



A MAGAZINE FOR BANK EXAMS

# RACE FOR BANK JOB

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## INDRADANUSH... REFORMS IN BANKING SECTOR...

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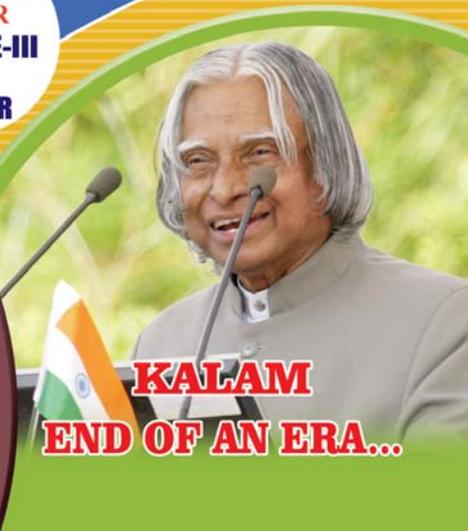
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KALAM  
END OF AN ERA...

# RACE FOR BANK JOB

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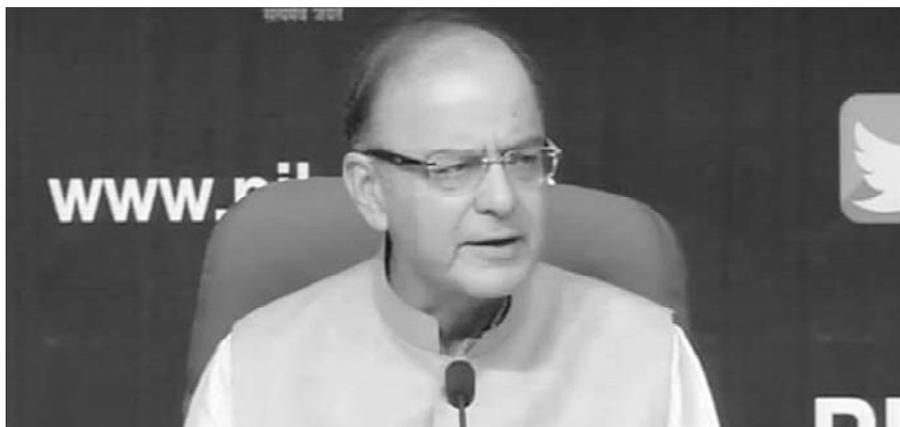
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# INDRADANUSH... REFORMS IN BANKING SECTOR...

Union Finance Minister Arun Jaitley on 14<sup>th</sup> August announced a seven-pronged strategy to revamp public sector banks (PSBs) so that selection of their chiefs could be transparent, their bad debts reduced and their performance improved.

Highlighting that political interference in the functioning of these banks had to be minimised, the government also appointed Chief Executive Officer (CEO) - Managing Directors (MDs), as well as chairmen for five such lenders, two of them from the private sector, a first.

Termed 'Indradhanush', the seven-pronged strategy includes streamlining of appointments, setting up of a Bank Board Bureau (BBB) to scout for heads of PSBs, recapitalisation measures and facilitating easing of non-performing assets (NPAs) to help ensure improved credit. The seven broad heads of the strategy are appointments, a BBB, capitalisation, de-stressing PSBs, empowerment, framework of accountability and governance reforms.

Indradhanush strategy is that a holding company -bank investment committee - would be set up to own shares in state-owned banks on behalf of the government. This would be preceded by the setting up of a BBB, some of whose functions would be subsumed under the proposed holding company.

With this, most recommendations of the P J Nayak committee have been accepted by the government. However, its suggestion to cut government stake in these banks below 50 per cent has been turned down. To help the managements of public sector lenders participate in the performance of these banks, the government said it was considering employee stock ownership plans.

The finance ministry said first, two tranches of capital infusion worth about Rs 20,000 crore would be provided to 13 banks, with State Bank of India (SBI) set to get a quarter of the amount (Rs 5,511 crore), followed by Bank of India (Rs 2,455 crore) and IDBI Bank (Rs 2,299 crore) in September.

On 14<sup>th</sup> August itself, MD and CEOs of five banks were appointed, as were non-executive chairmen of five lenders, with Canara Bank, Bank of Baroda and Bank of India common to both the segments. CEO-MDs of IDBI Bank and Punjab National Bank were also named, while non-executive chairmen were appointed for Vijaya Bank and Indian Bank.

Managing Director and CEO of VBHC Value Homes, P S Jayakumar (53), has been selected to head Bank of Baroda, while Rakesh Sharma (57), MD and CEO of private lender Laxmi Vilas Bank, will head Canara Bank. Besides, Ravi Venkatesan (51), independent director of Infosys, was appointed non-executive chairman of Bank of Baroda and T N Manoharan (59), director of Tech Mahindra Public Health Foundation, was named non-executive chairman of Canara Bank.

The proposed six-member BBB, also announced in Budget 2015-16, will essentially scout for and select heads of PSBs and help them develop differentiated strategies for raising capital through innovative financial methods and instruments. While the members of the board will be selected in the next six months, it will be functional from April 1, 2016. The board is a step towards establishing a holding and investment company for banks.

## DETAILED NOTE ON CAPITALIZATION

About Rs 5,000 crore would be infused on the basis of efficiency, based on quantitative and qualitative parameters (while qualitative parameters will account for 80 per cent, qualitative yardsticks will account for the rest). While quantitative parameters include efficiency of capital use, growth, diversification of business, NPA management and financial inclusion, qualitative ones include improvement in external credit rating, strategic initiatives to improve asset quality, efforts to conserve capital, and human resource initiatives.

Last year, the government had infused about Rs 6,900 crore into these banks, primarily based on return on capital and assets, drawing flak from various quarters.

About Rs 45,000 crore would be further infused into state-run banks through the next three years.

Under the plan, asset reconstruction companies will also be strengthened to deal with bad loans.

## IFC... TO IMPROVE ACCOUNTABILITY OF FINANCIAL AGENCIES...

The Finance Ministry has put out a revised draft of the Indian Financial Code (IFC) on its website. The draft, primarily looks to improve the accountability of financial agencies, remove the provision empowering Financial Sector Appellate Tribunal (FSAT) in case of reviewing regulations, rulemaking and operational aspects capital controls; the framework of monetary policies, and the **Monetary Policy** Committee and so on, as listed by the Finance Ministry.

## INDRADHANUSH... IN A NUT SHELL....

**Appointments:** Selection of non-executive chairmen in the remaining 6 state-owned banks over the next 3 months, Appointment of MD&CEO in the two other banks as early as possible.

**Bank board bureau:** Members to be selected in the next six months. BBB will become functional from April 1, 2016.

**Capitalisation:** Allocation of first 2 tranches (Rs 20,000 cr) by next month, Performance-based allocation of Rs 5,000 cr in Mar '16.

**De-stressing PSBs:** To develop vibrant corp debt market to reduce lending pressure on banks, Strengthening of asset reconstruction companies.

**Empowerment:** Provide greater flexibility in hiring manpower.

**Framework of accountability:** Streamlining vigilance process for quick action for major frauds, including connivance of staff.

### Governance reforms:

- ▶ Next Gyan Sangam from Jan 14 to 16, 2016
- ▶ Esop scheme for top management
- ▶ Bank holding company
- ▶ Other strategic initiatives such as consolidation

## COVER STORY

The revised draft states changes made to the composition of the Monetary Policy Committee (MPC) as given by the **Financial Sector Legislative Reforms Commission (FSLRC)**, which will work toward curtailing the power of the Reserve Bank of India (RBI) chief, currently held by Raghuram Rajan, to veto a decision taken by the MPC.

The draft has been under work since 2011, and was put on the Ministry's website on March 22, 2013 for the public to comment and make suggestions. The Monetary Policy Committee has seven members — four appointed by the government and three by the RBI.

Each member, while deliberating on monetary policy decisions will hold one vote each. The meeting of the MPC to deliberate on the monetary policy can be convened with minimum five members, in the presence of the RBI chief. The draft said.

Previously, the RBI chief had the power to veto the committee's decision, as practiced by Rajan on April 1, 2015, when he went against the consensus and maintained status-quo in the interest rates. Out

of the seven members, four had recommended a repo rate cut and three argued against a rate cut. Rajan, however, did not go with the majority and exercised his power as the chairperson of the board to make his own decision of keeping rates unchanged.

This draft, if passed, will have RBI accept the decision of the majority, regardless of its view. This will change if the new draft is adopted as RBI chairperson only gets a second and deciding vote if the MPC is unable to arrive at a decision.

The draft seems to highlight the attempts of the government to dilute the autonomy of the Reserve Bank of India (RBI).

## ALL ABOUT FSLRC

The FSLRC was set up in 2011, with a mandate to rewrite and clean up the financial sector laws and to bring them in tune with current requirements. It drafted an Indian Financial Code, to regulate the financial sector, and submitted the draft Code to the government in March 2013.

### HERE ARE THE MAJOR DIFFERENCES BETWEEN THE TWO DRAFTS

| OLD   | REVISED   |
|---|---|
| The Monetary Policy Committee will consist of   | The Monetary Policy Committee will comprise   |
| (a) the Reserve Bank Chairperson, as chairperson of the Monetary Policy Committee;  | (a) the Reserve Bank Chairperson as its chairperson;  |
| (b) one executive member of the Board of the Reserve Bank, as designated by the Reserve Bank Board;   | (b) one executive member of the Reserve Bank Board nominated by the Reserve Bank Board;   |
| (c) two members, appointed by the Central Government, in consultation with the Reserve Bank Chairperson; and  | (c) one employee of the Reserve Bank nominated by the Reserve Bank Chairperson; and   |
| (d) Three members appointed by the Central Government.  | (d) four persons appointed by the Central Government  |
| The decisions of the Monetary Policy Committee will be binding on the Reserve Bank, unless such decision has been superseded by the Reserve Bank Chairperson.   | The decisions of the Monetary Policy Committee will be binding on the Reserve Bank.   |
| In exceptional and unusual circumstances, if the Reserve Bank Chairperson disagrees with a decision taken at a meeting of the Monetary Policy Committee, the Reserve Bank Chairperson will have the right to supersede such decision. | In the event of a tie amongst the members of the Monetary Policy Committee, the Reserve Bank Chairperson will have a second and casting vote. |

## **MORE THAN MONETARY POLICY**

The Code actually marks a shift from rules-based regulation to principles-based regulation, and introduces comprehensive changes in financial sector governance. It proposes an outright repeal of 19 laws, including the RBI Act, Insurance Act and SEBI Act, and amendments to close to 40 legislations.

Regulations issued by different regulatory agencies will have to be reviewed and revised to ensure compliance with principles mentioned under the Code. It also proposes merger of all financial regulators

There is a convergence of views in both developed and developing economies that price stability has to be the main objective of monetary policy. According to the handbook, at the start of 2012, 27 central banks adopted inflation targeting as their monetary policy framework. In a majority of these countries — 15 out of 27 — the inflation target is decided both by the government and the central bank.

In nine countries, the central bank sets the target, and in three cases — Norway, South Africa and the UK, the target is set by the government. The consensus is that above 3-4 per cent levels, inflation is a cause for concern. All 27 countries that follow inflation targeting policy, use the CPI as their operational target — using the headline figures, rather than the core measure.

In most inflation-targeting countries, decisions are steered by a committee. In 13 countries, the policy decision is taken by the boards of their central banks. In Australia, Chile, Canada and Sweden, for instance, the decision-making body comprises the Governor, Deputy Governor and other members. In 11 countries, including Brazil, South Africa, South Korea and the UK, the MPC decides on the policy rates.

In South Africa, the MPC consists of eight members — the Governor, three Deputy Governors and four senior officials of the South African Reserve Bank. In the UK, the MPC has nine members, of which four are external.

As far as the decision-making process is concerned, in 18 countries that target inflation, policy rates are decided based on a majority vote rather than a consensus decision. The governor usually has the casting vote. In New Zealand, the governor is the sole decision-maker

other than the RBI and setting up of new and specialised agencies such as the Public Debt Management Agency, Resolution Corporation, etc.

Consequently, the Code is expected to have far-reaching consequences in the operation of financial sector, and deserves a wider debate and discussion.

## **FINANCIAL CONSUMER PROTECTION**

The Code puts financial consumers at the heart of the financial sector ecosystem. All regulations under the Code will have to pass the litmus tests of consumer protection and promotion of public awareness about financial products and services. Regulators will have to particularly care about vulnerable retail consumers who are expected to have limited knowledge and experience in the financial jungle.

## **ACCOUNTABILITY MECHANISMS**

Being principle-based legislation, substantial work of writing regulations has been delegated to financial agencies, under the Code. To ensure such delegation does not result in abuse of power, stringent accountability mechanisms have been put in place.

These include furnishing of reports and returns to the Centre, including the annual report, which is expected to contain a report on performance and efficiency of the financial agency, a statement indicating any statutory obligation that such agency or its board has not complied with, and reasons for such non-compliance.

It is required to be laid before Parliament. Adding to these requirements, the revised version of the Code requires the board of the financial agency to evaluate performance of each member, which is a step in right direction.

## **ADHOC MANNER**

Financial sector regulation in India has developed in an ad hoc manner in response to evolving requirements. Consequently, it suffers from substantial prudential weaknesses and regulatory arbitrage that makes for heightened risks for both investors and financial consumers. By putting together a modern law for governing the complex

## RBI KEEPS KEY RATES UNCHANGED

Reserve Bank of India, RBI, has kept its key policy rates unchanged in its third bi-monthly monetary policy review with Governor Raghuram Rajan saying that the headline inflation is at elevated levels and banks are yet to pass on the full benefits of previous rate cuts. It was declared on 4<sup>th</sup> August

In Mumbai, RBI announced that repo rate at which the RBI lends to the system, will remain unchanged at 7.25 per cent. The cash reserve ratio (CRR) which is the proportion of deposit banks have to park with the central bank, will remain at 4 per cent, it announced.

RBI in its policy statement trimmed consumer inflation forecast for January-March 2016 by 0.2 percent and said that growth was beginning to look up gradually.

Meanwhile, central bank has retained its growth target at 7.6 per cent for the current fiscal year. It said that hardening of inflation, excluding food and fuel, is most worrisome.

RBI Governor used strong words against banks for holding on to rates, saying banks have only cut 0.30 per cent as against RBI's cut of 0.75 per cent this year. The RBI governor said significant uncertainty on the factors influencing the monetary policy will be resolved in the coming months, including persistence of high inflation and better than expected monsoon.

financial sector, the draft Indian Financial Code (IFC) represents a quantum jump forward.

When enacted, IFC will replace 19 extant laws, some of which, like the RBI Act and Insurance Act, date back to 1934 and 1938 respectively. IFC should therefore be made effective sooner rather than later. It should certainly not be allowed to flounder on the specious grounds of its impact on RBI autonomy.

IFC does well to clearly segregate the roles of RBI and the Financial Sector Authority, with the former being responsible for the conduct of monetary policy and banking sector regulation. Moreover, the establishment of an independent Public Debt Management Agency will help both in improving public debt management and better fixing RBI's accountability for its principal tasks of maintaining price stability and prudentially managing the banking sector.

IFC stipulates in Sections 263-267 specific measures that will make the operation of monetary

policy far more transparent and objective. This will be a huge improvement on the present day 'alchemist' like approach towards monetary policy making, in which RBI can get away without any explanation for its chosen policy stance or reasons for which the Governor may choose to exercise his veto over the majority advice of the technical committee.

## LATEST RATES....

### Policy Rates

- ▶ Repo Rate – 7.25%
- ▶ Reverse Repo – 6.25%
- ▶ Marginal Standing Facility Rate – 8.25%
- ▶ Bank Rate – 8.25%

### Reserve Ratios:

- ▶ Cash Reserve Ratio- 4%
- ▶ Statutory Liquidity Ratio- 21.5%

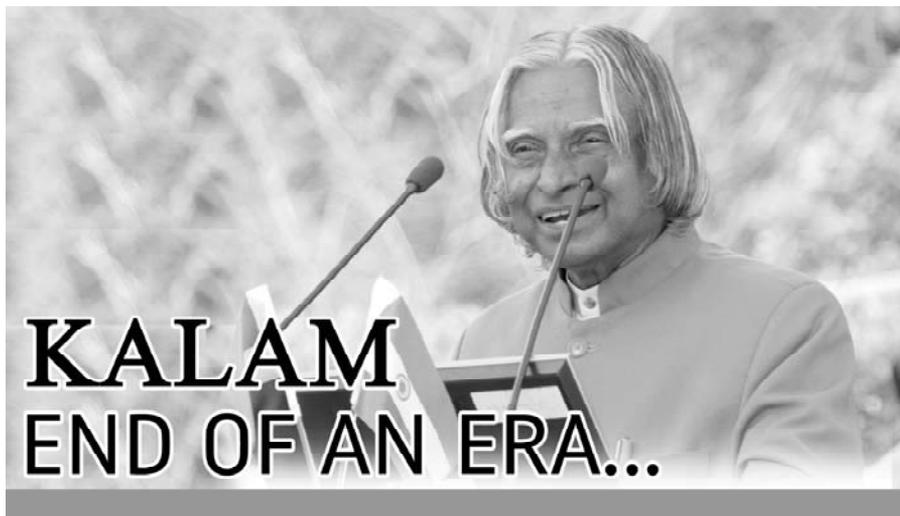
IFC prides open the black box of monetary policy making by requiring each member of the Monetary Policy Committee (MPC) to make a single statement giving reasons for voting for or against the resolution being considered.

Furthermore the draft IFC requires resolutions adopted by MPC meetings to be released immediately after the meeting and the minutes to be made public after 14 days. The full transcript has to be published after three years. These laudable provisions for full disclosure will ensure that MPC members act rationally and responsibly and not be driven by petty loyalties or narrow vested interests.

IFC stipulates that a senior government official will also participate in MPC meetings. While being a non-voting member, he will surely influence the proceedings. This composition will result in a balanced MPC that would encourage greater cooperation between government and RBI.

The Governor would be expected to use the considerable analytical resources at his disposal and powers of suasion to convince MPC of RBI's point of view. The Governor does not need to have a veto which some have argued for. Giving a veto to the Governor over the majority view is both disrespectful to members of MPC and also assumes supra-natural powers for the Governor.

IFC (Section 267) requires that in case the inflation target is not met, RBI would submit a report to the Centre giving reasons for the failure, remedial measures to be taken and the timeline for achieving the target. No further action is envisaged.



**A**vul Pakir Jainulabdeen Abdul Kalam, popularly known as APJ Abdul Kalam passed away on 27<sup>th</sup> July, 2015. Kalam, who started his journey from a small village in Rameshwaram (Tamilnadu), and reached to Rashtrapathi Bhavan, the highest constitutional position in the largest democracy in world, thus proved that nothing is impossible in life, in his marathon journey, he achieved many awards, rewards, and above all he stood as youth icon

Considered the most popular President, Kalam became the 11th head of the state and occupied the post between 2002 and 2007 but lack of consensus denied a second term in office for a man who came from outside political spectrum.

An aeronautics engineer from Madras Institute of Technology, Kalam was considered the brain of Missile programme in India got and as Chief Scientific Adviser to former Prime Minister Vajpayee was also instrumental in the Pokhran nuclear test in 1998.

As President, Kalam utilised any opportunity that came to him to address students, especially school children, to dream big so that they became achievers in life. A bachelor, the former President was a veena player and was deeply interested in Carnatic music. He was vegetarian all his life.

Dr. A P J Abdul Kalam, the 'missile man' died after he suffered a massive cardiac arrest and

collapsed during a lecture at the IIM Shillong . He suffered cardiac arrest when he was giving a e lecture on 'Livable Planet' at IIM Shillong

Born on 15 October 1931 in Rameshwaram in Tamil Nadu, Dr. A. P. J. Abdul Kalam overcame all odds to study physics at the St. Joseph's College, Tiruchirapalli and aerospace engineering at the Madras Institute of Technology, Chennai. His entire life is a life of simplicity and high values.

Kalam spent four decades as a scientist and science administrator at the Defence Research and Development Organisation (DRDO) and Indian Space Research Organisation (ISRO).

Kalam played a pivotal role in the nuclear tests that India conducted in 1998 in Rajasthan's Pokhran.

Kalam was conferred with Bharat Ratna, India's highest civilian honour, in 1997

Kalam advocated plans to develop India into a developed nation by 2020 in his book India 2020.

On April 29, 2009, he became the first Asian to be bestowed the Hoover Medal, America's top engineering prize, for his outstanding contribution to public service.

On 13 September 2009, he was a recipient of the International von Karman Wings Award.

The Government of India has honoured him with the nation's highest civilian honours: the Padma Bhushan in 1981; Padma Vibhushan in 1990; and the Bharat Ratna in 1997 for his work with ISRO and DRDO and his role as a scientific advisor to the Indian government.

Kalam is the third President of India to have been honoured with a Bharat Ratna before being elected to the highest office, the other two being Sarvepalli Radhakrishnan and Zakir Hussain. He is also the first scientist and first bachelor to occupy Rashtrapati Bhavan.

It was in the year 2010, when the United Nations decided to honour this 'great scientist' on his 79th birth anniversary and declared his birthday on October 15 as the 'World Students' Day'.

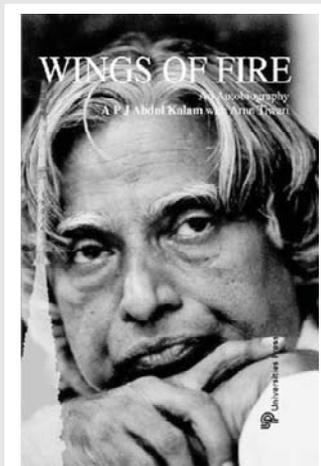
In 2005, Switzerland also declared May 26 as 'Science Day' to commemorate Dr Kalam's visit to the European country

### Honour to great personality

- ▶ United Nations Organisation (U.N.O) declared October 15th, Dr.A.P.J. Abdul Kalam's Birthday as the "WORLD STUDENTS DAY".
- ▶ The state government of Tamil Nadu on 31 July 2015 instituted a youth award in the name of former President Dr APJ Abdul Kalam. Tamilnadu Chief Minister J Jayalalithaa said that the annual Dr APJ Abdul Kalam Award consisting 8 gram gold, 5 laks rupees in cash and a citation. The award would be given from 2015 onwards on every Independence Day (15 August) to a person from the state who works with exceptional merit in science, humanities and students welfare.
- ▶ She also announced that Dr Kalam's birthday on October 15th would be celebrated as the **Youth Revival Day**.
- ▶ Human Resources Development Minister Smriti Irani said the Rashtriya Avishkar Abhiyan will be renamed after former President Dr. APJ Abdul Kalam. The scheme was started by Dr Kalam himself.
- ▶ Rashtriya Avishkar Abhiyan focuses on connecting school-based knowledge to life outside the school and making the learning of science and mathematics a joyful and meaningful activity. It also aims at nurturing a spirit of inquiry and creativity and the effective use of technology amongst children

### Books written by Kalam...

- ▶ Wings of Fire (Autobiography of Kalam)
- ▶ 2020- A Vision for the New Millennium
- ▶ Envisioning an Empowered Nation
- ▶ Ignited Minds
- ▶ My Journey
- ▶ Developments in Fluid Mechanics and Space Technology
- ▶ The Luminous Sparks
- ▶ The Life Tree
- ▶ Mission India
- ▶ Children Ask Kalam
- ▶ Guiding Souls
- ▶ Indomitable Spirit
- ▶ Inspiring Thoughts



- ▶ A global satellite for earth observation and disaster risk reduction — GlobalSat for DRR — proposed under the UN framework is to be dedicated to A P J Abdul Kalam as a tribute to the vision of the celebrated rocket scientist and former Indian president who died July 27. This was stated by Milind Pimprikar, Chairman of CANEUS (CANada-EUrope-US-ASia) Organisation on Space Technologies for Societal Applications headquartered in Montreal, Canada.

**End of Preview.**

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