Banking related terms pdf

Education Know Your Banking - GLOSSARY of Central Banking Related Terms Jargon Buster Know Your Banking - GLOSSARY of Central Banking Related Terms We furnish below the most commonly used terms in Central Banking in an alphabetical order. The terms will be helpful to improve your knowledge in Central Banking - compiled by Dr. K.A. Menon. A B C D E F G H I J K L M N O P Q R S T U V W X Y Z Back Banking terms and concepts have always been part of our economics book. But they are hard to remember and tricky to apply. We all know that monetary policy revolves around repo rates, bank rates, and multiple other rates. This can lead to confusion between the concepts. This article includes important banking terms for competitive exams. They are defined in simple language to make you understand better. They are not only important for banking exams but are asked in other general ability papers as well. 1. Repo Rate In India, it is the rate at which the Reserve bank of India lends money to commercial banks in need, with collateral. This situation usually arrives at the time of inflation. 40% is the current repo rate in India. Bank rate is similar to this but doesn't require collateral to provide loans. The current bank rate is 4.25%. 2. Reverse Repo Rate In India, it is the rate at which the reserve bank of India borrows funds from commercial banks. It is usually done to control the money supply in the market. The current reverse repo rate is 3.35%. 3. Statutory Liquidity Ratio The Banks of India have to maintain a minimum percentage of cash, gold, and other securities, before lending loans to customers. This is called the Statutory Liquidity Ratio. This exists to control credit expansion in the country. The SLR rate is 18.50%. 4. Cash Reserve Ratio In India, all the banks have to maintain a certain amount of funds with the Reserve Bank of India. This is called the Cash Reserve Ratio. It is usually increased when the RBI wants to control liquidity in the market. The current CRR rate is 3%. 5. Retail Banking It is a service offered by many banks across the country. This allows every consumer to manage their accounts, enjoy access to their credits, and secure their money conveniently. This is also called consumer banking. 6. Bitcoin It is a cryptocurrency that can be sent from one person to another without any intermediaries. It is not administered by the RBI. 7. Call Money It is a short term loan with usually higher interest. The maturity period of this is between 1 to 14 days. The lender can ask for the money anytime they want. If it is repaid within a day then it becomes call money. And if it is repaid after more than a day then it becomes notice money. 8. Capital Market / Money Market The capital market deals with long term debts. It raises capital shares by dealing in shares, bonds, and other long-term investments. It is possible in primary and in secondary markets. The money market, on the other hand, deals with short term funds. The maturity period is usually less than 365 days. 9. Scheduled Bank Reserve Bank of India Act, 1934 led to the formation of the Reserve Bank of India. This act has certain sections. The Second Schedule of the Act has banks listed in it called the Scheduled Banks. The banks not listed there are Non-Scheduled Banks. 10. Non Performing Assets For banks in India, it is any loan that is overdue for more than 90 – 180 days. The interest or payment is missed and the loan becomes the default. The asset kept with the bank is not producing income anymore making it a non-performing asset. 11. Money Inflation It refers to an increase in the money supply in the market reducing the purchasing power of the consumer. In easy words, the value of money drops, and fewer goods are consumed per unit currency. Deflation on the other hand refers to a decrease in the money supply that increases the purchasing power of the consumer. 12. Negative Interest Rate It is a policy that allows central banks to charge interest to commercial banks for depositing money with the central bank. This, in turn, allows commercial banks to charge interest for cash deposits by customers rather than paying interest. This situation usually occurs at the time of deflation. 13. Green Banking It is an idea to promote environmentally friendly practices to reduce carbon footprint by banking activities. It aims to achieve banking and environmental sustainability. 14. Blockchain System It is a system to record information in a difficult way to prevent hacking and cheating of the system. It uses a digital ledger that is distributed across a number of networks. As a result, the data is available in sections across multiple locations making it difficult to hack. 15. Balloon Mortgage It is a type of loan that allows borrowers to make low payments in the initial period, but repayment of the balance amount in a lump sum at maturity. The last payment becomes Balloon payment because of a higher amount. 16. Skimming It is an act to steal the customer's personal information. It is done by using a magnetic stripe of the card. This is illegal and comes under cybercrime. 17. Money Laundering It is an illegal financial process that includes criminals concealing the origin of money. It is usually to cover up the black money generated by illegal activities. 18. Cheque It is a paper that instructs the bank to pay a specific amount from one account to another account to whom the cheque is issued. 19. Direct Credit It is an electronic transfer of funds from the payer's account to the payee's account. Direct Debit, on the other hand, is an instruction to your bank that allows a third party to make a transaction from your account. It is usually for paying bills. 20. Cash Credit It is a type of loan which is short term in nature and fixed in the limit. It is usually extended by a bank to a company to meet its working capital requirements. Overdraft, on the other hand, allows extension of loans for personal use as well even with the low account balance. 21. Bill of Exchange It is a financial instrument that instructs the person to make a payment of a specified amount to the signatory of the note. They are usually a part of international trade. 22. Marginal Standing Facility It is a scheme by the RBI that allows commercial banks to borrow money from the central bank overnight in emergencies like dry liquidity. But the interest rate is higher than the repo rate in this situation. The current IMF rate is 6.75%. 23. Minimum Reserve System of RBI It is a system that makes it mandatory for the central bank to keep a minimum reserve of gold and foreign exchange. The current minimum reserve amount is Rs 200 crores for the RBI. 24. Core Banking Solutions It is a software that allows customers to access their bank accounts from any of the member branch offices. 25. Unified Payment Interface It is a system that allows real-time payments facilitating inter-bank transactions. It is monitored by the central bank and works instantly. 26. Micro ATMs It's a card swipe device directly connected to the main banking system. They are present at the locations where bank branches cannot reach. 27. Letter of Credit It is a document by the bank that guarantees full payment by the buyer to the seller on time. In case the buyer fails, the bank covers the payment. It is an undertaking by the bank to the seller. 28. Bancassurance It is an agreement between banks and insurance companies. In this, the bank offers insurance benefits to its customers. 29. Banking Ombudsman It is a judicial authority that allows customers to file complaints if they are not happy with banking services. 30. NOSTRO Account It is an account that the bank has of foreign currency deposits with another bank of that country. It is to initiate foreign exchange and trade transactions. 31. VOSTRO Account It is an account that a bank holds on behalf of another bank. The funds in this account are for foreign counterparts. 32. MIBOR The Mumbai Interbank Offered Rate is the rate at which a bank offers a short term loan to other banks. The current MIBOR rate is 4.28%. 33. CASA Account It is a combination of current and savings accounts. It offers features of both the accounts. CASA Account has a low-interest rate on the current account and above-average return on saving return. 34. RAFA Account It is the ratio of deposits in Recurring Deposit Account Fixed Deposit Account of a bank. 35. DEMAT Account It is an account that allows Indian citizens to deal with stocks and debentures listed in the stock market. Like normal accounts have money deposits, Demat accounts have stock deposits. 36. Legal Tender It is a form of money that must be accepted (by law) as a payment of any monetary debt. 37. Currency Chest It is a depository by the central bank of India. There are 4,075 currency chests in India. All the excess money of the country is kept here under custody. 38. Insolvency It is a situation in which the person/company is unable to pay its debts on time. 39. Bankruptcy After a person or company becomes insolvent, they can seek relief from some or all debts. This legal process is Bankruptcy. 40. Amortization It is the process of distributing the payments in smaller installments. And amortization of assets is allotting a price to an intangible asset. 41. Credit Crunch It is a situation in which there is a sudden fall in the availability of loans from banks and other lenders. 42. External Commercial Borrowings It is a transaction in which a non-resident of the country lends foreign currency loan to an Indian. 43. Small Finance Banks It is a segment of banks to provide financial security to small businesses and industries. 44. Interest Rate Swap It is a contract to exchange all future interest rates of a loan between two entities. 45. Public Credit Registry (PCR) It is a public document that has financial information about all borrowers in India. 46. Off-Balance Sheet Exposure This sheet includes all activities that do not involve lending or borrowing but generate fee income for banks. 47. Priority Sector Lending According to this, all the banks have to offer a specified proportion to certain sectors like micro and small industries, agriculture, etc. 48. Credit Rating It is a system to recognize an individual's ability to pay back the loan according to his past dealings and transactions. 49. Prepaid Payment Instrument (PPI) It is a method that allows the purchase of goods and services with the value stored in this instrument. Smart cards, mobile wallets, etc. come under this instrument only. 50. National Electronic Fund Transfer It is a payment system that allows the transfer of funds from one bank account to another account or another branch. It involves one to one fund transfer in a specific time slot. 51. Real-Time Gross Settlement It is a process that allows instant transfer of funds in real-time. This means that the transaction is on a gross basis. 52. Immediate Payment Services It allows instant interbank payment through electronic fund transfer using mobiles or laptops. Do you want to crack UPSC in first attempt? Join UPSC Telegram Channel Conclusion The above-given terms are common in the general awareness section of competitive exams like UPSC, SSC, RRB, etc. We have tried to cover as many terms as possible. If you are an aspirant then this article is for you. Every year questions are there from this content. This will help students score well in the banking and accounts section. Read it thoroughly for the exams and to understand the banking system better. Did we exceed your expectations? If Yes, share your valuable feedback on Google | Facebook Banking is full of terms and concepts that can be difficult to comprehend. Even common ones have features that may not be obvious. But with banking and finance becoming such an important part of our daily lives, taking the time to learn some new phrases — or understand old ones better — could yield profitable results. According to www.nerdwallet.com and www.m.rediff.com, here are the top 22 essential banking terms every consumer should know. Understanding these seemingly difficult terms will help you navigate the complex world of personal banking with ease. Also, with the Central Bank of Nigeria's cashless banking drive fast gaining traction, it is important to know certain banking terms better. National Electronic Funds Transfer Transfer of funds initiated by electronic means such as an electronic terminal, Internet or ATM. The NEFT facilitates the process of fund transfer within the same bank or inter-bank transfers. The minimum amount that can be transferred varies from one platform to another. For example, via ATM, the highest is N200,000. On Internet, it differs from one bank to another. It also depends on whether you are transferring from a current account or savings account. But you may do as much as N1m and N5m. Any account linked to another account in the same bank where funds can be transferred electronically between accounts and carry out other specified services as well. It is the minimum rate a bank charges its most credit-worthy customer. The bank cannot lend below this rate (with an exception to bank employees, loans to bank depositors against their own deposits, etc) For a retail customer, the base rate will cover all loans from auto, personal to home loans effective. Balance transfer is an option included under credit card payments and is useful for persons holding more than one card. On availing this facility, the cardholder can transfer the balance amount outstanding on card one to card two and vice versa, if he/she is not able to make full payment that is due on a particular card. In any case, the payment due date is only delayed but the payment has to be made at the scheduled time as stated in card two. Balance transfer facility is useful in reducing the interest outgo (on card one) and extending the payment due date on the original card. The term 'cashback' is used with reference to credit cards. Cashback means giving back some portion of money (spent by the cardholder through the credit card) to the cardholder himself. The cashback is made in terms of points earned. Credit history is an account of an individual's past borrowings by way of loans, credit cards and all other debt that needs to be repaid/has been repaid. Credit history in Nigeria is provided by credit bureau. The CBN has licensed three credit bureaus in Nigeria to provide this service to banks and other bodies. A borrower needs to provide some kind of security to the bank in case of high-ticket loans (except home loans where the property is the security). Such security is called collateral. In case the borrower fails to repay the loan, the bank has the authority to attach the collateral to the loan and claim its dues. Bank requires certain documents from the borrower to look into his creditworthiness and charges a fee for the same. These charges are known as documentation charges. If an individual has not made any transactions in his/her account (except for interest payments credited by the bank) for more than six months, the savings/current account is declared as dormant/inactive. Fixed rate is the interest rate that remains constant for the full term of the loan. This is an interest rate that is referenced to a market rate and is revised as per the change in the interest rates in the economy. When interest rates in the economy rise, floating rates rise and vice versa. MICR stands for Magnetic Ink Character Recognition. MICR Code comprises nine digits given at the bottom (right side) of the cheque number. It is a unique code and varies between each bank branch. MICR code is required for cheque clearance. This account is a basic savings account provided by banks to make banking simpler and more accessible for all customers. In a no-frills account, you do not have to maintain minimum balance and enjoy basic banking facilities such as electronic funds transfer, net banking, free cheque book issuance. Electronic clearing service It is a service provided by the banks to facilitate direct debit from your bank account towards an investment account (such as a mutual fund) and/or paying a regular loan. One can give a standing instruction to the bank to transfer the specified amount every month for a specified period. Alternatively, you can direct a one-time transfer of funds through NEFT. Bank levies processing fee in order to process the loan application of the borrower. This fee is a small percentage (example: 2.5 per cent) of the loan amount sanctioned and is usually waived off during festival time to attract more borrowers. Processing fee is charged by the bank upon sanctioning of loan to the borrower. The RTGS or Real Time Gross Settlement System facilitates fund transfer within same bank or inter-bank transfers, but unlike NEFT, RTGS ensures the fund transfer fast and smooth in 'real-time' for a nominal fee. The minimum transfer amount is higher than NEFT. KYC or Know Your Customer norms are imposed by the CBN on banks and other financial institutions to ensure that the correct identity of the bank customers is established and to ensure that banks deal only in legitimate banking operations and not in money laundering or frauds. It is number that identifies your financial institution. Larger banks may have multiple routing numbers that are based on the geographic location where the account was opened. Annual percentage rate is the amount of interest you gain from keeping money in an account in a year, not including compound interest. Annual percentage yield is the amount of interest you gain from keeping money in an account in a year, including compound interest. Interest that applies to the original deposit as well as any newly earned interest. For example, if you put N10,000 in an account that earns compound interest at five per cent a year, in the next year you will earn five per cent on N10,500. Non-compounding interest would continue to earn five per cent on N10,000. A bounced-cheque fee charged to the person trying to deposit the cheque. It can be charged if there are insufficient funds in the cheque writer's account or if the account is closed. A fee incurred when your current account doesn't have enough funds to cover a payment that is requested. The financial institution will pay what your account lacks, after which your account may have a negative balance.