**BANKING FINANACIAL SERVICES MANAGEMENT**

**UNIT I**

**Two mark Questions:**

1. What is bank?

Bank is a German word which means ‘to collect’. The main function of the banks is collection of funds as deposits. With time, banks have started performing other functions such as lending money, etc.

1. Define scheduled banks.

 The banker concerned must be in business of banking in India. It is either a company defined in section 3 of the Indian Companies Act, 1956, or corporation or a company incorporated by or under any law in force in any place outside India or an institution notified by the central Government in this behalf.

1. What is Commercial bank?

 Commercial banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation, and agency functions.

1. What are non scheduled banks?

 Non scheduled banks are not entitled to all those facilities that the scheduled banks avail of form the Reserve Bank of India. Since the enactment of the Banking regulation act in 1949, non scheduled banks have also come under the ambit of the RBI control.

1. What are the customer obligations to banks?
2. Obligations to honour the customers cheques
3. Obligations to maintain secrecy of customers account
4. Obligations to Receive Cheques and other Instruments for collection
5. Obligations to Give Reasonable Notice before Closing the Account
6. Who is banker?

A banker is a dealer in capital or more properly a dealer in money. He is an intermediate party between the borrower and the lender. He borrows from one party and lends to another.

1. Who is customer?

A customer is a person who has some sort of account, either deposit or current or some similar relation with a bank and from this it follows that any person could become a customer by opening a deposit or current account or having some similar relation with a bank.

1. What is balance sheet?

A bank balance sheet record of the assets, liabilities, and net worth of a bank at a given point in time. Assets are what a bank owns.

1. What is Income Statement?

An Income statement is a type of flow report, as compared to the balance sheet which is a status report. Financial flows in firms are continuous.

1. What is Link Relationship?

Balance sheet acts as a link between the Income Statements of successive accounting accounting years.

**Long Answer Type Questions:**

1. Explain the features and functions of bank. Discuss the various types of banks.
2. Explain the features and functions of commercial bank. Discuss the types of commercial banks.
3. Write note on: i) Reserve Bank of India Act, 1934, ii) Banking Regulation Act, 1949
4. Define Negotiable Instrument Act, 1881. Explain the characteristics and types of Negotiable Instrument Act.
5. Elaborate the financial statements and income statements of banks.

**UNIT II**

**Two mark Questions:**

1. What is capital adequay?

According to the capital adequacy standard set by bank for international settlement banks, must have a primary capital base equal at least to eight percent of their assets.

1. What do you mean by deposit?

The term deposit and withdrawal tend to obscure the economic substance legal essence of transactions in a deposit account.

1. What is credit analysis?

Credit analysis is the quantitative and qualitative analysis of bank, which help to determine the banks debt service capacity, or how capable it is to pay back its principle payments to the other creditors.

1. What is application of bank funds?

The application of funds is part of the funds statement which shows the various uses of the firms working capital or other funds easily converted into cash.

1. What do you mean by lending?

The primary function of a bank is to receive deposits and lend loans, the majority of the funds are used for lending and this is also considered as the major source of income for the bank.

1. What is asset based lending?

Asset based lending is a type of financing in which the asset being bought is used as collateral in asset based lending the quality of the collateral and not the financial strength of the borrower is of prime importance.

1. What is customer profitability analysis?

Customer profitability analysis is a loan pricing method that takes into account the lenders entire relationship with the customer when pricing the loan.

1. What do you mean by credit administration?

Financial institutions must ensure that their credit portfolio is properly administered, that is loan agreements are duly prepared renewal notices are sent systematically and credit files are regularly updated.

1. What do you mean by credit delivery?

The credit is approved the customer should be advised of the terms and conditions of the credit by way of a letter of offer. The duplicate of this letter should be duly signed and returned to the institution by the customer.

1. What is credit management?

The goal of credit risk management is to maximize a banks risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

**Long Answer Type Questions:**

1. Define capita adequacy norms. Explain the capital funding and strategies and norms for capital adequacy.
2. Explain the various non deposits schemes in brief.
3. Elaborate the pricing of deposit services.
4. Explain the principles of lending and loan policy. Discuss the non fund based lending.
5. Write note on customer profitability analysis.

**UNIT III**

**Two mark Questions:**

1. What do you mean by credit monitoring?

The credit monitoring in a bank is to ensure that the funds are utilized for the sanctioned purposes and at the same time complying with all sanction terms and conditions.

1. State the needs of credit monitoring.
2. Accurate and comprehensive credit reports.
3. Account details
4. Significant events
5. An extra set of eyes
6. What is financial distress?

A condition where a company cannot meet or has difficulty paying off financial obligations to its creditors. The chance of financial distress increases when a firm has high fixed costs, illiquid assets, or revenues that are sensitive to economic downturns.

1. Define risk management.

Risk is a condition where there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for the term risk may be defined as the possibility of adverse results flowing from any occurrence.

1. List some objectives of risk management.
2. Provide a high quality service to customers.
3. Initiate action to prevent or reduce the adverse effects of risk.
4. Minimize the human costs of risks, where reasonably practicable.
5. Met statutory and legal obligations.
6. What do you mean by interest rate risk?

The management of interest rate risk should be one of the critical components of market risk management in banks. The regulatory restrictions in the past had greatly reduced many of the risks in the banking system.

1. What is GAP analysis?

Matching the duration of assets and liabilities, instead of matching the maturity or repricing dates is the most effective way to protect the economic value of banks from exposure to IRR than the simple gap model.

1. Define foreign exchange.

Foreign exchange risk is the risk that the domestic currency value of cash flows, denominated in foreign currency may change because of the variation in the foreign exchange rate.

1. Define market risk.

Market risk is the potential for a loss in value of an investment portfolio when prices drop due to sources of systematic risk, or changes in risk factors that affect the entire market or market segment.

1. Define operational risk.

Operational risk can be summarized as human risk, it is the risk of business operations failing due to human error. Operational risk will change from industry to industry.

**Long Answer Type Questions:**

1. What are the signals of borrowers financial sickness? Explain the debt restructuring for sick companies. Also describe the rehabilitation process.
2. Explain VaR and its models.
3. Discuss the sources and process of liquidity risk management.
4. What are the types of credit risk? Explain the methods of mitigating credit risk.
5. Discuss the problem and management of NPAs.

**UNIT IV**

**Two mark Questions:**

1. What do you mean by merges of banks?

Bank mergers are taking place all over the world. The banks are opting for mergers at a rapid rate as the mergers are able to diversity risk, to reduce cost and to increase efficiency.

1. What are mutual funds?

A mutual funds is a professionally managed from of collective investments that pools money from many investors and invests it in stocks, bonds, short term money market instruments, and other securities.

1. Define securities market.

According to P.K Dhar, This is not a market for capital goods, rather it is a market for raising and advancing money capital for investments purposes.

1. What is diversification of banks?

Term lendings, and underwriting of new issues of corporate securities by industrial enterprises.

1. Define underwriting.

Insurance underwriting is the process of choosing who and what the insurance company decides to insure. This is based on a risk assessment.

1. Define life Insurance.

Insurance may be defined as a device in which a sum of money as premium is paid by the insured in consideration of the insurers bearing the risk of paying a large sum upon a given contingency.

1. What is Hazard loss?

Hazard is the sources of danger. The hazard is the underlying factor behind the peril that leads to the probability loss to the insurer.

1. What is commercial bank balance sheet?

Every banking company is required to prepare with reference to that year a balance sheet and a profit and loss account as on the last working day of the year in the Form A and Form B.

1. What do you mean by Return on Equity Model?

Return on Equity is one of the most important indicators of a firms profitability and potential growth.

1. What is ratio analysis?

As banks have very different operating structures than regular industrial companies, it stands to reason that investors have a different set of fundamental factors to consider, when evaluating banks.

**Long Answer Type Questions:**

1. Explain the recent trends of mergers in bank. Describe the benefits of diversification.
2. Discuss various types of mutual funds.
3. Explain the characteristics and significance of Insurance.
4. Discuss the underwriting process.
5. Explain the components of CAMEL

**UNIT V**

**Two mark Questions:**

1. Give some paper based payments.

Since paper based payments occupy an important place in the country, reserve bank had introduced magnetic ink character recognition technology for speeding up and bringing inefficiency in processing the cheques.

1. What is Electronic Clearing service?

Electronic Clearing service is a facility of electronically sending payment instructions. The objective is to provide an alternate method of effecting bulk payment transactions which would obviate the need for issuing and handling paper instruments thereby facilitating customer service.

1. List the features of EFT.

i) Quick movement of deposit money from the bank account of the customer to the other bank account of other customers.

ii) No intermediation of paper based system.

1. State the objectives of RTGS?

i)To protest key existing assests of banking system i.e to brand and customer relationship

ii) To idle and strength the customer base

iii) To reduce the prevalent transaction cost.

1. What are the advantages of NEFT?

i)NEFT facilitates an efficient , secure, economical ,reliable, and expeditious system of funds transfer and clearing in the banking sector throughout India.

ii)NEFT release the stress on the existing paper based funds transfer and clearing system.

1. List the advantages of plastic money?

i)It is more convenient to carry than cash.

ii)Helps in establishing a good credit history.

iii)Give incentives such as reward points that we can redeem.

1. What do you mean by credit cards?

A credit card system is a type of retail transaction settlement and credit system named after the small plastic card issued to users of the system.

1. What is debit card?

 Debit cards are substitutes for cash are check payments much the same way that credit

 cards are however banks only issue them to people if they hold an account with them.

1. What is ATM ?

An Automatic teller machine is a computerized telecommunication device that provides that customers of a financial institution which asses the financial transaction in a public without the need for a human clerk or bank teller.

1. What are the functions performed by ATMs?

It can perform both cash and non cash transactions in a totally secured environment.

It helps to perform cash transactions for both deposits and withdrawals.

**Long Answer Type Questions:**

1. Explain the concept of payment system in India. Discuss the paper based and e-payment system ?
2. Explain the concept of RTGS .Discuss the role and advantages of RTGS?
3. What do you mean by e-banking. Discuss the advantage and disadvantage of e-banking.?
4. What do you mean by plastic money and e-money. Discuss different forms of plastic money?
5. Explain the working of ATMs. Also describe the forecasting of cash demand at ATMs?