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A Study on Importance of Assets and Libilities

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Abstract:

My project title is "A study on assets and liabilities of HDFC Bank". DFC deals with various types of products in the industry and it also offers flexible services to the customers. My study involves in knowing about the products under assets and liabilities and analyzing those products offered by bank. Assets are the applications of the bank in the industry. The loans are the main assets to the bank. Liabilities are the sources to the bank. The accounts and deposits are considered to be the liabilities of the bank. Liabilities play a key role in the banking industry when compared to assets. Through this project, I have learned the features and benefits of the assets and liabilities. And I have done the analysis part of assets and liabilities of bank using some mathematical tools to know the financial performance of the bank. In assets, I have learnt various types of loans, credit cards and in liabilities, various types of accounts & deposits, debit cards, insurance and mutual funds. In this project the data is collected through direct interaction with bank officials, bank information brochures and official websites.

Key words: *Financial Markets and functions, financial Policy, Asset management, Asset Accounting, Liabilities…..*

Introduction:

The project "assets and liabilities of HDFC Bank" primarily concentrates on the assets and liabilities of the bank. There are different types of products and services which come under assets and liabilities of the bank.

The assets are those which are owned by the business or they are the applications of the business. There are different types of products facilitated by the bank as the assets. The assets of HDFC Bank are credit cards, auto loans, personal loans, car loans, education loans, loans against rental receivables, loans against properties, loans against securities, gold loans, two wheeler loans, express loans, trade finance, business banking mortgage, home loans and smart draft.,etc.

The liabilities are those owes by business or they are the sources of the business. There are also different products belong to liabilities. Those are savings account, current account, Demat account, fixed deposits, term deposits, safe deposit lockers, prepaid cards, debit cards, insurance, mutual funds, Forex etc.

The liabilities are more important when compared to the assets of the bank as they are taking high interest to the bank than the assets.

Banking sector is the big boom to the Indian financial system in recent times. Without a sound and effective banking system in India it cannot have a healthy economy. A large number of new players have entered the market and trying to gain market share in this rapidly improving market. The assets are those which are owned by the business or they are the applications of the business. There are different types of products facilitated by the bank as the assets. The assets of HDFC Bank are credit cards, auto loans, personal loans, car loans, education loans, loans against rental receivables, loans against properties, loans against securities, gold loans, two wheeler loans, express loans, trade finance, business banking mortgage, home loans and smart draft.,etc. Banking sector is the big boom to the Indian financial system in recent times. Without a sound and effective banking system in India it cannot have a healthy economy. A large number of new players have entered the market and trying to gain market share in this rapidly improving market.

I have completed my project work successfully in HDFC Bank. I have carried on my project in Banjarahills branch which is one of the well- known branches of HDFC Bank. My project title is assets and liabilities of HDFC Bank. So, my study is on assets products and liabilities products offered by HDFC Bank.

This study helped me to know the performance of assets and liabilities of HDFC Bank.

The word "Bank" is of Germanic origin though some persons trace its origin to the French word "Banqui" and Italian word "Banca". It referred to a bench for keeping, lending and exchanging money or coins in the market place by moneylenders and money changers. The first bank called the "Bank of Venice" was established in Venice, Italy in 1157 to finance the monarch in his wars. The modern banking began with the English goldsmith only after 1640.

The first bank in India was the "Bank of Hindustan" started in 1770 by Alexander and company an English

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agency house in Calcutta which failed in 1782 with the closure of the agency house. The first bank in the modern sense was established in the Bengal Presidency as the Bank of Bengal in 1806.

3.2 History of banks:

It was the 'Merchant Banker' who first evolved the system of banking by trading in commodities than money. Their trading activities required the remittance of money from one place to another. For this they issued "Hundis" to remit funds. In India, such merchant bankers are known as "Seths". The next stage in the growing of banks was goldsmith. If he is honest person, merchants in the neighborhood started leaving their bullions, money and ornaments in his care.

As evidence for receiving valuables, he issued a receipt. Since gold and silver coins had no marks of the owner, the goldsmith started lending them. As the goldsmith was prepared to give the holder of the receipt an equal amount of money on demand, the goldsmith receipt became like cheque as a medium of exchange and means of payment. The next stage in the growth of banking is the moneylender. The goldsmith found that on an average the withdrawals of coins were much less than the deposits with him. So, he started advancing the coins on loan by charging interest. As a safeguard, he kept some money in the reserve. Thus the goldsmith – moneylender became a banker who started performing the two functions of modern banking that of accepting deposits and advancing loans.

Definition of bank:

'Institution for keeping, lending and exchanging of money' – By Chamber twentieth century dictionary.

'An organization whose principal operations are concerned with the accumulations of the temporarily idle money of the general public for the purpose of advancing to others for expenditure' - By Kent.

Thus bank is an institution which accepts deposits from public and in turn advances loans by creating credit.

3.3 History of banking in India:

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should also be able to meet new challenges posed by the technology and any other external and internal factors.

For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. Infact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of the India's growth process.

The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are days when most efficient bank transferred money from one branch to another in two days. Now it is simple as instant messaging or dial a pizza. Money has become the order of the day. The first bank in India, though conservative, was established in 1786.

From 1786 till today, the journey of Indian banking system can be segregated into three distinct phases.

They are as mentioned below:

- Early phase from 1786 to 1969 of Indian banks.
- Nationalization of Indian banks and up to 1991 prior to Indian Banking Sector Reforms.
- New phase of Indian Banking system with the advent of Indian Financial and Banking Sector Reforms after 1991.

Phase- I:

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly European shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd.was setup in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank. Indian Bank and Bank of Mysore were setup. Reserve Bank of India came in 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No.23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority. During those days public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Abreast of it the savings bank facility provided by the postal department was comparatively safer. Moreover, funds were largely given to traders.

Phase- II:

Government took major steps in this Indian Banking Sector Reforms after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as

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the principal agent of RBI and to handle banking transactions of the Union and State Governments.

All over the country seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19th July, 1969 major process of nationalization was carried out. It was the effort of the Prime Minister of India, Mrs. Indira Gandhi, 14 major commercial banks in the country were nationalized.

Second phase of nationalization Indian Banking Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government of India to Regulate Banking Institutions in the country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalization of State Bank of India.
- 1959: Nationalization of SEBI subsidiaries.
- 1961: Insurance cover extended to deposits.
- 1969: Nationalization of 14 major banks.
- 1971: Creation of credit guarantee corporation.
- 1975: Creation of regional rural banks.
- 1980: Nationalization of seven banks with deposits over 200 crores.

After the nationalization of banks, the branches of the public sector bank India rose to approximately 800% in deposits and advances took a huge jump by 11,000%. Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

Phase- III:

This phase has introduced many more products and facilities in the banking sector in its reforms measures. In 1991, under the chairmanship of M. Narasimham, a committee was set up by his name which worked for the liberalization of banking practices. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money. The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

3.4 Nationalization of banks in India:

The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi the Prime Minister. It nationalized 14 banks then. These banks were mostly owned by businessman and even managed them. Before the steps of nationalization of Indian banks, only State Bank of India (SBI) was nationalized. It took place in July 1955. Nationalization of seven State Banks of India (formed subsidiaries) took place on 19th July, 1960. The state bank of India is India's largest commercial bank and is ranked one of the top five banks world wide, it serves 90 million customers through a network of 9,000 branches ad it offers either direct or through subsidiaries a wide range of banking services. The second phase of nationalization of Indian banks took place in the year 1980. Seven more banks were nationalized with deposits over 200 crores. Till this year, approximately 80% in deposits and advances took a huge jump by 11000%.

- 1955: nationalization of state bank of India.
- 1959: nationalization of SBI subsidiaries.
- 1969: nationalization of 14 major banks.
- 1980: nationalization of seven banks with deposits over 200 crores.

3.5 Scheduled commercial banks in India:

The commercial banking structure in India consists of:

- Scheduled banks in India.
- Unscheduled banks in India.

Scheduled banks in India constitute those banks which have been included in the second schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.

Unit linked plans:

Unit Linked Life Insurance Plans are different from traditional insurance plans & are subject to different risk factors. Here the customer has the opportunity to invest his premium, net of charges in his chosen funds in the proportion he specifies.

1. HDFC Unit linked young star plus II:

This plan provides security for policyholder's child and makes those savings on his behalf in policyholder's absence. It is an outstanding investment opportunity by providing a choice of thoroughly researched and selected investments.

Features and benefits:

- There is facility of regular Loyalty Units to boost fund value every year.
- Flexible benefit combinations, payment options and flexible additional benefit options such as critical illness cover are available.

In case of unfortunate demise of the parent, HDFC Standard Life will

- Pay the Sum Assured parent had chosen to his child.
- For **Double benefit** continue to pay the 100% original premiums customer had chosen towards policy
- For **Triple Benefit** continue to pay the 50% of original premiums customer had chosen in the policy and 50% of the premium to the child.

➢ At the time of maturity, policyholder's child will receive the accumulated value of his funds.

2. HDFC Unit linked endowment plus II:

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The customer can choose premium and the investment fund or funds. HDFC Standard Life will then, invest that premium, net of premium allocation charges, in his chosen funds in the proportion he specifies.

Features and benefits:

➢ In the event of policyholder's unfortunate demise before the end of the policy term, HDFC Standard Life will pay the greater of the Sum Assured (less any withdrawals made during the two-year period immediately preceding the intimation of death) and the total fund value to policyholder's family. The policy will terminate thereafter.

➢ On the chosen maturity date, the policyholder will get the fund value. However the policyholder has the choice of "Settlement Option" means he can take fund in periodical installments over the period, which may extend up to 5 years.

3. HDFC Unit linked enhanced life protection II:

It increases the Insurance cover every year. Customer can choose his premium and the investment fund or funds.

Features and benefits:

➢ In the event of policyholder's unfortunate demise before the end of the policy term, HDFC Standard Life will pay the greater of the Sum Assured (less any withdrawals) and the total fund value to policyholder's family. The policy will terminate thereafter.

➢ On the chosen maturity date, the policyholder will get the fund value and the policy terminates. However, policyholder also has the choice of “Settlement Option". At the end of this 5-year period, the policyholder will redeem balance units at then prevailing unit price. The policy will terminate the moment the balance of units in all the funds is below the minimum fund value.

4. HDFC Unit linked pension II:

It is designed to provide a post retirement income for life with the freedom to maximize the investment returns.

Features and benefits:

➢ There is choice of Bumper Addition of 50% of original annualized premium at vesting and on death.

➢ In the event of unfortunate demise before the end of the policy term, HDFC Standard Life will pay the unitized fund value (and bumper additions, if any) to the nominee.

➢ On the chosen vesting date, the policyholder will get the fund value and bumper additions, if any. This fund value will be used to provide pension income.

5. HDFC Unit linked pension maxi miser II:

It is designed to provide a retirement income for life with the freedom to maximize investment returns.

Features and benefits:

➢ There is a choice of Bumper Addition of 10% of original single premium at vesting and on death.

➢ In the event of policyholder's unfortunate demise, HDFC Standard Life will pay the unitized fund value and bumper additions to the nominee.

➢ On the chosen vesting date, the policyholder will get the accumulated fund value and bumper additions. This fund value will be used to provide pension income. You can as per the prevailing government regulation.

➢ Customer can take 1/3rd of the fund value as tax-free cash lump sum and purchase annuity with the balance amount.

6. HDFC Unit linked young star champion:

It is an outstanding investment opportunity which gives the valuable protection to the child of policyholder.

Features and benefits:

➢ Medical test is not required for this policy.

➢ In case of unfortunate demise of the parent, HDFC Standard Life will:

- Pay the Sum Assured you had chosen to policyholder’s child.
- Continue to pay 50% of the original regular premium towards the policy.

7. HDFC Unit linked endowment winner:

It is an outstanding investment opportunity which gives the valuable protection to the family of policyholder.

Features and benefits:

➢ In the event of policyholder's unfortunate demise HDFC Standard Life will pay the Sum Assured and the total fund value to policyholder's family. The policy will terminate thereafter.

➢ On the chosen maturity date, the policyholder will get the fund value and the policy terminates. However, the policyholder also has the choice of "Settlement Option". At the end of this 5-year period, the policyholder will redeem the balance units at then prevailing unit price.

8. HDFC Unit linked wealth multiplier:

It is a 3 year premium payment term plan that will helpful for the financial independence of policyholder’s family.

Features and benefits:

➢ In case of policyholder’s unfortunate demise during the policy tenure, HDFC will pay the greater of the sum assured (less any partial withdrawals you have made in the two years before claim) or the total fund value to his family.

➢ At the time of maturity, he will receive the accumulated value of funds. Policyholder has the choice of “Settlement Option” which may extend to 5 years.

Demat account:

HDFC BANK Demat services offers the customers a secure and convenient way to keep track of their securities and investments, over a period of time, without the hassle of handling physical documents that get mutilated or lost in transit.

HDFC Bank is depository participant both with- National Securities Depositories Limited (NSDL) and Central Depository Services Limited (CSDL).

Demat account refers to a dematerialized account. It is just like the bank account keeps the customers money

safe. A Demat account keeps the customer securities and bonds safe for the customer.

We can also link our HDFC Securities account to HDFC Bank Demat and Savings Account for trading online, which is cost effective and time saving.

Market regulator, Securities Exchange Board of India (SEBI), has made it mandatory for all trades to be settled in dematerialized form. Therefore, a Demat Account is a must to trade. The shares will be hold in Demat account.
Savings account is necessary for opening of the Demat account.
Trading account is compulsory to trade online.

Features and benefits:

As opposed to the form of dealing in physical certificates with delays in transaction, holding and trading in Demat form has the following benefits:

- Settlement of securities traded on the exchanges as well as off market transactions.
- Shorter settlement thereby enhancing liquidity.
- Pledging of securities.
- Electronic credit in public issue.
- Auto credit of rights/ bonus/ public issues/ dividend credit through ECS.
- Auto credit of public issue refunds to the bank account.
- No stamp duties on transfer of securities held in demat form.
- Change of address, signature. Dividend mandate, registration of power of attorney, transmission etc. can be effected across companies held in demat form by a single instruction to the Depository Participant (DP).
- Holding / transaction details through internet / email.
- There are two types in trading with Demat account. Those are margin, CNC (cash n carry).
- In this margin," intraday" facility is available. We can buy and sell our shares within a day in the market by using this facility. The customer will get 3 times of his money to trade in this intraday facility.
- In CNC, "delivery" facility is available. We can buy and sell them in any day. Customer will get the same amount what he keeps in his account.

5. Mutual funds:

Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. This pool of money is invested in accordance with a stated objective. The joint ownership of the fund is thus "Mutual", i.e. the fund belongs to all investors. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. A Mutual Fund is an investment tool that allows small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Units are issued and can be redeemed as needed. The funds Net Asset value (NAV) is determined each day.

Types of mutual funds:

Open ended mutual funds:-

The holders of the shares in the Fund can resell them to the issuing Mutual Fund Company at the time. They receive in turn the net assets value (NAV) of the shares at the time of re-sale. Such Mutual Fund Companies place their funds in the secondary securities market. They do not participate in new issue market as do pension funds or life insurance companies. Thus they influence market price of corporate securities. Open-end investment companies can sell an unlimited number of Shares and thus keep going larger. The open-end Mutual Fund Company Buys or sells their shares. These companies sell new shares NAV plus a Loading or management fees and redeem shares at NAV.In other words, the target amount and the period both are indefinite in such funds

Closed ended mutual funds:-

A closed–end Fund is open for sale to investors for a specific period, after which further sales are closed. Any further transaction for buying the units or repurchasing them, Happen in the secondary markets, where closed end Funds are listed. Therefore new investors buy from the existing investors, and existing investors can liquidate their units by selling them to other willing buyers. In a closed end Funds, thus the pool of Funds can technically be kept constant. The asset management company (AMC) however, can buy out the units from the investors, in the secondary markets, thus reducing the amount of funds held by outside investors. The price at which units can be sold or redeemed Depends on the market prices, which are fundamentally linked to the NAV. Investors in closed end Funds receive either certificates or Depository receipts, for their holdings in a closed end mutual Fund.

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