Clearing House Function*

The central bank acts as a clearing house for banks, enabling settlement of inter-bank transactions efficiently and smoothly.

* *Regulator and Supervisor of Banks*

The central bank regulates and supervises commercial banks to

ensure sound banking practices, protect depositors' interests, and maintain financial discipline.

* *Custodian of Cash Reserves*

Commercial banks are required to keep a portion of their cash reserves with the central bank, helping it control money supply and ensure banking stability.

* *Promotion of Economic Stability*

By formulating and implementing effective monetary policy, the central bank maintains price stability, controls inflation, and promotes sustainable economic growth.

QS. Distinguish between Commercial Bank and

Central Bank.

* *Nature*

A commercial bank is a profit-oriented financial institution established to earn income through banking activities. A central bank, on the other hand, is a public authority established to regulate the banking system and does not aim to earn profit.

* *Primary Objective*

The main objective of a commercial bank is to earn profit by accepting deposits and granting loans. In contrast, the central bank aims to maintain monetary stability and promote overall economic development.

- *Dealing with the Public*

Commercial banks deal directly with the general public by opening accounts, accepting deposits, and granting loans. The central bank does not deal directly with the public and interacts mainly with banks and the government.

- *Issue of Currency*

Commercial banks do not have the authority to issue currency notes. Only the central bank has the exclusive right to issue paper currency in the country.

- *Credit Creation*

Commercial banks create credit by advancing loans to customers. The central bank does not create credit for the public but controls and regulates the overall credit creation process in the economy.

- *Relationship with Government*

Commercial banks may act as agents of the government for certain transactions. The central bank acts as the banker, agent, and advisor to the government and manages public debt.

- *Control and Regulation*

Commercial banks are controlled and regulated by the central bank. The central bank frames rules, regulations, and guidelines to ensure smooth functioning of the banking system.

- *Lender of Last Resort*

Commercial banks depend on the central bank during financial difficulties. The central bank acts as the lender of last resort by providing emergency funds to commercial banks.

- *Area of Operation*

Commercial banks operate within specific regions or nationally to provide banking services. The central bank operates at the national level and controls the entire banking system of the country.

- *Examples*

Examples of commercial banks include State Bank of India and private banks. The Reserve Bank of India is an example of a central bank responsible for regulating India's banking system. Below are **Question Numbers 6, 7, 8, and 9, each written with the question** and **answered in about 400 words,** in **simple, exam-oriented language,** suitable for **10-mark answers** (B.Com / DSC 353 *I* Indian Banking).

Q6. Explain the relationship between bankers **and customers.**

The relationship between a banker and a customer is a legal and contractual relationship based on mutual trust and confidence.

This relationship begins when a person opens an account with a bank and continues as long as the account exists. The nature of this relationship changes depending on the type of transaction involved. The most common relationship is that of **debtor and creditor.** When a customer deposits money in the bank, the bank becomes the debtor and the customer becomes the creditor because the bank is obliged to repay the amount on demand. Conversely, when the bank grants a loan to a customer, the customer becomes the debtor and the bank becomes the creditor.

Another important relationship is that of **agent and principal.** The bank acts as an agent when it collects cheques, dividends, or bills on behalf of the customer, or makes payments such as insurance premiums and utility bills as per customer instructions.

The relationship of **trustee and beneficiary** arises when the bank keeps valuables, documents, or securities in safe custody for the customer. In such cases, the bank must take proper care of the entrusted items.

Sometimes, the bank acts as a **bailee,** such as when goods are deposited in bank lockers. The customer is the bailor, and the bank must return the goods safely on demand.

The banker also has certain **obligations,** such as honoring cheques if sufficient balance exists, maintaining secrecy of customer accounts, and following customer instructions. At the same time, customers must maintain minimum balance and comply with banking rules.

Thus, the banker-customer relationship is multifaceted, legally defined, and essential for smooth banking operations.

Q7. Explain the general and special types of

customers of bank.

Bank customers are broadly classified into **general customers** and **special customers** based on their legal status and capacity to

enter into contracts.

General customers include individuals, sole traders, firms, and companies that have the legal capacity to enter into contracts. These customers operate savings, current, or fixed deposit accounts and follow standard banking procedures. Banks deal with them under normal banking rules without requiring special precautions.

Special customers, on the other hand, require special care due to legal restrictions or special characteristics. These include minors, illiterate persons, joint account holders, partnerships, companies, trusts, cooperative societies, and clubs.

A **minor** can open a bank account but cannot enter into a valid contract. Therefore, banks must be cautious while granting loans to minors.

Illiterate customers operate accounts using thumb impressions and require witnesses to avoid misuse.

Joint account holders require joint instructions unless otherwise specified.

Partnership firms operate accounts through partners, and banks must verify partnership deeds.

Companies operate through authorised directors, and banks must examine documents like Memorandum and Articles of Association. **Trusts and societies** operate as per trust deeds or bye-laws. Banks must verify documents, authority, and signatures carefully while dealing with special customers to avoid legal complications. Thus, classification of customers helps banks provide appropriate services while ensuring legal safety and accountability.

Q8. What are the different types of deposits?

Explain.

Deposits are funds accepted by banks from the public for safe keeping and lending purposes. Deposits form the main source of funds for commercial banks. The major types of bank deposits are

These services facilitate safe and quick movement of money. They also offer **agency services** like collection of cheques, dividends, rent, and payment of insurance premiums, taxes, and utility bills on behalf of customers.

Modern banks provide **digital banking services** such as internet banking, mobile banking, ATM facilities, debit cards, and credit cards, making banking convenient and accessible.

Other important services include **locker facility, foreign exchange services, wealth management, investment advisory,** and **insurance services.**

Thus, banks act as comprehensive financial service institutions supporting economic growth and financial inclusion.

UNIT-II: Banking Laws & Reforms

Q1. Write a detailed note on the RBI Act, 1935.

The Reserve Bank of India Act, 1935 provides the statutory basis for the establishment, powers, and functions of the Reserve Bank of India (RBI), which is the central bank of the country. The Act came into force on 1st April 1935, based on the recommendations of the Hilton Young Commission. The RBI started functioning initially as a private shareholders' bank and was nationalised in 1949.

The main objective of the RBI Act is to regulate the issue of banknotes, maintain monetary stability, and operate the currency and credit system of the country to its advantage. The Act lays down the organisational structure, management, and authority of the RBI.

Under the Act, the RBI is entrusted with the **sole authority to issue currency notes** in India, except one-rupee notes and coins which are issued by the Government of India. This ensures uniformity and public confidence in the currency system.

The Act empowers the RBI to act as the **banker, agent, and advisor to the Government.** It manages government accounts, receives and makes payments, and manages public debt. It also provides short-term advances to the government when required.

Another important provision of the Act is that the RBI acts as the **banker's bank.** Commercial banks are required to keep a portion of their reserves with the RBI. In times of financial stress, banks can borrow from the RBI.

The RBI Act also empowers the central bank to act as the **controller of credit.** Through instruments such as bank rate, repo rate, open market operations, and reserve requirements, the RBI regulates money supply and credit in the economy.

The Act authorises the RBI to manage **foreign exchange reserves** and maintain external stability. It also allows the RBI to act as a clearing house for banks.

Thus, the RBI Act, 1935 is the backbone of India's monetary system and plays a crucial role in ensuring financial stability and economic growth.

Q2. Write a detailed note on the Banking **Regulation Act, 1949.**

The Banking Regulation Act, 1949 is an important legislation enacted to regulate the functioning of banking companies in India. It came into force on 16 March 1949 and applies to all banking companies operating in the country. The main purpose of the Act is to ensure sound banking practices, protect the interests of depositors, and maintain public confidence in the banking system.

The Act defines **banking business** as accepting deposits from the public for lending or investment, repayable on demand or otherwise, and withdrawable by cheque, draft, or otherwise. It clearly lays down what activities banks can and cannot undertake.

One of the most significant features of the Act is that it gives extensive powers to the **Reserve Bank of India {RBI}** to supervise and control banks. No bank can start banking business in India without obtaining a licence from the RBI. The RBI has the authority to inspect banks, call for information, issue directions, and ensure that banks follow prudent banking practices.

The Act prescribes provisions regarding **capital and reserves.** Banks are required to maintain minimum paid-up capital and statutory reserves to ensure financial strength and solvency. It also regulates the payment of dividends by banks to prevent reckless distribution of profits.

To avoid misuse of funds, the Act imposes restrictions on **loans**

and advances, especially loans to directors and related parties. This helps in preventing conflicts of interest and financial mismanagement.

The Act also includes provisions relating to **management and administration** of banks. The RBI can remove managerial personnel or supersede the board of directors in cases of mismanagement or public interest.

In addition, the Act provides guidelines for **amalgamation, reconstruction, and winding up** of banking companies. During liquidation, depositors are given priority, which safeguards their interests.

Thus, the Banking Regulation Act, 1949 provides a strong legal framework for regulating banks, ensuring stability of the banking system, and protecting depositors, making it a cornerstone of Indian banking regulation.

Q3. Write a detailed note on the Prevention of **Money Laundering Act,2002.**

The Prevention of Money Laundering Act (PMLA), 2002 was enacted to prevent money laundering and to confiscate property obtained through illegal activities. The Act came into force in 2005 and applies to banks, financial institutions, intermediaries, and other reporting entities in India.

Money laundering refers to the process of converting money earned from illegal activities into apparently legitimate funds, thereby concealing its original source. Such activities pose a serious threat to the integrity of the financial system and economic stability of a country.

The main objective of the PMLA is to **prevent and control money laundering,** confiscate proceeds of crime, and punish offenders. The Act makes money laundering a criminal offence, punishable with rigorous imprisonment and monetary fines.

Under the Act, banks and financial institutions are required to follow strict **Know Your Customer (KYC)** norms. They must verify the identity of customers, maintain records of transactions, and preserve such records for a specified period. This helps in tracking suspicious activities.

The Act mandates banks to report **suspicious transactions,** large cash transactions, and cross-border transactions to the **Financial Intelligence Unit-India (FIU-IND).** Non-compliance with these provisions attracts heavy penalties.

The PMLA empowers authorities to **attach, seize, and confiscate** properties derived from proceeds of crime. Special courts are established for speedy trial of money laundering cases.

The Act also provides for **international cooperation,** enabling India to coordinate with other countries in investigating and preventing money laundering and terrorist financing.

In conclusion, the Prevention of Money Laundering Act, 2002 plays a crucial role in safeguarding the financial system, promoting transparency, and ensuring that banks do not become channels for illegal financial activities.

Q4. What is banking sector reform? Write its

rationale and objectives.

(Approx. 400 words}

Banking sector reform refers to systematic and structural changes introduced in the banking system to improve its efficiency, stability, profitability, and competitiveness. In India, major banking sector reforms were initiated in 1991 as part of the broader economic liberalisation programme. These reforms aimed at transforming the banking system from a highly regulated and government-controlled structure into a market-oriented and efficient system.

The **rationale** for banking sector reforms arose due to several weaknesses in the pre-reform banking system. Indian banks suffered from low profitability, poor asset quality, rising non-performing assets (NPAs), excessive government interference, and lack of competition. Banks were burdened with directed lending, high statutory requirements like CRR and SLR, and inefficient management practices. These problems reduced the efficiency and financial health of banks.

Another important reason for reforms was the need to integrate the Indian banking system with the global financial system. With globalisation, Indian banks had to compete with foreign banks and adopt international banking standards. Therefore, reforms became necessary to modernise banking operations and improve risk management.

The **objectives** of banking sector reforms were clearly defined. One major objective was to improve the **financial soundness** of banks by introducing capital adequacy norms, income recognition, asset classification, and provisioning standards. This helped in strengthening the balance sheets of banks.

Another objective was to enhance **operational efficiency** by reducing government control and increasing autonomy of banks. Reforms aimed at professionalising bank management and improving decision-making processes.

Banking reforms also aimed at increasing **competition** by allowing private sector and foreign banks to operate, leading to better customer service and innovation.

Improving **customer service** and expanding **financial inclusion** were also important objectives. Banks were encouraged to use technology to reach rural and unbanked populations.

Thus, banking sector reforms were essential to create a strong, efficient, and resilient banking system capable of supporting economic growth and development.

QS. What are the phases of banking sector **reforms in India?**

(Approx. 400 words)

Banking sector reforms in India were implemented in a phased manner to ensure a smooth transition from a regulated system to a competitive and market-oriented system. These reforms can be broadly divided into three major phases.

The first phase of banking sector reforms (1991-1998} focused on improving the productivity, profitability, and efficiency of banks. This phase was based on the recommendations of the Narasimham Committee I. Major reforms included reduction in statutory pre-emptions such as Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), introduction of capital adequacy norms as per Basel standards, and adoption of prudential norms for income recognition, asset classification, and provisioning. This phase aimed at strengthening the financial position of banks and making them more competitive.

The **second phase of reforms (1998-2008}** aimed at strengthening the banking system further and enhancing financial stability. This phase was guided by the recommendations of Narasimham Committee II. Emphasis was placed on reducing non-performing assets, improving risk management systems, enhancing transparency, and strengthening corporate governance. Banks were encouraged to adopt advanced technology, core banking solutions, and modern management practices. This phase also focused on consolidation of banks through mergers and acquisitions.

The **third phase of reforms (post-2008)** emerged in response to global financial challenges and domestic banking issues. This phase focused on financial inclusion, digital banking, and resolution of stressed assets. Initiatives such as Pradhan Mantri Jan Ohan Yojana, Insolvency and Bankruptcy Code (IBC), bank recapitalisation, and consolidation of public sector banks were introduced. Emphasis was placed on improving governance, accountability, and customer-centric services.

Overall, these phased reforms transformed Indian banking into a more efficient, technology-driven, and resilient system capable of supporting economic development and withstanding global financial shocks.

Q6. Write a detailed note on Narasimham

Committee I and II.

(Approx. 400 words}

The Narasimham Committees played a crucial role in shaping banking sector reforms in India. Two major committees were constituted under the chairmanship of M. Narasimham-Narasimham Committee I in 1991 and Narasimham Committee II in 1998.

Narasimham Committee I (1991) was appointed to examine the working of the Indian financial system and suggest reforms to improve its efficiency and competitiveness. The committee observed that Indian banks were suffering from low profitability, high NPAs, and excessive government control. It recommended reduction in statutory pre-emptions like CRR and SLR to free bank resources for productive lending. It also suggested introduction of capital adequacy norms in line with international standards and adoption of prudential norms for income recognition and asset classification. The committee recommended allowing entry of private sector banks and reducing government ownership in public sector banks.

Narasimham Committee II **(1998)** was appointed to review the progress of banking reforms and suggest further measures. It focused on strengthening banks and improving their financial health. The committee emphasised the need to reduce NPAs, improve asset quality, and strengthen risk management systems. It recommended adoption of Basel 11 norms, improvement in corporate governance, and greater autonomy for banks. The committee also suggested mergers of strong banks to create globally competitive institutions.

Together, Narasimham Committee I and II laid the foundation for modern banking reforms in India. Their recommendations helped improve efficiency, stability, transparency, and competitiveness of the Indian banking system, making it more resilient and growth-oriented.

Q7. Write a detailed note on the lndradhanush **Framework.**

(Approx. 400 words}

The **lndradhanush Framework** was launched by the Government of India in August 2015 to strengthen public sector banks (PSBs) and improve their overall performance. At that time, PSBs were facing serious challenges such as rising non-performing assets (NPAs), weak capital base, poor governance, and declining profitability.

The framework aimed to reform and revitalise public sector banks in a comprehensive manner.

The lndradhanush Framework consists of **seven key elements,** represented by the seven colours of the rainbow.

The first element is **Appointments.** It aimed at ensuring professional and transparent appointments of top management in PSBs, including CEOs and whole-time directors, to improve leadership quality.

The second element is the **Bank Board Bureau (BBB).** The BBB was set up to improve corporate governance by recommending appointments, advising on strategies, and helping banks raise capital.

The third element is **Capitalisation.** Under this component, the government committed to infuse capital into public sector banks to strengthen their balance sheets and help them meet regulatory capital requirements.

The fourth element is **De-stressing.** This focused on addressing the problem of NPAs by recognising stressed assets, improving recovery mechanisms, and strengthening credit discipline.

The fifth element is **Empowerment.** Banks were given greater autonomy in decision-making related to human resources, lending, and branch expansion to enhance operational efficiency.

The sixth element is **Framework of Accountability.** This aimed at fixing responsibility on management for poor performance and ensuring better monitoring of bank operations.

The seventh element is **Governance Reforms.** Measures were introduced to improve transparency, accountability, and professionalism in bank management.

Overall, the Indradhanush Framework played an important role in strengthening public sector banks by improving governance, capital adequacy, and accountability, thereby restoring confidence in the banking system.

QB. Write a detailed note on the 4R Framework.

(Approx. 400 words)

The **4R Framework** was introduced by the Government of India as part of banking sector reforms to address the growing problem of stressed assets and non-performing loans in the banking system. The framework focuses on four major components, namely **Recognition, Resolution, Recapitalisation, and Reforms.**

The first component, **Recognition,** refers to the identification and acknowledgement of stressed assets and NPAs in bank balance sheets. Banks were encouraged to adopt transparent accounting practices and disclose the true financial position by recognising bad loans at an early stage.

The second component is **Resolution.** This involves resolving stressed assets through various mechanisms such as restructuring, recovery, and insolvency proceedings. Tools like Asset Reconstruction Companies (ARCs), Insolvency and Bankruptcy Code (IBC), and debt recovery tribunals were used to recover bad loans efficiently.

The third component is **Recapitalisation.** As banks suffered losses due to NPAs, their capital position weakened. Under this component, the government infused capital into public sector banks to strengthen their balance sheets and ensure compliance with capital adequacy norms.

The fourth component is **Reforms.** This focuses on long-term structural reforms to prevent recurrence of NPAs. Measures include improving corporate governance, strengthening risk management systems, enhancing credit appraisal processes, and reducing political interference in bank functioning.

The 4R Framework aimed at restoring the health of the banking system by cleaning up balance sheets, improving capital strength, and introducing structural reforms. It helped banks resume normal lending activities and support economic growth.

Q9. Write a detailed note on the EASE

Framework.

(Approx. 400 words}

The **EASE Framework,** which stands for **Enhanced Access and Service Excellence,** was launched by the Government of India to improve the performance of public sector banks. It focuses on improving customer service, increasing operational efficiency, and strengthening governance through technology-driven reforms.

The primary objective of the EASE Framework is to make public sector banks more customer-centric, transparent, and efficient. It aims to bring PSBs at par with private sector banks in terms of service quality and digital banking.

Under the EASE Framework, several initiatives were introduced such as **paperless and digital banking,** online loan approvals, and improved grievance redressal mechanisms. Banks adopted end-to-end digital processes to reduce delays and enhance customer convenience.

Another important feature of EASE is **governance and accountability.** Banks are evaluated based on performance indicators, and top-performing banks are recognised. This encourages healthy competition among public sector banks.

The framework also focuses on **financial inclusion,** expansion of digital payment systems, and better access to banking services for rural and under-banked populations.

Technology plays a key role in EASE. Use of data analytics, core banking solutions, and automation has improved decision-making and reduced operational risks.

Overall, the EASE Framework has helped public sector banks improve service delivery, enhance efficiency, and build customer trust, contributing to a more robust banking system.

Q10. Write a detailed note on the SARFAESI

Act, 2002.

(Approx. 400 words}

The **SARFAESI Act, 2002** stands for the **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act.** It was enacted to help banks and financial institutions recover non-performing assets (NPAs) without the intervention of courts.

The Act empowers banks to take possession of secured assets of defaulting borrowers and sell them to recover dues. This significantly speeds up the recovery process compared to traditional legal procedures.

One major provision of the Act is **securitisation,** where banks convert financial assets into marketable securities and sell them to Asset Reconstruction Companies (ARCs). ARCs then manage and recover these assets.

The Act also provides for **enforcement of security interest,** allowing banks to seize collateral such as land, buildings, or machinery when borrowers fail to repay loans.

The SARFAESI Act applies mainly to secured loans and does not cover unsecured loans. Borrowers are given a notice period to repay dues before banks initiate recovery proceedings.

The Act has played a crucial role in strengthening credit discipline, reducing NPAs, and improving the financial health of banks.

Thus, the SARFAESI Act, 2002 is an important legal tool for effective loan recovery and stability of the banking system.

UNIT-Ill

Q1. What do you mean by cheque?

A cheque is a negotiable instrument drawn by an account holder on a bank, directing the bank to pay a specified sum of money to a person named in the cheque or to the bearer, on demand.

Q2. What do you mean by crossing of cheque?

Crossing of a cheque means drawing two parallel lines on the face of the cheque to instruct the paying bank that the cheque should be paid only through a bank account and not in cash, ensuring safety of payment.

Q3. Who is a paying banker?

A paying banker is the bank on which a cheque is drawn and which is responsible for making payment of the cheque amount to the rightful holder after verifying the correctness and validity of the cheque.

Q4. Who is a collecting banker?

A collecting banker is the bank that collects the cheque amount on behalf of its customer. It acts as an agent of the customer and presents the cheque to the paying banker for collection.

QS. What do you mean by negligence of banker?

Negligence of banker refers to failure of the bank to exercise reasonable care and caution while performing its duties, such as improper payment or collection of cheques, resulting in loss to the customer or third parties.

Q1. What are the features of a cheque?

(70 Points - Approx. 400 words)

- *Written Instrument*

A cheque must be in writing. Oral instructions to the bank do not constitute a cheque. It is generally written on a printed cheque form supplied by the bank to its customers.

- *Drawn on a Banker*

A cheque is always drawn on a specified banker. It cannot be drawn on any other person or institution. The bank must hold funds of the drawer to honour the cheque.

- *Unconditional Order*

A cheque contains an unconditional order to pay. The payment should not depend on the fulfilment of any condition; otherwise, it will not be treated as a valid cheque.

- *Payment of Money Only*

A cheque must involve payment of money only. It cannot be used for payment in kind or for delivery of goods or services.

- *Payable on Demand*

A cheque is always payable on demand. Unlike bills of exchange, it does not require acceptance and is payable immediately when presented to the bank.

- *Specified Amount*

The amount to be paid must be clearly mentioned in figures and words. Any ambiguity or mismatch between the two may result in dishonour of the cheque.

- *Certain Parties*

A cheque involves three parties: the drawer (who draws the cheque), the drawee (the bank), and the payee (the person to whom payment is made).

- *Signature of the Drawer*

A cheque must be signed by the drawer. Without the signature, the cheque is invalid and cannot be honoured by the bank.

- *Validity Period*

A cheque is valid only for a limited period, usually three months from the date of issue. After expiry, it becomes a stale cheque and cannot be paid.

- *Negotiable Instrument*

A cheque is a negotiable instrument and can be transferred by endorsement and delivery, unless it is crossed "Account Payee Only".

Q2. Distinguish between Cheque and Demand Draft.

(70 Points - Approx. 400 words)

- *Meaning*

A cheque is an order drawn by an account holder on his bank to pay a certain sum. A demand draft is an order issued by a bank to pay a specified amount to a named person.

- *Drawer*

A cheque is drawn by a customer. A demand draft is drawn by one bank branch on another branch of the same bank or another bank.

- *Guarantee of Payment*

Payment of a cheque is not guaranteed as it depends on availability of funds. Payment of a demand draft is guaranteed because the amount is prepaid.

- *Possibility of Dishonour*

A cheque may be dishonoured due to insufficient funds or other reasons. A demand draft cannot normally be dishonoured except in cases of technical defects.

- *Stop Payment*

The drawer of a cheque can issue stop-payment instructions to the bank. Once a demand draft is issued, stop payment is generally not allowed.

- *Crossing*

A cheque can be crossed to ensure safety of payment. A demand draft is usually payable to the named payee only and does not require crossing.

- *Risk of Loss*

If a cheque is lost, it may be misused by an unauthorised person. In case of loss of a demand draft, a duplicate can be issued by the bank.

- *Charges*

Generally, banks do not charge for issuing cheque leaves. Banks charge commission for issuing demand drafts.

- *Use*

Cheques are commonly used for day-to-day transactions. Demand drafts are used for secure payments, such as fees, tenders, and long-distance payments.

- *Parties Involved*

A cheque involves three parties: drawer, drawee bank, and payee. A demand draft involves the issuing bank, paying bank, and payee.

Q3. What are the different types of crossing of cheque?

(70 Points - Approx. 400 words}

- *General Crossing*

General crossing is made by drawing two parallel lines on the face of the cheque, with or without words like"& Co." or "Not Negotiable." It instructs the paying banker to pay the cheque only through a bank account.

- *Special Crossing*

In special crossing, the name of a particular bank is written between the two parallel lines. The cheque must be paid only through the bank mentioned, adding an extra layer of safety.

- *Account Payee Crossing*

This crossing includes the words "Account Payee Only." It directs the collecting banker to credit the amount only to the account of the named payee, preventing misuse by endorsement.

- *Not Negotiable Crossing*

When the words "Not Negotiable" are added, the cheque remains transferable but the transferee does not get a better title than the transferor. It restricts negotiability for safety.

- *Restrictive Crossing*

Restrictive crossing includes words like "Payee's Account Only," limiting payment strictly to the payee's account. It protects the drawer from fraudulent encashment.

- *Open Cheque vs Crossed Cheque*

A crossed cheque cannot be encashed at the counter like an open cheque. It must be deposited into a bank account, ensuring traceability of funds.

- *Safety of Payment*

Crossing minimises the risk of loss or theft because payment is made only through banking channels, not in cash.

- *Legal Protection*

Crossing provides legal protection to banks when payment is made according to instructions on the cheque.

- *Control by Drawer*

Through crossing, the drawer controls the mode of payment and ensures funds reach the intended recipient.

- *Importance in Modern Banking*

Crossing is widely used today to promote secure, transparent, and cashless transactions in the banking system.

Q4. Explain the rules for crossing of cheque.

(70 Points - Approx. 400 words)

- *Who Can Cross a Cheque*

A cheque may be crossed by the drawer, the holder, or the banker in certain cases, as permitted by law.

- *Time of Crossing*

Crossing may be done either at the time of issue or even after the cheque has been issued, before presentation for payment.

- *Manner of Crossing*

Crossing must be done clearly by drawing two parallel lines on the face of the cheque, either generally or specially.

- *Addition of Words*

Words like"& Co.," "Not Negotiable," or "Account Payee Only" may be added between the lines to specify the nature of crossing.

- *Effect of General Crossing*

A generally crossed cheque must be paid only through a bank and not in cash, as per the rules.

- *Effect of Special Crossing*

A specially crossed cheque must be paid only through the bank named in the crossing.

- *Conversion of Crossing*

A general crossing may be converted into a special crossing, but a special crossing cannot be converted into a general crossing.

- *Multiple Crossing*

Multiple crossings are not allowed except when a cheque is crossed by an agent bank for collection.

- *Responsibility of Paying Banker*

The paying banker must strictly follow the crossing instructions; failure to do so makes the banker liable.

- *Legal Validity*

Crossing does not affect the validity of a cheque but regulates its mode of payment for safety and legality.

QS. Explain the duties of a paying banker.

(70 Points - Approx. 400 words)

- *Payment According to Drawer's Mandate*

The paying banker must pay the cheque strictly according to the drawer's instructions as mentioned on the cheque.

- *Verification of Signature*

The banker must verify the drawer's signature with the specimen signature available in bank records before making payment.

- *Sufficient Funds*

Payment should be made only if sufficient balance is available in the drawer's account to honour the cheque.

- *Examination of Date*

The banker must ensure the cheque is not post-dated or stale. A cheque presented outside the validity period must not be paid.

- *Checking Alterations*

Any material alteration on the cheque must be properly authenticated by the drawer; otherwise, payment should be refused.

- *Observance of Crossing*

The paying banker must strictly observe the crossing on the cheque and pay only through proper banking channels.

- *Stop Payment Instructions*

If stop-payment instructions are received fram the drawer, the banker must not make payment.

- *Proper Endorsements*

The banker must verify endorsements to ensure they are genuine and complete before making payment.

- *Payment in Due Course*

Payment should be made in due course, i.e., according to normal banking practice, without negligence.

- *Protection of Customer's Interest*

The paying banker must act honestly and carefully to protect the interests of the customer and avoid wrongful payment.

Q6. Explain the duties of a collecting banker.

(70 Points - Approx. 400 words}

- *Act as Agent of Customer*

A collecting banker acts as an agent of the customer while collecting cheques. The bank does not become the owner of the cheque but only facilitates collection on behalf of the customer.

- *Proper Examination of Cheque*

The banker must carefully examine the cheque for date, signature, crossing, and endorsements before accepting it for collection.

- *Observance of Crossing*

The collecting banker must strictly follow the crossing instructions. A crossed cheque must be collected only through the banking channel mentioned.

- *Collection for Customer Only*

The banker should collect cheques only for its own customer. Collection for non-customers is not permitted and may lead to loss of statutory protection.

- *Due Care and Diligence*

The banker must exercise reasonable care in collecting cheques. Negligence may make the banker liable for losses.

- *Timely Presentment*

The cheque should be presented to the paying banker within a reasonable time to avoid dishonour due to delay.

- *Proper Endorsements*

The collecting banker must verify that endorsements are complete and regular, especially in case of order cheques.

- *Credit as per Instructions*

The proceeds of the cheque must be credited strictly according to the customer's instructions, especially in case of "Account Payee" cheques.

- *Information to Customer*

In case of dishonour, the banker must promptly inform the customer so that necessary action can be taken.

- *Compliance with Banking Rules*

The collecting banker must follow legal provisions and standard banking practices to avoid liability.

Q7. Explain the statutory protection of paying **banker in due course.**

(70 Points - Approx. 400 words}

- *Meaning of Payment in Due Course*

Payment in due course means payment made according to the apparent tenor of the cheque, in good faith, and without negligence.

- *Legal Provision*

Section 85 of the Negotiable Instruments Act, 1881 grants statutory protection to the paying banker when payment is made in due course.

- *Protection in Case of Forged Endorsement*

If a cheque payable to order is paid in due course, the banker is protected even if the endorsement later turns out to be forged.

- *Payment as per Crossing*

The banker must strictly observe the crossing. Payment in violation of crossing removes statutory protection.

- *Verification of Signature*

The banker must verify the drawer's signature carefully. Payment with a forged drawer's signature is not protected.

- *Absence of Negligence*

Statutory protection is available only if the banker acts without negligence and follows normal banking practice.

- *Good Faith Requirement*

The banker must act honestly and without intention to defraud while making payment.

- *Payment According to Mandate*

The cheque must be paid exactly according to the instructions of the drawer.

- *Protection of Banker from Liability*

When protected, the banker is not liable to the true owner even if payment was made to the wrong person unknowingly.

- *Importance of Protection*

This statutory protection enables smooth banking operations and quick settlement of cheque transactions.

QB. Explain the statutory protection of

collecting banker as holder in due course.

(70 Points - Approx. 400 words)

- *Meaning of Holder in Due Course*

A collecting banker becomes a holder in due course when it collects a cheque for value, in good faith, and without negligence.

- *Legal Provision*

Section 131 of the Negotiable Instruments Act provides statutory protection to collecting bankers acting as holders in due course.

- *Collection for Customer Only*

Protection is available only when the cheque is collected for a customer and not for a stranger.

- *Good Faith Requirement*

The banker must act honestly and without knowledge of any defect in the customer's title.

- *Absence of Negligence*

Negligence on the part of the banker, such as ignoring suspicious circumstances, removes statutory protection.

- *Observance of Crossing*

The banker must strictly observe the crossing of the cheque while collecting it.

- *Account Payee Cheques*

Special care must be taken while collecting "Account Payee" cheques to ensure credit only to the named payee.

- *Protection against True Owner*

If conditions are satisfied, the banker is protected against claims by the true owner of the cheque.

- *Encouragement to Banking Business*

Statutory protection encourages banks to collect cheques without fear of unnecessary liability.

- *Significance in Modern Banking*

This protection ensures efficiency, safety, and trust in cheque collection processes.

UNIT-IV

Q1. What is secured advance?

A secured advance is a loan granted by a bank against the security of tangible or intangible assets such as goods, property, shares, or fixed deposits. The security protects the bank in case the borrower fails to repay the loan.

Q2. What is unsecured advance?

An unsecured advance is a loan given by a bank without taking any collateral security. Such advances are granted based on the borrower's creditworthiness, reputation, and financial soundness, and hence involve higher risk to the bank.

Q1. What are the different sources of lending?

(70 Points - Approx. 400 words)

- *Owned Funds (Share Capital and Reserves)*

Banks use their owned funds such as paid-up capital and reserves as a primary source for lending. These funds provide a stable base and enhance the confidence of depositors and borrowers.

- *Deposits from the Public*

Public deposits are the most important source of lending. Savings, current, fixed, and recurring deposits collected from customers are largely used for advancing loans.

- *Inter-bank Borrowings*

Banks borrow from other banks for short periods to meet temporary fund shortages. These borrowings help maintain liquidity and support lending operations.

- *Borrowings from the Central Bank*

Commercial banks borrow from the Reserve Bank of India through repo operations, bank rate facilities, and standing facilities to meet credit requirements.

- *Call Money Market*

Banks raise short-term funds from the call money market to meet daily operational needs. These funds indirectly support lending activities.

- *Bills Rediscounting*

Banks rediscount commercial bills with other banks or the RBI to raise funds. This helps convert bills into immediate cash for lending.

- *Certificates of Deposit (CDs)*

Banks issue certificates of deposit to institutional investors to mobilise funds for lending purposes.

- *Commercial Papers*

Large banks issue commercial papers to raise short-term funds from the market, which are used for credit expansion.

- *Foreign Currency Borrowings*

Banks raise funds from foreign markets through external commercial borrowings to support lending, especially for export and import finance.

- *Government Assistance*

In times of crisis, banks may receive financial support or recapitalisation from the government, strengthening their lending capacity.

Q2. Explain the principles of sound lending.

(70 Points - Approx. 400 words)

- *Safety of Funds*

The foremost principle of sound lending is safety. Banks must ensure that the borrower is reliable and capable of repaying the loan.

- *Liquidity*

Loans should be granted in such a way that funds can be recovered easily when required. Short-term and self-liquidating loans are preferred.

- *Profitability*

Banks must earn reasonable returns on loans. Interest income should cover risk, cost of funds, and operating expenses.

- *Purpose of Loan*

The loan should be granted for productive and lawful purposes. Speculative and unproductive loans increase risk.

- *Security*

Adequate and acceptable security should be taken to safeguard bank funds against default.

- *Diversification of Risk*

Banks should avoid concentration of loans in one sector or borrower to reduce risk exposure.

- *Creditworthiness of Borrower*

The financial position, character, and repayment capacity of the borrower must be carefully evaluated.

- *National Interest*

Loans should contribute to economic development and align with national priorities such as agriculture, MSMEs, and exports.

- *Compliance with Law and Policy*

Banks must follow RBI guidelines, banking laws, and internal credit policies while lending.

- *Repayment Capacity*

The borrower's future income and cash flow should be sufficient to repay the loan on time.

Q3. Explain the loan evaluation process.

(70 Points - Approx. 400 words}

- *Loan Application*

The process begins when the borrower submits a loan application with details of purpose, amount, and repayment period.

- *Preliminary Scrutiny*

The bank conducts initial scrutiny to check eligibility, completeness of documents, and basic credit requirements.

- *Credit Appraisal*

The borrower's financial statements, income, assets, liabilities, and credit history are analysed to assess creditworthiness.

- *Purpose Analysis*

The bank evaluates whether the loan purpose is productive, legal, and aligned with bank policy.

- *Risk Assessment*

Various risks such as credit risk, business risk, and market risk are assessed before approval.

- *Security Evaluation*

The value, ownership, and marketability of collateral security are examined carefully.

- *Field Verification*

Banks may conduct site visits and background verification to confirm the authenticity of information provided.

- *Loan Approval*

Based on appraisal reports, the competent authority sanctions the loan with terms and conditions.

- *Documentation*

Legal documents, agreements, and security papers are executed to create a valid charge in favour of the bank.

- *Disbursement and Monitoring*

After disbursement, the bank continuously monitors loan utilisation and repayment to prevent default.

Q4. Explain the features of secured advances.

(70 Points - Approx. 400 words}

- *Availability of Security*

Secured advances are granted against tangible or intangible assets such as land, buildings, goods, shares, or fixed deposits, which act as protection for the bank.

- *Lower Risk to Bank*

Since the loan is backed by security, the risk of loss to the bank is comparatively low in case of default.

- *Right to Realise Security*

If the borrower fails to repay, the bank has the legal right to sell the security and recover the outstanding amount.

- *Lower Rate of Interest*

Secured loans usually carry a lower interest rate because the risk involved is minimal.

- *Better Recovery Prospects*

The presence of security improves the chances of recovery and reduces non-performing assets.

- *Legal Charge on Asset*

The bank creates a legal charge such as pledge, hypothecation, mortgage, or lien on the security.

- *Higher Loan Amount*

Banks are willing to grant higher loan amounts when adequate security is available.

- *Suitable for Long-term Loans*

Secured advances are commonly used for long-term financing like housing loans and term loans.

- *Encourages Credit Discipline*

Borrowers are more disciplined in repayment due to fear of losing the secured asset.

- *Common in Banking Practice*

Most commercial bank advances are secured because they ensure safety and stability of bank funds.

QS. Explain the features of unsecured **advances.**

(10 Points - Approx. 400 words)

- *No Collateral Security*

Unsecured advances are granted without taking any tangible or intangible security from the borrower.

- *Based on Creditworthiness*

Such loans are given on the basis of the borrower's reputation, integrity, and financial standing.

- *Higher Risk to Bank*

Absence of security increases the risk of default, making unsecured advances risky for banks.

- *Higher Rate of Interest*

Banks charge a higher interest rate to compensate for the increased risk.

- *Limited Loan Amount*

Unsecured advances are usually granted for smaller amounts compared to secured loans.

- *Short-term Nature*

These advances are generally short-term and repayable within a brief period.

- *Strict Credit Appraisal*

Banks conduct detailed credit analysis before granting unsecured loans.

- *Common for Trusted Customers*

Such advances are usually given to well-established customers with a strong repayment history.

- *Quick Processing*

As no security valuation is required, unsecured advances are processed faster.

- *Greater Monitoring Required*

Banks closely monitor unsecured loans to minimise the risk of default.

Q6. Distinguish between secured and **unsecured advances.**

(70 Points - Approx. 400 words)

- *Security*

Secured advances require collateral security, whereas unsecured advances do not require any security.

- *Risk Involved*

Risk is lower in secured advances and higher in unsecured advances.

- *Rate of Interest*

Secured advances carry a lower interest rate, while unsecured advances attract a higher rate.

- *Loan Amount*

Higher amounts are sanctioned under secured advances compared to unsecured advances.

- *Recovery*

Recovery is easier in secured advances due to availability of assets, whereas recovery is difficult in unsecured advances.

- *Borrower Selection*

Secured loans can be granted to a wider range of borrowers, while unsecured loans are limited to trusted customers.

- *Legal Protection*

Banks have stronger legal rights in secured advances through charge on assets.

- *Purpose*

Secured advances are used for long-term and large investments; unsecured advances are mostly for short-term needs.

- *Processing Time*

Secured advances require more time due to valuation of security; unsecured advances are processed faster.

- *Examples*

Housing loans and term loans are secured advances, while personal loans and clean overdrafts are unsecured advances.

Q7. Explain the other types of advances.

(70 Points - Approx. 400 words)

- *Cash Credit*

Cash credit is a running account facility where borrowers can withdraw funds up to a sanctioned limit.

- *Overdraft*

Overdraft allows customers to withdraw more money than their account balance up to a certain limit.

- *Term Loans*

Term loans are granted for a fixed period and repaid in instalments, commonly used for capital expenditure.

- *Demand Loans*

Demand loans are repayable on demand and do not have a fixed repayment schedule.

- *Bills Discounting*

Banks provide advances by discounting bills of exchange before maturity.

- *Letter of Credit*

A letter of credit is issued by banks to guarantee payment on behalf of customers.

- *Bank Guarantee*

Banks give guarantees assuring payment in case the customer fails to fulfil obligations.

- *Loan Against Deposits*

Banks grant loans against fixed deposits and other deposit instruments.

- *Export and Import Finance*

Banks provide pre-shipment and post-shipment finance to exporters and importers.

- *Agricultural Advances*

These advances are provided to farmers for cultivation, irrigation, and allied activities.

Unit 5

Question 1: What do you mean by Internet Banking? Write its benefits. (Answer in about 400 words)

Internet banking, also known as **online banking** or **e-banking,** refers to the facility provided by banks that allows customers to access and manage their bank accounts through the internet using a computer, laptop, or smartphone. With the help of internet banking, customers can perform various banking transactions anytime and anywhere without visiting a bank branch physically. To use internet banking, a customer must have a bank account, internet access, and login credentials such as user ID, password, and sometimes an OTP (One Time Password) for security.

Internet banking enables customers to carry out a wide range of financial and non-financial activities. These include checking account balance, viewing transaction history, transferring funds through NEFT/RTGS/IMPS, paying utility bills, recharging mobile phones, booking tickets, opening fixed deposits, requesting cheque books, and downloading account statements. Thus, internet banking has transformed traditional banking into a fast, convenient, and customer-friendly system.

Benefits of Internet Banking

- *Convenience and Accessibility*

Internet banking provides 24x7 access to banking services. Customers can perform transactions at any time without being restricted by bank working hours or holidays.

- *Time-Saving*

It saves time by eliminating the need to visit bank branches and stand in long queues. Transactions can be completed within minutes from home or office.

- *Cost-Effective*

Internet banking reduces transaction costs for both banks and customers. Many online transactions are free or cheaper compared to branch banking.

- *Easy Fund Transfer*

Customers can easily transfer money to the same or other bank accounts using NEFT, RTGS, or IMPS facilities from anywhere in the country.

- *BiII Payments and Recharges*

Utility bills such as electricity, water, gas, insurance premiums, and mobile recharges can be paid online quickly and securely.

- *Better Account Management*

Internet banking helps customers monitor their accounts regularly by providing instant access to account balances, statements, and transaction alerts.

- *Secure Banking*

Banks use advanced security measures such as encryption, OTP, and two-factor authentication to ensure safe and secure online transactions.

- *Paperless Banking*

It promotes paperless transactions by allowing customers to download e-statements and receipts, contributing to environmental protection.

- *Wide Range of Services*

Customers can open deposits, apply for loans, request cheque books, and update personal details online without visiting the branch.

- *Promotes Digital Economy*

Internet banking encourages cashless transactions and supports the growth of a digital and transparent economy.

Conclusion:

Internet banking has revolutionized the banking system by making banking services faster, easier, and more efficient. It benefits both banks and customers by reducing costs, saving time, and improving overall banking experience. Hence, internet banking plays a vital role in modern financial systems.

Question 2 (a): Mobile Banking

{Short Note - About 400 words)

Mobile banking refers to the banking service provided by banks that allows customers to access and carry out banking transactions using mobile phones or smartphones. It is an extension of internet banking and enables customers to perform banking activities anytime and anywhere with the help of mobile applications, SMS services, or USSD codes. Mobile banking has become very popular due to the rapid growth of smartphones and internet connectivity.

To use mobile banking, customers need to register their mobile number with the bank and download the official mobile banking application. Authentication is done through MPIN, passwords, biometric verification, or One Time Passwords (OTP). Mobile banking provides both financial and non-financial services.

The **financial services** include balance enquiry, fund transfer through NEFT, RTGS, IMPS or UPI, bill payments, mobile and DTH recharges, merchant payments, and loan or credit card payments.

The **non-financial services** include checking transaction history, requesting cheque books, changing ATM PIN, blocking cards, and receiving account alerts.

Mobile banking plays an important role in promoting **financial inclusion,** especially in rural and remote areas where access to physical bank branches is limited. It reduces dependency on cash and encourages digital transactions. Mobile banking also supports government initiatives like Digital India and cashless economy.

Another important feature of mobile banking is its **speed and convenience.** Transactions are processed instantly, saving time and effort for customers. Banks also benefit as mobile banking reduces operational costs and workload at branches.

Security is a major concern in mobile banking, and banks use advanced security measures such as encryption, biometric authentication, OTP verification, and automatic logout features. Customers are also advised to keep their devices secure and avoid sharing confidential information.

Conclusion:

Mobile banking has revolutionized the banking system by making banking services easily accessible, fast, and convenient. It has become an essential part of modern banking and plays a crucial role in the digital transformation of the financial sector.

Question 2 (b): Virtual Banking

(Short Note - About 400 words)

Virtual banking refers to a system of banking in which banking services are provided entirely through electronic channels without the presence of physical bank branches. Virtual banks operate mainly through the internet, mobile applications, and other digital platforms. Customers interact with the bank digitally for all banking needs such as opening accounts, depositing money, transferring funds, and availing loans.

In virtual banking, customers can open accounts online using digital KYC procedures such as Aadhaar-based verification or video KYC. These banks do not maintain traditional brick-and-mortar branches, which helps reduce infrastructure and operating costs. As a result, virtual banks are able to offer faster services and lower charges.

Virtual banking provides a wide range of services including savings and current accounts, fixed deposits, fund transfers, bill payments, debit cards, and customer support through chatbots and video calls. Some virtual banks also offer advanced financial tools such as expense tracking, budgeting, and personalized financial advice.

One of the major advantages of virtual banking is **24x7 availability.** Customers can access banking services anytime without being restricted by banking hours. It also provides a seamless and user-friendly experience through intuitive digital interfaces.

Virtual banking is closely associated with **fintech companies,** which use advanced technologies like artificial intelligence, big data, and cloud computing to enhance customer experience.

These banks focus on innovation and digital convenience. However, virtual banking also faces challenges such as cybersecurity threats, lack of personal interaction, and digital illiteracy among certain sections of society. To address these issues, strong regulatory frameworks and customer awareness programs are essential.

Conclusion:

Virtual banking represents the future of banking by offering efficient, cost-effective, and technology-driven services. It has transformed the traditional banking model and plays a significant role in the digital economy.

Question 2 (c): E-Payments

{Short Note - About 400 words)

Electronic payments (E-payments) refer to the transfer of money

from one party to another through electronic means without the use of physical cash or cheques. E-payments are carried out using digital platforms such as internet banking, mobile banking, debit cards, credit cards, UPI, and digital wallets. They have become an integral part of modern banking and commerce.

E-payment systems enable individuals and businesses to make payments quickly, securely, and conveniently. Common modes of e-payments include online fund transfers (NEFT, RTGS, IMPS), card payments, QR code payments, mobile wallets, and UPI-based transactions. These systems allow real-time or near real-time settlement of transactions.

One of the main advantages of e-payments is **speed.** Transactions are completed instantly or within a short time, which improves efficiency in business and personal transactions. E-payments also reduce the risk associated with carrying cash, such as theft or loss. E-payments promote **cashless transactions,** which help in reducing black money, increasing transparency, and improving tax compliance. Governments actively encourage e-payments to strengthen the digital economy and financial inclusion.

Security is a key aspect of e-payment systems. Banks and payment service providers use encryption, OTP verification, biometric authentication, and secure payment gateways to protect transactions. Customers are advised to follow safe practices to avoid fraud.

E-payments are widely used for online shopping, utility bill payments, ticket booking, subscriptions, salary payments, and business transactions. They have become especially important with the growth of e-commerce and digital services.

Conclusion:

E-payments have transformed the way money is exchanged by making transactions fast, secure, and convenient. They play a vital role in the development of a modern, digital, and transparent financial system.

Question 2 (d): ATM Card/ Biometric Card

(Short Note - About 400 words}

An **ATM card** is a plastic card issued by banks to their customers to enable them to access banking services through an **Automated Teller Machine {ATM}.** It allows customers to withdraw cash, check account balance, print mini statements, transfer funds, and change ATM PIN without visiting the bank branch. ATM cards are linked to the customer's bank account and operate using a **Personal Identification Number {PIN}** for security.

ATM cards are usually issued along with savings or current accounts. They provide round-the-clock access to basic banking services and save customers from standing in long queues at bank branches. Over time, ATM cards have evolved to include debit card features, allowing customers to make purchases at Point of Sale (POS) terminals and online platforms.

A biometric card is an advanced form of banking card that uses **biometric authentication** such as fingerprints or iris scans instead of or along with PINs. These cards are especially useful for people who find it difficult to remember PINs, such as senior citizens and illiterate customers. Biometric cards enhance security by ensuring that only the authorized person can use the card.

Biometric cards are widely used in government-linked banking services such as Jan Ohan accounts, Direct Benefit Transfer (DBT), and rural banking. They are often connected with Aadhaar-based authentication and help in preventing identity fraud and unauthorized access.

Both ATM and biometric cards offer several benefits such as convenience, time saving, easy access to cash, and reduced dependency on bank staff. Banks also benefit as these cards reduce workload and operational costs.

However, ATM cards face risks such as card skimming, PIN theft, and misuse if lost. Biometric cards reduce such risks but require proper infrastructure and technology support.

Conclusion:

ATM cards have revolutionized traditional banking by providing easy and quick access to banking services. Biometric cards further strengthen security and promote financial inclusion. Together, they play a crucial role in modern digital banking.

Question 2 (e): Debit Card and Credit Card

(Short Note - About 400 words}

Debit cards and credit cards are widely used electronic payment instruments issued by banks to facilitate cashless transactions. Although they appear similar, they differ in their functioning and purpose.

A **debit card** allows customers to make payments or withdraw cash directly from their bank account. When a transaction is made using a debit card, the amount is immediately deducted from the customer's account balance. Debit cards are usually issued with savings or current accounts and can be used at ATMs, POS machines, and online platforms.

Debit cards help customers control their spending as transactions are limited to the available balance in the account. They are commonly used for daily purchases, bill payments, online shopping, and cash withdrawals.

A **credit card,** on the other hand, allows customers to make purchases on **credit,** meaning the bank pays the merchant first and the customer repays the bank later. Credit cards have a predefined **credit limit,** and customers are required to repay the amount either in full or in installments. If payment is delayed beyond the due date, interest is charged.

Credit cards offer additional benefits such as reward points, cashback, discounts, and EMI facilities. They are useful for managing short-term financial needs and building a credit history.

However, misuse of credit cards can lead to excessive debt and high interest burden.

Both debit and credit cards promote cashless transactions, enhance convenience, and support digital payments. Banks implement security features like PINs, OTPs, chip technology, and two-factor authentication to prevent fraud.

Conclusion:

Debit cards encourage disciplined spending by using one's own money, while credit cards provide flexibility and short-term credit. Both play an important role in modern banking and digital payment systems.

Question 2 (f): Smart Card

{Short Note - About 400 words)

A **smart card** is a plastic card embedded with a **microchip** that stores and processes data electronically. Unlike traditional magnetic stripe cards, smart cards can store large amounts of information securely and perform multiple functions. Smart cards are used in banking, transportation, healthcare, identification, and government services.

In banking, smart cards are used as **ATM cards, debit cards, credit cards, and prepaid cards.** The microchip in the card stores encrypted data, which makes smart cards more secure than ordinary cards. Smart cards can perform offline and online transactions and support advanced authentication methods.

There are two types of smart cards:

- **Contact smart cards,** which require physical contact with a card reader.

- **Contactless smart cards,** which use radio frequency identification (RFID) or near-field communication (NFC) and do not require physical contact.

Smart cards offer several advantages such as high security, durability, multi-application usage, and reduced chances of duplication or fraud. They are widely used in metro cards, employee identity cards, Aadhaar-based cards, and digital wallets. In banking, smart cards help in faster transactions, reduced cash usage, and improved customer convenience. They also support biometric verification and PIN-based authentication, making transactions safer.

Despite their advantages, smart cards require advanced infrastructure and are costlier than traditional cards. Technical issues and lack of awareness may also limit their usage in rural areas.

Conclusion:

Smart cards represent an advanced and secure form of electronic payment and identification. They enhance efficiency, safety, and convenience in banking and other sectors, playing a significant role in the digital economy.

Question 2 (g): NEFT and RTGS

(Short Note - About 400 words}

NEFT (National Electronic Funds Transfer) and **RTGS (Real Time Gross Settlement)** are important electronic fund transfer systems operated by the Reserve Bank of India (RBI). These systems enable customers to transfer money electronically from one bank account to another across banks in India, reducing the need for cash and cheques.

NEFT is a nationwide payment system that allows one-to-one fund transfers in a **batch-wise settlement.** Under NEFT, transactions are settled in batches at regular intervals throughout the day. It is commonly used for small and medium-value transactions. There is no minimum limit for NEFT transfers, making it suitable for individuals, businesses, and institutions. NEFT transactions can be initiated through internet banking, mobile banking, or by visiting a bank branch.

RTGS, on the other hand, is meant for **large-value transactions** and follows the principle of **real-time settlement.** In RTGS, transactions are processed individually and instantly without waiting for batch settlement. The minimum amount required for RTGS transactions is generally �2 lakh, and there is no upper limit. RTGS is mainly used by corporates, businesses, and individuals for high-value payments.

Both NEFT and RTGS provide fast, secure, and reliable fund transfer facilities. They are available 24x7 and can be accessed through online banking platforms. These systems help in reducing transaction time, paperwork, and operational costs for banks.

NEFT and RTGS promote transparency, efficiency, and digitalization in the banking system. They also support government initiatives aimed at promoting cashless transactions and strengthening the digital economy.

Difference between NEFT and RTGS:

NEFT settles transactions in batches, while RTGS settles transactions individually in real time. NEFT is suitable for smaller amounts, whereas RTGS is used for large-value transfers.

Conclusion:

NEFT and RTGS have revolutionized the Indian banking system by making fund transfers faster, safer, and more efficient. They play a vital role in modern electronic banking and digital payments.

Question 2 (h): ECS (Electronic Clearing

Service)

{Short Note - About 400 words)

Electronic Clearing Service (ECS) is an electronic mode of transferring funds from one bank account to multiple bank accounts or vice versa. It is mainly used for **bulk and repetitive payments** such as salaries, pensions, dividends, interest, subsidies, and utility bill payments. ECS is operated under the supervision of the Reserve Bank of India (RBI).

ECS works on the principle of **automatic debit or credit** of bank accounts. It eliminates the need for issuing cheques and handling cash, thereby saving time and reducing paperwork. ECS requires prior authorization from the account holder for debiting or crediting the account.

There are two types of ECS:

- **ECS Credit -** Used when one institution makes payments to a large number of beneficiaries, such as salary payments, dividend payments, and pension disbursement.
- **ECS Debit -** Used when a large number of customers make payments to one institution, such as electricity bills, telephone bills, insurance premiums, and loan EMls.

ECS ensures timely and accurate payments and reduces the chances of delay or default. It is cost-effective for organizations and convenient for customers as payments are processed automatically on a specified date.

ECS has played an important role in government schemes like Direct Benefit Transfer (DBT), where subsidies and welfare benefits are directly credited to beneficiaries' bank accounts. This reduces leakages, corruption, and administrative inefficiencies.

However, ECS requires proper bank account details and authorization. Errors in account information may lead to transaction failure.

Conclusion:

Electronic Clearing Service is an efficient and reliable payment system for bulk transactions. It enhances convenience, reduces paperwork, and supports the move towards a cashless and digital banking system.

Question 2 (i): E-Money and E-Purse

(Short Note - About 400 words}

E-money {Electronic Money) refers to money stored electronically and used for digital transactions without the need for physical cash. It represents a monetary value stored in electronic form and

is widely used for online and offline payments. Examples of e-money include digital wallets, prepaid cards, and online payment balances.

An **e-purse** is a type of electronic wallet that stores a certain amount of money digitally and allows users to make small-value payments easily. It functions like a virtual purse and is commonly used for daily transactions such as shopping, transportation, food delivery, and utility payments.

E-money and e-purse systems are widely used through mobile applications and smart cards. Users can load money into their e-purse using bank accounts, debit cards, or credit cards. Once loaded, payments can be made instantly without entering bank details repeatedly.

One of the main advantages of e-money is **convenience.** Transactions are quick, easy, and can be made anytime and anywhere. E-money also reduces dependency on cash and helps in maintaining transaction records digitally.

E-money systems promote financial inclusion by providing payment options to people who may not have access to traditional banking services. They also support e-commerce and digital marketplaces.

Security measures such as PINs, passwords, OTPs, and encryption are used to protect e-money transactions. However, users must be cautious against cyber fraud and unauthorized access.

Despite its advantages, e-money faces challenges such as digital illiteracy, internet dependency, and cybersecurity risks.

Conclusion:

E-money and e-purse have transformed the way people make payments by offering speed, convenience, and flexibility. They play an important role in promoting digital payments and strengthening the modern cashless economy.

Question 2 G): Digital Cash

(Short Note - About 400 words}

Digital cash refers to money that exists only in electronic form and is used for making payments through digital platforms without the use of physical currency notes or coins. It represents a cashless mode of transaction where payments are made electronically using computers, smartphones, or other digital devices. Digital cash is an important component of modern banking and the digital economy.

Digital cash is used through various instruments such as internet banking, mobile banking, UPI, digital wallets, prepaid cards, QR code payments, and contactless payment systems. Unlike traditional cash, digital cash leaves an electronic record of transactions, which helps in maintaining transparency and accountability.

One of the key features of digital cash is **instant transfer of funds.**

Payments can be made in real time, regardless of geographical distance. This makes digital cash highly suitable for online shopping, bill payments, ticket booking, peer-to-peer transfers, and business transactions. Digital cash is widely accepted by merchants, service providers, and government agencies.

Digital cash plays a significant role in promoting a **cashless economy.** It helps reduce the circulation of physical cash, lowers transaction costs, and minimizes the risks associated with cash handling such as theft, loss, and counterfeit currency.

Governments encourage the use of digital cash to curb black money, improve tax compliance, and ensure better monitoring of financial activities.

Security is an important aspect of digital cash. Banks and payment service providers use advanced security measures such as encryption, passwords, PINs, OTPs, biometric authentication, and two-factor authentication to protect digital transactions.

Despite these measures, users must remain cautious about cyber fraud, phishing, and data theft.

Digital cash also supports **financial inclusion** by providing easy access to payment systems for people in remote and rural areas. With the help of mobile phones and internet connectivity, individuals can participate in the formal financial system without visiting bank branches frequently.

However, digital cash faces challenges such as lack of digital literacy, internet connectivity issues, and cybersecurity threats. Continuous awareness programs and technological improvements are necessary to overcome these challenges.

Conclusion:

Digital cash has transformed the traditional payment system by making transactions faster, safer, and more convenient. It plays a vital role in the development of a modern, transparent, and digitally empowered economy.