

Top 50 Banking Interview Questions

Basic Questions on Banking Industry for IBPS and SBI Interviews



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1. Why do you want to enter banking?

Banking is one of the fastest growing sectors in India with more stable and high growth and more over providing wide range of career opportunities for graduates. So I want to take an opportunity to join in a bank.

2. What is the difference between Cheque and Demand Draft?

Both are used for transfer the amount b/w two accounts of same or different Bank. Cheque is written by an individual and withdrawn from the account whereas Demand draft is issued by a bank where you have to pay before issuing.

3. What are NBFCs and difference between NBFCs and Bank?

Non-bank financial companies (NBFCs) are financial institutions that provide banking services, but do not hold a banking license. NBFCs do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting, and merger activities. These institutions are not allowed to take deposits from the public.

4. What is Private Banking?

Banking services offered to high net-worth individuals. Private banking institution assists the high net-worth individual in investing his/her money in exchange for commissions and fees. The term "private" refers to the customer service being rendered on a more personal basis.

5. What is the Use of Computers in a Bank?

Computers are used for many purposes in banks like: Computer store details of customers account information. Computers can solve billions of complex mathematical operations in fractions of a second. Computers can be used for user authentication. Computers can be used on a network to instantly contact other branches. When you use an ATM, you are using a networked computer terminal. It's easier to access/update the information. An employee can also check a customer's account balance instantly. Computers help a bank save time and money, and can be used as an aid to generate profits.

6. What is recession? What is the cause for the present recession?

It can be defined as if country's GDP growth is negative for two or more consecutive years and the main cause for the present recession is Sub-Prime crisis where it started in US.

7 What is Sub-prime crisis?

The current Subprime crisis is due to sub-prime lending. These are the loans given to the people having low credit rating.

8 What is a Repo Rate?

Repo rate is the rate at which our banks borrow rupees from RBI. Whenever the banks have any shortage of funds they can borrow it from RBI. A reduction in the repo rate will help banks to get money at a cheaper rate. When the repo rate increases, borrowing from RBI becomes more expensive.

9. What is Reverse Repo Rate?

This is exact opposite of Repo rate. Reverse Repo rate is the rate at which Reserve Bank of India (RBI) borrows money from banks. RBI uses this tool when it feels there is too much money floating in the banking system. Banks are always happy to lend money to RBI since their money is in safe hands with a good interest. An increase in Reverse repo rate can cause the banks to transfer more funds to RBI due to this attractive interest rates.

10 What is CRR Rate?

Cash reserve Ratio (CRR) is the amount of funds that the banks have to keep with RBI. If RBI decides to increase the percent of this, the available amount with the banks comes down. RBI is using this method (increase of CRR rate), to drain out the excessive money from the banks.

11 What is SLR Rate?

SLR (Statutory Liquidity Ratio) is the amount a commercial bank needs to maintain in the form of cash, or gold or govt. approved securities (Bonds) before providing credit to its customers. SLR rate is determined and maintained by the RBI (Reserve Bank of India) in order to control the expansion of bank credit. SLR is determined as the percentage of total demand and percentage of time liabilities. Time Liabilities are the liabilities a commercial bank liable to pay to the customers on their anytime demand. SLR is used to control inflation and propel growth. Through SLR rate tuning the money supply in the system can be controlled efficiently.

12. What is Bank Rate?

Bank rate, also referred to as the discount rate, is the rate of interest which a central bank charges on the loans and advances that it extends to commercial

banks and other financial intermediaries. Changes in the bank rate are often used by central banks to control the money supply.

13. What is Inflation?

Inflation is as an increase in the price of bunch of Goods and services that projects the Indian economy. An increase in inflation figures occurs when there is an increase in the average level of prices in Goods and services. Inflation happens when there are fewer Goods and more buyers; this will result in increase in the price of Goods, since there is more demand and less supply of the goods.

14. What is Deflation?

Deflation is the continuous decrease in prices of goods and services. Deflation occurs when the inflation rate becomes negative (below zero) and stays there for a longer period.

15. What is PLR?

The Prime Interest Rate is the interest rate charged by banks to their most creditworthy customers (usually the most prominent and stable business customers). The rate is almost always the same amongst major banks. Adjustments to the prime rate are made by banks at the same time; although, the prime rate does not adjust on any regular basis. The Prime Rate is usually adjusted at the same time and in correlation to the adjustments of the Fed Funds Rate. The rates reported below are based upon the prime rates on the first day of each respective month. Some banks use the name "Reference Rate" or "Base Lending Rate" to refer to their Prime Lending Rate.

16. What is Deposit Rate?

Interest Rates paid by a depository institution on the cash on deposit.

17. What is FII? ○

FII (Foreign Institutional Investor) used to denote an investor, mostly in the form of an institution. An institution established outside India, which proposes to invest in Indian market, in other words buying Indian stocks. FII's generally buy in large volumes which has an impact on the stock markets. Institutional Investors includes pension funds, mutual funds, Insurance Companies, Banks, etc.

18 . What is FDI?

FDI (Foreign Direct Investment) occurs with the purchase of the “physical assets or a significant amount of ownership (stock) of a company in another country in order to gain a measure of management control” (Or) A foreign company having a stake in a Indian Company.

19 What is IPO?

IPO is Initial Public Offering. This is the first offering of shares to the general public from a company wishes to list on the stock exchanges.

20. What is Disinvestment?

The Selling of the government stake in public sector undertakings.

21. What is Fiscal Deficit?

It is the difference between the government's total receipts (excluding borrowings) and total expenditure.

22 What is Revenue deficit?

It defines that, where the net amount received (by taxes & other forms) fails to meet the predicted net amount to be received by the government.

23. What is GDP?

The Gross Domestic Product or GDP is a measure of all of the services and goods produced in a country over a specific period; classically a year.

24. What is GNP?

Gross National Product is measured as GDP plus income of residents from investments made abroad minus income earned by foreigners in domestic market.

25. What is National Income?

National Income is the money value of all goods and services produced in a country during the year.

26 . What is Per Capita Income?

The national income of a country, or region, divided by its population. Per capita income is often used to measure a country's standard of living.

27 . What is SEZ?

SEZ means Special Economic Zone is the one of the part of government's policies in India. A special Economic zone is a geographical region that economic laws which are more liberal than the usual economic laws in the country. The basic motto behind this is to increase foreign investment, development of infrastructure, job opportunities and increase the income level of the people.

28 Functions of RBI?

The Reserve Bank of India is the central bank of India, was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Reserve Bank of India was set up on the recommendations of the Hilton Young Commission. The commission submitted its report in the year 1926, though the bank was not set up for nine years. To regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage." Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker. Banker to banks: maintains banking accounts of all scheduled banks. 29 What is monetary policy? A Monetary policy is the process by which the government, central bank, of a country controls

- (i) the supply of money,
- (ii) availability of money, and
- (iii) cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy.

30. What is Fiscal Policy?

Fiscal policy is the use of government spending and revenue collection to influence the economy. These policies affect tax rates, interest rates and government spending, in an effort to control the economy. Fiscal policy is an additional method to determine public revenue and public expenditure.

31 What is bank and its features and types?

A bank is a financial organization where people deposit their money to keep it safe. Banks play an important role in the financial system and the economy. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner.

32 What is Right to information Act?

The Right to Information act is a law enacted by the Parliament of India giving citizens of India access to records of the Central Government and State governments. The Act applies to all States and Union Territories of India, except the State of Jammu and Kashmir - which is covered under a State-level law. This law was passed by Parliament on 15 June 2005 and came fully into force on 13 October 2005.

33 What is Cheque?

Cheque is a negotiable instrument instructing a Bank to pay a specific amount from a specified account held in the maker/depositor's name with that Bank. A bill of exchange drawn on a specified banker and payable on demand. "Written order directing a bank to pay money".

34 What is demand Draft?

A demand draft is an instrument used for effecting transfer of money. It is a Negotiable Instrument. Cheque and Demand-Draft both are used for Transfer of money. You can 100% trust a DD. It is a banker's check. A check may be dishonored for lack of funds a DD can not. Cheque is written by an individual and Demand draft is issued by a bank. People believe banks more than individuals.

35 What is a NBFC?

A non-banking financial company (NBFC) is a company registered under the Companies Act, 1956 and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by government, but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. NBFCs are doing functions akin to that of banks; however there are a few differences:

- (i) A NBFC cannot accept demand deposits (demand deposits are funds deposited at a depository institution that are payable on demand -- immediately or within a very short period -- like your current or savings accounts.)
- (ii) it is not a part of the payment and settlement system and as such cannot issue cheques to its customers; and
- (iii) Deposit insurance facility of DICGC is not available for NBFC depositors unlike in case of banks.

36 What is NABARD?

NABARD was established by an act of Parliament on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It replaced

the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premiere agency to provide credit in rural areas. NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts.

37 What is SIDBI?

The Small Industries Development Bank of India is a state-run bank aimed to aid the growth and development of micro, small and medium scale industries in India. Set up in 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India.

38 What is SENSEX and NIFTY?

SENSEX is the short term for the words "Sensitive Index" and is associated with the Bombay (Mumbai) Stock Exchange (BSE). The SENSEX was first formed on 1-1-1986 and used the market capitalization of the 30 most traded stocks of BSE. Where as NSE has 50 most traded stocks of NSE. SENSEX IS THE INDEX OF BSE. AND NIFTY IS THE INDEX OF NSE. BOTH WILL SHOW DAILY TRADING MARKS. Sensex and Nifty both are an "index". An index is basically an indicator it indicates whether most of the stocks have gone up or most of the stocks have gone down.

39 What is SEBI?

SEBI is the regulator for the Securities Market in India. Originally set up by the Government of India in 1988, it acquired statutory form in 1992 with SEBI Act 1992 being passed by the Indian Parliament. Chaired by C B Bhav.

40 What are Mutual funds?

Mutual funds are investment companies that pool money from investors at large and offer to sell and buy back its shares on a continuous basis and use the capital thus raised to invest in securities of different companies. The mutual fund will have a fund manager that trades the pooled money on a regular basis. The net proceeds or losses are then typically distributed to the investors annually. A company that invests its clients' pooled fund into securities that match its declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have by themselves. Mutual funds, hedge funds and pension plans are all run by asset management companies. These companies earn income by charging service fees to their clients.

41 What are non-performing assets?

Non-performing assets, also called non-performing loans, are loans made by a bank or finance company, on which repayments or interest payments are not being made on time. A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The nonperforming asset is therefore not yielding any income to the lender in the form of principal and interest payments.

42 What is Recession?

A true economic recession can only be confirmed if GDP (Gross Domestic Product) growth is negative for a period of two or more consecutive quarters.

43 What is foreign exchange reserves?

Foreign exchange reserves (also called Forex reserves) in a strict sense are only the foreign currency deposits and bonds held by central banks and monetary authorities. However, the term in popular usage commonly includes foreign exchange and gold, SDRs and IMF reserve positions.

44. What is the difference between Nationalized bank and Private Bank ?

A Nationalized bank is one that is owned by the government of the country. Since the people decide who the government is, they are also referred to as public sector banks. The government is responsible for the money deposited into the accounts of these banks. Whereas a private sector bank is one that is owned by an independent individual or a company that is controlled by a few individuals. In short, the bank is owned by someone else and they run the bank. The person owning/running the bank is responsible for the money deposited into the accounts of these banks.

45. What is CRM?

Customer Relationship Management (CRM) refers to the ability to understand, anticipate and manage the needs of the customer, interaction and relationship resulting in increased profitability through revenue and margin growth and operational efficiencies.

46. What is dematerialisation ?

Dematerialisation is a process by which the paper certificates of an investor are taken back by the company/registrar and actually destroyed and an equivalent number of securities are credited in electronic holdings of that investor.

47. What is Derivative ?

A derivative is a financial contract that derives its value from another financial product/commodity (say spot rate) called underlying (that may be a stock, stock index, a foreign currency, a commodity). Forward contract in foreign exchange transaction, is a simple form of a derivative.

48. What is Bancassurance ?

Bancassurance stands for distribution of financial products particularly the insurance policies (both the life and non-life), also called referral business, by banks as corporate agents, through their branches located in different parts of the country.

49. What is LAF ?

Liquidity Adjustment Facility (LAF) was introduced by RBI during June, 2000 in phases, to ensure smooth transition and keeping pace with technological upgradation.

50. What is Money Laundering ?

Money laundering means acquiring, owning, possessing or transferring any proceeds (of money) of crime or knowingly entering into any transaction related to proceeds of the crime either directly or indirectly or concealing or aiding in the concealment of the proceeds or gains of crime, within or outside India. It is a process for conversion of money obtained illegally to appear to have originated from legitimate sources.

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