



Government of India
Ministry of Minority Affairs

Financial Systems



National Institute of Public Cooperation
and Child Development



This booklet contains information on the following topics:

- Income
- Expense
- Savings
 - Benefits of Savings
 - Investing in a Bank
 - Investing in a Post Office
- *Pradhan Mantri Jan Dhan Yojna*
- Kisan Credit Card
- Loans

Introduction to Financial Systems

The financial system is one of the most important institutional and functional vehicle for economic structure. It helps bridge past, present and the future in terms of allocation of financial resources and facilitate efficient allocation of funds and income which helps in the fund flow of economy.

Income

- Income is the earning through an employment or an enterprise within a specified time frame, which is generally expressed in monetary terms.
- However, for households and individuals, "income is the sum of all the wages, salaries, profits, interest, rents and other forms of earnings received in a given period of time".
- Budgeting is important for optimal utilisation of income and planning of expenditure and savings.

Expenses

- An expense is a cost that is "paid" or "remitted", usually in exchange for something of value.
- It is an outflow of money to another person or group to pay for an item or service, or for a category of costs.
- Expenses may include actual cash payments (such as rents and bills), computed expired portion (depreciation) of an asset or an amount taken out of earnings (such as bad debts, bad investment).

Savings

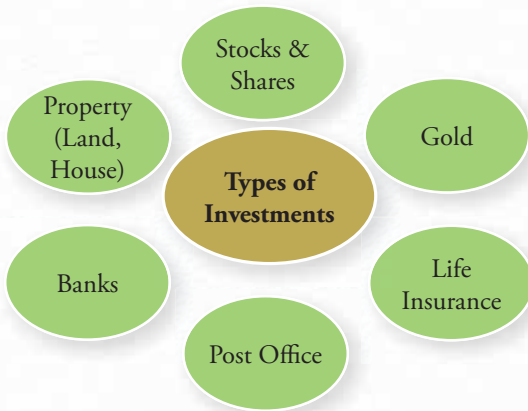
- Saving is conservation of money. Methods of saving includes putting money aside in a bank or pension plan. Saving also includes reducing expenditures, such as recurring costs.
- It is the simple process of putting aside a part of ones earnings usually in the form of cash in hand or a savings account or in the form of some highly liquid (and safe) instruments such as government issued treasury bills.
- Savings help in:
 - Fulfilling various needs of the family.
 - Meeting emergencies.

- Ensuring security in old age.
- Maintaining a good standard of living.

Investment

- Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in form of interest, income or appreciation.

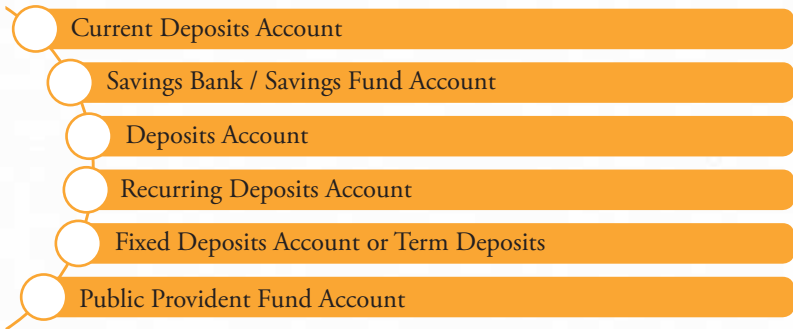
Types of Investments



Investing in a Bank

- Bank account is a safe way of keeping money which can be accessed easily.
- In order to open an account following documents are required:
 - A valid ID proof.
 - Address proof.
 - Passport size photograph.
- Credit Cards are also easy way of expenditure without carrying lot of cash as one can spend the money and pay the bill later.
- Banking has been further made easy with the growing use of internet. Internet banking, online transfers and payments have made banking easy and accessible.

Types of Bank Accounts



Investing in a Post Office

- Post Office savings bank is the oldest and by far the largest banking system in the country, serving the investment need of both urban and rural clientele.
- Post Office Small Savings Scheme provide a secure, risk free and attractive investment option for the small investors across its 1,55,000 Post Offices.
- Financial services offered by Post Office include Savings and Postal Life Insurance (PLI) / Rural Postal Life Insurance (RPLI).

Types of Financial Services Provided by Post Office

Savings Bank Account (SB):	<ul style="list-style-type: none">• Serves the need of regular deposits and withdrawals.
Recurring Deposit Account (RD):	<ul style="list-style-type: none">• Offers a monthly investment option with a handsome return.
Monthly Income Scheme (MIS):	<ul style="list-style-type: none">• Offers a fixed investment option for five years with monthly interest payment facility.
Public Provident Fund (PPF):	<ul style="list-style-type: none">• Offers intermittent deposits subject to certain limits for a 15 years period coupled with income tax exemptions.
Time Deposit (TD):	<ul style="list-style-type: none">• Fixed deposit option for periods ranging from one, two, three to five years with facility to draw yearly interest offered at compounded rates.

Senior Citizens Savings Scheme (SCSS):

- Offers fixed investment option for senior citizens for a period of five years, which can be extended, at a higher rate of interest.

National Savings Certificates (NSC) (VIII) Issue :

- Fixed investment for 5 years on certificates of varied denominations.

National Savings Certificates (IX) Issue:

- Fixed investment tenure of 10 years.

Pradhan Mantri Jan Dhan Yojna

The National Mission of Financial Inclusion named as the *Pradhan Mantri Jan Dhan Yojana* seeks to integrate the poorest of the poor with bank accounts. Salient features of the scheme are following:

- All households across the country, both rural and urban are to be covered under the scheme. Bank accounts will be opened for 15 crore poor people.
- All bank accounts opened under the scheme are to have an overdraft facility of ₹ 5,000 for *AADHAAR*-linked accounts after satisfactory operation in the account for 6 months.
- Issuance of RuPay Debit Card with inbuilt ₹ 1 lakh personal accident insurance cover provided by Housing Development Finance Corporation (HDFC) Ergo and a life cover of ₹ 30,000 provided by Life Insurance Corporation (LIC).
- A minimum monthly remuneration of ₹ 5,000 to business correspondents who will provide the last link between the account holders and the bank.

Kisan Credit Card (KCC)

- *Kisan Credit Card* was started by the Government of India, Reserve Bank of India (RBI), and National Bank for Agriculture and Rural Development (NABARD) in 1998-99.
- The *Kisan Credit Card* allows farmers to have cash credit facilities without going through time consuming bank credit screening processes repeatedly. Repayment can be rescheduled if there is a bad crop season and extensions are offered for upto four years.
- The card is valid for three years and subject to annual renewals.

- As per the revised guidelines for KCC, RuPay, which is a new card payment scheme launched by the National Payments Corporation of India (NPCI), RuPay has come out with its RuPay KCC offering which leverages the benefits of both KCC and RuPay.

Advantages of RuPay Kisan Credit Card

Unlike Visa and Master Card networks, RuPay does not charge an entry fee.

RuPay is well equipped to handle both the single and dual messaging systems.

RuPay is a PIN based product so it provides enhanced security.

It offers complete web based architecture, so member banks will not have to develop a separate file based interface.

RuPay provides advanced features such as processing of adjustment file to enable tip and surcharge processing on the SMS platform too.

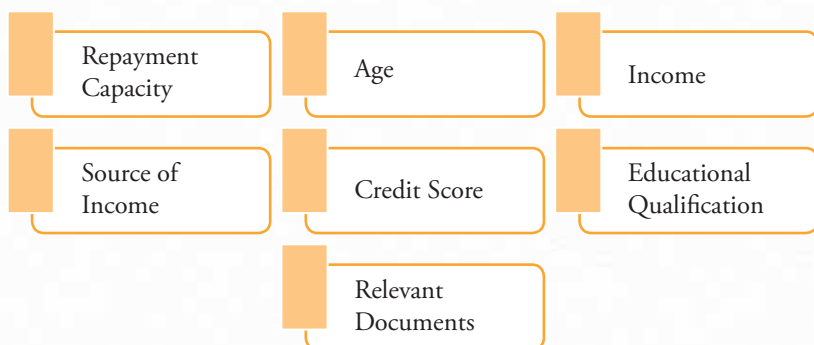
Administration costs & quarterly charges are very low when compared to current international schemes.

Unlike normal KCC which serves only as an identity card and facilitate recording of transactions on an ongoing basis, RuPay KCC is actually a smart card that can be used at the nearest ATM/Point of Sale for withdrawing cash. It removes the necessity of going to a bank branch to operate the account.

Loans

- A loan is a sum of money borrowed that must be repaid with interest at some point in the future.
- When applying for loan, the banks want to see how financially sound the borrower is.
- Some of the main considerations on which loan eligibility is decided are given below :

Loan Eligibility



- Many types of loans are available. They are in the form of home loan, home improvement loan, car loan, loan for two wheelers, educational loan, wedding loan, business loan, loan against security, personal loan and Non Resident Indian (NRI) loan.
- Interest can be calculated on a daily, monthly, quarterly or annual basis. The outstanding principal loan at the end of each of these terms is taken into account for calculating the interest rate.
- One can take loans against securities or any other valuable asset that the bank is willing to accept.
- National Minorities Development and Finance Corporation (NMDFC) provide for loans under the lending schemes namely Term Loan Scheme and Micro Financing Scheme.

Interest Rate

- The interest rate depends on loan agreement. Interest rate can be Fixed or Floating/Variable depending upon the option availed at the time of taking a loan.
- The interest rates and procedure may be bank specific.

The trainer may refer to Day 4, Session 4 for details of the topics covered, related activities and annexures in the training module.



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