

STUDY MATERIAL (NFLAT)

Module 1: Money Matters

I . Functions of Money:

Money is anything which is generally accepted as a medium of exchange, measure of value, store of value and means for standard of deferred payment (payments which are to be made in future).

a .Medium of exchange

When money is used to intermediate the exchange of goods and services, it is performing a function as a *medium of exchange*. It thereby avoids the inefficiencies of a barter system, such as the "coincidence of wants " problem.

b.Measure of value

Money acts as a common measure of value into which values of all goods and services are expressed and compared. When we measure the value of a commodity in terms of money, it is known as Price

c .Store of value

To act as a *store of value*, money must be able to be reliably saved, stored, and retrieved – and be predictably usable as a medium of exchange when it is retrieved. The value of the money must also remain stable over time.

d.Standard of deferred payments Deferred payments refer to those payments which are to be made in future. Suppose you borrow a sum of Rs. 20,000 at 10 % p.a. interest for one year. It means you promise to pay Rs.22,000 (Rs.20,000 as principal and Rs.2,000 as interest) after one year. Money serves as a standard of such future payments.

II Types of money:-

a.Commodity Money

Commodity money is closely related to (and originates from) a barter system, where goods and services are directly exchanged for other goods and services

b.Fiat Money

Fiat money gets its value from a government order (i.e., fiat). That means, the government declares fiat money to be legal tender, which requires all people and firms within the country to accept it as a means of payment. If they fail to do so, they may be fined or even put in prison. Unlike commodity money, fiat money is not backed by any physical commodity. By definition, its intrinsic value is significantly lower than its face value.

c.Full bodied money

Any unit of money, whose face value and intrinsic value are equal, is known as full bodied money, i.e. Money Value = Commodity Value. For example, during the British period, one rupee coin was made of silver and its value as money was same as its value as a commodity.

d.Legal tender money

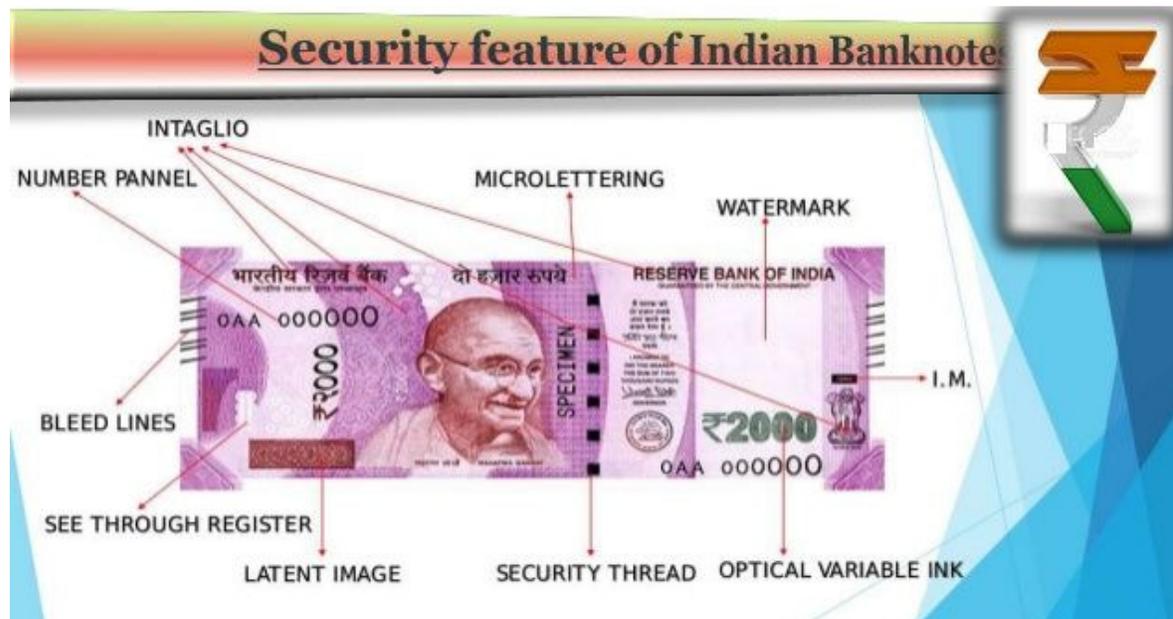
Legal tender is the **money** that is recognised by the **law** of the land, as valid for payment of debt. ...

e.Fiduciary Money

The meaning of the word fiduciary is “involving trust”, and today’s monetary system is highly fiduciary i.e. based upon trust. If a bank assures the customers payment in different types of money and if the customer can also sell these promises (legal tenders) or transfer them to somebody else, it is known as fiduciary money.

Generally gold, silver or paper money is generally used for payments as fiduciary money. Bank notes and cheques also are the examples of fiduciary money as both of them are kind of tokens/legal tenders which are used as money and carry the same value.

III. Security feature of a bank note



a) Watermark:

The Mahatma Gandhi Series of banknotes contain the Mahatma Gandhi watermark with a light and shade effect and multi-directional lines in the watermark window.

b) Security Thread:

The security thread appears to the left of the Mahatma’s portrait. Security thread has a plain, non-readable fully embedded security thread. The Rs.500 and Rs.100 notes have a security thread with similar visible features and inscription ‘Bharat’ (in Hindi), and ‘RBI’. When held against the light, the security thread on Rs.500 and Rs.100 can be seen as one continuous line. The Rs.5, Rs.10, Rs.20 and Rs.50 notes contain a readable, fully embedded windowed security thread with the inscription ‘Bharat’ (in Hindi), and ‘RBI’.

c) Latent Image:

On the obverse side of Rs.2000, Rs.500, Rs.100, Rs.50 and Rs.20 notes, a vertical band on the right side of the Mahatma Gandhi’s portrait contains a latent image showing the respective denominational value in numeral. The latent image is visible only when the note is held horizontally at eye level.

d) Microlettering:

This feature appears between the vertical band and Mahatma Gandhi portrait. It contains the word 'RBI' in Rs.5 and Rs.10. The notes of Rs.20 and above also contain the denominational value of the notes in microletters. This feature can be seen better under a magnifying glass.

e) Intaglio Printing:

The portrait of Mahatma Gandhi, the Reserve Bank seal, guarantee and promise clause, Ashoka Pillar Emblem on the left, RBI Governor's signature are printed in intaglio i.e. in raised prints, which can be felt by touch, in Rs.20, Rs.50, Rs.100, Rs.500 and Rs.2000 notes.

f) Identification Mark:

A special feature in intaglio has been introduced on the left of the watermark window on all notes except Rs.10/- note. This feature is in different shapes for various denominations (Rs. 20-Vertical Rectangle, Rs.50-Square, Rs.100-Triangle, Rs.500-Circle, Rs.2000-Horizontal Rectangle) and helps the visually impaired to identify the denomination.

g) Fluorescence:

Number panels of the notes are printed in fluorescent ink. The notes also have optical fibres. Both can be seen when the notes are exposed to ultra-violet lamp.

h) Optically Variable Ink:

The numeral digit 2000 and 500 on the obverse of Rs.2000 and Rs.500 notes respectively is printed in optically variable ink viz., a colour-changing ink. The colour of the numeral 2000/500 appears green when the note is held flat but would change to blue when the note is held at an angle.

i) See through Register:

The small floral design printed both on the front (hollow) and back (filled up) of the note in the middle of the vertical band next to the Watermark has an accurate back to back registration. The design will appear as one floral design when seen against the light.

IV Needs and Wants

Needs refers to an individual's basic requirement that must be fulfilled, in order to survive. For eg- food, clothing, shelter.

Wants are described as the goods and services, which an individual like to have, as a part of his caprices. For eg- to own a car, house etc.

V Income, Expenditure & Budgeting

Income is money (or some equivalent value) that an individual or business receives, usually in exchange for providing a good or service or through investing capital. Income is used to fund day-to-day expenditures. For individuals, income is most often received in the form of wages or salary.

An expenditure represents a payment with either cash or credit to purchase goods or services.

Budgeting is the process of creating a plan to spend your money. This spending plan is called a budget. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do. Budgeting is simply balancing your expenses with your income.

VI Assets, liabilities & net worth

Net worth is the total assets minus total outside liabilities of an individual or a company. Net worth is used when talking about the value of a company or in personal finance for an individual's net economic position.

Liability describes an obligation. It refers to money owed to complete a transaction, debt that has yet to be paid, or products or services that have been paid for but have not yet been rendered.

An asset represents value of ownership that can be converted into cash (although cash itself is also considered an asset).

- $\text{Assets} = \text{Liabilities} + \text{Capital}$ (where Capital for a corporation equals Owner's Equity)

VII Simple & Compound Interest

Interest is the cost of borrowing money, where the borrower pays a fee to the lender for the loan. The interest, typically expressed as a percentage, can be either simple or compounded. Simple interest is based on the principal amount of a loan or deposit. In contrast, compound interest is based on the principal amount and the interest that accumulates on it in every period.

Simple Interest = $P \times r \times n$

Where: P = Principal amount r = Annual interest rate n = Term of loan, in years

Compound Interest = $P \times (1+r)^t - P$

Where: P = Principal amount r = Annual interest rate t = Number of years interest is applied

VIII. Inflation and time value of money

Inflation increases the price of goods and services over time, effectively decreasing the number of goods and services you can buy with a do Rupee in the future as opposed to a Rupee today. If wages remain the same but inflation causes the prices of goods and services to increase over time, it will take a larger percentage of your income to purchase the same good or service in the future.

For example, if an apple costs 1/- today, it's possible that it could cost 2/- for the same apple one year from today. This effectively decreases the time value of money, since it will cost twice as much to purchase the same product in the future. To mitigate this decrease in the time value of money, you can invest the money available to you today at a rate equal to or higher than the rate of inflation.

IX Nominal and real rate of return

The nominal rate of return is the amount of money generated by an investment before factoring in expenses such as taxes, investment fees, and inflation. If an investment generated a 10% return, the nominal rate would equal 10%. After factoring in inflation during the investment period, the actual (real) return would likely be lower.

Let's say an investor placed Rs 100,000 in a no-fee fund to be invested for one year. At the end of the year, the investment was worth Rs 108,000, given the market price at the end of the same year

The nominal rate of return is calculated as:

$$\frac{Rs\ 108\ 00 - Rs\ 100\ 000}{Rs\ 100\ 000} = 0.08 = 8\%$$

- The nominal rate of return = 8%.

Real rate of return is the annual percentage of profit earned on an investment, adjusted for inflation. Therefore, the real rate of return accurately indicates the actual purchasing power of a given amount of money over time.

Assume you have saved Rs 100,000 to buy a car but decide to invest the money for a year before buying to ensure you have a small cash cushion left over after getting the car. Earning 5% interest, you have Rs 1,05,000 after 12 months. However, because prices increased by 3% during the same period due to inflation, the same car now costs Rs 1,03,000.

Consequently, the amount of money that remains after you buy the car, which represents your increase in purchasing power, is 2% of your initial investment. This is your real rate of return, as it represents the amount you gained after accounting for the effects of inflation.

Interest rates can be expressed in two ways: as nominal rates or real rates. The difference is that nominal rates are not adjusted for inflation, while real rates are adjusted. As a result, nominal rates are almost always higher, except during those rare periods when deflation, or negative inflation, takes hold.

X. Saving & Investment

Saving is setting aside money you don't spend now for emergencies or for a future purchase.

Investing is buying assets such as stocks, bonds, mutual funds or real estate with the expectation that your investment will make money for you. Investments usually are selected to achieve long-term goals.

- Saving money typically means it is available when we need it and it has a low risk of losing value.
- Investing typically carries a long-term horizon, such as our children's college fund or retirement it has high risk.
- The biggest and most influential difference between saving and investing is risk.

XI . Rule of 72, 115, 144

The Rule of 72 is a simplified way to estimate the doubling of an investment's value, based on a logarithmic formula.

The Rule of 72 can be applied to investments, inflation or anything that grows, such as GDP or population.

The formula is useful for understanding the effect of compound interest.

$$\text{Years to Double} = \frac{72}{\text{Interest Rate}}$$

Where: Interest Rate = Rate of return on an investment

The Rule of 115 follows the Rule of 72. If doubling your money isn't good enough, the Rule of 115 will show you how long it will take to triple your money. It's as simple as dividing your interest rate by 115. The quotient is the amount of time it will take you to triple your money.

For example, if your money earns an 8 percent interest rate, it will triple in 14 years and 5 months (115 divided by 8 equals 14.4)

The Rule of 144 will tell you how long it will take an investment to quadruple. For example, at 10% an investment will quadruple in about 14.5 years (144 /10).

XII Setting up a SMART goal

Your financial goals should take a **S-M-A-R-T** approach, in that they are

S— *specific*, so you know exactly what your goals are so you can create a plan designed to achieve those objectives.

M— *measurable* with a specific amount. For example, “Accumulate Rs. 5,000 in an investment fund within three years” is more measurable than “Put money into an Investment fund.”

A— *Achievable* No one has ever built a billion-dollar business overnight. Dream big and aim for the stars but keep one foot firmly based in reality.

R— *realistic*, involving goals based on your income and life situation. For example, it is probably not realistic to expect to buy a new car each year if you are a full-time student.

T— *time-based*, indicating a time frame for achieving the goal, such as three years. This allows you to measure your progress toward your financial goals.

Module 2: Banking – Deposits, Credit and Payments

I Functions of a Bank

Commercial banks are an organisation which normally performs certain financial transactions. It performs the twin task of accepting deposits from members of public and make advances to needy and worthy people form the society.

A. Primary Functions of Banks ↓

The primary functions of a bank are the main functions of a bank. These primary functions of banks are explained below.

1. Accepting Deposits

The bank collects deposits from the public. These deposits can be of different types, such as :-

- a. Saving Deposits
- b. Fixed Deposits

c. Current Deposits

d. Recurring Deposits

a. Saving Deposits

This type of deposits encourages saving habit among the public. The rate of interest is low. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names.

b. Fixed Deposits

Lump sum amount is deposited at one time for a specific period. Higher rate of interest is paid, which varies with the period of deposit. Withdrawals are not allowed before the expiry of the period. Those who have surplus funds go for fixed deposit.

c. Current Deposits

This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid. In fact, there are service charges. The account holders can get the benefit of overdraft facility.

d. Recurring Deposits

This type of account is operated by salaried persons and petty traders. A certain sum of money is periodically deposited into the bank. Withdrawals are permitted only after the expiry of certain period. A higher rate of interest is paid.

2. Granting of Loans and Advances

The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit.

The types of bank loans and advances are :-

a. Overdraft b. Cash Credits c. Loans d. Discounting of Bill of Exchange

a. Overdraft

This type of advances are given to current account holders. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

b. Cash Credits

The client is allowed cash credit upto a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash credit is given against the security of tangible assets and / or guarantees. The advance is given for a longer period and a larger amount of loan is sanctioned than that of overdraft.

c. Loans

It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term. Repayment of money can be in the form of installments spread over a period of time or in a lumpsum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits. Loans are normally secured against tangible assets of the company.

d. Discounting of Bill of Exchange

The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

B. Secondary Functions of Banks ↓

The bank performs a number of secondary functions, also called as non-banking functions.

These important secondary functions of banks are explained below.

1. Agency Functions

The bank acts as an agent of its customers. The bank performs a number of agency functions which includes :-

- a. Transfer of Funds b. Collection of Cheques c. Periodic Payments
- d. Portfolio Management e. Periodic Collections f. Other Agency Functions

a. Transfer of Fund

The bank transfer funds from one branch to another or from one place to another.

b. Collection of Cheques

The bank collects the money of the cheques through clearing section of its customers. The bank also collects money of the bills of exchange.

c. Periodic Payments

On standing instructions of the client, the bank makes periodic payments in respect of electricity bills, rent, etc.

d. Portfolio Management

The banks also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account. This facility is called portfolio management.

e. Periodic Collections

The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

f. Other Agency Functions

They act as trustees, executors, advisers and administrators on behalf of its clients. They act as representatives of clients to deal with other banks and institutions.

2. General Utility Functions

The bank also performs general utility functions, such as :-

- a. Issue of Drafts, Letter of Credits, etc.
- b. Locker Facility
- c. Underwriting of Shares
- d. Dealing in Foreign Exchange
- e. Project Reports
- f. Social Welfare Programmes
- g. Other Utility Functions

a. Issue of Drafts and Letter of Credits

Banks issue drafts for transferring money from one place to another. It also issues letter of credit, especially in case of, import trade. It also issues travellers' cheques.

b. Locker Facility

The bank provides a locker facility for the safe custody of valuable documents, gold ornaments and other valuables.

c. Underwriting of Shares

The bank underwrites shares and debentures through its merchant banking division.

d. Dealing in Foreign Exchange

The commercial banks are allowed by RBI to deal in foreign exchange.

e. Project Reports

The bank may also undertake to prepare project reports on behalf of its clients.

f. Social Welfare Programmes

It undertakes social welfare programmes, such as adult literacy programmes, public welfare campaigns, etc.

g. Other Utility Functions

It acts as a referee to financial standing of customers. It collects creditworthiness information about clients of its customers. It provides market information to its customers, etc. It provides travellers' cheque facility.

II Current and Savings Account

	Current Account	Savings Account
Interest	No Interest earned	Earn Interest on your savings
No. of Transactions	Unlimited transactions	Limited number of transactions
Purpose	Used for business	Build emergency funds

Required Balance	High minimum required Balance	Low minimum required balance
Normally used for	paying bills and business transactions	for salary accounts
Suitable for	Business People	Individuals

III Term and Recurring Deposits

Term Deposits, popularly known as Fixed Deposit, is an investment instrument in which a lump-sum amount is deposited at an agreed rate of interest for a fixed period of time, ranging from 1 month to 5 years.

Particulars	Fixed Deposit (FD)	Recurring Deposit (RD)
Deposit Frequency	Only once	Monthly
Tenure	7 days to 10 years	6 months to 10 years
Minimum deposit	Rs. 100	Rs. 1,000
Suitable for	Salaried individuals and pensioners, etc.	Housemakers, students and freelancers, etc.
Income Tax saving option	Available with 5 years of the lock-in period	Not available
Deposit Insurance	Covered	Covered

IV Loans and Collateral

A collateral loan is secured loan that allows the borrower to pledge an asset for availing a loan. For this type of loan, the loan amount depends on the value of the collateral. This type of loan is relatively risk-free for the lender, as he has the option to liquidate the asset if in case the borrower defaults. As a result, borrowers can avail a higher loan amount at a lower interest rate than unsecured loans.

Collateral is something you own that the bank can take if you fail to pay off your debt or loan. This can be any item of value that is accepted as an alternate form of repayment in case of default. If loan payments are not made, assets can be seized and sold by banks.

Some common assets that can be used as collateral include:

- Private vehicles
- Commercial and residential property
- Machinery and equipment
- Investments such as fixed deposits, bonds, mutual funds, shares, ESOPs
- Insurance policies
- Valuables and collectibles
- Future payments from customers (receivables)

V What is the difference between credit card and debit card?

Issuer: A debit card is linked to your savings or current account. It can be only issued by a bank where you have such an account. However, you can obtain a credit card from a bank without opening an account.

Source of funds: The primary difference between credit card and debit card is linked to the source of funds. Debit card transaction uses the funds available in your current or savings account for making transactions. The amount is debited from your account on a real-time basis. When you use a credit card, the immediate payment is made by the card issuing company. The transaction made is similar to a loan given to the user. The credit card holder has to repay the amount to the credit card issuer at a later date.

Access to funds: A debit card only allows you access to the amount available

your current or savings account. If you have INR 10,000 in your account, you can only make payments up to INR 10,000. Credit card holders can access funds up to the pre-approved credit limit. Usually, a high credit limit is offered to those with a high credit score or if the user has a corporate account with the bank.

Interest: In case of a debit card, the funds are debited on a real-time basis. No interest is payable. In contrast, delay in the payment of credit card amount attracts penal interest.

Repayment: Since you do not need to take money on credit on your debit card, there is no repayment required. However, credit card holder must repay the outstanding amount either through revolving credit i.e. paying the minimum due amount or paying more than the minimum due amount on the credit card, but less than the actual outstanding amount. The card-holder may also repay the entire outstanding amount by the due date.

Charges: To continue using your debit card, you have to pay an annual maintenance fee, along with a joining fee (depending upon the bank) and processing fee. While you must also pay the same fees to continue using your credit card, you may also incur late payment fees, prepayment penalty and foreclosure charges (in case of loans taken on credit card).

Monthly statements: No monthly statements are generated for a debit card. You can check all your debits through your account statement. A monthly statement or bill is provided for credit card. This is required since the transaction amount is provided on credit.

Fees: In case of a debit card, annual fees and PIN regeneration fees are applicable. In case of a credit card, a host of fees are payable. These include late payment fee, annual fees, and joining fees.

Privileges: Typically, debit cards do not come with any privileges. However, a credit card offers a number of them. Using a credit card, you can earn cash backs, air miles, and reward points.

Lost card liability: If you lose or misplace your debit card, the liability of the bank is minimal. However, a 100% liability protection is offered for credit cards. You have no liability for any unauthorised transactions.

Credit period: A debit card does not have any credit period. The funds available in the account are deducted instantly when a debit card is swiped. Credit cards have a credit period. The transaction amount is lent to the user on credit.

VI Comparison between Fixed and Floating Interest Rate

Fixed Interest Rate	Floating Interest Rate
Higher Interest Rate	Lower Interest Rate
Not affected by financial market conditions	Affected by changes in the financial market
Fixed EMIs	EMIs change as per interest rate or MCLR
Budget planning possible	Difficult to budget or manage financials
Sense of security	Generates savings
Suitable for short/medium term (3-10 years)	Suitable for long term (20-30 years)
Lesser risk	Higher risk

VII What Is an Equated Monthly Installment (EMI)?

An equated monthly installment (EMI) is a fixed payment amount made by a borrower to a lender at a specified date each calendar month. Equated monthly installments are used to pay off both interest and principal each month so that over a specified number of years, the loan is paid off in full. With most common types of loans—such as real estate mortgages, auto loans, and student loans—the borrower makes fixed periodic payments to the lender over the course of several years with the goal of retiring the loan.

The EMI can be calculated using either the flat-rate method or the reducing-balance method. The EMI flat-rate formula is calculated by adding together the principal loan amount and the interest on the principal and dividing the result by the number of periods multiplied by the number of months.

The EMI reducing-balance method is calculated using the formula shown below, in which P is the principal amount borrowed, I is the annual interest rate, r is the periodic monthly interest rate, n is the total number of monthly payments, and t is the number of months in a year.

$$(P \times I) \times ((1 + r)^n) / (t \times ((1 + r)^n) - 1)$$

VIII Small Savings Schemes:

1. Post office monthly income scheme

Salient Features:

- Maturity period is 5 years.
- No Bonus on Maturity
- No tax deduction at source (TDS).

- No tax rebate is applicable.
- Minimum investment amount is Rs.1500/- or in multiple thereafter.
- Maximum amount is Rs. 4.50 lakhs in a single account and Rs.9 lakhs in a joint account.
- Account can be opened by an individual, two/three adults jointly, and a minor through a guardian.
- Non-Resident Indian / HUF cannot open an Account.
- Minors have a separate limit of investment of Rs. 3 lakhs and the same is not clubbed with the limit of guardian.
- Facility of premature closure of account after 1 year but on or before 3 years @ 2.00% discount.
- Deduction of 1% if account is closed prematurely at any time after three years.
- Suitable scheme for retired employees/ senior citizens and for those who need regular monthly income.

2. National saving certificate

Salient Features:

- NSC VIII Issue (5 years) – Interest rate of 8.5% per annum w.e.f. 01-04-2013
- NSC IX Issue (10 years) - Interest rate of 8.8% per annum w.e.f. 01-04-2013
- Minimum investment Rs. 100/-. No maximum limit for investment.
- No tax deduction at source.
- Investment up to Rs 1,50,000/- per annum qualifies for Income Tax Rebate under NSC - section 80C of IT Act.
- Certificates can be kept as collateral security to get loan from banks.
- Trust and HUF cannot invest.
- A single holder type certificate can be purchased by an adult for himself or on behalf of a minor or to a minor.
- The interest accruing annually but deemed to be reinvested will also qualify for deduction under NSC - section 80C of IT Act

3. Public provident fund (PPF)

Salient Features:

- Interest rate of 8.7% per annum w.e.f. 01-04-2013.
- Minimum deposit is 500/- per annum. Maximum deposit is Rs. 1,50,000/- per annum

- The scheme is for 15 years.
- Investment up to Rs 1,50,000/- per annum qualifies for Income Tax Rebate under section 80C of IT Act.
- Interest is completely tax-free.
- Deposits can be made in lumpsum or in 12 installments.
- One deposit with a minimum amount of Rs 500/- is mandatory in each financial year.
- Withdrawal is permissible from 6th financial year.
- Loan facility available from 3rd financial year upto 5th financial year. The rate of interest charged on loan taken by the subscriber of a PPF account on or after 01.12.2011 shall be 2% p.a. However, the rate of interest of 1% p.a. shall continue to be charged on the loans already taken or taken up to 30.11.2011.
- Free from court attachment.
- Non-Resident Indians (NRIs) not eligible.
- An individual cannot invest on behalf of HUF (Hindu Undivided Family) or Association of persons.
- Ideal investment option for both salaried as well as self employed classes.

4. Post office time deposit scheme

Salient Features:

- 1 year, 2 year, 3 year and 5 year time deposits can be opened.
- Interest payable annually but compounded quarterly:
- Minimum amount of deposit is Rs 200/- and in multiples of Rs 200/- thereafter. No maximum limit.
- Investment up to Rs 1,50,000/- per annum qualifies for Income Tax Rebate under section 80C of IT Act.
- Interest income is taxable.
- Facility of redeposit on maturity of an account.
- In case of premature closure of 1 year, 2 Year, 3 Year or 5 Year account on or after 01.12.2011 between 6 months to one year from the date of deposit, simple interest at the rate applicable to from time to time to post office savings account shall be payable
- 2 year, 3 year or 5 year accounts on or after 01.12.2011 if closed after one year, interest on such deposits shall be calculated at a discount of 1% on the rate specified for respective period as mentioned in the concerned table given under

- Account can be pledged as security against a loan to banks/ Government institutions.
- Any individual (a single adult or two adults jointly) can open an account.
- Group Accounts, Institutional Accounts and Misc. account not permissible.
- Trust, Regimental Fund or Welfare Fund not permissible to invest.

5. Senior citizen saving scheme

Salient Features:

- Interest @ 9.2% per annum from the date of deposit on quarterly basis w.e.f. 01-04-2013
- Minimum deposit is Rs 1000 and multiples thereof. Maximum limit of 15 lakhs.
- Maturity period is 5 years and can be extended for a further period of 3 years.
- Age should be 60 years or more, and 55 years or more but less than 60 years who has retired under a Voluntary Retirement Scheme or a Special Voluntary Retirement Scheme on the date of opening of the account within three months from the date of retirement.
- No age limit for the retired personnel of Defence services provided they fulfill other specified conditions.
- The account may be opened in individual capacity or jointly with spouse.
- TDS is deducted at source on interest if the interest amount is more than Rs 10,000/- per annum.
- Investment up to Rs 1,50,000/- per annum qualifies for Income Tax Rebate under section 80C of IT Act.
- Interest can be automatically credited to savings account provided both the accounts stand in the same post office.
- Premature closure is allowed after one year on deduction of 1.5% of the deposit and after 2 years on deduction of 1%.
- No withdrawal permitted before the expiry of a period of 5 years from the date of opening of the account.
- Non-resident Indians (NRIs) and Hindu Undivided Family (HUF) are not eligible to open an account.

6. Post office saving account

Salient Features:

- Rate of interest 4.0% per annum
- Minimum amount Rs 50/- in case of non-cheque account, Rs.500/- in case of cheque account.

- Maximum balance permissible is Rs 1,00,000/- in a single account and Rs 2,00,000/- in a joint account.
- Interest Tax Free.
- Any individual can open an account.
- Cheque facility available.
- Group Account, Institutional Account, other Accounts like Security Deposit account & Official Capacity account are not permissible.

IX Importance of Credit Score

A credit score is a three-digit number that shows your creditworthiness. It is the first thing that lenders check when you apply for a loan or a credit card. It gives them the idea of whether you can repay the borrowed sum on time or not. Hence, it is important to maintain a good credit score. You can maintain your credit score by making all your payments on time, checking your credit reports frequently, paying off existing debt on your credit cards and keeping your credit utilization low below 30%.

Advantage of Credit Score

A good Credit score ensures that you get many advantages over those having no Credit score or those having a lower score. You are entitled to the following advantages if you have a good Credit score:

- Lower interest rates and better terms on credit products

One of the benefits of having a good credit score is that banks might offer you loans and credit cards at a lower interest rate. You can also get other benefits as well such as a discount on the processing fee and eligibility to get a higher loan amount.

- Improve your chances for credit card and loan approval

Borrowers with an excellent credit score are considered as a low-risk and therefore the chances of being approved for loans and credit cards are higher.

- Access to the best rewarding credit cards

With a good credit score, you are also eligible to get access to the most rewarding credit cards in the market, including those that offer the lowest interest rates and the best rewards, such as cash cashback, travel points, and other benefits.

- Get approved for a higher credit limit on your credit card

With a good credit score, you can also get approved for a higher credit limit on your credit card. Creditors will likely lend you more money because of your proven creditworthiness.

- Eligible for a pre-approved loan offer

Borrowers with a good credit score are also eligible for pre-approved loan offers. Generally, a pre-approved loan offer is given by banks to the existing customers who have a good credit history.

Therefore, it is crucial to maintain a good credit score if you want to enjoy all the above-mentioned benefits.

X Payment Systems

- Paper-based Payments

Use of paper-based instruments (like cheques, drafts, and the like) accounts for nearly 60% of the volume of total non-cash transactions in the country. In value terms, the share is presently around 11%. This share has been steadily decreasing over a period of time and electronic mode gained popularity due to the concerted efforts of Reserve Bank of India to popularize the electronic payment products in preference to cash and cheques.

- Electronic Funds Transfer (EFT)

This retail funds transfer system introduced in the late 1990s enabled an account holder of a bank to electronically transfer funds to another account holder with any other participating bank. Available across 15 major centers in the country, this system is no longer available for use by the general public, for whose benefit a feature-rich and more efficient system is now in place, which is the National Electronic Funds Transfer (NEFT) system.

- National Electronic Funds Transfer (NEFT) System

In November 2005, a more secure system was introduced for facilitating one-to-one funds transfer requirements of individuals / corporates. Available across a longer time window, the NEFT system provides for batch settlements at hourly intervals, thus enabling near real-time transfer of funds. Certain other unique features viz. accepting cash for originating transactions, initiating transfer requests without any minimum or maximum amount limitations, facilitating one-way transfers to Nepal, receiving confirmation of the date / time of credit to the account of the beneficiaries, etc., are available in the system.

- Real Time Gross Settlement (RTGS) System

RTGS is a funds transfer systems where transfer of money takes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period. "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable. This was introduced in in 2004 and settles all inter-bank payments and customer transactions above ₹2 lakh.

- Mobile Banking System

Mobile phones as a medium for providing banking services have been attaining increased importance. Reserve Bank brought out a set of operating guidelines on mobile banking for banks in October 2008, according to which only banks which are licensed and supervised in India and have a physical presence in India are permitted to offer mobile banking after obtaining necessary permission from Reserve Bank. The guidelines focus on systems for security and inter-bank transfer arrangements through Reserve Bank's authorized systems. On the technology front the objective is to enable the development of inter-operable standards so as to facilitate funds transfer from one account to any other account in the same or any other bank on a real time basis irrespective of the mobile network a customer has subscribed to.

- ATMs / Point of Sale (POS) Terminals / Online Transactions

Presently, there are over 61,000 ATMs in India. Savings Bank customers can withdraw cash from any bank terminal up to 5 times in a month without being charged for the same. To address the customer service issues arising out of failed ATM transactions where the customer's account gets debited without actual disbursement of cash, the Reserve Bank has mandated re-crediting of such failed transactions within 12 working days and mandated compensation for delays beyond the stipulated period. Furthermore, a standardised template has been prescribed for displaying at all ATM locations to facilitate lodging of complaints by customers.

Module 3: Insurance – Risk and Reward

I CONCEPT OF INSURANCE

- Insurance is a means of protection from financial loss.
- An entity which provides insurance is known as an insurer, insurance company, or insurance carrier.
- A person or entity who buys insurance is known as an insured or policyholder.
- The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss.
- The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or pre-existing relationship.
- The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.
- The amount of money charged by the insurer to the insured for the coverage set forth in the insurance policy is called the premium.

II FUNDAMENTAL PRINCIPLES OF INSURANCE:

1. The Principle of Utmost Good Faith

- Both parties involved in an insurance contract—the insured (policy holder) and the insurer (the company)—should act in good faith towards each other.
- The insurer and the insured must provide clear and concise information regarding the terms and conditions of the contract

2. The Principle of Insurable Interest

Insurable interest just means that the subject matter of the contract must provide some financial gain by existing for the insured (or policyholder) and would lead to a financial loss if damaged, destroyed, stolen, or lost.

- The insured must have an insurable interest in the subject matter of the insurance contract.
- The owner of the subject is said to have an insurable interest until s/he is no longer the owner.

3. The Principle of Indemnity

- Indemnity is a guarantee to restore the insured to the position he or she was in before the *uncertain* incident that caused a loss for the insured. The insurer (provider) compensates the insured (policyholder).
- The insurance company promises to compensate the policyholder for the amount of the loss up to the amount agreed upon in the contract.

4 .The Principle of Contribution

- Contribution establishes a corollary among all the insurance contracts involved in an incident or with the same subject.
- Contribution allows for the insured to claim indemnity to the extent of actual loss from all the insurance contracts involved in his or her claim.

5.The Principle of Subrogation

This principle can be a little confusing, but the example should help make it clear. Subrogation is substituting one creditor (the insurance company) for another (another insurance company representing the person responsible for the loss).

- After the insured (policyholder) has been compensated for the incurred loss on a piece of property that was insured, the rights of ownership of this property go to the insurer.

6.The Principle of Proximate Cause

- The loss of insured property can be caused by more than one incident even in succession to each other.
- Property may be insured against some but not all causes of loss.
- When a property is ***not*** insured against all causes, the nearest cause is to be found out.
- If the proximate cause is one in which the property is insured against, then the insurer must pay compensation. If it is not a cause the property is insured against, then the insurer doesn't have to pay.

7.The Principle of Loss Minimization

- In an uncertain event, it is the insured's responsibility to take all precautions to minimize the loss on the insured property.

For an individual, a risk premium is the minimum amount of money by which the expected return on a risky asset must exceed the known return on a risk-free asset in order to induce an individual to hold the risky asset rather than the risk-free asset. It is positive if the person is risk averse.

III SUM ASSURED

The **sum assured** is the amount of money an insurance policy guarantees to pay up before any bonuses are added. In other words, **sum assured** is the guaranteed amount the policyholder will receive. This is also known as the cover or the coverage amount and is the total amount for which an individual is **insured**.

IV Insurance Products and Services

Insurance Products

- Home Insurance
- Landlord and Rental Properties
- Life Insurance
- Business Insurance
- Motorcycle Insurance
- Recreational Insurance

INSURANCE SERVICES

Insurance Services means any renewal, discontinuance or replacement of any insurance or reinsurance by, or handling self-insurance programs, insurance claims or other insurance administrative functions.

V IDENTIFYING RISK

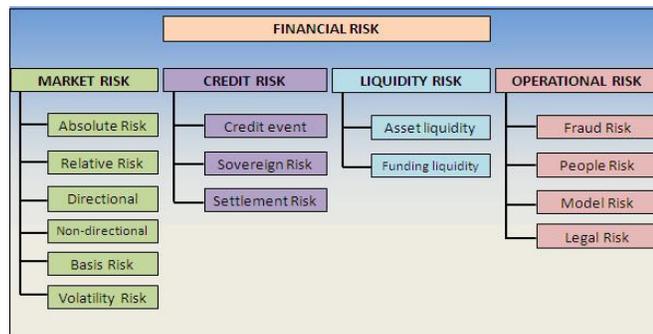
Risk identification is the process of determining risks that could potentially prevent the program, enterprise, or investment from achieving its objectives. It includes documenting and communicating the concern.

8 Ways to Identify Risks in Your Organization

1. Break down the big picture. When beginning the risk management process, identifying risks can be overwhelming. ...
2. Be pessimistic. ...
3. Consult an expert. ...
4. Conduct internal research. ...
5. Conduct external research. ...
6. Seek employee feedback regularly. ...
7. Analyze customer complaints. ...
8. Use models or software.

VI PURE RISK and FINANCIAL RISK

- Pure risk is a type of risk that cannot be controlled and has two outcomes: complete loss or no loss at all. There are no opportunities for gain or profit when pure risk is involved.
- Pure risk is generally prevalent in situations such as natural disasters, fires, or death.
- Pure risks are types of risk where no profit is possible and only full loss, partial loss or break-even situation are probable outcomes.
- Types of pure risks are; (1) personal risks, (2) property risks, and (3) liability risk.
- Financial risk is the possibility of losing money on an investment or business venture.
- Some more common and distinct financial risks include credit risk, liquidity risk, and operational risk.
- Financial risk is a type of danger that can result in the loss of capital to interested parties



VII Risk appetite

Risk appetite is the level of risk that an organization is prepared to accept in pursuit of its objectives, before action is deemed necessary to reduce the risk. It represents a balance between the potential benefits of innovation and the threats, that change inevitably brings.

VIII AVOID, IGNORE OR MANAGE RISK

1. Avoiding Risk

For example, if I want to avoid the possibility of having to pay for a stranger's medical expenses due to an auto accident, I could stop driving a car. So why not just avoid all risks? The problem is that whenever we avoid a risk we also miss out on the benefits we could have received for participating in the associated activity. In addition, not all risks can be completely avoided, such as the risks of illness or natural disaster.

Avoidance may be appropriate for a limited number of risks that produce a high probability of loss, such as gambling, but it is not a practical solution for most risks. In some cases we may even create additional risks by trying to avoid a particular risk. For example, we may be tempted to keep all of our savings in cash to avoid the risk of investment losses, but then we would be subjecting ourselves to the potential risk of loss by inflation, which is practically guaranteed to significantly erode the value of our cash over time.

2. Ignoring risk

When people do this dumb thing, ignoring risk, they do it selectively. ... The way it typically works is, they take elaborate care to list and analyze and monitor all the minor risks (the ones they can hope to counteract through managerial action) and only ignore the really ugly ones.

3. Managing risk

Risk management is the practice of using processes, methods and tools for managing these risks.

... Risk management focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to deal with those risks.



IX Balancing risk and reward

- When you invest in the stock market, you need to strike a balance between risk and reward. In general, the more risk you are prepared to take, the higher your potential returns (or losses!), however the beauty is that you can choose the level of risk you are comfortable with.
- All investments have risks. In order to figure out how to manage risk, you must first understand it.
- There is also the risk of investing too conservatively – not getting a high enough return to provide for your financial future.
- To effectively manage these elements of portfolio risk, you need to evaluate your personal investment goals and match these goals to your portfolio risks. Factors such as your investment time horizon and risk comfort level also must be considered. These will determine what kinds of and how much risk you are willing to take.

X BEHAVIOURAL BIASES

- Behavioural biases are irrational beliefs or behaviours that can unconsciously influence our decision-making process.
- They are generally considered to be split into two subtypes – emotional biases and cognitive biases.
- Behavioral biases are wrong and potentially damaging behaviours caused by erroneous decisions (or unfit reactions) - blunders. to use a more explicit word.
- Unless luck (or serendipity, or some corrective actions) saves the day, they bring usually suboptimal and often negative / harmful - outcomes.

Module 4: Investment – Stocks, Bonds and Mutual Funds

I Investment Fundamentals

An investment is an asset or item acquired with the goal of generating income or appreciation. Appreciation refers to an increase in the value of an asset over time. An investment always concerns the outlay of some asset today—time, money, or effort—in hopes of a greater payoff in the future than what was originally put in.

Information regarding investment in different assets:

Bonds:

- Bonds are issued to raise funds in the same way as an individual borrows funds from banks.
- Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations.
- A **bond certificate** is a document that states the details of the bond including the bond issuer's name, the bond par value or face amount, the interest rate, and the maturity date.

National Saving Certificate:

- A Government of India initiative, the National Savings Certificate is a fixed income investment scheme that you can open easily with any post office.
- It is a savings bond scheme that encourages subscribers primarily small to mid-income investors to invest while saving on income tax under Section 80C.
- The NSC offers guaranteed interest and complete capital protection, just like some other fixed income instruments – Public Provident Fund and Post Office FDs.
- Individuals including minors and trusts can invest in NSCs.
- They are issued in denominations ranging from 100 to 10,000.
- They offer interest rate of 8% compounded half yearly.
- The accumulated amount is paid on maturity.

Mutual Funds:

- A mutual fund is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities.
- Mutual funds give small or individual investors access to diversified, professionally managed portfolios at a low price.
- Mutual funds are divided into several kinds of categories, representing the kinds of securities they invest in, their investment objectives, and the type of returns they seek.

- Mutual funds charge annual fees (called expense ratios) and, in some cases, commissions, which can affect their overall returns.
- The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds.
- They help the clients to invest in SIPs. Since mutual funds allow investment in numerous stocks, it enables investors to achieve broad diversification with an investment as low as Rs. 500.
- A mutual fund can generate a capital gain for individual investors since the price at which investors sell their shares can be higher than the price at which they purchase their shares.
- However, the price of the mutual fund share may decline over time, which would result in a capital loss.
- The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time.
- A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

CLASSIFICATION OF MUTUAL FUND:-

1. Schemes according to Maturity Period:

OPEN-ENDED FUND:-

- This scheme allows investors to buy or sell units at any point in time.
- It does not have a fixed maturity date either.
- The key feature is liquidity.
- We can conveniently buy or sell your units at net asset value (“NAV”) related prices.
- The majority of mutual funds, 59% approximately are open-end funds.

CLOSE-ENDED FUND:-

- This type of scheme has a stipulated maturity period and investors can invest only during the initial launch period known as the New Fund Offer (NFO).
- Once the offer closes, no new investments are permitted.
- The market price at the stock exchange could vary from the scheme’s Net Asset Value (NAV), because of the demand and supply situation, unit holder’s expectations and other market factors.
- Some close ended schemes will give US an additional option of selling your units directly to the mutual funds through periodic repurchase at NAV related prices.
- SEBI Regulations ensure that at least one of the two exit routes are provided to the investor.

2. Classification according to investment objectives:

- 
- 1) Growth / Equity Oriented Scheme
 - 2) Income / Debt Oriented Scheme
 - 3) Balanced Fund
 - 4) Money Market or Liquid Fund

a. Growth / Equity Oriented Scheme:-

- The fundamental objective of growth funds is to provide capital growth or appreciation.
- They tend to invest in schemes where the possibility of the principal amount growing is high.
- This makes them risky but capable of generating good returns.

b. Income / Debt Oriented Scheme:-

- The basic aim of the income funds is to provide you with both, a regular income and long-term capital growth.
- This is why they enable investors to place their money in fixed income instruments like bonds and debentures.

c. Balanced Fund:-

- The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents.
- These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments.

4) Money Market or Liquid Fund:-

- sole purpose of liquid funds is to provide a cover of liquidity to the investor.
- With this as the goal, they invest in short-term investment instruments like treasury-bills or government bonds.
- They are safer as compared to growth funds but can only generate moderate returns.

NAV(Net Assets Value):

- Net Asset Value (NAV) is the market value of a mutual fund unit.
- The overall cost of a mutual fund depends on this market value per fund unit.
- If you add up the market value of all the shares in the fund and divide it by the number of total mutual fund units, the resulting figure will be NAV.
- NAV is simply the price per share of the fund. Just like shares have a share price; mutual funds have a net asset value.

Systematic Investment Plan (SIP):

- It is an investment route offered by Mutual Funds wherein one can invest a fixed amount in a Mutual Fund scheme at regular intervals– say once a month or once a quarter, instead of making a lump-sum investment.
- The installment amount could be as little as INR 500 a month and is similar to a recurring deposit.
- It's convenient as you can give your bank standing instructions to debit the amount every month.
- SIP has been gaining popularity among Indian MF investors, as it helps in investing in a disciplined manner without worrying about market volatility and timing the market.

Fixed Deposit:

- One of the oldest investment avenues in India is bank fixed deposit.

- It gives a return of 6%-8% p.a. depending on the tenure.
- It is a safe investment device for those who do not have a risk appetite and have traditionally put their money in them

Post Office Monthly Income Scheme:-

- Post Office Monthly Income Scheme, amongst others such as Post Office Savings Account, Post Office Recurring Deposit, Post Office Time Deposit, is one of the highest-earning schemes with an interest rate of 7.6%.
- The interest in this scheme, as the name suggests, is disbursed monthly.
- This scheme, like other post office schemes, is recognized and validated by The Ministry of Finance.

PPF:-

- Public provident fund is a popular investment scheme among investors courtesy its multiple investor-friendly features and associated benefits.
- It is a long-term investment scheme popular among individuals who want to earn high but stable returns.
- Proper safekeeping of the principal amount is the prime target of individuals opening a PPF account.
- The key characteristics of a public provident fund scheme can be listed as follows –

Investment tenure

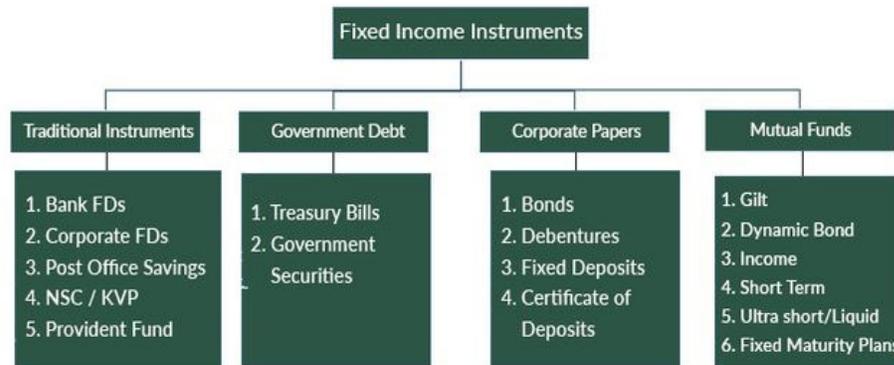
- A PPF account has a lock-in period of 15 years on investment, before which funds cannot be withdrawn completely. An investor can choose to extend this tenure by 5 years after lock-in period is over if required.

Principal amount

- A minimum of Rs. 500 and a maximum of Rs. 1.5 Lakh can be invested in a provident fund scheme annually. This investment can be undertaken in a lumpsum or installment basis. However, an individual is eligible for only 12 yearly instalment payments into a PPF account. Investment in a PPF account has to be made every year to ensure that the account remains active.

Loan against investment

- Public provident funds provide the benefit of availing loans against the investment amount. However, the loan will only be granted if it is taken at any time from the beginning of 3rd year till the end of the 6th year from the date of activation of account.
- The maximum tenure of such loans against PPF is 36 months. Only 25% or less of the total amount available in the account can be claimed for this purpose.



Ponzi Schemes:

- A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors.
- Ponzi scheme organizers often promise to invest your money and generate high returns with little or no risk.
- But in many Ponzi schemes, the fraudsters do not invest the money. Instead, they use it to pay those who invested earlier and may keep some for themselves.
- With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors, or when large numbers of existing investors cash out, these schemes tend to collapse.
- Ponzi schemes are named after Charles Ponzi, who duped investors in the 1920s with a postage stamp speculation scheme.
- Difficulty receiving payments. Be suspicious if you don't receive a payment or have difficulty cashing out..

Module 5: Pension – Retirement Planning(RD)

I Life stages and Financial Goals:

Retirement is a stage in the life cycle of an individual when one stops being an active part of the productive/ working population on account of advanced age. There are many reasons why planning for retirement is important like any other goals:

1. Increase in life expectancy: Our generation will live longer than previous ones due to improved medical and healthcare, implying the need to gather enough funds that can sustain longer life. This also implies that the healthcare needs and expenses are likely to haunt us.
2. Shortfall in Employer Funded Pension/Pension Funds : The employer or government funded pension schemes are less likely to sustain the income needs postretirement. This is the reason many individuals supplement their state or employer funded retirement plans with self-funding- i.e. pension plans.
3. Change of social structures: In spite of family support, many retirees don't prefer depending on the relatives or children for meeting post retirement expenses. Maintaining independent lifestyle is sustainable only when backed with a financial cushion.

4. Lack of social security system: There is no social security system in our country. Hence one has to plan to build the entire corpus to help meet the regular income or any contingency post retirement.

5. Rest and relaxation: After fulfilling all your responsibilities, you may want to build a retirement corpus to go on holidays, to pursue a hobby etc.

II Securing your Financial Future: Planning for the purpose of achieving financial independence after retirement. Retirement planning requires:

1. To determine how much annual income will be needed in each year after retirement.

2. To determine how much must be accumulated in retirement savings in order to fund the expenditure during retired years.

3. To determine how much must be contributed to retirement savings in each remaining working years in order to accumulate the required amount determined in step #2.

III No loan for Retirement Goal-

(i) It is advised that loan should be obtained in such a way that the return is not exceeding the working life of an individual.

(ii) Loan pertaining to House, children's education, for building emergency fund, for Health Insurance etc., must not be raised near the retirement years.

(iii) The installments of loan will be an adverse burden on the life of a person after Retirement.

(iv) Amount of pension will also get diminished due to burden of installments.

IV Defined Benefit and Contribution

Defined Benefit (DB)

Defined Benefit Pension plan is one in which a specified monthly benefit (payment) is available on retirement. It is predetermined by a formula based on the employee's earning history, tenure of service and age

Defined Contribution (DC)

Defined Contribution Pension plan in which the pension amount is dependent upon the aggregated retirement corpus which in turn is determined by the amount of individual contribution. Individual contributes for her/his own pension & parallel contribution can also come from employer/Central or State Government in addition to individual contribution. The amount of contribution is predetermined.

V Contribute to your Provident Fund- Employee Provident Fund (EPF) is a scheme in which you, as an employee at a government or private organization, can create wealth through your working years. This amount earns interest and you can use it to finance a part of post-retirement life or other goals. EPF is a collection of funds contributed by the employer and his employee regularly on a monthly basis. The employee contributes 12 per cent of his or her basic salary along with the Dearness Allowance every month to the EPF account. At the time of your retirement, or two months after changing your job, you can claim the entire amount. In order to check whether your employer is making contributions towards your EPF account or to see your account balance, you can use your UAN and log into your EPF account on the EPFO member portal.

VI The National Pension System (NPS)

The New Pension System is changed to National Pension System. NPS is made available to all Citizen of India w.e.f 1.5.2009 on a voluntary basis and 16 Lakh State Government employees from 22 States are covered under National Pension System (NPS).

- **FEATURES AND ARCHITECTURE OF THE NATIONAL PENSION SYSTEM**

Any Indian citizen between 18 and 60 years can join NPS.

It is a defined contribution pension system in which the contributions are invested in a mix of assets and the retirement corpus is dependent on the returns from those assets.

The returns in NPS are market-linked. Under NPS, an investor can open two accounts, called Tier I and Tier II account.

Some important points pertaining to NPS;

1. The National Pension System is based on defined contributions. Subscriber can open NPS account through POP or Aggregator. NPS tier-1 Account is non-withdrawal account and there will be seamless transfer of accumulations in case of change of Employment and/or location. It will also offer a basket of investment choices and Fund managers.

2. NPS is mandatory for new recruits in the Central Government service (except the armed forces). The monthly contribution would be 10 percent of the salary and DA to be paid by the employee and matched by the Central Government.

3. National Securities Depository Service Limited (NSDL) has been appointed as the Central record keeping agency (CRA) under NPS .The recordkeeping, administration and customer service functions for all subscribers of the NPS shall be centralized and performed by the CRA.

4. Pension Fund Managers (PFMs) are appointed by PFRDA to manage the retirement savings of subscribers.

5. Annuity Service Providers (ASPs) are appointed by PFRDA for delivering a regular monthly pension to the subscriber for the rest of his/her life post retirement.

6. Individuals exit at attaining the age of 60 years from the NPS. At exit, the individual is required to invest minimum 40 percent of pension wealth to purchase a pension from ASP. The individual would receive a lump-sum of the remaining pension wealth, which she would be free to utilize in any manner; individuals have the facility to invest more than the minimum prescribed 40% for receiving higher pension. Individuals would have the flexibility to leave the NPS prior to age 60. However, in this case, the mandatory annuitization would be 80% of the pension wealth.

VII Accumulation and Distribution Phase

Two phases of retirement :

Accumulation phase - This period begins when you enter the workforce and begin setting aside funds for later years of your life, and ends when you actually retire. Basically, if you're still working, you're still in the accumulation phase, building wealth to get you through retirement. It is during this time that you're building wealth and resources to provide an income source for your post retirement.

Distribution phase - When you actually retire and start collecting money from the retirement income sources you set up during the accumulation phase of your life, you can be said to have entered the distribution phase. for

VIII Impact of Inflation Benefits are generally not indexed inflation after retirement. Thus an increase in the inflation rate would reduce the worker's real benefits in the years . Inflation Diminishes Retiree's Buying Power

If you have a pension, find out if your payment will increase with inflation and modify your other investments accordingly.

Here are seven ways to protect yourself against a rising tide of inflation:

1. Invest in stocks. Most people become more risk averse as they get older. You don't want to gamble away your nest's egg in the years leading up to retirement. But the price of stocks generally keeps up with inflation
2. Real estate. Since real estate tends to rise along with inflation, owning your own home is a hedge against inflation. Rental property is another investment that typically pays off during inflationary periods, since you have the ability to raise rents.
3. Bonds and annuities. These are relatively safe investments that certainly belong in any retirement investment portfolio. But most bonds lose value if inflation increases. However, there are some bonds, such as Treasury inflation-protected securities, that are guaranteed to keep up with inflation.
4. Pensions. Many pensions are not adjusted for inflation, but some are. If you have a pension, find out if your payment will increase with inflation and modify your other investments accordingly.
5. Social Security. Social Security payments are adjusted each year to keep up with inflation.
6. Permanently downsize your expenses. If you downsize your house and move to a community with lower taxes and a lower cost of living, you save money throughout retirement.
7. Cut other expenses as you go along. Its better to plan your own cutbacks, should they be needed, than to have the cutbacks thrust upon you by rising prices. No one really knows whether inflation will become a problem in the next few years,

IX Price of Procrastination

- The act or habit of procrastinating, or putting off or delaying, especially something requiring immediate attention. Procrastination can cause missed deadlines, missed opportunities, and just plain missing out.
- The best way to stop procrastinating. Just get started.
- Starting small will provide the momentum to finish.
- Unfinished tasks are uncomfortable for us. Once we get started, we have the drive to finish.
- A recent study suggests that procrastination is the outcome of present biased preferences, so it is advised to start keeping money for post-retirement period well in advance.

X Reverse Mortgage Loan-

- Reverse Mortgage Loan provides an additional source of income for senior citizens of India, who have a self-acquired or self-occupied home in India.
- The Bank makes payments to the borrower /borrowers (in case of living spouse), against mortgage of his / their residential house property.
- When you have a regular mortgage, you pay the lender every month to buy your home over time. In a reverse mortgage, you get a loan in which the lender pays you.
- Reverse mortgages take part of the equity in your home and convert it into payments to you – a kind of advance payment on your home equity.
- The high costs of reverse mortgages are not worth it for most people. You're better off selling your home and moving to a cheaper place, keeping whatever equity you have in your pocket rather than owing it to a reverse mortgage lender.
- The best way of getting out of a reverse mortgage is by repaying the loan balance in full. If you have a large balance that you are unable to pay in cash, the most common solution is to sell the home and use the proceeds to pay off the reverse mortgage.

Module 6: Financial Inclusion (KS)

PRADHAN MANTRI JAN DHAN YOJANA

- This financial inclusion program was launched by Government of India on 28/08/2014
- It is open to Indian citizens (minor of age 10 and older can also open an account with guardian to manage it).
- It aims to expand affordable access to financial services such as bank accounts, remittances, credit insurance and pensions.
- It is run by Finance ministry of India.
- Under this scheme 15 million bank accounts were opened on inauguration day The Guinness Book of World Records recognizes this achievement.
- Till 27th June, 2018 over 318 million Bank Accounts were opened.
- There is a record of most bank account opened in one week as a part of financial inclusion campaign is 1,80,96,130 and was achieved by Government of India from 23rd to 29th August, 2014.

PRADHAN MANTRI SURAKSHA BIMA YOJANA

- It is a government backed accident insurance scheme in India.
- It was launched by Government of India on 8th May, 2015.
- It is available to people between 18 and 70 years of age with bank account.
- The GST is exempted on Pradhan Mantri Suraksha Bima Yojana.
- In case of accidental death or full disability, the payment to the nominee will be Rs. 2 lakh and in case of partial permanent disability Rs. 1 lakh.
- Deaths due to suicide, alcohol, drug abuse, etc, are not covered in this scheme.

PRADHAN MANTRI JEEVAN JYOTI BIMA YOJANA

- It is a government-backed Life insurance scheme in India.
- It was formally launched by Prime Minister Narendra Modi on 9 May in Kolkata.
- It is available to people between 18 and 50 years of age with bank accounts.
- It has an annual premium of Rs 330, the GST is exempted.
- The amount will be automatically debited from the account. In case of death due to any cause the payment to the nominee will be Rs 2 lakh

- As of May 2015, only 20% of India's population has any kind of insurance, this scheme aims to increase the number.
- Till 31 March 2019, 5.91 crore people have already enrolled for this scheme. 1,35,212 claims have been disbursed amounting to a total of 2,704.24 crore

ATAL PENSION YOJANA:

- Atal Pension Yojana is a government-backed pension scheme in India, primarily targeted at the unorganised sector.
- It was launched by Prime Minister Narendra Modi on 9 May in Kolkata.
- The minimum eligible age for a person joining APY is 18 years and the maximum is 40 years.
- An enrolled person would start receiving pension on attaining the age of 60 years.
- Therefore, a minimum period of contribution by the subscriber under APY would be 20 years or more.
- Subscribers are required to opt for a monthly pension from Rs1,000 (US\$14) to Rs 5,000 (US\$70) and ensure payment of the stipulated contribution regularly (monthly, quarterly, or half-yearly basis).
- Subscribers can opt to decrease or increase pension amount during the course of the accumulation phase.

SUKANYA SAMRIDHI ACCOUNT (GIRL CHILD PROSPERITY ACCOUNT)

- It is a Government of India backed saving scheme targeted at the parents of girl children.
- The scheme encourages parents to build a fund for the future education and marriage expenses for their female child.
- The scheme was launched by Prime Minister Narendra Modi on 22 January 2015 as a part of the Beti Bachao, Beti Padhao campaign.
- The scheme currently provides an interest rate of 8.4%^[3] (for July-September 2019 quarter) and tax benefits. The account can be opened at any India Post office or branch of authorized commercial banks.
- The account can be opened anytime between the birth of a girl child and the time she attains 10 years age by the parent/guardian.
- The girl can operate her account after she reaches the age of 10. The account allows 50% withdrawal at the age of 18 for higher education purposes. The account reaches maturity after time period of 21 years from date of opening it.

PRADHAN MANTRI VAYA VANDANA YOJANA (PMVVY)

- It is a Pension Scheme announced by the Government of India exclusively for the senior citizens aged 60 years and above which is available from 4th May, 2017 to 31st March, 2020.

- Scheme provides an assured return of 8% p.a. payable monthly (equivalent to 8.30% p.a. effective) for 10 years.
- The scheme is exempted from Service Tax/ GST.
- The scheme also allows for premature exit for the treatment of any critical/ terminal illness of self or spouse. On such premature exit, 98% of the Purchase Price shall be refunded.
- On death of the pensioner during the policy term of 10 years, the Purchase Price shall be paid to the beneficiary.
- Loan upto 75% of Purchase Price shall be allowed after 3 policy years

MUDRA LOANS

- The MUDRA loan is provided under the Pradhan Mantri MUDRA Yojana (PMMY) to non-farming and non-corporate micro and small enterprises.
- These enterprises can avail loans up to Rs.10 Lakh under the MUDRA (Micro Units Development & Refinance Agency Ltd.) scheme.
- **Features of the Pradhan Mantri Mudra Loan:**

Loan Amount	Maximum loan amount Rs. 10 lakh <ul style="list-style-type: none"> • Loan of upto Rs. 50,000 under Shishu • Loan from Rs. 50,001 to Rs. 500,000 under Kishore • Loan from Rs. 500,001 to Rs.10,00,000 under Tarun
Processing fee	Nil for Shishu and Kishore loan, 0.5% of the loan amount for Tarun loan
Eligibility Criteria	New and existing units
Repayment period	3 –5 years

Module 7: Tax System in India (MKR)

I Understanding the Tax Structure

Tax structure in India is a three-tier federal structure. The Central Government, State Government and Local Municipal bodies make up this structure.

- Major Central Taxes: Income Tax, Custom Duty, CGST, IGST
- Major State Taxes: SGST, Stamp Duty and Registration

2. Tax Authorities in India

a) CBDT (The Central Board of Direct Taxes)

It is a part of the Department of Revenue under the Ministry of Finance. This body provides inputs for policy and planning of direct taxes in India and is also responsible for administration of direct tax laws through the Income Tax Department.

The Central Board of Revenue as the apex body of the Department, charged with the administration of taxes, came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. Later the Board was split up into two, namely the Central Board of Direct Taxes and Central Board of Excise and Customs with effect from 1.1.1964.

The Central Board of Direct Taxes consists of a Chairman and following six Members: -

1. Chairman
2. Member (Income Tax & Revenue)
3. Member (Legislation)
4. Member (Admn.)
5. Member (investigation)
6. Member (TPS & system)
7. Member (Audit & Judicial)

b) CBIC (Central Board of Indirect Taxes & Customs)

Under the GST regime, the CBEC has been renamed as the Central Board of Indirect Taxes & Customs (CBIC) post legislative approval. The CBIC would supervise the work of all its field formations and directorates and assist the government in policy making in relation to GST, continuing central excise levy and customs functions.

It is the nodal national agency responsible for administering Customs, GST, Central Excise, Service Tax & Narcotics in India. The Customs & Central Excise department was established in the year 1855 by the then British Governor General of India, to administer customs laws in India and collection of import duties / land revenue. Currently the Customs and Central Excise / GST department comes under the Department of Revenue, Ministry of Finance, Government of India. The Central Board of Indirect Taxes & Customs (CBIC) is headed by chairman and four members

- 1 Chairperson
- 2 Member (Customs, Investigation)
3. Member (Legal, CX, ST)
4. Member (Admin & Vigilance)
5. Member (GST, IT, Tax Policy)

3. Direct and Indirect Taxes

Taxes are classified under two categories namely direct and indirect taxes. The largest difference between these taxes is their implementation.

Direct Taxes:

Direct taxes are levied on individuals and corporate entities and cannot be transferred to others. These include income tax, wealth tax, and gift tax.

Income Tax:

Income tax in India is a tax paid by individuals or entities depending on the level of earnings or gains during a financial year.

Five different heads of Income on which income tax is charged:

1. Income for salary include wages, pension, annuity, gratuity, fees, commission, profits, leave encashment, annual accretion and transferred balance in recognized Provident Fund (PF) and contribution to employees' pension account.
2. Income from House Property Rental Income from properties owned by a person other than those which are occupied by him are charged as income from house property. If property is vacant then a notional income is included under this head.
3. Income from business or profession includes profit/loss from a business entity or a profession, any interest, salary or bonus to a partner of a firm.
4. Income from capital gains includes long term capital gains (LTCG) and short term capital gains (STCG) on sale of any capital assets.
5. Income from other sources includes interest on bank deposits and securities, dividend, royalty income, winning on lotteries and races and gifts received among others.

Indirect Taxes

- Indirect taxes are not directly paid by the assessee (a person by whom tax is payable) to the government authorities. These are levied on goods and services and collected by intermediaries (those who sell goods or offer services).
- In India, a consumer earlier paid several indirect taxes including sales tax, services tax, central excise duty, additional customs duty, state-level value added tax and octroi tax, among others.
- With the implementation of the Goods and Services Tax (GST) from 1st July 2017, almost all the indirect taxes, have been subsumed under GST. Now, all these taxes are paid as one tax called the GST.
- However, there are some indirect taxes which have not been brought under the radar of GST. Customs duty, security transaction tax, building and welfare cess and electricity duty levied by local authorities and state governments are some of them.

IV. Types of Taxes

Apart from two main types of taxes (Direct and Indirect Taxes) discussed above here are some types of taxes:

- Entertainment taxes: is any tax levied on any form of commercial entertainment, such as movie tickets, exhibitions, sport events and more. The specific rules such as the tax rate of entertainment tax and cases of tax exemption are subject to local authorities, as is their collection.
- Municipal Tax: (Property Tax) : Property tax is the annual amount paid by a land owner to the local government or the municipal corporation of his area. The property includes all tangible real estate property, his house, office building and the property he has rented to others. Central government properties and vacant property are generally exempted from property tax. Property tax comprises taxes like lighting tax, water tax and drainage tax. In India, the municipal corporation of a particular area assesses and imposes the property tax annually or semi-annually. The tax amount is based on the area, construction, property size, building etc. The collected amount is mainly used for public services like repairing roads construction, school buildings, sanitation etc.

- **Capital Gains Tax:** This is a type of Income Tax levied on the gains you make after the sale of an investment or property. There are two types of Gains Tax – Long Term Capital Gains Tax and Short-Term Capital Gains Tax. The former is applied when the holding period of the investment exceeds 36 months. The latter is applicable if the duration of the investment is less than 36 months. Capital gains are the profits from the sale of an asset — shares of stock, a piece of land, a business — and generally are considered taxable income. How much these gains are taxed depends a lot on how long you held the asset before selling.
- **Customs Duty :** If you buy a product from a different country and import it to India, then you have to pay tax on it. This tax is called Customs Duty. GST is applicable on all imports into India in the form of levy of IGST. IGST is levied on the value of imported goods + any customs duty chargeable on the goods.
- **Toll Tax:** It is levied either by the state or central governments on roads and bridges. The purpose of the tax is to fund road construction and maintenance activities. This tax is mandatory and is charged in toll plazas along the highways across India, the rates vary because each toll plaza is accountable for a certain distance of the road. This taxation does is exempted for certain people including VIPs in the country of certain officials.

VI. Goods and Service Tax

Goods and Services Tax (GST) is an indirect tax used in India on the supply of goods and services. It is a comprehensive, multistage, destination-based tax: comprehensive because it has subsumed almost all the indirect taxes except a few state taxes. Multi-staged as it is, the GST is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination-based tax, it is collected from point of consumption and not point of origin like previous taxes.

Goods and services are divided into five different tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. However, petroleum products, alcoholic drinks, and electricity are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax system.

There is a special rate of 0.25% on rough precious and semi- precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, Post-GST, most goods are expected to be in the 18% tax range.

The tax came into effect from 1 July 2017 . The GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services.

India adopted a dual GST model, meaning that taxation is administered by both the Union and state governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax/destination-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

Module 8: Consumer Protection(SMR)

I Know your customer

The know your customer or know your client (KYC) guidelines in financial services requires that professionals make an effort to verify the identity, suitability, and risks involved with maintaining a business relationship.

KYC processes are also employed by companies of all sizes for the purpose of ensuring their proposed customers, agents, consultants, or distributors are anti-bribery compliant, and are actually who they claim to be. Banks, insurers, export creditors and other financial institutions are increasingly demanding that customers provide detailed due diligence information.

The objective of KYC guidelines is to prevent businesses from being used by criminal elements for money laundering. Related procedures also enable businesses to better understand their customers and their financial dealings. This helps them manage their risks in a well-judged manner. Today, KYC principles apply to banks as well as different online businesses. They usually frame their KYC policies incorporating the following four key elements:

- Customer acceptance policy;
- Customer identification procedures;
- Monitoring of transactions; and
- Risk management.

II Identity Theft

Identity theft happens when someone steals personal information — name, credit card information or bank account number — and uses the stolen information to impersonate the victim in order to commit fraud, theft or other crimes. The most common type of identity theft was unauthorized use of an existing credit card or bank account. What makes identity theft particularly dangerous is that the victim often only finds out about it after the damage is done. By the time a victim is alerted to any problem, the identity thief may have already emptied a bank account, taken out a loan, obtained and used a credit card, applied for government benefits, or otherwise caused the victim some sort of financial, personal or professional harm. Such practices may ruin a victim's credit score and cost thousands of rupees in illegal purchases

Some of the common ways credit card fraud is committed include:

- **Lost or Stolen Card** – If your card is being used without permission, report it immediately. It is a costly event for everyone involved.
- **Skimming** – Your data is skimmed from the magnetic strip on your card and then used to encode fake cards or make online purchases. Restaurants, ATM machines and gas stations are popular skimming sites.
- **Phishing** – Computer hackers send malware to you via email. When you open the attachment or click on a link, it instantly downloads a program that gives the thief access to all the information on your computer, which could include every keystroke, including passwords.

- **Fake Cards** – A card is created that appears to be a legitimate credit card, but has a bogus name and numbers that are not associated with any credit card company.
- **ID Theft** – If a criminal gains access to your personal information (name, address, number, etc.) they could use the information to open new accounts with it or take over existing accounts.
- **Change of Address** – A criminal could use your name and request a change of address for billing, then call the credit card company and ask that a replacement credit card be sent to the fake address

III Phishing and Vishing

Phishing: This is a technique for acquiring user names, passwords, PIN numbers and other credit-card details by masquerading as someone trustworthy. For example, a consumer may receive an e-mail reporting a suspicious transaction on his account. The consumer may be asked to confirm the account's card number so that the "bank" can "investigate." The information gathered can then be used to break into and compromise the user's account. This scam also can be accomplished over the telephone.

How to Avoid Phishing: Never give out your account number(s) to anyone, especially over the internet. Always contact your bank first to verify if the problem is real.

Vishing : The fraudulent practice of making phone calls or leaving voice messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as bank details and credit card numbers.

IV Lottery scam

A **lottery scam** is a type of advance-fee fraud which begins with an unexpected email notification, phone call, or mailing (sometimes including a large check) explaining that "You have won!" a large sum of money in a lottery. The recipient of the message—the target of the scam—is usually told to keep the notice secret, "due to a mix-up in some of the names and numbers," and to contact a "claims agent." After contacting the agent, the target of the scam will be asked to pay "processing fees" or "transfer charges" so that the winnings can be distributed, but will never receive any lottery payment. Many email lottery scams use the *names* of legitimate lottery organizations or other legitimate corporations/companies, but this does not mean the legitimate organizations are in any way involved with the scams.

V Role of RBI, SEBI, IRDAI and PFRDA

1. Role and Functions of RBI

- **Monetary Authority:** Formulates, implements and monitors the monetary policy for
A) maintaining price stability, keeping inflation in check ; B) ensuring adequate flow of credit to productive sectors.
- **Regulator and supervisor of the financial system:** lays out parameters of banking operations within which the country's banking and financial system functions for-
A) maintaining public confidence in the system, B) protecting depositors' interest ; C) providing cost-effective banking services to the general public.

- **Regulator and supervisor of the payment systems:** A) Authorises setting up of payment systems; B) Lays down standards for working of the payment system; C) lays down policies for encouraging the movement from paper-based payment systems to electronic modes of payments. D) Setting up of the regulatory framework of newer payment methods. E) Enhancement of customer convenience in payment systems. F) Improving security and efficiency in modes of payment.
- **Manager of Foreign Exchange:** RBI manages forex under the FEMA- Foreign Exchange Management Act, 1999. in order to A) facilitate external trade and payment B) promote the development of foreign exchange market in India.
- **Issuer of currency:** RBI issues and exchanges currency as well as destroys currency & coins not fit for circulation to ensure that the public has an adequate quantity of supplies of currency notes and in good quality.
- **Developmental role :** RBI performs a wide range of promotional functions to support national objectives. Under this it setup institutions like NABARD, IDBI, SIDBI, NHB, etc.
- **Banker to the Government:** performs merchant banking function for the central and the state governments; also acts as their banker.
- **Banker to banks:** An important role and function of RBI is to maintain the banking accounts of all scheduled banks and acts as the banker of last resort.
- An agent of Government of India in the IMF.

2. Securities and Exchange Board of India : SEBI Act, 1992 : Securities and Exchange Board of India (SEBI) was first established in the year 1988 as a non-statutory body for regulating the securities market. It became an autonomous body in 1992 and more powers were given through an ordinance. Since then it regulates the market through its independent powers.

3. Insurance Regulatory and Development Authority : The Insurance Regulatory and Development Authority (IRDA) is a national agency of the Government of India and is based in Hyderabad (Andhra Pradesh). It was formed by an Act of Indian Parliament known as IRDA Act 1999, which was amended in 2002 to incorporate some emerging requirements. Mission of IRDA as stated in the act is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto."

4. Pension Fund Regulatory and Development Authority : PFRDA was established by Government of India on 23rd August, 2003. The Government has, through an executive order dated 10th October 2003, mandated PFRDA to act as a regulator for the pension sector. The mandate of PFRDA is development and regulation of pension sector in India.

Note: Students can also go through other study materials available in the website (<https://ncfe.org.in>).