

Key Notes for Internal 2 Questions of PPB

1. **Cheque truncation (check truncation in [American english](#))** is the conversion of a physical [cheque](#) into a [substitute electronic form](#) for transmission to the paying bank. Cheque truncation eliminates cumbersome physical presentation of the cheque and saves time and processing costs.
2. **Mobile banking** is a service provided by a [bank](#) or other [financial institution](#) that allows its customers to conduct a range of [financial transactions](#) remotely using a [mobile device](#) such as a [mobile phone](#) or [tablet](#), and using software, usually called an [app](#), provided by the financial institution for the purpose. Mobile banking is usually available on a 24-hour basis. Some financial institutions have restrictions on which accounts may be accessed through mobile banking, as well as a limit on the amount that can be transacted.
3. **Magnetic ink character recognition code (MICR Code)** is a character-recognition technology used mainly by the banking industry to ease the processing and clearance of cheques and other documents. The MICR encoding, called the *MICR line*, is at the bottom of cheques and other vouchers and typically includes the document-type indicator, [bank code](#), [bank account number](#), cheque number, cheque amount, and a control indicator. The technology allows MICR readers to scan and read the information directly into a data-collection device. Unlike [barcodes](#) and similar technologies, MICR characters can be read easily by humans.
4. The **foreign exchange market (forex, FX, or currency market)** is a global [decentralized](#) market for the trading of [currencies](#). This includes all aspects of buying, selling and exchanging currencies at current or determined prices. In terms of volume of trading, it is by far the largest market in the world.^[1] The main participants in this market are the [larger international banks](#). [Financial centres](#) around the world function as anchors of trading between a wide range of multiple types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market does not determine the relative values of different currencies, but sets the current market price of the value of one currency as demanded against another. The foreign exchange market is unique because of the following characteristics:
 - its huge trading volume representing the largest asset class in the world leading to high [liquidity](#);
 - its geographical dispersion;
 - its continuous operation: 24 hours a day except weekends, i.e., trading from 22:00 [GMT](#) on Sunday ([Sydney](#)) until 22:00 GMT Friday (New York);
 - the variety of factors that affect [exchange rates](#);
 - the low margins of relative profit compared with other markets of fixed income; and
 - the use of [leverage](#) to enhance profit and loss margins and with respect to account size.

5. Internet Banking refers to the banking services provided by the banks over the internet. Some of these services include paying of bills, funds transfer, viewing account statement, etc. Banks also deliver their latest products and services over the internet. Internet banking is performed through a computer system or similar devices that can connect to the banking site via the internet. Nowadays, you can also use internet banking on your mobile phones using a Wi-Fi or 3G connection. With the ease of availability of cyber cafes in the cities, it has become quite popular. Banking is now no more limited in going and visiting the bank in person for various purposes like depositing and withdrawing money, requesting for account statement, stop a payment, etc. You can do all these tasks and many more using the online services offered by the banks. You can also keep a track of your account transactions and balance all the time. Now getting passbooks updated to know the total account balance is a matter of past.

Source

Internet Banking has several advantages over traditional one which makes operating an account simple and convenient. It allows you to conduct various transactions using the bank's website and offers several advantages. Some of the advantages of internet banking are:

- Online account is simple to open and easy to operate.
- It is quite **convenient** as you can easily pay your bills, can transfer funds between accounts, etc. Now you do not have to stand in a queue to pay off your bills; also you do not have to keep receipts of all the bills as you can now easily view your transactions.
- It is available all the time, i.e. 24x7. You can perform your tasks from anywhere and at any time; even in night when the bank is closed or on holidays. The only thing you need to have is an active internet connection.
- It is fast and efficient. Funds get transferred from one account to the other very fast. You can also manage several accounts easily through internet banking.
- Through Internet banking, you can keep an eye on your transactions and account balance all the time. This facility also keeps your account **safe**. This means that by the ease of monitoring your account at anytime, you can get to know about any fraudulent activity or threat to your account before it can pose your account to severe damage.
- It also acts as a great medium for the banks to endorse their products and services. The services include loans, investment options, and many others.

Disadvantages of Internet Banking

Though there are many advantages of internet banking, but nothing comes without disadvantages and everything has its pros and cons; same is with internet banking. It also has some disadvantages which must be taken care of. The disadvantages of online banking include the following:

- Understanding the usage of internet banking might be difficult for a beginner at the first go. Though there are some sites which offer a demo on how to access online accounts, but not all banks offer this facility. So, a person who is new, might face some difficulty.
- You cannot have access to online banking if you don't have an internet connection; thus without the availability of internet access, it may not be useful.

- Security of transactions is a big issue. Your account information might get **hacked** by unauthorized people over the internet.
- **Password security** is a must. After receiving your password, do change it and memorize it otherwise your account may be misused by someone who gets to know your password inadvertently.
- You cannot use it, in case, the bank's server is down.
- Another issue is that sometimes it becomes difficult to note whether your transaction was successful or not. It may be due to the loss of net connectivity in between, or due to a slow connection, or the bank's server is down.

6. Advantages of bills discounting to investors and banks and finance companies are as follows:

To Investors:

- 1) Short term sources of finance;
- 2) Bills discounting being in the nature of a transaction is outside the purview of Section 370 of the Indian companies Act 1956, that restricts the amount of loans that can be given by group companies;
- 3) Since it is a lending no tax at source is deducted while making the payment charges which is very convenient not only from the cash flow point of view, but also from the point of view of companies that do not envisage tax liabilities.
- 4) Rates of discount are better than those available on ICDs and
- 5) Flexibility not only in the quantum of investments but also in the duration of investments.

To Banks: Safety of Funds: The greatest security for a banker is that a B/E is a negotiable instrument bearing signatures of two parties considered good for the amount of bill; so he can enforce his claim.

Certainty of payment: A B/E is a self liquidating asset with the banker knowing in advance the date of its maturity. Thus, bill finance obviates the need for maintaining large, unutilized, ideal cash balances as under the cash credit system. It also provides banks greater control over their draws.

Profitability: Since the discount on a bill is front ended the yield is much higher than in other loans and advances, where interest is paid quarterly or half yearly.

Evens out Inter-bank Liquidity Problems: The development of healthy parallel bills discounting market would stabilize the violent fluctuations in the call money market as banks could buy and sell bills to even out their liquidity mismatches.

Discount rate and effective Rate of Interest: banks and finance companies discounting bills prefer to discounting L/C (letter of credit) – backed bills compared to clean bills. The rate of discount applicable to clean bills is usually higher than the rate applicable to L / C based bills. The bills are generally discounted up front, i.e. the discount is payable in advance. As a consequence, the effective rate of interest is higher than the quoted rate (discount). The discount rate varies from time to time depending upon the short term interest rate.

7.Role of ECGC in Credit Insurance. The **Export Credit Guarantee Corporation** of India Limited (**ECGC** in short) is a company wholly owned by the Government of India. It provides export credit insurance support to Indian exporters and is controlled by the Ministry of Commerce.

8. A blank endorsement, the most common type, is endorsed by the payee and presented to the bank for cash or deposit. A restrictive endorsement is done by writing "For deposit only" in the endorsement area, instead of the payee signing his name. This type of endorsement is only to be deposited to the payee's account at his financial institution.

A special endorsement is used when the payee wishes to sign a check over to another person. This is done by the payee signing his name, then writing "Pay to the order of (new person's first and last name)." The new payee then signs his name in the endorsement area and cashes or deposits the check.

9. An Overview of EXIM Bank-

The main objective of Export-Import Bank (EXIM Bank) is to provide financial assistance to promote the export production in India. The financial assistance provided by the EXIM Bank widely includes the following:

- Direct financial assistance
- Foreign investment finance
- Term loaning options for export production and export development
- Pre-shipping credit
- Buyer's credit
- Lines of credit
- Reloaning facility
- Export bills rediscounting
- Refinance to commercial banks

The Export-Import Bank also provides non-funded facility in the form of guarantees to the Indian exporters.

Various Stages of Exports Covered by EXIM Bank-

- Development of export makers
- Expansion of export production capacity
- Production for exports
- Financing post-shipment activities
- Export of manufactured goods
- Export of projects
- Export of technology and softwares

Forms of Financial Assistance Provided by EXIM Bank to Indian Companies-

- **Delayed Payment Exports-** Term loans are provided to those exporters who deal with exporting of goods and services and this enables them to offer delayed credit to the foreign buyers. This system of deferred credit covers Indian consultancies, technology, and other services. Commercial banks take part in this program either directly or under risk syndication arrangements.

- **Pre-shipment credit**-Indian companies which are highly involved in the execution of export activities beyond the cycle time of six months are funded by EXIM Bank. The construction or turnkey project exporters enjoy the provision of rupee mobilization.
- **Term loans for export production**- EXIM Bank offers term loans to the 100 percent export oriented units, units involved in free trade zones, and exporters of various softwares in India. EXIM bank also works in association with International Finance Corporation, Washington, to provide financial assistance to the small scale and medium industrial units in terms of ameliorating the export production capacity of these units in India. EXIM Bank also provides funded and non- funded facilities to deemed exports from India.
- **Foreign Investment Finance**- EXIM bank provides financial assistance for equity contribution to the Indian companies who form Joint Venture with the foreign companies.
- **Financing export marketing**-It helps the exporters carry out their export market development plan in Indian market.

10. Exchange rates are determined by factors, such as interest rates, confidence, current account on balance of payments, economic growth and relative inflation rates. For example:

- If US business became relatively more competitive, there would be greater demand for American goods; this increase in demand for US goods would cause an appreciation (increase in value) of the dollar.
- However, if markets were worried about the future of the US economy, they would tend to sell dollars, leading to a fall in the value of the dollar.

11. How to open an LC' by buyer- "procedures to open an Letter of Credit"

You (buyer) entered in to a contract with your overseas supplier to import machinery for production at your factory. As per your contract each other, you (buyer) need to open a Letter of credit (LC). In this case, Letter of credit is opened by your bank (or other opening bank) and beneficiary of letter of credit is your overseas seller of machinery. Letter of credit is a guarantee given by your bank (not you) to your buyer's bank on account of your buyer. The amount under LC is transferred as per the terms and conditions mentioned in Letter of credit. Please also read other articles about Letter of Credit in same website to know more about Letter of Credit.